MONTHLY ECONOMIC REVIEW

JANUARY 2011

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Overview

Introduction

This Monthly Economic Review highlights recent economic developments through January 2011. This includes developments in money, credit and banking, inflation, interest rates and the exchange rates. It also highlights developments in the real sector, Government budgetary operations, public debt and balance of payments.

Money Supply

Money supply, M3, increased by 20.9 percent in the year to January 2011 compared with 19.2 percent in a corresponding period in 2010 and compared with the projected 21.8 percent growth rate for January 2011. The expansion in money supply in January 2011 derived from growth in domestic credit.

Interest Rates

The Monetary Policy Committee in their meeting of 27th January, 2010 lowered the Central Bank Rate (CBR) by 25 basis points to 5.75 percent. The average interbank rate stabilised at 1.2 percent in January 2011 and in December 2010 while the average lending rate increased marginally to 14.0 percent over the same period.

Real GDP Growth

The economy grew at 2.6 percent in 2009 compared with a revised growth of 1.6 percent in 2008. The growth momentum was sustained in the first three quarters of 2010, with revised growth rates of 4.7 percent, 5.3 percent and 6.1 percent, respectively. The output for the third quarter of 2010 expanded by an equivalent of Ksh 22.1 billion from Ksh 359.7 billion produced in the third quarter of 2009 to Ksh 381.7 billion. The recovery in the third quarter of 2010 was recorded in most sectors compared with performance for the same quarter of 2009.

Inflation

The 12-month inflation increased for the third consecutive month in January 2011 to 5.4 percent. At this level inflation was 5.0 basis points lower than the 5.9 percent level in January 2010. The pick up in November 2010, December 2010 and January 2011 was attributed to the onset of dry weather leading to higher food prices and rising international crude oil prices.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by 10 percent or 100.1 billion between June 2010 and January 2011 to Ksh 1,325.8 billion by end January 2011. The total oustanding public debt by January 2011 comprised 54.8 percent domestic debt and 45.2 percent external debt. Reflecting a higher debt uptake, the total debt to GDP ratio increased to 50.7 percent in January 2011 from 48.1 percent in January 2010. The pick up was reflected in the domestic and external debt components

Government Fiscal Operations

The central Government budgetary operations in the first seven months (July 2010 to January 2011) of the fiscal year 2010/11 resulted in a deficit of Ksh 70.2 billion on commitment basis compared with a deficit of Ksh 60.1 billion in a similar period of fiscal year 2009/10.

Balance of Payments

Kenya's overall balance of payments surplus narrowed to US$ 160million in the year to December 2010 compared with US$ 781 million in the year to December 2009 (Table 4.1 and 4.2). The movement reflects a wider current account deficit following increased imports and non factor services (Table 4.1).

Exchange Rates

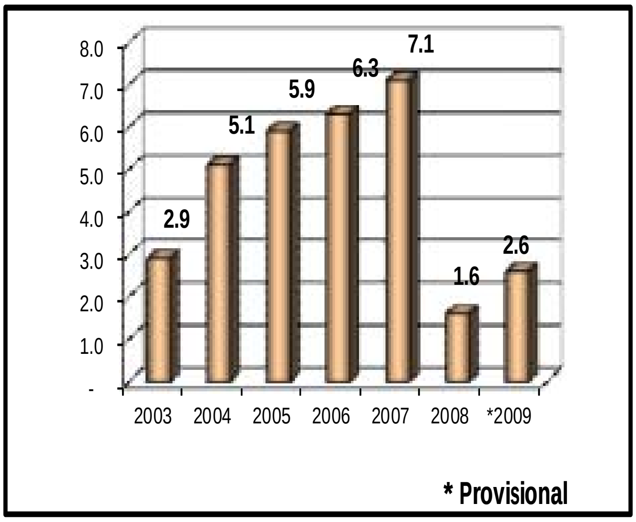
Kenya's overall balance of payments surplus narrowed to US$ 160million in the year to December 2010 compared with US$ 781 million in the year to December 2009. The movement reflects a wider current account deficit following increased imports and non factor services.

Banking Sector Developments

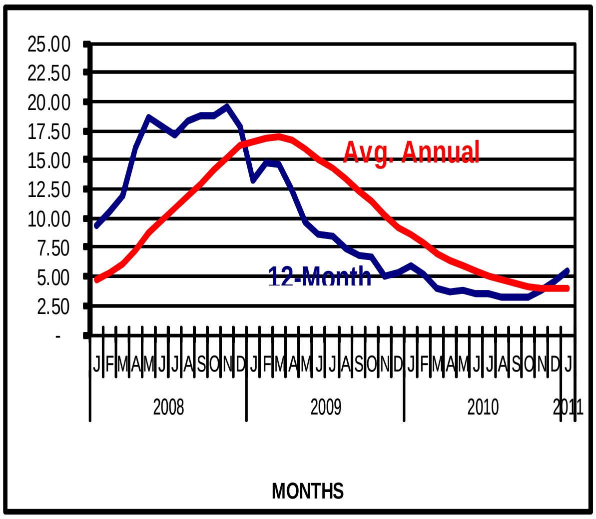
During the twelve months to January 2011, the Kenyan Banking sector recorded significant growth in assets driven by growth in deposits, injection of capital and retention of profits. The stock of non-performing loans declined in January 2011 compared to January 2010.

SELECTED ECONOMIC PERFORMANCE INDICATORS

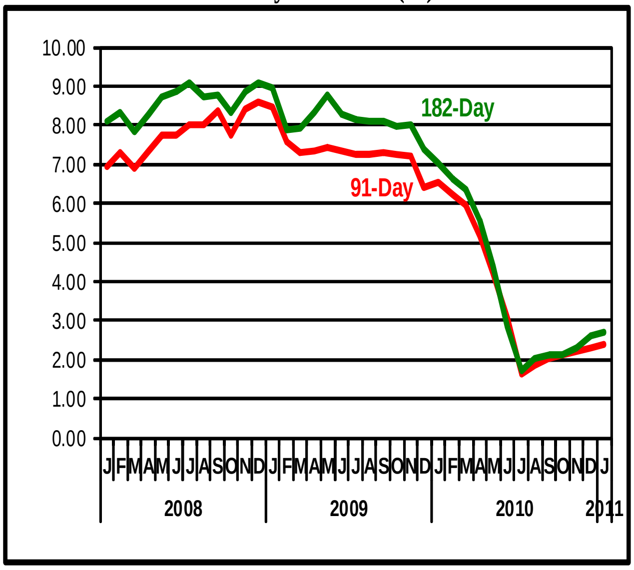
Real GDP Growth (%)



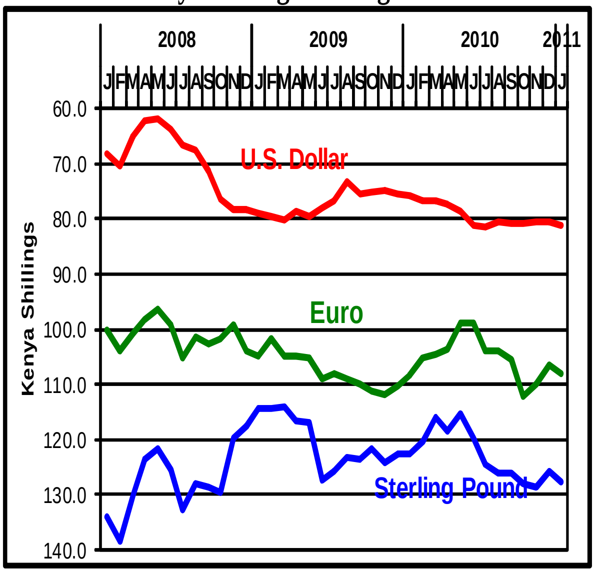
Inflation (%)



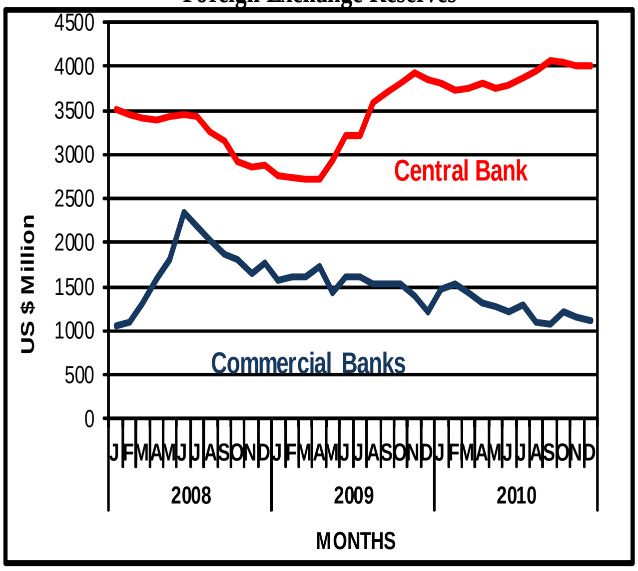
Treasury Bill Rates (%)



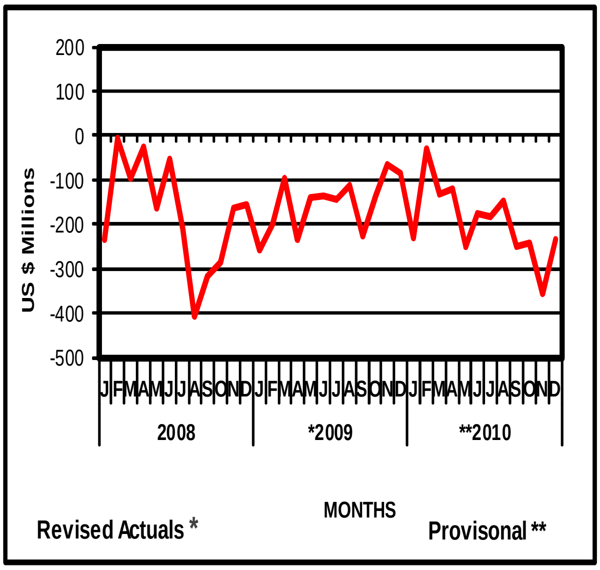
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
1.	POPULATION*										
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	39.40
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	2.87
2.	NATIONAL ACCOUNTS**										
	Gross value added at basic prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,625	1,444,139	1,615,214	1,833,646	2,048,485
	GDP at Market Prices (Ksh m):										
	At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,591	1,828,788	2,077,433	2,273,685
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,133	1,249,459	1,336,874	1,357,640	1,392,832
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.32	7.00	1.55	2.59
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,480	34,611	35,937	35,448	35,351
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)[3]	12.9	10.0	8.1	10.1	12.2	13.4	14.9	13.7	15.5	11.1
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)[3]	6.7	4.4	4.0	4.8	6.6	5.7	8.9	8.5	12.6	6.1
5.	GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	19.1	19.2	23.4
6.	OVERALL INFLATION BASE PERIOD= FEB 2009										
	Annual Average Inflation	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27	9.24
	12-Month Inflation	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32
7.	STOCK MARKET										
	Nairobi Stock Exchange Price Index (1966=100)	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44
	Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64
8.	GOVERNMENT BUDGET (Ksh bn) ***										
	Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67	511.36
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91
	Budget Deficit (-) / Surplus (+)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)
	Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(1.54)	0.42	(2.39)	(1.18)	(3.68)	(4.79)
9.	MONEY AND CREDIT (Ksh bn)(end period)										
	Liquidity (L)[1]	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,091.93	1,280.47
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.06	1,045.66
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96
	Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	827.41	978.32
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	162.78	218.53
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	664.64	759.79
10.	BALANCE OF PAYMENTS (US$ m)**										
	Overall Balance	217.00	372.00	59.00	365.00	117.00	306.00	675.00	854.00	(469.00)	780.53
	Current Account	(240.00)	(385.00)	(117.69)	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,609.28
	Capital and Financial Account	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00	2,389.81
11.	FOREIGN EXCHANGE RESERVES (US$ m) End Period	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78	5,064.03
	Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46	3,847.39
	*Months of imports*** **	*2.8*	*3.2*	*3.3*	*4.4*	*4.1*	*4.0*	*3.9*	*4.8*	*3.4*	*4.1*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63
12.	PUBLIC DEBT (US$ bn) End Period***	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	13.46	13.66
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15	21.67
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61	22.36
13.	EXCHANGE RATE (Ksh/US$) (Annual Average)	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18	77.35

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

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2010 Jan	2010 Jun	2010 Sept	2010 Oct	2010 Nov	2010 Dec	2011 Jan
1. INFLATION (%)							
CPI	104.89	105.61	106.74	106.97	107.86	109.38	110.57
Overall Inflation							
12-month overall inflation	5.95	3.49	3.21	3.18	3.84	4.51	5.42
Average annual overall inflation	8.64	5.43	4.40	4.12	4.02	3.96	3.93
2. INTEREST RATES (%)							
91-day Treasury bill interest rate	6.56	3.06	2.04	2.12	2.21	2.28	2.41
Overdraft interest rate	14.48	14.23	13.81	13.64	13.77	13.69	13.93
3. STOCK MARKET							
Nairobi Stock Exchange Price Index	3,565.28	4,339.28	4,629.80	4,659.56	4,395.17	4,432.60	4,464.92
Turnover (%)	0.96	0.57	1.24	0.77	0.76	0.55	1.10
4. GOVERNMENT BUDGET* (Ksh bn.)							
Revenue	311.97	560.79	142.43	193.09	243.16	309.23	
Expenses	372.03	718.65	178.61	243.14	303.78	368.99	
Budget Deficit (-) / Surplus (+)	(60.06)	(157.86)	(36.19)	(50.05)	(60.62)	(59.76)	
5. MONEY AND CREDIT (Ksh bn.)							
Liquidity (L)[1]	1,297.90	1,442.85	1,527.38	1,531.80	1,553.61	1,570.08	1,590.35
Money Supply (M3)[2]	1,067.27	1,198.93	1,243.60	1,248.50	1,258.81	1,272.59	1,290.53
Reserve Money	179.45	210.25	209.89	211.00	224.05	221.11	210.62
Total Domestic Credit	984.70	1,086.75	1,139.10	1,162.80	1,174.82	1,195.72	1,203.53
Government	220.69	277.69	278.21	279.80	279.94	285.09	274.70
Private sector and other public sector	737.70	809.06	860.89	883.00	894.87	910.62	928.83
6. MONEY AND CREDIT (Annual % Change)							
Liquidity (L)[1]	19.16	23.65	25.38	23.20	24.93	22.62	22.53
Money Supply (M3)[2]	19.20	26.17	26.01	24.10	23.12	21.70	20.92
Reserve Money	17.68	31.46	28.39	29.10	25.75	21.52	17.37
Total Domestic Credit	21.97	25.75	27.90	27.10	24.69	25.10	22.23
Government	40.80	59.71	48.69	45.50	29.36	39.02	24.48
Private and other public sector	15.20	17.20	22.37	22.20	23.29	21.30	21.59
7. BALANCE OF PAYMENTS (US$ m)							
Overall Balance	(37.81)	43.22	120.49	(5.68)	(47.08)	(1.34)	
Current Account	(229.89)	(175.16)	(251.57)	(242.27)	(354.83)	(234.60)	
Trade Balance	(535.67)	(562.08)	(662.41)	(624.79)	(788.50)	(660.13)	
Capital and Financial Account	192.08	218.38	372.06	236.59	307.75	233.27	
8. FOREIGN EXCHANGE RESERVES (US$ m)	5,279.39	5,009.27	5,140.85	5,269.66	5,155.87	5,122.52	
Official**	3,809.58	3,798.58	4,062.77	4,053.95	4,006.87	4,001.68	
Months of imports cover	4.02	3.89	4.08	4.06	3.97	3.90	
Commercial banks	1,469.84	1,210.69	1,078.08	1,215.72	1,149.00	1,120.84	
9. PUBLIC DEBT (US$ bn)	14.57	14.66	15.52	16.04	16.29	16.38	
Domestic	7.65	8.05	8.60	8.63	8.84	8.94	
As % of GDP	23.39	25.90	28.22	27.54	27.82	27.84	
External	6.91	6.90	6.92	7.41	7.45	7.44	
As % of GDP	21.13	22.20	22.69	23.67	23.44	23.16	
10. GROSS DOMESTIC DEBT (Ksh bn)***	580.7	659.6	704.7	696.1	711.4	720.3	
11. AVERAGE EXCHANGE RATE							
Ksh/US$	75.79	81.02	80.91	80.71	80.46	80.57	81.03
Ksh/Pound Sterling	122.53	119.62	125.94	127.98	128.52	125.65	127.70
Ksh/ 100 Yen	83.11	89.18	95.88	98.60	97.65	96.78	98.13
Ksh/Euro	108.27	98.99	105.61	112.20	110.07	106.54	108.16

* Data on Government budget for 2010/11 fiscal year remain provisional until publication in the Annual Economic Survey

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

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

[1] Previously M3XT

[2] Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

The overall 12-month inflation increased by 91 basis points from 4.5 percent in December 2010 to 5.4 percent in January 2011 (Table 1.1 and Chart 1A). The rise in inflation reflected higher expenditures on education at the beginning of the new school calendar year, high international crude oil prices which led to increase in pump price of fuel and price of cooking gas and kerosene, increased rental charges for most residential houses at the begining of the year and the spill-over effect of increased expenditure related to end of year festive season. Conversely, the alcoholic beverages basket's inflation declined by 2.1 percent during the month, following the coming into effect and enforcement of the Alcoholic Drinks Control Act 2010, while the communications basket experienced further deflation following reduced tariffs as a result of competition among service providers.

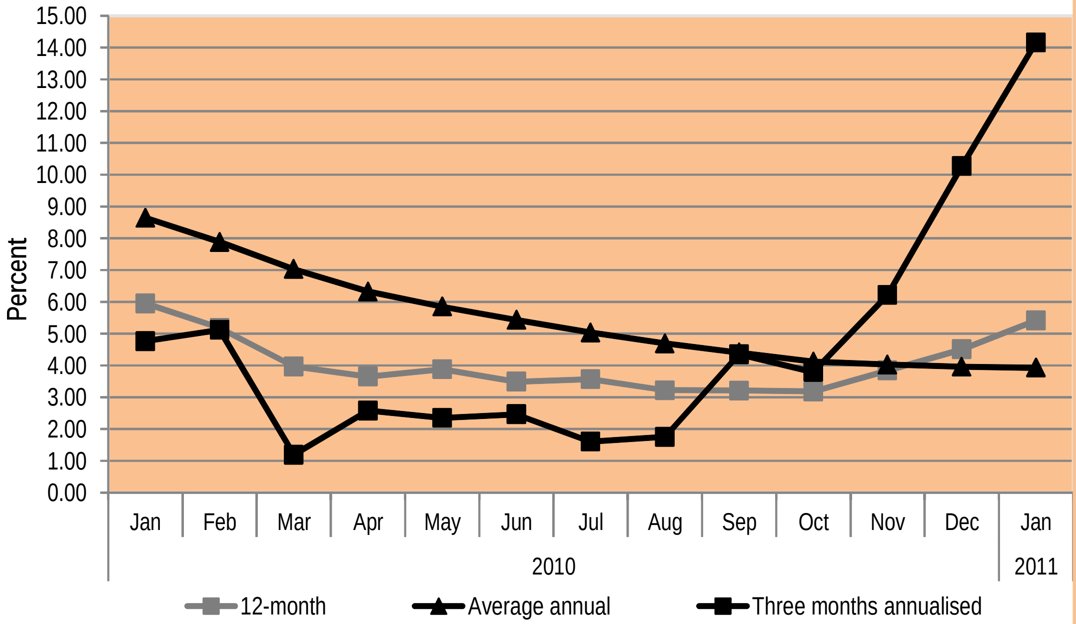
Table 1.1 and Chart 1A depict trends in overall inflation between January 2010 and January 2011.

