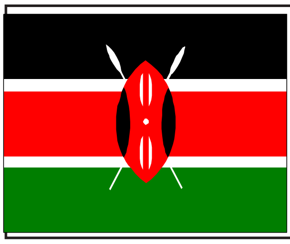

MONTHLY ECONOMIC REVIEW

JANUARY 2012

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

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OVERVIEW

Introduction

This Monthly Economic Review highlights recent economic developments through January 2012. It includes developments in inflation, money, credit and interest rates, the real sector, balance of payments and exchange rates. It also highlights developments in the banking sector, Government budgetary operations, public debt and the stock market.

Inflation

Overall 12-month inflation eased from 19.7 percent in November 2011 to 18.9 percent in December 2011 reflecting a slowdown in food and fuel inflation. Non-food, non-fuel inflation also eased marginally from 10.82 percent in November 2011 to 10.76 percent in December 2011. Annual average inflation, however, rose from 12.8 percent in November 2011 to 14.0 percent in December 2011, reflecting the higher prices in the previous months.

Money Supply

Growth in broad money supply, M3, decelerated to 17.1 percent in the year to January 2012 from 20.4 percent in the year to January 2011 and was within the 20.0 percent target for January 2012. This reflected deceleration in the growth of net domestic assets (NDA) of the banking sector.

Interest Rates

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 18.0 percent in January 2012 for the second consecutive month. The move was aimed at signaling continuation of tight monetary policy to curb inflationary expectations and stabilize the exchange rate. Short term money market rates moved in different directions in the month of January 2012. The weighted average interbank rate decreased to 19.27 percent in January 2012 from 21.75 percent in December 2011, while the repo rate increased to 17.88 percent from 17.75 percent.

Real GDP Growth

The economy grew at 5.6 percent in 2010 compared with 2.6 percent in 2009 and 1.5 percent in 2008. The growth momentum was sustained in the first quarter of 2011 with a quarterly growth rate of 4.9 percent but slowed to 4.1 percent growth in the second quarter of 2011 and to 3.6 percent in the third quarter of 2011. Total output for the third quarter of 2011 amounted to Ksh 399.3 billion compared with output of Ksh 385.3 billion produced in the third quarter of 2010. Except for Electricity and Water Supply, positive growth rates on quarterly production were recorded for all sectors of the economy in the third quarter of 2011.

Balance of Payments

Kenya's overall balance of payments position reduced from a surplus of US$ 199 million in the year to January 2011 to a deficit of US$ 137 million in the year to January 2012. The movement follows the widening of the current account deficit which surpassed improvement in the capital and financial account.

Exchange Rates

The Kenya Shilling posted mixed results against major world currencies in January 2012. Against the US dollar, the shilling appreciated by 0.37 percent to exchange at an average of Ksh 86.34 per US dollar in January 2012 compared with Ksh 86.66 per US dollar in December 2011.

Banking Sector Developments

During the period ended January 31, 2012, the Kenyan Banking sector registered improved growth in assets driven by growth in deposits, injection of capital and retention of profits. The sector registered improved performance in earnings and capital and the level of non-performing loans declined compared with a similar period in 2011.

Government Budgetary Performance

The central Government budgetary operations for July 2011 – January 2012 in the FY 2011/12 resulted in a deficit of Ksh 114.5 billion on commitment basis compared with a deficit of Ksh 70.2 billion incurred in the same period of the FY 2010/11.

Public Debt

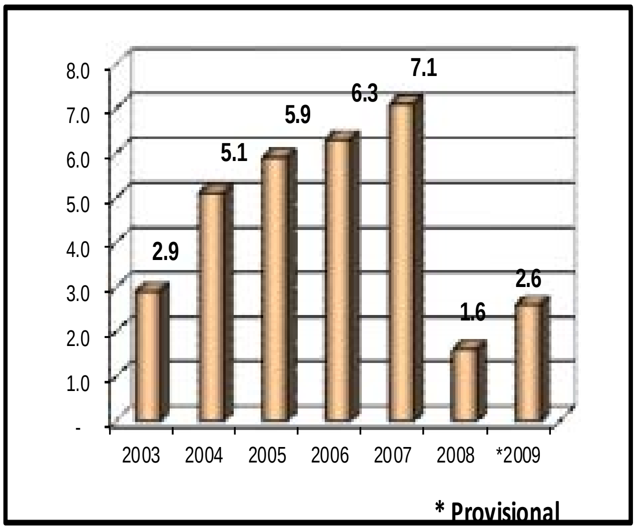
Kenya's public and publicly guaranteed debt increased by Ksh 23.0 billion from Ksh 1,491.5 billion at the end of June 2011 to stand at Ksh 1,514.5 billion in January 2012. The debt-to-GDP ratio declined to 46.0 percent in January 2012 from 54.2 percent in June 2011. Domestic debt to GDP ratio declined from 27.8 percent in June 2011 to 24.6 percent in January 2012. Similarly, external debt to GDP ratio declined from 26.4 percent in June 2011 to 21.4 percent in January 2012. Domestic debt accounted for Ksh 809.3 billion, equivalent to 53.4 percent of total debt.

Stock Market

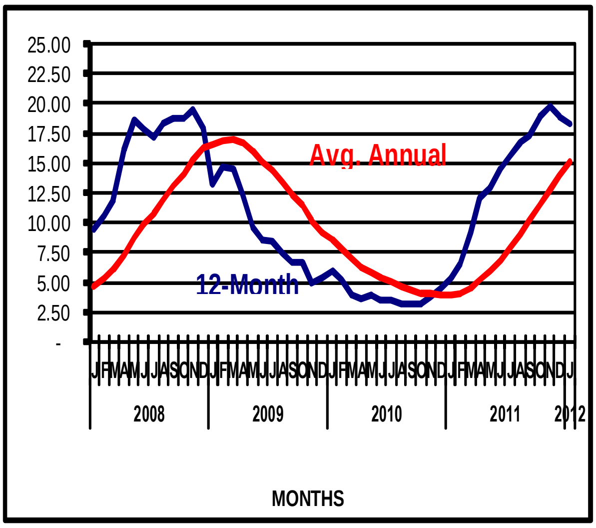
Capital markets recorded improved activity in January, 2012 as reflected in key market indicators. All the indices, FTSE NSE Kenya Index Series, market capitalization and number of shares traded closed in positive territory compared to December 2011. Net foreign investor participation, equity turnover and volume of bonds traded however ,declined.

