MONTHLY ECONOMIC REVIEW
DECEMBER 2009
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Enquiries concerning this publication should be addressed to: The Director, Research Department, Central Bank of Kenya, P. O. Box 60000-00200, Nairobi.
email: info@centralbank.go.ke

OVERVIEW

Introduction

This Monthly Economic Review highlights recent economic developments through December 2009. It highlights 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 16.0 percent in the year to December 2009 compared with 15.9 percent in a corresponding period in 2008. This was above the projected 15.0 percent growth in December 2009.

Interest Rates

The Central Bank Rate (CBR) remained at 7.0 percent in the month of December 2009, as set by the Monetary Policy Committee in November 2009. Other short term and long term interest rates trended downwards in December 2009.

Real GDP Growth

Economic growth stagnated in the third quarter of 2009 at 0.0 percent with theoutput of goods and services estimated a the level recorded in the same quarter of 2008. This was as a result of various shocks including the persistent drought which adversely affected the agricultural and electricity sectors; increase in the cost of electricity which suppressed the transport and manufacturing sectors; and the global economic recession. Agriculture, which constitutes 23.4 percent of GDP, declined by 3.5 percent during the third quarter of 2009, while manufacturing, transport and communications, and construction, which together account for about 25.0 percent of GDP also declined during the quarter by 2.4, 1.8 and 1.1 percent, respectively. The above decreases were counteracted by increases in other sectors, with the hotels and restaurants sector leading by an estimated 44.4 percent growth.The economy had registered growth of 4.0 and 2.1 percent in the first and second quarter of 2009, respectively.

Inflation

The overall 12-month inflation maintained a downward trend throughout the year 2009. It declined from 13.3 percent in January 2009 to 5.3 percent in December 2009. The downward trend persisted in January 2010 with the 12-month inflation dipping further to reach 4.7 percent. The decline in 2009 through January 2010 is attributed to falling prices of food, medical goods and services, recreation and education and personal goods and services. The annual average inflation also declined from 16.5 percent in January 2009 to 8.5 percent in January 2010.

Government Fiscal Operations

The Central Government budgetary operations in the first half of the fiscal year 2009/10 resulted in a deficit of Ksh 60.4 billion or 2.4 percent of GDP on commitment basis compared with a deficit of Ksh 5.1 billion or 0.2 percent of GDP in a similar period of 2008/09. The budget deficit during the period was within the programmed target of 3.9 percent of GDP on commitment basis.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by 3.5 percent in the first half of fiscal year 2009/10 to stand at Ksh 1,114.9 billion in December 2009, from Ksh 1,053.7 billion in June 2009. The external debt to GDP ratio decreased from 22.4 percent in June 2009 to 21.8 percent in December 2009, while the domestic debt to GDP ratio increased from 21.7 percent to 24.0 percent during the period.

Balance of Payments

Kenya's balance of payments position improved from a deficit of US$ 30 million in the year to November 2008 to a surplus of US$ 552 million in the year to November 2009. The improvement reflected a larger increase of surplus in the capital and financial account in relation to the widening of the current account deficit.

Exchange Rates

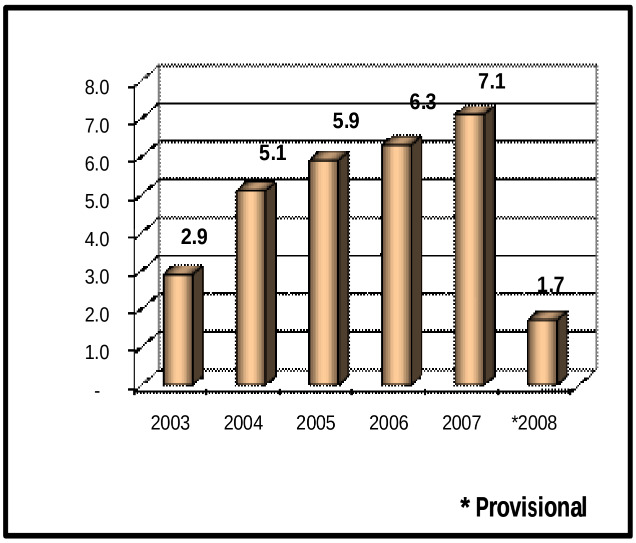
The Kenya shilling depicted mixed performance against major world currencies. It weakened against the US dollar and the Japanese Yen but strengthened against the Sterling Pound and the Euro in December 2009. Against the US dollar, the shilling exchanged at Ksh 75.43 in December 2009 compared with Ksh 74.74 per US dollar in November 2009.

Banking Sector Developments

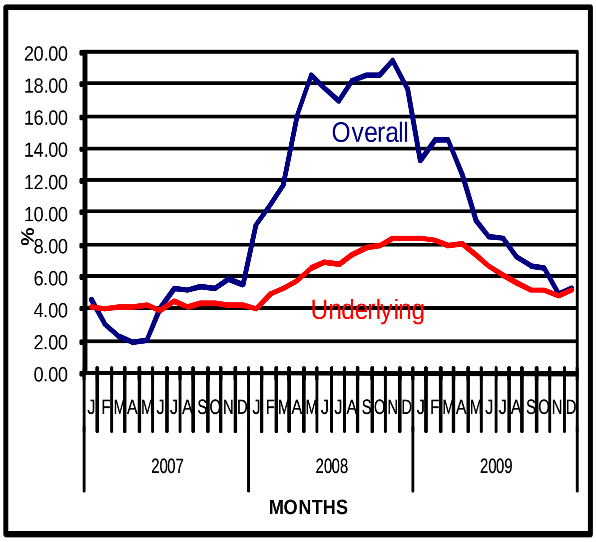
The Banking sector registered strong growth in asset base, remained stable with high capital adequacy and liquidity ratios, and recorded a decline in the level of non-performing loans in 2009.

SELECTED ECONOMIC PERFORMANCE INDICATORS

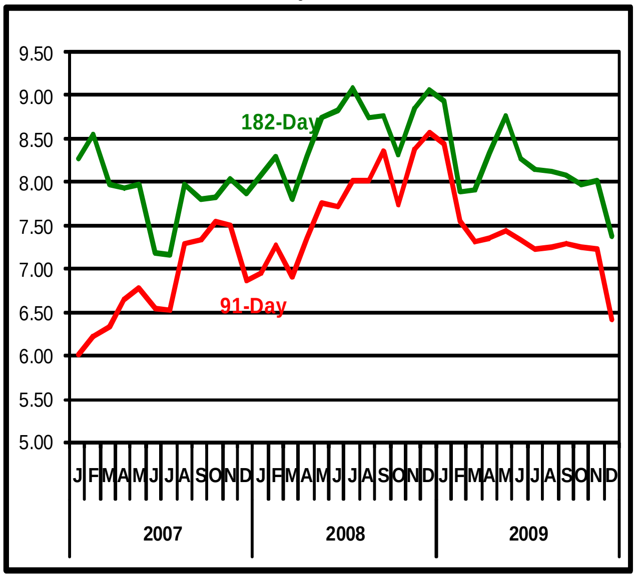
Real GDP Growth



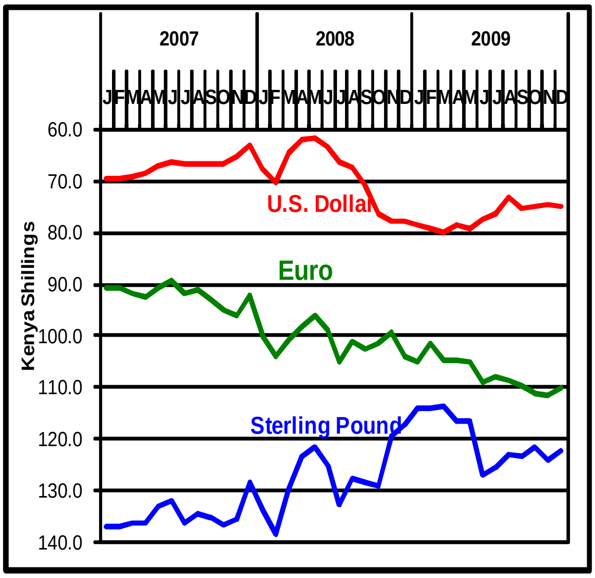
Inflation



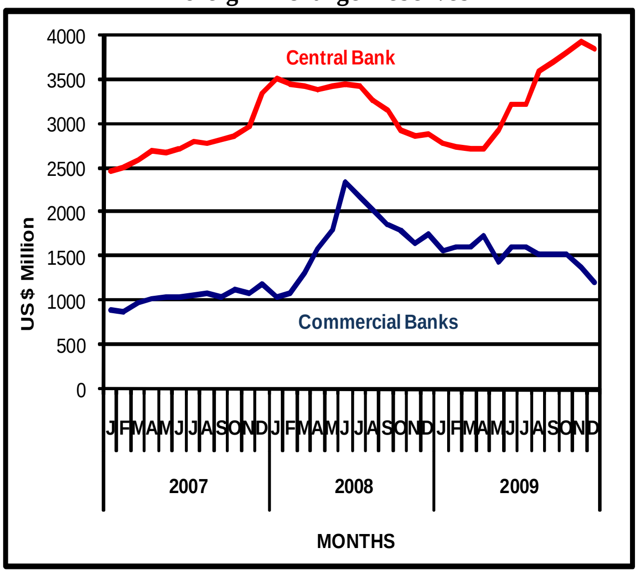
Treasury Bill Rates



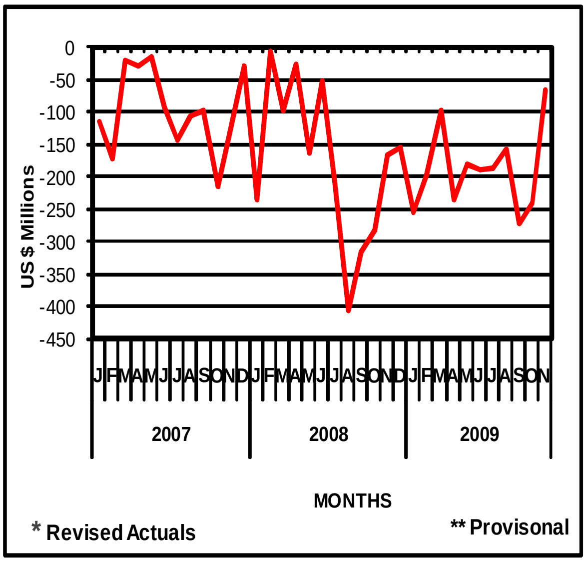
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008*
1.	POPULATION*									
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	1.03
2.	NATIONAL ACCOUNTS**									
	GDP at Basic Prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,527	1,443,981	1,610,831	1,852,263
	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	1,622,434	1,825,960	2,099,798
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,081	1,249,331	1,338,039	1,360,626
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.32	7.10	1.69
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,478	34,608	35,969	35,525
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]	12.9	10.0	8.1	10.1	12.2	13.4	14.9	13.1	14.8
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]	6.7	4.4	4.0	4.8	6.6	7.2	7.2	5.8	7.9
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
6.	CONSUMER PRICE INFLATION (URBAN) 1997 BASE									
	Average Annual Inflation	10.01	5.87	1.96	9.82	11.62	10.31	14.45	9.76	26.24
	Twelve-month Inflation (Dec-Dec) * Revised	11.89	1.78	4.10	8.35	16.25	7.56	15.59	12.03	27.72
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
	Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29
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
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84
	Budget Deficit (-) / Surplus (+)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)
	Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(1.54)	0.42	(2.39)	(1.18)	(3.68)
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	1,092.01
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.13
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59
	Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	808.50
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	155.32
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	653.18
10.	BALANCE OF PAYMENTS (US$ m)**									
	Overall Balance	108.21	166.38	3.26	413.33	38.85	280.11	616.44	939.56	(479.42)
	Current Account	(237.48)	(383.39)	(117.69)	146.20	-131.76	-252.32	-510.44	-1,034.48	-1,978.35
	Capital and Financial Account	416.21	348.20	(31.67)	537.82	239.52	765.99	884.59	2,229.58	1,171.72
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
	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
	*Months of imports**** *	*(2.8)*	*(3.2)*	*(3.3)*	*(4.2)*	*(3.4)*	*(3.2)*	*(3.5)*	*(4.0)*	*(2.7)*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32
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
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61
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

* Provisional.
** Revised to reflect data in Economic Survey 2008.
*** 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, Treasury, Central Bank of Kenya and Nairobi Stock Exchange

SELECTED MONTHLY ECONOMIC INDICATORS

	2008		2009							
INDICATOR	Nov	Dec	May	June	July	Aug	Sep	Oct	Nov	Dec
1. INFLATION (%)										
CPI	134.77	134.69	141.16	140.18	139.77	139.94	140.51	141.21	141.5	141.88
Overall Inflation										
12-month overall inflation	19.55	17.80	9.57	8.57	8.41	7.34	6.72	6.60	4.99	5.34
Average annual overall inflation	15.18	16.18	15.86	15.05	14.30	13.37	12.39	11.41	10.24	9.25
Underlying Inflation*										
12-month underlying inflation	8.48	8.44	7.43	6.70	6.18	5.64	5.16	5.17	4.86	5.20
Average annual underlying inflation	6.39	6.74	7.88	7.85	7.79	7.63	7.39	7.14	6.84	6.57
2. INTEREST RATES (%)										
91-day Treasury bill interest rate	8.39	8.59	7.45	7.33	7.22	7.25	7.29	7.26	7.22	6.82
Overdraft interest rate	13.85	14.39	14.13	14.41	13.94	13.90	13.76	14.03	14.24	14.13
3. STOCK MARKET										
Nairobi Stock Exchange Price Index	3,341.00	3,521.18	2,852.57	3,294.56	3,273.10	3,102.68	3,005.41	3,083.63	3,189.55	3,247.44
Turnover (%)	0.52	0.29	0.49	0.61	0.48	0.45	0.37	0.49	0.64	0.34
4. GOVERNMENT BUDGET** (Ksh bn.)										
Revenue	184.15	236.60	449.64	511.35	40.08	74.82	128.90	170.83	208.56	
Expenses	210.51	241.70	515.70	621.91	44.77	98.61	159.30	210.69	246.75	
Budget Deficit (-) / Surplus (+)	(26.36)	(5.10)	(66.06)	(110.56)	(4.69)	(23.79)	(30.40)	(39.86)	(38.18)	
5. MONEY AND CREDIT (Ksh bn.)										
Liquidity (L)[1]	1,082.96	1,091.93	1,139.47	1,166.93	1,199.96	1,212.12	1,218.18	1,243.84	1243.5	1280.0
Money Supply (M3)[2]	890.20	901.05	928.60	950.24	973.62	982.85	986.90	1,006.01	1022.3	1045.2
Reserve Money	160.65	163.59	160.40	159.94	157.95	156.88	163.49	163.45	178.2	182.0
Total Domestic Credit	805.03	806.04	835.18	854.03	858.79	871.46	880.7	900.0	931.3	955.3
Government	157.93	155.32	162.55	173.87	176.02	183.19	187.1	192.3	216.4	205.1
Private sector and other public sector	647.10	650.72	672.63	680.16	682.77	688.27	693.5	707.7	708.7	750.2
6. MONEY AND CREDIT (Annual % Change)										
Liquidity (L)[1]	15.71	12.38	7.1	13.5	15.1	15.9	15.9	15.6	14.8	17.2
Money Supply (M3)[2]	7.49	7.49	10.6	13.0	14.4	15.0	14.8	13.9	14.8	16.0
Reserve Money	4.03	4.03	8.8	4.6	3.7	3.3	7.1	4.0	10.9	11.2
Total Domestic Credit	22.56	22.85	18.7	21.7	18.9	17.8	13.8	12.7	15.7	18.5
Government	(4.60)	13.01	38.1	30.3	26.9	26.1	24.8	19.6	37.0	32.0
Private and other public sector	31.71	25.45	14.8	19.7	17.0	15.7	11.2	11.0	10.5	15.3
7. BALANCE OF PAYMENTS (US$ m)										
Overall Balance	(59.13)	6.14	41.20	84.39	3.61	62.03	116.95	104.63	123.86	
Current Account	(178.01)	(148.04)	(179.62)	(188.77)	(185.20)	(157.20)	(270.86)	(239.49)	(64.89)	
Trade Balance	(546.76)	(528.18)	(422.82)	(446.29)	(419.60)	(415.36)	(532.83)	(584.97)	(525.42)	
Capital and Financial Account	118.88	154.18	220.82	273.16	181.59	219.42	387.81	344.12	188.75	
8. FOREIGN EXCHANGE RESERVES (US$ m)	4,523.43	4,640.78	4,370.19	4,821.67	4,830.14	5,125.15	5,235.15	5,346.66	5319.81	5062.40
Official***	2,869.33	2,875.46	2,928.94	3,219.52	3,215.85	3,275.65	3,707.96	3,810.00	3934.28	3847.39
Months of imports cover	*2.81*	*2.75*	*2.95*	*3.26*	*3.33*	3.83	4.01	4.13	4.27	4.15
Commercial banks	1,654.11	1,765.32	1,441.25	1,602.15	1,614.29	1,534.33	1,527.18	1,536.00	1385.53	1215.00
9. PUBLIC DEBT (US$ bn)	11.37	12.50	12.9	13.7	13.9	14.1	14.4	14.6	14.4	
Domestic	5.80	5.87	6.25	6.72	6.93	7.18	7.34	7.54	7.48	
As % of GDP	20.66	20.60	20.70	21.67	22.05	22.62	22.65	23.20	22.91	
External	5.58	6.63	6.62	6.94	6.95	6.95	7.07	7.03	6.93	
As % of GDP	19.89	23.27	21.95	22.36	22.12	21.92	21.80	21.77	21.21	
10. GROSS DOMESTIC DEBT (Ksh bn)****	451.39	456.20	489.34	518.51	530.53	547.21	550.69	567.13	562.93	
11. AVERAGE EXCHANGE RATE										
Ksh/US$	78.18	78.22	79.63	77.85	76.75	76.37	75.60	75.24	74.7	75.4
Ksh/Pound Sterling	119.59	117.42	116.98	127.22	125.58	126.34	123.57	121.65	124.1	122.5
Ksh/ 100 Yen	80.71	85.37	80.76	80.61	81.29	80.49	82.70	83.38	83.8	84.1
Ksh/Euro	99.33	104.07	105.08	109.03	108.02	108.83	110.01	111.25	111.7	110.3

* 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, Treasury, Nairobi Stock Exchange and Central Bank of Kenya

Trends in Various Measures of Inflation

Overall Inflation

Overall 12-month inflation declined in January 2010 to stand at 4.7 percent, down from 5.3 percent in December 2009. The downward trend which characterized most of year 2009 persisted, with the 12- month inflation remaining at single digit level since May 2009, compared with 13.3 percent inflation in January 2009. The decline was more pronounced in the food category which accounts for 50.5 percent of the weight of the CPI basket.