TABLE 1.1: 12-MONTHS OVERALL, AVERAGE ANNUAL & THREE MONTHS ANNUALISED INFLATION (%)

Overall Inflation	2010												2011
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan
12-month	5.95	5.18	3.97	3.65	3.88	3.49	3.57	3.22	3.21	3.18	3.84	4.51	5.42
Average annual	8.64	7.88	7.03	6.32	5.85	5.43	5.03	4.69	4.40	4.12	4.02	3.96	3.93
Three months annualised	4.76	5.11	1.19	2.58	2.35	2.46	1.60	1.75	4.35	3.79	6.22	10.27	14.16

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

CHART 1A: 12-MONTHS OVERALL, AVERAGE ANNUAL & THREE MONTHS ANNUALISED INFLATION (%)



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

Inflation by Income Groups

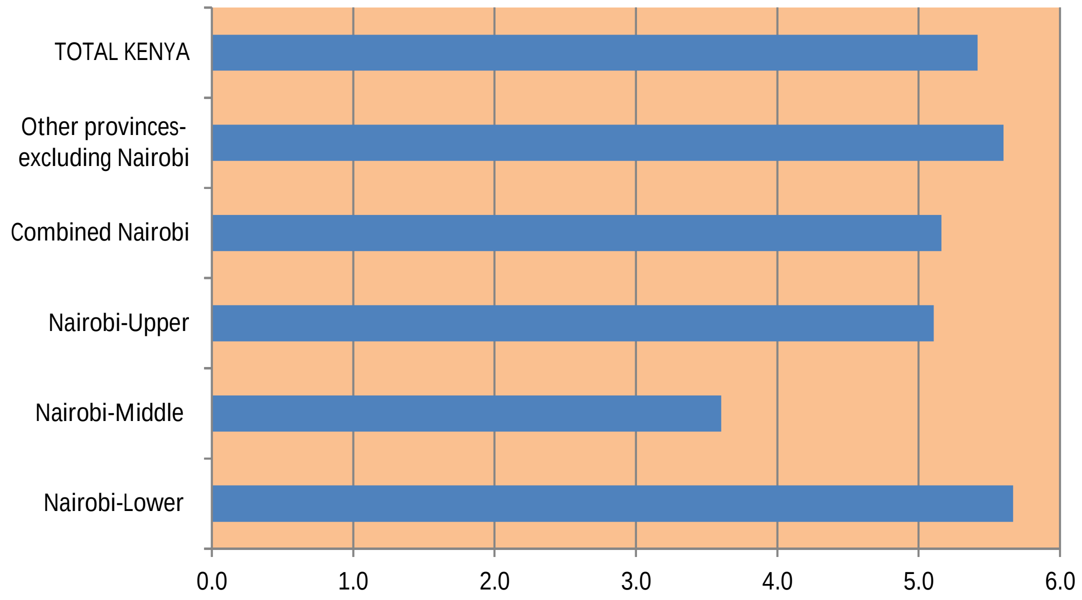
The 12-month overall inflation edged up by 91 basis points from 4.5 percent in December 2010 to 5.4 percent in January 2011. The "Nairobi Combined" income group recorded the largest increase, at 100 basis points, while the "Rest of Kenya" income group's inflation increased by 84 basis points (Table 1.2 and Chart 1B). The pick reflected in the "Nairobi combined" income group inflation was largely in the "Nairobi lower" income group inflation which accounts for 72.1 percent of total Nairobi inflation. By way of CPI baskets, the rise in the "Nairobi Combined Income Group" inflation reflected the education basket, the housing, water, electricity, gas and other fuels basket and the recreation basket, which posted increases of 460 basis points, 150 basis points and 110 basis points, respectively, in January 2011. These increases were attributed to costs incurred at the beginning of a new school year, rising international crude oil prices, and the spill over of the holiday expenditure.

TABLE 1.2: OVERALL INFLATION BY INCOME GROUPS (%)

	Feb-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11
Combined Nairobi	5.36	3.89	3.54	4.03	3.67	3.69	3.20	3.61	4.16	5.16
Lower Income	6.16	4.18	3.92	4.64	4.39	4.32	3.63	4.02	4.70	5.67
Middle Income	2.95	2.45	1.92	1.87	1.30	1.65	1.63	2.10	2.40	3.60
Upper Income	5.56	7.21	6.56	5.93	4.71	4.20	4.71	5.19	4.63	5.11
Other provinces- excluding Nairobi	5.05	3.88	3.45	3.24	2.90	2.87	3.16	4.00	4.76	5.60
TOTAL KENYA	5.18	3.88	3.49	3.57	3.22	3.21	3.18	3.84	4.51	5.42

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

CHART 1B: OVERALL INFLATION BY INCOME GROUPS JANUARY 2011 (%)



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

Inflation developments across all the categories of goods and services, and the contribution of the various baskets of goods and services to total inflation are shown in (Table 1.3 and Chart 1C).

Inflation Across Categories of Goods & Services

Inflation varied across goods and services in January 2011, with the education basket, housing, water, electricity, gas and other fuels basket and the recreation basket recording the highest increases at 230 basis points, 220 basis points and 150 basis points, respectively.

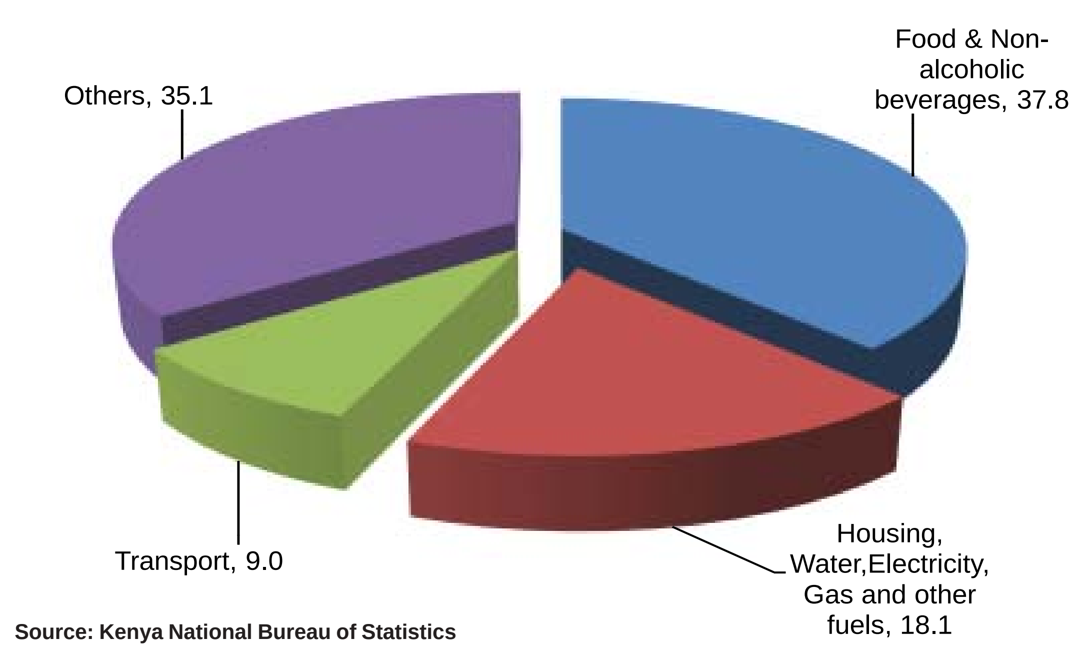
Food inflation edged up from 7.8 percent in December 2010 to 8.6 percent in January 2011 and contributed 37.8 percent of overall inflation in January 2011 (Table 1.3 and Chart 1C). Transport and housing, water, electricity, gas and other fuels baskets recorded a pick up in inflation and contributed 9.0 percent and 18.1 percet to overall inflation in January 2011.

TABLE 1.3: OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (JANUARY 2011)

JANUARY 2011	Weight- CPI Kenya	NAIROBI Lower Income	Middle Income	Upper Income	Nairobi Combined	REST OF URBAN Rest of Kenya Combined	TOTAL KENYA
Food & Non-alcoholic beverages	36.03	10.1	6.0	5.3	8.9	8.3	8.6
Alcoholic beverages, Tobacco & narcotics	2.06	0.3	2.4	2.5	0.9	3.1	2.2
Clothing & Footwear	7.43	3.5	3.2	6.1	3.5	3.6	3.6
Housing, Water,Electricity,Gas and other fuels	18.30	3.8	1.6	1.1	3.2	5.3	4.4
Furnishings, Household equipment and Routine household maintenance	6.16	5.4	1.0	1.7	4.2	4.3	4.3
Health	3.13	6.0	0.8	0.8	4.6	6.2	5.5
Transport	8.67	3.1	9.2	13.7	4.9	11.0	8.4
Communication	3.82	-31.8	-9.2	-20.4	-25.8	-24.7	-25.2
Recreation & culture	2.25	5.2	1.4	5.9	4.3	5.1	4.8
Education	3.14	4.8	10.7	4.4	6.2	2.7	4.2
Restaurants & hotels	4.49	9.8	2.2	4.0	7.8	6.4	7.0
Miscellaneous goods & services	4.52	0.7	3.8	2.1	1.5	4.0	3.0
ALL GROUPS	100.00	5.7	3.6	5.1	5.2	5.6	5.4

Source: Kenya National Bureau of Statistics

CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION IN JANUARY 2011



Source: Kenya National Bureau of Statistics

Inflation Outlook

Inflation is expected to pick up gradually in the early months of 2011 due to pressure emanating from rising food prices following the onset of the dry season, the rising international crude oil prices following unrest in the Middle East and North Africa (MENA) region and rising global commodity prices.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Money supply, M3[1], increased by 20.9 percent in the year to January 2011 compared with 19.2 percent in a corresponding period in 2010 and the projected 21.8 percent growth for January 2011. Money supply, M2, that nets out foreign currency deposits from M3, grew by 22.0 percent in January 2011 compared with 20.1 percent in January 2010 (Table 2.1 and Chart 2A).

TABLE 2.1: MONEY SUPPLY AND ITS SOURCES (KSH BILLION)

	2009 Jan	2010 Jan	2011 Jan	Jan-10 12 months %age change	Jan-11 12 months %age change
1. Money supply, M3 (2+3) 2/	**895.4**	**1067.3**	**1290.5**	**19.2**	**20.9**
1.1 Money supply, M2 3/	763.6	916.9	1119.0	20.1	22.0
1.2 Money supply, M1	398.7	463.4	581.0	16.2	25.4
1.3 Currency outside banks	91.1	95.5	116.7	4.9	22.2
2. Net foreign assets 4/	**250.7**	**265.6**	**273.5**	**5.9**	**3.0**
Central Bank	196.6	220.5	250.3	12.2	13.5
Banking Institutions	54.2	45.0	23.2	-16.8	-48.5
3. Net domestic assets (3.1+3.2)	**644.7**	**801.7**	**1017.0**	**24.4**	**26.9**
3.1 Domestic credit (3.1.1+3.1.2)	**817.0**	**984.6**	**1203.5**	**20.5**	**22.2**
3.1.1 Government (net)	156.7	220.7	274.7	40.8	24.5
3.1.2 Private sector and other public sector	660.3	763.9	928.8	15.7	21.6
3.2 Other assets net (3-3.1)	**-172.4**	**-182.9**	**-186.5**	**6.1**	**2.0**
Memorandum items					
1. Overall liquidity, L 1/	**1089.2**	**1297.9**	**1590.3**	**19.2**	**22.5**
2. Reserve money	**152.5**	**179.5**	**210.6**	**17.7**	**17.4**
Currency outside banks	91.1	95.5	116.7	4.9	22.2
Bank reserves	61.4	83.9	93.9	36.6	11.9

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

1/ Overall liquidity, L, comprises M3 and non banking public holding of Government securities. It is comparable to M3XT in the past publications.

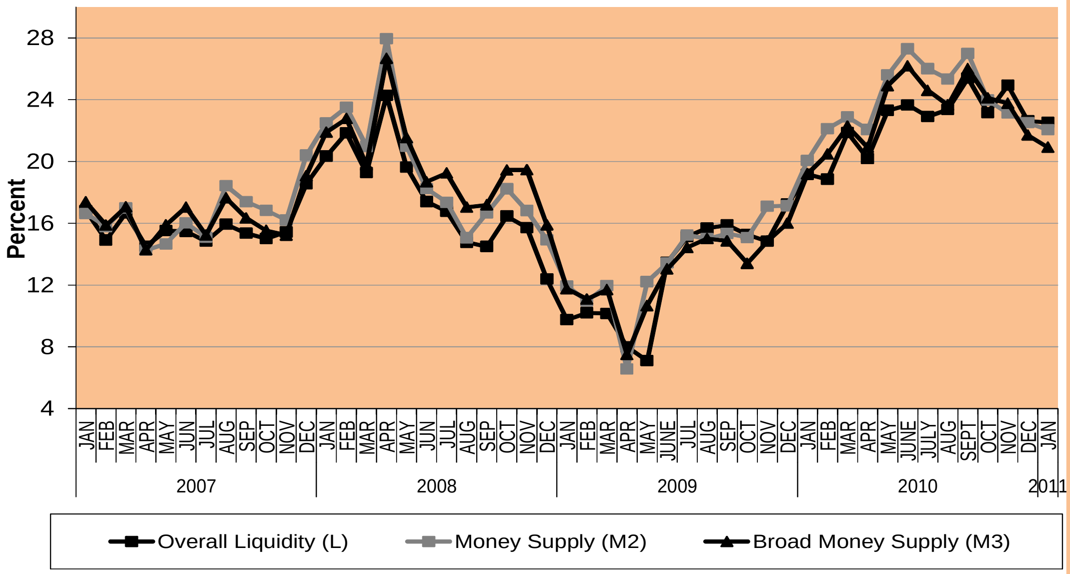
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications.

3/ Broad money, M2, comprises currency outside banking institutions, and all private and other public sector holdings of demand savings and time deposits. It excludes central and local Government deposits with banking 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 JAN '07 - JAN'11



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 increase in money supply in the year to January 2011 was supported largely by expansion in domestic credit from banking system (Table 2.1). Consequently, the net domestic assets (NDA) increased by 26.9 percent in the year to January 2011 compared with 24.4 percent a year earlier (Table 2.2). The net foreign assets (NFA) of the banking system posted a lower growth of 3.0 percent in the twelve months to January 2011 compared with 5.9 percent in a corresponding period in 2010. The deceleration in the current period reflect in the NFA of commercial banks, a portfolio choice motivated by low interest rates on foreign currency deposits held abroad.

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

	2010 January		2011 January		Annual %age Change January	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2000/10	2010/11
1. Credit to Government	220.7	22.4	274.7	22.8	40.8	24.5
Central Bank	-8.7	-0.9	-12.7	-1.1	223.72	45.6
Commercial Banks & NBFIs	229.4	23.3	287.4	23.9	43.9	25.3
2. Credit to other public sector	16.1	1.6	23.8	2.0	57.9	47.1
Local government	-2.0	-0.2	0.5	0.0	-18.3	-125.1
Parastatals	18.1	1.8	23.3	1.9	43.3	28.2
3. Credit to private sector	747.8	75.9	905.1	75.2	15.0	21.0
Agriculture	35.0	3.6	42.2	3.5	17.8	20.8
Manufacturing	88.7	9.0	115.6	9.6	-6.3	30.3
Trade	115.7	11.7	154.5	12.8	25.3	33.5
Building and construction	34.6	3.5	33.9	2.8	-12.3	-1.9
Transport & communications	64.4	6.5	60.8	5.1	12.7	-5.5
Finance & insurance	24.7	2.5	22.7	1.9	55.8	-8.2
Real estate	51.0	5.2	100.0	8.3	37.3	96.2
Mining and quarrying	15.5	1.6	13.7	1.1	121.6	-12.0
Private households	111.1	11.3	129.9	10.8	21.4	17.0
Consumer durables	52.7	5.4	60.7	5.0	42.5	15.2
Business services	66.6	6.8	89.5	7.4	-8.8	34.4
Other activities	87.9	8.9	81.7	6.8	16.6	-7.1
4. TOTAL (1+2+3) *	984.6	100.0	1203.5	100.0	20.5	22.2

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

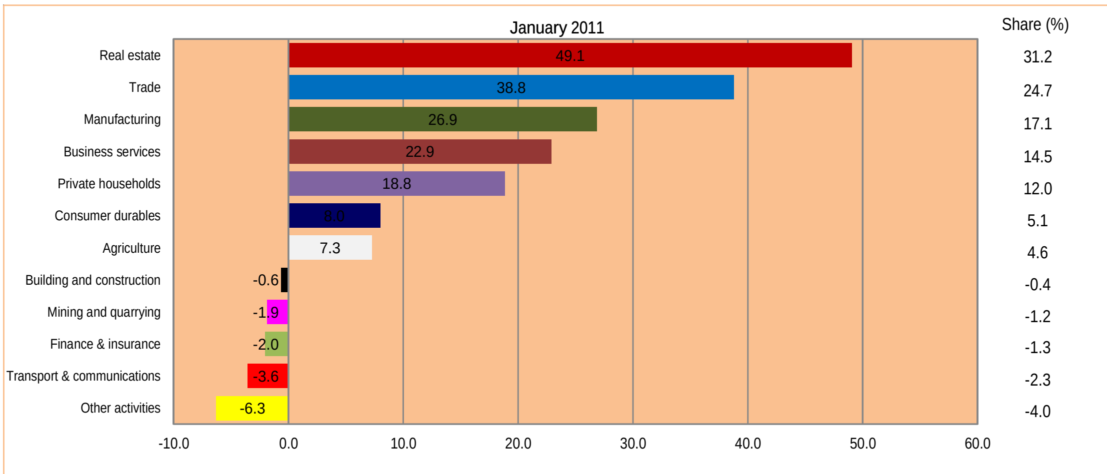
Source: Central Bank of Kenya

Domestic Credit Developments

Domestic credit grew by 22.2 percent in the year to January 2011 compared with 20.5 percent in a similar period in 2010. However, in terms of componet, performance was mixed with credit to Government decelerating to 24.5 percent from 40.8 percent while that to the private sector increased by 21.0 percent from 15.0 percent over the same period.

Commercial banks channeled the additional credit to private sector to real estate (31.2 percent), trade (24.7 percent), manufacturing (17.1 percent), business services (14.5 percent), private households (12.0 percent), consumer durables (5.1 percent), and agriculture (4.6 percent) (Chart 2B).