SELECTED ECONOMIC PERFORMANCE INDICATORS

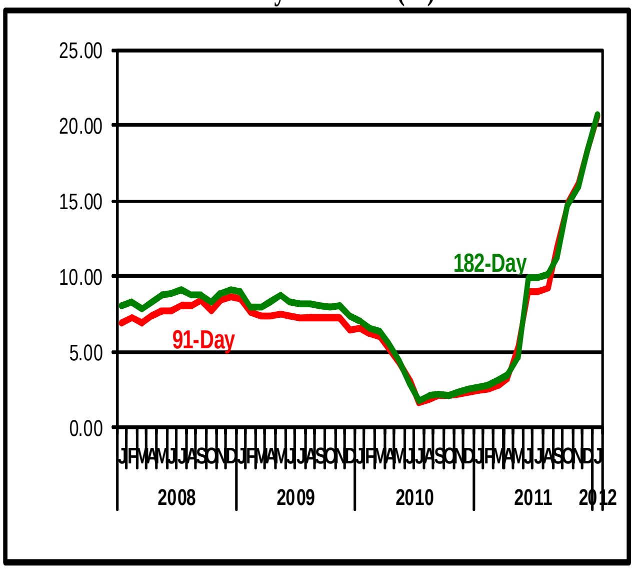
Real GDP Growth (%)



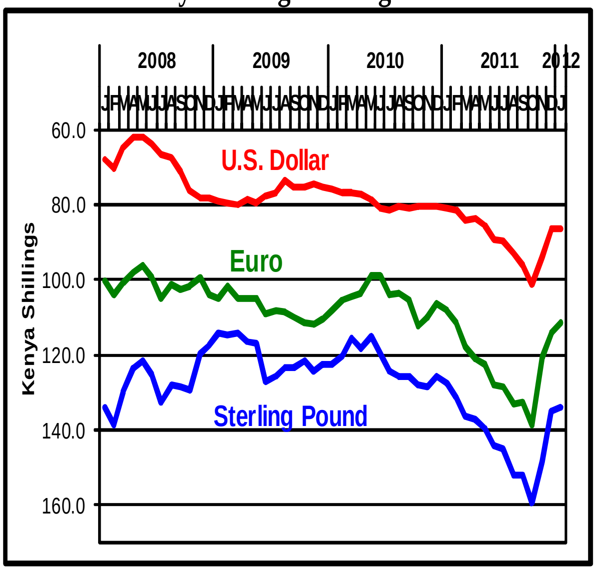
Inflation (%)



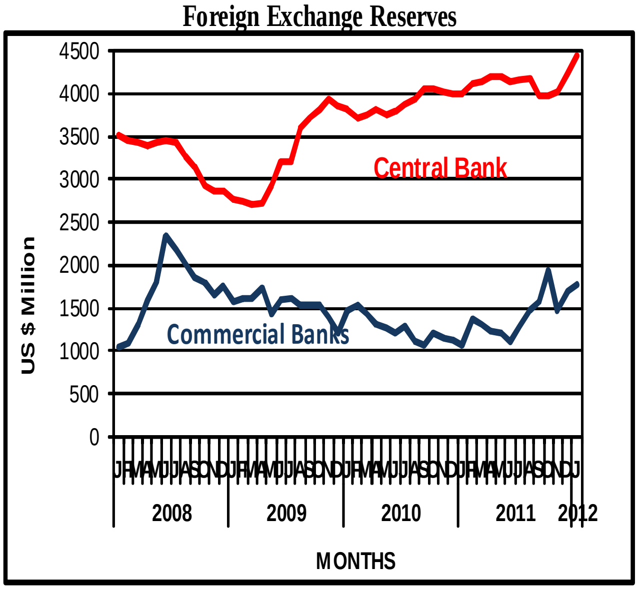
Treasury Bill Rates (%)



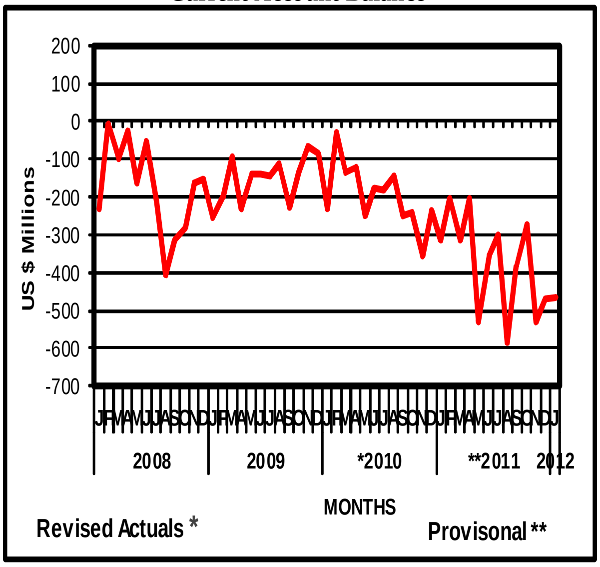
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
1. **POPULATION***											
People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	38.60	39.80
Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	0.78	3.11
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	1,444,113	1,616,010	1,858,856	2,080,003	2,232,676
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	1,622,565	1,833,511	2,111,173	2,365,453	2,551,161
At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,133	1,249,470	1,336,848	1,357,277	1,393,174	1,470,517
Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.33	6.99	1.53	2.64	5.55
Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,480	34,574	35,968	35,523	35,470	36,419
3. **GROSS NATIONAL SAVINGS (% of GDP at mkt prices)[3]**	**12.9**	**10.0**	**8.1**	**10.1**	**12.2**	**13.4**	**14.8**	**13.9**	**16.0**	**13.3**	**12.2**
4. **GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)[3]**	**6.7**	**4.4**	**4.0**	**4.8**	**6.6**	**5.7**	**6.8**	**6.1**	**8.4**	**5.9**	**5.1**
5. **GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)**	**17.4**	**18.8**	**14.9**	**16.4**	**17.1**	**16.9**	**17.9**	**19.0**	**19.2**	**19.4**	**19.3**
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	3.96
12-Month Inflation	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32	4.51
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	4,432.60
Trade Turnover Ratio (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64	0.99
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	560.80
Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91	718.60
Budget Deficit (-) / Surplus (+)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)	157.90
Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(1.54)	0.42	(2.39)	(1.18)	(3.68)	(4.79)	(6.40)
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	1,569.57
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	1,271.64
Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96	222.63
Total Domestic Credit	**331.29**	**334.00**	**364.93**	**405.20**	**473.61**	**498.66**	**575.76**	**668.90**	**827.41**	**978.32**	**1,188.40**
Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	162.78	218.53	277.78
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	910.62
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**	**163.40**
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	-2,511.91
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	2,675.30
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**	**5,122.52**
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	4,001.68
*Months of imports**** *	*2.8*	*3.2*	*3.3*	*4.4*	*4.1*	*4.0*	*3.9*	*4.8*	*3.4*	*4.1*	*3.9*
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	1,120.84
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**	**14.96**
Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72	8.06
As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15	21.67	25.90
External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94	6.90
As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61	22.36	22.20
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**	**79.23**