Underlying Inflation

12-month underlying inflation was 5.7 percent in January 2010, an increase of 0.5 of a percentage point from 5.2 percent in December 2009. The pickup was reflected in the prices of alcohol and tobacco, clothing and footwear, recreation and education and housing.

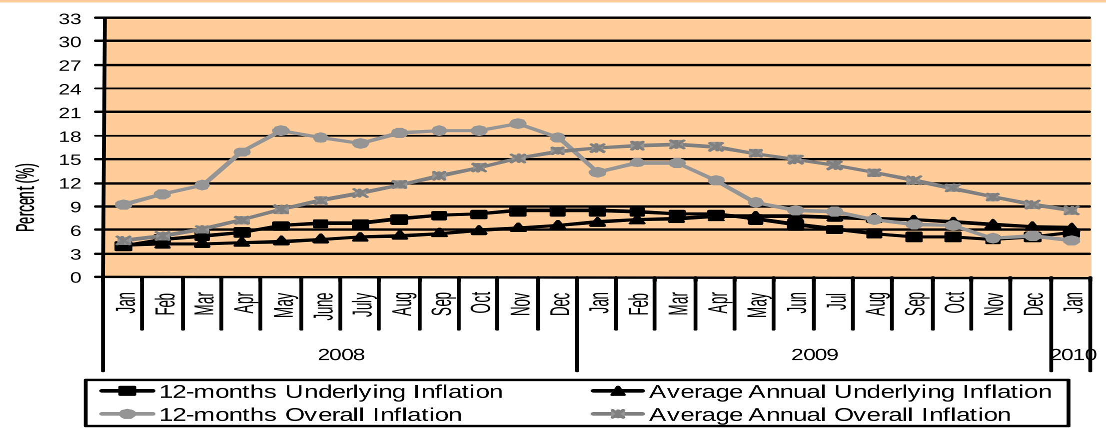
Table 1.1 and Chart 1A depict trends in overall and underlying inflation from December 2008 to January 2010.

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2008	2009												2010
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Underlying Inflation														
12-month	8.44	8.43	8.39	7.99	8.10	7.43	6.70	6.18	5.64	5.16	5.17	4.86	5.20	5.69
Average annual	6.74	7.11	7.40	7.62	7.81	7.88	7.85	7.79	7.63	7.39	7.14	6.84	6.57	6.35
Growth over one month	0.35	0.70	0.96	0.29	0.76	0.25	0.27	0.06	0.15	0.34	0.37	0.26	0.68	1.16
Growth over 3 months	1.26	1.61	2.01	1.96	2.02	1.30	1.28	0.58	0.48	0.56	0.87	0.98	1.31	2.11
Overall Inflation														
12-month	17.80	13.34	14.62	14.56	12.38	9.57	8.57	8.41	7.34	6.72	6.60	5.00	5.34	4.69
Average annual	16.18	16.49	16.80	17.01	16.67	15.86	15.05	14.30	13.37	12.39	11.41	10.24	9.25	8.54
Growth over one month	-0.06	0.68	2.51	1.07	1.01	-0.53	-0.69	-0.30	0.12	0.41	0.50	0.20	0.27	0.06
Growth over 3 months	3.38	2.29	2.37	3.14	4.31	4.66	1.55	-0.22	-1.52	-0.87	0.24	1.04	1.12	0.97

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

CHART 1A: UNDERLYING AND OVERALL INFLATION (%)



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

Inflation by Income Groups

The various income groups recorded mixed inflation trend in January 2010. The 12-month inflation for both the "Nairobi Middle/ Upper" and "rest of Kenya" income groups increased, while that of the "Nairobi Lower" income group declined. The overall decline in the 12-month inflation therefore reflected the decrease in the "Nairobi Lower" income group's food CPI from 165.43 points in December 2009 to 163.58 points in January 2010, which counteracted the rise in CPI's for the "Nairobi Middle/ Upper" and "rest of Kenya" income groups. In terms of inflation by categories of components of the CPI basket, all the income groups experienced a rise in alcohol and tobacco, and in clothing and footwear inflation due to pick up in demand as schools reopened in January 2010. The 12-month inflation for the various income groups in January 2010 stood at 1.1 percent, 6.4 percent and 7.2 percent for the "Nairobi Lower", "rest of Kenya" and the "Nairobi Middle/ Upper" income groups, respectively. Details on inflation by income groups are shown in Table 1.2 and Chart 1B below.

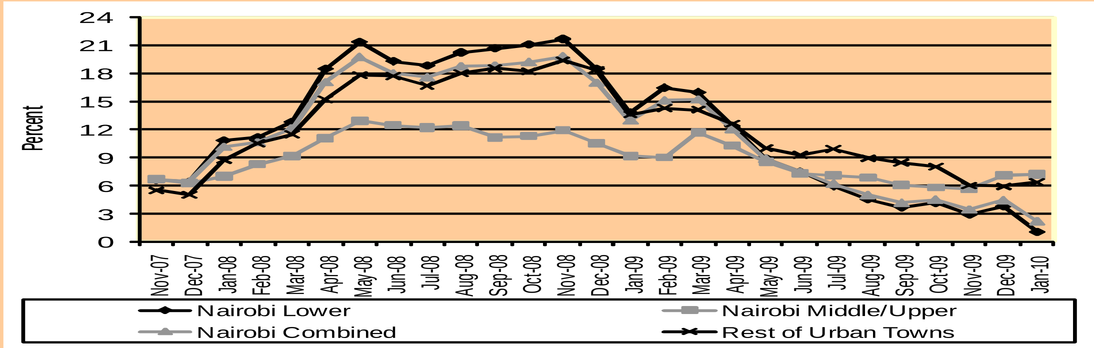
TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)

	2008	2009												2010
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Nairobi Lower	18.46	13.80	16.45	15.99	12.42	8.92	7.52	5.98	4.56	3.72	4.19	2.93	3.84	1.09
Nairobi Middle/Upper	10.56	9.19	9.03	11.63	10.27	8.58	7.31	7.13	6.88	6.07	5.84	5.65	7.13	7.22
Nairobi Income \[1]	16.95	12.94	15.07	15.18	12.02	8.86	7.48	6.19	4.98	4.15	4.49	3.43	4.43	2.19
Rest of Urban Towns	18.38	13.61	14.31	14.14	12.63	10.06	9.30	9.92	8.95	8.48	8.06	6.08	5.95	6.41

[1]/ The Nairobi income group combines Nairobi lower and Nairobi middle/upper income groups.

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

CHART 1B: 12-MONTH INFLATION BY INCOME GROUPS



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

Inflation Across Categories of Goods & Services

The 12-month inflation across goods and services in January 2010 remained fairly varied. The largest increase in inflation was in the fuel and power category which rose by 4.5 percent from 0.5 percent in December 2009 to 5.1 percent in January 2010 following increase in prices of paraffin, petrol and charcoal. This was closely followed by alcohol and tobacco and, clothing and footwear which increased by 3.0 percent and 1.3 percent, respectively. Food and non-alcoholic drinks on the other hand, experienced the largest decline in 12-month inflation, falling from 5.7 percent in December 2009 to 4.1 percent in January 2010. The 12-month inflation for recreation and education, medical goods and services and personal goods and services also declined in January 2010 by 1.2 percent, 1.1 percent and 0.8 percent, respectively.

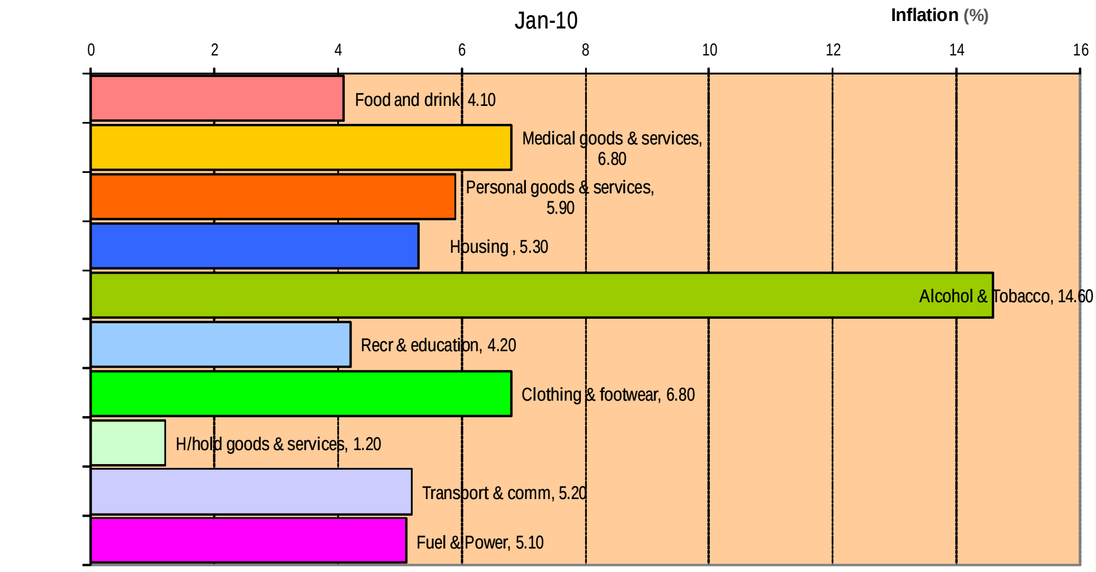
Table 1.3 and Chart 1C below show inflation developments across all the ten categories of goods and services covered in the CPI.

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

	Income Groups*																	
	Nairobi		Rest of	Combined														
		Middle/	Urban		2008	2009												2010
Goods and Services	Lower	Upper	Towns	weights														
Weight	***(31.9)***	***(8.0)***	***(60.1)***	***(100)***	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Food and drink	55.70	31.90	50.20	50.50	25.88	18.45	20.62	20.68	16.68	12.48	11.39	11.97	10.70	9.76	9.24	6.25	5.74	4.11
Housing	11.90	31.70	9.00	11.70	8.61	8.21	9.26	9.39	8.87	8.25	8.24	7.94	7.72	6.81	6.91	5.06	4.75	5.28
Recr & education	4.60	7.30	6.60	6.00	4.36	6.43	6.27	5.61	5.72	4.67	4.89	4.80	4.67	4.48	4.63	4.87	5.48	4.25
H/hold goods & services	5.00	4.70	6.40	5.80	12.27	11.52	10.42	9.79	9.11	8.00	7.21	6.31	4.70	3.69	1.98	0.96	0.80	1.17
Clothing & footwear	9.20	7.40	9.10	9.00	5.92	5.57	5.23	4.26	4.98	4.25	3.92	3.77	3.46	3.72	3.99	4.52	5.42	6.76
Transport & comm	5.10	10.20	5.50	5.70	7.38	2.61	3.07	3.28	3.20	2.31	1.61	1.62	1.33	1.73	1.72	2.57	4.96	5.18
Fuel & Power	3.50	2.20	4.80	4.20	17.07	9.33	7.17	4.04	1.28	(2.37)	(5.28)	(9.69)	(12.41)	(12.19)	(9.92)	(8.09)	0.54	5.08
Medical goods & services	0.90	1.30	2.00	1.60	9.52	10.65	9.74	10.18	10.58	10.51	9.25	8.84	8.35	7.66	7.99	8.00	7.84	6.76
Personal goods & services	2.30	1.90	2.60	2.40	9.43	10.16	9.88	9.67	11.45	10.22	10.14	9.73	8.69	8.11	7.61	6.74	6.68	5.86
Alcohol & Tobacco	1.80	1.40	3.80	3.00	13.88	12.66	12.05	11.45	12.35	13.46	6.87	4.37	3.69	3.30	5.47	9.14	11.62	14.58

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 Kenya National Bureau of Statistics will launch the inflation reflecting the revised CPI basket based on the Household Budget Survey 2005/06 starting with February 2010 data. The new basket updates the consumption patterns previously based on the 1993/94 Household Budget Survey. In the revised basket the weight for food and non-alcoholic drinks has been scaled down to 40.3 percent from 50.5 percent previously. This will somewhat reduce the volatility attributed to food inflation in the previous inflation series.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Broad money supply, M3[1], grew by 16.0 percent in the year to December 2009 compared with 15.9 percent in a corresponding period in 2008 and was above the projected 15.0 percent growth rate for December 2009. Broad money, denominated in local currency, M2, that is, M3 excluding foreign currency deposits, grew by 17.1 percent in December 2009 compared with 14.9 percent in December 2008 as shown in Table 2.1 and Chart 2A.

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

	2007 Dec	2008 Dec	2009 Dec	Dec-08 12 months %age change	Dec-09 12 months %age change
1. Money supply, M3 (2+3) 2/	**777.6**	**901.1**	**1045.2**	**15.9**	**16.0**
1.1 Money supply, M2 3/	666.9	766.4	897.7	14.9	17.1
1.2 Money supply, M1	373.3	392.8	442.1	5.2	12.6
1.3 Currency outside banks	96.0	93.7	100.7	-2.3	7.5
2. Net foreign assets 4/	**255.4**	**259.0**	**243.7**	**1.4**	**-5.9**
Central Bank	205.3	199.1	222.9	-3.0	11.9
Banking Institutions	50.1	59.9	20.8	19.5	-65.3
3. Net domestic assets (3.1+3.2)	**522.2**	**642.1**	**801.5**	**22.9**	**24.8**
3.1 Domestic credit (3.1.1+3.1.2)	**656.1**	**806.0**	**955.3**	**22.8**	**18.5**
3.1.1 Government (net)	137.4	155.3	205.1	13.0	32.0
3.1.2 Private sector and other public sector	518.7	650.7	750.2	25.5	15.3
3.2 Other assets net (3-3.1)	**-133.9**	**-164.0**	**-153.8**	**22.5**	**-6.2**
Memorandum items					
1. Overall liquidity, L 1/	**971.6**	**1091.9**	**1280.0**	**12.4**	**17.2**
2. Reserve money	**156.9**	**163.6**	**182.0**	**4.2**	**11.2**
Currency outside banks	96.0	93.7	100.7	-2.3	7.5
Bank reserves	60.9	69.9	81.2	14.6	16.3

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 is comparable to M3XT in the past publications.

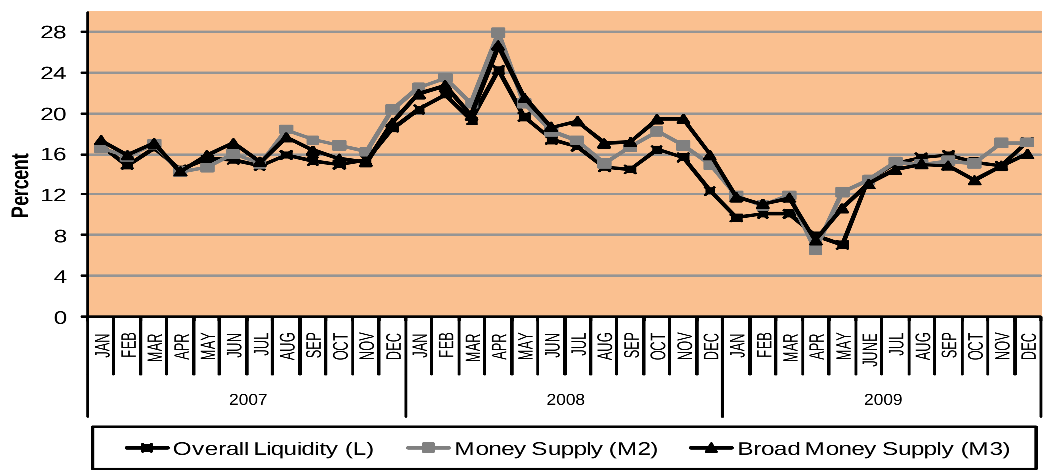
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

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 institutions.

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



Source: Central Bank of Kenya

[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 M3 in the year to December 2009 was attributed to the growth in net domestic assets (NDA) as the net foreign assets (NFA) of the banking system declined. The NFA declined by 5.9 percent in the twelve months to December 2009 compared with a growth of 1.4 percent in a corresponding period in 2008. The fall that reflected in the NFA held with commercial banks is attributed to low earnings on deposits abroad. The NDA growth accelerated by 2 percentage points to 24.8 percent in the year to December 2009 compared with 22.8 percent a year earlier. The NDA expansion in the review period reflected in domestic credit growth, and in particular increased credit to Government and the private sector.