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO JANUARY 2011 (Ksh billion)



Source: Central Bank of Kenya

Reserve Money

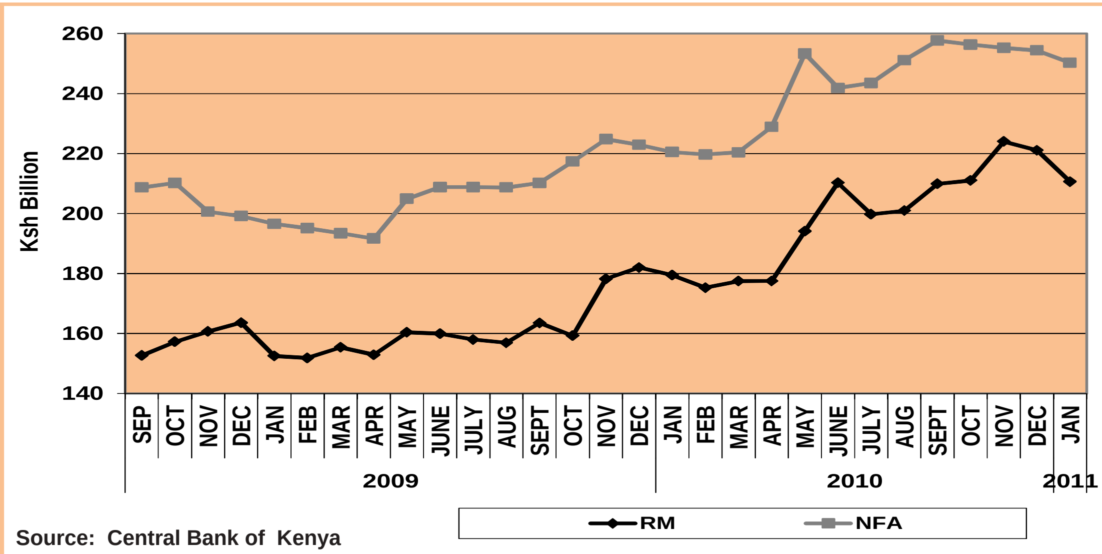
Reserve money which comprises currency in circulation and commercial bank's deposits at the Central Bank at 17.4 percent growth in the year to January 2011 compared with 17.7 percent a year earlier. Both components of reserve money posted significant growth in the year to January 2011 (Table 2.3). At Ksh 210.6 billion in January 2011, reserve money was Ksh 12.0 billion above target.

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

	2009 Jan	2010 Jan	2011 Jan	Change (%) 2009/10	Change (%) 2010/11	2011 Jan Target	Deviation
1. Net Foreign Assets	199.1	220.5	250.3	10.7	13.5	270.4	-20.2
2. Net Domestic Assets	-44.1	-41.1	-39.7	-6.8	-3.4	-71.9	32.2
2.1 Government Borrowing (net)	-2.7	-8.7	-12.7	223.7	45.6	-17.6	4.9
2.2 Advances & Discounts	-5.8	2.7	10.6	-145.7	297.1	-2.7	13.3
2.3 Other Domestic Assets (net)	-35.5	-35.0	-37.6	-1.5	7.3	-51.6	14.1
3. Reserve Money	152.5	179.5	210.6	17.7	17.4	198.6	12.0
3.1 Currency outside banks	91.1	95.5	116.7	4.9	22.2	111.1	5.7
3.2 Bank reserves	61.4	83.9	93.9	36.6	11.9	87.5	6.4

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The 17.4 percent increase in reserve money in the year to January 2011 was supported by expansion in the net foreign assets (NFA) and net domestic assets (NDA) of the Central Bank. NFA of the Central Bank rose by 13.5 percent to Ksh 250.3 billion reflecting interbank purchases of foreign exchange to boost the level of gross reserves by the Bank (Chart 2C).

The NDA of the Central Bank also increased to Ksh -39.7 billion in the year to January 2011, from Ksh –41.1 billion in the previous year. The NDA expansion reflected largely as domestic credit to commercial banks which fully offset a build up in net government deposits (Table 2.3)

The Central Bank Rate

The Monetary Policy Committee in their meeting of 27th January, 2010 lowered the Central Bank Rate (CBR) by 25 basis points to 5.75 percent. In lowering the CBR to 5.75 percent, the Committee emphasized that private sector investment needed to be supported by affordable credit and though banks have gradually lowered their lending rates there was still scope for lending rates to decline further.

Interbank Interest Rate

The average interbank rate stabilised at 1.24 percent in January 2011 as in December 2010 (Table 2.4). The 91-day Treasury bill rate increased to 2.41 percent in the from 2.28 percent in December 2010 over the same period.

Lending and Deposit Rates

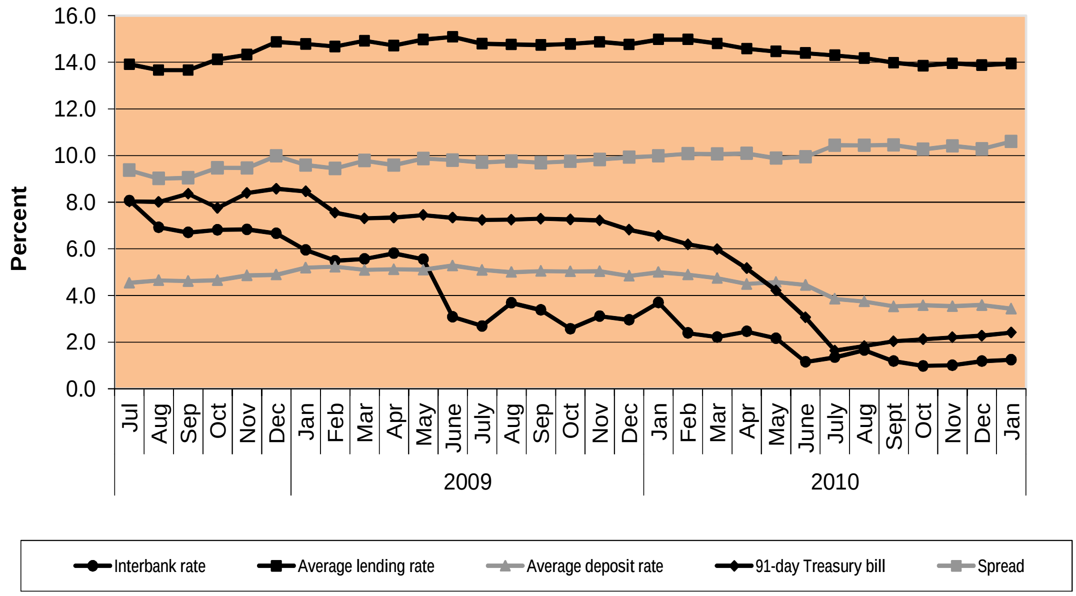
Commercial banks average lending rates also posted a marginal increase to 14.03 percent in January 2011 from 13.87 percent in December 2010. Following a larger decline in the average deposit rate in January 2011, the interest rate spread widened by 32 basis points to 10.60 percent in January 2011 (Table 2.4 and Chart 2D).

TABLE 2.4: INTEREST RATES (%)

	2009			2010					2011
	Oct	Nov	Dec	Jan	Sept	Oct	Nov	Dec	Jan
91-day Treasury bill rate	7.26	7.22	6.82	6.56	2.04	2.12	2.21	2.28	2.41
Overdraft rate	14.03	14.24	14.13	14.48	13.81	13.64	13.77	13.69	13.93
Interbank rate	2.57	3.11	2.95	3.69	1.18	0.98	1.01	1.18	1.24
Repo rate	6.18	6.18	-	-	-	-	-	-	-
Reverse Repo rate	3.17	4.36	3.62	3.91	-	-	1.53	1.41	-
Average lending rate (1)	14.78	14.85	14.76	14.98	13.98	13.85	13.95	13.87	14.03
Average deposit rate (2)	5.03	5.06	4.84	5.00	3.53	3.58	3.54	3.59	3.43
0 to 3 - month deposit	5.83	5.98	5.90	5.81	3.59	3.65	3.61	3.86	3.67
Savings deposits	1.85	1.71	1.73	1.75	1.47	1.46	1.40	1.45	1.25
Spread (1-2)	**9.75**	**9.79**	**9.92**	**9.98**	**10.45**	**10.27**	**10.41**	**10.28**	**10.60**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

Performance of The Real Sector

Overview

Real GDP for the year 2009 amounted to Ksh 1.39 trillion and was equivalent to 2.6 percent growth compared with an output of Ksh 1.36 trillion in 2008 (Table 3.1 and Chart 3A). The performance across key sectors of the economy was mixed with the tourism, transport and communication and the building and construction sectors recording the most significant growth rates of 42.8 percent, 6.4 percent and 14.1 percent, respectively. Agriculture, which contributed 24.4 percent to GDP in 2009, improved marginally from a decline of 4.1 percent in 2008 to a decline of 2.6 percent in 2009.

The pace of economic expansion was sustained in the first nine months of 2010, with a revised actual growth rate of 4.7 percent in the first quarter, followed by 5.3 percent growth in the second quarter and 6.1 percent in the third quarter. The increase in output was attributed to, amongst other factors, the rainfall experienced towards the end of 2009, and early 2010, which impacted positively on agriculture and electricity generation. The revised GDP figures indicated growth rates of 5.6 percent, 4.6 percent and 6.8 percent, respectively in agriculture for the first, second and third quarters of 2010, compared with -1.4, -4.2 and -3.4 percent in the first three quarters of 2009. The electricity and water supply sector grew most rapidly at 24.4 percent during the third quarter of 2010.

The outlook for 2010 is positive given a 5.4 percent average GDP growth rate for the first nine months.

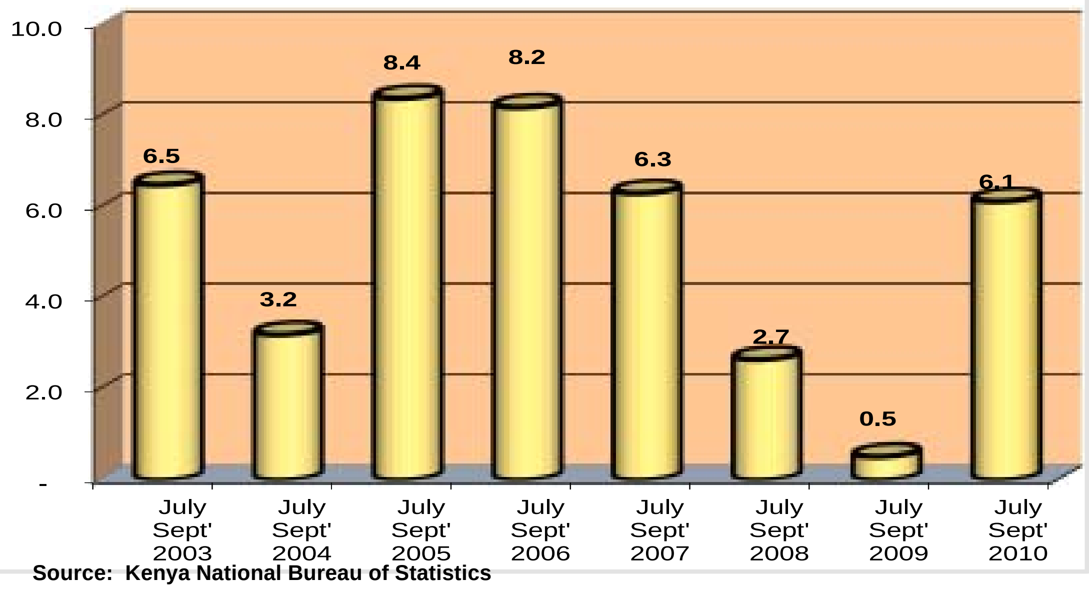
TABLE 3.1: GROWTH RATES IN REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

MAIN SECTORS	Share in 2009 Nominal GDP (%)	Share in 2009 Real GDP (%)	Kshs Million						
			2003	2004	2005	2006	2007	2008	*2009
Agriculture and Forestry	***24.4***	***21.50***	276,089	280,518	299,798	312,926	320,423	307,356	299,449
Fishing	***0.40***	***0.41***	4,765	5,246	5,751	6,249	6,181	5,363	5,761
Mining	***0.50***	***0.44***	5,213	5,195	5,334	5,554	6,272	6,453	6,179
Manufacturing	***9.50***	***9.91***	105,822	110,544	115,699	122,953	130,673	135,291	138,003
Electricity and water supply	***2.40***	***2.20***	27,074	27,877	27,862	27,492	30,002	31,617	30,631
Wholesale and retail trade, repairs	***10.00***	***10.06***	92,604	100,486	106,095	118,361	131,754	138,051	140,096
Hotels & Restaurants	***1.70***	***1.36***	9,899	13,741	15,572	17,895	20,814	13,298	18,993
Construction	***4.40***	***3.58***	31,530	32,932	35,401	37,648	40,405	43,735	49,893
Transport, Storage & Communications	***9.80***	***12.36***	104,915	112,260	122,316	136,306	156,845	161,699	172,096
Financial intermediation	***5.70***	***3.88***	42,064	42,657	45,030	47,170	50,306	51,659	54,043
Real estate, renting and business services	***5.10***	***5.43***	61,864	63,740	65,882	68,446	70,860	73,503	75,674
Public administration and defense	***4.50***	***3.29***	46,991	47,062	46,460	45,722	44,791	45,080	45,804
Education	***6.00***	***5.95***	71,045	72,435	72,963	73,152	76,220	80,732	82,912
Health and social work	***2.70***	***2.26***	25,431	26,408	27,249	28,146	29,053	30,106	31,428
Other community, social and personal services	***3.60***	***3.81***	42,917	44,514	45,829	47,815	49,419	50,841	53,103
Private households with employed persons	***0.40***	***0.31***	3,855	3,932	4,011	4,091	4,173	4,256	4,342
Less : Financial services indirectly measured	***(1.20)***	***(0.92)***	(10,315)	(10,800)	(11,261)	(11,835)	(12,174)	(10,484)	(12,762)
All industries at basic 2001 prices	***90.10***	***85.84***	941,763	978,746	1,029,991	1,088,091	1,156,017	1,168,556	1,195,645
Taxes less subsidies on products	***9.90***	***14.16***	113,895	130,795	145,143	161,367	180,855	189,083	197,187
Real GDP at 2001 market prices	***100.00***	***100.00***	1,055,658	1,109,541	1,175,134	1,249,458	1,336,872	1,357,639	1,392,832
GDP at Mkt Prices			1,055,658	1,109,541	1,175,134	1,249,458	1,336,872	1,357,639	1,392,832
Overall GDP Deflator			107	115	120	130	137	153	163

* Provisional

Source: Economic Survey, 2009

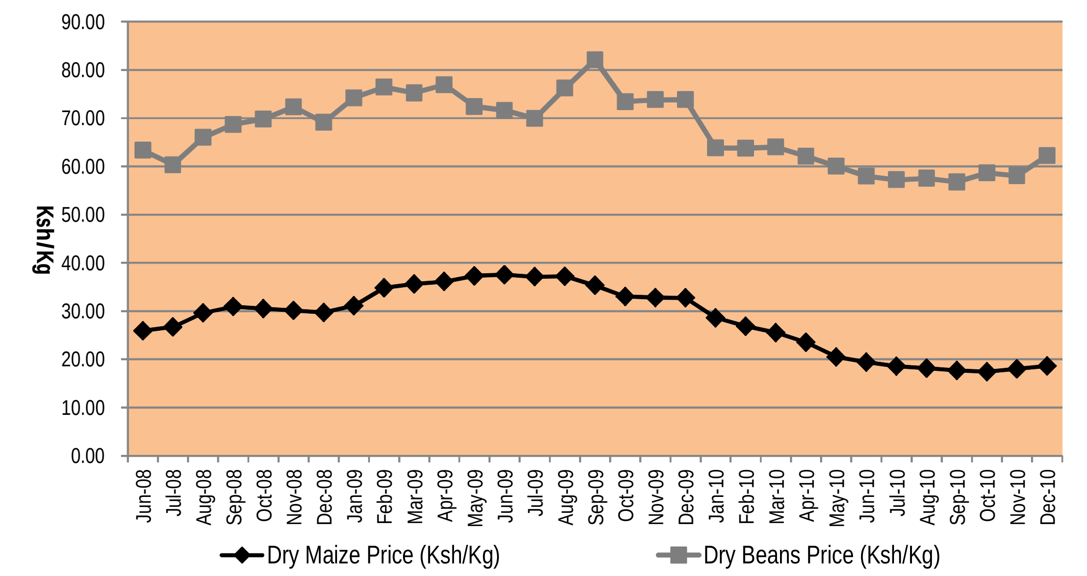
CHART 3A: REAL GDP TREND IN THE SECOND QUARTERS



Source: Kenya National Bureau of Statistics

Agriculture Agricultural production was robust in the first nine months of the year 2010, with total output growth of 5.7 percent compared with a contraction of 3.0 percent over the same period in 2009. This was attributed to the good weather across the country since the end of 2009 through early 2010. The output of food crops such as maize and beans increased, which led to reduction in the prices of maize and beans during the year (Chart 3B).

CHART 3B: MOVEMENTS IN PRICES OF MAIZE AND BEANS



Source: Kenya National Bureau of Statistics

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE		
	Jan-Dec 2008	Jan - Dec 2009	Jan-Dec 2010
Tea			
Output (Metric tonnes)	345,818.00	314,193.89	399,006.35
Growth (%)	*-6.44%*	*-9.14%*	*26.99%*
Horticulture			
Output (Metric tonnes)	253,730.57	309,864.77	342,851.21
Growth (%)	*-2.72%*	*-16.89%*	*10.65%*
Coffee			
Output (Metric tonnes)	38,705.00	49,498.00	38,938.00
Growth (%)	*-25.95%*	*27.89%*	*-21.33%*
Sugar Cane			
Output (Metric tonnes)	4,979,470.28	5,610,702.00	5,709,586.00
Growth (%)	*-4.32%*	*12.68%*	*1.76%*

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

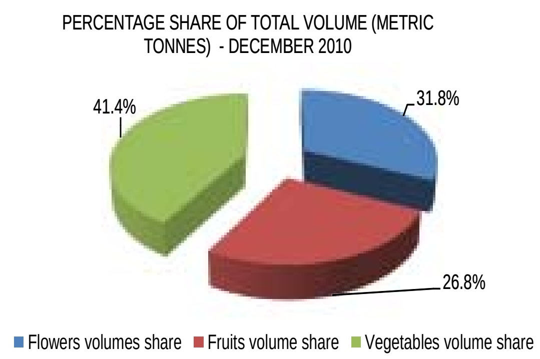
Tea

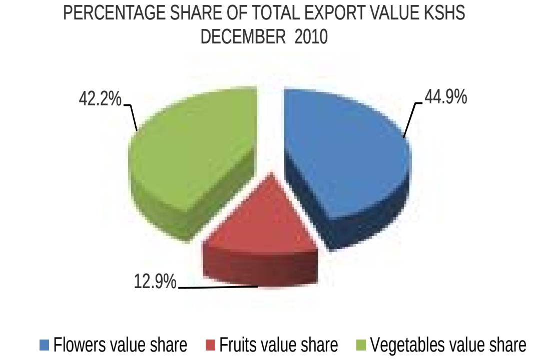
Tea production outperformed all the other agricultural cash crops in 2010 following good rains recorded in the tea growing areas in the Rift Valley (Table 3.2). Total production increased by 27 percent to 399,006.3 metric tonnes in 2010 compared with 314,193.9 metric tonnes produced in 2009. Production was supported by the wet weather conditions in the tea growing areas in the East and West Rift regions, especially during the first two months of 2010 which under normal circumstances are dry months. In December 2010, international tea prices fell to US$ 2.83 per kilogram compared with US$ 3.21 per kilogram in December 2009.