* 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	2011 Jan	2011 Feb	2011 Mar	2011 Jun	2011 Sep	2011 Dec	2012 Jan
1. INFLATION (%)							
CPI	**110.57**	**112.06**	**114.62**	**120.91**	**125.23**	**130.09**	**130.82**
Overall Inflation							
12-month overall inflation	5.42	6.54	9.19	14.48	17.32	18.93	18.31
Average annual overall inflation	3.93	4.05	4.49	6.88	10.18	14.02	15.10
2. INTEREST RATES (%)							
91-day Treasury bill interest rate	2.46	2.59	2.77	8.95	11.93	18.30	20.56
Overdraft interest rate	13.93	13.65	13.60	13.59	14.64	20.20	20.38
3. STOCK MARKET							
Nairobi Stock Exchange Price Index	4,464.92	4,240.18	3,887.07	3,968.12	3,284.06	3,205.02	3,224.00
Turnover Ratio(%)	1.10	0.51	0.71	0.58	0.79	0.46	0.48
4. GOVERNMENT BUDGET* (Ksh bn.)							
Revenue $ Grants	362.57	408.80	463.90	679.50	159.25	345.66	398.16
Expenses	432.16	489.40	560.00	817.10	179.63	430.93	512.65
Budget Deficit (-) / Surplus (+)	**(69.59)**	**(80.60)**	**(96.10)**	**(137.60)**	**(20.38)**	**(85.26)**	**(114.49)**
5. MONEY AND CREDIT (Ksh bn.)							
Liquidity (L)[1]	1,589.27	1,612.06	1,637.36	1,720.57	1,819.94	1,849.08	1,866.33
Money Supply (M3)[2]	1,285.45	1,306.40	1,324.68	1,380.73	1,484.20	1,489.75	1,514.15
Reserve Money	208.28	209.80	209.40	220.44	236.15	245.37	255.01
Total Domestic Credit	1,207.48	1,237.96	1,261.21	1,344.23	1,481.98	1,516.78	1,505.13
Government	278.59	285.61	289.70	277.81	300.49	327.00	311.58
Private sector and other public sector	928.89	952.35	971.51	1,066.42	1,181.49	1,189.78	1,193.55
6. MONEY AND CREDIT (Annual % Change)							
Liquidity (L)[1]	**22.48**	**22.92**	**21.25**	**19.20**	**19.15**	**18.91**	**18.03**
Money Supply (M3)[2]	20.44	20.48	19.57	15.16	19.35	19.07	17.14
Reserve Money	16.07	19.71	18.00	4.85	12.51	14.54	17.21
Total Domestic Credit	**22.63**	**22.69**	**23.99**	**23.69**	**30.10**	**26.65**	**23.87**
Government	26.24	17.36	17.36	0.04	8.01	12.17	7.95
Private and other public sector	21.59	24.38	26.12	31.81	37.24	31.07	28.64
7. BALANCE OF PAYMENTS (US$ m)							
Overall Balance	**(1.97)**	**24.54**	**20.08**	**(55.13)**	**(184.51)**	**(91.55)**	**(95.81)**
Current Account	(314.62)	(203.65)	(312.59)	(357.57)	(385.11)	(470.90)	(293.24)
Trade Balance	(679.63)	(574.10)	(782.10)	(679.29)	(803.71)	(865.74)	(686.72)
Capital and Financial Account	312.64	228.19	332.67	302.44	200.61	570.00	197.44
8. FOREIGN EXCHANGE RESERVES (US$ m)	5,062.44	5,481.38	5,454.41	5,248.75	5,557.17	6,044.72	6,019.34
Official**	3,991.90	4,117.83	4,137.91	4,142.39	3,986.34	4,247.60	4,144.04
Months of imports cover	3.82	3.92	3.94	3.95	3.60	3.74	3.62
Commercial banks	1,070.54	1,363.55	1,316.49	1,106.36	1,570.83	1,797.12	1,875.30
9. PUBLIC DEBT (US$ bn)	**16.31**	**16.38**	**16.84**	**16.60**	**15.66**	**17.47**	**17.90**
Domestic	8.94	9.07	9.14	8.51	7.65	9.41	9.57
As % of GDP	27.75	30.00	30.48	27.78	27.68	24.32	24.58
External	7.38	7.31	7.70	8.09	8.01	8.06	8.34
As % of GDP	22.91	24.20	25.52	26.43	28.97	20.82	21.42
10. GROSS DOMESTIC DEBT (Ksh bn)* **	726.32	746.86	758.66	764.22	764.27	800.68	809.28
11. AVERAGE EXCHANGE RATE							
Ksh/US$	81.03	81.47	84.21	89.0	96.36	86.66	86.34
Ksh/Pound Sterling	127.70	131.45	136.10	144.4	152.12	135.10	133.94
Ksh/ 100 Yen	98.13	98.65	102.97	110.6	125.55	111.33	112.23
Ksh/Euro	108.16	111.29	117.88	128.1	132.68	114.15	111.42

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

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

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

[1] Previously M3XT

[2] Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

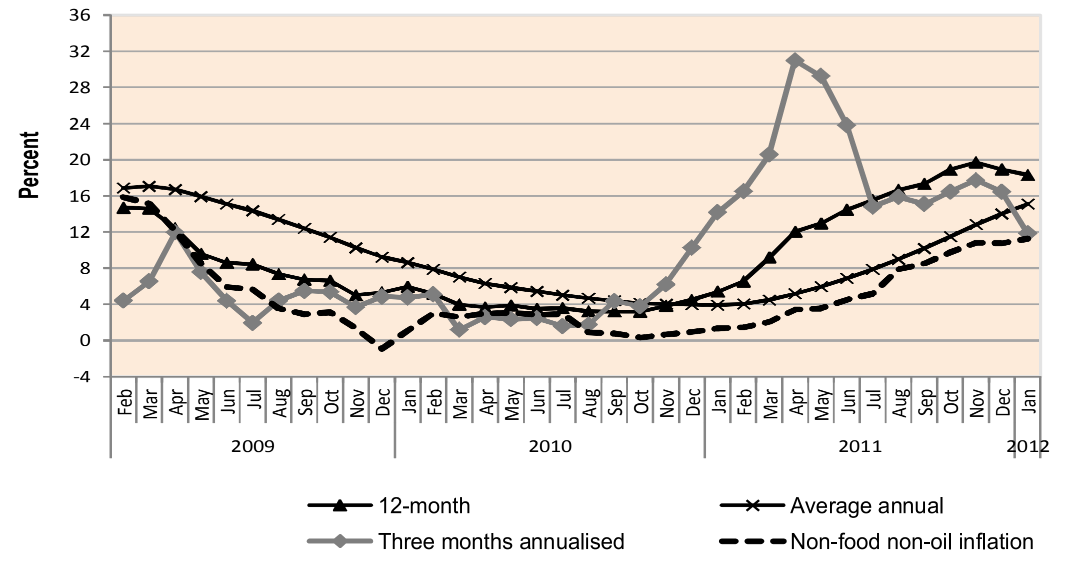
Overall 12-month inflation eased from 19.7 percent in November 2011 to 18.9 percent in December 2011 reflecting a marginal ease in food and fuel inflation. The 'Food and Non-Alcoholic Beverages' price index rose by 25.0 percent between December 2010 and December 2011, while the 'Transport' index rose by 25.6 percent over the same period. Non-food, non-fuel inflation stabilised at 10.8 percent in November and 10.76 percent in December 2011. Annual average inflation rose from 12.8 percent in November 2011 to 14.0 percent in December 2011 as the three months annualized rate of inflation decreased from 17.7 percent to 16.5 percent (Table 1.1 and Chart 1A).