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

	2008 Dec		2009 Dec		Annual Change Dec	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2007/08	2008/09
1. Credit to Government	155.3	19.3	205.1	21.5	13.0	32.0
Central Bank	0.0	0.0	-25.5	-2.7	-100.0	100.0
Commercial Banks & NBFIs	155.3	19.3	230.5	24.1	-9.6	48.4
2. Credit to other public sector	11.8	1.5	12.5	1.3	-17.7	5.7
Local government	-2.0	-0.2	-6.7	-0.7	10.4	243.4
Parastatals	13.8	1.7	19.2	2.0	-14.6	39.6
3. Credit to private sector	638.9	79.3	737.7	77.2	26.7	15.5
Agriculture	29.6	3.7	37.3	3.9	8.3	25.7
Manufacturing	90.2	11.2	87.9	9.2	37.0	-2.6
Trade	98.0	12.2	135.1	14.1	52.6	37.8
Building and construction	37.5	4.6	45.2	4.7	2.7	20.7
Transport & communications	57.1	7.1	63.9	6.7	20.9	11.9
Finance & insurance	17.6	2.2	23.9	2.5	-35.2	35.3
Real estate	33.8	4.2	52.8	5.5	40.7	56.5
Mining and quarrying	10.3	1.3	8.2	0.9	71.6	-20.2
Private households	90.5	11.2	94.8	9.9	6.0	4.8
Consumer durables	36.3	4.5	51.5	5.4	74.6	41.9
Business services	69.5	8.6	68.2	7.1	45.0	-1.8
Other activities	68.5	8.5	69.0	7.2	32.0	0.7
4. TOTAL (1+2+3) *	806.0	100.0	955.3	100.0	22.8	18.5

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

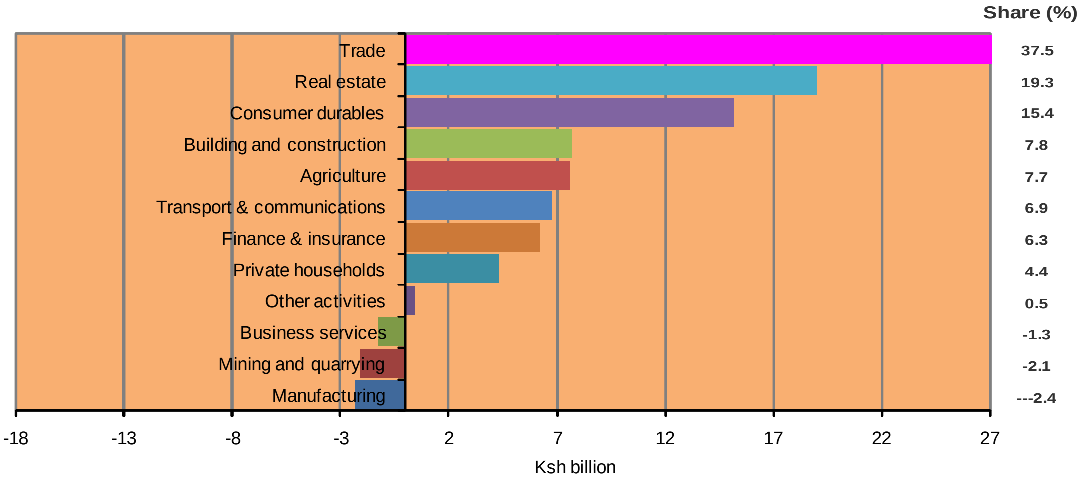
Source: Central Bank of Kenya

Domestic Credit Developments

Domestic credit grew by 18.5 percent in the year to December 2009, a rate below the 22.8 percent increase in a similar period in 2008, The slow down was in credit to the private sector which decelerated from 26.7 percent in the year to December 2008 to 15.5 percent in the year to December 2009. But credit growth to the private sector was 0.5 of a percentage point above respective target. The share of the total credit extended to the private sector declined by 21 percentage points to 77.2 percent from 79.3 percent in December, 2008. Meanwhile, credit to Government increased by 32.0 percent in the year to December 2009 from 13.0 percent rise in a corresponding period of 2008. The higher Government net borrowing was in respect of a larger domestic borrowing requirement that was facilitated through reopening benchmark bonds, issuance of a 364-days Treasury bill (bi-monthly) and issuance of bonds for infrastructural projects.

Bank credit to private sector was channelled to trade (37.5 percent), real estate (19.3 percent) consumer durables (15.4 percent), building and construction (7.8 percent) and agriculture (7.7 percent) as shown in Chart 2B

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO DECEMBER 2009 (Ksh billion)



Source: Central Bank of Kenya

Reserve Money

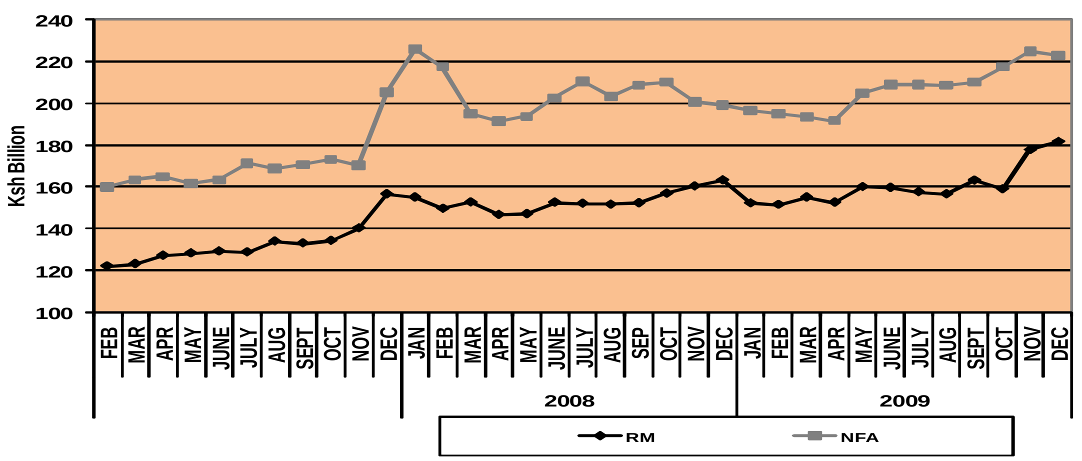
Reserve money increased by 11.2 percent to Ksh 181.9 billion in December 2009 from Ksh 163.6 billion in December 2008 (Table 2.3 and Chart 2C). The increase in reserve money reflected 16.3 percent growth in bank reserves and 7.5 percent increase in currency outside banks. At Ksh 181.9 billion in December 2009, reserve money was Ksh 7.5 billion above target.

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

	2007 Dec	2008 Dec	2009 Dec	Change (%) 2007/08	Change (%) 2008/09	2009 Dec Target	Deviation
1. Net Foreign Assets	205.3	199.1	222.9	-3.0	11.9	232.9	-10.0
2. Net Domestic Assets	-48.3	-35.5	-40.9	-26.5	15.2	-58.4	17.5
2.1 Government Borrowing (net)	-34.4	0.0	-25.5	-100.0	100.0	-12.7	-12.8
2.2 Advances & Discounts	-2.9	-4.0	16.5	35.7	-516.6	-4.7	21.2
2.3 Other Domestic Assets (net)	-13.5	-34.0	-34.7	152.9	1.8	-43.6	9.0
3. Reserve Money	156.9	163.6	182.0	4.2	11.2	174.5	7.5
3.1 Currency outside banks	96.0	93.7	100.7	-2.3	7.5	105.6	-4.9
3.2 Bank reserves	60.9	69.9	81.2	14.6	16.3	68.9	12.3

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 12.6 percent to Ksh 224.3 billion in the year to December 2009. The rise in NFA of the Central Bank reflected interbank purchases of foreign exchange to boost the level of gross reserves in relation to the statutory requirement reserves equal to 4 months of imports of goods and averaged over the previous 36 months.

Net domestic assets (NDA) of the Central Bank rose by 19.2 percent to Ksh -42.4 billion in the year to December 2009, up from Ksh -35.5 billion in the previous year. The rise in NDA reflect accumulation of deposits of the Government that offset decline in other domestic assets. The build up of Government deposits is attributed to administrative constraints to Government spending.

On net basis, Government accumulated deposits of Ksh 21.9 billion in December 2009, while net indebtedness of Central Bank to commercial banks declined by Ksh 4.0 billion. Other domestic assets net of other liabilities declined by 32.0 percent.

Interest Rates

The Central Bank Rate (CBR) remained at 7.0 percent in the month of December 2009, having been lowered in November 2009 during the MPC meeting from the previous position of 7.75 percent in October 2009. The average interbank rate decreased from 3.11 percent in November 2009 to 2.95 percent in December 2009 (Table 2.4). The reverse repo rate also declined from 4.36 percent in November 2009 to 3.62 percent in December 2009. The 91-day Treasury bill rate edged downwards by 40 basis points from 7.22 percent in November 2009 to 6.82 percent in December 2009, whereas the 182-Treasury bill rate dropped significantly from 8.024 percent to 7.378 percent during the same period. The movement in the short-term interest rates was in line with Central Bank's desire to bring down interest rates.

Lending and Deposit Rates

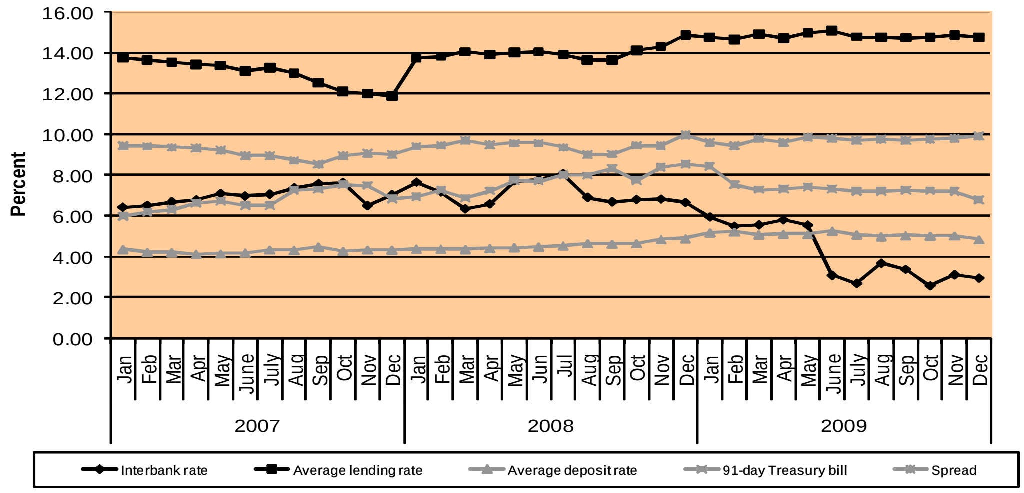
Commercial banks average lending rate and deposit rates decreased in the month of December 2009. The deposit rate decreased by a bigger proportion of 22 basis points than the lending rates that declined by 11 basis points. Overall the lending rate moved from 14.87 percent in the month of November to 14.76 percent in the month of December 2009. The deposit rate moved from 5.06 percent in November 2009 to 4.84 percent in the month of December 2009. With these developments, the interest rate spread widened to 9.92 percent in December 2009 from 9.83 percent in November 2009.

TABLE 2.4: INTEREST RATES (%)

	2008					2009				
	Aug	Sep	Oct	Nov	Dec	Aug	Sept	Oct	Nov	Dec
91-day Treasury bill rate	8.017	8.36	7.75	8.39	8.59	7.25	7.29	7.26	7.22	6.82
Overdraft rate	13.11	13.43	13.91	13.85	14.40	13.90	13.76	14.03	14.24	14.13
Interbank rate	6.92	6.70	6.81	6.83	6.66	3.68	3.38	2.57	3.11	2.95
Repo rate	6.35	6.06	6.03	6.26	6.23	6.18	6.18	6.18	6.18	6.18
Reverse Repo rate						4.29	4.01	3.17	4.36	3.62
Average lending rate (1)	13.66	13.66	14.12	14.32	14.87	14.76	14.74	14.78	14.87	14.76
Average deposit rate (2)	4.65	4.62	4.65	4.86	4.89	5.00	5.05	5.03	5.06	4.84
0 to 3 - month deposit	5.39	5.19	5.39	5.89	5.68	5.93	6.05	5.83	5.94	5.90
Savings deposits	1.68	1.73	1.74	1.61	1.65	1.65	1.65	1.85	1.71	1.73
Spread (1-2)	**9.01**	**9.04**	**9.47**	**9.46**	**9.98**	**9.76**	**9.69**	**9.75**	**9.81**	**9.92**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



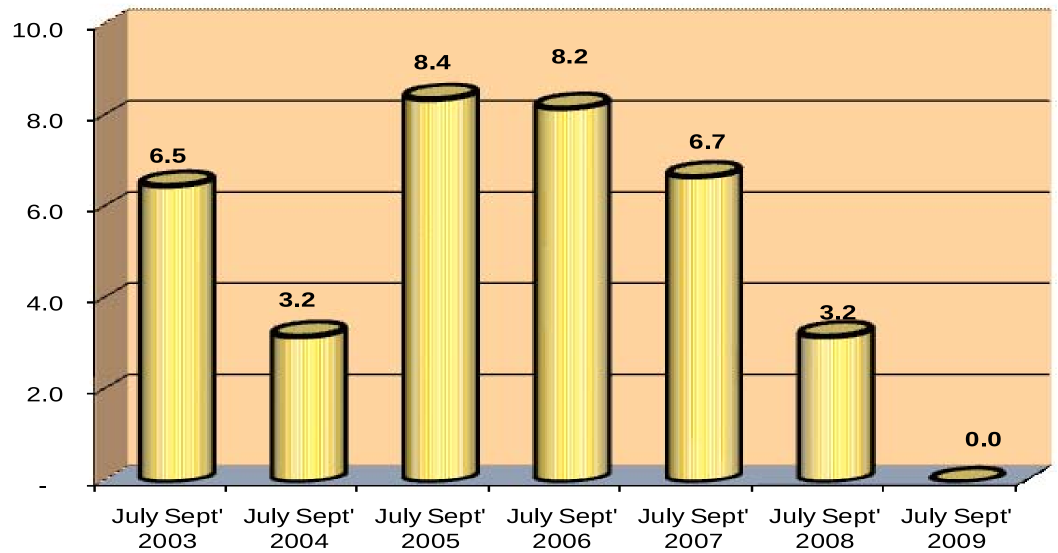
Source: Central Bank of Kenya

Performance of The Real Sector

Overview

During the third quarter of 2009, the economy is estimated to have recorded zero growth in the output of goods and services, with the GDP for the quarter standing at Ksh 361.0 billion compared with Ksh 361.2 billion for the same quarter in 2008. This followed mixed sectoral performances during the quarter. Of significance was the decline in the value added of key sectors including agriculture and forestry, manufacturing, electricity and water supply, transport and communication and construction which declined by 3.5 percent, 2.4 percent, 7.4 percent, 1.8 percent and 1.1 percent, respectively. Agriculture and forestry and the electricity sectors contracted following the persistent drought, while the manufacturing, construction and transport and communications sectors were affected by the high energy prices and the global economic recession. The decline was counteracted by growth in sectors such as hotels and restaurants, financial intermediation, education, other services, real estate, public administration and defence and the wholesale and retail trade sector which expanded during the quarter by 44.4 percent, 8.9 percent, 3.7 percent, 3.2 percent, 2.7 percent, 2.7 percent, and 1.8 percent, respectively, thus resulting in 0.0 percent overall growth (Chart 3A and Table 3.1).

CHART 3A: REAL GDP GROWTH IN THE THIRD QUARTERS



Source: Kenya National Bureau of Statistics

TABLE 3.1 GROWTH RATES FOR REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES (%)

	Share in Real GDP in 2007 (%)	2003	2004	2005	2006	2007	2008*
Agriculture, Forestry & Fishing	24.44	2.4	3.8	6.7	2.6	2.1	(3.7)
Mining & Quarrying	0.47	3.5	-0.3	2.7	4.1	12.9	3.2
Manufacturing	9.78	6.0	4.5	4.7	6.3	6.5	3.8
Electricity and water supply	2.25	14.0	3.0	-0.1	-1.4	9.1	5.2
Wholesale and retail trade, repairs	9.88	1.5	8.5	5.6	11.6	11.5	5.1
Hotels & Restaurants	1.56	-20.3	38.8	13.3	14.9	16.3	(36.1)
Building & Construction	3.01	1.0	4.4	7.5	6.3	6.9	8.3
Transport & Communications	11.71	3.5	7.0	9.0	11.4	15.1	3.1
Financial intermediation	3.69	1.5	1.4	5.6	4.8	6.7	3.1
Real estate, renting and business services	5.31	2.3	3.0	3.4	3.9	3.5	3.7
Public administration and defense	*3.35*	0.6	0.2	-1.3	-1.6	-2.0	0.6
Education	*5.63*	9.7	2.0	0.7	0.3	3.7	5.8
Health and social work	*2.19*	2.8	3.8	3.2	3.3	3.2	3.6
Other community, social and personal services	*3.72*	-0.0	3.7	3.0	4.3	3.4	3.0
Private households with employed persons	*0.31*	2.0	2.0	2.0	2.0	2.0	2.0
Less : Financial services indirectly measured	-0.90	-3.3	4.7	4.3	5.1	2.7	(7.5)
Total GDP at basic 2001 prices	86.40	3.1	3.9	5.2	5.6	6.2	(0.1)
Taxes less subsidies on products	13.60	1.3	14.8	11.0	11.2	13.4	6.7
Real GDP at 2001 market prices	100.00	2.9	5.1	5.9	6.3	7.1	1.7

Source: Kenya National Bureau of Statistics

Agriculture

The agricultural sector had mixed performance in the year to November 2009. The short rains expected between October and December were erratic with some areas receiving above normal rains while others got lower than average rains, causing food insecurity to remain high. Of the main cash crops sampled, tea and horticultural produce fell due to the prolonged dry weather conditions. Selected performances of agricultural output are as shown in Table 3.2.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE			
	2007	**2008**	**Jan-Nov 2008**	**Jan-Nov 2009**
Tea				
Output (Metric tonnes)	369,606.18	345,818.00	307,896.00	278,080.12
Growth (%)	*19.0%*	*-6.44%*	*-9.65%*	*-9.68%*
Horticulture				
Output (Metric tonnes)	192,147.45	193,117.06	179,089.84	166,070.80
Growth (%)	*17.7%*	*0.50%*	*2.16%*	*-7.27%*
Coffee				
Output (Metric tonnes)	52,268.00	38,705.00	35,691.00	46,444.00
Growth (%)	*3.4%*	*-25.95%*	*-29.98%*	*30.13%*
Sugar Cane				
Output (Metric tonnes)	5,204,214.00	4,991,097.00	4,516,488.28	5,053,523.70
Growth (%)	*5.48%*	*-4.10%*	*-6.11%*	*11.89%*

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

Tea

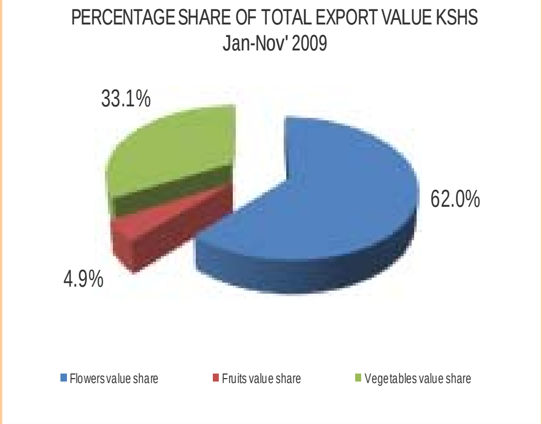
Cumulative tea production fell persistently throughout the year to November 2009 compared with production for the same period in 2008 due to insufficient rainfall. In January – November 2009, total production fell to 278,080.1 metric tonnes from 307,896.0 metric tonnes produced between January and November 2008. This was equivalent to a 9.7 percent decline. The output for November 2009, amounting to 35,865.6 metric tonnes, was the highest achieved in a single month during the year and was reflective of the high season which falls between September and December which is attributed to the short rains experienced both in the east and west of the Rift. A rise in the average prices of tea worldwide was reflected in the price of the Kenyan tea which increased to US$ 2.91 per kilogram in November 2009 compared with US$ 2.29 per kilogram in November 2008.