Horticulture

Cumulative horticultural exports for the period in 2010 increased by 10.7 percent to 342,851.2 metric tonnes (Table 3.2) from 309,864.8 metric tonnes exported in 2009. The improvement reflect resilience in the horticultureal exports inspite of the many challenges in 2010. Flight cancellations in the month of April due to the volcanic ash tragedy in Iceland, insufficient rainfall, depressed demand from Kenya’s traditional flower markets, which was further aggravated by the global economic recession (and sluggish recovery), and the severe winters in Europe from November 2010. The value of horticultural exports increased by Ksh 6.3 billion from Ksh 58.5 billion in 2009 to Ksh 64.8 billion in December 2010. Details on the performance of the horticultural sub-sector are provided in Chart 3C.

CHART 3C: HORTICULTURE EXPORTS





Source: Horticultural Crops Development Authority

Coffee

Coffee underperformed in 2010 following excessive drought in 2009 and unpredictable rainfall patterns in the coffee growing areas during the year, which made crop management and disease control difficult and costly. Production in the year to December 2010 declined by 21.3 percent to 38,938 metric tonnes compared with 49,498 metric tonnes produced in 2009, (Table 3.2). Coffee prices maintained an upward trend rising from US $ 4.54 per kilogram in December 2009 to US $ 6.69 per kilogram in December 2010.

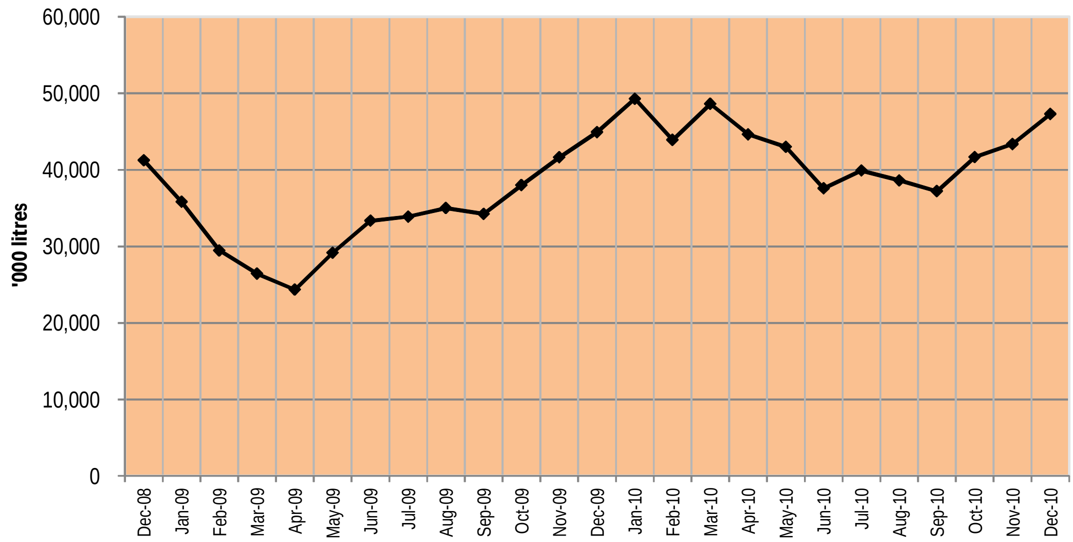
Sugarcane

Sugarcane deliveries were 98,884 metric tonnes (or 1.8 percent) above the supply in 2009 (Table 3.2).

Dairy

The dairy sector recorded strong performance in 2010. Total deliveries to the formal sector increased by 26.7 percent to 515.1 million litres compared with 406.3 million litres received in 2009 on account of availability of fodder due to good weather conditions in 2010 (Chart 3D).

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



Source: Dairy Board of Kenya

Manufacturing

Manufacturing constituted 9.5 percent of total real GDP in 2009, down from 9.8 percent in 2008. Analyses of the quarterly GDP indicate a 7.8 percent growth in total manufacturing in the third quarter of 2010 compared with a decline of 0.5 percent for the third quarter of 2009 (Table 3.1). In the period January – December 2010, selected manufactured commodities largely recorded improved performance compared with a similar period in 2009. For instance, the volume of processed milk grew by 26.8 percent, while that of processed sugar declined by 4.5 percent.

Cement production for the period January to December 2010 amounted to 3.7 million metric tonnes, an 11.4 percent growth from 3.3 million metric tonnes production in a similar period in 2009. This growth reflect increased capacity by the existing firms, and new entrants into the industry, the latest being Devki Steel Mills in November 2010. (Table 3.3 and Chart 3F).

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE		
	Jan-Dec 2008	Jan-Dec 2009	Jan-Dec 2010
Processed sugar			
Output (MT)	512,192.3	548,207.0	523,652.0
Growth %	*-1.6%*	*7.0%*	*-4.5%*
Cement production			
Output (MT)	2,828,799.0	3,320,282.0	3,699,838.0
Output Growth %	11.1%	17.4%	11.4%
Soda ash			
Output (MT)	513,415.0	404,904.0	473,689.0
Growth %	*32.8%*	*-21.1%*	*17.0%*
Milk			
Output ('000 litres)	390,963.0	406,276.5	515,097.6
Growth %	*-7.6%*	*3.9%*	*26.8%*
Beer			
Output ('000 litres)	426,733.3	421,208.4	424,856.6
Growth %	*12.5%*	*-1.3%*	*0.9%*
Cigarettes			
Output (Milles)	14,786,407	14,000,486	14,622,390
Growth %	*-4.5%*	*-5.3%*	*4.4%*

MT = Metric tonnes

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

Total beer production rose by 3.6 million litres, equivalent to 0.9 percent, during the period January – December 2010 from 421.2 million litres produced between January and December 2009. Similarly, cigarette production rose by 4.4 percent and soda ash mining by 17.0 percent, in 2010. However, production of processed sugar declined by 4.5 percent in 2010.

Energy Sector

Local generation of electricity amounted to 6,405.4 million kilowatt hours in 2010, representing an increase of 20.1 percent, of which 49.9 percent was hydro-powered electricity. Geothermal and thermal sources constituted the balance of 22.5 and 27.6 percent of total electricity produced, respectively. Analysis of the monthly production data indicate a significant rise since April 2010, after fourteen consecutive months of decline caused by the drought conditions. This improvement followed the onset of rains towards the end of 2009 to 2010, which increased water supply in the electricity producing dams and consequently boosted hydro-power production. Hydro-power production increased by 51.7 percent, from 2,105.4 million kilowatt hours in 2009 to 3,194.9 million kilowatt hours produced in 2010. Thermal power production increased by 1.3 percent, while geo-thermal power production declined by 2.4 percent during the same period (Table 3.4).

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE		
	Jan-Dec 2008	Jan-Dec 2009	Jan-Dec 2010
Electricity Supply (Generation)			
Output (KWH Millions)	5,694.1	5,331.5	6,405.4
Growth %	*-9.4%*	*-6.4%*	*20.1%*
Of which:			
Hydro-power Generation (KWH Millions)	3,240.4	2,105.4	3,194.9
Growth (%)	*-9.6%*	*-35.0%*	*51.7%*
Geo-Thermal Generation (KWH Millions)	1,038.8	1,478.1	1,442.2
Growth (%)	*4.8%*	*42.3%*	*-2.4%*
Thermal (KWH Millions)	1,414.9	1,747.0	1,769.5
Growth (%)	*-17.4%*	*23.5%*	*1.3%*
Consumption of electricity (KWH Millions)	5,286.4	5,320.9	5,918.1
Growth %	*3.1%*	*0.7%*	*11.2%*
Consumption of Fuels (Metric Tonnes)	2,860.3	3,190.0	3,177.6
Growth %	*-8.4%*	*11.5%*	*-0.4%*
Murban crude oil average price (US $ per barrel)	97.9	62.6	79.2
Growth %	*35.0%*	*-36.0%*	*26.4%*

Source: Kenya National Bureau of Statistics

Energy consumption increased in 2010 with electricity consumption upby 11.2 percent to 5,918.1 million Kilowatt hours, from 5,320.9 million Kilowatt hours consumed in 2009.

But, average international crude oil prices escalated to US$ 91.85 per barrel in December 2010 compared with US$ 76.10 per barrel in December 2009.

Tourism

The tourism industry emerged strong in December 2010 despite the many challenges during the year, which included the volcanic ash tragedy in April and the very severe winter in Europe which began in November 2010, leading to numerous flight cancellations. Total tourist arrivals for the period January – December 2010 stood at 1,095,284 visitors, an increase of 15.0 percent over the 952,481 visitors in 2009. Most of the arrivals (or 78.8 percent) landed at the Jomo-Kenyatta International Airport, while the rest came through Moi International Airport, Mombasa (MIAM)(Table 3.5). There were, however, no cruise arrivals during the period due to cancellations arising from insecurity off the coast of Somalia.

The growth in tourism reflects confidence in the country as a favourite tourist destination and vigorous campaigns by Kenya Tourists' Board to market the country as an attractive tourist destination abroad. Revised cumulative tourism earnings for 2010 amounted to US$ 755.7 million (or 17.5 percent expansion) from US$ 642.8 million received during the same period of the previous year.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	Jan-December 2008	Jan-December 2009	Jan-December 2010	Jan - December 2010 % Share	Jan - December 2010 % Growth
CRUISE	6,877	12,096	-	*0.0%*	*-100.0%*
MIAM	112,517	176,469	232,698	*21.2%*	*31.9%*
JKIA	609,606	763,916	862,586	*78.8%*	*12.9%*
TOTAL	729,000	952,481	1,095,284	***100.0%***	***15.0%***

Source: Kenya Tourism Board

In terms of source markets tourist arrivals from Asia grew by 26.8 percent from 108,524 visitors in 2009 to 137,657 visitors in 2010, while those from Europe grew by 17.5 percent in 2010. Tourist arrivals from Africa, America and the oceanic regions grew by 12.4 percent, 10.4 percent and 22.5 percent, respectively (Table 3.6). Europe and Africa remained the dominant source regions and accounted for 49.0 percent and 23.5 percent, respectively. America, Asia, and the Oceanic regions accounted for 13.0 percent, 12.6 percent and 2.0 percent, respectively (Table 3.6).

TABLE 3.6: TOTAL ARRIVALS BY CONTINENT

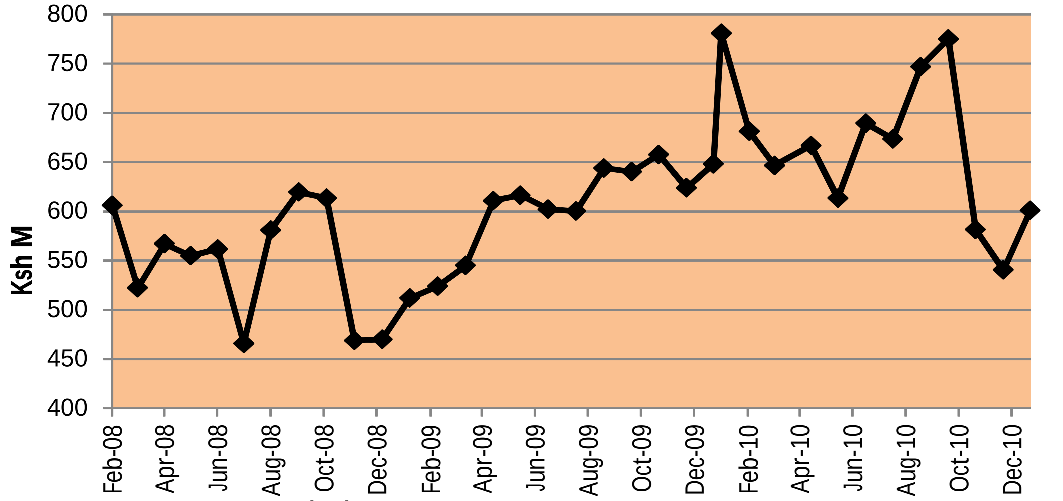
REGION	**Jan-December 2008**	Jan-December 2009	Jan-December 2010	**Jan - December 2010 % Share**	**Jan- December 2010 % Growth**
Africa	207,770	228,827	257,132	23.5%	12.4%
America	97,771	128,658	142,087	13.0%	10.4%
Asia	94,496	108,524	137,657	12.6%	26.8%
Europe	308,123	456,427	536,422	49.0%	17.5%
Oceanic	13,963	17,949	21,985	2.0%	22.5%
Cruise	6,877	12,096	-	0.0%	-100.0%
Total	**729,000**	**952,481**	**1,095,284**	100.0%	**15.0%**

Source: Kenya Tourism Board

Transport and Tele-communications

Performance in the transport and communications sector, for the period January to December 2010 was varied, with excise duty on airtime and passenger movements to and from the local airports up by 10.7 percent, 17.8 percent and 13.1 percent, respectively, while the Kenya Pipeline total throughput declined by 2.8 percent, during the same period. In the telecommunications subsector, excise duty on airtime rose by Ksh 772.5 million to Ksh 7,998 million despite price wars on telecommunications by the service providers since August 2010. During the review period, the total number of passengers embarking and disembarking at JKIA increased by 229,300 and 174,359 passengers, respectively. The volume of cargo throughput handled by Kenya Ports Authority (KPA) at the port of Mombasa declined by 0.5 percent from 19.1 million metric tonnes to 19.0 million metric tonnes. This cargo throughput comprised 16.24 million metric tonnes of imports, equivalent to 85.6 percent, 2.57 million metric tonnes of exports representing 13.6 percent and 0.16 million metric tonnes of transit shipments, equivalent to 0.8 percent (Table 3.7 and Chart 3B).

CHART 3E: EXCISE TAX ON AIRTIME



Source: Kenya Revenue Authority

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

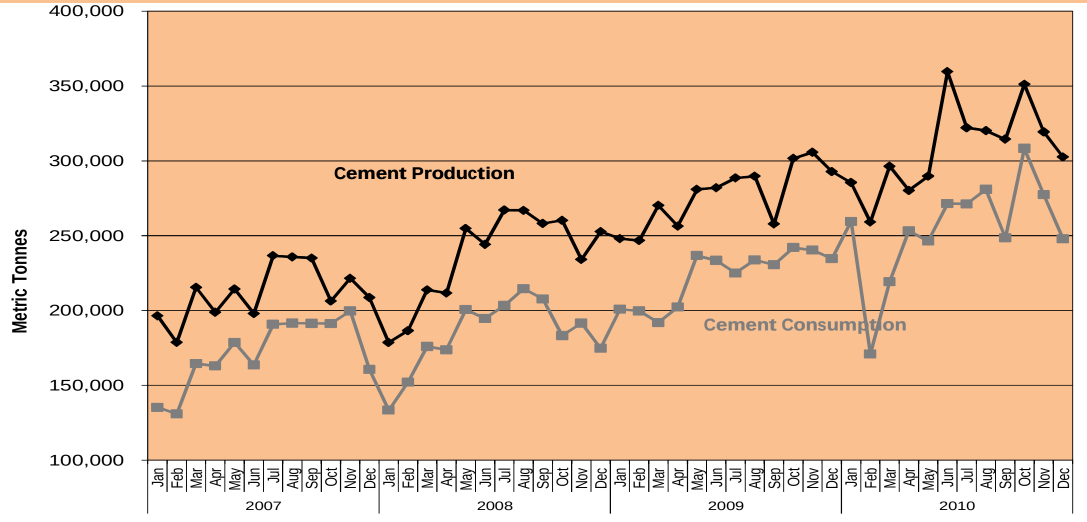
	CUMULATIVE		
	Jan - Dec 2008	Jan-Dec 2009	Jan-Dec 2010
Mombasa Port Cargo Throughput			
Output (MT) Equivalent	16,414,729	19,061,631	18,972,612
Output Growth %	*2.8%*	*16.1%*	*-0.5%*
Number of passengers Thro' JKIA			
Incoming	1,468,814	1,291,278	1,520,578.00
Growth (%)	*-0.7%*	*-12.1%*	*17.8%*
Outgoing	1,476,851	1,334,482	1,508,841
Growth %	*-0.3%*	*-9.6%*	*13.1%*
Kenya Pipeline oil Throughput			
Output ('000 litres)	3,859,481	4,323,370	4,203,482
Output Growth %	*-2.6%*	*12.0%*	*-2.8%*
Kenya Revenue Authority (Excise tax on airtime)			
Kshs million	6,528	7,225	7,998
Output Growth %	*9.5%*	*10.7%*	*10.7%*

Source: Kenya Ports Authority and Kenya Pipeline Company Ltd.

Building & Construction Industry

Cement consumption increased by 14.4 percent from 2.7 million metric tonnes in 2009 to 3.0 million metric tonnes in 2010, reflecting higher demand following increased economic activity (Chart 3F).

CHART 3F: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya's overall balance of payments surplus narrowed to US$ 163 million in the year to December 2010 compared with US$ 781 million in the year to December 2009 (Table 4.1 and 4.2). The movement reflects a wider current account deficit following increased imports (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Dec 2009*	Year to December 2010* Q1 Jan-Mar	Q2 Apr-Jun	Q3 Jul-Sep	Q4 Oct-Dec	Year to Dec 2010*	Absolute Change
1. OVERALL BALANCE	781	-101	54	264	-54	163	***-617***
2. CURRENT ACCOUNT	-1628	-393	-553	-566	-831	-2344	***-715***
2.1 Goods	-5815	-1413	-1698	-1755	-2073	-6940	*-1124*
Exports (fob)	4482	1290	1236	1238	1387	5151	*669*
Imports (cif)	10297	2703	2934	2993	3461	12090	*1793*
2.2 Services	4187	1020	1145	1189	1242	4596	*409*
Non-factor services (net)	1955	559	616	624	706	2504	*549*
Income (net)	-65	20	23	79	-19	103	*168*
Current Transfers	2297	441	506	486	556	1989	*-309*
3. CAPITAL & FINANCIAL ACCOUNT	2409	292	607	830	777	2507	***98***
3.1 Capital Tranfers (net)	290	19	34	15	86	154	*-136*
3.2 Financial Account	2119	274	573	816	691	2353	*235*
memo:							
Gross Reserves	5064	5188	5009	5141	5123	5123	***58***
Official	3847	3745	3799	4063	4002	4002	*154*
*imports cover***	*4.1*	*3.9*	*3.8*	*3.9*	*3.7*	*3.7*	*-0.4*
*imports cover****	*4.1*	*3.9*	*3.9*	*4.1*	*3.9*	*3.9*	*-0.2*
Commercial Banks	1217	1443	1211	1078	1121	1121	*-96*

* Provisional.