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

Overall Inflation	2010		2011												2012
	Aug	Sep	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
12-month	3.22	3.21	5.42	6.54	9.19	12.05	12.95	14.48	15.53	16.67	17.32	18.91	19.72	18.93	18.31
Average annual	4.69	4.40	3.93	4.05	4.49	5.20	5.96	6.88	7.88	9.00	10.18	11.49	12.82	14.02	15.10
Three months annualised	1.75	4.35	14.16	16.49	20.58	30.98	29.26	23.82	14.81	15.88	15.08	16.47	17.71	16.45	11.86
Non-food non-oil inflation	0.90	0.77	1.34	1.46	2.05	3.42	3.54	4.52	5.17	7.88	8.51	9.75	10.82	10.76	11.27

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 Across Categories of Goods & Services

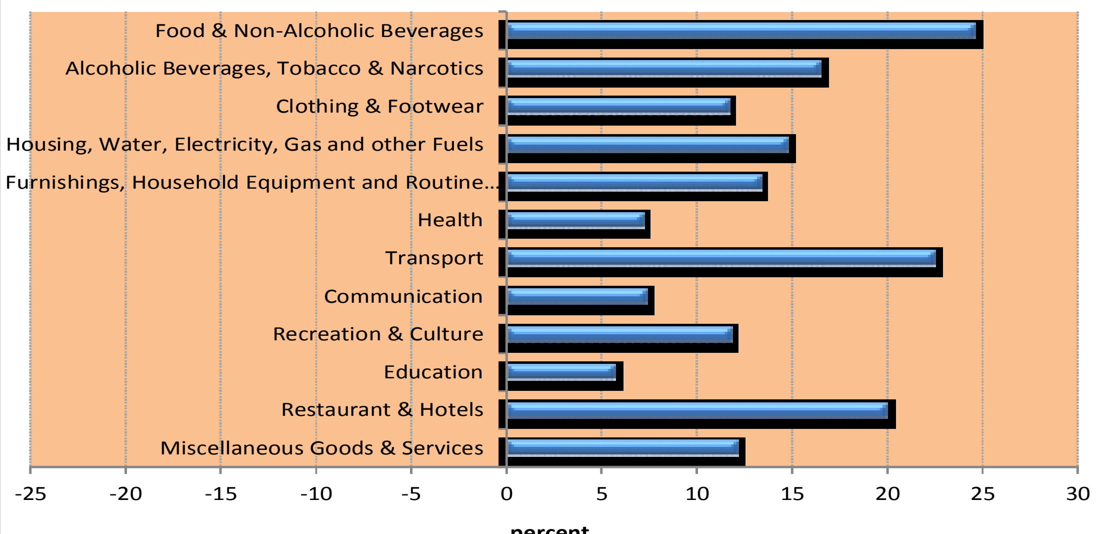
The decline in food prices in December 2011 was reflected in the 'Food and Non-Alcoholic Beverages' and the 'Restaurants and Hotels' indices, which declined to 25.0 percent and 19.9 percent, respectively compared with 26.2 percent and 21.5 percent a month earlier. Notable declines were recorded in the prices of sugar and maize. The 'Transport' index rose by 25.6 percent in December 2011 compared with an increase of 28.0 percent in November 2011. Inflation in the 'Housing, Water, Electricity, Gas and Other Fuels' basket was 16.7 percent in December 2011, down from 17.0 percent in November 2011 reflecting a decline in the cost of electricity.

The other categories of goods and services in the CPI baskets that are non-food non-fuel recorded offsetting price movements as follows:

- Inflation in 'Recreation and Culture', 'Health', and 'Communication' consumption baskets also eased to 11.4 percent, 6.7 percent and 4.9 percent, respectively, in December 2011, from 13.4 percent, 8.2 percent and 5.7 percent a month earlier.
- Inflation in the 'Furnishings, Household Equipment and Routine Household Maintenance', 'Alcoholic Beverages, Tobacco and Narcotics', 'Miscellaneous Goods and Services', and 'Clothing and Footwear' consumption baskets increased to 13.5 percent, 13.1 percent, 11.9 percent, 11.5 percent in December 2011, respectively, from 13.4 percent, 13.0 percent, 11.1 percent and 10.6 percent, in November 2011.
- Inflation in the 'Education' basket remained unchanged at 4.7 percent.

Consequently, non-food, non-fuel inflation was stable for the second consecutive month at 10.76 percent in December 2011 compared with 10.82 percent in November 2011. Developments across all categories of goods and services, and the distribution of weights in the Kenya consumer price index (CPI) are summarized in Chart 1B. Chart 1C shows that 50.1 percent of overall 12-month inflation in December 2011 was attributed to food inflation while inflation in Transport and Housing, Water, Electricity, Gas and Other Fuels categories contributed 12.3 percent and 15.9 percent, respectively.

CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES IN JANUARY 2012 (%)



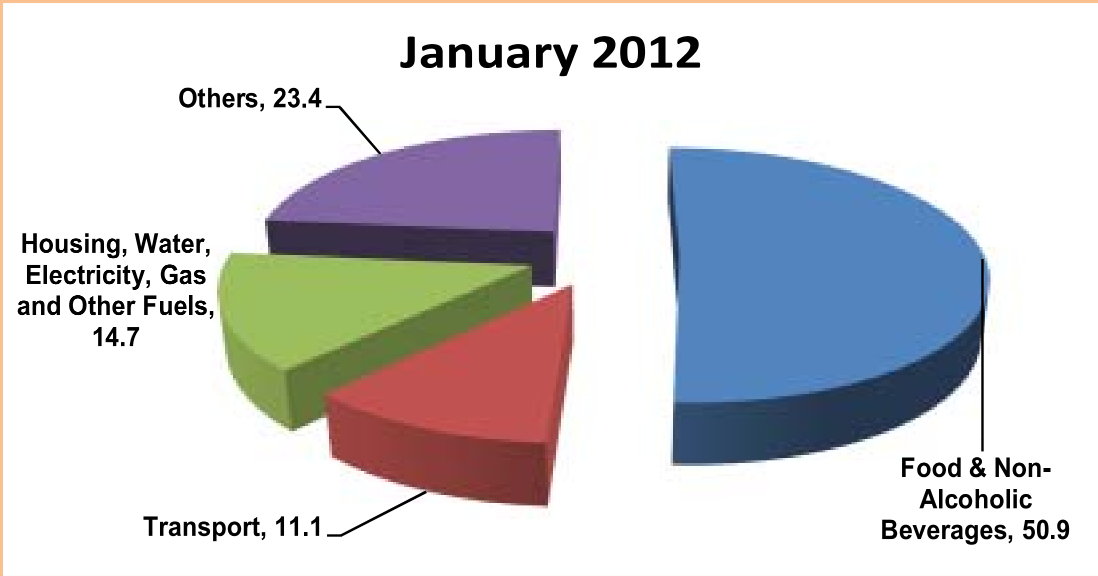
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

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

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12
Combined Nairobi	5.16	6.61	9.48	12.22	12.44	14.24	14.47	15.61	16.50	18.16	19.18	19.23	18.49
Lower Income	5.67	7.46	11.04	14.04	13.97	15.96	16.00	17.14	17.97	19.58	20.62	20.63	20.27
Middle Income	3.60	4.19	5.35	7.56	8.73	9.57	10.15	11.28	12.42	14.33	15.57	15.75	14.07
Upper Income	5.11	5.43	5.38	6.39	6.18	10.14	11.67	12.92	13.15	14.48	13.99	13.69	11.56
Other provinces- excluding Nairobi	5.60	6.49	8.99	11.94	13.31	14.66	16.29	17.43	17.91	19.45	20.10	18.73	18.18
TOTAL KENYA	**5.42**	**6.54**	**9.19**	**12.05**	**12.95**	**14.48**	**15.53**	**16.67**	**17.32**	**18.91**	**19.72**	**18.93**	**18.31**

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

CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION IN JAN 2012



Inflationary pressures were higher in Nairobi compared to other urban centres outside Nairobi as shown in Table 1.3. On average, the prices of goods and services sold in Nairobi rose by 19.2 percent in December 2011 compared with an average increase of 18.7 percent recorded across the rest of Kenya. In Nairobi inflation was higher for the lower income group, at 20.6 percent, followed by the 'Nairobi Lower Income' group and the 'Nairobi Middle Income' at 15.7 percent and 13.7 percent, respectively, in December 2011.

TABLE 1.3: OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (JANUARY 2012)

JANUARY 2012	Weight-CPI Kenya	NAIROBI				REST OF URBAN	TOTAL KENYA
		Lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya Combined	
Food & Non-alcoholic beverages	**36.0**	26.0	18.5	16.7	23.9	25.0	**24.6**
Alcoholic beverages, Tobacco & narcotics	**2.1**	14.1	16.8	6.8	14.5	17.7	**16.4**
Clothing & Footwear	**7.4**	8.5	9.2	4.6	8.5	13.7	**11.6**
Housing, Water,Electricity,Gas and other fuels	**18.3**	16.9	10.8	8.0	15.2	14.4	**14.7**
Furnishings, Household equipment and Routine household maintenance	**6.2**	8.0	14.3	3.6	9.3	16.0	**13.2**
Health	**3.1**	3.4	7.9	3.5	4.4	9.0	**7.1**
Transport	**8.7**	30.7	26.0	19.9	29.1	17.7	**22.4**
Communication	**3.8**	6.1	7.3	5.9	6.4	7.9	**7.3**
Recreation & culture	**2.3**	9.4	16.9	8.5	11.1	12.1	**11.7**
Education	**3.1**	2.3	4.1	6.8	2.9	7.7	**5.7**
Restaurants & hotels	**4.5**	25.4	13.9	10.8	22.2	18.3	**20.0**
Miscellaneous goods & services	**4.5**	10.9	6.0	6.3	9.6	13.8	**12.1**
ALL GROUPS	**100.0**	**20.3**	**14.1**	**11.6**	**18.5**	**18.2**	**18.3**

Source: Kenya National Bureau of Statistics

Inflation Outlook

Inflationary pressures are expected to ease in the coming months on account of the expected rains that will support food production, and stable international crude oil prices and the shilling exchange rate.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Growth in broad money supply, M3, decelerated to 17.1 percent in the year to January 2012 from 20.4 percent in the year to January 2011 and was within the 20.0 percent target for January 2012. This outcome reflected a deceleration in the growth of net domestic assets (NDA) of the banking sector (Table 2.1). Money supply, M2, that is, M3 excluding foreign currency deposits, grew by Ksh 117.8 billion (10.6 percent) in the year to January 2012 compared with an increase of Ksh 197.0 1 billion (21.5 percent) in a corresponding period in 2011 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits, in M3, increased by Ksh 102.5 billion (59.7 percent) in the year to January 2012 compared with an increase of Ksh 21.1 billion (14.1 percent) the previous year.

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

	2011	2012	Absolute Change		%age change	
	Jan	Jan	2010/11 Jan	2011/12 Jan	12 months Jan-11	12 months Jan-12
1. Money supply, M3 (2+3) 2/	**1285.5**	**1505.8**	**218.2**	**220.3**	**20.4**	**17.1**
1.1 Money supply, M2 3/	1113.9	1231.7	197.0	117.8	21.5	10.6
1.2 Money supply, M1	575.9	606.7	112.5	30.7	24.3	5.3
1.3 Currency outside banks	112.8	127.5	17.3	14.7	18.1	13.0
2. Net foreign assets 4/	**275.1**	**298.3**	**9.5**	**23.2**	**3.6**	**8.4**
Central Bank	251.8	249.9	31.3	-2.0	14.2	-0.8
Banking Institutions	23.2	48.4	-21.8	25.2	-48.5	108.3
3. Net domestic assets (3.1+3.2)	**1010.4**	**1207.5**	**208.7**	**197.1**	**26.0**	**19.5**
3.1 Domestic credit (3.1.1+3.1.2)	**1207.5**	**1495.7**	**222.9**	**288.2**	**22.6**	**23.9**
3.1.1 Government (net)	278.6	300.7	57.9	22.1	26.2	7.9
3.1.2 Private sector and other public sector	928.9	1194.9	165.0	266.0	21.6	28.6
3.2 Other assets net (3-3.1)	**-197.1**	**-288.1**	**-14.2**	**-91.1**	**7.8**	**46.2**
Memorandum items						
1. Overall liquidity, L 1/	**1589.3**	**1875.8**	**291.7**	**286.6**	**22.5**	**18.0**
2. Reserve money	**208.3**	**244.1**	**28.8**	**35.9**	**16.1**	**17.2**
Currency outside banks	112.8	127.5	17.3	14.7	18.1	13.0
Bank reserves	95.5	116.6	11.6	21.2	13.8	22.2

