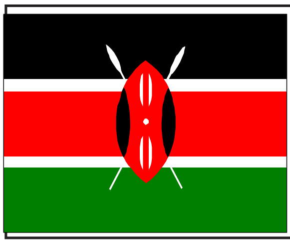

MONTHLY ECONOMIC REVIEW

April 2010

The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at:

http://www.centralbank.go.ke

CONTENTS

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Overview

Introduction

This Monthly Economic Review highlights recent economic developments through April 2010. This includes developments in money, credit and banking, inflation, interest rates and the exchange rates. It also highlights developments in the real sector, Government budgetary operations, public debt and balance of payments.

Monetary Expansion

Money supply, M3, grew by 20.9 percent in the year to April 2010 compared with 7.5 percent in a corresponding period in 2009 and was above the projected 16.6 percent growth rate for April 2010. The expansion of money supply in the year to April 2010 was mainly due to the growth in Central Bank net domestic assets (NDA) which was partially offset by a deceleration in the net foreign assets (NFA) of the banking system.

Interest Rates

The Monetary Policy Committee in their meeting of 23rd March, 2010 lowered the Central Bank Rate (CBR) to 6.75 percent to signal a reduction in the short term interest rates. The rate was previously 7.0 percent in November 2009.

Real GDP Growth

The economy grew by 2.6 percent in 2009 compared with a revised growth of 1.6 percent in 2008, (Economic Survey, 2010). This performance in 2009 reversed the decline in growth recorded in 2008. The over-all increase in economic output was equivalent to Ksh 35.2 billion, from Ksh 1,357 billion in 2008.

Inflation

The overall 12-month inflation decreased from 4.0 percent in March 2010 to 3.7 percent in April 2010, continuing with the downward trend through the year to April 2010. The annual average inflation decreased further to 6.3 percent in April 2010 from 7.0 percent in March 2010.

Government Fiscal Operations

The central Government budgetary operations in the ten months of the fiscal year 2009/10 resulted in a deficit of Ksh 106.3 billion or 4.2 percent of GDP on commitment basis compared with a deficit of Ksh 57.9 billion or 2.5 percent of GDP in a similar period of 2008/09. The budget deficit during the review period was within the programmed ceiling of 6.2 percent of GDP on commitment basis.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by 137.4 percent in the ten months of fiscal year 2009/10 to Ksh 1,191 billion in April 2010 from Ksh 1,053.7 billion recorded a similar period in fiscal year 2008/09. The domestic debt component increased by Ksh 135.1 billion, and represented 98.3 percent of the increase in total public debt. As a result the share of domestic debt to GDP increased from 21.7 percent to 25.9 percent during the period under review.

Balance of Payments

Kenya's overall balance of payments improved from a deficit of US$ 698 million in the year to March 2009, to a surplus of US$ 524 million in the year to March. The improvement maps on a relatively narrow deficit in the current account.

Exchange Rates

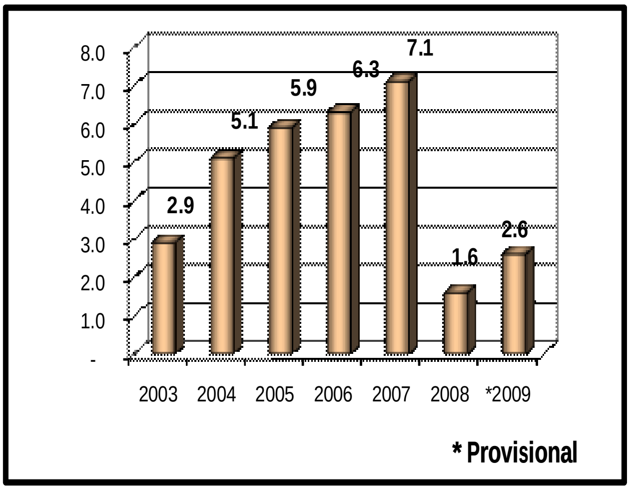
The Kenya Shilling depicted mixed performance in April 2010 against major world currencies. It weakened against the US dollar and the Sterling Pound but strengthened against the Euro and Japanese Yen. Against the US dollar, the shilling depreciated to exchange at an average of 77.25 per US dollar in April 2010 compared with Ksh 76.95 per US dollar in March 2010.

Banking Sector Developments

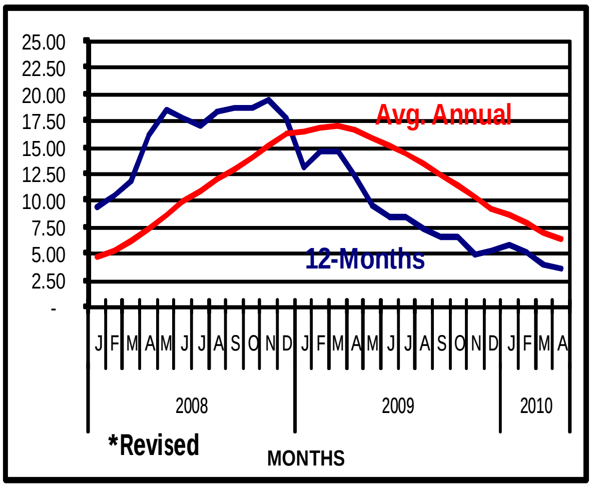
The Kenyan Banking sector registered growth in asset base largly supported by growth in deposits, injection of capital and retention of profits in the year to April 2010. The stock of gross non-performing loans (NPLs) also eased from Ksh 64.0 billion in April 2009 to Ksh 62.0 billion in April 2010.

SELECTED ECONOMIC PERFORMANCE INDICATORS

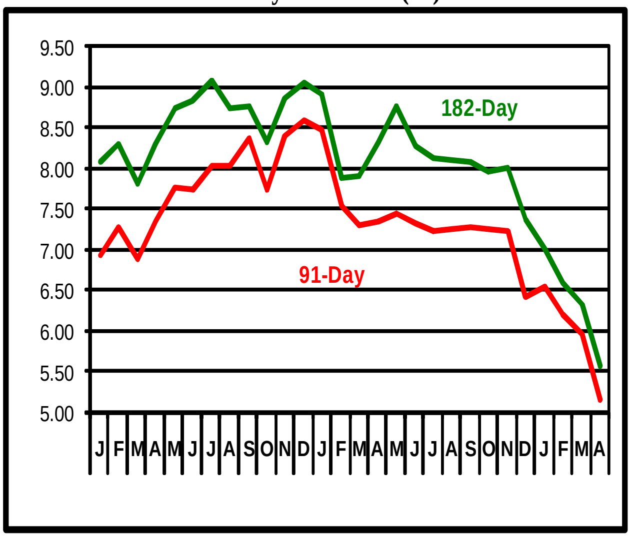
Real GDP Growth (%)



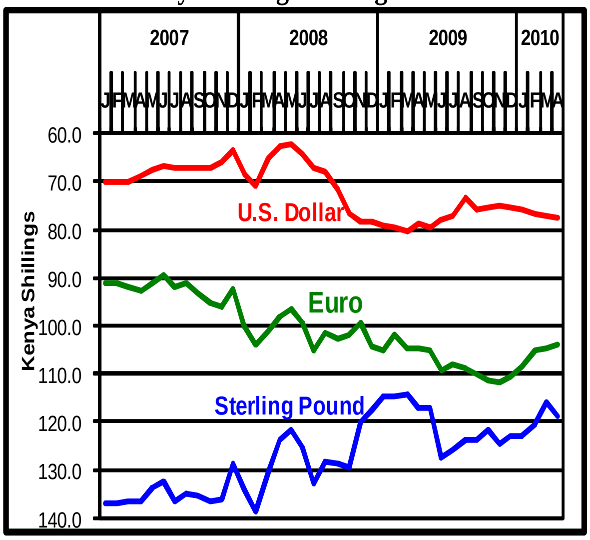
Overall Inflation (%)*



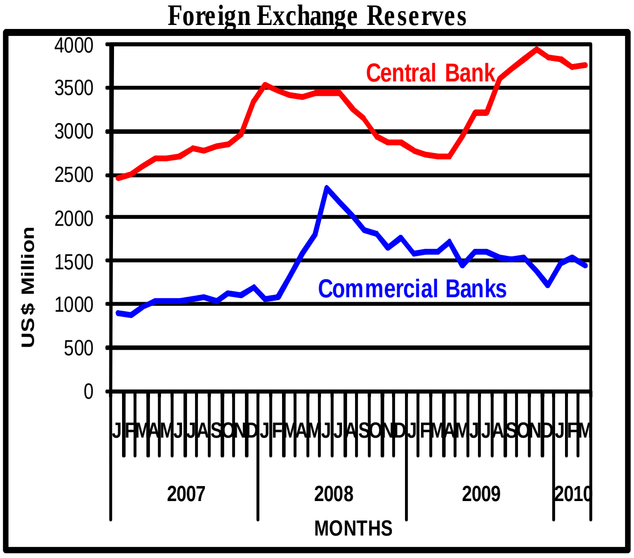
Treasury Bill Rates (%)



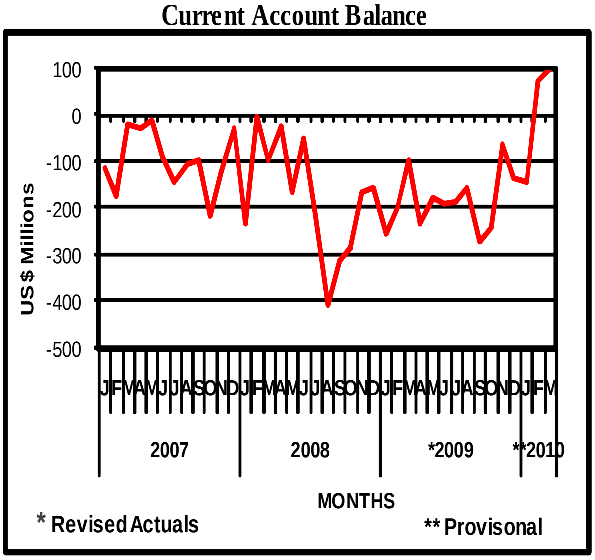
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
1.	POPULATION*										
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	39.40
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	2.87
2.	NATIONAL ACCOUNTS**										
	Gross value added at basic prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,625	1,444,139	1,615,214	1,833,646	2,048,485
	GDP at Market Prices (Ksh m):										
	At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,591	1,828,788	2,077,433	2,273,685
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,133	1,249,459	1,336,874	1,357,640	1,392,832
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.32	7.00	1.55	2.59
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,480	34,611	35,937	35,448	35,351
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]	12.9	10.0	8.1	10.1	12.2	13.4	14.9	13.7	15.5	11.1
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]	6.7	4.4	4.0	4.8	6.6	5.7	8.9	8.5	12.6	6.1
5.	GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	19.1	19.2	23.4
6.	OVERALL INFLATION BASE PERIOD= FEB 2009										
	Annual Average Inflation	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27	9.24
	12-Month Inflation	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32
7.	STOCK MARKET										
	Nairobi Stock Exchange Price Index (1966=100)	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44
	Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64
8.	GOVERNMENT BUDGET (Ksh bn) ***										
	Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67	511.36
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91
	Budget Deficit (-) / Surplus (+)	7.57	-16.53	-22.32	-27.11	-18.62	5.72	-37.44	-21.61	-77.17	-110.55
	Budget Deficit (% of GDP)	0.81	-1.66	-2.19	-2.51	-1.54	0.42	-2.39	-1.18	-3.68	4.79
9.	MONEY AND CREDIT (Ksh bn)(end period)										
	Liquidity (L)[1]	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,091.93	1,280.47
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.06	1,045.66
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96
	Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	827.41	978.32
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	162.78	218.53
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	664.64	759.79
10.	BALANCE OF PAYMENTS (US$ m)**										
	Overall Balance	217.00	372.00	59.00	365.00	117.00	306.00	675.00	854.00	-469.00	464.45
	Current Account	-240.00	-385.00	-117.69	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,608.84
	Capital and Financial Account	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00	2,073.29
11.	FOREIGN EXCHANGE RESERVES (US$ m) End Period	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78	5,064.03
	Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46	3,847.39
	*Months of imports**** *	*(2.8)*	*3.2*	*3.3*	*4.4*	*4.1*	*4.0*	*3.9*	*4.8*	*3.4*	*4.1*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63
12.	PUBLIC DEBT (US$ bn) End Period***	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	13.46	13.66
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15	21.67
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61	22.36
13.	EXCHANGE RATE (Ksh/US$) (Annual Average)	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18	77.35

* Provisional.
** Revised to reflect data in Economic Survey 2010.
*** Fiscal year to June 30th.
**** Figures in parentheses refer to official reserves in terms of average of current year of imports of goods and non-factor services.
1 Previously M3XT
2 Previously M3X
3 Revised

Sources: Kenya National Bureau of Statistics, Ministry of Finance**, Central Bank of Kenya and Nairobi Stock Exchange**

SELECTED MONTHLY ECONOMIC INDICATORS

	2009							2010			
INDICATOR	Jan	Feb	Mar	Apr	May	June	Dec	Jan	Feb	March	April
1. INFLATION (%)											
CPI	99.00	100.00	100.96	101.84	101.84	102.05	104.66	104.89	105.18	104.97	105.56
Overall Inflation											
12-month overall inflation	13.22	14.69	14.60	12.42	9.61	8.60	5.32	5.95	5.18	3.97	3.65
Average annual overall inflation	16.56	16.87	17.07	16.72	15.93	15.11	9.24	8.64	7.88	7.03	6.32
2. INTEREST RATES (%)											
91-day Treasury bill interest rate	8.46	7.55	7.31	7.33	7.45	7.33	6.82	6.56	6.21	5.98	5.17
Overdraft interest rate	13.84	13.46	13.78	13.16	14.13	14.41	14.13	14.48	14.25	14.06	14.50
3. STOCK MARKET											
Nairobi Stock Exchange Price Index	3,198.90	2,474.75	2,805.03	2,800.10	2,852.57	3,294.56	3,247.44	3,565.28	3,629.31	4,072.93	4,233.24
Turnover (%)	0.30	0.26	0.33	0.35	0.49	0.61	0.34	0.96	0.59	1.01	0.64
4. GOVERNMENT BUDGET* (Ksh bn.)											
Revenue	277.42	318.85	361.27	407.21	449.64	511.35	266.08	312.0	350.7	394.4	455.1
Expenses	301.54	359.38	406.94	465.12	515.70	621.91	296.13	372.0	440.0	490.6	561.4
Budget Deficit (-) / Surplus (+)	(24.12)	(40.53)	(45.67)	(57.91)	(66.06)	(110.56)	(30.05)	(60.06)	(89.37)	(96.24)	(106.26)
5. MONEY AND CREDIT (Ksh bn.)											
Liquidity (L)[1]	1,089.21	1,103.41	1,107.95	1,135.46	1,139.47	1,166.93	1,280.02	1,297.90	1,311.29	1,350.17	1,364.57
Money Supply (M3)[2]	895.40	900.03	906.07	928.82	928.60	950.24	1,045.21	1,067.27	1,084.35	1,107.90	1,122.79
Reserve Money	152.49	151.82	155.40	152.90	160.40	159.94	181.96	179.45	175.26	177.46	177.50
Total Domestic Credit	807.34	813.97	827.77	830.13	835.18	854.03	955.29	984.70	1,009.01	1,017.16	1,022.76
Government	156.74	153.91	168.03	166.81	162.55	173.87	205.08	220.69	243.36	246.86	241.89
Private sector and other public sector	650.60	660.05	659.74	663.32	672.63	680.16	738.27	737.70	743.97	770.30	780.87
6. MONEY AND CREDIT (Annual % Change)											
Liquidity (L)[1]	9.75	10.19	10.15	7.98	7.1	13.5	17.3	**19.2**	**18.8**	**21.9**	**20.2**
Money Supply (M3)[2]	7.49	7.49	11.69	7.49	10.6	13.0	16.0	19.2	20.4	22.3	20.9
Reserve Money	4.03	4.03	1.57	4.03	8.8	4.6	11.2	17.7	15.4	14.2	16.1
Total Domestic Credit	18.48	17.55	19.60	11.19	18.7	21.7	18.5	22.0	24.0	22.9	23.2
Government	4.60	(2.20)	4.68	7.35	38.1	30.3	32.0	40.8	58.1	46.9	45.0
Private and other public sector	22.40	23.36	24.10	12.19	14.8	19.7	15.5	15.2	14.2	16.8	17.7
7. BALANCE OF PAYMENTS (US$ m)											
Overall Balance	(106.62)	(22.64)	(30.98)	176.86	41.20	84.39	(81.81)	(37.85)	(84.88)	22.07	
Current Account	(199.68)	(143.91)	(29.09)	(184.31)	(142.09)	(138.11)	(72.76)	(81.61)	148.04	97.68	
Trade Balance	(495.25)	(404.04)	(376.20)	(499.66)	(427.78)	(450.59)	(642.04)	(535.67)	(351.53)	(526.20)	
Capital and Financial Account	93.06	121.27	(1.89)	361.17	183.29	222.50	(9.05)	43.76	(232.92)	(75.62)	
8. FOREIGN EXCHANGE RESERVES (US$ m)	4,348.12	4,354.38	4,320.36	4,620.28	4,369.96	4,821.61	5064.03	5279.39	5254.33	5187.64	
Official**	2,768.85	2,744.85	2,713.87	2,887.74	2,928.94	3,219.46	3847.39	3809.54	3722.55	3744.62	
Months of imports cover	*3.20*	*3.15*	*3.10*	*3.28*	*3.31*	*3.61*	4.09	4.02	3.93	3.92	
Commercial banks	1,579.27	1,609.52	1,606.49	1,732.54	1,441.03	1,602.15	1216.63	1,469.84	1,531.78	1,443.02	
9. PUBLIC DEBT (US$ bn)	12.15	12.46	12.3	12.8	12.9	13.7	14.7	14.57	14.93	15.08	15.41
Domestic	5.71	6.00	5.90	6.33	6.25	6.72	7.77	7.65	8.01	8.26	8.46
As % of GDP	20.24	21.07	20.61	21.32	20.70	21.67	23.85	23.39	24.36	25.48	26.06
External	6.44	6.46	6.39	6.51	6.62	6.94	6.94	6.91	6.92	6.81	6.96
As % of GDP	22.83	22.63	22.29	21.94	21.95	22.36	21.29	21.13	21.05	21.01	21.43
10. GROSS DOMESTIC DEBT (Ksh bn)***	454.27	479.08	474.89	497.58	489.34	518.51	588.97	580.7	608.0	639.1	653.6
11. AVERAGE EXCHANGE RATE											
Ksh/US$	78.95	79.53	80.26	78.66	79.63	77.85	75.4	75.8	76.7	76.9	77.3
Ksh/Pound Sterling	114.28	114.54	113.98	116.70	116.98	127.22	122.5	122.5	120.2	115.8	118.5
Ksh/ 100 Yen	87.45	86.18	82.22	80.84	80.76	80.61	84.1	83.1	85.0	85.0	82.8
Ksh/Euro	105.02	101.71	104.77	104.80	105.08	109.03	110.3	108.3	105.2	104.5	103.7

* Underlying inflation excluding food, energy and transport and communications

** Data on Government budget for 2008/09 fiscal year remain provisional until publication in the Annual Economic Survey

*** Figures in parentheses refer to official reserves in terms of average of current year imports of goods and non-factor services.