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

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

Source: Central Bank of Kenya

Current Account

The current account deficit widened from US$ 1,628 million in year to December 2009 to US$ 2,344 million in year to December 2010. This reflects a 19.3 percent or US$ 1,124 million widening of the merchandise account deficit which offset the 9.8 percent improvement in the services account (Table 4.2).

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

ITEM	Year to Dec 2009*	Year to December 2010* Q1 Jan-Mar	Q2 Apr-Jun	Q3 Jul-Sep	Q4 Oct-Dec	Year to Dec 2010*	Absolute Change
2. CURRENT ACCOUNT	-1628	-393	-553	-566	-831	-2344	***-715***
2.1 Goods	-5815	-1413	-1698	-1755	-2073	-6940	*-1124*
Exports (fob)	4482	1290	1236	1238	1387	5151	*669*
Coffee	201	47	61	59	42	209	*7*
Tea	892	340	287	261	270	1159	*267*
Horticulture	692	187	175	163	200	725	*33*
Oil products	95	20	23	31	16	90	*-6*
Manufactured Goods	513	151	145	143	159	598	*85*
Raw Materials	212	74	50	41	48	214	*1*
Re-exports	277	79	73	70	92	315	*38*
Other	779	196	215	251	305	967	*189*
Imports (cif)	10297	2703	2934	2993	3461	12090	*1793*
Oil	2192	612	767	561	733	2673	*480*
Chemicals	1324	384	380	416	423	1603	*279*
Manufactured Goods	1411	390	448	446	490	1774	*363*
Machinery & Transport Equipment	3065	761	849	990	1208	3808	*743*
Other	2306	556	490	580	607	2233	*-73*
2.2 Services	4187	1020	1145	1189	1242	4596	*409*
Non-factor services (net)	1955	559	616	624	706	2504	*549*
of which tourism	690	157	165	182	252	756	*65*
Income (net)	-65	20	23	79	-19	103	*168*
of which official interest	-91	-17	-14	-20	-25	-77	*14*
Current Transfers	2297	441	506	486	556	1989	*-309*
Private (net)	1981	446	510	491	561	2008	*27*
Public (net)	316	-5	-5	-5	-5	-19	*-335*

* Provisional.

Source: Central Bank of Kenya

The merchandise account deficit increased from US$ 5,815 million in the year to December 2009 to US$ 6,940 million in the year to December 2010 due to higher imports.

Exports

Export earnings increased by 14.9 percent from US$ 4,482 million in December 2009 to US$ 5,151 million in December 2010. The improvement in export performance was in exports of tea which increased by 29.9 percent reflecting favorable commodity prices (Chart 4B). Earnings from exports of manufactured goods also increased by 16.6 percent reflecting trade expansion particularly in the regional markets. Receipts from horticultural exports improved from US$ 692 million to US$ 725 million, an increase of 4.8 percent (Table 4.2).

CHART 4A: COFFEE EXPORTS: UNIT PRICE AND QUANTITY

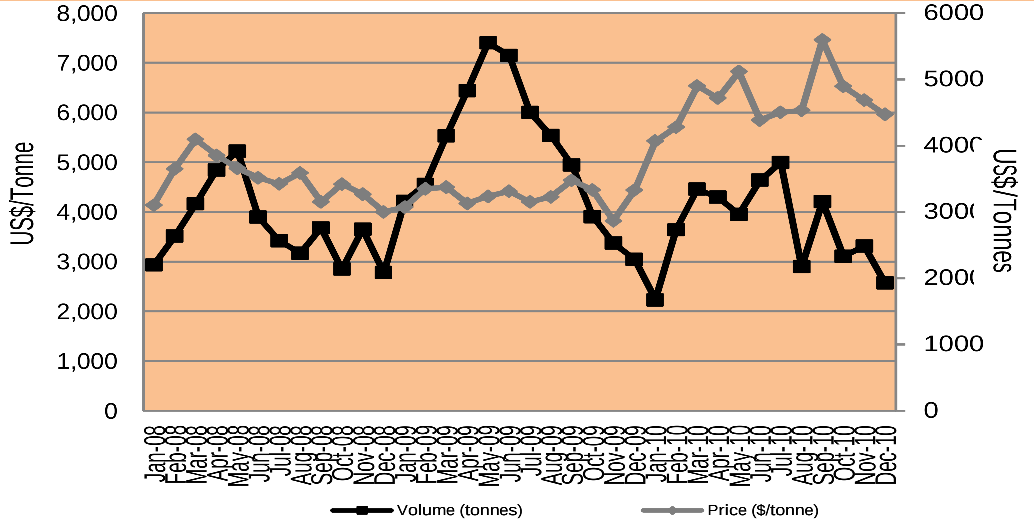
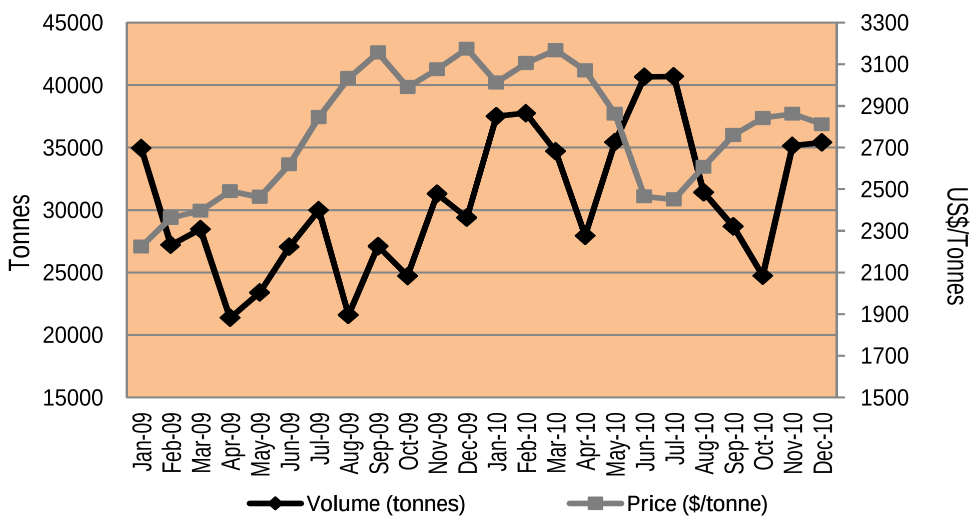


CHART 4B: TEA EXPORTS: UNIT PRICE AND QUANTITY



Source: Central Bank of Kenya

Imports

The value of imports increased to US$ 12,090 million over the same period, mainly on account of increased value of imports of machinery and transport equipment and oil. Imports of machinery and transport equipment account for 24.3 percent of total imports and increased from US$ 3,065 million to US$ 3,808 million reflecting ongoing infrastructure development. Oil imports, which accounted for 21.9 percent of total imports increased from US$ 2,192 million to US$ 2,673 million in the period. Imports of manufactured items mainly intermediate goods accounted for 25.7 percent of the import bill and increased from US$ 1,411 million to US$ 1,774 million.

Services Account

The surplus on the services improved from US$ 4,187 million to US$ 4,596 million in the year to December 2010. Earnings from services which mainly include tourism transport and financial services increased from US$ 1,955 million to US$ 2,504 million in the year to December 2010. This reflected improved inflows from foreigners travelling to Kenya which increased by 9.5 percent from US$ 690 million in the year to December 2009 to US$ 756 million in the year to December 2010. Similarly, receipts from transportation services increased from US$ 1,054 million to US$ 1,453 million (Table 4.2).

Receipts on the current transfer account decreased from US$ 2,297 million to US$ 1,989 million in the year to December 2010, a decrease of 13.4 percent. But remittance transfers which proved resilient to adverse global shocks rose by 5.4 percent.

Direction of Trade

Kenya's exports were mainly to Uganda (12.7 percent), United Kingdom (9.9 percent), Tanzania (8.1 percent) and Netherlands (6.6 percent). The share of exports to African countries accounted for 46 percent. The share of exports to the East African Community (EAC) region were 24.8 percent, while those to COMESA region were at 33.2 percent in the year to December 2010.

During the period under review, Kenya's imports were mainly from China (12.6 percent), United Arab Emirates (12.1 percent), India (10.8 percent), South Africa (6.3 percent), Japan (6.1 percent),) United Kingdom (5.2 percent)and United States of America (4.1 percent). The share of imports from African countries accounted for 12.0 percent. Imports from the EAC region increased from US$ 163 million to US$ 257 million (2.1 percent of total imports). Imports from the COMESA region increased from US$ 324 million to US$ 516 million (4.3 percent of total imports) in the year to December 2010 (Table 4.3).

Kenya's imports are increasingly from Developing Asia (includes among others China and India as per IMF classification) and less from the Advanced Economies (includes among others Japan, UK, US).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to December			Year to December		
Country	2008	2009	2010	2008	2009	2010
Africa	1,247	1,354	1,449	10.8	13.2	12.0
Of which						
South Africa	668	912	756	5.8	8.9	6.3
Egypt	156	125	231	1.4	1.2	1.9
Others	422	318	461	3.7	3.1	3.8
EAC	181	163	257	1.6	1.6	2.1
COMESA	408	324	516	3.6	3.1	4.3
Rest of the World	10,250	8,943	10,642	89.2	86.8	88.0
Of which						
India	1,314	1,079	1,303	11.4	10.5	10.8
United Arab Emirates	1,670	1,170	1,464	14.5	11.4	12.1
China	908	965	1,519	7.9	9.4	12.6
Japan	649	634	734	5.6	6.2	6.1
USA	404	648	496	3.5	6.3	4.1
United Kingdom	400	478	625	3.5	4.6	5.2
Singapore	358	342	399	3.1	3.3	3.3
Germany	387	294	333	3.4	2.9	2.8
Saudi Arabia	376	357	411	3.3	3.5	3.4
Indonesia	335	243	340	2.9	2.4	2.8
Netherlands	190	224	233	1.7	2.2	1.9
France	234	205	234	2.0	2.0	1.9
Bahrain	190	97	58	1.7	0.9	0.5
Italy	171	179	152	1.5	1.7	1.3
Others	2,663	2,029	2,341	23.2	19.7	19.4
Total	11,497	10,297	12,090	100	100	100

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to December			Year to December		
Country	2008	2009	2010	2008	2009	2010
Africa	2,353	2,105	2,382	47	47	46
Of which						
Uganda	613	598	656	12.2	13.3	12.7
Tanzania	421	390	420	8.3	8.7	8.1
Egypt	224	154	229	4.4	3.4	4.5
Sudan	204	165	237	4.0	3.7	4.6
Somalia	189	145	165	3.8	3.2	3.2
DRC	143	146	161	2.8	3.3	3.1
Rwanda	129	124	133	2.6	2.7	2.6
Others	432	383	381	8.6	8.5	7.4
EAC	1,212	1,170	1,277	24.1	26.0	24.8
COMESA	1,609	1,460	1,712	**31.9**	**32.4**	**33.2**
Rest of the World	2,687	2,397	2,768	53.3	53.2	53.7
Of which						
United Kingdom	550	498	508	10.9	11.1	9.9
Netherlands	379	340	339	7.5	7.6	6.6
USA	297	225	278	5.9	5.0	5.4
Pakistan	202	197	228	4.0	4.4	4.4
United Arab Emirates	111	138	238	2.2	3.1	4.6
Germany	89	94	95	1.8	2.1	1.8
India	98	66	107	1.9	1.5	2.1
Afghanistan	62	100	151	1.2	2.2	2.9
Others	897	738	823	17.8	16.4	16.0
Total	5,040	4,502	5,151	100	100	100

Source: Kenya Revenue Authority

Capital and Financial Account

The capital and financial account surplus increased from US$ 2,409 million in the year to December 2009 to US$ 2,507 million in the year to December 2010. The improvement was wholly in financial flows, which increased by US$ 235 million (accounting for 139.8 percent of the improvement), while the capital transfers declined by US$ 136 million (Table 4.4).

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

ITEM	Year to Dec 2009*	Year to December 2010* Q1 Jan-Mar	Q2 Apr-Jun	Q3 Jul-Sep	Q4 Oct-Dec	Year to Dec 2010*	Absolute Change
3. CAPITAL & FINANCIAL ACCOUNT	2409	292	607	830	777	2507	***98***
3.1 Capital Tranfers (net)	290	19	34	15	86	154	*-136*
3.2 Financial Account	2119	274	573	816	691	2353	*235*
Official, medium & long-term	466	88	70	28	122	308	*-158*
Inflows	702	164	99	101	164	527	*-174*
Outflows	-236	-76	-29	-72	-43	-219	*17*
Private, medium & long-term (net)	537	-357	200	165	236	244	*-293*
Commercial Banks (net)	494	-371	191	204	37	61	*-433*
Other private medium & long-term (net)	44	14	9	-39	200	184	*140*
Short-term (net) incl. errors & omissions	1116	542	303	623	333	1801	*685*

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings decreased from US$ 5,279 million in January 2010 to US$ 5,237 million in January 2011. Gross official foreign exchange reserves held by the Central Bank were US$ 3,810 million or 4.1 months of import cover in January 2010 compared with US$ 3,992 million (3.9 months of import cover) in January 2011 (Table 4.5). The accumulation of official reserves during the period comprised of interbank purchases. However, gross reserves held in commercial banks declined from US$ 1,470 million to US$ 1,245 million during the period under review (Chart 4C).

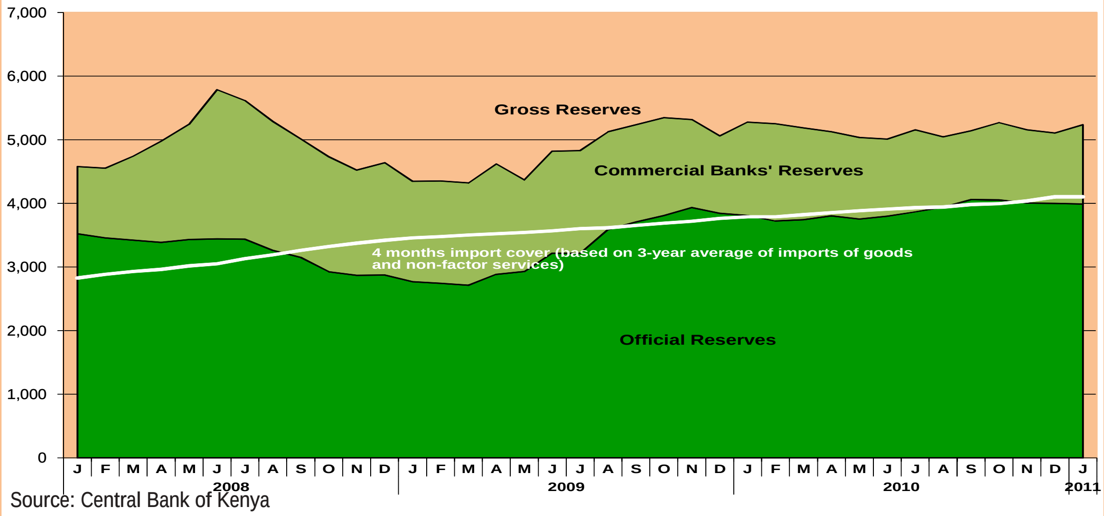
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Jan 10	Jun 10	Jul 10	Aug 10	Oct 10	Nov 10	Dec 10	Jan 11
1. Gross Foreign Exchange Reserves	**5,279**	**5,009**	**5,155**	**5,046**	**5,270**	**5,156**	**5,106**	**5,237**
of which:								
Official	3,810	3,799	3,868	3,942	4,054	4,007	4,002	3,992
*imports cover**	*4.0*	*3.9*	*3.9*	*4.0*	*4.1*	*4.0*	*3.9*	*3.9*
Commercial Banks	1,470	1,211	1,287	1,104	1,216	1,149	1,104	1,245
2. Residents' foreign currency deposits	**2,065**	**2,140**	**2,221**	**2,250**	**2,221**	**2,247**	**2,241**	**2,211**

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling depreciated in January 2011 against major world currencies. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.03 per US dollar in January 2011 compared with Ksh 80.57 per US dollar in December 2010. The shilling also depreciated against the Sterling Pound and the Euro to trade at an average of Ksh 127.70 per Sterling Pound and Ksh 108.16 per Euro in January 2011 compared with Ksh 125.65 per Sterling Pound and Ksh 106.54 per Euro in December 2010. (Table 4.6 and Chart 4D).

Against the regional currencies, the Kenya shilling strengthened against the Tanzania Shilling and the Uganda Shilling to trade at Tsh 18.40 per Kenya shilling and Ush 28.81 per Kenya shilling in January 2011 compared with Tsh 18.17 and Ush 28.59 per Kenya shilling in December 2010. The Kenya shilling traded at RWF 15.15 per Kenya shilling and BIF 22.06 per Kenya shilling for Rwandan Franc and Burundi Franc in January 2011, respectively.

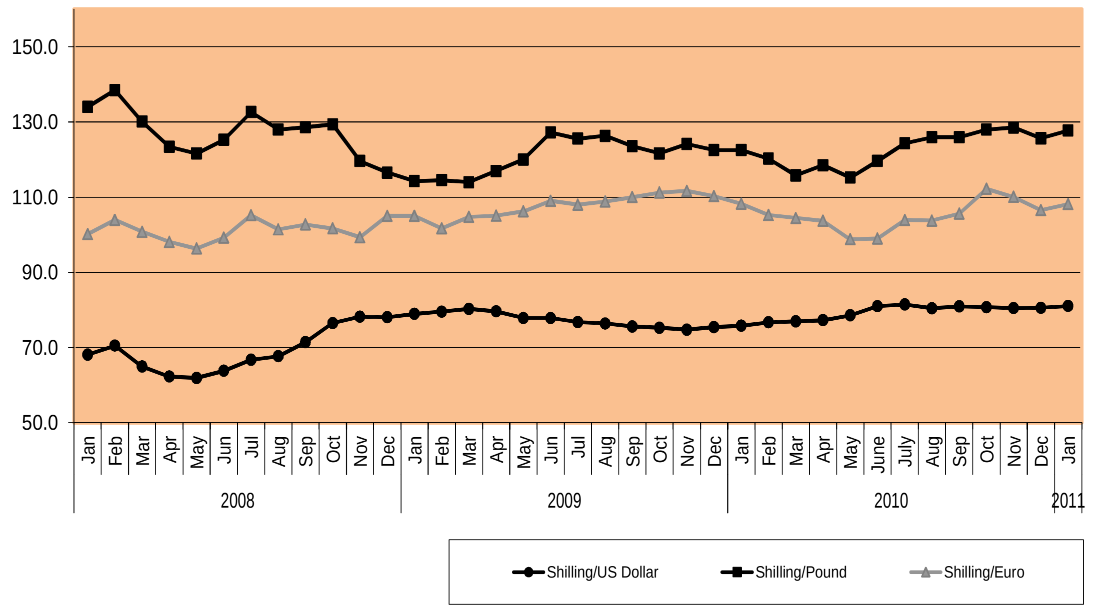
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2010							2011	% change January 11 - December 10
	Jan	June	July	August	October	November	December	January	
US Dollar	75.79	81.02	81.43	80.44	80.71	80.46	80.57	81.03	**0.57**
Pound Sterling	122.53	119.62	124.34	125.94	127.98	128.52	125.65	127.70	**1.63**
100 Japanese Yen	83.11	89.18	92.90	94.08	98.60	97.65	96.78	98.13	**1.40**
Uganda Shilling*	25.53	27.91	27.73	27.71	28.05	28.45	28.59	28.81	**0.75**
Tanzania Shilling*	17.71	17.99	18.40	18.89	18.52	18.56	18.17	18.40	**1.28**
Rwanda Franc								15.15	
Burundi Franc								22.06	
Euro	108.27	98.99	103.90	103.79	112.20	110.07	106.54	108.16	**1.53**
Euro per US dollar	0.700	0.818	0.784	0.775	0.719	0.731	0.756	0.749	**-0.94**

* Units of currency per Kenya shilling

Source: Central Bank of Kenya

CHART 4D: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

During the period ended January 31, 2011, the Kenyan Banking sector recorded significant growth in assets driven by growth in deposits, injection of capital and retention of profits. The level of non-performing loans decreased compared to a similar period in 2010. As at January 31, 2011, the sector comprised 43 commercial banks, one mortgage finance company, 5 deposit taking microfinance institutions and 126 foreign exchange bureaus.