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

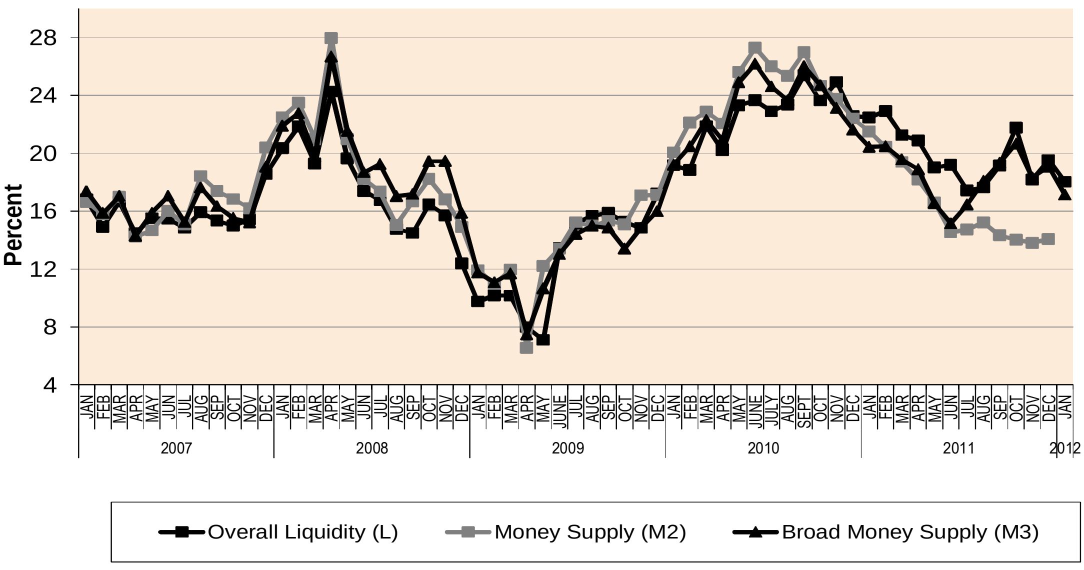
1/ Overall liquidity, L, comprises M3 and non banking public holding of Government securities. It is comparable to M3XT in the past publications.

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

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

4/ Net Foreign Assets at current exchange rate to the US dollar.

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The slowdown in the growth of broad money supply, M3, in the year to December 2011 reflected deceleration in the growth of NDA of the banking sector. NDA of the banking sector slowed to 19.5 percent (Ksh 197.1 billion) in the year to January 2012 from 26.1 percent (Ksh 208.7 billion) recorded in the previous year following a decline in other domestic assets (net) of the banking sector. Meanwhile, growth in NFA of the banking sector increased to Ksh 23.2 billion (8.4 percent) in the twelve months to January 2012 compared with an increase of Ksh 9.5 billion (3.6 percent) in a corresponding period in 2011 (Table 2.2). The acceleration in NFA was reflected in the holdings of commercial banks that increased by Ksh 25.2 billion (108.3 percent) compared with a decline of Ksh 21.8 billion (48.5 percent) over a similar period in 2011. During the period under review, NFA of the Central Bank declined by Ksh 2.0 billion compared with an increase of Ksh 31.3 billion in 2011. Consequently, the contribution of NDA to the annual change in M3 declined to 89.5 percent in January 2012 from 95.6 percent the previous year, while that of NFA increased to 10.5 percent from 4.4 percent.

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

	2011 January		2012 January		Absolute Change January		Annual %age Change January	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2010/11	2011/12	2010/11	2011/12
1. Credit to Government	**278.6**	**23.1**	**300.7**	**20.1**	**57.9**	**22.1**	**26.2**	**7.9**
Central Bank	-8.8	-0.7	48.5	3.2	-0.1	57.3	1.05	-650.7
Commercial Banks & NBFIs	287.4	23.8	252.2	16.9	58.0	-35.2	25.3	-12.2
2. Credit to other public sector	**23.8**	**2.0**	**36.0**	**2.4**	**7.6**	**12.2**	**47.1**	**51.4**
Local government	0.5	0.0	2.4	0.2	2.5	1.9	-125.1	382.2
Parastatals	23.3	1.9	33.6	2.2	5.1	10.3	28.2	44.4
3. Credit to private sector	**905.1**	**75.0**	**1159.0**	**77.5**	**157.4**	**253.8**	**21.0**	**28.0**
Agriculture	42.2	3.5	52.6	3.5	7.3	10.4	20.8	24.7
Manufacturing	115.6	9.6	144.3	9.6	26.9	28.7	30.3	24.8
Trade	154.5	12.8	196.7	13.2	38.8	42.3	33.5	27.4
Building and construction	33.9	2.8	52.3	3.5	-0.6	18.4	-1.9	54.2
Transport & communications	60.8	5.0	85.7	5.7	-3.6	24.9	-5.5	40.9
Finance & insurance	22.7	1.9	25.9	1.7	-2.0	3.2	-8.2	14.1
Real estate	100.0	8.3	138.4	9.3	49.1	38.3	96.2	38.3
Mining and quarrying	13.7	1.1	26.5	1.8	-1.9	12.8	-12.0	93.7
Private households	130.0	10.8	161.8	10.8	18.9	31.8	17.0	24.4
Consumer durables	60.7	5.0	73.6	4.9	8.0	12.9	15.2	21.3
Business services	89.5	7.4	75.7	5.1	22.9	-13.8	34.4	-15.4
Other activities	81.7	6.8	125.5	8.4	-6.3	43.9	-7.1	53.7
4. TOTAL (1+2+3) *	**1207.5**	**100.0**	**1495.7**	**100.0**	**222.9**	**288.2**	**22.6**	**23.9**