**** Excludes IMF funds on-lent to the Govt by the CBK, which is included in external public debt.

1 Previously M3XT

2 Previously M3X

Sources: Kenya National Bureau of Statistics, Ministry of Finance, Nairobi Stock Exchange and Central Bank of Kenya

Trends in Various Measures of Inflation

Overall Inflation

Overall 12-month inflation has been on a declining trend at single digit level for twelve consecutive months. The 12-month overall inflation rate fell by 8.8 percentage points from 12.4 percent in April 2009 to 3.7 percent in April 2010. The decline is attributed to contraction of price levels of almost all the CPI categories of goods and services during the year. The overall decrease was, however, more pronounced in the food and non-alcoholic beverages basket which experienced the largest decrease, from 17.4 percent in April 2009 to 3.8 percent in April 2010 following increased food production as a result of the adequate rainfall experienced in most parts of the country towards the end of 2009 and through to April 2010.

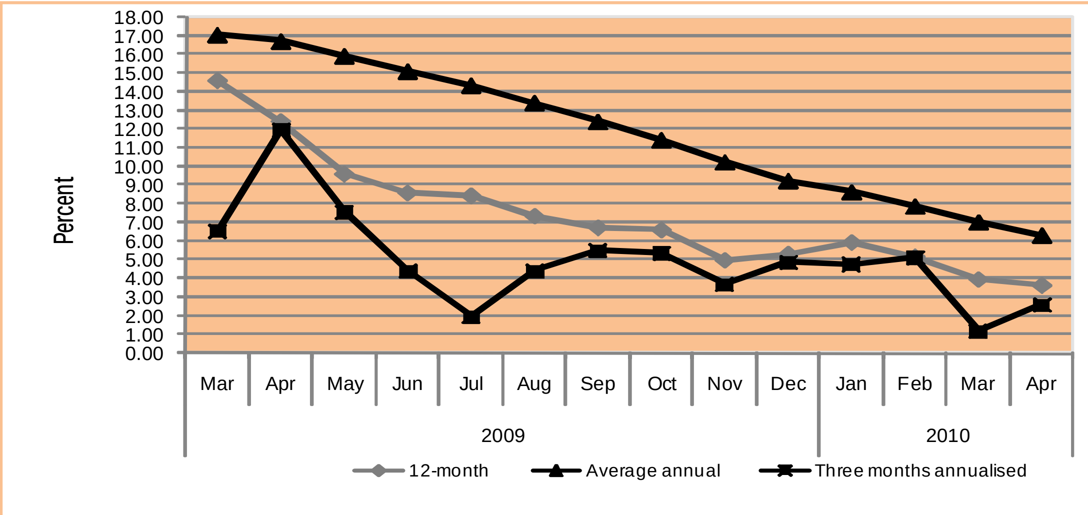
Table 1.1 and Chart 1A depict trends in overall inflation between March 2009 and April 2010.

TABLE 1.1: OVERALL INFLATION (%)

Overall Inflation	2009										2010			
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
12-month	14.60	12.42	9.61	8.60	8.44	7.36	6.74	6.62	5.00	5.32	5.95	5.18	3.97	3.65
Average annual	17.07	16.72	15.93	15.11	14.35	13.42	12.41	11.42	10.24	9.24	8.64	7.88	7.03	6.32
Three months annualised	6.56	11.97	7.56	4.38	1.95	4.40	5.49	5.37	3.68	4.87	4.76	5.11	1.19	2.58

Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

CHART 1A: OVERALL INFLATION (%)



Inflation by Income Groups

The overall 12- month inflation rates for all income groups fell in April 2010 from the March 2010 level with the exception of the "Nairobi upper" income group's inflation which remained constant, the highest at 6.3 percent. The " Nairobi lower", "Nairobi middle" and " Other provinces excluding Nairobi" all experienced declining 12- month inflation from 4.1 percent, 2.9 percent and 4.0 percent in March 2010 to 4.0 percent, 2.6 percent and 3.6 percent in April 2010, respectively (Table 1.2 and Chart 1B).

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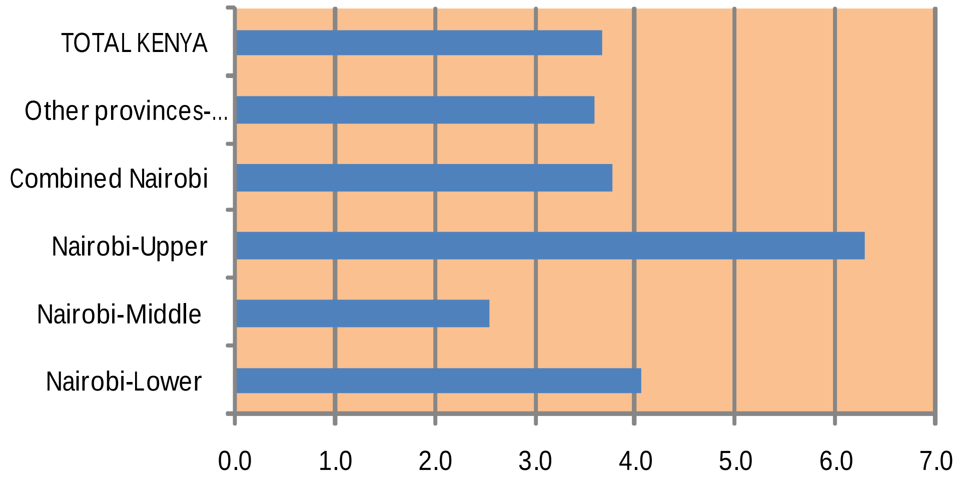
TABLE 1.2: 12-MONTH OVERALL INFLATION BY INCOME GROUPS (%)

	Feb-10	Mar-10	Apr-10
Combined Nairobi	5.36	3.91	3.77
Lower Income	6.16	4.12	4.04
Middle Income	2.95	2.87	2.55
Upper Income	5.56	6.32	6.28
Other provinces- excluding Nairobi	5.05	4.01	3.58
TOTAL KENYA	**5.18**	**3.97**	**3.65**

Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

CHART 1B: 12-MONTH OVERALL INFLATION BY INCOME GROUPS APRIL 2010 (%)



Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

Inflation Across Categories of Goods & Services

The 12-month inflation varied across goods and services in April 2010 with some categories experiencing increased inflation while others had decreased inflation. The inflation for furnishings, household equipment, and routine household maintenance basket and the health category increased in April 2010 by 1.3 percent and 0.8 percent, respectively from 1.6 percent and 3.3 percent respectively in March 2010. These increases were counteracted by the decreases in most of the other categories. Of significance was the 1.0 percent decrease in the housing, water, electricity, gas and other fuels basket during the month, largely because of reduced electricity tariffs following the filling up of the water reserves leading to more hydro power production which is cheaper than thermal sources. Other price contractions were recorded in the food and non alcoholic beverages and the alcoholic beverages baskets which contracted by 0.7 percent and 0.5 percent, respectively. This was mainly influenced by lower food prices due to increased supply following favourable weather conditions. All other goods and services experienced negligible price movements during the 12-months to April 2010.

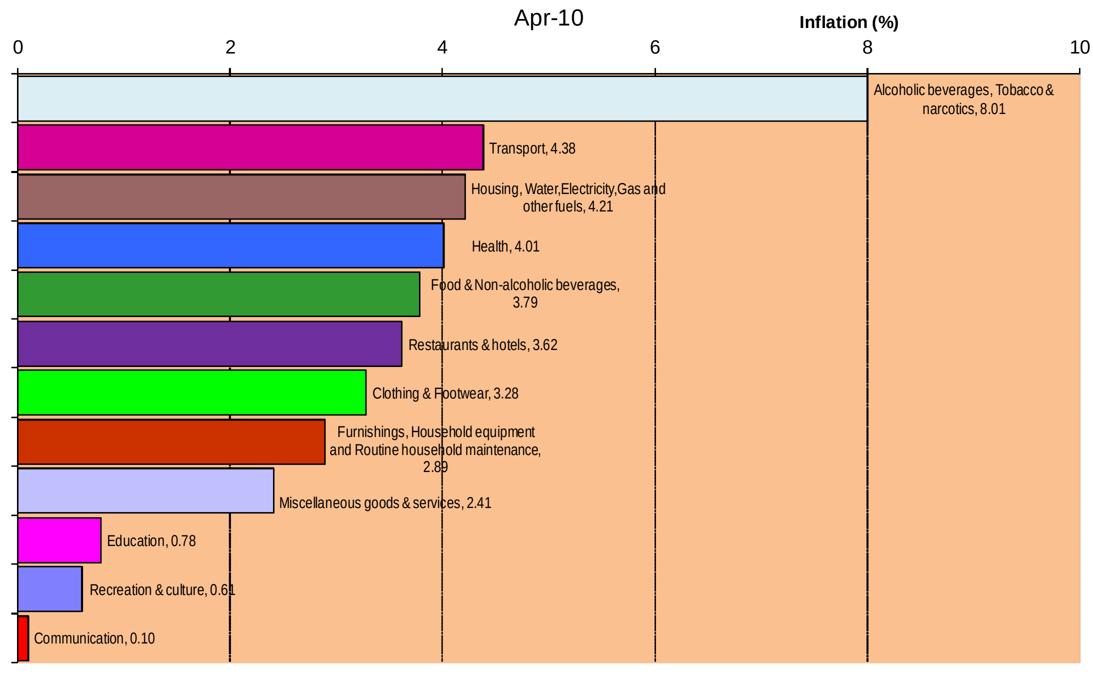
Table 1.3 and Chart 1C show inflation developments across all the ten categories of goods and services covered in the CPI.

TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES

APRIL 2010	NAIROBI				REST OF URBAN	TOTAL KENYA
	lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya combined	
Food & Non-alcoholic beverages	3.9	0.8	4.2	3.1	4.2	3.8
Alcoholic beverages, Tobacco & narcotics	8.1	5.4	3.7	7.3	8.5	8.0
Clothing & Footwear	3.6	0.0	7.0	2.9	3.6	3.3
Housing, Water,Electricity,Gas and other fuels	6.6	2.7	8.6	5.7	3.1	4.2
Furnishings, Household equipment and Routine household maintenance	4.4	2.5	0.2	3.8	2.3	2.9
Health	2.6	3.9	12.5	3.2	4.6	4.0
Transport	4.7	7.0	11.1	5.4	3.6	4.4
Communication	-0.2	-0.5	-1.3	-0.3	0.4	0.1
Recreation & culture	0.2	-0.5	6.6	0.2	0.9	0.6
Education	-0.4	3.9	0.3	0.7	0.9	0.8
Restaurants & hotels	2.5	7.1	-4.3	3.3	3.8	3.6
Miscellaneous goods & services	1.8	0.9	2.6	1.6	3.0	2.4
ALL GROUPS	4.0	2.5	6.3	3.8	3.6	3.7

Source: Kenya National Bureau of Statistics

CHART 1C: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES



Source: Kenya National Bureau of Statistics

Inflation Outlook

The rainfall experienced from the beginning of 2010, is expected to boost food production thereby stabilizing inflation at low single digit levels in coming months.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Money supply, M3[1], grew by 20.9 percent in the year to April 2010 compared with 7.5 percent in a corresponding period in 2009 and was above the projected 16.6 percent growth rate for the 12 months to April 2010. Broad money, M2, that is, M3 excluding foreign currency deposits, grew by 22.1 percent in the 12 months to April 2010 compared with 6.6 percent in the year to April 2009 as shown in Table 2.1 and Chart 2A.

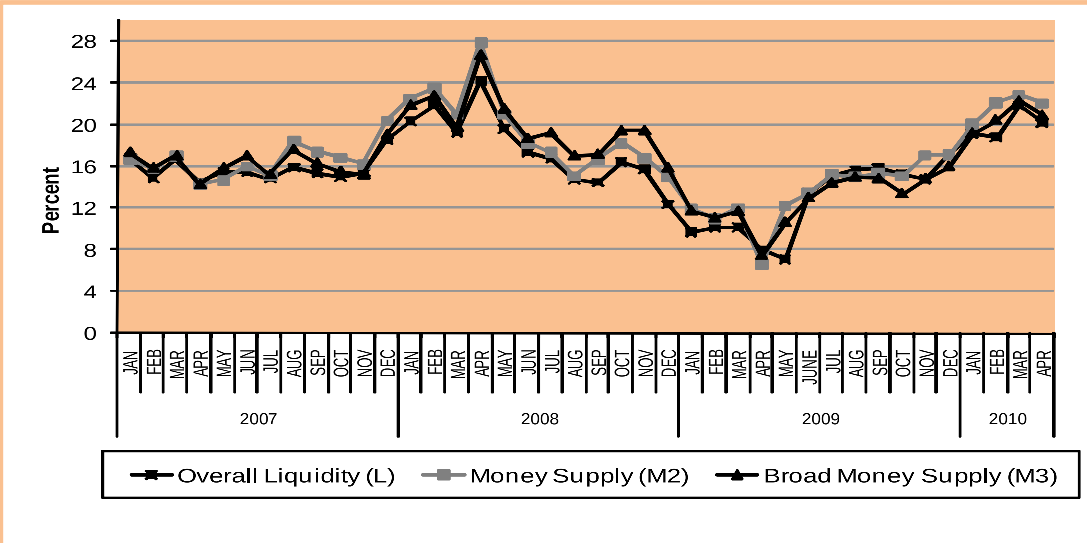
TABLE 2.1: MONEY SUPPLY AND ITS SOURCES (Ksh billion)

	2008 Apr	2009 Apr	2010 Apr	Apr-09 12 months %age change	Apr-10 12 months %age change
1. Money supply, M3 (2+3) 2/	**864.10**	**928.82**	**1,122.79**	**7.49**	**20.88**
1.1 Money supply, M2 3/	744.49	793.31	968.33	6.56	22.06
1.2 Money supply, M1	436.62	382.78	476.70	(12.33)	24.54
1.3 Currency outside banks	81.08	86.56	98.97	6.77	14.33
2. Net foreign assets 4/	**261.86**	**277.63**	**277.04**	**6.02**	**(0.21)**
Central Bank	191.42	191.66	228.94	0.12	19.45
Banking Institutions	70.44	85.97	48.10	22.04	(44.05)
3. Net domestic assets (3.1+3.2)	**602.24**	**651.20**	**845.75**	**8.13**	**29.88**
3.1 Domestic credit (3.1.1+3.1.2)	**746.61**	**830.13**	**1,022.76**	**11.19**	**23.20**
3.1.1 Government (net)	155.39	166.81	241.89	7.35	45.01
3.1.2 Private sector and other public sector	591.22	663.32	780.87	12.19	17.72
3.2 Other assets net (3-3.1)	**(144.37)**	**(178.93)**	**(177.01)**	**23.94**	**(1.08)**
Memorandum items					
1. Overall liquidity, L 1/	**1,051.52**	**1,135.46**	**1,364.57**	**7.98**	**20.18**
2. Reserve money	**146.98**	**152.90**	**177.50**	**4.03**	**16.09**
Currency outside banks	81.08	86.56	98.97	6.77	14.33
Bank reserves	65.90	66.34	78.53	0.67	18.37

Absolute and percentage changes may not necessarily add up due to rounding
1/ Overall liquidity, L, comprises M3 and non banking public holding of Government securities. It is comparable to M3XT in the past publications.
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications.
3/ Broad money, M2, comprises currency outside banking institutions, and all private and other public sector holdings of demand savings and time deposits. It excludes central and local Government deposits with banking
4/ Net Foreign Assets at current exchange rate to the US dollar.

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



[1] Effective September 2008, the CBK adopted a harmonized definition of monetary aggregates to conform to those of the East Africa partner states. Consequently, M3X has now been renamed M3 denoting extended broad money.

The expansion of money supply in the year to April 2010 was attributed to increase in net domestic assets (NDA) which was partially offset by a deceleration in the net foreign assets (NFA) of the banking system. NDA grew by 29.9 percent in the year to April 2010 compared with 8.1 percent a year earlier. The expansion in NDA of the banking system during the period reflected increased credit to both the Government and the private sector. NFA decelerated by 0.2 percent in the twelve months to April 2010 compared with an increase of 6.0 percent in a corresponding period in 2009 reflecting increased NFA of the Central Bank against a commensurate reduction in NFA held by commercial banks.

Domestic Credit Developments

Banking sector lending to the domestic economy grew by 23.2 percent in the year to April 2010 compared with 11.2 percent in a similar period in 2009. Credit extended to the private sector accelerated from 14.5 percent in the year to April 2009 to 17.4 percent in the year to April 2010. At the same time credit to Government increased by 45.0 percent in the year to April 2010 compared with a growth of 7.4 percent in a corresponding period in 2009. Reflecting the fast growth in credit to Government, the share of credit to Government in total banking system credit increased from 20.1 percent to 23.7 percent during the period under review.

TABLE 2.2: BANKING SYSTEM NET DOMESTIC CREDIT (KSH BILLION)

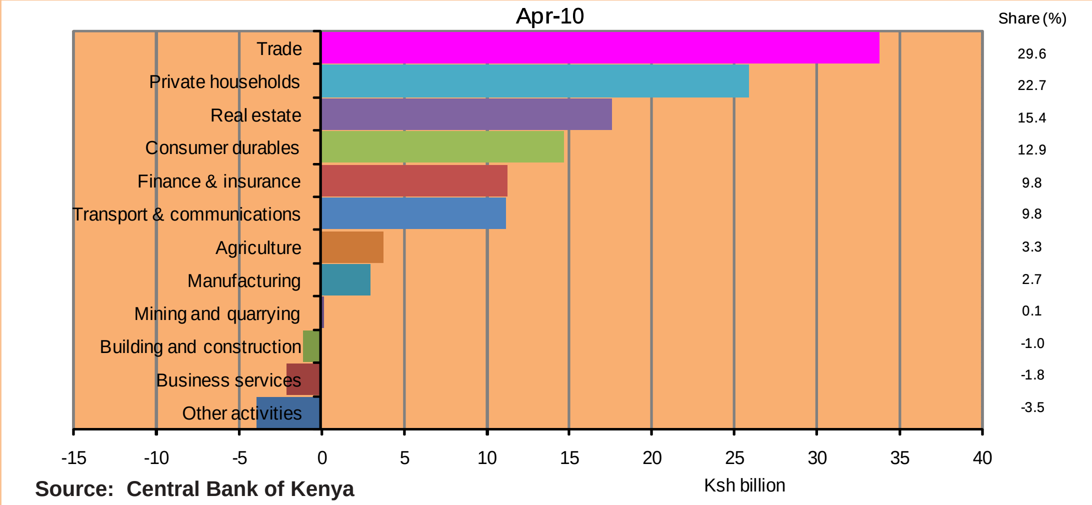
	2009 Apr		2010 Apr		Annual %age Change Apr	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2008/09	2009/10
1. Credit to Government	166.8	20.1	241.9	23.7	7.4	45.0
Central Bank	-8.9	-1.1	-43.0	-4.2	-21.2	382.7
Commercial Banks & NBFIs	175.7	21.2	284.9	27.9	5.4	62.1
2. Credit to other public sector	8.1	1.0	11.4	1.1	-57.1	40.4
Local government	1.2	0.1	-4.2	-0.4	-144.9	-450.2
Parastatals	6.9	0.8	15.6	1.5	-68.1	126.7
3. Credit to private sector	655.2	78.9	769.5	75.2	14.5	17.4
Agriculture	32.6	3.9	36.4	3.6	22.5	11.6
Manufacturing	90.6	10.9	93.6	9.2	39.0	3.4
Trade	96.3	11.6	130.1	12.7	60.0	35.1
Building and construction	36.5	4.4	35.4	3.5	-0.1	-3.1
Transport & communications	54.9	6.6	66.0	6.5	23.0	20.4
Finance & insurance	15.2	1.8	26.5	2.6	-51.9	73.8
Real estate	39.5	4.8	57.1	5.6	64.0	44.6
Mining and quarrying	13.9	1.7	14.0	1.4	122.7	1.1
Private households	89.1	10.7	115.0	11.2	-19.9	29.0
Consumer durables	40.0	4.8	54.7	5.3	-4.5	36.8
Business services	72.5	8.7	70.5	6.9	25.8	-2.8
Other activities	74.1	8.9	70.2	6.9	11.3	-5.3
4. TOTAL (1+2+3) *	830.1	100.0	1022.8	100.0	11.2	23.2

* Absolute and percentage changes may not necessarily add-up due to rounding

Source: Central Bank of Kenya

Bank credit to private sector was mainly to trade sector (29.6 percent), private households (22.7 percent), real estate (15.4 percent), consumer durables (12.9 percent), finance and insurance (9.8 percent), transport and communication (9.8 percent) and agriculture (3.3 percent) (Chart 2B).