Horticulture

Horticultural export volumes declined by 7.3 percent from 179,089.8 metric tonnes in January – November 2009 to 166,070.8 metric tonnes in a similar period in 2009. This followed a reduction in the export volumes of flowers and vegetables which were affected by insufficient rainfall in 2009. Meanwhile, the declining trend of flower exports, and roses in particular, which was a consequence of depressed demand in Kenya's traditional markets, began to recover from September 2009. Cumulative volumes of exported vegetables decreased by 13.5 percent from 76,549.2 metric tonnes in January – November 2008 to 66,182.8 metric tonnes in January – November 2009, as a result of the dry weather conditions. The value of horticultural exports fell by Ksh 8.8 billion or 16.2 percent in the period January – November 2009, from Ksh 53.9 billion in January – November 2008. Fruit exports increased to 573.8 metric tonnes in November 2009 from 382.7 metric tonnes in October 2009, as the low season came to a close.Details on the performance of the horticultural sub-sector are provided in Chart 3B.

CHART 3B: HORTICULTURE EXPORTS

Source: Horticultural Crops Development Authority



Coffee

Cumulative coffee production for the period January – November 2009 amounted to 46,444.0 metric tones, a 30.1 percent rise from 35,691.0 metric tonnes produced during the same period of the previous year. From the beginning of the year, coffee output responded well to improved export prices, reaching US$ 3.74 per kilogram in November 2009, an increase of over 90.0 percent from a price of US $ 1.95 per kilogram in November 2008.

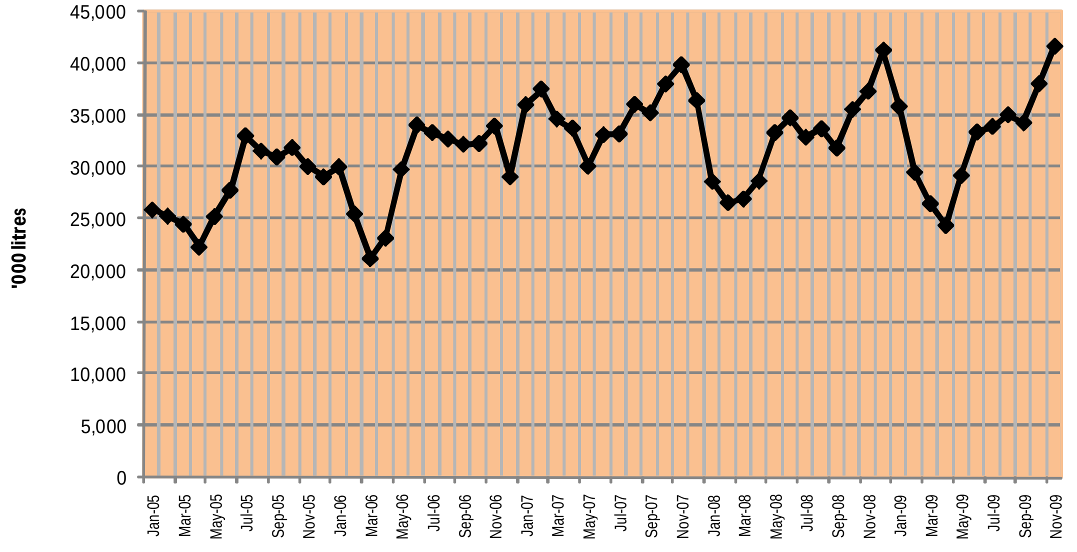
Sugarcane

Total sugarcane deliveries in the period January – November 2009 increased by 11.9 percent to 5,053,523.7 metric tonnes compared with deliveries amounting to 4,516,488.3 metric tonnes in the same period in 2008.

Dairy

Milk intake in the formal sector started picking up in the second half of 2009 after a period of decline occasioned by the drought experienced in the country during the year. Cumulative deliveries increased from 349.7 million litres between January and November 2008 to 361.3 million litres between January and November 2009 as a result of increased fodder following the rains experienced in the last quarter of the year (Chart 3C).

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



Source: Dairy Board of Kenya

Manufacturing

Data on available indicators show mixed performance for the manufacturing sector. Cumulative sugar production rose by 7.2 percent in the period January – November 2009 percent from 464,930.0 metric tonnes to 498,307.0 metric tonnes in the same period in 2008.

Total cement production increased by 6.9 percent from 2,576,048 metric tonnes in the period January – November 2008 to 2,753,728 metric tonnes in January - November 2009. Growth in cement production is expected to pick up further with the entrance of Mombasa Cement Limited Company this year.

Beer production has been on the decline for the last four months. In the period January – November 2009, the total volume was 384.4 million litres, equivalent to 0.8 percent decline from the previous year's volume.

Cigarette output also fell by 5.5 percent from 13.4 million milles in January – November 2008 to 12.6 million milles in January – November 2009 (Table 3.3).

In early 2009, soda ash mining faced stiff competition from cheaper synthetic imports from China. This forced closure of some plants at Magadi Soda Company. For the period January to November 2009, production fell by 20.2 percent to 374,099 metric tonnes from 468,714 metric tonnes produced in a similar period in 2008.

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE					
	2007	2008	Jan-Oct' 2008	Jan-Oct' 2009	Jan-Nov' 2008	Jan-Nov' 2009
Processed sugar						
Output (MT)	520,404	507,277	418,543	449,803	464,930	498,307
Growth %	*9.4%*	*-2.5%*	*-3.69%*	*7.47%*	*-2.88%*	*7.18%*
Cement production						
Output (MT)	2,545,661	3,134,571	2,341,968	2,460,995*	2,576,048	2,753,728
Output Growth %	17.1%	23.1%	10.7%	5.08%	10.2%	6.90%
Soda ash						
Output (MT)	386,598	513,415	424,317	334,959	468,714	374,099
Growth %	*3.4%*	*32.8%*	*39.5%*	*-21.1%*	*35.4%*	*-20.2%*
Milk						
Output ('000 litres)	423,111	390,963	312,454	308,709	349,726	361,345
Growth %	*17.5%*	*-7.6%*	*-9.9%*	*-1.2%*	*-9.6%*	*3.3%*
Beer						
Output ('000 litres)	379,485	426,733	353,280	343,760	387,378	384,350
Growth %	*35.3%*	*12.5%*	*13.4%*	*-2.7%*	*14.8%*	*-0.8%*
Cigarettes						
Output (Milles)	15,475,310	14,786,407	12,012,045	11,263,091	13,378,113	12,643,471
Growth %	*25.8%*	*-4.5%*	*-3.8%*	*-6.2%*	*-5.1%*	*-5.5%*

MT = Metric tonnes

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

Energy Sector

Electricity generation has been on the decline since February 2009. This has been largely due to declining hydro- power generation following shrinking water levels in the various electricity producing dams occasioned by the drought experienced during the year. In the year to November 2009, total generation declined by 4.5 percent to 4, 988.0 million Kilowatt hours from 5,222.9 million Kilowatt hours generated over a similar period in 2008 (Table 3.4). Cumulative geo-thermal and thermal power increased by 37.2 percent and 25.6 percent, respectively, in January – November 2009, partly compensating for 33.4 percent decline in hydro-power generation.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE		CUMULATIVE		CUMULATIVE	
	2007	2008	Jan-Oct'2008	Jan-Oct'2009	Jan-Nov'2008	Jan-Nov'2009
Electricity Supply (Generation)						
Output (KWH Millions)	6,287.68	5,694.05	4,761.65	4,609.86	5,222.85	4,988.03
Growth %	*8.0%*	*-9.4%*	*-9.1%*	*-3.2%*	*-9.6%*	*-4.5%*
Of which:						
Hydro-power Generation (KWH Millions)	3,584.76	3,240.44	2,726.06	1,945.86	2,988.36	1,991.13
Growth (%)	*18.9%*	*-9.6%*	*-8.5%*	*-28.6%*	*-9.0%*	*-33.4%*
Geo-Thermal Generation (KWH Millions)	991.12	1,038.79	846.63	1,106.15	932.07	1,279.16
Growth (%)	*-5.2%*	*4.8%*	*2.9%*	*30.7%*	*2.5%*	*37.2%*
Thermal (KWH Millions)	1,711.92	1,414.88	1,189.01	1,638.32	1,302.46	1,635.32
Growth (%)	*-2.9%*	*-17.4%*	*-17.2%*	*37.8%*	*-17.7%*	*25.6%*
Consumption of electricity (KWH Millions)	5,125.80	5,300.70	4,413.80	4,385.50	4,863.10	4,869.60
Growth %	*8.1%*	*3.4%*	*3.8%*	*-0.6%*	*3.2%*	*0.1%*
Consumption of Fuels (Metric Tonnes)	3,121,700.00	2,853,900	2,357	2,037	2,592	2,458*
Growth %	*11.2%*	*-8.6%*	*-10.4%*	*-13.6%*	*-8.9%*	*-5.2%*
Murban crude oil average price (US $ per barrel)	72.46	97.86	108.08	59.71	102.93	61.42
Growth %	*11.6%*	*35.0%*	*57.3%*	*-44.8%*	*45.3%*	*-40.3%*

* Provisional

Source: Kenya National Bureau of Statistics

Consumption of electricity increased marginally by 0.1 percent from 4,863.1 million Kilowatt hours between January and November 2008, to 4,869.6 million Kilowatt hours between January and November 2009.

Conversely, cumulative fuel consumption declined by 5.2 percent from 2,592 metric tonnes in the period January – November 2008 to 2,458 metric tonnes between January and November 2009.

In the fuel sub-sector, average international crude oil prices declined by 40.3 percent from US$ 102.9 per barrel in the period January – November 2008, to US$ 61.4 per barrel in January – November 2009 period.

Tourism

The tourism sector grew by 44.4 percent during the third quarter of 2009. This followed remarkable recovery from a decline of 24.3 percent for the same quarter in the previous year, as a result of restoration of confidence in the country as a safe and favourable tourist destination. In the year to November 2009, tourist arrivals grew by 35.2 percent to stand at 852,901 visitors. The high tourism season which begins in June took off well with arrivals increasing steadily from 69,059 visitors in June 2009 to peak at 100,314 visitors in August 2009 and was at 84,057 visitors in November 2009. Arrivals via cruise ships increased by 219.7 percent from 3,783 persons in January – November 2008 to 12,096 persons in January – November 2009 (Table 3.5).

Tourism earnings increased by 30 percent to US$ 94.5 million for the period January – November 2009 compared US$ 59.5 million in January – November 2008.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2007	2008	Jan-Nov 2008	Jan-Nov 2009	Jan -Nov 2009 % Share	Jan - Nov 2009 % Growth
CRUISE	2,837	6,877	3,783	12,096	*1.4%*	*219.7%*
MIAM	276,298	112,517	90,119	151,571	*17.8%*	*68.2%*
JKIA	769,597	609,606	536,949	689,234	*80.8%*	*28.4%*
TOTAL	1,048,732	729,000	630,851	852,901	***100.0%***	***35.2%***

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

In January – November 2009, 403,682 visitors arrived from Europe, constituting 47.3 percent of the total visitors. This was equivalent to 53.2 percent increase in the number of tourists compared to the 263,499 tourists who visited between January 2008 and November 2008 (Table 3.6). Similarly, arrivals from America, Asia, the Oceanic region, and Africa increased, respectively by 35.0 percent, 27.3 percent, 29.5 percent and 9.9 percent.

TABLE 3.6: TOTAL ARRIVALS BY CONTINENT

REGION	2007	2008	Jan-Nov 2008	Jan-Nov 2009	Jan - Nov'2009 % Share	Jan- Nov' 2009 % Growth
Africa	212,501	207,737	187,838	206,442	24.2%	9.9%
America	132,651	97,771	86,321	116,510	13.7%	35.0%
Asia	103,443	94,496	77,335	98,412	11.5%	27.3%
Europe	578,312	308,123	263,499	403,682	47.3%	53.2%
Oceanic	18,975	13,963	12,165	15,759	1.8%	29.5%
Cruise	2,850	7,400	3,783	12,096	1.4%	219.7%
Total	**1,048,732**	**729,490**	**630,941**	**852,901**	**100.0%**	**35.2%**

Source: Kenya Tourism Board

Transport and Tele-communications

The volume of cargo throughput handled by Kenya Ports Authority (KPA) at the port of Mombasa increased by 14.3 percent from 14,966,589 metric tonnes in January – November 2008 to 17,102,093 metric tonnes in January – November 2009. This comprises of 86.6 percent imports, 12.8 percent exports and 0.6 percent transit shipments, equivalent to 14,808,324 metric tonnes, 2,193,991 metric tonnes and 99,778 metric tonnes, respectively. On average, the port handled approximately 1.5 million metric tonnes of cargo per month. Similarly, cargo transported via Kenya Pipeline Company (KPC) increased by 11.5 percent during the same period. In the telecommunication sector, excise duty on airtime rose by 8.6 percent, from Ksh 6,058 million in the period January – November 2008 to Ksh 6,577 million in January – November 2009. The number of passengers embarking and disembarking at JKIA went down in the period January – November 2009 compared to the period January-November 2008 by 12.3 percent and 8.7 percent, respectively (Table 3.7).

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

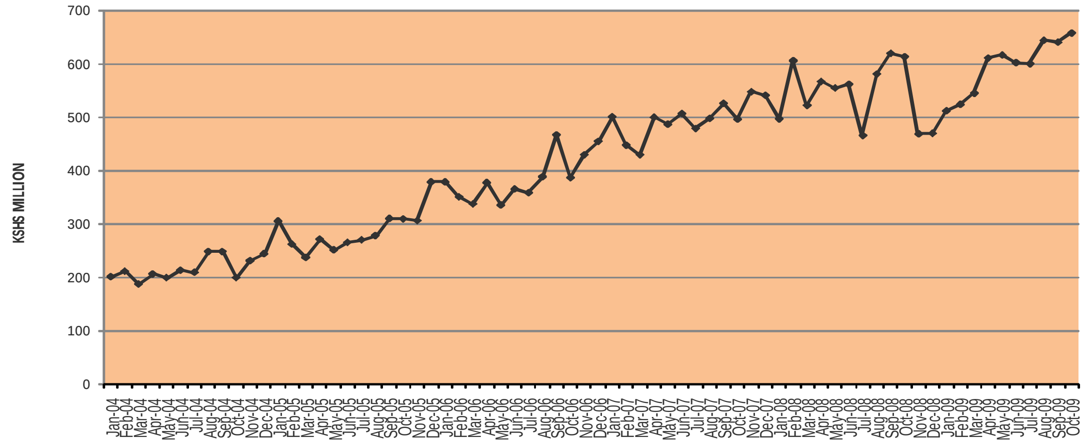
	CUMULATIVE					
	2007	2008	Jan-Oct 2008	Jan-Oct 2009	Jan-Nov 2008	Jan-Nov 2009
Mombasa Port Cargo Throughput						
Output (MT) Equivalent	15,960,465	16,414,729	13,481,388	15,409,677	14,966,589	17,102,093.*
Output Growth %	*10.70%*	*2.85%*	*2.29%*	*14.30%*	*2.23%*	*14.27%*
Number of passengers Thro' JKIA						
Incoming	1,478,849	1,757,475	1,216,263	1,107,419*	1,353,679	1,186,884*
Growth (%)	*-0.70%*	*18.84%*	*-0.88%*	*-8.95%*	*-0.84%*	*-12.32%*
Outgoing	1,480,620	1,476,851	1,216,942	1,144,223*	1,342,431	1,225,511*
Growth %	*-1.30%*	*-0.25%*	*-1.57%*	*-5.98%*	*-1.64%*	*-8.71%*
Kenya Pipeline oil Throughput						
Output ('000 litres)	3,962,279	3,859,481	3,219,156	3,570,211	3,527,581	3,934,742
Output Growth %	*3.60%*	*-2.59%*	*-3.71%*	*10.91%*	*-4.11%*	*11.54%*
Kenya Revenue Authority (Excise tax on airtime)						
Kshs million	5,962	6,528	5,589	5,953	6,058	6,577
Output Growth %	*28.60%*	*9.50%*	*14.70%*	*6.51%*	*11.77%*	*8.56%*

MT = Metric tonnes

* Provisional

Sources: Kenya Ports Authority and Kenya Pipeline Company

CHART 3D: EXCISE TAX ON AIRTIME

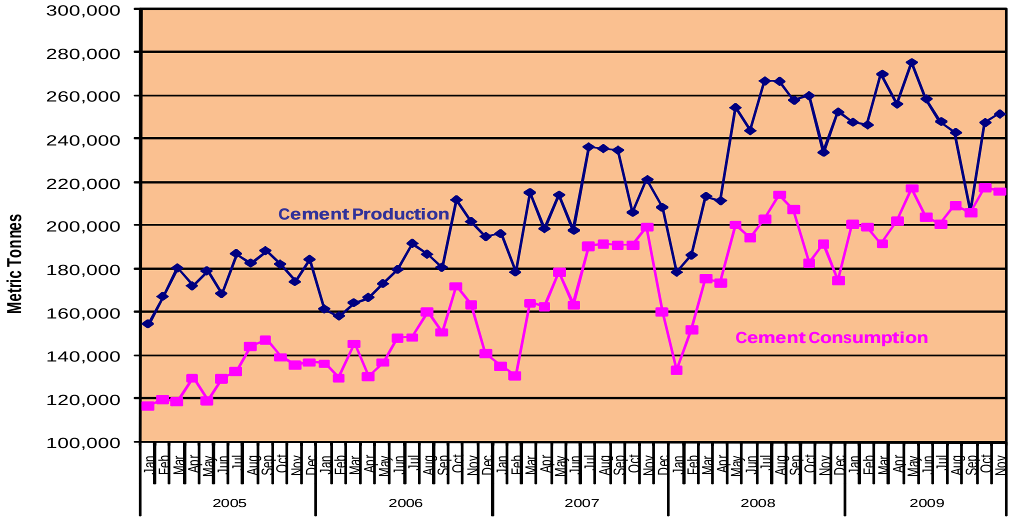


Source: Kenya Revenue Authority (KRA)

Building & Construction Industry

Cement consumption increased by 11.6 percent from 2,030,990 metric tonnes in the first eleven months of 2008 to 2,267,299 metric tonnes in the same period in 2009, reflecting increased economic activity in the industry (Chart E).