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

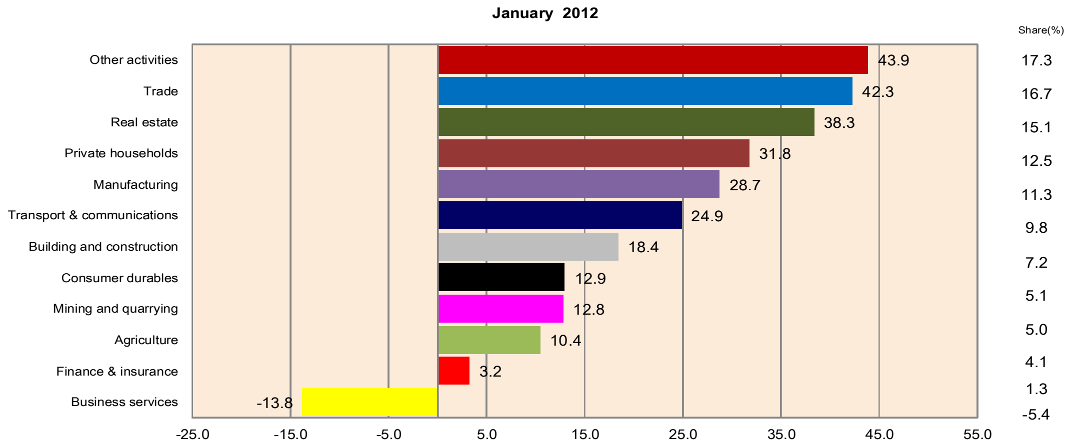
Source: Central Bank of Kenya

Domestic Credit Developments

Domestic credit from the banking sector expanded by Ksh 288.2 billion (23.9 percent) in the twelve months to January 2012 compared with Ksh 222.9 billion (22.6 percent) in a similar period in 2011 (Table 2.2). This reflected increased growth in credit to the private sector. The banking sector channeled its credit largely to the private sector which accounted for 77.5 percent of total lending in January 2012 compared with 75.0 percent in similar period in 2011. The net increase in private sector credit in the year to January 2012 was Ksh 253.8 billion compared with Ksh 157.4 billion recorded in the year to January 2011. This translated into an annual growth rate of 28.0 percent compared with 21.0 percent in January 2011 and corresponding target of 27.6 percent for January 2012.

Credit by commercial banks to the key sectors of the economy - agriculture, transport and communication, and building and construction sectors – grew at higher pace in the year to January 2012 compared to a similar period in 2011 (Table 2.2). In terms of shares to total net private sector credit flows, trade accounted for the largest share (Ksh 42.3 billion or 16.7percent), followed by real estates (Ksh 38.3 billion or 15.1 percent), private households (Ksh 31.8 billion or 12.5 percent), manufacturing (Ksh 28.7 billion or 11.3 percent) and transport and communication (Ksh 24.9 billion or 9.8 percent) (Chart 2B).

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO JANUARY 2012 (Ksh billion)



Source: Central Bank of Kenya

Net credit to the government, which accounted for 20.1 percent of total bank credit in January 2012, increased by Ksh 22.1 billion (7.9 percent) to Ksh 300.7 billion in January 2012 from Ksh 278.6 billion (23.1 percent of total bank credit) in January 2011.

Reserve Money

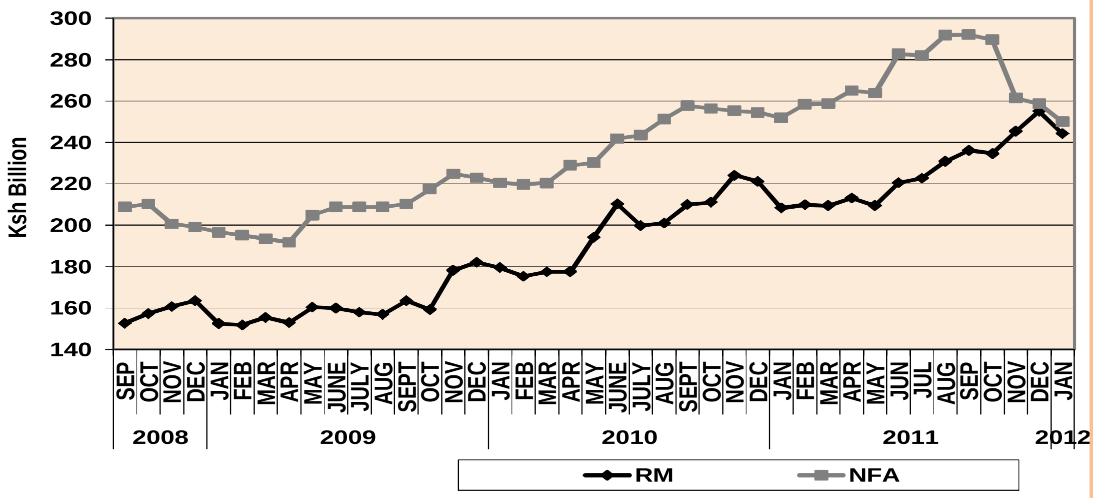
Reserve money increased by 17.2 percent to Ksh 244.1 billion in the twelve months to January 2012 from Ksh 208.3 billion in January 2011 (Table 2.3 and Chart 2C). At Ksh 244.1 billion in January 2012, reserve money was Ksh 7.4 billion above the respective target. The growth in reserve money comprised 22.2 percent increase in bank reserves and 13.0 percent growth in currency outside banks. Bank reserves increased by Ksh 21.2 billion in the year to January 2012 compared with an increase of Ksh 11.6 billion the previous year; while currency outside banks rose by Ksh 14.7 billion compared with an increase Ksh 17.3 billion in a similar period in 2011.

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

	2011	2012	Absolute change		Change (%)		2012	
	Jan	Jan	2010/11	2011/12	2010/11	2011/12	Jan Target	Deviation
1. Net Foreign Assets	251.8	249.9	31.3	-2.0	14.2	-0.8	296.0	-46.1
2. Net Domestic Assets	-43.6	-5.7	-2.5	37.8	6.1	-86.8	-59.2	53.5
2.1 Government Borrowing (net)	-8.8	48.5	-0.1	57.3	1.0	-650.7	-8.3	56.7
2.2 Advances & Discounts	10.7	5.9	8.0	-4.8	299.2	-44.9	1.1	4.8
2.3 Other Domestic Assets (net)	-45.4	-60.1	-10.4	-14.7	29.7	32.4	-52.1	-8.0
3. Reserve Money	208.3	244.1	28.8	35.9	16.1	17.2	236.8	7.4
3.1 Currency outside banks	112.8	127.5	17.3	14.7	18.1	13.0	128.1	-0.6
3.2 Bank reserves	95.5	116.6	11.6	21.2	13.8	22.2	108.7	8.0

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The sources of reserve money in the twelve months to January 2012 were increases in the net domestic assets (NDA) of the Central Bank. Net foreign assets (NFA) of the Central Bank decreased marginally (0.8 percent) to Ksh 249.9 billion in the year to January 2012 from Ksh 251.8 billion in January 2011.