CHART 2B: DISTRIBUTION OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO APRIL 2010 (Ksh billion)



Source: Central Bank of Kenya

Reserve Money

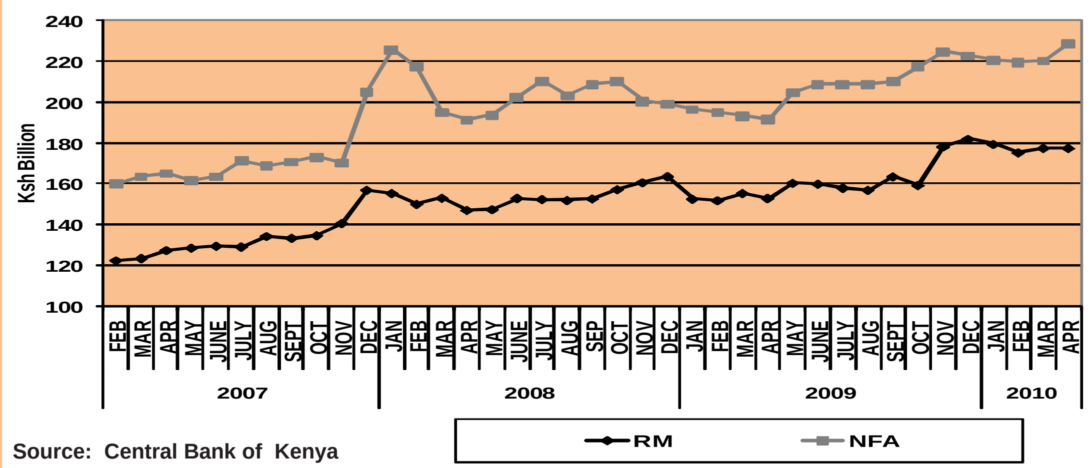
Reserve money that comprise currency outside banks and bank deposits at the Central Bank and cash in tills increased by 14.2 percent to Ksh 177.5 billion in April 2010 from Ksh 152.9 billion in April 2009 as shown in Table 2.3. The increase in reserve money reflected 20.2 percent growth in bank reserves and 9.6 percent increase in currency outside banks. At Ksh 177.5 billion in April 2010, reserve money was Ksh 1.5 billion above target.

TABLE 2.3: RESERVE MONEY AND ITS SOURCES (Ksh billion)

	2008 April	2009 April	2010 April	Change (%) 2008/09	Change (%) 2009/10	2010 April Target	Deviation
1. Net Foreign Assets	191.4	191.7	228.9	0.1	19.5	224.2	4.7
2. Net Domestic Assets	-44.4	-38.8	-51.4	-12.8	32.7	-46.6	-4.8
2.1 Government Borrowing (net)	-11.3	-8.9	-43.0	-21.2	382.7	-14.7	-28.4
2.2 Advances & Discounts	-16.2	10.1	26.1	-162.6	158.3	6.3	19.8
2.3 Other Domestic Assets (net)	-17.0	-40.0	-34.5	135.5	-13.6	-40.8	6.3
3. Reserve Money	147.0	152.9	177.5	4.0	16.1	177.7	-0.2
3.1 Currency outside banks	81.1	86.6	99.0	6.8	14.3	109.0	-10.0
3.2 Bank reserves	65.9	66.3	78.5	0.7	18.4	68.6	9.9

Source: Central Bank of Kenya

CHART 2C: TRENDS IN RESERVE MONEY AND NET FOREIGN ASSETS



Source: Central Bank of Kenya

Net foreign assets (NFA) of the Central Bank, rose by 19.5 percent to Ksh 228.9 billion in the year to April 2010. The rise in NFA of the Central Bank reflected interbank purchases of foreign exchange to boost the level of gross reserves.

Net domestic assets (NDA) of the Central Bank declined by 13.2 percent to Ksh -51.4 billion in the year to April 2010, up from Ksh -38.8 billion in the previous year. The rise in NDA was due to an accumulation in government deposits

Net indebtedness of Commercial banks to Central Bank increased by Ksh 16.0 billion, largely due to liquidity surpport through reverse open market operations. Other domestic assets net of other liabilities increased by 13.6 percent.

The Central Bank Rate

The Monetary Policy Committee in their meeting of 23 March, 2010 lowered the Central Bank Rate (CBR) to 6.75 percent to signal a reduction in the short term interest rates. The rate had previously been lowered in November 2009 to 7.0 percent from the previous position of 7.75 percent.

Interbank Interest Rate

The average interbank rate rose to 2.46 percent in April 2010 from 2.21 percent in March 2010 and 2.39 percent in February 2010 (Table 2.4). Similarly the reverse repo rate rose from 2.43 percent in March 2010 to 2.47 percent in April 2010. The 91-day Treasury bill rate decreased to 5.17 percent in April 2010 from 5.98 percent in March 2010.

Lending and Deposit Rates

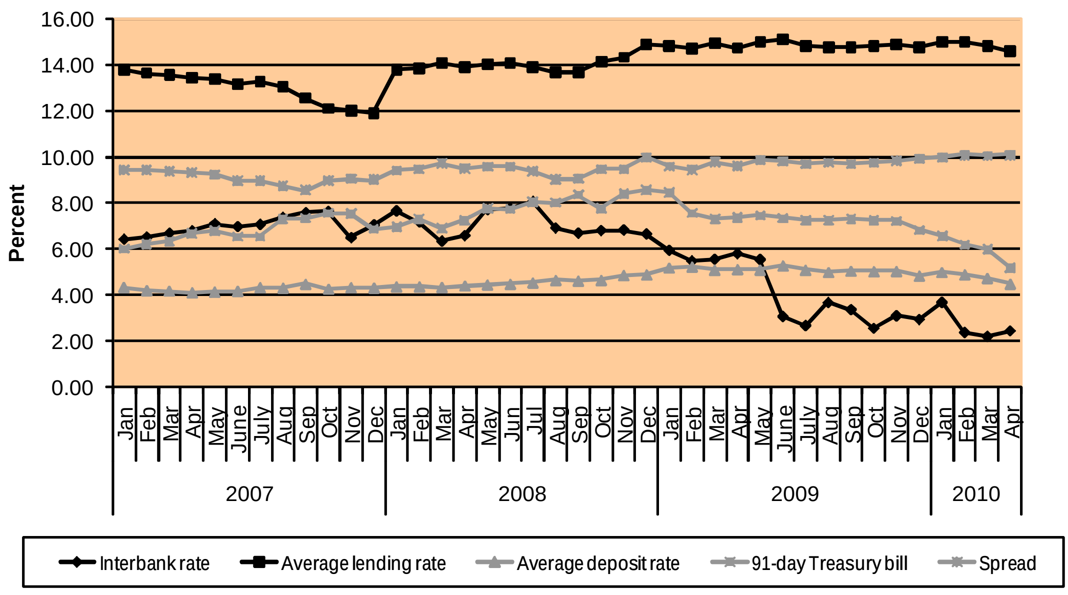
Commercial banks average lending rates decreased to 14.58 percent in April 2010 from 14.80 percent in March 2010. The average deposit rate also dropped from 4.74 percent in March 2010 to 4.49 percent in April 2010. As a result, the interest rate spread widened to 10.09 percent in April 2010 from 10.06 percent in March 2010 (Table 2.4 and Chart 2D).

TABLE 2.4: INTEREST RATES (%)

	2009						2010			
	Mar	Apr	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
91-day Treasury bill rate	7.31	7.33	7.29	7.26	7.22	6.82	6.56	6.19	5.98	5.17
Overdraft rate	13.78	13.66	13.76	14.03	14.24	14.13	14.48	14.25	13.59	14.50
Interbank rate	5.57	5.81	3.38	2.57	3.11	2.95	3.69	2.39	2.21	2.46
Repo rate	4.62	4.06	6.18	6.18	6.18	-	-	-	-	-
Reverse Repo rate		6.67	4.01	3.17	4.36	3.62	3.91	2.80	2.43	2.47
Average lending rate (1)	14.92	14.71	14.74	14.78	14.85	14.76	14.98	14.98	14.80	14.58
Average deposit rate (2)	5.09	5.12	5.05	5.03	5.06	4.84	5.00	4.89	4.74	4.49
0 to 3 - month deposit	5.89	5.96	6.05	5.83	5.98	5.90	5.81	5.57	5.28	4.90
Savings deposits	1.90	1.91	1.65	1.85	1.71	1.73	1.75	1.81	1.81	1.85
Spread (1-2)	**9.78**	**9.59**	**9.69**	**9.75**	**9.79**	**9.92**	**9.98**	**10.08**	**10.06**	**10.09**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

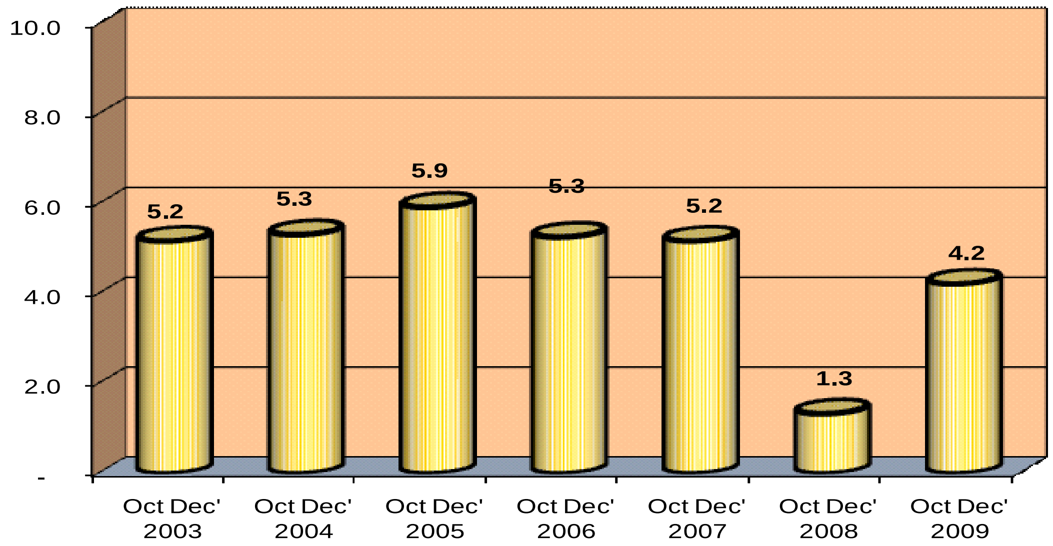
Performance of The Real Sector

Overview

In 2009, domestic production of goods and services (GDP) increased by 2.6 percent compared with 1.6 percent in 2008. The 2.6 percent growth in real GDP reflected mixed performances in the key sectors of the economy. Tourism, transport and communication and the building and construction sectors contributed the largest share of expansion by recording growth rates equivalent to 42.8 percent, 6.4 percent and 14.1 percent, respectively, in 2009 from a decline of 36.1 percent in tourism, and respective growth rates of 3.1 percent and 8.2 percent for the transport and construction sectors in 2008. In relative terms, agriculture remained a major contributor to GDP in 2009 at 24.4 percent, with the sector's contraction improving marginally from -4.1 percent in 2008 to -2.6 percent in 2009.

Analysis of the quarterly GDP indicates a sharp increase in the pace of economic expansion during the fourth quarter of 2009, equivalent to 4.2 percent compared to a zero percent growth in the third quarter of 2009 and 1.3 percent growth in the fourth quarter of 2008 (Chart 3A). This was attributed to a rebound in the economic activities mainly in the transport and communication sector, manufacturing, tourism and the building and construction sector. Transport and communication sector grew from 6.9 percent in the fourth quarter of 2008 to 16.2 percent in the fourth quarter of 2009 following the rapid growth of the mobile phone industry. Growth in the number of arrivals of tourists bounced back from a decline of 29.2 percent in the fourth quarter of 2008, to a growth of 44.8 percent in the fourth quarter of 2009.

CHART 3A: REAL GDP TREND IN THE FOURTH QUARTER



Source: Kenya National Bureau of Statistics

Outlook in 2010 is favourable given that the agricultural sector, which was the biggest casualty in 2009, is expected to benefit greatly from the rainfall experienced all over the country from the beginning of the year. So far production has been on the rise with sectors, such as the dairy sector, experiencing over-production. GDP growth in 2010 is projected at between 4 percent and 4.5 percent.

TABLE 3.1: GROWTH RATES IN REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

	Share in 2009 Nominal GDP (%)	Share in Real GDP in 2009 (%)	2003	2004	2005	2006	2007	2008	*2009
Agriculture and Forestry	24.4	21.50	2.6	1.6	6.9	4.4	2.4	(4.1)	(2.6)
Fishing	0.40	0.41	-6.9	10.1	9.6	8.7	-1.1	(13.2)	7.4
Mining & Quarrying	0.50	0.47	3.5	-0.3	2.7	4.1	12.9	2.9	(4.2)
Manufacturing	9.50	9.78	6.0	4.5	4.7	6.3	6.3	3.5	2.0
Electricity and water supply	2.40	2.25	14.0	3.0	-0.1	-1.3	9.1	5.4	(3.1)
Wholesale and retail trade, repairs	10.00	9.88	1.5	8.5	5.6	11.6	11.3	4.8	1.5
Hotels & Restaurants	1.70	1.56	-20.3	38.8	13.3	14.9	16.3	(36.1)	42.8
Building & Construction	4.40	3.01	1.0	4.4	7.5	6.3	7.3	8.2	14.1
Transport & Communications	9.80	11.71	3.5	7.0	9.0	11.4	15.1	3.1	6.4
Financial intermediation	5.70	3.69	1.5	1.4	5.6	4.8	6.6	2.7	4.6
Real estate, renting and business services	5.10	5.31	2.3	3.0	3.4	3.9	3.5	3.7	3.0
Public administration and defense	4.50	*3.35*	0.6	0.2	-1.3	-1.6	-2.0	0.6	1.6
Education	6.00	*5.63*	9.7	2.0	0.7	0.3	4.2	5.9	2.7
Health and social work	2.70	*2.19*	2.8	3.8	3.2	3.3	3.2	3.6	4.4
Other community, social and personal services	3.60	*3.72*	-0.0	3.7	3.0	4.3	3.4	2.9	4.4
Private households with employed persons	0.40	*0.31*	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Less : Financial services indirectly measured	-1.20	-0.90	-3.3	4.7	4.3	5.1	2.9	(13.9)	21.7
Total GDP at basic 2001 prices	90.10	86.40	3.1	3.9	5.2	5.6	6.2	1.1	2.3
Taxes less subsidies on products	9.90	13.60	1.3	14.8	11.0	11.2	12.1	4.5	4.3
Real GDP at 2001 market prices	100.00	100.00	2.9	5.1	5.9	6.3	7.0	1.6	2.6

Source: Tea Board of Kenya, Horticultural Crops Development Authority, Coffee Board of Kenya and Sugar Board of Kenya

Agriculture

Agriculture's contribution to GDP increased from 23.4 percent in 2008 to 24.4 percent in 2009, reflecting the importance and weight of the sector as a whole. Overall growth in 2009 was minimal due to the drought experienced in most parts of the country and the over-dependence on rain water as well as lack of innovative ways of harnessing the same. The first quarter of 2010 experienced mixed performances in agricultural output with most of the cash crops performing worse than in the same period in 2009 owing to repercussions of the drought conditions and poorly distributed rainfall in most of 2009. Horticultural exports, coffee and sugarcane deliveries all declined during the period under review. Tea production, however, picked up from the last quarter of 2009 and early 2010 with production in January-March 2010 surpassing that of the same period in the previous year by 69.8 percent. Selected performances of agricultural output are as shown in Table 3.2.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE			
	2008	**2009**	**Jan - Mar 2009**	**Jan-Mar 2010**
Tea				
Output (Metric tonnes)	345,818.00	314,193.89	65,801.71	111,722.21
Growth (%)	*-6.44%*	*-9.14%*	*-7.00%*	*69.79%*
Horticulture				
Output (Metric tonnes)	193,117.06	180,763.97	50,745.25	36,450.23
Growth (%)	*0.50%*	*-6.40%*	*-6.69%*	*-28.17%*
Coffee				
Output (Metric tonnes)	38,705.00	48,933.00	20,720.00	13,276.00
Growth (%)	*-25.95%*	*26.43%*	*55.09%*	*-35.93%*
Sugar Cane				
Output (Metric tonnes)	4,979,470.28	5,610,702.00	1,530,926.00	1,484,788.00
Growth (%)	*-4.32%*	*12.68%*	*21.24%*	*-3.01%*

Source: Tea Board of Kenya, Horticultural Crops Development Authority, Coffee Board of Kenya and Sugar Board of Kenya

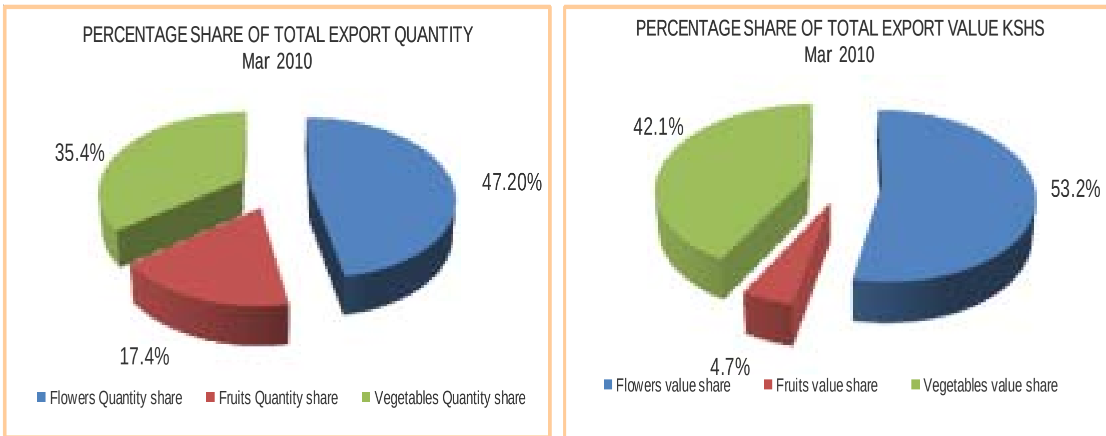
Tea

Tea production in the first quarter of 2010 surpassed that of the same period in 2009 by 45,920.5 metric tonnes or 69.8 percent. The output for January – March 2010 was the highest ever produced for a similar period in the last five years. The increase in production during the period was attributed to unexpected wet weather conditions experienced in the tea growing areas in the east and west rift regions during the first two months of 2010 which under normal circumstances are dry months. A rise in the average prices of tea worldwide was reflected in the monthly price of the Kenyan tea which stood at US$ 3.01 per kilogram in March 2010 compared with US$ 2.29 per kilogram in March 2009.