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

Developments in the Balance of Payments and Exchange Rates

Overview

Kenya's balance of payments position reflected developments in the global economy which is on a recovery path albeit activity remaining below pre-crisis levels. Kenya's overall balance of payments improved from a deficit of US$ 89 million in the year to November 2008, to a surplus of US$ 552 million in the year to November 2009. The improvement reflect a larger increase of the surplus in the capital and financial account relative to the widening of the current account deficit.

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Nov 2008*	Year to November 2009* Q1 Dec-Feb	Q2 Mar-May	Q3 Jun-Aug	Q4 Sep-Nov	Year to Nov 2009*	Absolute Change
1. OVERALL BALANCE	-89	-123	187	143	345	552	***642***
2. CURRENT ACCOUNT	-1866	-581	-489	-531	-575	-2176	***-310***
2.1 Goods	-6238	-1425	-1290	-1281	-1643	-5639	*599*
Exports (fob)	4949	1088	1054	1140	1161	4443	*-506*
Imports (cif)	11187	2513	2344	2421	2804	10082	*-1105*
2.2 Services	4372	843	801	750	1068	3463	*-909*
Non-factor services (net)	2100	493	407	355	634	1889	*-211*
Income (net)	-51	-25	-29	-13	-25	-91	*-40*
Current Transfers	2323	376	423	408	458	1665	*-658*
3. CAPITAL & FINANCIAL ACCOUNT	1777	458	676	674	921	2729	***952***
3.1 Capital Tranfers (net)	309	72	96	44	32	244	*-65*
3.2 Financial Account	1468	386	580	630	889	2484	*1017*
memo:							
Gross Reserves	4523	4354	4370	5125	5320	5320	***796***
Official	2869	2745	2929	3591	3934	3934	*1065*
*imports cover***	*2.8*	*2.7*	*2.9*	*3.8*	*4.3*	*4.3*	*1.5*
*imports cover****	*3.4*	*3.2*	*3.3*	*4.0*	*4.2*	*4.2*	*0.8*
Commercial Banks	1654	1610	1441	1534	1386	1386	*-269*

* 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 deteriorated by 16.6 percent from a deficit of US$ 1,866 million in year to November, 2008 to a deficit of US$ 2,176 million in year to November, 2009. This is attributed to the larger decline in the services account relative to the improvement in the merchandise account. The merchandise account improved slightly by 9.6 percent to a deficit of US$ 5,639 million in the year to November 2009 from a deficit of US$ 6,238 million in the year to November 2008 (Table 4.2).

The value of exports declined by about 10 percent from US$ 4,949 million in the year to November, 2008 to US$ 4,443 million in the year to November, 2009. Exports have remained low despite improving commodity prices in international markets. On the other hand, imports declined by 9.9 percent from US$ 11,187 million in the year to November 2008 to US$ 10,082 million in the year to November 2009 (Table 4.2), more than compensating for the fall in exports.

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

ITEM	Year to Nov 2008*	Year to November 2009* Q1 Dec-Feb	Q2 Mar-May	Q3 Jun-Aug	Q4 Sep-Nov	Year to Nov 2009*	Absolute Change
2. CURRENT ACCOUNT	-1866	-581	-489	-531	-575	-2176	*-310*
2.1 Goods	-6238	-1425	-1290	-1281	-1643	-5639	*599*
Exports (fob)	4949	1088	1054	1140	1161	4443	*-506*
Coffee	158	37	63	60	40	200	*42*
Tea	882	222	179	222	256	878	*-4*
Horticulture	754	171	166	167	170	674	*-81*
Oil products	112	25	15	22	32	96	*-17*
Manufactured Goods	610	138	116	128	143	526	*-84*
Raw Materials	312	60	57	49	45	211	*-101*
Re-exports	279	57	63	102	65	288	*9*
Other	1840	377	395	389	411	1571	*-270*
Imports (cif)	11187	2513	2344	2421	2804	10082	*-1105*
Oil	2965	422	462	531	651	2066	*-899*
Chemicals	1447	320	345	304	340	1310	*-137*
Manufactured Goods	1567	348	305	329	424	1407	*-160*
Machinery & Transport Equipment	2914	924	662	696	828	3110	*196*
Other	2294	498	571	560	561	2190	*-104*
2.2 Services	4372	843	801	750	1068	3463	*-909*
Non-factor services (net)	2100	493	407	355	634	1889	*-211*
of which tourism	735	149	147	143	208	647	*-88*
Income (net)	-51	-25	-29	-13	-25	-91	*-40*
of which official interest	-123	-33	-30	-14	-18	-94	*29*
Current Transfers	2323	376	423	408	458	1665	*-658*
Private (net)	2104	378	423	408	458	1667	*-437*
Public (net)	219	-2	0	0	0	-2	*-220*

* Provisional.

Source: Central Bank of Kenya

The export performance declined by 10 percent to US$ 4,443 million. This development reflects low global demand which is still below its pre-crisis levels. Commodity prices, which were broadly stable in early 2009, picked up in the second quarter of the year. With the exception of coffee and re exports, exports in all the major categories declined. Earnings from exports of horticulture and manufactured goods were lower during the review period, reflecting the reduced export volumes. The improvement in earnings of coffee exports reflected increased exports volume and prices.

Services Account

The surplus in the services account decreased by 20.8 percent, or US$ 909 million further worsening the current account deficit. The decrease was largely in net receipts on non-factor services and net public and private current transfers, which reduced by US$ 211 million and US$ 658 million, respectively.

Direction of Trade

Kenya's imports were mainly from United Arab Emirates (10.6 percent), India (10.4 percent), China (9.5 percent) and South Africa (8.9 percent). The share of imports sourced from African countries accounted for 13.1 percent. Imports from both the EAC and the COMESA regions declined from US$ 193 million (1.7 percent) and US$430 million (3.8 percent) to US$ 153 million (1.5 percent of total imports) and US$ 315 million (3.1 percent of total imports), respectively, in the year to November 2009 (Table 4.3).

Kenya's exports were mainly to Uganda (13.3 percent), United Kingdom (10.8 percent), Tanzania (8.9 percent) and Netherlands (7.5 percent). The share of exports to African countries accounted for 47.6 percent. Exports to both the EAC and the COMESA regions declined from US$ 1,174 million (23.7 percent) and US$1,567 million (31.7 percent) to US$ 1,166 million (26.2 percent of total exports) and US$ 1,452 million (32.7 percent of total exports), respectively, in the year to November 2009.

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to November			Year to November		
Country	2007	2008	2009	2007	2008	2009
Africa	1,033	1,260	1,324	11.3	11.3	13.1
Of which						
South Africa	515	664	896	5.7	5.9	8.9
Egypt	157	161	126	1.7	1.4	1.2
Others	361	435	303	4.0	3.9	3.0
EAC	182	193	153	2.0	1.7	1.5
COMESA	398	430	315	4.4	3.8	3.1
Rest of the World	8,081	9,927	8,758	88.7	88.7	86.9
Of which						
India	855	1,281	1,052	9.4	11.4	10.4
United Arab Emirates	1,376	1,626	1,073	15.1	14.5	10.6
China	698	863	956	7.7	7.7	9.5
Japan	601	641	627	6.6	5.7	6.2
USA	652	411	603	7.2	3.7	6.0
United Kingdom	452	381	486	5.0	3.4	4.8
Singapore	206	334	348	2.3	3.0	3.5
Germany	335	371	294	3.7	3.3	2.9
Saudi Arabia	254	353	329	2.8	3.2	3.3
Indonesia	276	337	239	3.0	3.0	2.4
Netherlands	133	187	231	1.5	1.7	2.3
France	242	218	221	2.7	1.9	2.2
Bahrain	144	186	97	1.6	1.7	1.0
Italy	196	162	183	2.2	1.4	1.8
Others	1,660	2,577	2,018	18.2	23.0	20.0
Total	9,113	11,187	10,082	100	100	100

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to November			Year to November		
Country	2007	2008	2009	2007	2008	2009
Africa	1,840	2,290	2,115	44.5	46.3	47.6
Of which						
Uganda	502	593	592	12.1	12.0	13.3
Tanzania	327	409	396	7.9	8.3	8.9
Egypt	134	206	162	3.2	4.2	3.7
Sudan	168	208	162	4.1	4.2	3.6
Somalia	123	186	150	3.0	3.8	3.4
DRC	123	141	146	3.0	2.8	3.3
Rwanda	84	125	119	2.0	2.5	2.7
Others	379	422	388	9.2	8.5	8.7
EAC	949	1,174	1,166	23.0	23.7	26.2
COMESA	1,284	1,567	1,452	**31.1**	**31.7**	**32.7**
Rest of the World	2,292	2,659	2,328	55.5	53.7	52.4
Of which						
United Kingdom	428	545	482	10.3	11.0	10.8
Netherlands	328	374	331	7.9	7.6	7.5
USA	283	296	232	6.8	6.0	5.2
Pakistan	209	192	199	5.0	3.9	4.5
United Arab Emirates	126	114	135	3.0	2.3	3.0
Germany	82	91	93	2.0	1.8	2.1
India	86	94	68	2.1	1.9	1.5
Afghanistan	38	58	91	0.9	1.2	2.0
Others	711	895	697	17.2	18.1	15.7
Total	4132	4949	4443	100	100	100

Source: Kenya Revebye Authority

Capital and Financial Account

The surplus of the capital and financial account improved from US$ 1,777 million to US$ 2,729 million in the twelve months to November 2009. The improvement wholly reflects in short term inflows which include portfolio flows.

Net private medium and long-term financial inflows declined by US$ 405 million from US$ 562 million to US$ 157million in the year to November 2009, as private short-term financial inflows including errors and omissions improved by US $ 1,424 million to US$ 2,230 million. Official foreign loans declined to US$ 336 million from US$ 372 million, while repayment of official foreign loans was US$ 238 million in the year to November 2009, compared with US$ 272 million the previous year. In the capital account, project related grants to the Government declined to US$ 244 million during the year under review from US$ 297 million the previous year (Table 4.4).

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

ITEM	Year to Nov 2008*	Year to November 2009* Q1 Dec-Feb	Q2 Mar-May	Q3 Jun-Aug	Q4 Sep-Nov	Year to Nov 2009*	Absolute Change
3. CAPITAL & FINANCIAL ACCOUNT	1777	458	676	674	921	2729	***952***
3.1 Capital Tranfers (net)	309	72	96	44	32	244	*-65*
3.2 Financial Account	1468	386	580	630	889	2484	*1017*
Official, medium & long-term	100	14	89	-28	24	98	*-2*
Inflows	372	74	130	55	76	336	*-36*
Outflows	-272	-61	-41	-84	-53	-238	*34*
Private, medium & long-term (net)	562	-45	85	-119	236	157	*-405*
Commercial Banks (net)	2	-44	81	-111	262	189	*187*
Other private medium & long-term (net)	560	-1	4	-8	-26	-32	*-592*
Short-term (net) incl. errors & omissions	806	417	406	777	629	2230	*1424*

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system total foreign exchange holdings increased by 9.1 percent from US$ 4,641 million in December 2008 to US$ 5,062 million in December 2009. The increase was wholly in the gross official foreign exchange reserves held by the Central Bank which rose by 33.8 percent from US$ 2,875 million or 3.4 months of import cover in December 2008 to US$ 3,847 million or 4.2 months of import cover in December 2009 (Table 4.5). 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 mitigates adverse effects of the global economic recession.

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

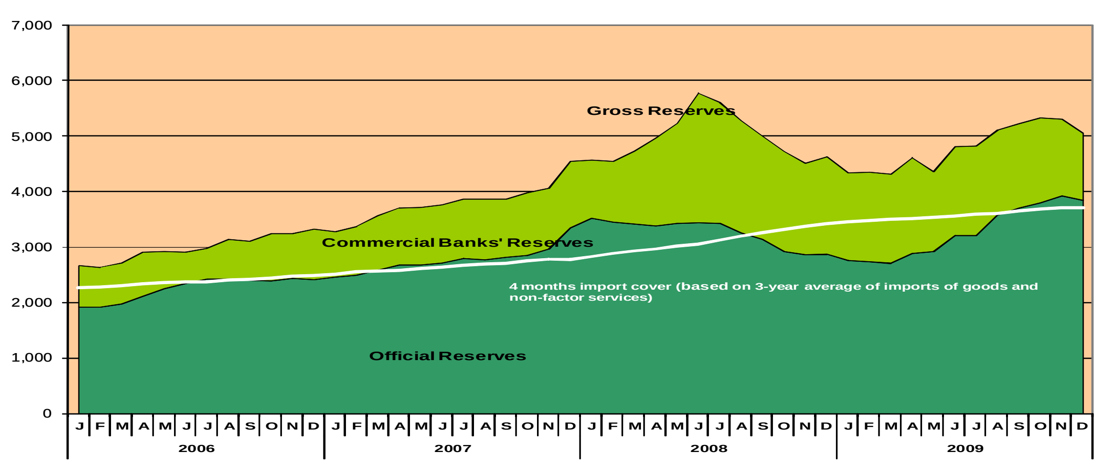
	Nov 08	Dec 08	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09
1. Gross Foreign Exchange Reserves	**4,524**	**4,641**	**4,822**	**4,830**	**4,810**	**5,235**	**5,347**	**5,320**	**5,062**
of which:									
Official	2,869	2,875	3,219	3,216	3,276	3,708	3,810	3,934	3,847
*imports cover**	*3.4*	*3.4*	*3.6*	*3.6*	*3.6*	*4.1*	*4.1*	*4.3*	*4.1*
Commercial Banks	1,655	1,766	1,602	1,614	1,534	1,527	1,536	1,386	1,215
2. Residents' foreign currency deposits	**1,867**	**1,810**	**1,912**	**1,967**	**2,064**	**1,920**	**1,917**	**2,006**	**2,036**

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

Source: Central Bank of Kenya

Foreign exchange assets of commercial banks declined by 31 percent from US$ 1,766 million at the end of December 2008 to US$ 1,215 million at end of December 2009. The decline is attributed to low earnings on deposits abroad and to the depreciation of the US dollar in the international markets.

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya shilling depicted mixed performance against major world currencies, weakening against the US dollar and the Japanese Yen but strengthening against the Euro and the Sterling Pound (Table 4.6) in December 2009. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 75.43 in December 2009 compared with Ksh 74.74 per US dollar in November 2009. Against the Japanese Yen, the shilling depreciated to exchange at an average of Ksh 84.12 per 100 Japanese Yen in December 2009 compared with Ksh 83.79 per 100 Japanese Yen in November 2009. The shilling, however, appreciated against the Euro and the Sterling Pound to exchange, respectively, at Ksh 110.27 per Euro and Ksh 122.54 per Sterling Pound in December 2009 compared with Ksh 111.68 per Euro and Ksh 124.14 per Sterling Pound in November 2009 (Table 4.6 and Charts 4B).

Against the regional currencies, the Kenya shilling appreciated marginally against the Uganda shilling and depreciated against the Tanzania shilling, respectively, to trade at Ush 25.20 per Kenya shilling and Tsh 17.65 per Kenya shilling in December 2009 compared with per Ush 25.16 per Kenya shilling and Tsh 17.75 per Kenya shilling in November 2009.

During 2009, the Kenya shilling appreciated by 5.02 percent against the Sterling Pound to exchange at an average of Ksh 120.90 per Sterling Pound compared with an average of Ksh 127.29 per Sterling Pound in 2008. However, the Kenya shilling weakened against the US Dollar, the Euro and the Japanese Yen to exchange at Ksh 77.35 per US Dollar, Ksh 107.66 per Euro and Ksh 82.80 per 100 Japanese Yen in 2009, compared with an average of Ksh 69.86 per US Dollar, Ksh 101.22 per Euro and Ksh 67.26 per 100 Japanese Yen in 2008. The depreciation of the Kenya shilling over this period was largely attributed to the strong perfomance of the US Dollar in the international currency market following the global financial crisis where the dollar turned out to be the safe currency of choice.

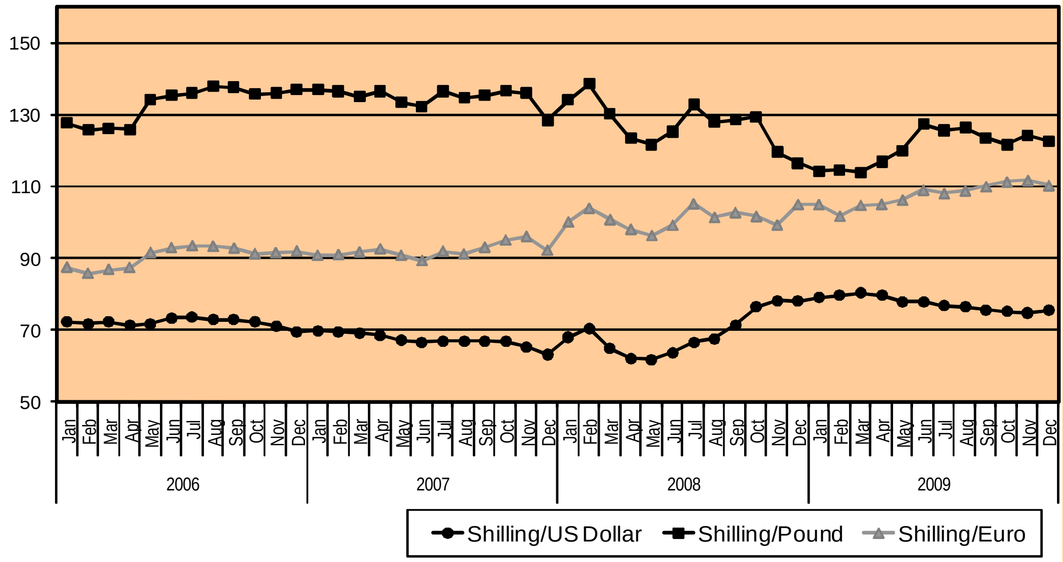
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2008					2009					%change Dec 09-Nov 09
	Aug	Sep	Oct	Nov	Dec	Aug	Sep	Oct	Nov	Dec	
US Dollar	67.68	71.41	76.66	78.18	78.04	76.37	75.60	75.24	74.74	75.43	**0.93**
Pound Sterling	127.97	128.58	129.38	119.59	116.53	126.34	123.57	121.65	124.14	122.54	**-1.29**
100 Japanese Yen	61.92	67.00	76.77	80.71	85.42	80.49	82.70	83.38	83.79	84.12	**0.39**
Uganda Shilling*	24.00	23.07	23.89	24.49	25.07	27.14	26.07	25.27	25.16	25.20	**0.17**
Tanzania Shilling*	18.00	16.27	16.12	16.05	16.64	17.28	17.32	17.50	17.75	17.65	**-0.55**
Euro	101.40	102.73	101.67	99.33	105.56	108.83	110.01	111.25	111.68	110.27	**-1.27**
Euro per US dollar	0.667	0.695	0.754	0.787	0.739	0.702	0.687	0.676	0.669	0.684	**2.22**

* Units of currency per Kenya shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

During the period ended 31st December 2009, the Kenyan banking sector registered significant growth in asset base largely supported by growth in deposits, injection of capital and retention of profits. The sector registered high capital adequacy and liquidity ratios and a decline in the level of non-performing loans compared to same period in 2008.

