

Implications of the Middle East Conflict on Kenya's Investment Environment

Executive Summary

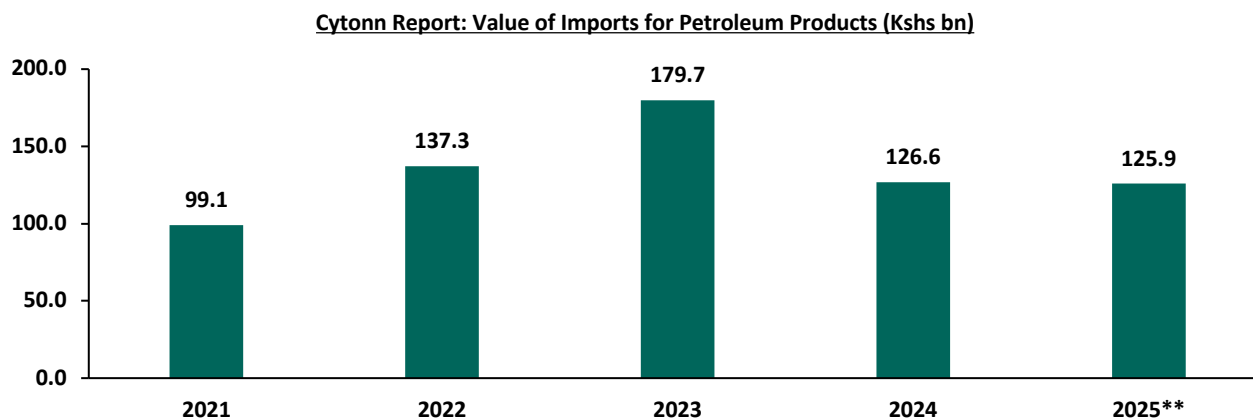
The ongoing conflict in the Middle East could pose risks to Kenya's investment environment through its impact on energy prices, trade flows and financial markets. Kenya relies heavily on petroleum imports from the Gulf region, meaning any disruption that drives up global oil prices could increase fuel costs, contribute to inflation and raise operational expenses for businesses. At the same time, instability along key shipping routes such as the Red Sea may increase freight costs and disrupt export logistics, particularly for time-sensitive agricultural products. Heightened geopolitical uncertainty could also affect investor sentiment toward frontier markets, potentially slowing capital inflows. Overall, while the conflict introduces short-term economic pressures, the extent of its impact will depend on the duration of disruptions to global energy and trade systems.

Potential Implications of the Middle East Conflict on Kenya's Investment Environment

a) Impact on Oil Prices and the Import Bill

One of the most immediate channels through which the conflict could affect Kenya is through global oil prices. The Middle East accounts for a substantial share of global crude oil production, [supplying](#) roughly one-third of the world's oil and holding nearly half of proven global oil reserves. Any disruption to supply chains, production facilities or shipping routes in the region tends to push global oil prices higher due to supply concerns and increased risk premiums.

Kenya imports nearly all of its petroleum requirements, whereas of Q3'2025 it [stood](#) at 125.9 bn which accounted for 17.3% of the country's imports which stood at 725.0 bn. Additionally, we observe that the government has actively strived to reduce their imports of petroleum products, with a notable 29.5% decrease to Kshs 126.6 bn in 2024 from Kshs 179.7 bn in 2023 as illustrated by the graph below:

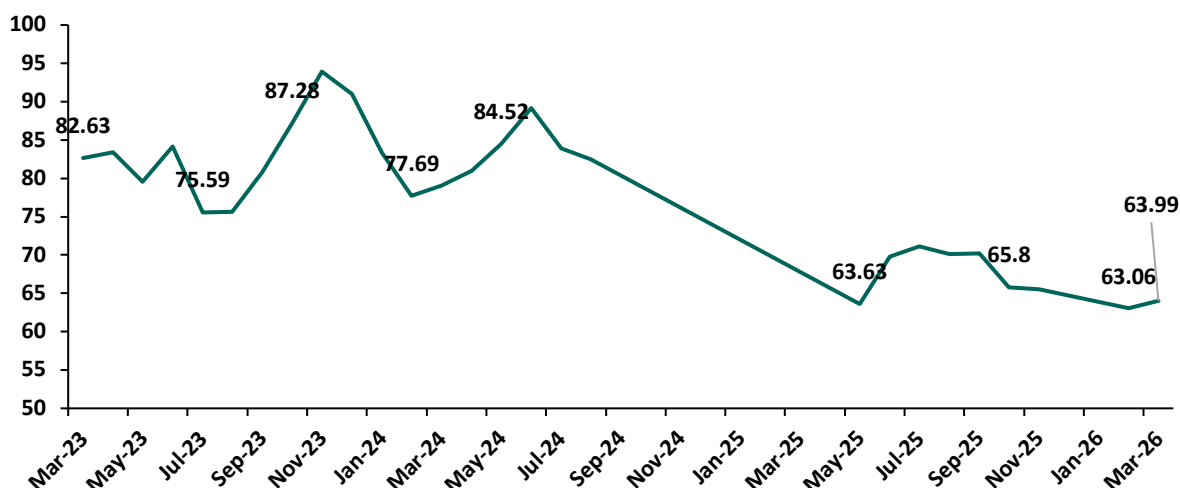


Source: KNBS BOP Reports, Cytonn Research, 2025**- Q3'2025

Despite the decline, Kenya remains highly exposed to global energy price shocks, reversing the recent gains in import expenditure. Any sustained increase in global oil prices would raise Kenya's import bill, potentially widening the trade deficit, which widened by 10.8% to Kshs 355.8 bn in Q3'2025 from Kshs 321.1 bn in Q3'2024 and exerting pressure on the current account balance, whose deficit [widened](#) by 211.1% to Kshs 135.2 bn in Q3'2025 from Kshs 43.5 bn in Q3'2024.

The vulnerability of Kenya's external position to oil price shocks becomes clearer when examining recent movements in global crude oil benchmarks. The ongoing conflict in the Middle East has already begun to influence global oil markets, with key benchmarks recording a sharp uptick in prices due to heightened geopolitical risk and concerns over potential supply disruptions. The graph below [shows](#) the Murban Crude Oil Prices within the last one year:

Cytonn Report: Murban Crude Oil Prices per barrel (USD/bbl)



Source: Reuters

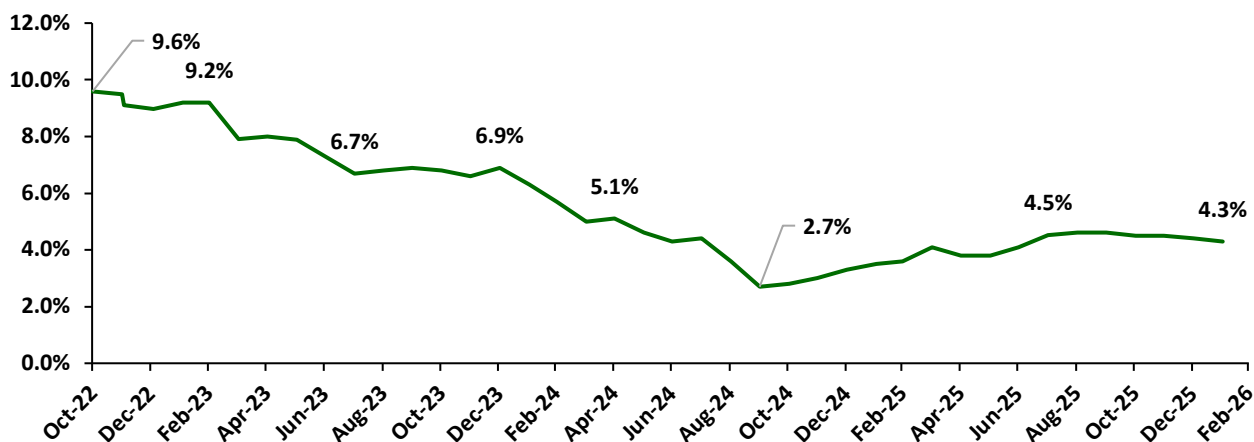
Abu Dhabi’s Murban crude, a key benchmark for oil exports to Asia and other global markets, increased from USD 63.06 per barrel in February 2026 to USD 63.99 per barrel in March 2026, reflecting a modest rise following the escalation of the Iran conflict. This uptick ended a period of relative stability in oil prices. Higher Murban crude prices are expected to translate into increased costs for Kenya, raising domestic fuel prices and pushing up the country’s petroleum import bill. If geopolitical tensions persist, oil prices may continue to rise, creating additional pressure on Kenya’s energy costs and inflation.