Horticulture

Cumulative horticultural exports amounted to 36,450.2 metric tonnes in the period January-March 2010, the lowest amount handled for a similar period in seven years. Horticultural exports decreased significantly by 28.2 percent from 50,745.3 metric tonnes in the first quarter of 2009. Consequently, the value of horticultural exports in the same period also decreased from Ksh 14.3 billion in 2009 to Ksh 10.9 billion in 2010. Compared with March 2009 exports, flower, vegetable and fruit exports in March 2010 decreased by 18.4 percent, 27.8 percent and 1.3 percent, respectively. Consequently, the value of horticultural exports in March 2010 fell by Ksh 283.4 million compared with March 2009, equivalent to 5.9 percent. The decline in horticultural exports was attributed to depressed demand from Kenya's traditional flower markets, which was aggravated by the global financial crisis and insufficient rainfall in 2009. Details on the performance of the horticultural sub-sector are provided in Chart 3B.

CHART 3B: HORTICULTURE EXPORTS



Coffee

Coffee production in the first quarter of 2010 amounted to 13,276.0 metric tonnes, falling way below production in the same period in 2009 when production was equivalent to 20,720.0 metric tonnes. This was attributed to excessive drought in 2009 and unexpected rainfall patterns in 2010, which made crop management and disease control difficult and costly to the farmers. However, from the beginning of 2009, coffee prices have maintained an upward trend, reaching an all time high of US $ 5.66 per kilogram in February 2010. Coffee prices fell to US $ 5.07 per kilogram in March 2010.

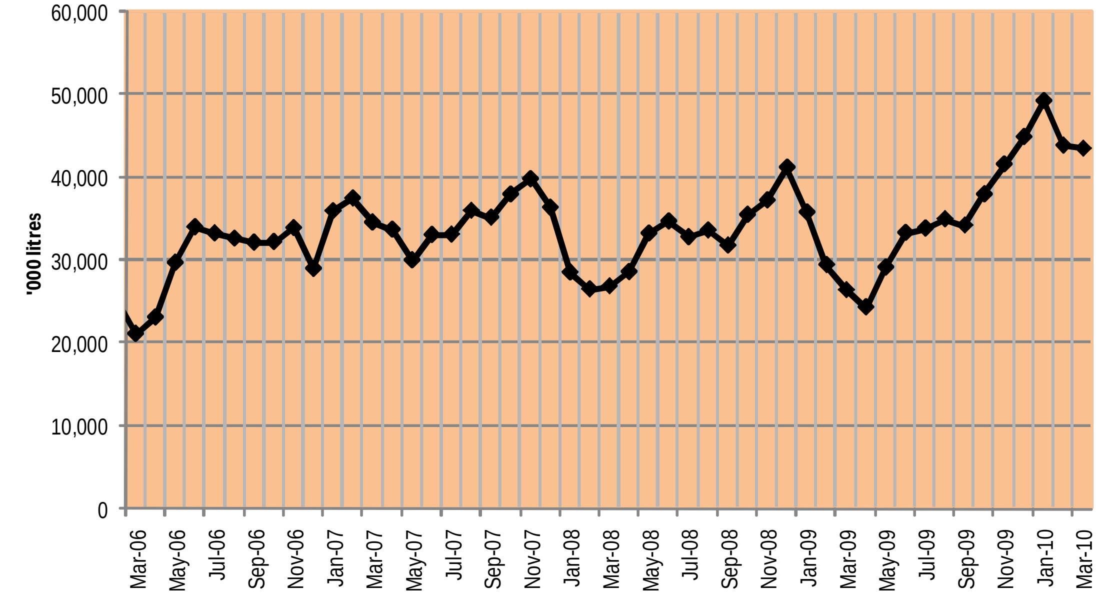
Sugarcane

Total sugarcane deliveries in the period January-March 2010 decreased by 3.0 percent to 1,484,788 metric tonnes, from 1,530,926 metric tonnes in January –March 2009. This followed cane shortage due to competition by new entrants into the sugar industry including the Kibos sugar company in Kisumu as well as reduced production by some companies like Chemelil and Muhoroni sugar factories during the period. Despite the reduced deliveries, the sugarcane industry has been growing in acreage. Production is expected to pick up as the year advances.

Dairy

Following the milk glut experienced in the dairy industry in early 2010, production for the first quarter of 2010 surpassed that of the same period of 2009 by 45.0 million litres, equivalent to 49.0 percent increase. This was attributed to increased fodder availability following the high rains experienced in the first quarter of the year. Cumulative intakes for the period January-March 2010, rose to 136.7 million litres the highest received in a similar period in the history of the dairy industry in Kenya from 91.7 million litres delivered in the period January-March 2009. So far production in January 2010 which amounted to 49.3 million litres is still the highest amount ever taken in one month (Chart 3C) since 2006.

CHART 3C: PROCESSED MILK PRODUCTION IN KENYA ('000 LITRES)



Source: Dairy Board of Kenya

Manufacturing

The contribution of manufacturing to GDP fell marginally from 9.8 percent in 2008 to 9.5 percent in 2009. Output from this sector was mixed with some industries increasing their output while others recorded decreased production in the first quarter of 2010. Of the sampled manufactured goods, sugar production fell by 17,298.7 metric tonnes or 11.2 percent in January – March 2010 from 163,769.0 metric tonnes produced in January-March 2009. This resulted from low cane production by some companies including Chemelil and Muhoroni sugar companies during the period.

Total cement production, grew by 12.1 percent in January-March 2010 compared with the same period in 2009. Growth in cement production has been gradual but

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE			
	2008	2009	Jan-Mar 2009	Jan-Mar 2010
Processed sugar				
Output (MT)	512,192.3	548,207.0	153,769.0	136,470.3
Growth %	*-1.6%*	*7.0%*	*18.7%*	*-11.2%*
Cement production				
Output (MT)	2,828,799.0	3,320,282.0	764,972.0	857,769.0
Output Growth %	11.1%	17.4%	32.1%	12.1%
Soda ash				
Output (MT)	513,415.0	404,904.0	64,006.0	105,977.0
Growth %	*32.8%*	*-21.1%*	*-43.8%*	*65.6%*
Milk				
Output ('000 litres)	390,963.0	406,276.5	91,714.4	136,697.6
Growth %	*-7.6%*	*3.9%*	*11.8%*	*49.0%*
Beer				
Output ('000 litres)	426,733.3	421,208.4	102,277.7	110,548.9
Growth %	*12.5%*	*-1.3%*	*26.3%*	*8.1%*
Cigarettes				
Output (Milles)	14,786,407	14,000,486	3,447,029	3,154,619
Growth %	*-4.5%*	*-5.3%*	*-14.9%*	*-8.5%*

MT = Metric tonnes

Source: Kenya Sugar Board, Magadi Soda Co., Kenya Revenue Authority, Kenya Dairy Board and KNBS

steady through the years, reflecting increased economic activity in the construction industry (Table 3.3 and Chart 3E)

In the alcoholic beverages sub-sector, cumulative beer production increased by 8.1 percent from 102.3 million litres in January-March 2009 to 110.5 million litres in January-March 2010.

Cigarette output dropped in the first quarter of 2010 by 0.2 million milles or 8,5 percent from 3.4 million milles in January-March 2009 to 3.2 million milles in January-March 2010 (Table 3.3).

Soda ash mining recovered to normal levels in the first quarter of 2010 as the industry recovered from the stiff competition from cheaper synthetic imports from China which forced closure of some plants at Magadi Soda Company at the beginning of 2009. Total output increased by 65.6 percent from 64,006.0 metric tonnes mined in January –March 2009 to 105,977.0 metric tonnes produced in January-March 2010.

Energy Sector

Local monthly generation of electricity for the period January –March 2010 dropped by 42.0 million Kilowatt hours from 1,376.9 million kilowatt hours produced in January –March 2009. This was equivalent to a 3.1 percent decrease. The drop in local electricity generation was attributed to low water levels, and therefore, less than full capacity production of hydro-electricity in the various electricity producing dams due to drought conditions experienced in the country throughout the year 2009 (Table 3.4). The water levels have, however, been rising steadily between January and March 2010 and generation of hydro-electricity is expected to improve in the second half of 2010. Of the total power generated, cumulative Geo-Thermal and Thermal power accounted for more than 50 percent. Hydro-power production dropped in January – March 2010 by 26.6 percent, while geo-thermal and thermal power generation increased by 0.5 percent and 37.2 percent, respectively from January – March 2009 production levels.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE			
	2008	2009	Jan-Mar 2009	Jan-Mar 2010
Electricity Supply (Generation)				
Output (KWH Millions)	5,694.1	5,331.5	1,376.9	1,334.9
Growth %	*-9.4%*	*-6.4%*	*-2.7%*	*-3.1%*
Of which:				
Hydro-power Generation (KWH Millions)	3,240.4	2,105.4	684.0	502.4
Growth (%)	*-9.6%*	*-35.0%*	*-20.0%*	*-26.6%*
Geo-Thermal Generation (KWH Millions)	1,038.8	1,478.1	322.4	324.1
Growth (%)	*4.8%*	*42.3%*	*28.1%*	*0.5%*
Thermal (KWH Millions)	1,414.9	1,747.0	370.5	508.4
Growth (%)	*-17.4%*	*23.5%*	*20.0%*	*37.2%*
Consumption of electricity (KWH Millions)	5,286.4	5,320.9	1,304.6	1,384.1
Growth %	*3.1%*	*0.7%*	*1.9%*	*6.1%*
Consumption of Fuels (Metric Tonnes)	2,860.3	3,190.0	726.6	788.5
Growth %	*-8.4%*	*11.5%*	*9.3%*	*8.5%*
Murban crude oil average price (US $ per barrel)	97.9	62.6	47.1	65.5
Growth %	*35.0%*	*-36.0%*	*-51.2%*	*38.9%*

Source: Kenya National Bureau of Statistics

Consumption of electricity went up by 6.1 percent from 1,304.6 million Kilowatt hours between January and March 2009, to 1,384.1 million Kilowatt hours between January and March 2010. Similarly, in the fuel sub-sector, total fuel consumption went up by 8.5 percent from 726.6 metric tonnes in January – March 2009 to 788.5 metric tonnes in January-March 2010. The increase in consumption reflect increased economic activity.

Average international crude oil prices went up by 38.9 percent from an average of US $ 47.1 per barrel in January-March 2009 to an average of US $ 65.5 per barrel in January-March 2010.

Tourism

The tourism sector performed well with tourist arrivals in the first three months of 2010 numbering 271,915 visitors. This was a growth of 18.9 percent from a total of 228,745 visitors in the same period in 2009, with over 50.0 percent arrivals from Europe (Table 3.5). The cruise season which resumed in October 2009 with a total of 287 persons arriving via cruise ships, however, stagnated following cancellations due to fear of pirate kidnappings off the coast of Somalia. Total tourism earnings for the first quarter of 2010 stood at US $ 266.6 million, approximately double the

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2008	2009	Jan-Mar 2009	Jan-Mar 2010	Jan - Mar 2010 % Share	Jan - Mar 2010 % Growth
CRUISE	6,877	12,096	10,520	-	*0.0%*	*-100.0%*
MIAM	112,517	176,469	57,235	77,644	*28.6%*	*35.7%*
JKIA	609,606	763,916	160,990	194,271	*71.4%*	*20.7%*
TOTAL	729,000	952,481	228,745	271,915	*100.0%*	*18.9%*

Cruise ships - Entry through port of Mombasa; JKIA - Entry through Jomo Kenyatta International Airport; MIAM - Entry through Moi International Airport Mombsasa.

Source: Kenya Tourism Board

income for the same period in the previous year which amounted to US $ 132.5 million.

In January – March 2010, 151,493 visitors arrived from Europe, constituting 55.7 percent of the total visitors and 29.5 percent growth over the arrivals in January – March 2009 (Table 3.6). Similarly, arrivals from America, Asia, the Oceanic region, and Africa increased, respectively by 10.3 percent, 29.2 percent, 14.1 percent and

TABLE 3.6: TOTAL ARRIVALS BY CONTINENT

REGION	2008	2009	Jan-Mar 2009	Jan-Mar 2010	Jan - Mar 2010 % Share	Jan- Mar 2010 % Growth
Africa	207,770	228,827	48,516	57,928	21.3%	19.4%
America	97,771	128,658	26,810	29,583	10.9%	10.3%
Asia	94,496	108,524	22,130	28,583	10.5%	29.2%
Europe	308,123	456,427	116,943	151,493	55.7%	29.5%
Oceanic	13,963	17,949	3,794	4,328	1.6%	14.1%
Cruise	6,877	12,096	10,520	-	0.0%	-100.0%
Total	**729,000**	**952,481**	**228,713**	**271,915**	100.0%	18.9%

Source: Kenya Tourism Board

19.4 percent. There were no arrivals via cruise ships for the period January – March 2010.

Transport and Tele-communications

The transport and communications sector constituted 9.8 percent of the GDP in 2009. The sector has experienced rapid growth in recent years. In the fourth quarter of 2009 growth reached 16.2 percent from 6.9 percent in the same quarter of 2008. Consequently, the volume of cargo throughput handled by Kenya Ports Authority (KPA) at the port of Mombasa increased by 27.9 percent in the period January-March 2010 from 4,222,269 metric tonnes equivalent in January-March 2009. This consisted of 87.1 percent imports, 12.5 percent exports and 0.4 percent transit shipments, equivalent to 4,704,500.1 metric tonnes, 675,157.9 metric tonnes and 21,605.1 metric tonnes, respectively. Similarly, fuel cargo transported via Kenya Pipeline Company (KPC) increased by 0.3 percent in the period January-March 2010. In the transport and telecommunications sector, excise duty on airtime rose

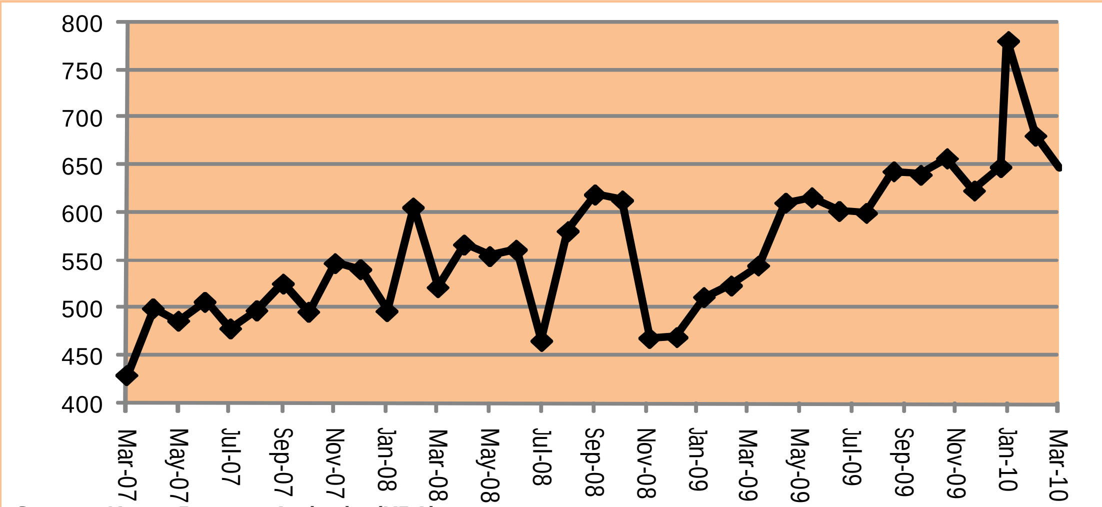
TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	CUMULATIVE			
	2008	2009	Jan-Mar 2009	Jan-Mar 2010
Mombasa Port Cargo Throughput				
Output (MT) Equivalent	16,414,729	19,061,631	4,222,269	5,401,263 *
Output Growth %	*2.8%*	*16.1%*	*0.5%*	*27.9%*
Number of passengers Thro' JKIA				
Incoming	1,468,814	1,291,278	285,493	327,965
Growth (%)	*-0.7%*	*-12.1%*	*-7.3%*	*14.9%*
Outgoing	1,476,851	1,334,482	257,403	317,275
Growth %	*-0.3%*	*-9.6%*	*-11.2%*	*23.3%*
Kenya Pipeline oil Throughput				
Output ('000 litres)	3,859,481	4,323,370	1,064,470	1,067,418
Output Growth %	*-2.6%*	*12.0%*	*11.3%*	*0.3%*
Kenya Revenue Authority (Excise tax on airtime)				
Kshs million	6,528	7,225	1,581	2,109
Output Growth %	*9.5%*	*10.7%*	*-2.7%*	*33.4%*

Source: Kenya Ports Authority and Kenya Pipeline Company Ltd.

by 33.4 percent in January-March 2010, from Ksh 1,581 million in January March 2009 to Ksh 2,109 million in January-March 2010. During the same period, the

CHART 3D: EXCISE TAX ON AIRTIME

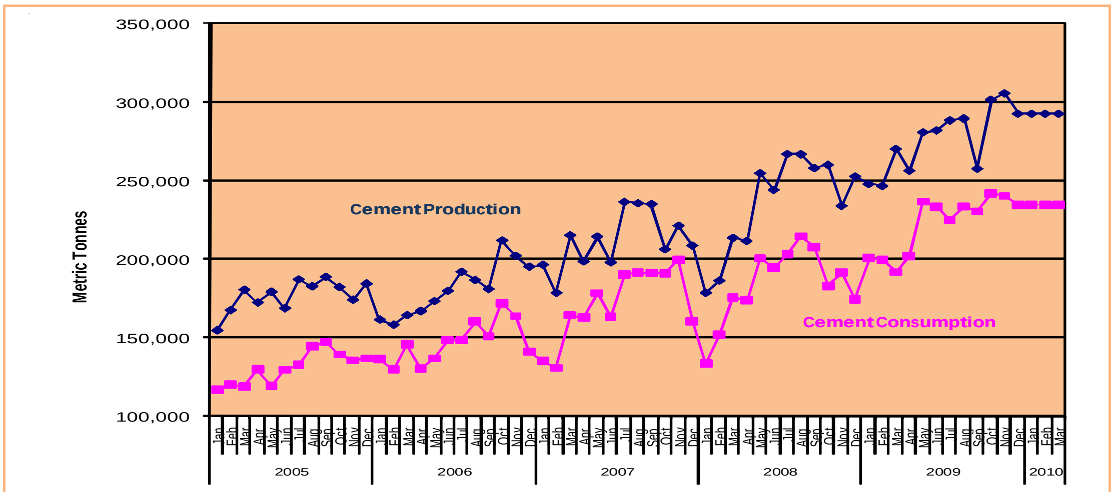


Source: Kenya Revenue Authority (KRA)

total number of passengers embarking at JKIA rose by 23.3 percent and the number of those disembarking increased by 14.9 percent.

Building & Construction Industry

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

Cement consumption increased by 31.6 percent from 592,530 metric tonnes in January-March 2009 to 779,901 metric tonnes in January-March 2010, reflecting increased economic activity in the industry.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya's overall balance of payments improved from a deficit of US$ 698 million in the year to March 2009, to a surplus of US$ 524 million in the year to March 2010. The improvement maps on a relatively narrow deficit in the current account.

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Mar 2009*	Year to March 2010* Q1 Apr-Jun	Q2 Jul-Sep	Q3 Oct-Dec	Q4 Jan-Mar	Year to Mar 2010*	Absolute Change
1. OVERALL BALANCE	-698	302	176	147	-101	524	***1222***
2. CURRENT ACCOUNT	-2155	-465	-485	-287	164	-1072	***1083***
2.1 Goods	-6282	-1378	-1380	-1763	-1413	-5934	*348*
Exports (fob)	4908	1033	1172	1188	1290	4683	*-225*
Imports (cif)	11190	2411	2552	2950	2703	10617	*-573*
2.2 Services	4127	914	895	1476	1578	4861	*735*
Non-factor services (net)	2091	375	388	793	1042	2598	*508*
Income (net)	-64	-13	-33	-7	16	-37	*27*
Current Transfers	2101	552	540	689	519	2300	*200*
3. CAPITAL & FINANCIAL ACCOUNT	1457	767	660	434	-265	1596	***139***
3.1 Capital Tranfers (net)	363	62	45	82	19	208	*-155*
3.2 Financial Account	1094	705	615	352	-284	1388	*294*
memo:							
Gross Reserves	4320	4822	5235	5064	5188	5188	***867***
Official	2714	3219	3708	3847	3745	3745	*1031*
*imports cover***	*2.7*	*3.3*	*4.0*	*4.1*	*3.9*	*3.9*	*1.2*
*imports cover****	*3.1*	*3.6*	*4.1*	*4.1*	*3.9*	*3.9*	*0.8*
Commercial Banks	1606	1602	1527	1217	1443	1443	*-163*

* Provisional.