The Kenyan-banking sector comprises of 44 commercial banks, 2 mortgage finance companies, 1 deposit taking microfinance institution and 130 foreign exchange bureaus.

Structure of the Balance Sheet

The banking sector aggregate balance sheet expanded by 14.9 percent from Ksh 1,193.4 billion to Ksh 1,371.8 billion in December 2009. The main components of the balance sheet were net loans and advances, government securities and placements, which accounted for 53.0 percent, 22.0 percent and 7.0 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances increased from Ksh 685.9 billion in December 2008 to Ksh 771.1 billion in December 2009 representing 12.5 percent growth. The growth was attributed to increased economic activities in the households and corporate sectors. Loans and advances net of provisions stood at Ksh 732.3 billion in December 2009, up from Ksh 641.4 billion registered in November 2008.

Deposit Liabilites

Deposits from customers were the main source of funding for the banking sector, accounting for 77.7 percent of total funding liabilities. The deposits expanded by 13.9 percent from Ksh 935.6 billion in December 2008 to Ksh 1,065.4 billion in December 2009, on account of receipts from exports and remittances from abroad.

Capital & Reserves

The banking sector recorded stronger capital levels in December 2009, with total capital increasing by 15.9 percent from Ksh 149.9 billion in December 2008 to Ksh 173.7 billion, while shareholders' funds increased by 18.4 percent from Ksh 165.9 billion in December 2008 to Ksh 196.5 billion. As a result, the ratios of total and core capital to total risk-weighted assets improved from 18.9 percent and 16.9 percent to 19.5 percent and 17.3 percent in December 2009, respectively. The increase in capital was attributed to capital injections by some institutions and retention of profits.

Profitability

In the twelve months period to December 2009, the sector registered 15.6 percent growth in pre-tax profits, from Ksh 41.8 billion achieved in December 2008 to Ksh 48.3 billion in December 2009. Return on assets remained at 2.8 per cent in December 2009, occasioned by a proportionate increase in profits and the growth in assets. However, return on equity declined to 24.6 percent in December 2009 from 25.2 percent in December 2008 largely due to higher proportionate growth in equity. Total income increased by 13.9 percent from Ksh 148.9 billion to Ksh 169.6 billion in December 2009, while total expenses increased by 13.2 percent from Ksh 107.2 billion to Ksh 121.3 billion. Interest on loans and advances, driven by growth in loans, fees and commissions and government securities were the main sources of income accounting for 54 percent, 23 percent and 14 percent of total income, respectively. In addition, staff costs, other expenses and interest on deposits were the major components of expenses, accounting for 32 percent, 28 percent and 26 percent, respectively.

Non-performing Loans

The stock of gross non-performing loans (NPLs) declined by 0.3 percent from Ksh 61.5 billion in December 2008 to Ksh 61.3 billion at end of December 2009. As a result, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined to 45.0 percent from 51.1 percent in December 2008. Similarly, the quality of assets, measured by the proportion of net non-performing loans to gross loans deteriorated from 3.4 per cent to 3.7 per cent in December 2009 as shown in Table 5.1.

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

		Dec-09	Dec-08
1	Gross loans and advances	771.7	685.9
2	Loans and advances (net of interest suspended)	762.4	671.8
3	Gross non-performing loans	61.3	61.5
4	Specific Provisions	23.4	24.2
5	General Provisions	6.7	6.2
6	Total Provisions (4+5)	30.1	30.4
7	Net Advances (2-6)	732.3	641.4
8	Total Non-Performing Loans and advances	52	47.4
9	Net Non-Performing Loans and advances(8-4)	28.6	23.2
10	Total NPLs as % of total advances (8/2)	6.8	7.1
11	Net NPLs as % of gross advances (9/1)	3.7	3.4
12	Specific Provisions as % of Total NPLs (4/8)	45	51.1

Source: Central Bank of Kenya

Liquidity Ratio Requirement

As at December 2009, liquid assets amounted to Ksh 406.6 billion while total liquid liabilities stood at Ksh 1,021.9 billion, leading to an average liquidity ratio of 39.8 percent, against 37.0 percent registered in December 2008. The ratio of total loans to deposits ratio stood at 72.4 percent.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.96 percent in December 2009 compared with 5.40 percent in November 2009 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 13.8 billion in December 2009 compared with Ksh 8.5 billion in November 2009.

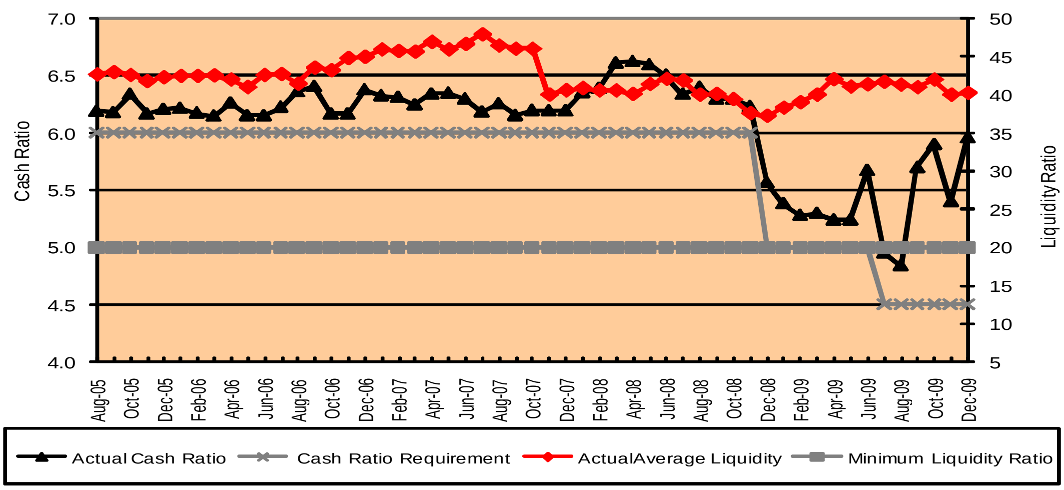
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2008			2009						
	Oct	Nov	Dec	June	July	Aug	Sept	Oct	Nov	Dec
Commercial Banks										
Actual Average Liquidity	39.37	37.55	37.18	41.37	41.70	41.33	41.34	41.60	40.19	40.25
Minimum Liquidity Ratio	20.0	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	6.26	6.23	5.57	5.67	4.95	4.84	5.40	5.15	5.40	5.96
Minimum Cash Ratio Requirement	6.00	6.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50
NBFIs										
Actual Average Liquidity Ratio	26.57	27.12	26.82	24.59	24.83	23.93	23.38	22.89	24.61	23.96
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio	6.00	6.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50
Minimum Cash Ratio Requirement	6.00	6.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50

* Monthly average liquidity and cash ratios

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 66,916 transaction messages worth Ksh 1,454 billion in December 2009, compared with a volume of 56,900 transaction messages valued at Ksh 1,430 billion moved in November 2009 representing 1.7 percent increase in value and 17.6 percent increase in volume, respectively. As reported in our November 2009 Monthly Economic Review (MER), the increase in KEPSS usage is attributable to successful value capping implementation process, the decision by the Government to process all its payments using KEPSS, and increased public awareness of KEPSS as a faster and secure means of funds transfer.

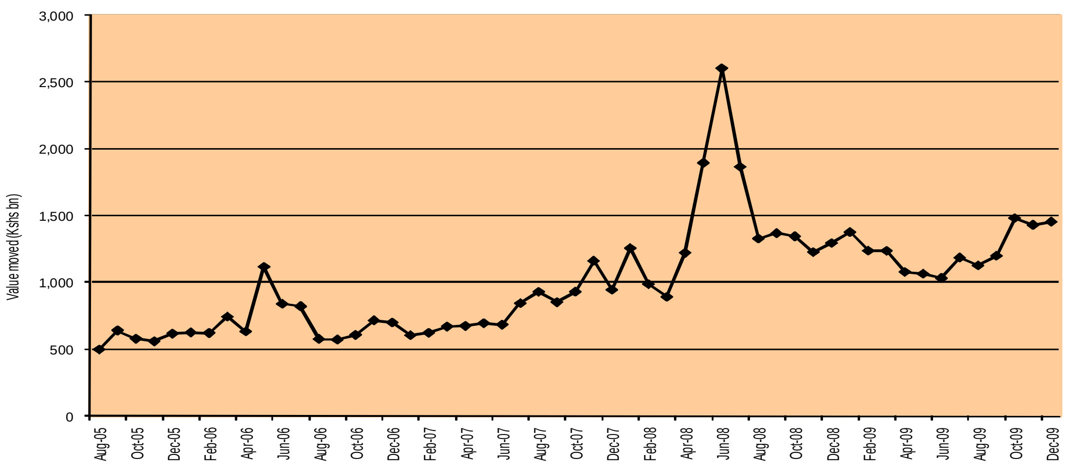
During the twelve months period to December 2009, the value moved averaged Ksh 43.6 million per transaction while the average value moved per day was approximately Ksh 59.2 billion (Table 5.3 and Chart 5B). Direct settlements through KEPSS in December 2009 averaged 98.0 percent of the total settlements while indirect payments (ACH net settlement) averaged 2.0 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	997	22,485	0.05	20	54	1,124
May-09	1,064	994	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

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) increased by 64.4 percent, from 4,214 transaction messages in November 2009 to 6,928 transaction messages in December 2009. Single third party Message Type (MT 103) increased by 19.4 percent, from 49,759 transaction messages to 59,418 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 22.9 percent, from 53,973 transaction messages in November 2009 to 66,346 transaction messages in December 2009.

Compared with December 2008, multiple third parties messages (MT 102) increased by 804.4 percent from 766 transaction messages to 6,928 transaction messages in December 2009, while single third party messages (MT 103) increased by 439.7 percent, from 11,009 transaction messages to 59,418 transaction messages (Table 5.4 and Chart 5C). Multiple third parties messages surged up from 12,386 messages in September 2009 to 66,346 messeages in December 2009 as a result of the value capping policy.

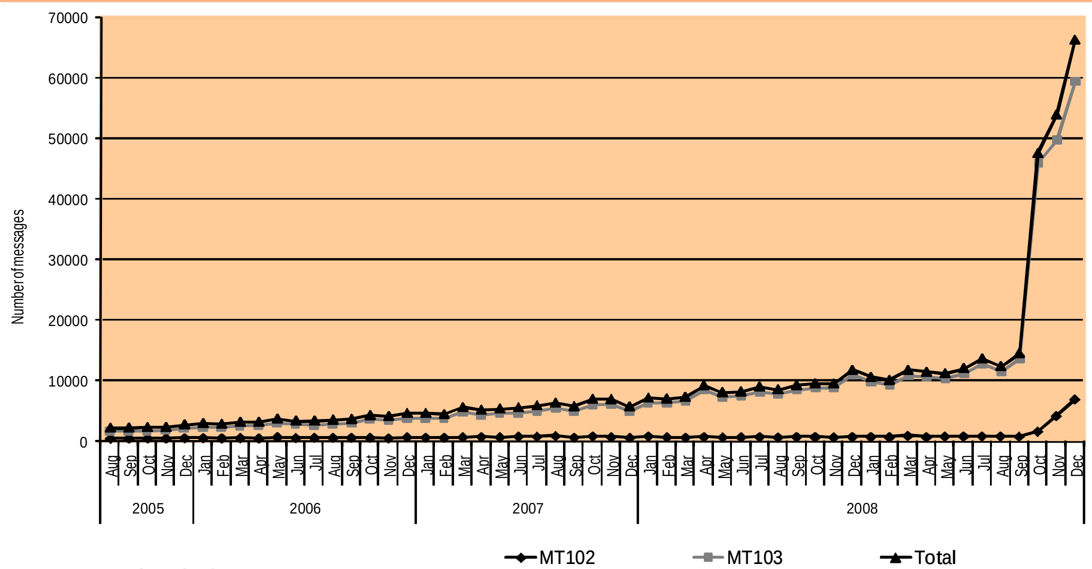
On average, inter-bank transfers (MT 202) accounted for 49.7 percent of the total value moved through KEPSS in December 2009, while third party messages accounted for 50.3 percent. The total number of third party messages (MT 102 and MT 103) grew by 463.4 percent, from 11,775 messages in December 2008 to 66,346 messages in December 2009.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2008	January	877	6,300	7,177
	February	724	6,318	7,042
	March	684	6,637	7,321
	April	781	8,457	9,238
	May	708	7,393	8,101
	June	718	7,503	8,221
	July	764	8,268	9,032
	August	696	7,839	8,535
	September	791	8,481	9,272
	October	751	8,803	9,554
	November	711	8,804	9,515
	December	766	11,009	11,775
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

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

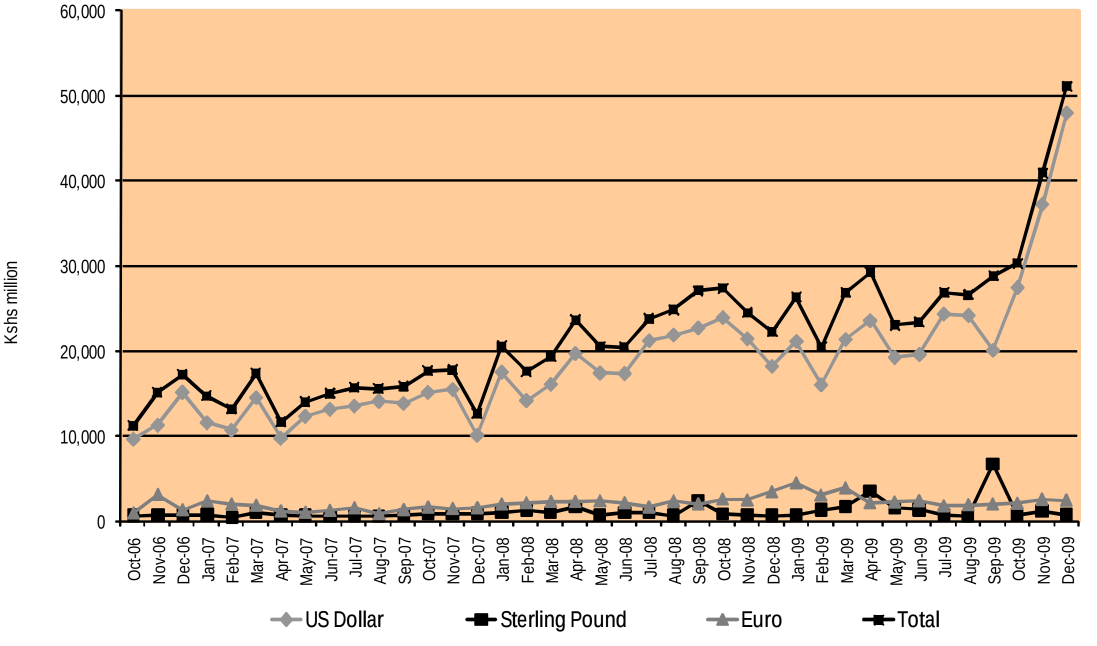


Source: Central Bank of Kenya

Domestic Foreign Currency Flows

Domestic Foreign Currency messages through KEPSS increased by 13.8 percent from 4,050 transaction messages in November 2009 to 4,608 transaction messages in December 2009. The corresponding value in Kenya Shillings equivalent moved in this period also increased by 24.8 percent, from Ksh 40.90 billion to Ksh 51.1 billion. The US dollar accounted for 93.7 percent of the value moved (Chart 5D) while the Sterling Pound and the Euro accounted for 1.5 percent and 4.8 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 in the first half of the fiscal year 2009/10 resulted in a deficit of Ksh 60.4 billion on commitment basis compared with a deficit of Ksh 5.1 billion in a similar period of fiscal year 2008/09 (Table 6.1). The deficit-to-GDP ratio increased from 0.2 percent to 2.4 percent on commitment basis while the budget deficit on cash basis increased from 1.7 percent to 2.3 percent of GDP during the period. The budget deficit during the period was within the programmed target of 3.9 percent of GDP on commitment basis. The performance of the Government budget during the period however reflected lower than budgeted Government expenditure by Ksh 46.5 billion.