b) Inflationary Pressures

Higher oil prices tend to translate directly into increased domestic fuel costs, which in turn affect the broader price level in the economy. In Kenya, fuel prices play a key role in determining transportation costs and the distribution costs of goods and services.

Historically, periods of elevated global oil prices have contributed to higher inflation in Kenya due to cost pass-through effects as illustrated by the chart below where in 2022 when there was an oil crisis due to the Ukraine – Russia war, inflation rates reached highs of 9.6% which is outside of CBK’s limit of between of 2.5%-7.0%

Cytonn Report: Inflation Rates (Oct 2022-Feb 2026)



Source: KNBS

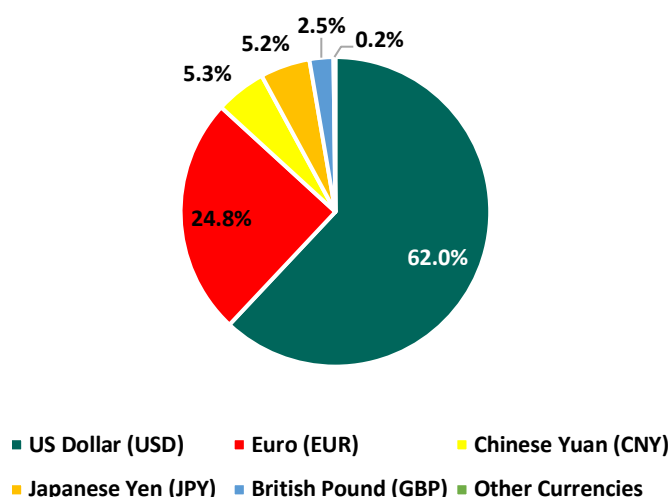
If global oil prices remain elevated, inflationary pressures could increase, potentially limiting the Central Bank of Kenya’s flexibility in easing monetary policy.

c) Exchange Rate Implications

An increase in oil prices typically leads to a higher demand for US dollars to finance imports. Kenya’s oil imports are settled primarily in US dollars, meaning that a rise in fuel costs increases the demand for foreign currency in the domestic market.

This dynamic could place depreciation pressure on the Kenyan shilling. Currency weakness may further increase the cost of imported goods and external debt servicing. As of December 2025, Kenya’s external [debt](#) stood at Kshs 5.5 tn, with 62.0% denominated in USD. A weaker shilling would therefore raise the cost of servicing this debt. The chart below shows the currency composition of Kenya’s external debt as of December 2025:

Cytonn Report: Currency Composition of Kenya's External Debt



Source: CBK

d) Implications for Eurobond Markets and External Financing

Kenya has increasingly relied on international capital markets to finance its fiscal needs. Since 2014, when Kenya issued its first Eurobond of USD 2.0 bn, the country has accessed global markets multiple times.

Geopolitical tensions often trigger a “flight to safety” among global investors, with capital shifting from emerging markets toward lower-risk assets such as US Treasury securities. During such periods, yields on emerging market debt instruments including Kenya’s Eurobonds, tend to rise as investors demand higher risk premiums. The chart below shows the Kenya’s Eurobonds yields over January 2026 to March 2026:

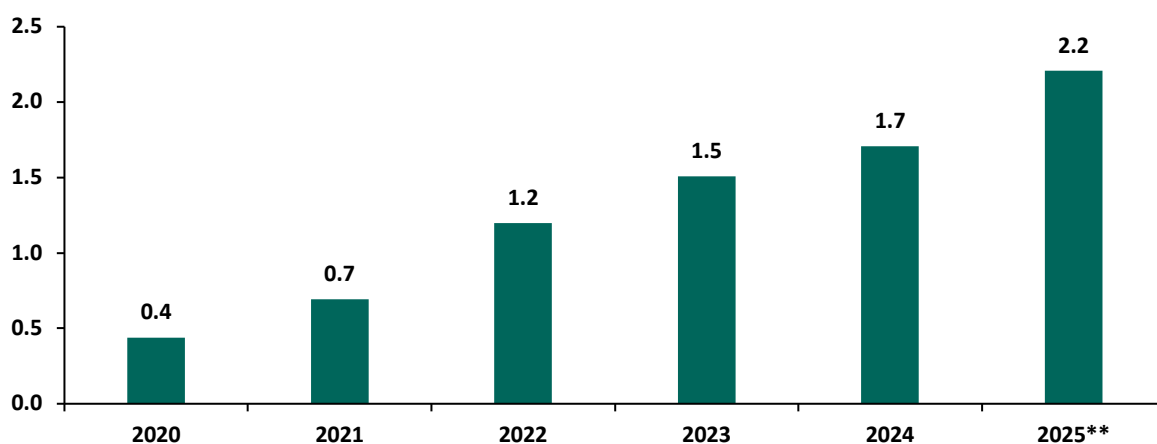
Cytonn Report: Kenya Eurobonds Performance					
	2018		2019	2021	2024
Tenor	10-year issue	30-year issue	12-year issue	13-year issue	7-year issue
Amount Issued (USD)	1.0 bn	1.0 bn	1.0 bn	1.5 bn	1.5 bn
Years to Maturity	2.5	22.5	8.8	5.5	10.5
Yields at Issue	7.3%	8.3%	6.2%	10.4%	9.9%
29-Jan-26	6.0%	8.7%	7.1%	7.8%	6.8%
27-Feb-26	6.0%	9.0%	7.1%	8.1%	6.9%
2-Mar-26	6.1%	9.1%	7.2%	8.3%	7.1%
06-Mar-26	6.5%	9.6%	8.0%	8.9%	7.9%
09-Mar-26	6.7%	9.7%	8.2%	9.2%	8.2%
10-Mar-26	6.6%	9.5%	8.0%	8.8%	7.86%
11-Mar-26	6.5%	9.5%	8.0%	8.9%	7.9%
12-Mar-26	6.6%	9.6%	8.0%	8.9%	8.0%
MTD Change (bps)	52.0	51.0	77.0	64.0	102.0
M/M Change (bps)	(5.0)	26.0	(1.0)	35.0	15.0

Since the escalation of the Iran conflict in February 2026, Eurobond yields have shown a gradual upward trend, with the increase becoming more pronounced in March. For instance, the 13-year Eurobond yield rose by 35.0 bps month-on-month to 8.1% in February 2026 from 7.8% in January 2026, reflecting heightened investor risk aversion toward emerging market debt. Higher Eurobond yields could translate into increased borrowing costs for Kenya should the government seek to access international capital markets, while also affecting the valuation of existing Kenyan sovereign bonds held by investors.

e) Tourism Sector Risks

Tourism remains a key contributor to Kenya’s foreign exchange earnings and economic activity. Prior to the COVID-19 pandemic, Kenya received approximately 2.0 mn international tourist arrivals annually, generating about USD 1.6 bn in tourism receipts. Post-pandemic, Kenya experienced a surge in tourist arrivals through its International airports as illustrated by the chart below;

Cytonn Report: Tourist Arrivals through JKIA, MIA and others (in mn)