** Based on current year's imports of goods and non-factor services

*** Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

Current Account

The current account deficit improved from US$ 2,155 million in the year to March 2009 to US$ 1,072 million in the year to March 2010. The improvement is largely reflected in the services account (Table 4.2).

TABLE 4.2: BALANCE ON CURRENT ACCOUNT (US$ M)

ITEM	Year to Mar 2009*	Year to March 2010* Q1 Apr-Jun	Q2 Jul-Sep	Q3 Oct-Dec	Q4 Jan-Mar	Year to Mar 2010*	Absolute Change
2. CURRENT ACCOUNT	-2155	-465	-485	-287	164	-1072	*1083*
2.1 Goods	-6282	-1378	-1380	-1763	-1413	-5934	*348*
Exports (fob)	4908	1033	1172	1188	1290	4683	*-225*
Coffee	163	68	54	33	47	201	*38*
Tea	933	182	236	263	340	1021	*89*
Horticulture	714	162	165	188	187	702	*-11*
Oil products	95	19	34	22	20	95	*0*
Manufactured Goods	609	114	131	151	145	540	*-68*
Raw Materials	278	55	45	50	74	225	*-53*
Re-exports	299	47	102	63	79	291	*-8*
Other	1817	385	405	418	399	1607	*-211*
Imports (cif)	11190	2411	2552	2950	2703	10617	*-573*
Oil	2759	536	565	692	612	2405	*-354*
Chemicals	1439	308	315	348	384	1355	*-84*
Manufactured Goods	1533	323	352	435	390	1500	*-33*
Machinery & Transport Equipment	3154	663	772	829	761	3025	*-130*
Other	2304	582	548	646	556	2332	*28*
2.2 Services	4127	914	895	1476	1578	4861	*735*
Non-factor services (net)	2091	375	388	793	1042	2598	*508*
of which tourism	751	123	170	244	267	803	*52*
Income (net)	-64	-13	-33	-7	16	-37	*27*
of which official interest	-106	-26	-20	-22	-17	-85	*21*
Current Transfers	2101	552	540	689	519	2300	*200*
Private (net)	2036	473	461	610	524	2068	*32*
Public (net)	65	79	79	79	-5	232	*168*

* Provisional.

Source: Central Bank of Kenya

The merchandise trade account improved from a deficit of US$ 6,282 million in the year to March 2009 to a deficit of US$ 5,934 million in the year to March 2010 partly due to a fall in the value of imports. The impact of the fall in the value of imports, by 5.1 percent from US$ 11,190 million in March 2009 to US$ 10,617 million in March 2010, was partially offset by a decline in the value of exports (by 4.6 percent to US$ 4,683 million over the same period).

Imports

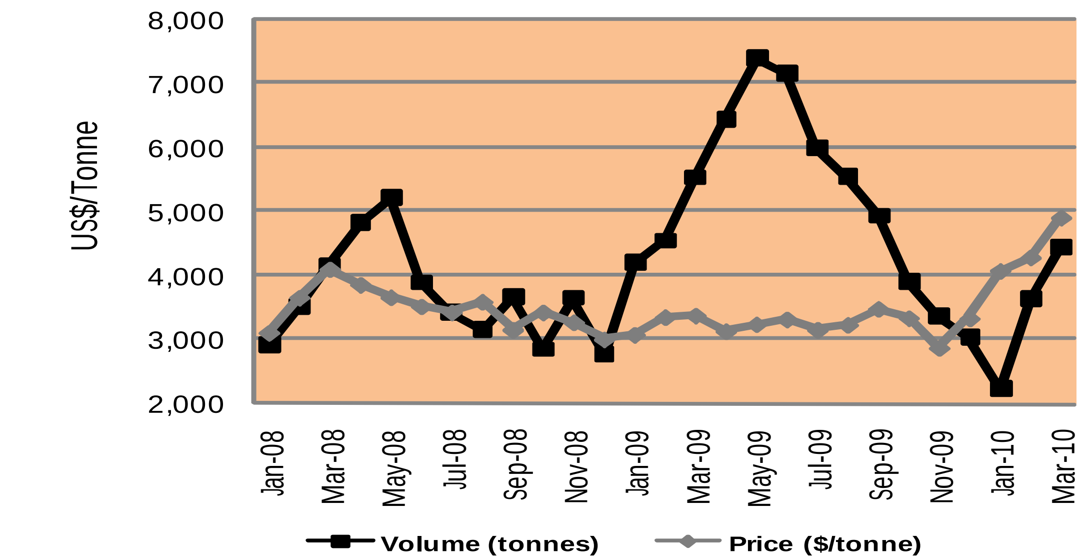
The decrease in the value of merchandise imports during the year to March 2010 was in oil, machinery and transport, and chemicals. The oil import bill dropped by US$ 354 million (or 61.7 percent of the fall in the total imports bill) on account of lower oil prices in the international market compared with a similar period in 2009. Machinery and transport imports decreased by US$ 130 million, mainly in telecommunication and sound recording machines, other transport equipments and general industrial machines. The drop in chemical imports was mainly in manufactured fertilizers.

Exports

The value of merchandise exports dropped by US$ 225 million to US$ 4,683 million reflecting decreases in exports of horticulture, manufactured goods and raw materials. Manufactured goods exports dropped by US$68million following reduced exports of processed leather, iron and steel, lime, cement and metal manufactures. The decrease in exports of raw materials by US$ 53 million comprised exports of textile fibers, and other crude materials. Exports of horticulture dropped by US$ 11 million in the year to March 2010.

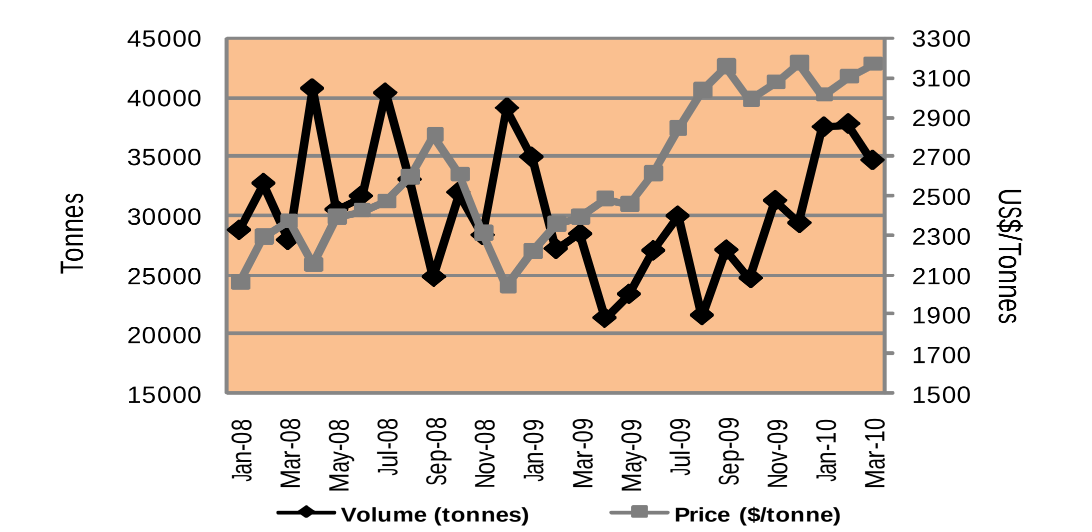
Coffee export earnings increased by US$ 38 million reflecting mainly improvement in prices, while earnings from tea exports increased by US$ 88 million on account of improved prices (Chart 4A and 4B). The value of re-exports and other miscellaneous exports decreased during the period under review.

CHART 4A: COFFEE EXPORTS: UNIT PRICE AND QUANTITY



Source: Central Bank of Kenya

CHART 4B: TEA EXPORTS: UNIT PRICE AND QUANTITY



Source: Central Bank of Kenya

Services Account

The services account surplus increased by 17.8 percent, or US$ 735 million on account of increases in net receipts on non-factor services and net public and private current transfers. The increase was in tourism earnings and official grants related inflows.

Direction of Trade

Kenya's exports were mainly to Uganda (12.6 percent), United Kingdom (11.2 percent), Tanzania (8.4 percent) and Netherlands (7.4 percent). The share of exports to African countries accounted for 46 percent. The share of exports to the EAC region remained at 25.0 percent while those to COMESA region decreased from 32.4 percent to 32.0 percent in the year to March 2010.

During the period under review, Kenya's imports were mainly from United Arab Emirates (12.4 percent), India (11.0 percent), China (10.0 percent), South Africa

(8.3 percent), Japan (6.2percent), United States of America (5.5 percent) and United Kingdom (4.7 percent). The share of imports from African countries accounted for 12.9 percent. Imports from the EAC region increased from US$ 171 million to US$ 190 million (1.8 percent of total imports), while that from the COMESA region decreased from US$ 379 million to US$ 349 million (3.3 percent of total exports), in the year to March 2010 (Table 4.3).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to March			Year to March		
Country	2008	2009	2010	2008	2009	2010
Africa	1,124	1,288	1,373	11.7	11.5	12.9
Of which						
South Africa	579	736	885	6.1	6.6	8.3
Egypt	146	150	139	1.5	1.3	1.3
Others	399	401	349	4.2	3.6	3.3
EAC	210	171	190	2.2	1.5	1.8
COMESA	427	379	349	4.5	3.4	3.3
Rest of the World	8,447	9,902	9,244	88.3	88.5	87.1
Of which						
India	934	1,263	1,172	9.8	11.3	11.0
United Arab Emirates	1,467	1,420	1,316	15.3	12.7	12.4
China	749	920	1,061	7.8	8.2	10.0
Japan	651	611	662	6.8	5.5	6.2
USA	342	493	587	3.6	4.4	5.5
United Kingdom	424	386	498	4.4	3.4	4.7
Singapore	159	346	355	1.7	3.1	3.3
Germany	355	371	299	3.7	3.3	2.8
Saudi Arabia	293	356	416	3.1	3.2	3.9
Indonesia	298	316	258	3.1	2.8	2.4
Netherlands	145	234	200	1.5	2.1	1.9
France	261	231	194	2.7	2.1	1.8
Bahrain	170	200	52	1.8	1.8	0.5
Italy	199	181	161	2.1	1.6	1.5
Others	1,999	2,573	2,012	20.9	23.0	19.0
Total	9,571	11,190	10,617	100	100	100

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to March			Year to March		
Country	2008	2009	2010	2008	2009	2010
Africa	1,947	2,311	2,158	44	47	46
Of which						
Uganda	535	619	590	12.2	12.6	12.6
Tanzania	338	424	394	7.7	8.6	8.4
Egypt	140	210	182	3.2	4.3	3.9
Sudan	181	191	179	4.1	3.9	3.8
Somalia	148	170	161	3.4	3.5	3.4
DRC	124	151	148	2.8	3.1	3.2
Rwanda	93	132	127	2.1	2.7	2.7
Others	387	415	379	8.9	8.5	8.1
EAC	1,004	1,227	1,171	23.0	25.0	25.0
COMESA	1,341	1,588	1,500	**30.6**	**32.4**	**32.0**
Rest of the World	2,429	2,596	2,525	55.5	52.9	53.9
Of which						
United Kingdom	477	517	525	10.9	10.5	11.2
Netherlands	358	358	345	8.2	7.3	7.4
USA	284	288	214	6.5	5.9	4.6
Pakistan	166	217	208	3.8	4.4	4.4
United Arab Emirates	146	104	173	3.3	2.1	3.7
Germany	95	86	95	2.2	1.8	2.0
India	95	93	75	2.2	1.9	1.6
Afghanistan	40	70	135	0.9	1.4	2.9
Others	769	864	754	17.6	17.6	16.1
Total	4,376	4,908	4,683	100	100	100

Source: Kenya Revenue Authority

Capital and Financial Account

Regarding the capital and financial account, the surplus improved from US$ 1,457 million to US$ 1,596 million in the twelve months to March 2010. The improvement was largely in the financial account and particularly in private, medium and long term flows and particularly in commercial bank reduced holdings of foreign assets abroad(Table 4.4).

TABLE 4.4.: BALANCE ON CAPITAL AND FINANCIAL ACCOUNT (US$ M)

ITEM	Year to Mar 2009*	Year to March 2010* Q1 Apr-Jun	Q2 Jul-Sep	Q3 Oct-Dec	Q4 Jan-Mar	Year to Mar 2010*	Absolute Change
3. CAPITAL & FINANCIAL ACCOUNT	1457	767	660	434	-265	1596	***139***
3.1 Capital Tranfers (net)	363	62	45	82	19	208	*-155*
3.2 Financial Account	1094	705	615	352	-284	1388	*294*
Official, medium & long-term	115	78	-41	66	-35	67	*-48*
Inflows	365	132	36	111	41	320	*-46*
Outflows	-250	-54	-77	-45	-76	-252	*-2*
Private, medium & long-term (net)	-68	29	147	449	-357	269	*337*
Commercial Banks (net)	-39	7	155	468	-371	259	*298*
Other private medium & long-term (net)	-29	22	-8	-19	14	10	*39*
Short-term (net) incl. errors & omissions	1047	598	509	-163	108	1052	*5*

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from US$ 4,620 million in April 2009 to US$ 5,124 million in April 2010. Gross official foreign exchange reserves held by the Central Bank rose from US$ 2,888 million or 3.3 months of import cover in April 2009 to US$ 3,805 million or 4.0 months of import cover in April 2010 (Table 4.5) and accounted for 181.9 percent of the banking systems total foreign exchange . The accumulation of official reserves comprised of interbank purchases, balance of payments support under the exogenous shock facility and additional special drawing rights allocation from the IMF to mitigate adverse effects of the global economic recession.

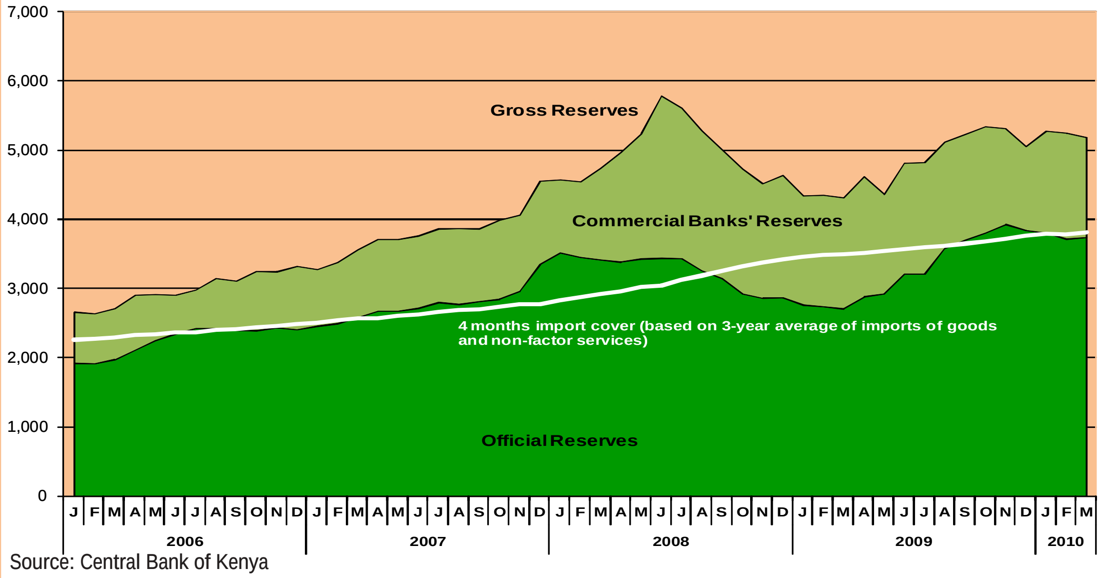
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Apr 09	Jun 09	Sep 09	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10
1. Gross Foreign Exchange Reserves	**4,620**	**4,822**	**5,235**	**5,062**	**5,279**	**5,254**	**5,188**	**5,124**
of which:								
Official	2,888	3,219	3,708	3,847	3,810	3,723	3,745	3,805
*imports cover**	*3.3*	*3.6*	*4.1*	*4.1*	*4.0*	*3.9*	*3.9*	*4.0*
Commercial Banks	1,733	1,602	1,527	1,215	1,470	1,532	1,443	1,319
2. Residents' foreign currency deposits	**1,702**	**1,912**	**1,920**	**2,036**	**2,065**	**2,013**	**2,025**	**2,100**

*Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

CHART 4C: FOREIGN EXCHANGE RESERVES (US$ MILLION)



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling depicted mixed performance in April 2010 against major world currencies. It weakened against the US dollar and the Sterling Pound but strengthening against the Euro and the Japanese Yen. The depreciation of the shilling during the month reflected increased demand for dollars by oil importers, and the increased global demand for dollars. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 77.25 per US dollar in April 2010 compared with Ksh 76.95 per US dollar in March 2010. Against the Sterling Pound the shilling depreciated to exchange at an average of Ksh 118.51 per Sterling Pound compared with Ksh 115.78 per Sterling Pound. The shilling, however, appreciated against the Euro and the

Japanese Yen to exchange at Ksh 103.71 per Euro and Ksh 82.76 per 100 Japanese Yen in April 2010, respectively, compared with Ksh 104.46 per Euro and Ksh 85.04 per 100 Japanese Yen and in March 2010 (Table 4.6 and Chart 4D).

Against the regional currencies, the Kenya shilling depreciated against the Uganda Shilling and appreciated Tanzania Shilling, respectively, to trade at Ush 26.96 per Kenya shilling and Tsh 17.75 per Kenya shilling in April 2010 compared with Ush 27.10 per Kenya shilling and Tsh 17.63 per Kenya shilling in March 2010.

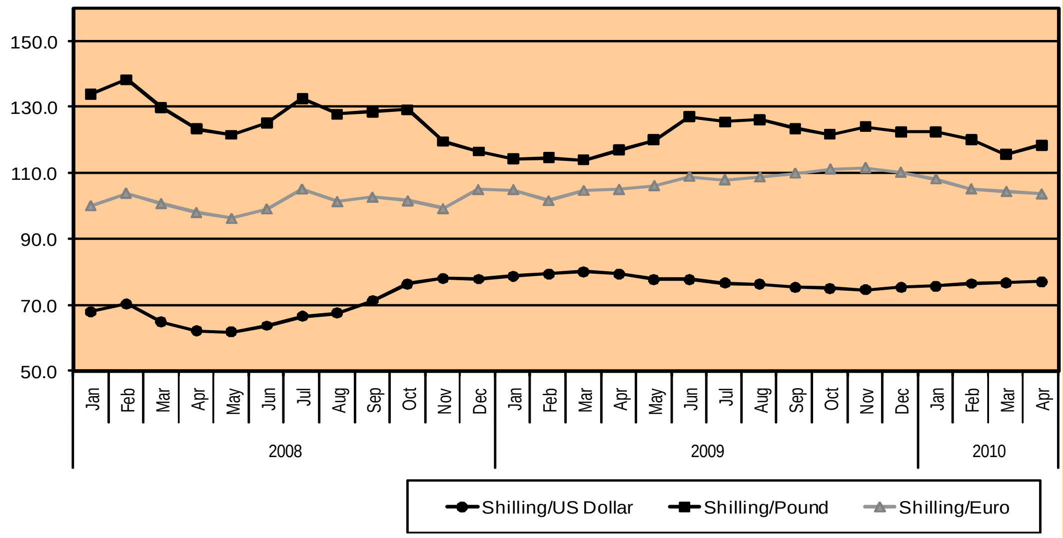
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2009					2010				% change Apr 10 - Mar 10
	Jan	Feb	Mar	June	Dec	Jan	Feb	Mar	Apr	
US Dollar	78.95	79.53	80.26	77.85	75.43	75.79	76.69	76.95	77.25	**0.40**
Pound Sterling	114.28	114.54	113.98	127.22	122.54	122.53	120.21	115.78	118.51	**2.35**
100 Japanese Yen	87.45	86.18	82.22	80.61	84.12	83.11	84.99	85.04	82.76	**-2.67**
Uganda Shilling*	25.05	24.73	25.59	27.47	25.20	25.53	25.97	27.10	26.96	**-0.51**
Tanzania Shilling*	16.99	16.61	16.32	16.86	17.65	17.71	17.58	17.63	17.75	**0.64**
Euro	105.02	101.71	104.77	109.03	110.27	108.27	105.25	104.46	103.71	**-0.72**
Euro per US dollar	0.752	0.782	0.766	0.714	0.684	0.700	0.729	0.737	0.745	**1.13**

* Units of currency per Kenya shilling

Source: Central Bank of Kenya

CHART 4D: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

During the period ended April 30, 2010, the Kenyan banking sector registered a significant growth in assets driven by growth in deposits, injection of capital and retention of profits. At the same time, the level of non-performing loans declined compared to the level in April 2009.