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

	FY 2008/09	FY 2009/10		
	Dec Actual	Dec Provisional	Target	Over (+) / Below (-) Target
1. TOTAL REVENUE	**236.6**	**269.1**	**278.5**	**-9.4**
Revenue	231.8	263.0	269.4	-6.4
Tax Revenue	209.7	234.7	236.7	-2.0
Non Tax Revenue	7.0	8.2	10.0	-1.8
Appropriations-in-Aid	15.0	20.1	22.7	-2.7
External Grants	4.8	6.1	9.1	-3.0
2. TOTAL EXPENSES	**241.7**	**329.5**	**376.0**	**-46.5**
Recurrent Expenses	190.9	248.3	253.8	-5.4
Development Expenses	50.8	81.1	122.2	-41.1
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-5.1**	**-60.4**	**-97.5**	**-37.1**
As % of GDP	-0.2	-2.4	-3.9	
4. ADJUSTMENT TO CASH BASIS	**-31.6**	**2.7**	**0.0**	**2.7**
5. DEFICIT ON A CASH BASIS	**-36.7**	**-57.7**	**-97.5**	**-39.8**
As % of GDP	-1.7	-2.3	-3.9	
6. DISCREPANCY:Exp. (+) / Rev. (-)	**-6.4**	**1.1**	**0.0**	
7. FINANCING	**30.3**	**57.0**	**92.1**	**-35.1**
Domestic (Net)	26.7	58.1	70.3	-12.2
External (Net)	3.5	-1.1	17.7	-18.9
Capital Receipts (privatisation)	0.0	0.0	4.0	-4.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: Treasury

Revenue

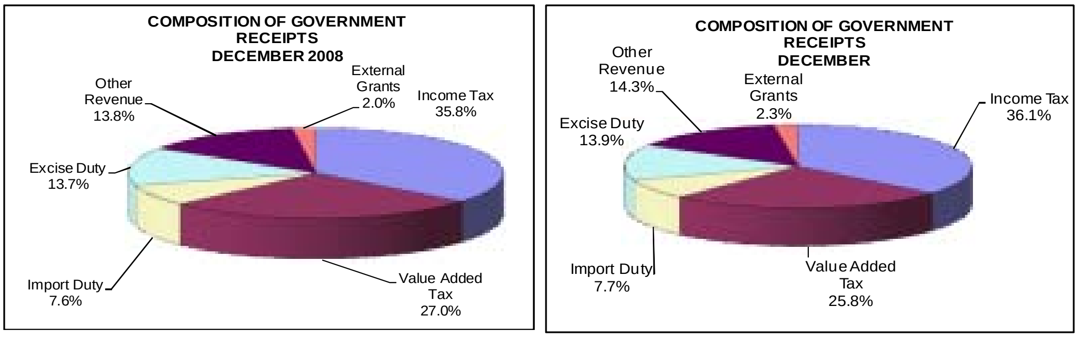
Government revenue and grants increased from Ksh 236.6 billion in the half of fiscal year 2008/09 to Ksh 269.1 billion in the same period of fiscal year 2009/10. This was Ksh 9.4 billion below the target. The shortfall in total revenue was in Government receipts and external grants that were Ksh 6.4 billion and Ksh 3.0 billion below target, respectively.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Dec-08 Ksh bn	Dec-09 Ksh bn	Change
1. Revenue (2+3+4)	**231.8**	**263.0**	**31.2**
2. Tax Revenue	209.7	234.7	25.0
Income Tax	84.8	97.1	12.2
Value Added Tax	63.8	69.5	5.6
Import Duty	18.1	20.6	2.6
Excise Duty	32.5	37.3	4.8
Others	10.5	10.3	-0.2
3. Appropriations-in-Aid	15.0	20.1	5.0
4. Other Revenue	7.0	8.2	1.1
5. External Grants	**4.8**	**6.1**	**1.3**
TOTAL RECEIPTS (1+5)	**236.6**	**269.1**	**32.5**

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue increased from Ksh 209.7 billion in the first half of the fiscal year 2008/09 to Ksh 234.7 billion in the current period, representing a growth of 13.5 percent in the tax proceeds, following increases in income and value added tax during the period. Similarly, Appropriation in Aid (A-I-A) increased by Ksh 5.0 billion while non-tax revenue increased by Ksh 1.1 billion.

Following these developments, the percentage of tax revenue in total revenue increased from 88.6 percent in the first half of the fiscal year 2008/09 to 87.2 percent in a similar period in the fiscal year 2009/10 (Chart 6A). Similarly, the proportion of A-I-A in total revenue increased from 6.6 percent to 7.5 percent.

Expenditure and Net Lending

During the first half of the fiscal year 2009/10, Government expenditure and net lending increased by 36.3 percent, from Ksh 241.7 billion in a similar period in the fiscal year 2008/09 to Ksh 329.5 billion (Table 6.3). Both the recurrent and development expenditures increased by 30.1 percent and 59.7 percent, respectively.

TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

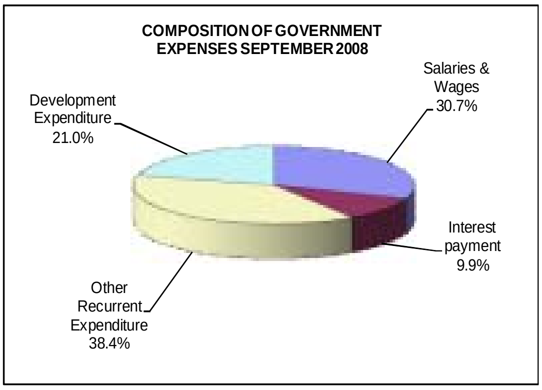
	Dec-08 Ksh bn	Dec-09 Ksh bn	Movement
1.Recurrent	**190.9**	**248.3**	**57.5**
Salaries & Wages	74.1	86.8	**12.6**
Total Interest	24.0	34.3	**10.3**
of which			
Domestic*	21.4	31.1	9.8
Foreign interest due	2.6	3.2	0.5
Others	92.7	127.3	34.6
2. Development	**50.8**	**81.1**	**30.3**
TOTAL EXPENSES	**241.7**	**329.5**	87.8

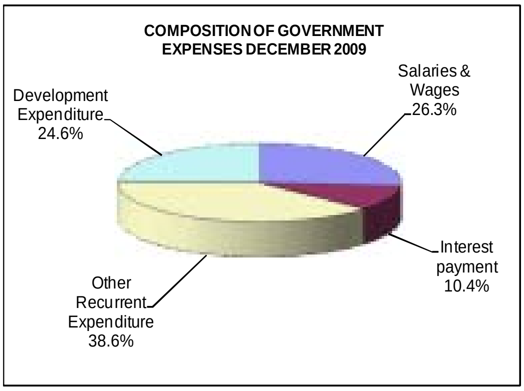
*Includes commission and other charges paid to CBK and other agencies
Source: Treasury

The recurrent expenditure increased by Ksh 57.5 billion, reflecting to increases of Ksh 12.6 billion in wages and salaries, interest payments of Ksh 10.3 billion and Ksh 34.6 billion in other expenses. Development expenditure increased by Ksh 30.3 billion, from Ksh 50.8 billion to Ksh 81.1 billion in the period.

The outlay on the development budget improved with the percentage of development expenditure in total expenditure expanding from 21.0 percent in the half of the fiscal year 2008/09 to 24.6 percent in a similar period in the fiscal year in 2009/10, while recurrent expenditure decreased from 79.0 percent to 75.4 percent (Chart 6B).

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE





Source: Treasury

Financing

During the first half of fiscal year 2009/10, budgetary operations of the Government resulted in a financing requirement of Ksh 63.6 billion compared with Ksh 30.3 billion in a similar period of 2008/09 (Table 6.4). The financing requirement comprised Ksh 57.0 billion to finance the budget deficit, repay external debt of Ksh 1.1 billion and build up Government deposits at the Central Bank by Ksh 5.4 billion. The financing requirement was sourced through net domestic borrowing of Ksh 63.6 billion.

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

I. FINANCING REQUIREMENTS	Dec-08 Ksh bn	Dec-09 Ksh bn
1. Budget deficit	30.3	57.0
2. External debt reduction	0.0	1.1
3. Domestic debt reduction	0.0	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
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	5.4
TOTAL	30.3	63.6
II. FINANCING SOURCES	Dec-08 Ksh bn	Dec-09 Ksh bn
1. Budget surplus	0.0	0.0
2. External debt increase	3.5	0.0
3. Increase in domestic debt	9.3	63.6
3.1 Central Bank	3.2	4.4
3.2 Commercial banks	1.1	41.8
3.3 Non-bank sources	5.0	17.4
4. Reduction in GoK deposits at CBK	17.4	0.0
5. Privatisation proceeds	0.0	0.0
TOTAL	30.3	63.6

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank decreased from Ksh 50.1 billion in December 2008 to Ksh 45.0 billion in December 2009. The decline in Government indebtedness during the period was attributed to repayments of Ksh 0.6 billion of the Pre-1997 Government overdraft at Central Bank, Ksh 0.5 billion in IMF funds on-let to Government and Ksh 0.1 billion in cleared items in transit.

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

	2008 Dec	2009 Dec	Movement
Total Credit	**50.1**	**45.0**	**-5.1**
1. Overdraft	15.1	11.1	-4.0
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	33.3	-0.6
4. IMF funds onlent to Government	1.0	0.5	-0.5
5. Cleared items in transit	0.1	0.0	-0.1
Memorandum			
Authorised overdraft limit	**16.9**	**21.0**	**9.7**
Amount utilised to date	15.1	11.1	11.1
Amount available	1.8	9.9	-1.4

Source: Central Bank of Kenya

Outlook for FY 2009/10

In the budget estimates for the fiscal year 2009/10, Government revenue excluding external grants is estimated at Ksh 569.6 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 will 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.

The overall budget deficit including grants is 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 totalling Ksh 2.5 billion.

Developments in Public Debt

Overall Debt

Kenya's public and publicly guaranteed debt increased by 305 percent in the first half of fiscal year 2009/10 to stand at Ksh 1114.9 billion in December 2009, from Ksh 1,053.7 billion in June 2009 (Table 7.1). This represented 45.4 percent of GDP, which was higher than 44.0 percent of GDP recorded in June 2009. The external debt to GDP ratio decreased from 22.4 percent in June 2009 to 21.4 percent in December 2009, while the domestic debt to GDP ratio increased from 21.7 percent to 24.0 percent during the period.

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

	Jun-08	Dec-08	Mar-09	June-09	Jul-09	Aug-09*	Sep-09	Oct-09	Nov-09*	Dec-09**	Change 2009/10
EXTERNAL											
Bilateral	153.2	187.2	182.7	185.9	185.5	184.8	184.8	184.5	189.5	189.3	3.3
Multilateral***	268.2	305.9	307.9	327.1	324.5	323.1	323.1	322.7	314.2	312.9	-14.2
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	18.5	22.3	23.1	22.1	22.1	22.1	22.1	22.1	23.7	23.7	1.6
Sub-Total	440.0	515.4	513.6	535.1	532.1	530.1	530.0	529.3	527.5	525.9	-9.2
(As a % of GDP)	21.6	23.3	22.3	22.4	22.1	21.9	21.8	21.8	21.2	21.4	
(As a % of total debt)	50.5	53.0	52.0	50.8	50.1	49.2	49.0	48.3	48.1	47.2	
DOMESTIC\											
Banks	228.8	254.1	263.4	290.8	292.8	306.3	310.5	325.1	331.0	343.0	52.2
Central Bank	46.4	49.4	40.6	40.1	37.6	40.3	41.6	42.9	43.4	44.7	4.6
Commercial Banks	182.5	204.7	222.8	250.7	255.1	266.0	268.9	282.2	287.6	298.3	47.6
Non-banks	199.2	198.9	208.8	225.1	235.6	238.5	237.7	239.4	229.1	243.0	17.9
Non-bank Financial Inst.	0.7	0.7	1.1	1.0	0.8	0.8	0.8	0.8	0.9	1.1	0.1
Other Non-bank Sources	198.5	198.2	207.8	224.1	234.8	237.7	236.9	238.6	228.2	241.9	17.9
Non-residents	2.6	3.2	2.7	2.6	2.2	2.4	2.5	2.6	2.9	2.9	0.3
Sub-Total	430.6	456.2	474.9	518.5	530.5	547.2	550.7	567.1	562.9	589.0	70.5
(As a % of GDP)	21.1	20.6	20.6	21.7	22.1	22.6	22.6	23.2	22.9	24.0	
GRAND TOTAL	870.6	971.6	988.5	1053.7	1062.7	1077.3	1075.7	1091.0	1090.4	1114.9	36.7
(As a % of GDP)	42.8	43.9	42.9	44.0	44.2	44.5	44.2	44.6	44.4	45.4	

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

Sources: Treasury and Central Bank of Kenya

Domestic Debt

Public domestic debt increased by 13.6 percent during the first half of the fiscal year 2009/10, from Ksh 518.5 billion in June 2009 to Ksh 589.0 billion in December 2009 (Table 7.2). The rise in domestic debt during the period followed an increase of Ksh 24.0 billion in Treasury bills (excluding Repos), Ksh 41.9 billion in Treasury bonds and Ksh 4.5 billion in other domestic debt. Government overdraft at Central bank, which is the main component of other domestic debt, increased from Ksh 5.1 billion in June 2009 to Ksh 6.0 billion in December 2009, but remained within the ceiling of Ksh 16.8 billion for December 2009.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2008		2009														Change
	Dec	%	Jun	%	July	%	Aug	%	Sep	%	Oct	%	Nov	%	Dec	%	Jun09 - Oct09
Total stock of Domestic Debt (A+B)	456.2	100.0	518.5	100.0	530.5	100.0	547.2	100.0	550.7	100.0	547.2	100.0	562.9	100.0	589.0	100.0	70.5
A. Government Securities	440.7	96.6	511.6	98.7	526.1	99.2	540.2	98.7	542.4	98.5	557.5	101.9	552.9	98.2	577.6	98.1	66.0
1. Treasury Bills (excluding Repo Bills)	87.5	19.2	116.8	22.5	120.8	22.8	127.6	23.3	122.2	22.2	133.6	24.4	137.7	24.5	140.8	23.9	24.0
Banking institutions	42.1	9.2	74.6	14.4	79.6	15.0	83.9	15.3	81.3	14.8	92.8	17.0	104.5	18.6	110.8	18.8	36.2
Others	45.3	9.9	42.2	8.1	41.2	7.8	43.7	8.0	40.9	7.4	40.7	7.4	33.3	5.9	30.0	5.1	-12.1
2. Treasury Bonds	318.6	69.8	360.7	69.6	371.2	70.0	378.5	69.2	386.1	70.1	389.9	71.3	381.0	67.7	402.7	68.4	41.9
Banking institutions	162.6	35.6	176.0	33.9	175.5	33.1	182.1	33.3	187.5	34.1	189.3	34.6	183.1	32.5	187.5	31.8	11.5
Others	156.0	34.2	184.8	35.6	195.7	36.9	196.4	35.9	198.5	36.1	200.5	36.6	198.0	35.2	215.2	36.5	30.4
3. Long term Stocks	0.8	0.2	0.8	0.1	0.8	0.1	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	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.8	0.2	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.0
4. Pre-1997 Government Overdraft at CBK	33.9	7.4	33.3	6.4	33.3	6.3	33.3	6.1	33.3	6.1	33.3	6.1	33.3	5.9	33.3	5.7	0.0
Of which: Repo T/Bills	33.9	7.4	33.3	6.4	33.3	6.3	33.3	6.1	33.3	6.1	33.3	6.1	33.3	5.9	33.3	5.7	0.0
B. Others:	15.5	3.4	6.9	1.3	4.4	0.8	7.0	1.3	8.3	1.5	9.6	1.8	10.1	1.8	11.4	1.9	4.5
Of which CBK overdraft to Government	15.1	3.3	5.1	1.0	3.9	0.7	6.1	1.1	8.0	1.5	9.3	1.7	9.8	1.7	11.1	1.9	6.0

From January 2001 domestic debt is reported on a gross basis i.e. without netting out government deposits and Treasury advances to parastatals

Source: Central Bank of Kenya

Treasury Bills

Treasury bills increased from Ksh 116.8 billion in June 2009 to Ksh 140.8 billion in December 2009 (Table 7.3). The proportion of Treasury bills in total domestic debt increased from 22.5 percent of total domestic debt to 23.9 percent during the period. The share of commercial banks' holding of Treasury bills rose from 63.9 percent to 78.7 percent. In terms of maturity, the share of 91-day Treasury bills decreased from 4.9 percent to 4.6 percent while that of the182-day Treasury bills in total Government securities increased from 19.5 percent to 21.3 percent during the period (Table 7.5).

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

	2009													
Holders	June	%	Jul	%	Aug	%	Sep	%	Oct	%	Nov	%	Dec	%
Banking Institutions	74.6	63.9	79.6	65.9	83.9	65.8	81.3	66.6	92.8	69.5	104.5	76.9	110.8	78.7
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	0.0	0.0
Comm. Banks	74.6	63.9	79.6	65.9	83.9	65.8	81.3	66.6	92.8	69.5	104.5	75.8	110.8	78.7
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	17.0	14.6	15.8	13.1	15.9	12.4	15.1	12.3	14.9	11.1	13.0	9.4	11.6	8.2
Parastatals	2.3	2.0	2.5	2.1	3.2	2.5	3.7	3.0	3.9	2.9	3.8	2.8	3.3	2.4
Of which: NSSF	0.0	0.0	0.0	0.0	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	6.9	5.7	7.1	5.6	6.5	5.3	7.4	5.5	0.0	0.0	7.5	5.3
Others	15.8	13.6	16.0	13.2	17.5	13.7	15.6	12.8	14.5	10.9	16.4	11.9	7.6	5.4
Total*	116.8	100.0	120.8	100.0	127.6	100.0	122.2	100.0	133.6	100.0	137.7	100.9	140.8	100.0

*** Excludes repurchase order bills**

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds increased from Ksh 360.7 billion in June 2009 to Ksh 402.7 billion in December 2009 (Table 7.5). But, as shown in Table 7.2, the percentage of Treasury bonds in total domestic debt decreased from 69.6 percent to 68.4 percent during the period.

The 5-year Treasury bonds accounted for the largest proportion of outstanding Government securities during the period, increasing from 11.1 percent in June 2009 to 12.3 percent in December 2009, while the 10-year Treasury bonds accounted for 10.5 percent of outstanding Government securities. The percentage of Treasury bonds with maturities of between 10-years and 20-years increased from 27.0 percent to 33.2 percent during the period following successful issuance of longer dated Treasury bonds. Following the increase in outstanding Treasury bonds during the period, the average maturity profile of domestic debt (by days to maturity) stood at 4 years and 3 months in December 2009.