Structure of the Balance Sheet

The banking sector's aggregate balance sheet expanded by 23.8 percent from Ksh 1,391.8 billion in January 2010 to Ksh 1,722.7 billion in January 2011. The major components of the balance sheet were loans and advances, government securities and placements, which accounted for 53 percent, 26 percent and 6 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances increased from Ksh 774.5 billion in January 2010 to Ksh 944.4 billion in January 2011 translating to a growth of 21.9 percent. The growth was attributed to increased lending to households, trade and manufacturing sectors. Loans and advances net of provisions stood at Ksh 933.8 billion in January 2011, up from Ksh 765.9 billion in a similar period in 2010.

Deposit Liabilites

Deposits from customers were the main source of funding for the banking sector, accounting for 76 percent of total funding liabilities. The deposit base increased by 21.8 percent from Ksh 1,067.8 billion in January 2010 to Ksh 1,300.3 billion in January 2011 mainly due to outreach expansion, remittances and receipts from exports.

Capital & Reserves

The banking sector registered strong capital levels in January 2011 with total capital growing by 33.5 percent from Ksh 184.9 billion in January 2010 to Ksh 246.9 billion in January 2011, whereas shareholders' funds increased by 34.5 percent from Ksh 199.3 billion in January 2010 to Ksh 268.0 billion. Similarly, the ratios of total and core capital to total risk-weighted assets increased from 19.7 percent and 17.7 percent to 22.5 percent and 20.3 percent, respectively, mainly due to a more than proportionate increase in core and total capital compared with the increase in total risk weighted assets.

Non-performing Loans

The stock of gross non-performing loans (NPLs) decreased by 6.6 percent from Ksh 63.4 billion in January 2010 to 59.2 Ksh billion in January 2011. Over the same period, the coverage ratio which is measured as a percentage of specific provisions to total NPLs increased to 55.8 percent from 46.5 percent in January 2010 mainly due to increase in provisions. The quality of assets, measured as a proportion of net non-performing loans to gross loans improved from 3.8 percent to 2.3 percent in January 2011 (Table 5.1). Similarly, the ratio of gross NPLs to gross loans improved from 8.2 percent in January 2010 to 6.3 percent in January 2011.

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

		Jan 2011	Jan 2010
1	Gross loans and advances	944.4	774.5
2	Interest in Suspense	10.6	8.6
3	Loans and advances (net of interest suspended)	933.8	765.9
4	Gross non-performing loans	59.2	63.4
5	Specific Provisions	27.1	25.5
6	General Provisions	7.3	5.7
7	Total Provisions (5+6)	34.4	31.2
8	Net Advances (3-7)	899.4	734.7
9	Total Non-Performing Loans and advances (4-2)	48.6	54.8
10	Net Non-Performing Loans and advances (9-5)	21.5	29.3
11	Total NPLs as % of total advances (9/3)	5.20%	7.20%
12	Net NPLs as % of gross advances (10/1)	2.30%	3.80%
13	Specific Provisions as % of Total NPLs (5/9)	55.80%	46.50%

Source: Central Bank of Kenya

Profitablility

The sector registered a 51.2 percent growth in pre-tax profits, from Ksh 4.1 billion in January 2010 to Ksh 6.2 billion as at end of January 2011. As a result, the annualised return on assets improved from 2.8 percent to 3.5 percent in January 2011, while return on equity increased from 24.8 percent to 28.0 percent. Total income increased by 14.6 percent from Ksh 15.1 billion in January 2010 to Ksh 17.3 billion in January 2011, while total expenses increased by 0.9 percent from Ksh 10.9 billion in January 2010 to Ksh 11.0 billion in January 2011. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 56 percent, 28 percent and 14 percent of total income, respectively. On the other hand, staff costs, other expenses and interest on deposits were the key components of expenses, accounting for 36 percent, 28 percent and 20 percent, respectively.

Liquidity Ratio Requirement

In January 2011, the average liquid assets amounted to Ksh 550.9 billion, while total average liquid liabilities stood at Ksh 1,249.0 billion, resulting to an average liquidity ratio of 44.1 percent, against 39.8 percent registered in January 2010. The ratio of gross loans to deposits stood at 72.6 percent, 10 basis posints above 72.5 percent in January 2010.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for cash reserve requirements averaged 5.73 percent in January 2011 compared with 5.81 percent in December 2010 and the 4.5 percent statutory level (Table 5.2 and Chart 5A). Commercial banks held excess reserves at the Central Bank averaging Ksh 15.0 billion in January 2011 compared with Ksh 15.8 billion in December 2010.

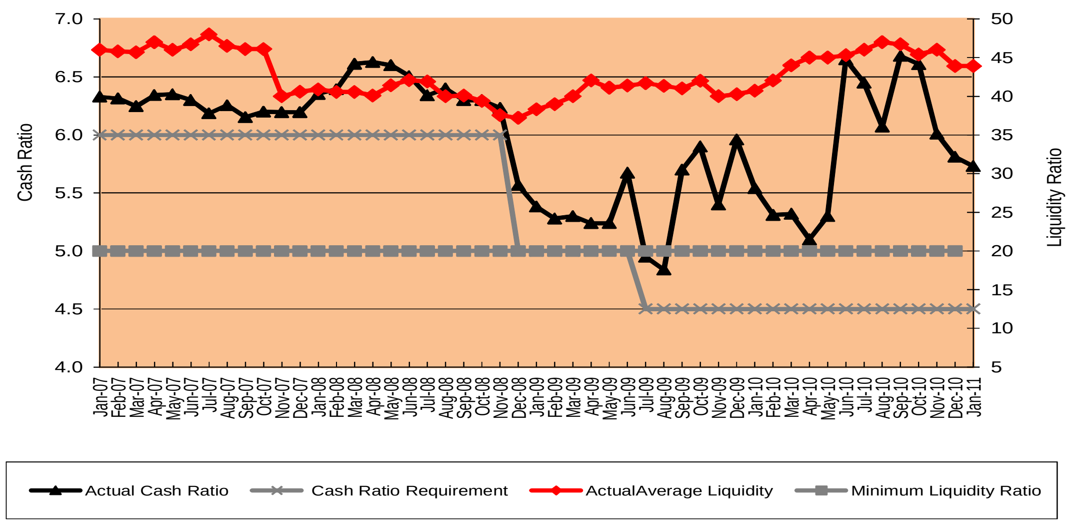
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2010								2011
	Jan	June	July	Aug	Sept	Oct	Nov	Dec	Jan
Commercial Banks									
Actual Average Liquidity	40.71	45.30	45.8	46.7	46.70	45.4	46.0	43.90	43.90
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.54	6.65	6.45	6.07	6.68	6.61	6.01	5.81	5.73
Minimum Cash Ratio Requirement	4.50	4.50	4.50	4.50	4.50	4.51	4.51	4.51	4.51
NBFIs									
Actual Average Liquidity Ratio	26.24	35.30	33.8	30.5	30.70	64.8	58.9	56.00	57.70
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Minimum Cash Ratio Requirement	4.50	4.50	4.50	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) recorded 5.8 percent decrease in value and 16.2 percent decrease in volume in January 2010. In this respect, KEPSS moved a volume of 77,625 transaction messages worth Ksh 1,320 billion in January 2011 compared with a volume of 92,592 transaction messages valued at Ksh 1,401 billion moved in December 2010 representing 5.79 percent decrease in value and 16.16 percent decrease in volume.

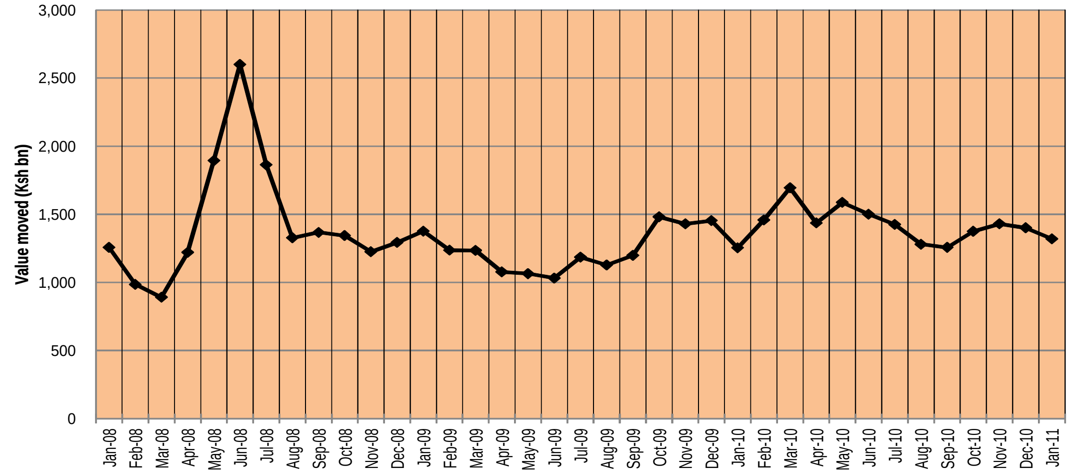
During the twelve months to January 31, 2011 the value moved averaged Ksh 19 million per transaction. On average 3,641 transaction messages valued at approximately Ksh 67.6 billion per message were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS accounted for 98.0 percent of the total settlements, while indirect payments (ACH Net settlement) accounted for 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)	Per day Transactions
Jan-09	1,376	68	25,330	0.05	21	66	1,206
Feb-09	1,236	64	20,710	0.06	19	65	1,090
Mar-09	1,235	82	23,752	0.05	22	56	1,080
Apr-09	1,077	80	22,485	0.05	20	54	1,124
May-09	1,064	70	24,024	0.04	20	53	1,201
Jun-09	1,032	80	21,977	0.05	21	49	1,047
Jul-09	1,185	75	25,650	0.05	23	52	1,115
Aug-09	1,127	69	23,001	0.05	21	54	1,095
Sep-09	1,198	90	24,552	0.05	21	57	1,169
Oct-09	1,481	27	55,440	0.03	21	71	2,640
Nov-09	1,430	21	56,900	0.03	21	68	2,710
Dec-09	1,454	29	66,916	0.02	22	66	3,042
Jan-10	1,254	18	56,862	0.02	20	63	2,843
Feb-10	1,458	22	65,010	0.02	20	73	3,251
Mar-10	1,694	26	77,058	0.02	23	74	3,350
Apr-10	1,436	23	69,634	0.02	20	72	3,482
May-10	1,587	22	72,588	0.02	21	76	3,457
Jun-10	1,501	23	79,760	0.02	21	71	3,798
Jul-10	1,426	21	75,289	0.02	22	65	3,422
Aug-10	1,280	23	70,771	0.02	20	64	3,539
Sep-10	1,256	25	82,770	0.02	22	57	3,762
Oct-10	1,376	29	76,415	0.02	23	60	3,322
Nov-10	1,430	26	85,968	0.02	22	65	3,908
Dec-10	1,401	29	92,592	0.02	23	61	4,026
Jan-11	1,320	21	77,625	0.02	21	63	3,696

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third party Messages

Multiple third parties Message Type (MT 102) decreased by 19.4 percent from 10,646 transaction messages in December 2010 to 8,580 transaction messages in January 2011, while single third party Message Type (MT 103) decreased by 15.1 percent from 87,204 transaction messages to 74,004 transaction messages over the same period. Overall, total third party messages through KEPSS decreased by 15.6 percent from 97,850 transaction messages in December 2010 to 82,584 transaction messages in January 2011.

Compared with January 2010, multiple third parties messages (MT 102) increased by 30.6 percent from 6,570 transaction messages to 8,580 transaction messages in January 2011, while single third party messages (MT 103) increased by 50.8 percent from 49,061 transaction messages to 74,004 transaction messages (Table 5.4 and Chart 5C).

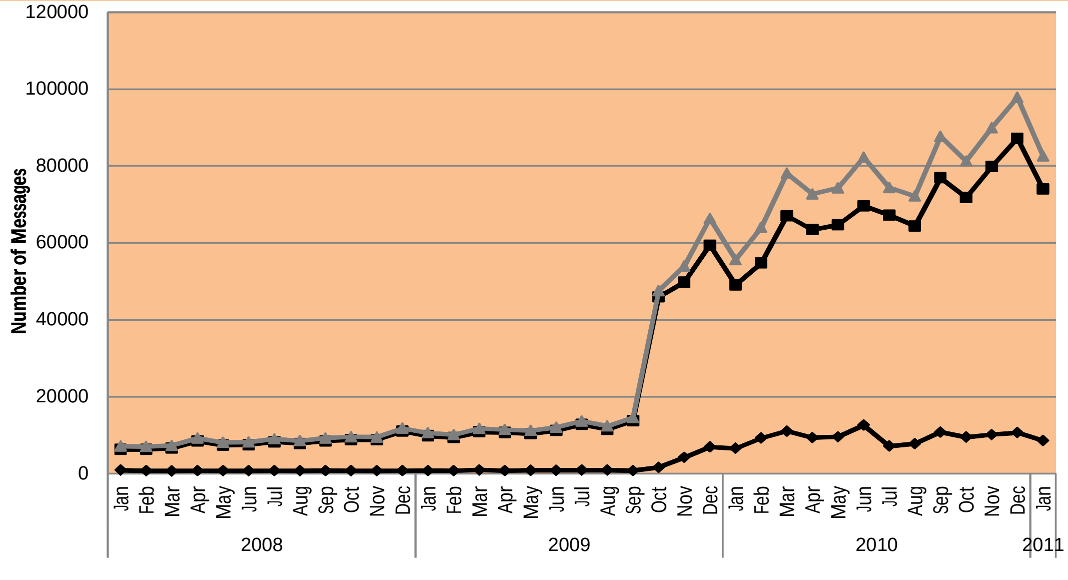
Inter-bank transfers (MT 202) accounted for 34.3 percent of the total value moved through KEPSS as at end of January 2011 while third party messages accounted for 65.7 percent. The total number of third party messages (MT 102 and MT 103) grew by 48.4 percent from 55,631 messages in January 2010 to 82,584 messages in January 2011.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2009	January	786	9,815	10,601
	February	740	9,376	10,116
	March	929	10,832	11,761
	April	758	10,671	11,429
	May	852	10,351	11,203
	Jun	866	11,194	12,060
	Jul	879	12,778	13,657
	Aug	875	11,511	12,386
	Sep	813	13,740	14,553
	Oct	1639	45,940	47,579
	Nov	4214	49,759	53,973
	Dec	6928	59,418	66,346
2010	Jan	6570	49,061	55,631
	Feb	9238	54,747	63,985
	Mar	11038	67,052	78,090
	Apr	9345	63,396	72,741
	May	9564	64,707	74,271
	Jun	12601	69,659	82,260
	Jul	7165	67,216	74,381
	Aug	7787	64,385	72,172
	Sep	10806	76,910	87,716
	Oct	9470	71,779	81,249
	Nov	10150	79,819	89,969
	Dec	10646	87,204	97,850
2011	Jan	8580	74,004	82,584

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

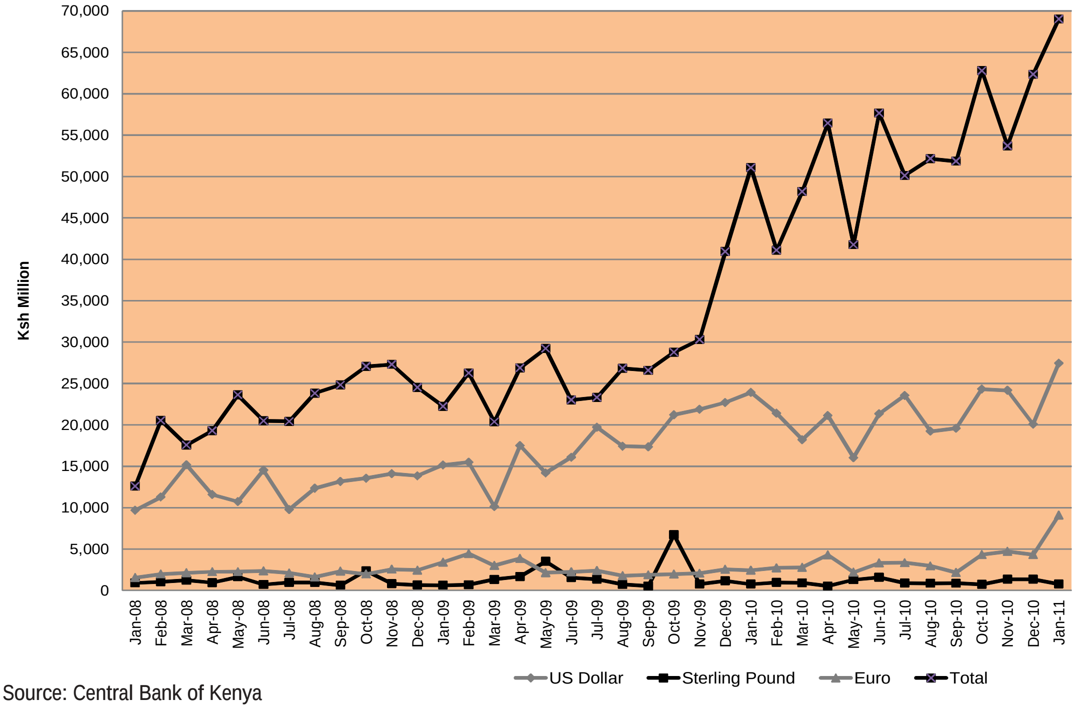


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS decreased by 11.5 percent from 6,710 transaction messages in December 2010 to 5,939 transaction messages in January 2011. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period decreased by 28.4 percent from Ksh 69.0 billion to Ksh 49.4 billion. The US dollar accounted for 91.28 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 2.3 percent and 6.5 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 seven months of fiscal year 2010/11 resulted in a deficit of Ksh 70.2 billion on commitment basis compared with a deficit of Ksh 60.1 billion in a similar period of fiscal year 2009/10 (Table 6.1). As a result, the deficit, as percent of GDP increased from 2.4 percent to 2.7 percent. Similarly, on adjustment to cash basis, the deficit as percent of GDP increased from 2.5 percent to 2.7 percent . Despite the increase the deficit remained within the set target of 5.5 percent as a percent of GDP, on commitment basis.