The sector comprised of 44 commercial banks, 1 mortgage finance company, 2 deposit taking microfinance institutions and 130 foreign exchange bureaus.

Structure of the Balance Sheet

The banking sector aggregate balance sheet grew by 21.4 percent from Ksh 1,226.1 billion to Ksh 1,488.5 billion in April 2010. The major components of the balance sheet were loans and advances, government securities and placements, which accounted for 51.0 percent, 26.0 percent and 8.0 percent of total assets respectively.

Loans & Advances

The banking sector gross loans and advances increased from Ksh 698.2 billion in April 2009 to Ksh 799.5 billion in April 2010, translating to 14.5 percent growth. The growth was attributed to increased economic activities in the households, trade and manufacturing sectors. Loans and advances net of provisions stood at Ksh 757.5 billion in April 2010, up from Ksh 653.0 billion registered in a similar period in 2009.

Deposit Liabilites

Deposits from customers were the main source of funding for the banking sector, accounting for 76.7 percent of total funding liabilities. The deposit base expanded by 21.4 percent from Ksh 940.6 billion in April 2009 to Ksh 1,141.6 billion in April 2010 on account of branch expansion, remittances and receipts from exports.

Capital & Reserves

The banking sector registered strong capital levels in April 2010 with total capital increasing by 16.1 percent from Ksh 163.1 billion in April 2009 to Ksh 189.4 billion in March 2010, whereas shareholders’ funds increased by 21.0 percent from Ksh 176.9 billion in April 2009 to Ksh 214.0 billion. Similarly, the ratios of total and core capital to total risk-weighted assets increased from 17.7 percent and 19.8 percent to 17.8 percent and 19.9 percent respectively mainly due to capital injection and retention of profits.

Non-performing Loans

The stock of gross non-performing loans (NPLs) eased by 4.5 percent from Ksh 64.9 billion in April 2009 to Ksh 62.0 billion. However, the coverage ratio which is measured as a percentage of specific provisions to total NPLs increased to 49.8 percent from 47.7 percent in April 2009 mainly due to drop in non-performing loans stock and increase in provisions. The quality of assets, measured as a proportion of net non-performing loans to gross loans improved from 4.0 percent to 3.3 percent in April 2010 as shown in Table 5.1. On the other hand the ratio of gross NPLs to gross loans improved from 9.3 percent in April 2009 to 7.8 percent in April 2010.

Profitability

TABLE 5.1: NON-PERFORMING LOANS & PROVISIONS AMONG BANKS IN KENYA (KSH BILLION)

		Apr-10	Apr-09
1	Gross loans and advances	799.5	698.2
2	Loans and advances (net of interest suspended)	789.4	686.0
3	Gross non-performing loans	62.0	65.0
4	Specific Provisions	25.9	25.2
5	General Provisions	6.0	7.8
6	Total Provisions (4+5)	31.9	33.0
7	Net Advances (2-6)	757.5	653.0
8	Total Non-Performing Loans and advances	52.0	52.8
9	Net Non-Performing Loans and advances(8-4)	26.1	27.6
10	Total NPLs as % of total advances (8/2)	6.6	7.7
11	Net NPLs as % of gross advances (9/1)	3.3	4.0
12	Specific Provisions as % of Total NPLs (4/8)	49.8	47.7

Source: Central Bank of Kenya

In the four months to April 2010, the sector registered a 30.5 percent growth in pre-tax profits, from 14.9 billion in April 2009 to Ksh 19.5 billion as at April 2010. As a result, the annualised return on assets improved from 2.8 percent to 3.0 percent in April 2010 while the return on equity increased from 25.3 percent to 27.3 percent. Total income went up by 18.5 percent from Ksh 53.0 billion to Ksh 62.8 billion in April 2010, while total expenses increased by 13.7 percent from Ksh 38.1 billion in April 2009 to Ksh 43.4 billion. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 53.0 percent, 26.0 percent and 16.0 percent of total income, respectively. On the other hand, staff costs, other expenses and interest on deposits were the key components of expenses, accounting for 34.0 percent, 27.0 percent and 26.0 percent, respectively.

Liquidity Ratio Requirement

Liquidity which represents the ability to fund increases in assets and meet obligations as they fall due is crucial to the sustained viability of any banking institution. The importance of liquidity transcends the individual bank as a liquidity shortfall at an individual bank can have systemic repercussions.

As at April 2010, liquid assets amounted to Ksh 495.0 billion, while total liquid liabilities stood at Ksh 1,114.5 billion, resulting to an average liquidity ratio of 44.4 percent, against 39.6 percent registered in April 2009. The ratio of gross loans to deposits ratio stood at 70.0 percent, down from 74.2 percent in April 2009.

Cash Ratio Requirement

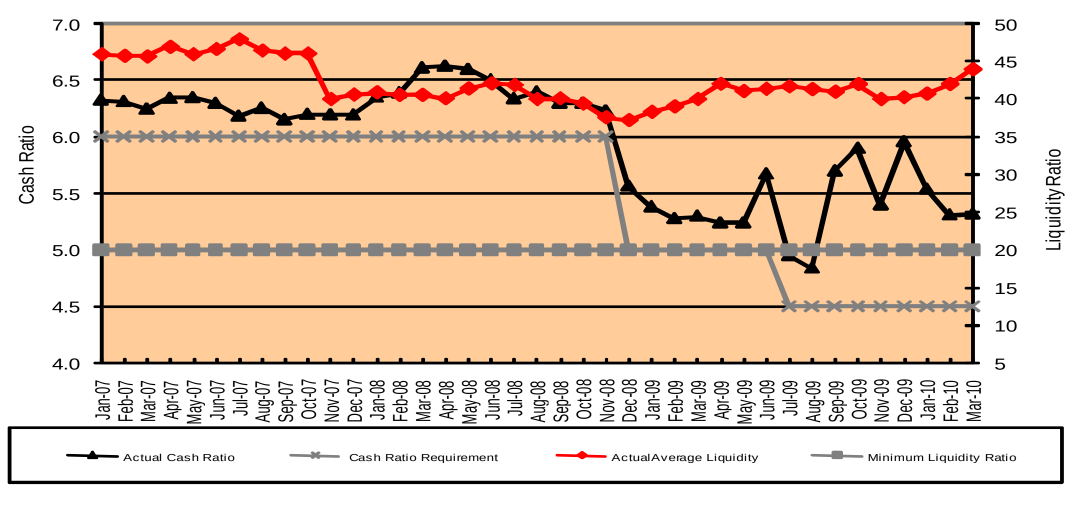
The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.14 percent in April 2010 compared with 5.32 percent in March 2010 and 4.5 percent statutory level as shown in Table 5.2 and Chart 5A. Commercial banks held excess reserves at the Central Bank averaging Ksh 6.69 billion in April 2010 compared with Ksh 8.38 billion in March 2010.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2009					2010			
	Jan	Feb	Mar	Apr	Dec	Jan	Feb	Mar	Apr
Commercial Banks									
Actual Average Liquidity	38.30	38.75	40.03	42.04	40.25	40.71	42.02	43.99	
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.38	5.28	5.32	5.24	5.96	5.54	5.31	5.32	
Minimum Cash Ratio Requirement	5.00	5.00	5.00	5.00	4.50	4.50	4.51	4.51	4.51
NBFIs									
Actual Average Liquidity Ratio	24.63	22.72	23.89	23.22	23.96	26.24	30.43	29.70	
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio	5.00	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50
Minimum Cash Ratio Requirement	5.00	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 69,634 transaction messages worth Ksh 1,436 billion in April 2010 compared with a volume of 77,058 transaction messages valued at Ksh 1,694 billion moved in March 2010. These decreases represented15.2 percent and 9.6 percent in value and volume, respectively.

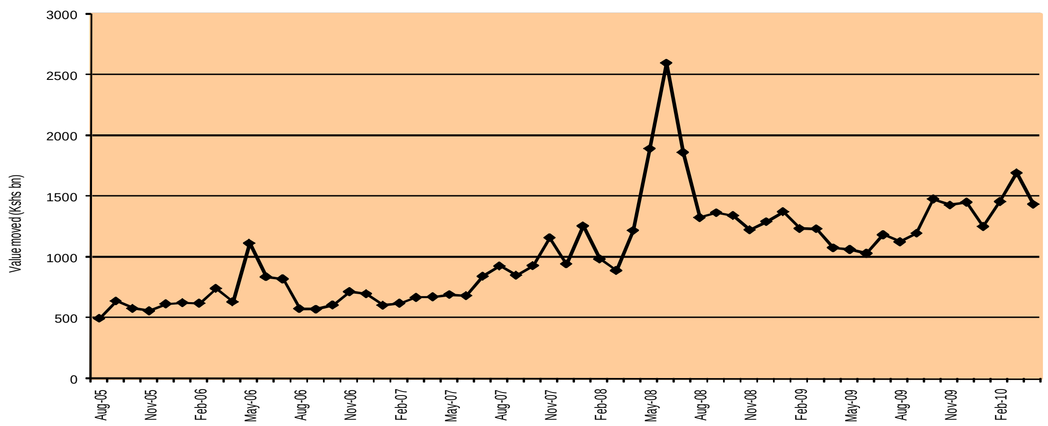
During the twelve months period to April 30, 2010, the value moved averaged Ksh 33 million per transaction. On average 2,245 transaction messages valued at approximately Ksh 62.5 billion per message were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS accounted for 98.4 percent of the total settlements, while indirect payments (ACH Net settlement) averaged 1.6 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-08	1,256	78	23,773	0.05	22	57	1,081
Feb-08	985	62	23,278	0.04	21	47	1,108
Mar-08	891	60	20,920	0.04	18	49	1,162
Apr-08	1,220	107	24,684	0.05	22	55	1,122
May-08	1,895	94	19,730	0.10	21	90	940
Jun-08	2,601	115	22,387	0.12	20	130	1,119
Jul-08	1,864	75	24,599	0.08	23	81	1,070
Aug-08	1,327	59	20,593	0.06	21	63	981
Sep-08	1,367	76	23,494	0.06	22	62	1,068
Oct-08	1,344	85	23,635	0.06	20	67	1,182
Nov-08	1,225	57	22,718	0.05	21	58	1,082
Dec-08	1,293	94	24,131	0.05	20	65	1,207
Jan-09	1,376	68	25,330	0.05	21	66	1,206
Feb-09	1,236	64	20,710	0.06	19	65	1,090
Mar-09	1,235	82	23,752	0.05	22	56	1,080
Apr-09	1,077	80	22,485	0.05	20	54	1,124
May-09	1,064	70	24,024	0.04	20	53	1,201
Jun-09	1,032	80	21,977	0.05	21	49	1,047
Jul-09	1,185	75	25,650	0.05	23	52	1,115
Aug-09	1,127	69	23,001	0.05	21	54	1,095
Sep-09	1,198	90	24,552	0.05	21	57	1,169
Oct-09	1,481	27	55,440	0.03	21	71	2,640
Nov-09	1,430	21	56,900	0.03	21	68	2,710
Dec-09	1,454	29	66,916	0.02	22	66	3,042
Jan-10	1,254	18	56,862	0.02	20	63	2,843
Feb-10	1,458	22	65,010	0.02	20	73	3,251
Mar-10	1,694	26	77,058	0.02	23	74	3,350
Apr-10	1,436	23	69,634	0.02	30	48	2,321

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third party Messages

Multiple third parties Message Type (MT 102) decreased by 15.3 percent from 11,038 transaction messages in March 2010 to 9,345 transaction messages in April 2010. Similarly, single third party Message Type (MT 103) decreased by 5.4 percent from 67,052 transaction messages to 63,396 transaction messages in the same period. Overall, total third party messages through KEPSS decreased by 6.8 percent from 78,090 transaction messages in March 2010 to 72,741 transaction messages in April 2010.

Compared with April 2009, multiple third parties messages (MT 102) increased by 1,132.8 percent from 758 transaction messages to 9,345 transaction messages in April 2010, while single third party messages (MT 103) increased by 494.1 percent from 10,671 transaction messages to 63,396 transaction messages (Table 5.4 and Chart 5C).

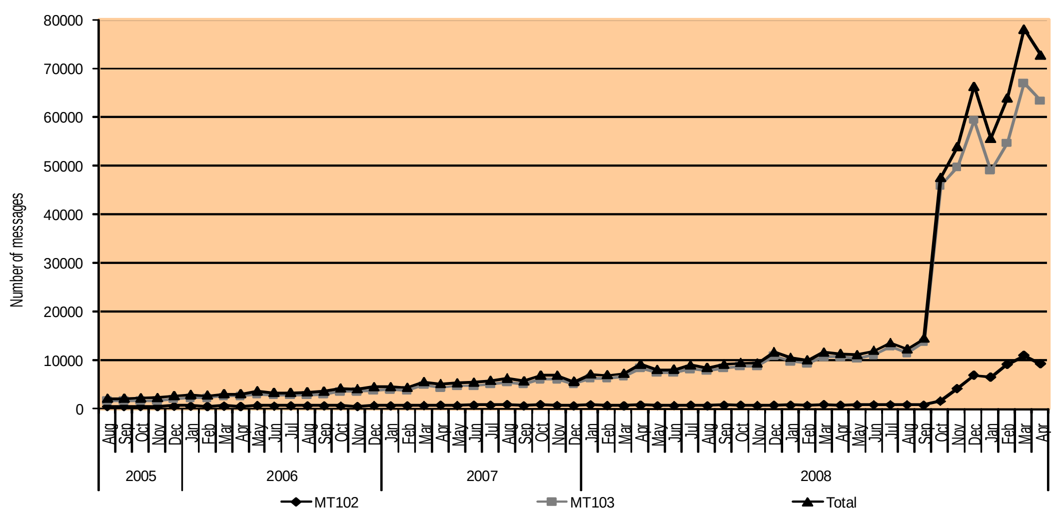
Inter-bank transfers (MT 202) accounted for 51.0 percent on average of the total value moved through KEPSS in April 2010, while third party messages accounted for 49.0 percent. The total number of third party messages (MT 102 and MT 103) grew by 536.5 percent from 11,429 messages in April 2009 to 72,741 messages in April 2010.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2009	January	786	9,815	10,601
	February	740	9,376	10,116
	March	929	10,832	11,761
	April	758	10,671	11,429
	May	852	10,351	11,203
	Jun	866	11,194	12,060
	Jul	879	12,778	13,657
	Aug	875	11,511	12,386
	Sep	813	13,740	14,553
	Oct	1639	45,940	47,579
	Nov	4214	49,759	53,973
	Dec	6928	59,418	66,346
2010	Jan	6570	49,061	55,631
	Feb	9238	54,747	63,985
	Mar	11038	67,052	78,090
	Apr	9345	63,396	72,741

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

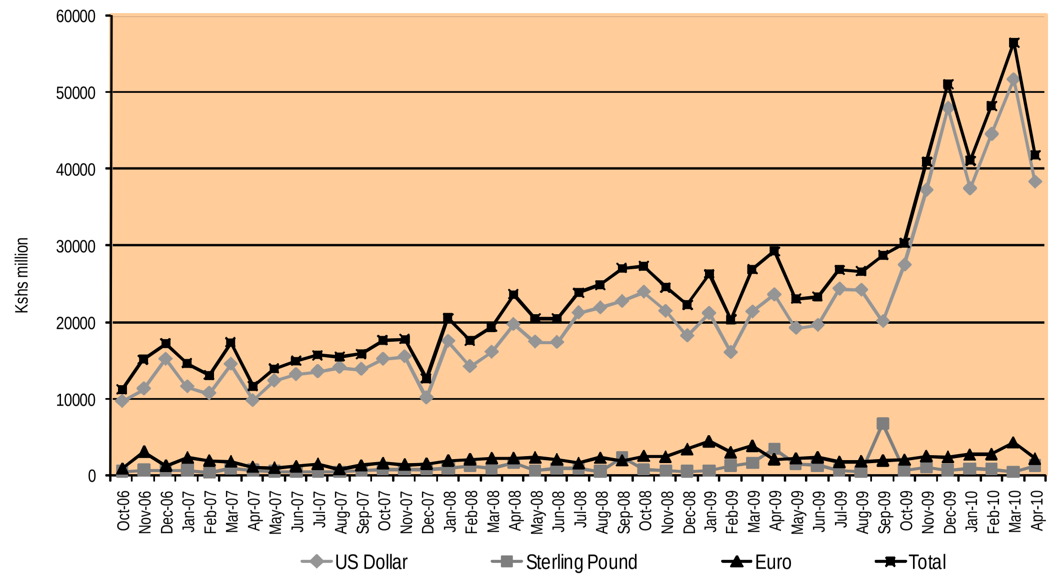


Source: Central Bank of Kenya

Domestic Foreign Currency Flows

Domestic Foreign Currency messages through KEPSS decreased by 13.5 percent from 5,781 transaction messages in March 2010 to 5,000 transaction messages in April 2010. The corresponding value in Kenya Shillings equivalent moved in this period similarly decreased by 26.0 percent from Ksh 56.4 billion to Ksh 41.8 billion. The US dollar accounted for 91.6 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 3.1 percent and 5.2 percent, respectively.

CHART 5D: DOMESTIC FOREIGN CURRENCY CHEQUE CLEARING KENYA SHILLING EQUIVALENT FLOW THROUGH KEPSS



Source: Central Bank of Kenya

Government Budget Performance

Central Government budgetary operations for the ten months of the fiscal year 2009/10 resulted in a deficit of Ksh 106.3 billion on commitment basis compared with a deficit of Ksh 57.9 billion in a similar period of 2008/09 (Table 6.1). The deficit-to-GDP ratio also nearly doubled increasing from 2.5 percent to 4.2 percent on commitment basis, while the budget deficit on cash basis increased from 3.2 percent to 4.5 percent of GDP during the period. The budget deficit during the period was within the programmed ceiling of 6.2 percent of GDP on commitment basis.