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

	2008						2009									
Holders	Jun	%	Nov	%	Dec	%	June	%	Sep	%	Oct	%	Nov	%	Dec	%
Banking Institutions	156.8	49.8	165.8	51.7	163.3	51.3	176.8	49.0	188.4	48.8	190.2	48.8	183.9	48.3	188.6	46.8
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	0.0	0.0	0.0	0.0
Comm. Banks	156.1	49.5	165.1	51.4	162.6	51.0	176.0	48.8	187.5	48.6	189.3	48.6	183.7	48.1	187.5	46.6
NBFIs	0.7	0.2	0.7	0.2	0.7	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	1.1	0.3
Insurance Companies	31.9	10.1	32.4	10.1	32.4	10.2	38.3	10.6	42.9	11.1	44.0	11.3	43.4	11.4	48.5	12.1
Parastatals	29.9	9.5	29.5	9.2	29.5	9.2	31.4	8.7	29.7	7.7	28.8	7.4	28.3	7.4	33.6	8.4
Of which: NSSF	11.7	3.7	12.5	3.9	12.5	3.9	15.8	4.4	15.9	4.1	15.8	4.0	15.3	4.0	17.0	4.2
Building Societies	0.9	0.3	0.6	0.2	0.6	0.2	0.5	0.1	0.5	0.1	0.5	0.1	0.4	0.1	0.4	0.1
Pensions Fund	31.8	10.1	37.6	11.7	37.6	11.8	54.2	15.0	60.8	15.7	64.1	16.5	64.1	16.8	68.2	16.9
Others	63.9	20.3	55.1	17.2	55.2	17.3	59.6	16.5	63.8	16.5	62.3	16.0	60.8	16.0	63.3	15.7
Total	315.2	100.0	320.9	100.0	318.6	100.0	360.7	100.0	386.1	100.0	389.9	100.0	381.0	100.0	402.7	100.0

Source: Central Bank of Kenya

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

	2008				2009								
	Jun	%	Dec	%	June	%	Oct	%	Nov	%	Dec	%	Change Jun-09 to Nov 09
91-Day	18.0	4.6	18.5	4.6	23.5	4.9	23.1	4.4	23.5	4.5	24.8	4.6	1.3
182-Day	58.9	15.0	68.9	17.0	93.3	19.5	110.4	21.1	114.3	22.0	-15.0	21.3	22.8
1-Year	13.2	3.4	12.5	3.1	14.8	3.1	12.6	2.4	6.7	1.3	6.7	1.2	-8.1
2-Year	31.7	8.1	34.5	8.5	45.2	9.5	53.2	10.2	51.9	10.0	43.8	8.1	-1.4
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	-7.0
4-Year	16.5	4.2	16.5	4.1	12.9	2.7	7.3	1.4	7.3	1.4	7.3	1.3	-5.6
5-Year	43.5	11.1	48.7	12.0	52.8	11.1	66.7	12.7	66.7	12.9	66.7	12.3	13.9
6-Year	47.6	12.1	45.6	11.2	38.8	8.1	38.8	7.4	37.1	7.1	37.1	6.8	-1.7
7-Year	24.2	6.2	24.2	5.9	24.2	5.1	24.2	4.6	24.2	4.7	24.2	4.4	0.0
8-Year	17.9	4.6	17.9	4.4	17.9	3.8	17.9	3.4	17.9	3.5	17.9	3.3	0.0
9-Year	12.6	3.2	12.6	3.1	12.6	2.6	12.6	2.4	12.6	2.4	12.6	2.3	0.0
10-Year	34.4	8.8	39.4	9.7	44.4	9.3	57.0	10.9	57.0	11.0	57.0	10.5	12.6
11-Year	4.0	1.0	4.0	1.0	4.0	0.8	4.0	0.8	4.0	0.8	4.0	0.7	0.0
12-Year	8.8	2.2	8.8	2.2	28.5	6.0	28.5	5.4	28.5	5.5	47.4	8.7	18.9
15-Year	32.1	8.2	32.1	7.9	42.3	8.9	51.7	9.9	51.7	10.0	51.7	9.5	9.4
20-Year	1.9	0.5	1.9	0.5	9.5	2.0	9.5	1.8	9.5	1.8	20.4	3.7	10.8
Total	392.0	100.0	406.1	100.0	477.5	100.0	523.4	100.0	518.8	100.0	412.5	100.0	

Source: Central Bank of Kenya

Government Long-term Stocks

During the first half 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 January 2009 to March 2010 will comprise Ksh 63.9 billion in Treasury bills and Ksh 14.4 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 7.3 billion and Ksh 58.6 billion in 91-days and 182-days Treasury bills, respectively.

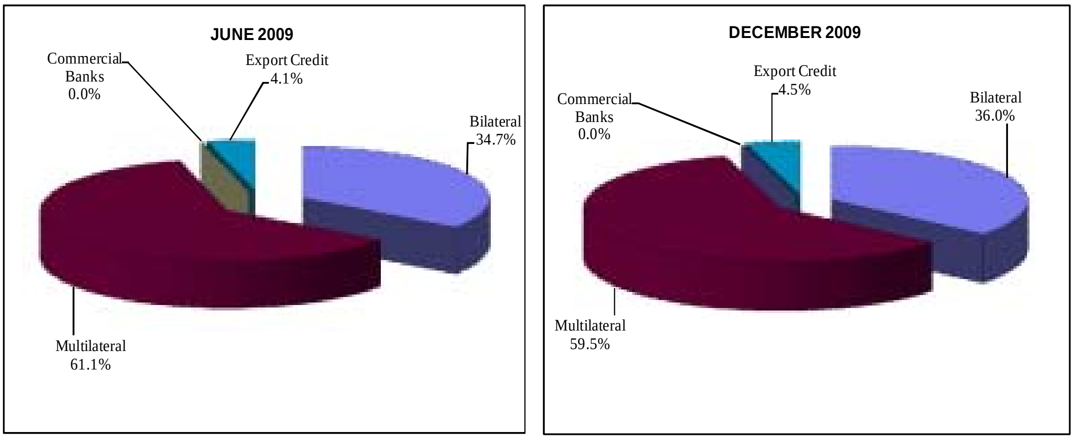
External Debt

Kenya's external debt decreased by 1.7 percent from Ksh 535.1 billion (USD 6.94 billion) in June 2009 to Ksh 525.9 billion (USD 6.94 billion) in December 2009 (Table 7.1). The rise in external debt followed external loans disbursement of Ksh 7.6 billion and revaluation loss of Ksh 7.1 billion and debt repayments of Ksh 12.9 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to multilateral creditors (including IMF) decreased from 61.1 percent of total external debt, to 59.5 percent during the period. However, the percentage of external debt owed to bilateral creditors and that which is contracted through export credits increased from 34.7 percent and 4.1 percent, respectively, in June 2009 to 36.0 percent and 4.5 percent in December 2009 (Chart 7A).

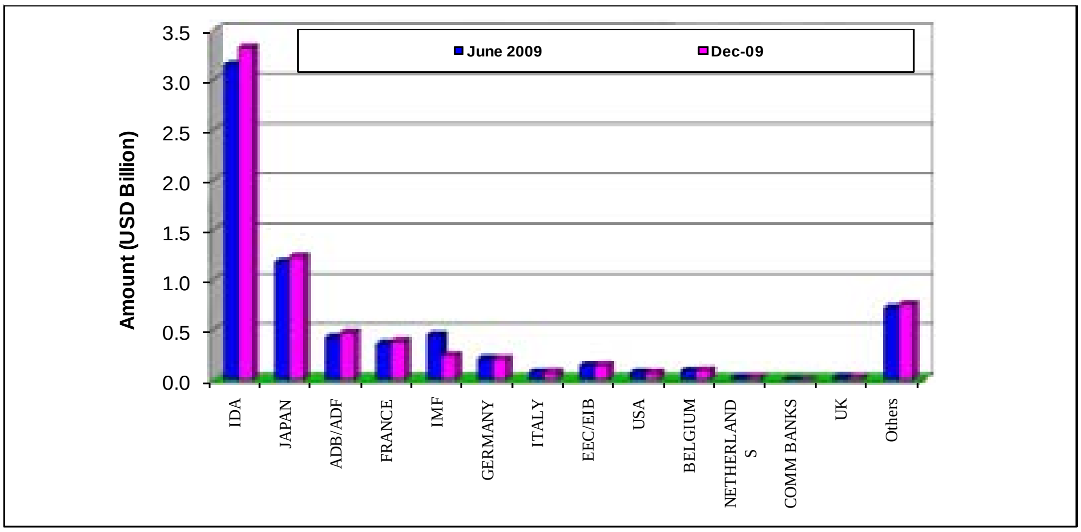
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

As shown in Chart 7B, external debt owed to IDA and Japan remained unchanged at USD 3.3 billion and USD 1.2 billion, respectively, in December 2009. The two remained the largest multilateral and bilateral creditors to Kenya during the period.

CHART 7B: EXTERNAL DEBT BY CREDITOR

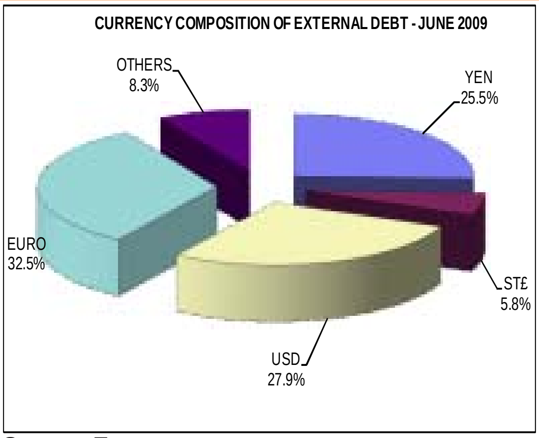


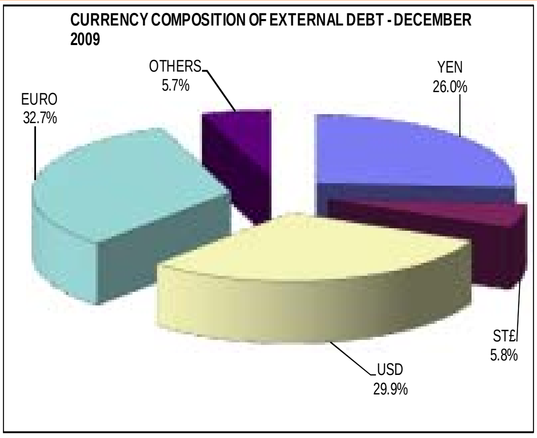
Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in US dollars, Euro and Japanese Yen increased from 27.9 percent, 32.5 percent and 25.5 percent in June 2009, respectively, to 29.9 percent, 32.7 percent and 26.0 percent in December 2009. However, the external debt proportion held in other currencies including SDRs decreased from 8.3 percent to 5.7 percent during the period (Chart 7C). The proportion of external debt held in Sterling Pounds remained unchanged at 5.8 percent in December 2009.

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 13.5 billion in the first half of fiscal year 2008/09, to Ksh 31.2 billion in a similar period of the fiscal year 2009/10. Consequently, the percentage of domestic interest in ordinary Government revenue increased from 10.3 percent to 12.9 percent during the period. External debt service increased from Ksh 8.1 billion to Ksh 12.9 billion. The external debt service in the period comprised Ksh 9.7 billion in principal repayments and Ksh 3.2 billion in interest payments.

Outlook for the FY 2009/10

The budget estimates for 2009/10 has Government domestic borrowing projected at Ksh 109.5 billion (4.3 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. Consequently, external debt-to-GDP ratio is expected to increase from 22.0 percent to 23.9 percent during the period, which will however be lower than the 24.1 percent in June 2009.

Activity in the Stock Market

Equity Market

Key market indicators portray mixed performance at the equity market and improvement in bond market turnover in the month of December 2009 (Table 8.1).

The number of shares traded decreased by 45.8 percent, from 396.4 million in November 2009 to 214.9 million in December 2009.Equity turnover decreased by Ksh 2,055.4 million (44.2 percent), from Ksh 4,646.6 million in November 2009 to Ksh 2,591.2 million in December 2009. The market capitalization improved by Ksh 6.0 billion (0.7 percent), from Ksh 825.8 billion in November 2009 to Ksh 831.8 billion in December 2009. The increase in market capitalization is attributed to the increase in price of most counters. The NSE 20 Share Index rose by 57.9 points (1.8 percent) to close at 3247.4 points in December 2009. Market liquidity ratio declined by 30 basis points to 0.34 percent in December 2009, from 0.64 percent in November 2009 reflecting a decrease in the number of shares traded.

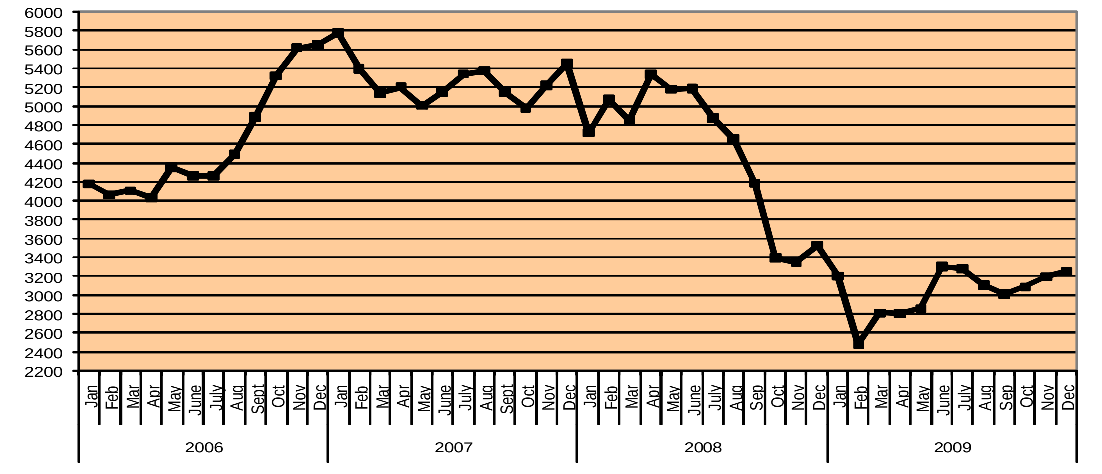
TABLE 8.1: SELECTED STOCK MARKET INDICATORS

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

Source: Nairobi Stock Exchange

The commercial and services sector dominated in the equities market, trading 141.1 million shares during the month. The most traded share in the sector was Safaricom which traded 133.0 million shares. The Finance and Investment sector traded 48.4 million shares. The most active stock was Equity Bank which traded 17.2 million shares. The Industrial and Allied sector traded 22.8 million shares with Mumias Sugar trading 9.8 million shares. The agricultural sector traded 2.2 million shares.

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



Source: Nairobi Stock Exchange

Bond Market

The bond turnover increased by 73 percent, with bonds worth Ksh 15,940 million traded in December 2009, compared with Ksh 9,210 million worth of bonds traded in November 2009.

BALANCE SHEET OF THE CENTRAL BANK OF KENYA
(KENYA SHILLINGS MILLION)

	Dec-09	Dec-08	Dec 08/Dec 09 Movement
ASSETS	333,000	279,217	53,783
Foreign Exchange	263,019	223,549	39,470
Advances and Discounts to Banks	0	0	0
Discounted Government Securities	16,569	10	16,559
Government Accounts	44,969	50,082	(5,113)
Government of Kenya Overdraft	11,128	15,093	(3,965)
Clearing Account	39	144	(105)
IMF funds on-lent to Government	473	961	(488)
Frozen Government Accounts	33,329	33,884	(555)
Other assets	8,443	5,576	2,867
Debtors	5,379	4,108	1,271
Retirement Benefits Assets	1,425	55	1,370
Building and Equipment	1,151	1,137	14
Prepaid Leases	273	276	(3)
Intangible assets	215	0	215
LIABILITIES	333,000	279,217	53,783
Currency in Circulation	124,290	115,736	8,554
Repo Securities	0	3,971	(3,971)
Deposits	177,100	131,836	45,264
Banks - Kenya	57,673	47,858	9,815
External	96	90	6
Non-Bank Financial Institutions	0	0	0
Other Public Entities and Project A/Cs	8,849	9,469	(620)
International Monetary Fund	36,374	22,063	14,311
Government of Kenya	70,451	50,091	20,360
Local Banks Forex Settlement Fund	3,657	2,265	1,392
Other Liabilities	2,165	4,548	(2,383)
Capital and Reserves	29,445	23,126	6,319
Capital	5,000	5,000	0
General Reserve Fund	26,982	9,254	17,728
Surplus b/f from previous year	(177)	0	(177)
Period's Surplus	(5,501)	8,872	(14,373)
Dividend payable	3,141	0	3,141

Source: Central Bank of Kenya

Notes on the Balance Sheet

Asset

Foreign exchange reserves of the Bank increased by Ksh 39,470 million to Ksh 263,019 million in December 2009, from Ksh 223,549 million in December 2008 reflecting forex purchases from the interbank market and balance of payments support from the IMF.

Government accounts declined by Ksh 5,113 million to Ksh 44,969 million in December 2009 from Ksh 50,082 million in December 2008. The decline reflect decline of Ksh 3,965 million in the overdraft; and repayments of Ksh 105 million in clearing account balances, Ksh 488 million on IMF funds on-lent to government, and Ksh 555 million in non-interest bearing Government debt.

Other assets increased by Ksh 2,867 million in the year to December 2009 on account of increases in the value of retirement benefits by Ksh 1,370 million, debtors by Ksh 1,271 million and value of property and equipment by Ksh 14 million. Prepaid leases, however, declined by Ksh 3 million.

Liabilites

Currency in circulation increased by Ksh 8,554 million to Ksh 124,290 million in December 2009 from Ksh 115,736 million in December 2008.

The stock of **repo securities** fell by Ksh 3,971 million in the year to December 2009.

Deposits increased by Ksh 45,264 million to Ksh 177,100 million in December 2009 on account of Ksh 20,360 million increase in Government of Kenya deposits, increase of Ksh 14,311 million in IMF deposits held with the Bank and Ksh 1,392 million increase in local banks forex settlement balances. Commercial banks' deposits at the Central Bank also increased by Ksh 9,815 million. These increases were partly offset by Ksh 620 million decline in other public entities and project account.

Other liabilities and provisions declined by Ksh 2,383 million to Ksh 2,165 million in the year to December 2009.

Capital and reserves increased by Ksh 6,319 million to Ksh 29,445 million in the year to December 2009, mainly due to increases of Ksh 17,728 million in the general reserve fund and Ksh 3,141 in the dividend payable. The increases were partially offset by a decline in period's surplus of the Bank and in the surplus brought forward from the previous year.