Source: Cytonn Report, 2025** - Upto November 2025

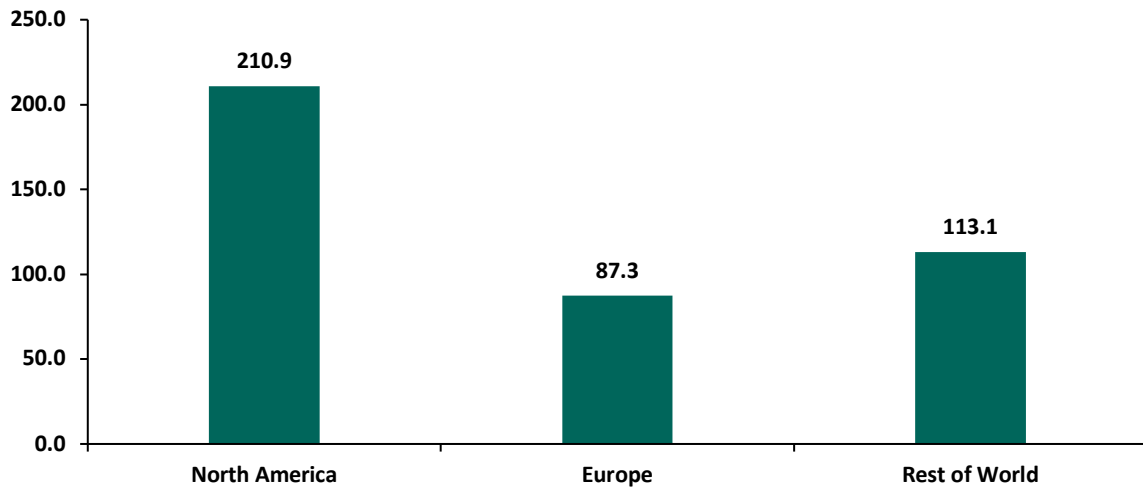
Global geopolitical instability can negatively affect travel sentiment, particularly among tourists from key markets such as Europe and North America. Even when conflicts occur outside Africa, heightened global security concerns can influence travel decisions and reduce tourist flows. A slowdown in tourist arrivals could affect foreign exchange inflows and revenue in hospitality, aviation and related service industries.

The potential implications of the Middle East conflict for Kenya are largely indirect but significant. The most notable risks arise through higher global oil prices, which could increase the import bill and inflationary pressures, as well as through financial market channels that may affect the exchange rate and the pricing of Kenya’s external debt. In addition, geopolitical tensions and higher global travel costs driven by elevated fuel prices may dampen international travel demand, potentially affecting tourism inflows and foreign exchange earnings for Kenya’s hospitality and aviation sectors.

f) Diaspora Remittances and Forex reserves

Diaspora remittances and foreign exchange reserves also play an important role in shaping Kenya’s resilience to external shocks such as the Middle East conflict. A significant share of Kenyan diaspora workers are employed in areas such as North America and the Rest of the world in areas such as Middle East whose remittances have remained the highest at Kshs 210.9 bn and Kshs 113.1 bn respectively as of January 2026, meaning economic disruptions in the region could affect employment opportunities and slow remittance inflows.

Cytonn Report: January 2026 Diaspora Remittances (Kshs bn)



Source: CBK

Since remittances are one of Kenya’s largest sources of foreign currency, often surpassing key export earnings, any decline could reduce household consumption and weaken domestic demand.

At the macroeconomic level, lower remittance inflows reduce foreign exchange supply, potentially putting pressure on the Kenyan shilling and limiting the Central Bank’s ability to maintain strong forex reserves. Diaspora remittances rose slightly by 0.3% month-on-month, to USD 412.7 mn in February 2026 from USD 411.3 mn in January 2026, providing a modest boost to Kenya’s foreign exchange inflows. Sustained inflows from the diaspora can help stabilize reserves, reduce exchange rate volatility, and reassure investors about external stability, highlighting the importance of remittances as a key buffer for Kenya’s financial and investment environment. However, if geopolitical tensions persist, there is a risk that remittances could weaken in the coming months, which would put additional pressure on forex reserves over the longer term.

Conclusion

The potential implications of the Middle East conflict for Kenya are largely indirect but significant. The most notable risks arise through higher global oil prices, which could increase the import bill and inflationary pressures, as well as through financial market channels that may affect the exchange rate and the pricing of Kenya’s external debt.

While Kenya’s direct economic links with the conflict zone are limited, its integration into global commodity and financial markets means that prolonged geopolitical tensions could transmit external shocks into the domestic economy.

Overall, the escalation of tensions in the Middle East presents downside risks to Kenya’s investment environment. Higher energy costs, potential currency pressures and tighter global financial conditions could affect inflation, fiscal financing, and investor sentiment. Consequently, investors and policymakers will need to closely monitor developments in global energy markets and international capital flows to assess the potential magnitude and duration of these effects on Kenya’s economic and investment landscape.