TABLE 6.1: STATEMENT OF CENTRAL GOVERNMENT BUDGETARY OPERATIONS (Ksh Bn)

	FY 2008/09	FY 2009/10		
	Apr Actual	Apr Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE	**407.2**	**455.1**	**492.3**	**-37.2**
Revenue	392.6	440.3	461.8	-21.6
Tax Revenue	351.7	397.4	410.0	-12.6
Non Tax Revenue	13.1	8.7	14.3	-5.6
Appropriations-in-Aid	27.8	34.2	37.5	-3.4
External Grants	14.7	14.8	30.5	-15.6
2. TOTAL EXPENSES & NET LENDING	**465.1**	**561.4**	**648.5**	**-87.1**
Recurrent Expenses	360.1	412.6	425.9	-13.3
Development Expenses	105.0	148.8	222.6	-73.9
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-57.9**	**-106.3**	**-156.2**	**-50.0**
As percent of GDP	-2.5	-4.2	-6.2	
4. ADJUSTMENT TO CASH BASIS	**-15.8**	**-6.9**	**0.0**	**-6.9**
5. DEFICIT ON A CASH BASIS	**-73.7**	**-113.2**	**-156.2**	**-43.1**
As percent of GDP	-3.2	-4.5	-6.2	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**-8.4**	**7.9**	**0.0**	
7. FINANCING	**65.4**	**121.0**	**156.2**	**-35.2**
Domestic (Net)	41.9	112.9	107.8	5.1
External (Net)	4.9	8.2	40.0	-31.8
Capital Receipts (privatisation)	0.0	0.0	6.0	-6.0
Others	18.6	0.0	2.5	-2.5
Financing gap	0.0	0.0	0.0	0.0

Source: Treasury

Revenue

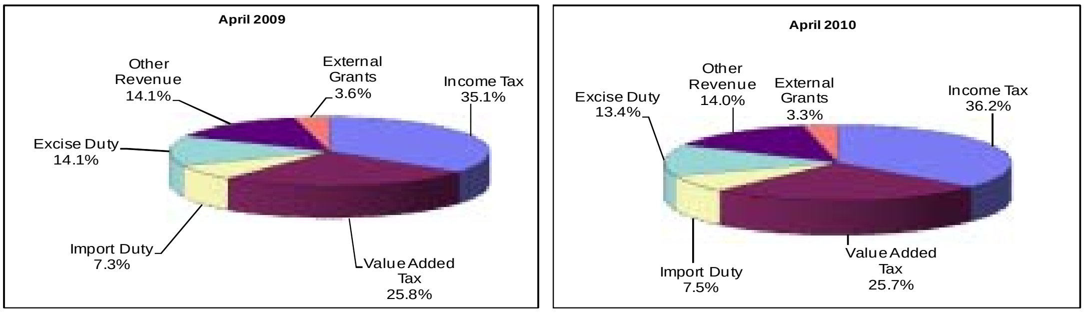
Government revenue and grants increased from Ksh 407.2 billion for the ten months of fiscal year 2008/09 to Ksh 455.1 billion over the same period of fiscal year 2009/10 but fell short of the target by Ksh 37.2 billion. The shortfall comprised Ksh 21.6 billion in Government revenue and Ksh 15.6 billion in external grants.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Apr-09 Ksh bn	Apr-10 Ksh bn	Change
1. Revenue (2+3+4)	**392.6**	**440.3**	**47.7**
2. Tax Revenue	351.7	397.4	45.7
Income Tax	143.0	164.6	21.7
Value Added Tax	105.1	116.8	11.8
Import Duty	29.8	34.0	4.2
Excise Duty	57.3	61.0	3.6
Others	16.5	21.0	4.5
3. Appropriations-in-Aid	27.8	34.2	6.4
4. Other Revenue	13.1	8.7	-4.4
5. External Grants	**14.7**	**14.8**	**0.2**
TOTAL RECEIPTS (1+5)	**407.2**	**455.1**	**47.9**

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue increased by Ksh 45.7 billion from Ksh 392.6 billion for the ten months of the fiscal year 2008/09 to Ksh 440.3 over the same period of the fiscal year 2009/10. All revenue sources except other taxes registered improved growth compared to same period of the year 2008/09 fiscal year.

Expenditure and Net Lending

During the ten months of the fiscal year 2009/10, Government expenditure and net lending increased by Ksh 96.3 billion from Ksh 465.1 billion in the fiscal year 2008/09 to Ksh 561.4 billion in the fiscal year 2009/10 (Table 6.3). The increase comprised of Ksh 52.5 billion and Ksh 43.8 billion in recurrent and development expenditures, respectively.

The increase in recurrent expenditure reflects in salaries and wages (Ksh 14.3 billion), in interest payments (Ksh 9.2 billion) and in other expenses (Ksh 29.0 billion). Development expenditure increased by Ksh 43.8 billion.

In terms of the composition of Government expenditures, the share of development expenditures and recurrent expenditures stood at 26.5 percent and 73.5 percent in the fiscal year 2009/10 (Chart 6B).

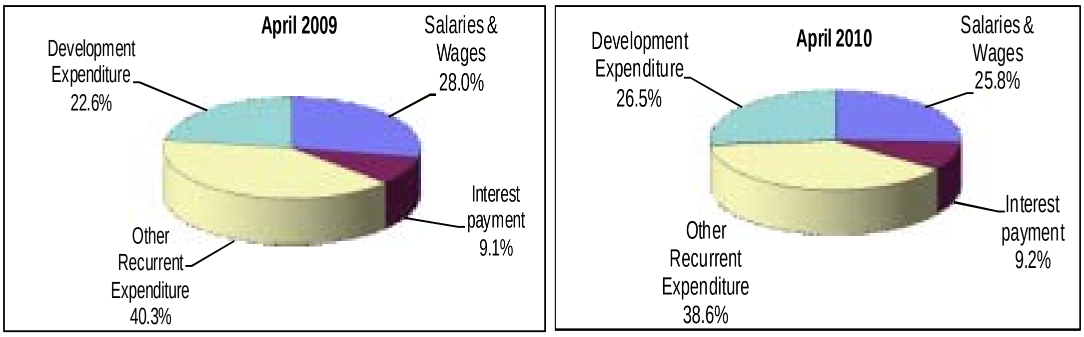
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Apr-09 Ksh bn	Apr-10 Ksh bn	Movement
1.Recurrent	**360.1**	**412.6**	**52.5**
Salaries & Wages	130.3	144.6	**14.3**
Total Interest	42.2	51.4	**9.2**
of which			
Domestic*	37.3	46.5	9.2
Foreign interest due	4.9	4.9	0.0
Others	187.6	216.6	29.0
2. Development	**105.0**	**148.8**	**43.8**
TOTAL EXPENSES	**465.1**	**561.4**	96.3

*** Includes commissions and other charges**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

During the ten months of 2009/10 fiscal year, budgetary operations of the Government resulted in a financing requirement of Ksh 139.4 billion compared with Ksh 65.4 billion in a similar period of 2008/09 (Table 6.4). The financing funded the budget deficit amounting to Ksh 121.0 billion, increased Government deposits at the Central Bank by 12.2 billion and repaid domestic debt at the Central Bank of Ksh 6.2 billion. The sources of financing included net domestic borrowing amounting to 131.3 billion and net external debt borrowing of Ksh 8.2 billion.

TABLE 6.4: GOVERNMENT BORROWING REQUIREMENTS & SOURCES (Ksh billion)

I. FINANCING REQUIREMENTS	Apr-09	Apr-10
1. Budget deficit	65.4	121.0
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	6.2
3.1 Central Bank (incl. items in transit)	0.0	6.2
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	12.2
TOTAL	65.4	139.4
II. FINANCING SOURCES	**Apr-09**	**Apr-10**
1. Budget surplus	0.0	0.0
2. External debt increase	4.9	8.2
3. Increase in domestic debt	46.9	131.3
3.1 Central Bank	1.9	0.0
3.2 Commercial banks	26.9	104.6
3.3 Non-bank sources	18.1	26.7
4. Reduction in GoK deposits at CBK	13.6	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	65.4	139.4

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the central bank decreased by Ksh 14.5 billion from Ksh 48.8 billion in April 2009 to Ksh 34.4 billion in April 2010. The decrease in Government indebtedness to central bank resulted from a reduction in the utilization of the overdraft currently limited to Ksh 21 billion (Table 6.5).

In the budget estimates for the fiscal year 2009/10, Government revenue excluding external grants is estimated at Ksh 568.9 billion (22.4 percent of GDP). External grants are estimated at Ksh 35.3 billion (1.4 percent of GDP) during the fiscal year. Similarly, Government expenditure is estimated at Ksh 772.4 billion or 30.3 percent of GDP which comprise Ksh 509.1 billion (19.9 percent of GDP) in recurrent expenditure, Ksh 261.3 billion (10.3 percent of GDP) in development expenditure and Ksh 2.0 billion (0.08 percent) in civic contingency fund .

TABLE 6.5: GOVERNMENT INDEBTEDNESS TO THE CENTRAL BANK (Ksh billion)

	2009	2010	Movement
	Apr	Apr	
Total Credit	**48.8**	**34.4**	**-14.5**
1. Overdraft	12.4	1.1	**-11.3**
2. Rediscounted securities	0.0	0.0	**0.0**
Treasury bills	0.0	0.0	**0.0**
Treasury bonds	0.0	0.0	**0.0**
3. Pre-1997 Government Overdraft at CBK	33.9	32.8	**-1.1**
4. IMF funds onlent to Government	0.7	0.2	**-0.5**
5. Cleared items in transit	1.9	0.2	**-1.6**
Memorandum			
Authorised overdraft limit	**16.9**	**21.0**	**9.7**
Amount utilised to date	12.4	1.1	1.1
Amount available	4.5	19.9	8.6

Source: Central Bank of Kenya

Outlook for FY 2009/10

The overall budget deficit including grants is therefore estimated at Ksh 168.2 billion (6.6 percent of GDP) in 2009/10. The deficit is to be financed through net external borrowing of Ksh 50.2 billion (2.0 percent of GDP), net domestic borrowing of Ksh 109.5 billion (4.3 percent of GDP), privatization proceeds of Ksh 6.0 billion and net refinancing costs of Telkom totaling Ksh 2.5 billion.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt

Kenya's public and publicly guaranteed debt increased by Ksh 137.4 billion in the ten months of fiscal year 2009/10 to stand at Ksh 1191 billion or 47.5 percent of GDP in April 2010 from Ksh 1,053.7 billion or 44 percent of GDP in June 2009 (Table 7.1), The domestic debt to GDP ratio increased from 21.7 percent in June 2009 to 26.1 percent in April 2010, while the external debt to GDP ratio decreased from 22.4 percent to 21.4 percent.

TABLE 7.1: KENYA'S PUBLIC DEBT (Ksh billion)

	Jun-09	Sep-09	Dec-09	Mar-10*	Apr-10	Change 2009/10
EXTERNAL* **						
Bilateral	185.9	188.7	185.3	187.3	187.5	1.6
Multilateral	327.1	312.6	316.5	333.7	332.7	5.7
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	22.1	23.7	23.7	17.1	17.1	-5.0
Sub-Total	**535.1**	**525.0**	**525.5**	**538.2**	**537.4**	**2.3**
(As a % of GDP)	22.4	21.6	21.3	21.46	21.43	
(As a % of total debt)	50.8	48.8	47.2	45.7	45.1	
DOMESTIC						
Banks	**290.8**	**310.5**	**343.0**	**384.5**	**399.1**	**108.3**
Central Bank	40.1	41.6	44.7	39.6	34.4	**-5.7**
Commercial Banks	250.7	268.9	298.3	345.0	364.7	**114.0**
Non-banks	**225.1**	**237.7**	**243.0**	**251.2**	**251.3**	**26.2**
Non-bank Financial Institutions	1.0	0.8	1.1	2.0	3.0	**1.9**
Other Non-bank Sources	224.1	236.9	241.9	249.2	248.4	**24.3**
Non-residents	**2.6**	**2.5**	**2.9**	**3.3**	**3.2**	**0.6**
Sub-Total	**518.5**	**550.7**	**589.0**	**639.1**	**653.6**	**135.1**
(As a % of GDP)	21.7	22.6	23.8	25.5	26.1	
(As a % of total debt)	49.2	51.2	52.8	54.3	54.9	
GRAND TOTAL	**1053.7**	**1075.7**	**1114.5**	**1177.2**	**1191.0**	**137.4**
(As a % of GDP)	44.0	44.2	45.1	46.9	47.5	

* External Debt Revised
** External Debt Provisional
*** Includes IMF Loans
/1 Domestic Debt is reported on a gross basis

Note
From January 2001 domestic debt is reported on a gross basis, that is, without netting out government deposits and Treasury advances to parastatals. The debt is, however, net of IMF disbursements on-lent to the Govt. by CBK and which are considered as part of external debt.

Sources: Treasury and Central Bank of Kenya

Domestic Debt

Total domestic debt increased by 135.1 billion during the tenth month of the fiscal year 2009/10 from Ksh 518.5 billion in June 2009 to Ksh 653.6 billion in April 2010 (Table 7.2). The rise in domestic debt during the period followed increases of Ksh 69.3 billion in Treasury bills (excluding Repos) and Ksh 81.6 billion in Treasury bonds. Other domestic debt dropped by Ksh 5.3 billion. Government overdraft at Central bank, which is the main component of other domestic debt, decreased from Ksh 5.1 billion in June 2009 to Ksh 1.1 billion in April 2010.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2009						2010				Change
	June	%	Sep	%	Dec	%	Mar	%	Apr	%	Jun-09 - Apr-10
Total Stock of Domestic Debt (A+B)	518.5	100.0	550.7	100.0	562.9	100.0	639.1	100.0	653.6	100.0	135.1
A. Government Securities	511.6	98.7	542.4	98.5	577.6	102.6	632.3	98.9	652.0	99.8	140.4
1. Treasury Bills (excluding Repo Bills)	116.8	22.5	122.2	22.2	140.8	25.0	161.3	25.2	176.1	26.9	59.3
Banking institutions	74.6	14.4	81.3	14.8	110.8	19.7	132.6	20.7	153.6	23.5	79.0
Others	42.2	8.1	40.9	7.4	30.0	5.3	28.7	4.5	22.5	3.4	-19.6
2. Treasury Bonds	360.7	69.6	386.1	70.1	402.7	71.5	437.5	68.5	442.4	67.7	81.6
Banking institutions	176.0	33.9	187.5	34.1	187.5	33.3	202.9	31.7	211.1	32.3	35.1
Others	184.8	35.6	198.5	36.1	215.2	38.2	234.6	36.7	231.3	35.4	46.5
3. Long Term Stocks	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.0
4. Non-Interest Bearing Debt	33.3	6.4	33.3	6.1	33.3	5.9	32.8	5.1	32.8	5.0	-0.6
Of which: Repo T/Bills	33.3	6.4	33.3	6.1	33.3	5.9	32.8	5.1	32.8	5.0	-0.6
B. Others:*	6.89	1.3	8.33	1.5	11.37	2.0	6.80	1.1	1.60	0.2	-5.3
Of which CBK overdraft to Government	5.1	1.0	8.0	1.5	11.1	2.0	6.5	1.0	1.1	0.2	-4.0

Source: Central Bank of Kenya

Treasury Bills

Treasury bills increased by Ksh 59.3 billion from Ksh 116.8 billion in June 2009 to Ksh 176.1 billion in April 2010. The proportion of Treasury bills in total domestic debt increased from 22.5 percent of total domestic debt to 26.9 percent during the period (Table 7.3). Treasury bills holdings by commercial banks rose from Ksh 74.6 billion in June 2009 to Ksh 153.6 billion. The shares of 91-day and 182-day Treasury bills declined from 4.9 percent and 19.5 percent in June 2009 to stand at 5.6 percent and 16.8 percent, respectively. However, the 364-day Treasury bills which was first introduced in the market in August 2009 commands a share of 6.1 percent during this period (Table 7.5).

TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

	2009						2010			
Holders	June	%	Sep	%	Dec	%	Mar	%	Apr	%
Banking Institutions	74.6	63.9	81.3	66.6	110.8	78.7	138.1	85.6	153.8	87.3
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	74.6	63.9	81.3	66.6	110.8	78.7	137.9	85.5	153.6	87.2
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.2	0.1
Insurance Companies	17.0	14.6	15.1	12.3	11.6	8.2	9.3	5.7	8.5	4.8
Parastatals	2.3	2.0	3.7	3.0	3.3	2.4	2.8	1.7	3.2	1.8
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	7.0	6.0	6.5	5.3	7.5	5.3	9.3	5.7	7.2	4.1
Others	15.8	13.6	15.6	12.8	7.6	5.4	1.9	1.2	3.4	1.9
Total*	116.8	100.0	122.2	100.0	140.8	100.0	161.3	100.0	176.1	100.0

* Excludes repurchase order bills

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds outstanding amount increased from Ksh 360.7 billion in June 2009 to Ksh 442.4 billion in April 2010 (Table 7.4). Similarly, as shown in Table 7.2, the percentage of Treasury bonds in total domestic debt decreased from 69.6 percent to 67.7 percent during the period while commercial banks holdings of Treasury bonds increased from Ksh 176.0 billion to Ksh 211.1 billion.

TABLE 7.4: OUTSTANDING TREASURY BONDS BY HOLDER (Ksh billion)

	2008		2009		2010							
Holders	Jun	%	June	%	Jan	%	Feb	%	Mar	%	Apr	%
Banking Institutions	156.8	49.8	176.8	49.0	185.7	46.9	196.3	48.1	204.7	46.8	212.9	48.1
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	156.1	49.5	176.0	48.8	184.6	46.7	195.2	47.8	202.9	46.4	211.1	47.7
NBFIs	0.7	0.2	0.8	0.2	1.1	0.3	1.1	0.3	1.8	0.4	1.8	0.4
Insurance Companies	31.9	10.1	38.3	10.6	48.0	12.1	48.0	11.8	52.4	12.0	52.4	11.8
Parastatals	29.9	9.5	31.4	8.7	34.0	8.6	34.7	8.5	36.4	8.3	36.4	8.2
Of which: NSSF	11.7	3.7	15.8	4.4	16.6	4.2	17.9	4.4	18.3	4.2	18.3	4.1
Building Societies	0.9	0.3	0.5	0.1	0.4	0.1	0.4	0.1	0.4	0.1	0.4	0.1
Pensions Fund	31.8	10.1	54.2	15.0	66.7	16.9	68.6	16.8	78.8	18.0	78.8	17.8
Others	63.9	20.3	59.6	16.5	60.7	15.3	60.0	14.7	64.8	14.8	61.5	13.9
Total	**315.2**	**100.0**	**360.7**	**100.0**	**395.5**	**100.0**	**408.0**	**100.0**	**437.5**	**100.0**	**442.4**	**100.0**

Source: Central Bank of Kenya

The Government strategy to lengthen the maturity profile of Government securities has yielded fruits. The percentage of Treasury bonds with maturities of between 5-years and 20-years increased from 57.6 percent to 61.4 percent during the period. The benchmark bonds currently issued by the Government are 2-year, 5-year, 10-year, 15-year and 20-year, all commanding a 45.5 percent of the total outstanding Government securities up from 40.7 percent in June 2009. As a result of these developments the average maturity profile of domestic debt (by days to maturity) stood at 4 years and 2 month in April 2010 from 3 years 7 months in June 2009.