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

	FY 2009/10	FY 2010/11		
	Jan Actual	Jan Prov	Target	Over (+) / below(-) Target
1. TOTAL REVENUE	314.41	362.57	400.05	-37.48
Revenue	304.53	350.72	377.18	-26.46
Tax Revenue	271.55	313.65	323.13	-9.49
Non Tax Revenue	8.59	12.67	12.59	0.08
Appropriations-in-Aid	24.39	24.41	41.46	-17.05
External Grants	9.9	11.9	22.9	-11.0
2. TOTAL EXPENSES & NET LENDING	374.2	432.8	544.4	-111.6
Recurrent Expenses	282.4	320.2	347.2	-27.0
Development Expenses	91.8	112.6	197.2	-84.6
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-60.1	-70.2	-144.3	-74.1
As percent of GDP	-2.4	-2.7	-5.5	
4. ADJUSTMENT TO CASH BASIS	-1.7	0.0	0.0	0.0
5. DEFICIT ON A CASH BASIS	-61.8	-70.2	-144.3	-74.1
As percent of GDP	-2.5	-2.7	-5.5	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	5.5	13.1	0.0	
7. FINANCING	67.2	83.3	144.3	-61.0
Domestic (Net)	66.2	69.9	97.9	-28.0
External (Net)	1.0	13.3	46.4	-33.0
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: Treasury

Revenue

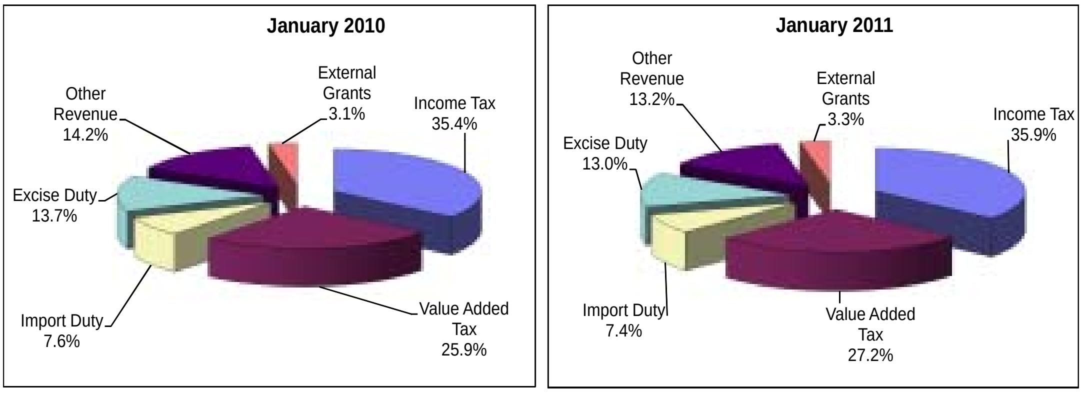
In the period July 2010 to January 2011, government revenue and grants increased to Ksh 362.6 billion compared with Ksh 314.4 billion in a similar period of the fiscal year 2009/10, but fell short of the target by Ksh 37.5 billion (or 9.4 percent of the revenue target). Total expenses and net lending increased from Ksh 374.2 billion to Ksh 432.8 billion, which was below the targeted spending of Ksh 544.4 billion (Table 6.2 and Chart 6A).

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Jan-10 Ksh bn	Jan-11 Ksh bn	Change
1. Revenue (2+3+4)	**304.5**	**350.7**	**46.2**
2. Tax Revenue	271.5	313.6	42.1
Income Tax	111.3	130.2	18.9
Value Added Tax	81.3	98.6	17.3
Import Duty	24.0	26.8	2.8
Excise Duty	43.1	47.2	4.1
Others	11.8	10.8	-1.0
3. Appropriations-in-Aid	24.4	24.4	0.0
4. Other Revenue	8.6	12.7	4.1
5. External Grants	**9.9**	**11.9**	**2.0**
TOTAL RECEIPTS (1+5)	**314.4**	**362.6**	**48.2**

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Despite the shortfall, the tax revenue expanded by 15.2 percent from Ksh 304.5 billion in the first seven months of the fiscal year 2009/10 to Ksh 350.7 billion during a similar period of the fiscal year 2010/11. The improvement was recorded in all categories of taxes and in appropriations in aid. The main components of tax revenue, namely, income tax and value added tax (VAT) grew by 17.0 percent and 21.3 percent, respectively, during the period. External grants receipts increased by Ksh 2.0 billion to Ksh 11.9 billion compared with Ksh 9.9 billion.

Expenditure and Net Lending

Total Government expenditure and net lending in the fiscal year to January 2011 increased by Ksh 58.6 billion (or a growth of 15.7 percent) to Ksh 432.8 billion (Table 6.1). The increase comprised Ksh 37.8 billion (13.4 percent increase) and Ksh 20.8 billion (22.7 percent increase) in recurrent and development expenditures, respectively.

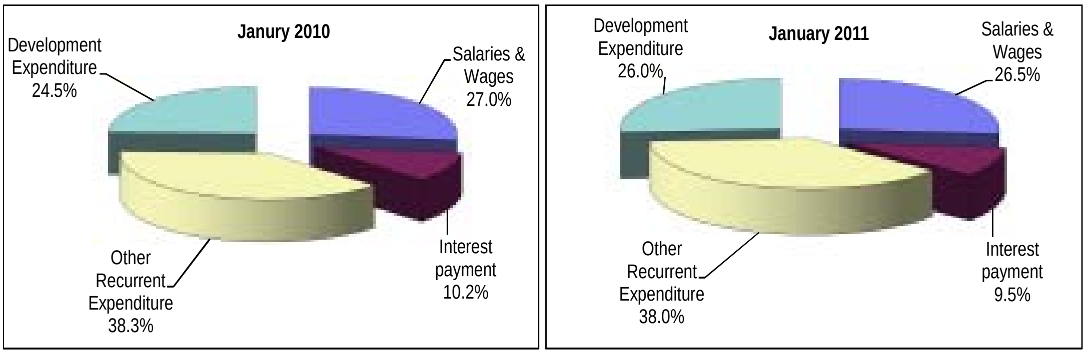
The increase in recurrent expenditure was reflected in all components (Table 6.3 and Chart 6B). Expenditure and net lending targets were, however, missed by Ksh 111.6 billion. Specifically, recurrent expenses were below target by Ksh 27 billion, while development expenses fell below target by Ksh 84.6 billion.

TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Jan-10 Ksh bn	Jan-11 Ksh bn	Movement
1.Recurrent	282.4	320.2	37.8
Salaries & Wages	101.2	114.8	13.6
Total Interest	38.0	40.9	2.9
of which			
Domestic*	34.4	36.7	2.3
Foreign interest due	3.6	4.2	0.5
Others	143.2	164.5	21.3
2. Development	**91.8**	**112.6**	**20.8**
TOTAL EXPENSES	**374.2**	**432.8**	**58.5**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

Between July 2010 and January 2011 of fiscal year 2010/11, budgetary operations of the Government created a financing requirement of Ksh 83.3 billion compared with Ksh 67.2 billion in a similar period of fiscal year 2009/10. The Govenment funded the deficit through net domestic borrowing of to Ksh 69.2 billion and net external borrowing of Ksh 12.4 billion (Table 6.4).

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

I. FINANCING REQUIREMENTS	July-Jan 10	July-Jan 11
1. Budget deficit	67.2	83.3
2. External debt reduction	0.0	0.0
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	0.0
TOTAL	**67.2**	**83.3**
II. FINANCING SOURCES	**July-Jan 10**	**July-Jan 11**
1. Budget surplus	0.0	0.0
2. External debt increase	0.0	12.4
3. Increase in domestic debt	60.9	69.2
3.1 Central Bank	4.7	0.0
3.2 Commercial banks	33.9	25.9
3.3 Non-bank sources	22.3	43.2
4. Reduction in GoK deposits at CBK	6.3	1.7
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	67.2	83.3

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

As a stock, Government indebtedness to the Central Bank increased by Ksh 6.9 billion from Ksh 42.5 billion in January 2010 to Ksh 49.5 billion in January 2011. The increase in Government indebtedness to Central Bank resulted from a rise in the utilization of the Government overdraft by Ksh 8.4 billion which was reduced by an amortization of the pre-1997 overdraft by Ksh 1.0 billion and reduction of IMF funds on-lent to Government by Ksh 0.5 billion in January 2011 (Table 6.5).

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

	2010 Jan	2011 Jan	Movement
Total Credit	**42.54**	**49.49**	**6.95**
1. Overdraft	9.18	17.63	8.45
2. Rediscounted securities	0.02	0.02	0.01
Treasury bills	0.01	0.01	0.00
Treasury bonds	0.01	0.01	0.00
3. Pre-1997 Government Overdraft at CBK	32.77	31.78	-0.99
4. IMF funds onlent to Government	0.47	0.00	-0.47
5. Cleared items in transit	0.10	0.05	-0.05
Memorandum			
Authorised overdraft limit	**21.00**	**22.93**	**11.60**
Amount utilised to date	9.18	17.63	17.59
Amount available	11.82	5.30	-5.99

Source: Central Bank of Kenya

Outlook for FY 2010/11

In the budget estimates for the fiscal year 2010/11, Government revenue excluding external grants is estimated at Ksh 689.6 billion (24.9 percent of GDP) while external grants are estimated at Ksh 40.4 billion (1.5 percent of GDP). Government expenditure is estimated at Ksh 918.0 billion or 33.2 percent of GDP. The main components of expenditure includes Ksh 592.5 billion (21.3 percent of GDP) in recurrent expenditure and Ksh 323.6 billion or 11.7 percent of GDP in development expenditure (Table 6.6)

TABLE 6.6: BUDGET ESTIMATES FOR THE FISCAL YEAR 2010/11 (Ksh Billion)

	Ksh (B)	% of GDP
1. TOTAL REVENUE	730.0	26.4
Revenue	689.6	24.9
Tax Revenue	586.8	21.2
Non Tax Revenue	22.8	0.8
Appropriations-in-Aid	80.0	2.9
External Grants	40.4	1.5
2. TOTAL EXPENSES & NET LENDING	**918.0**	**33.2**
Recurrent Expenses	592.5	21.4
Development Expenses	323.6	11.7
Civil Contigency Fund	2.0	0.1
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-188.0**	**-6.8**
4. ADJUSTMENT TO CASH BASIS	0.0	0.0
5. DEFICIT ON A CASH BASIS	**-188.0**	**-6.8**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	0.0	0.0
7. FINANCING	**188.0**	**6.8**
Domestic (Net)	105.3	3.8
External (Net)	82.7	3.0

Source: Central Bank of Kenya

The overall budget deficit including grants is estimated at Ksh 188.0 billion (6.8 percent of GDP) in fiscal year 2010/11. The deficit will be financed through net external borrowing of Ksh 82.7 billion (3.0 percent of GDP) and net domestic borrowing of Ksh 105.3 billion (3.8 percent of GDP).

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt Kenya's public debt increased by 10 percent between July 2010 and January 2011 to Ksh 1,325.8 billion by end January 2011. The overall debt as a percentage of GDP increased from 48.1 percent to 50.7 percent. The domestic component of the public debt increased from Ksh 660.3 billion in June 2010 to Ksh 726.3 billion in January 2011. Over the same period, external debt increased from Ksh 565.5 billion to Ksh 599.5 billion. Relative to GDP, the share of external debt to GDP increased from 22.2 percent to 22.9 percent, while that of domestic debt increased from 25.9 percent to 27.8 percent (Table 7.1).

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

	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Change 2010/11
EXTERNAL* **									
Bilateral	196.3	195.2	196.7	211.2	212.9	213.4	214.4	214.6	18.2
Multilateral	348.6	346.3	348.4	361.4	363.6	364.3	363.5	363.6	15.0
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	20.5	20.5	20.5	21.6	21.6	21.6	21.3	21.3	0.9
Sub-Total	**565.5**	**562.0**	**565.6**	**594.2**	**598.1**	**599.3**	**599.2**	**599.5**	**34.1**
(As a % of GDP)	22.2	23.1	22.9	23.8	23.7	23.4	23.2	22.9	
(As a % of total debt)	46.1	45.7	44.8	45.7	46.2	45.7	45.4	45.2	
DOMESTIC/[1]									
Banks	**401.8**	**405.9**	**420.8**	**420.4**	**412.4**	**416.8**	**422.3**	**426.2**	**24.3**
Central Bank	51.9	49.6	57.0	54.6	53.8	56.8	56.6	51.2	-0.7
Commercial Banks	350.0	356.3	363.8	365.8	358.6	360.0	365.7	375.0	25.0
Non-banks	**255.3**	**258.5**	**272.7**	**279.7**	**279.2**	**290.6**	**293.8**	**293.9**	**38.6**
Non-bank Financial Institutions	3.0	3.0	2.9	2.8	2.6	2.6	2.6	2.5	-0.4
Other Non-bank Sources	252.4	255.5	269.7	276.9	276.6	288.0	291.2	291.3	39.0
Non-residents	**3.1**	**3.4**	**4.6**	**4.6**	**4.5**	4.1	4.2	6.3	3.2
Sub-Total	**660.3**	**667.8**	**698.0**	**704.7**	**696.1**	**711.4**	**720.3**	**726.3**	**66.1**
(As a % of GDP)	25.9	27.4	28.3	28.2	27.5	27.8	27.8	27.8	
(As a % of total debt)	53.9	54.3	55.2	54.3	53.8	54.3	54.6	54.8	
GRAND TOTAL	**1225.7**	**1229.8**	**1263.7**	**1298.9**	**1294.2**	**1310.7**	**1319.5**	**1325.8**	**100.1**
(As a % of GDP)	48.1	50.5	51.2	52.0	51.2	51.3	51.0	50.7	

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

Note

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

Sources: Treasury and Central Bank of Kenya

Domestic Debt Total domestic debt increased by Ksh 66.0 billion between Julu 2010 and January 2011 to Ksh 726.3 by end January 2011, from Ksh 660.3 billion held in June 2010 (Table 7.2). The accumulation of domestic debt was through Treasury bonds which more than off set adecline in Treasury bills. Treasury bonds outstanding increased by Ksh 90 billion to Ksh 538.6 billion, while Treasury bill issues (excluding REPO bills) declined by Ksh 22.5 billion. to Ksh 136.6 billion in January 2011. Non-interest bearing debt increased by Ksh 1.3 billion to Ksh 33.6 billion by end January 2011.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2010														2011		Change
	June	%	July	%	Aug	%	Sept	%	Oct	%	Nov	%	Dec	%	Jan	%	Jun-10-Jan-11
Total stock of Domestic Debt (A+B)	660.3	100.0	667.8	100.0	698.0	100.0	704.7	100.0	696.1	100.0	711.4	100.0	720.3	100.0	726.3	100.0	66.1
A. Government Securities	640.6	97.0	650.5	97.4	673.3	96.4	682.4	96.8	674.5	96.9	686.9	96.6	696.0	96.6	708.7	97.6	68.1
1. Treasury Bills (excluding Repo Bills)	159.0	24.1	158.2	23.7	151.8	21.7	148.9	21.1	144.2	20.7	136.9	19.2	133.9	18.6	136.6	18.8	-22.5
Banking institutions	133.8	20.3	138.4	20.7	131.6	18.9	122.6	17.4	116.6	16.7	109.6	15.4	106.9	14.8	108.1	14.9	-25.7
Others	25.3	3.8	19.8	3.0	20.2	2.9	26.3	3.7	27.6	4.0	27.3	3.8	27.0	3.7	28.5	3.9	3.2
2. Treasury Bonds	448.6	67.9	459.3	68.8	488.5	70.0	501.2	71.1	498.1	71.6	517.8	72.8	529.9	73.6	538.6	74.2	90.0
Banking institutions	212.5	32.2	218.0	32.6	232.2	33.3	243.2	34.5	242.0	34.8	250.4	35.2	258.8	35.9	266.9	36.7	54.4
Others	236.1	35.8	241.3	36.1	256.3	36.7	258.0	36.6	256.1	36.8	267.4	37.6	271.0	37.6	271.7	37.4	35.5
3. Long term Stocks	0.8	0.1	0.8	0.1	0.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.8
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	0.1	0.8	0.1	0.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.8
4. Pre-1997 Government Overdraft at CBK	32.2	4.9	32.2	4.8	32.2	4.6	32.2	4.6	32.2	4.6	32.2	4.5	32.2	4.5	33.6	4.6	1.3
Of which: Repo T/Bills	32.2	4.9	32.2	4.8	32.2	4.6	32.2	4.6	32.2	4.6	32.2	4.5	32.2	4.5	30.8	4.2	-1.4
B. Others:	19.6	3.0	17.4	2.6	24.8	3.6	22.3	3.2	21.6	3.1	24.5	3.4	24.4	3.4	17.6	2.4	-2.0
Of which CBK overdraft to Government	17.6	2.7	15.5	2.3	22.9	3.3	20.6	2.9	20.0	2.9	22.9	3.2	22.7	3.1	17.6	2.4	0.0

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

Outstanding Treasury bills declined from Ksh 159 billion in June 2010 to Ksh 136.6 billion in January 2011. The decline was reflected in all categories of investors in Treasury bills (Table 7.3). Treasury bills declined because of the low returns.

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

	2010								2011	
Holders	Jan	%	Jun	%	Nov	%	Dec	%	Jan	%
Banking Institutions	111.2	78.5	134.0	84.3	109.6	80.0	106.9	79.9	108.1	79.1
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	111.2	78.4	133.8	84.1	109.6	80.0	106.9	79.9	108.1	79.1
NBFIs	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	11.7	8.2	8.8	5.5	4.6	3.4	4.2	3.1	4.1	3.0
Parastatals	2.9	2.0	1.9	1.2	2.3	1.7	2.5	1.9	2.6	1.9
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	8.3	5.8	4.6	2.9	4.6	3.3	5.2	3.8	3.2	2.3
Others	7.7	5.5	9.7	6.1	15.9	11.6	15.1	11.3	18.6	13.6
Total*	141.7	100.0	159.0	100.0	136.9	100.0	133.9	100.0	136.6	100.0

* Excludes repurchase order bills

Source: Central Bank of Kenya

Treasury Bonds

Outstanding Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 538.6 billion in January 2011. Banking institutions held Ksh 215.3 billion or 50.0 percent of the bonds by January 2011. The balance was held by pension funds (19.1 percent), insurance companies (12.3 percent), parastatals (8.2 percent) and other holders (10.3 percent) (Table 7.4).

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

	2010												2011	
Holders	Jan	%	Jun	%	Sept	%	Oct	%	Nov	%	Dec	%	Jan	%
Banking Institutions	185.67	46.95	215.28	47.99	245.99	49.08	244.65	49.11	253.09	48.88	261.45	49.34	269.44	50.03
Central Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Comm. Banks	184.57	46.67	212.49	47.36	243.24	48.53	242.03	48.59	250.42	48.36	258.83	48.85	266.90	49.56
NBFIs	1.10	0.28	2.79	0.62	2.74	0.55	2.62	0.53	2.67	0.52	2.62	0.50	2.54	0.47
Insurance Companies	47.98	12.13	54.77	12.21	62.10	12.39	61.48	12.34	63.33	12.23	65.90	12.44	66.25	12.30
Parastatals	34.04	8.61	38.22	8.52	44.24	8.83	44.12	8.86	44.68	8.63	44.47	8.39	44.20	8.21
Of which: NSSF	16.61	4.20	20.19	4.50	20.98	4.19	23.14	4.65	21.51	4.15	26.41	4.98	21.41	3.98
Building Societies	0.42	0.11	0.35	0.08	0.35	0.07	0.31	0.06	0.31	0.06	0.31	0.06	0.31	0.06
Pensions Fund	66.67	16.86	80.06	17.85	89.35	17.83	90.66	18.20	96.20	18.58	98.92	18.67	103.03	19.13
Others	60.68	15.34	59.92	13.36	59.20	11.81	56.91	11.42	60.18	11.62	58.82	11.10	55.33	10.27
Total	395.46	100.00	448.62	100.00	501.23	100.00	498.14	100.00	517.79	100.00	529.87	100.00	538.57	100.00

Source: Central Bank of Kenya

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

	2010										2011		Change Jun-10 to Jan-11
	Jan	%	Jun	%	Oct	%	Nov	%	Dec	%	Jan	%	
91-Day	21.129	3.933	23.663	3.898	29.709	4.625							-23.663
182-Day	91.956	17.119	85.337	14.056	74.980	11.674	2.675	9.644	2.624	9.464	2.544	9.175	-82.793
364-Day	28.621	5.328	49.494	8.152	39.474	6.146	0.000	0.000	0.000	0.000	0.000	0.000	-49.494
1-Year	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
2-Year	43.343	8.069	46.577	7.672	55.665	8.666	63.334	228.379	65.901	237.637	66.252	238.903	19.675
3-Year	5.781	1.076	1.781	0.293	1.781	0.277	44.681	161.118	44.467	160.347	44.199	159.380	42.418
4-Year	7.307	1.360	3.384	0.557	3.384	0.527	21.512	77.572	26.405	95.216	21.413	77.216	18.030
5-Year	66.698	12.417	86.582	14.261	86.582	13.480	0.310	1.119	0.310	1.119	0.310	1.119	-86.271
6-Year	37.076	6.902	59.114	9.737	70.789	11.021	96.198	346.886	98.923	356.711	103.032	371.528	43.918
7-Year	24.154	4.496	21.353	3.517	26.957	4.197	-207.198	-747.147	-212.226	-765.277	-216.338	-780.106	-237.691
8-Year	17.944	3.341	29.573	4.871	29.573	4.604	0.000	0.000	0.000	0.000	0.000	0.000	-29.573
9-Year	12.615	2.348	17.760	2.925	27.732	4.318	27.732	10.284	27.732	10.284	27.732	10.284	9.972
10-Year	57.038	10.618	69.090	11.380	69.090	10.757	82.938	30.757	82.938	30.757	84.050	31.169	14.960
11-Year	4.031	0.750	4.031	0.664	4.031	0.628	4.031	1.495	4.031	1.495	4.031	1.495	0.000
12-Year	47.390	8.822	20.066	3.305	20.066	3.124	20.066	7.441	20.066	7.441	20.066	7.441	0.000
15-Year	51.723	9.629	61.935	10.202	61.935	9.643	61.935	22.968	69.264	25.686	69.264	25.686	7.329
20-Year	20.361	3.790	20.361	3.354	20.361	3.170	20.361	7.551	20.361	7.551	20.361	7.551	0.000
25-Year			7.008	1.154	20.193	3.144	20.193	7.488	20.193	7.488	20.193	7.488	13.184
Total	**537.167**	**100.000**	**607.110**	**100.000**	**642.301**	**100.000**	**261.442**	**175.202**	**273.615**	**195.383**	**269.654**	**177.506**	

Source: Central Bank of Kenya

Maturity Profile of Treasury Bills and Bonds

Treasury bonds outstanding increased from Ksh 448.6 billion in June 2010 to Ksh 538.6 billion in January 2011 (Table 7.4). The share of Treasury bonds in gross domestic debt also increased from 67.9 percent in June 2010 to 74.2 percent in January 2011 (Table 7.2).

Analysis of the maturity profile of Treasury bonds and bills shows that the 5-year, 10-year and 15-year Treasury bonds have consistently continued to account for the largest proportion of outstanding Government securities. In June 2010, the respective shares of these bonds were 14.3 percent, 11.4 percent and 10.2 percent, which increased further to 15.3 percent, 12.4 percent and 10.3 percent, respectively, by end January 2011 (Table 7.5).

Regarding Treasury bills maturities, the 182-day tenor leads with a share of 9.1 percent in January 2011.

Government securities worth Ksh 89.1 billion will fall due in the three months to end March 2011. Treasury bills accounted for Ksh 73.8 billion, or 82.9 percent were in

Treasury bills, the remainder are Treasury bonds. The high turnover of Treasury bill redemptions reflect their short-dated nature as compared with Treasury bonds. Treasury bill maturities in the period comprise Ksh 28.4 billion, Ksh 36.6 billion and Ksh 8.8 billion in 91-days, 182-days and 364-days Treasury bills, respectively, while Treasury bonds maturing during this period comprise Ksh 8.7 billion in 2-year fixed rate bonds, Ksh 3.4 billion in 4-year fixed rate bonds, Ksh 2.7 billion in 7-year fixed rate bonds and Ksh 0.6 billion in 3-year pending bills.

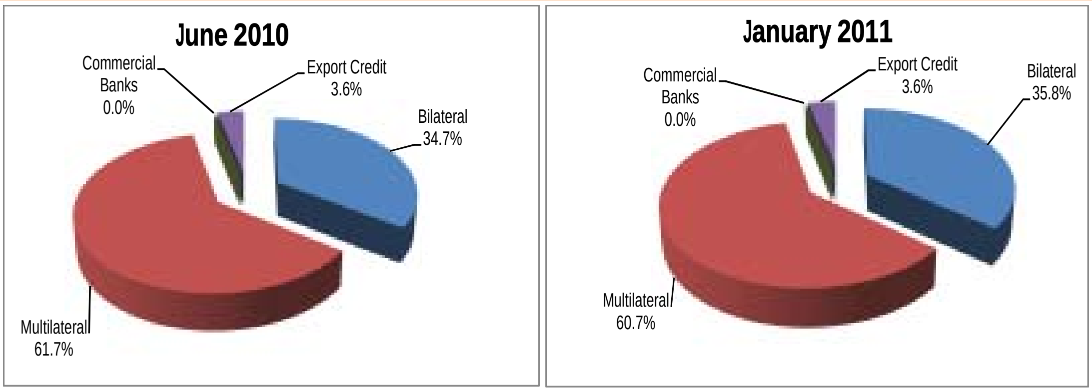
External Debt

Kenya's external debt increased by Ksh 34.0 billion from Ksh 565.5 billion (USD 6.9 billion) in June 2010 to Ksh 599.5 billion (USD 7.4 billion) in January 2011 (Table 7.1). The debt owed to multilateral lenders who are the dominant creditor, increased from Ksh 348.6 billion in June 2010 to Ksh 363.6 billion in January 2011. Closely following debt to bilateral lenders increased from Ksh 196.3 billion to Ksh 214.6 billion. Export credits and the least contributor to the external debt increased from 20.5 billion in June 2010 to Ksh 21.3 billion in January 2011 (Table 7.1).

Composition of External Debt by Creditor

The percentage of external debt owed to multilateral creditors (including IMF) declined marginally from 61.7 percent to 60.7 percent, that owed to bilateral creditors increased from 34.7 percent to 35.8 percent, while that which is contracted through export credits remained constant at 3.6 percent, in January 2011 compared to June 2010 (Chart 7A).

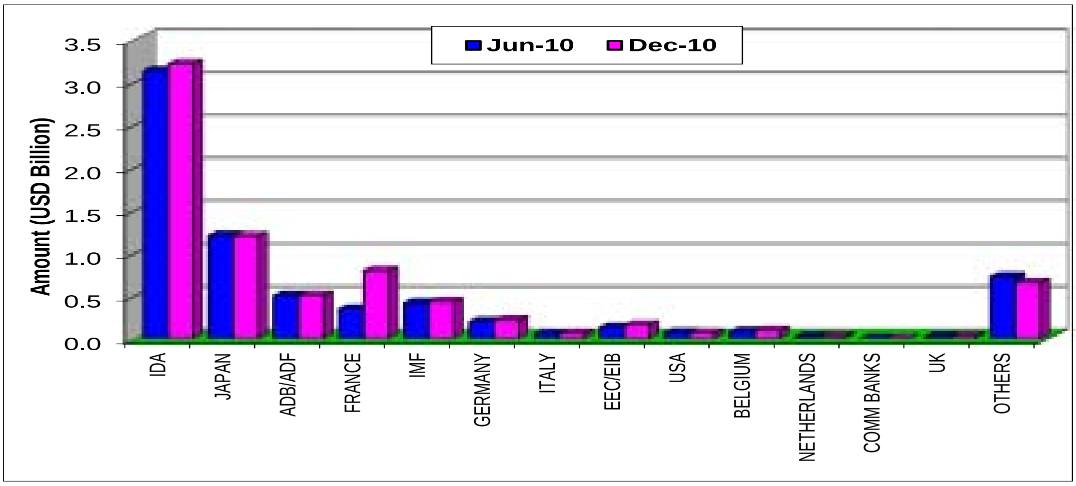
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

As shown in Chart 7B, external debt owed to IDA increased to USD 3.2 billion in December 2010 from USD 3.1 billion in June 2010, while the debt owed to Japan remained virtually constant at USD 1.2 billion in December 2010. The two were the largest multilateral and bilateral creditors to Kenya prospectively during the period.

CHART 7B: EXTERNAL DEBT BY CREDITOR

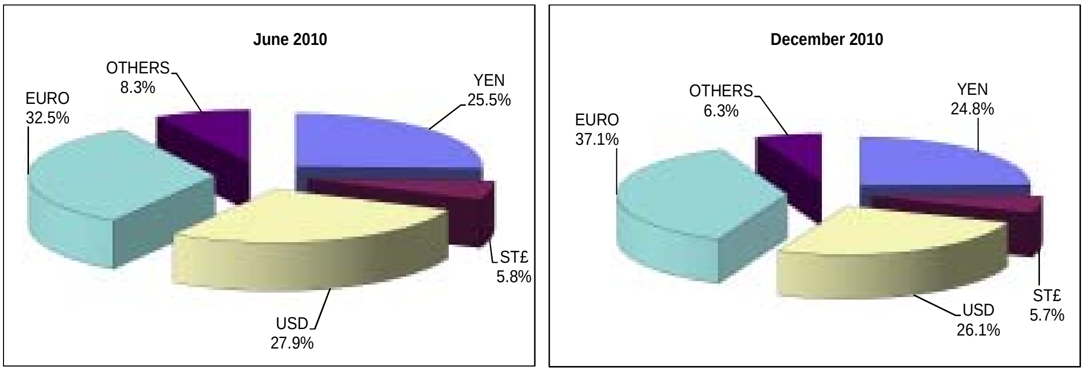


Source: Treasury

Currency Composition of External Debt

In terms of currency over 60 percent of total external debt was held in Euros and US dollars. The percentage of external debt held in US dollars, Japanese Yen, Sterling Pounds and other currencies including SDRs declined to 26.1 percent, 24.8 percent, 5.7 percent and 6.3 percent respectively, from 27.9 percent, 25.5 percent, 5.8 percent and 8.3 percent, held in June 2010. Conversely, debt held in Euros increased significantly from 32.5 percent to 37.1 percent in December 2010 (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt increased by Ksh 3.0 billion from Ksh 31.2 billion incurred in the first half of the fiscal year 2009/10 to Ksh 34.2 billion in the same period of the fiscal year 2010/11, following increased borrowing. The external debt service during the period under review comprised Ksh 11.5 billion in principal repayments and Ksh 3.8 billion in interest payments.

Outlook for the FY 2010/11

The budget estimates for fiscal year 2010/11 projected domestic borrowing at Ksh 105.3 billion or 3.8 percent of GDP, while external borrowing is estimated at Ksh 82.7 billion or 3.0 percent of GDP.

Activity in the Stock Market

Equity Market

Performance at the equities market trended upwards in January 2011 compared to activities in December 2010. All key market indicators in Table 8.1 show upward movement except in the bond market. The number of shares traded in the month rose by 102.7 percent, from 357.6 million in December 2010 to 725.0 million in January 2011. Likewise, equity turnover increased by 60.7 percent to Ksh 9,462 million from Ksh 5,885 million recorded in December 2010. The market capitalization as a measure of equity holders' wealth increased by Ksh 25.289 billion or 2.17 percent to close the month at Ksh 1,192.3 billion. The Nairobi Stock Exchange (NSE) 20 Share Index increased by 32.32 points (0.7 percent) to close at 4,464.92 in January 2011 (Table 8.1 and Chart 8A). Similarly, the Nairobi All Share Index (NASI) gained 1.23 points to close January 2011 at 99.02 in January 2011.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

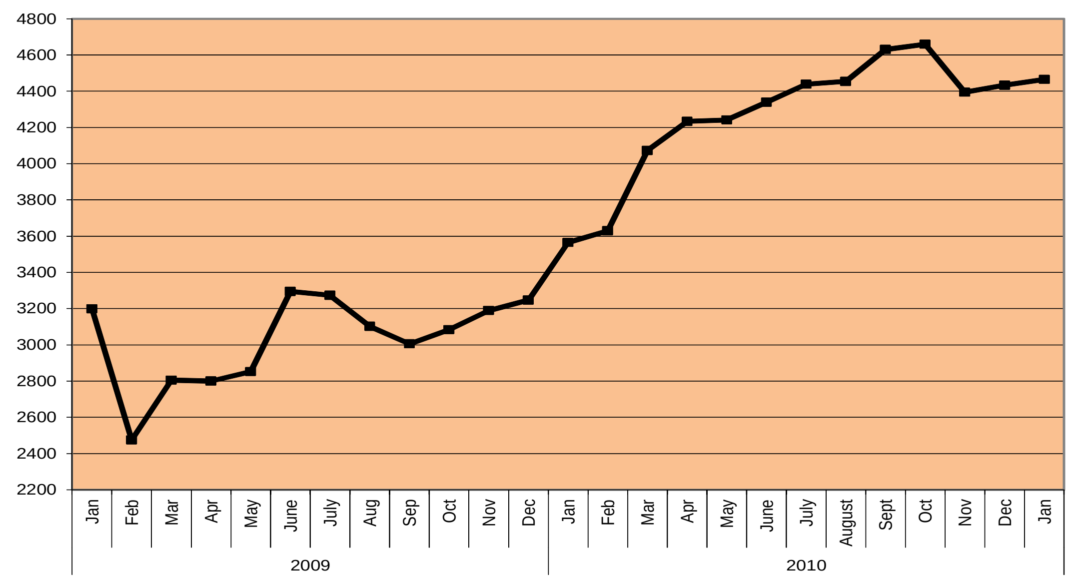
Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
January-09	3,198.90	177.55	2,624.39	777.45	12,458.82
February-09	2,474.75	150.64	1,645.28	611.49	12,555.25
March-09	2,805.03	207.39	2,414.12	688.67	18,520.00
April-09	2,800.10	215.56	2,549.12	683.03	1,370.00
May-09	2,852.57	308.00	3,087.67	693.44	22,310.00
June-09	3,294.56	377.56	4,126.87	821.78	21,600.00
July-09	3,273.10	296.19	3,261.63	826.75	16,650.00
August-09	3,102.68	280.89	3,149.21	785.28	12,890.00
September-09	3,005.41	231.69	3,547.59	771.63	20,930.00
October-09	3,083.63	303.30	4,520.97	783.97	22,380.00
November-09	3,189.55	396.36	4,646.57	825.84	9,210.00
December-09	3,247.44	214.90	2,591.19	831.83	15,940.00
January-10	3,565.28	603.91	6,358.02	910.02	26,750.00
February-10	3,629.41	369.76	4,214.87	922.10	41,638.70
March-10	4,072.93	627.00	8,325.6	983.12	50,411.00
April-10	4,233.24	398.53	6,754.90	1,062.00	23,241.00
May-10	4,241.81	933.53	10,342.00	1,073.00	37,204.50
June-10	4,339.28	364.71	6,804.00	1,108.65	95,241.75
July-10	4,438.58	691.34	11,383.00	1,142.60	63,517.00
August-10	4,454.59	1,030.54	16,173.55	1,136.10	23,189.80
September-10	4,629.80	804.41	7,731.50	1,173.70	30,875.50
October-10	4,659.56	500.96	10,233.33	1,221.85	34,110.00
November-10	4,395.17	498.78	9,301	1,169.17	33, 691.00
December-10	4,432.60	357.61	5,885.41	1,166.99	23,280.00.
January-11	4,464.92	725.05	9,462.18	1,192.28	19,891.30

Source: Nairobi Stock Exchange

The market liquidity ratio doubled to 1.1 percent in January 2011 from 0.55 percent in December 2010, reflecting an increase in the number of shares traded.

The Commercial and Services sector dominated the market, with 491.7million shares traded in January 2011. Safaricom was the most active counter, accounting for 96 percent of all transactions in the sector. Finance and Investment sector had 135.4 million shares changing hands, with Equity Bank being the most active counter with 40.5 million shares traded. The Industrial and Allied sector was third most active sector with 95.4 million shares traded with KPLC counter the most active at 44.6 million shares. Agricultural sector was the least active, trading 2.2 million shares. The National Bank shares gained most value at Ksh 6.75 per share at closing price on the last trading day of January 2011 compared to December 2010. Foreign investors' participation was 41.79 percent in January 2011 up from 28.16 percent in December 2010. The share purchases of Kshs 4.9 billion and sales of Kshs 2.9 billion were recorded in January 2011.

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



Source: Nairobi Stock Exchange

Bond Market

Turnover at the Fixed Income Securities segment of the NSE recorded a 14.6 percent decline in bond trading during the month of January 2011. A total of 247 deals valued Ksh 19,891 million were transacted in January 2011, down from 420 deals worth Ksh 23,280 million traded in December 2010.