TABLE 7.5: OUTSTANDING TREASURY BILLS AND BONDS (Ksh billion)

	2008				2009						2010								Change Jun-09 to Apr 10
	Jun	%	Dec	%	June	%	Sep	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%	
91-Day	18.0	4.6	18.5	4.6	23.5	4.9	22.8	4.5	24.8	4.6	21.1	3.9	23.0	4.1	26.7	4.3	34.8	5.6	11.3
182-Day	58.9	15.0	68.9	17.0	93.3	19.5	89.9	17.7	87.4	16.1	92.0	17.1	93.9	16.7	105.1	17.0	103.7	16.8	10.5
364-Day	0.0	0.0	0.0	0.0	0.0	0.0	9.4	1.9	28.6	5.3	28.6	5.3	37.4	6.6	29.5	4.8	37.6	6.1	37.6
1-Year	13.2	3.4	12.5	3.1	14.8	3.1	12.6	2.5	6.7	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-14.8
2-Year	31.7	8.1	34.5	8.5	45.2	9.5	53.2	10.5	43.8	8.1	43.3	8.1	50.5	9.0	56.7	9.2	53.4	8.6	8.2
3-Year	26.7	6.8	19.8	4.9	12.8	2.7	5.8	1.1	5.8	1.1	5.8	1.1	5.8	1.0	5.8	0.9	5.8	0.9	-7.0
4-Year	16.5	4.2	16.5	4.1	12.9	2.7	12.9	2.5	7.3	1.3	7.3	1.4	7.3	1.3	7.3	1.2	3.4	0.5	-9.5
5-Year	43.5	11.1	48.7	12.0	52.8	11.1	66.7	13.1	66.7	12.3	66.7	12.4	76.5	13.6	76.5	12.4	76.5	12.4	23.7
6-Year	47.6	12.1	45.6	11.2	38.8	8.1	38.8	7.6	37.1	6.8	37.1	6.9	32.7	5.8	59.3	9.6	59.1	9.6	20.3
7-Year	24.2	6.2	24.2	5.9	24.2	5.1	24.2	4.8	24.2	4.4	24.2	4.5	24.2	4.3	21.4	3.5	21.4	3.5	-2.8
8-Year	17.9	4.6	17.9	4.4	17.9	3.8	17.9	3.5	17.9	3.3	17.9	3.3	17.9	3.2	27.6	4.5	29.6	4.8	11.6
9-Year	12.6	3.2	12.6	3.1	12.6	2.6	12.6	2.5	12.6	2.3	12.6	2.3	12.6	2.2	15.3	2.5	17.8	2.9	5.1
10-Year	34.4	8.8	39.4	9.7	44.4	9.3	57.0	11.2	57.0	10.5	57.0	10.6	57.0	10.1	57.0	9.2	69.1	11.2	24.7
11-Year	4.0	1.0	4.0	1.0	4.0	0.8	4.0	0.8	4.0	0.7	4.0	0.8	4.0	0.7	4.0	0.7	4.0	0.7	0.0
12-Year	8.8	2.2	8.8	2.2	28.5	6.0	28.5	5.6	47.4	8.7	47.4	8.8	47.4	8.4	24.4	3.9	20.1	3.2	-8.4
15-Year	32.1	8.2	32.1	7.9	42.3	8.9	42.3	8.3	51.7	9.5	51.7	9.6	51.7	9.2	61.9	10.0	61.9	10.0	19.6
20-Year	1.9	0.5	1.9	0.5	9.5	2.0	9.5	1.9	20.4	3.7	20.4	3.8	20.4	3.6	20.4	3.3	20.4	3.3	10.8
Total	392.0	100.0	406.1	100.0	477.5	100.0	508.3	100.0	543.5	100.0	537.2	100.0	562.3	100.0	598.8	96.8	618.5	100.0	

Source: Central Bank of Kenya

Government Long-term Stocks

During the ten months of the fiscal year 2009/10, Government long term stocks remained unchanged at Ksh 0.8 billion or 0.1 percent of total domestic debt as there were neither new issues nor redemptions of the instrument.

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Government securities from April 2010 to June 2010 will comprise Ksh 57.4 billion in Treasury bills and Ksh 8.7 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 25.3 billion and Ksh 32.2 billion in 91-days and 182-days Treasury bills, respectively. The Treasury bonds maturing during this period comprise of Ksh 6.9 billion and Ksh 1.8 billion in the 2-year and 5-year tenure, respectively.

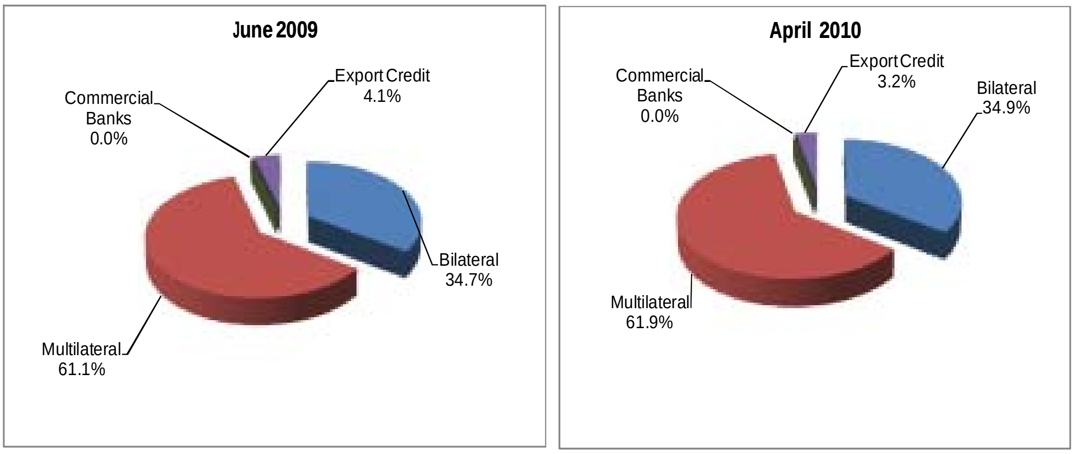
External Debt

Kenya's external debt increased from Ksh 535.1 billion (USD 6.94 billion) in June 2009 to Ksh 537.4 billion (USD 6.96 billion) in April 2010 (Table 7.1). The rise in external debt followed external loans disbursement of Ksh 23.5 billion and revaluation gain of Ksh 4.8 billion against debt repayments of Ksh 15.7 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to multilateral creditors (including IMF) increased from 61.1 percent of total external debt to 61.9 percent during the period, while the percentage of external debt owed to bilateral creditors increased from 34.7 percent to 34.9 percent in June 2009. However, debt contracted through export credits decreased from 4.1 percent to 3.2 percent in April 2010 (Chart 7A).

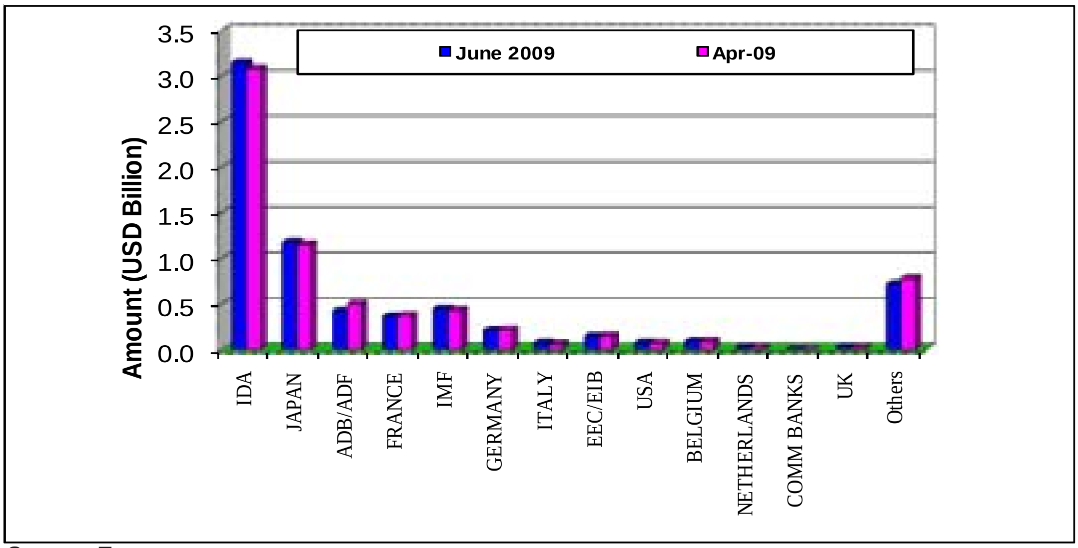
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

As shown in Chart 7B, external debt owed to IDA and Japan remained relatively unchanged at USD 3.2 billion and USD 1.2 billion, respectively, in April 2010. The two remained the largest multilateral and bilateral creditors to Kenya during the period.

CHART 7B: EXTERNAL DEBT BY CREDITOR

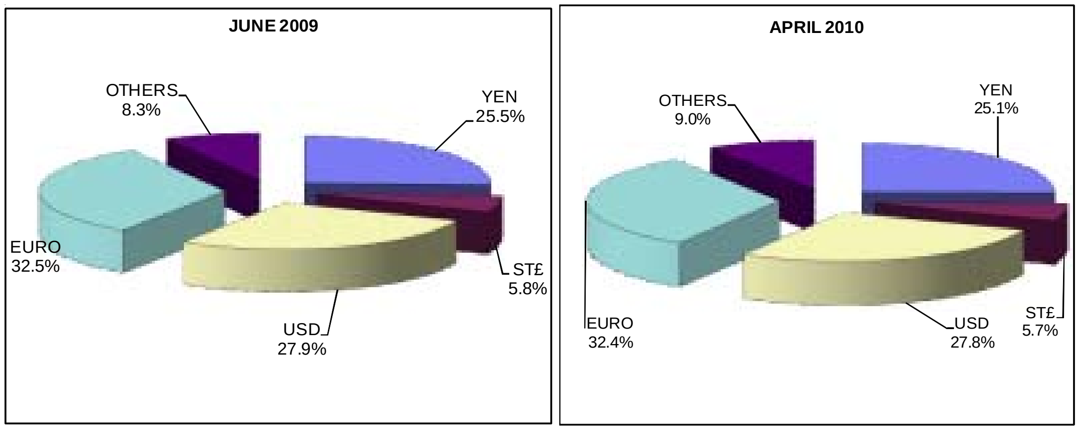


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in US dollars, Euro and Japanese Yen decreased from 27.9 percent, 32.5 percent and 25.5 percent in June 2009, respectively, to 27.8 percent, 32.4 percent and 25.1 percent in April 2010. The external debt proportion held in other currencies including SDRs increased from 8.3 percent to 9.0 percent during the same period (Chart 7C). At the same time external debt proportion held in Sterling Pounds decreased from 5.8 percent in June 2009 to 5.7 percent in April 2010.

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt increased from Ksh 37.3 billion for the ten months of the fiscal year 2008/09 to Ksh 46.5 billion in a similar period of the fiscal year 2009/10. The external debt service in the period comprised Ksh 15.7 billion in principal repayments and Ksh 4.7 billion in interest payments.

Outlook for the FY 2009/10

The budget estimates for 2009/10 has Government domestic borrowing projected at Ksh 124.5 billion (4.9 percent of GDP), while external borrowing is estimated at Ksh 50.2 billion (2.0 percent of GDP). However, as indicated in the Budget Strategy Paper for 2009/10 to 2011/12, gross domestic debt-to-GDP ratio is projected to increase from 22.7 percent in June 2009 to 24.2 percent in June 2010 as growth of GDP is expected to be slower relative to growth of public debt. Consequently, external debt-to-GDP ratio is expected to increase from 22.0 percent to 23.9 percent during the period.

Activity in the Stock Market

Equity Market

Activity in the equities market declined in April 2010 as reflected by key market indicators (Table 8.1). The number of shares traded decreased by 36.4 percent from 627.0 million in March 2010 to 398.5 million in April 2010. Equity turnover decreased by Kshs. 1,570.7 million (18.87 percent), from Ksh 8,325.6 million in March 2010 to Ksh 6,754.9 million in April 2010. The decline in equity turnover was attributed to fall in volume of shares traded as the average price of shares in the NSE 20 Share Index rose by 3.9 percent to close at 4,233.24 points in April 2010. The market capitalization improved by Ksh 78.9 billion (8.0 percent), from Ksh 983.1 billion in March 2010 to Ksh 1,062 billion in April 2010. Market liquidity ratio decreased by 38 basis points to 0.64 percent in April 2010 from 1.01 percent in March 2010 reflecting a decrease in the number of shares traded.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS 2008 -2010

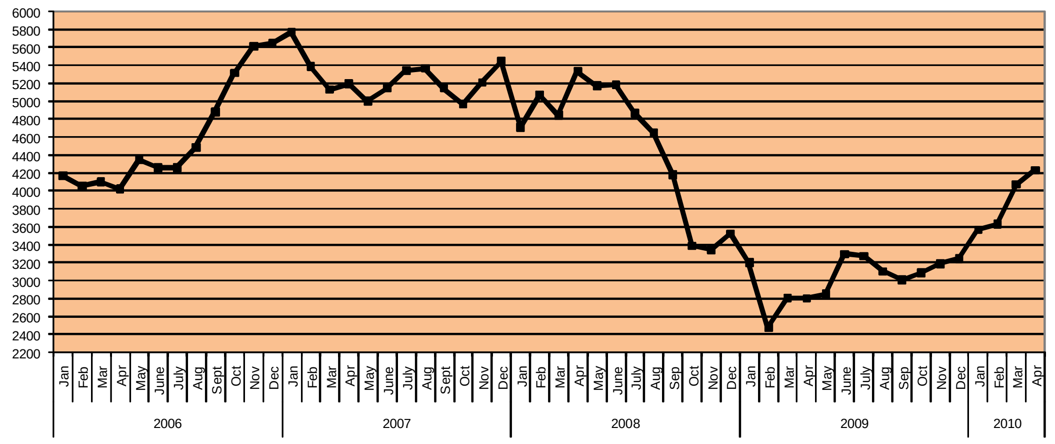
Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
August 08	4,648.78	490.81	7,490.20	1,081.86	18,490.36
September 08	4,180.40	485.30	6,787.80	972.30	22,611.94
October-08	3,386.65	393.50	3,642.40	764.90	4,344.11
November-08	3,341.00	290.94	3,723.72	791.60	6,319.71
December-08	3,521.18	170.86	4,617.11	853.67	7,473.44
January-09	3,198.90	177.55	2,624.39	777.45	12,458.82
February-09	2,474.75	150.64	1,645.28	611.49	12,555.25
March-09	2,805.03	207.39	2,414.12	688.67	18,520.00
April-09	2,800.10	215.56	2,549.12	683.03	1,370.00
May-09	2,852.57	308.00	3,087.67	693.44	22,310.00
June-09	3,294.56	377.56	4,126.87	821.78	21,600.00
July-09	3,273.10	296.19	3,261.63	826.75	16,650.00
August-09	3,102.68	280.89	3,149.21	785.28	12,890.00
September-09	3,005.41	231.69	3,547.59	771.63	20,930.00
October-09	3,083.63	303.30	4,520.97	783.97	22,380.00
November-09	3,189.55	396.36	4,646.57	825.84	9,210.00
December-09	3,247.44	214.90	2,591.19	831.83	15,940.00
January-10	3,565.28	603.91	6,358.02	910.02	26,750.00
February-10	3,629.41	369.76	4,214.87	922.10	41,638.70
March-10	4,072.93	627.00	8,325.6	983.12	50,411.00
April-10	4,233.24	398.53	6,754.90	1,062.00	23,241.00

Source: Nairobi Stock Exchange

The Commercial and Services sector dominated the market, trading 205.5 million shares during the month. The most traded share in the sector was Safaricom, which traded 185.4 million shares. The Finance and Investment sector traded 124.5 million shares with Equity Bank the most active counter, that traded 47.0 million shares. The Industrial and Allied sector traded 60.0 million shares with Mumias Sugar trading

37.8 million shares. In the agricultural sector 7.7 million shares were traded and Sasini Ltd. stocks were the most active trading 3.3 million shares.

CHART 8A: NSE 20 SHARE INDEX (1966=100)



Source: Nairobi Stock Exchange

Bond Market

The bond turnover decreased by 54 percent, with bonds worth Ksh 23,241 million traded in April 2010, compared with Ksh 50,411 million worth of bonds traded in March 2010. This drop was attributed to the shift of investors' appetite from the secondary market to the primary market as evidenced by oversubscriptions to bonds that were offered during the month.

Statement of Financial Position Of The Central Bank of Kenya
(Kenya shillings million)

	Apr-10	Apr-09	Apr 10/Apr 09 Movement
ASSETS	334,980	276,984	57,996
Foreign Assets	268,339	214,714	53,625
Advances and Discounts to Banks	23,520	7,614	15,906
Discounted Government Securities	35	21	14
Government Accounts	34,358	48,817	-14,459
Government of Kenya Overdraft	1,110	12,371	-11,261
Clearing Account	241	1,856	-1,615
IMF funds on-lent to Government	233	706	-473
Frozen Government Accounts	32,774	33,884	-1,110
Other assets	8,729	5,818	2,911
Debtors	5,432	4,044	1,388
Retirement Benefits Assets	1,425	55	1,370
Building and Equipment	928	1,443	-515
Prepaid Leases	272	276	-4
Intangible assets	672	0	672
LIABILITIES	334,980	276,984	57,996
Foreign Liabilities	2,939	0	2,939
Currency in Circulation	120,829	106,981	13,848
Repo Securities	0	0	0
Deposits	183,666	137,759	45,907
Banks - Kenya	56,777	45,929	10,848
External	91	166	-75
Non-Bank Financial Institutions	0	0	0
Other Public Entities and Project A/Cs	10,054	11,018	-964
International Monetary Fund	35,678	21,157	14,521
Government of Kenya	77,437	57,757	19,680
Local Banks Forex Settlement Fund	3,629	1,732	1,897
Other Liabilities	3,078	5,012	-1,934
Capital and Reserves	24,468	27,232	-2,764
Capital	5,000	5,000	0
General Reserve Fund	26,804	9,254	17,550
Surplus b/f from previous year	-9,977	12,978	-22,955
Period's Surplus	0	0	0
Dividend payable	2,641	0	2,641

Source: Central Bank of Kenya

NOTES ON THE FINANCIAL POSITON

Asset

Foreign exchange reserves of the Bank increased by Ksh 53,625 million to Ksh 268,339 million in April 2010 from Ksh 214,714 million in April 2009 reflecting forex purchases from the interbank market and drawing under the IMF exogenous shock facility and additional SDR allocations.

Government accounts declined by Ksh 14,459 million to Ksh 34,358 million in April 2010 from Ksh 48,817 million in April 2009. The decline reflects payments of Ksh 1,615 million in clearing account balances due and Ksh 473 million on IMF funds on-lent to government. The Government amortized Ksh 1110 million of its non-interest bearing debt to Central Bank. The Government also repaid outstanding overdraft by Ksh 11,261 million.

Other assets increased by Ksh 2,911 million to Ksh 8,729 million in the year to April 2010 on account of an increase in debtors of Ksh 1,388 million and an increase of Ksh 1,370 in retirement benefit assets. These increases were offset by a decline of Ksh 515 million in the value of building and equipment and a decline of Ksh 4 million in prepaid leases.

Liabilites

Currency in circulation increased by Ksh 13,848 million to Ksh 120,829 million in April 2010 from Ksh 106,981 million in April 2009.

There were no outstanding **repo securities** in the year to April 2010, as was the case in April 2009.

Deposits increased by Ksh 45,907 million to Ksh 183,666 million in April 2010 on account of increases of, Ksh 10,848 million in commercial banks' deposits at the Central Banks, Ksh 1,897 million increase in local banks forex settlement balances and Ksh 14,521 million increase in liquidity to the IMF deposits. There was also an increase of Ksh 19,680 million in Government of Kenya deposits. These increases were offset by a decline of Ksh 964 million in other public entities and project accounts.

Other liabilities and provisions declined by Ksh 1,934 million to Ksh 3,078 million in the year to April 2010.

Capital and reserves declined by Ksh 2,764 million to Ksh 24,468 million in the year to April 2010, mainly due to a decline of Ksh 22,955 million in the surplus brought forward from the previous year. This decline was offset by an increase of Ksh 2,641 million in dividends payable and an increase in the general reserve fund of Ksh 17,550 million.