The NDA of the Central Bank rose by Ksh 37.8 billion to Ksh -5.7 billion in the year to January 2012, from Ksh -43.6 billion in the previous year. This was reflected in increased net domestic credit to Government, which more than offset reductions in advances and discounts to commercial banks and other domestic assets (net of liabilities) of the Central Bank. Net credit to the Government from the Central Bank increased by Ksh 57.3 billion to Ksh 48.5 billion in the year to January 2012 compared with a net repayment of Ksh -8.8billion in a similar period in 2011. Advances and discounts to commercial banks declined by Ksh 4.8 billion to Ksh 5.9 billion in January 2012 from Ksh 10.7 billion in January 2011, while other domestic assets (net) decreased by Ksh 14.7 billion to Ksh -60.1 billion from Ksh -45.4 billion.

Central Bank Rates

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 18.0 percent in January 2012. The move was aimed at signaling continuation of a tight monetary policy to rein on inflationary expectations and stabilize the exchange rate.

Short Term Interest Rates

Short term rates moved in different directions during the month of January 2012 (Table 2.4 and Chart 2D). The weighted average interbank rate decreased to 19.27 percent in January 2012 from 21.75 percent in December 2011, while the repo rate increased to 17.88 percent from 17.75 percent. The movement in the short term money market rates reflected improved liquidity associated with maturing Government securities and foreign exchange purchases by the Central Bank to build reserves. The 91-day Treasury bill rate increased to 20.56 percent in January 2012 from 18.30 percent in December 2011 while the 182-day Treasury bill rate rose to 20.69 percent from 18.30 percent.

Lending and Deposit Rates

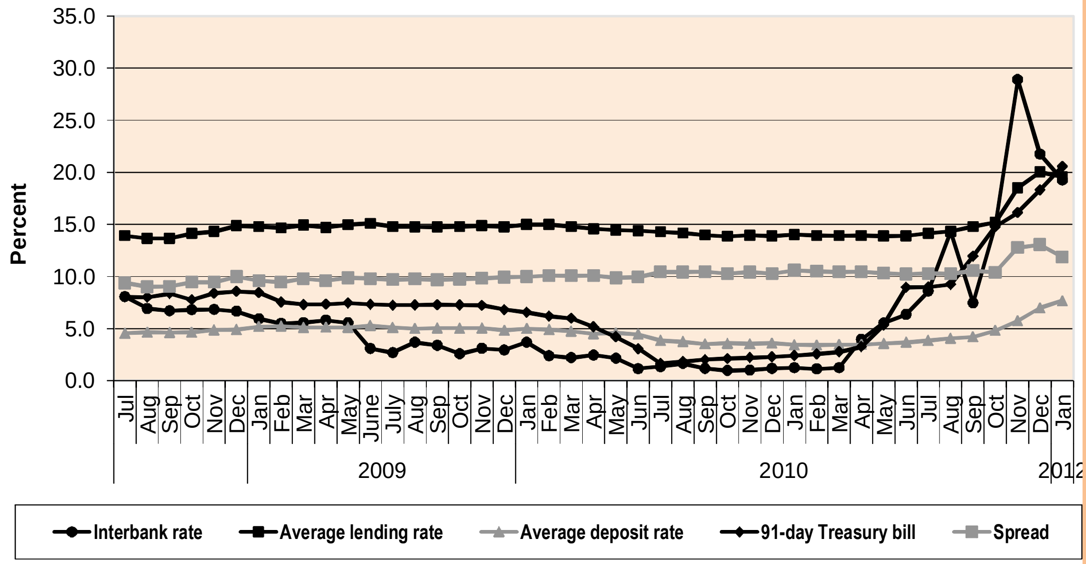
Commercial banks average lending rates decreased by 50 basis points to 19.54 percent in January 2012 from 20.04 percent in December 2011. The average deposit rate rose by 68 basis points to 7.66 percent in January 2012 from 6.99 percent in December 2011. Following a higher increase in the deposit rate relative to average lending rate, the interest rate spread narrowed to 11.88 percent in January 2012 from 13.06 percent in December 2011.

TABLE 2.4: INTEREST RATES (%)

	2011												2012
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan
91-day Treasury bill rate	2.41	2.57	2.77	3.26	5.35	8.95	8.99	9.23	11.93	14.80	16.14	18.30	20.56
Overdraft rate	13.93	13.65	13.60	13.68	13.72	13.59	13.89	14.28	14.64	14.87	18.67	20.20	20.38
Interbank rate	1.24	1.13	1.24	3.97	5.54	6.36	8.61	14.29	7.46	14.95	28.90	21.75	19.27
Repo rate	-	-	1.66	4.50	5.72	-	5.75	0.00	0.00	18.89	0.00	17.75	17.88
Reverse Repo rate	1.19	1.18	1.18	2.99	-	-	6.25	6.25	5.75	-	-	-	-
Average lending rate (1)	14.03	13.92	13.92	13.92	13.88	13.91	14.14	14.32	14.79	15.21	18.51	20.04	19.54
Average deposit rate (2)	3.43	3.41	3.47	3.47	3.57	3.68	3.85	4.07	4.21	4.83	5.75	6.99	7.66
0 to 3 - month deposit	3.67	3.67	3.88	3.92	4.08	4.38	4.72	5.37	5.55	6.14	6.95	8.51	9.87
Savings deposits	1.25	1.41	1.37	1.39	1.38	1.37	1.37	1.37	1.35	1.33	1.41	1.59	1.62
Spread (1-2)	**10.60**	**10.51**	**10.45**	**10.46**	**10.31**	**10.23**	**10.29**	**10.25**	**10.58**	**10.39**	**12.77**	**13.06**	**11.88**

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 2010 amounted to Ksh 1.47 trillion and was equivalent to 5.6 percent growth compared with an output of Ksh 1.39 trillion in 2009 (Table 3.1 and Chart 3A). The performance across key sectors of the economy was strong with agriculture and forestry, transport and communication, wholesale and retail trade and manufacturing sectors recording growth rates of 6.3 percent, 5.9 percent, 7.8 percent and 4.4 percent, respectively. Agriculture and forestry contributed 21.7 percent to total output in 2010, while transport and communication, wholesale and retail trade and manufacturing sectors contributed 12.4 percent, 10.5 percent and 9.7 percent, respectively, to total output in 2010.

TABLE 3.1: GROSS DOMESTIC PRODUCT BY ACTIVITY (Constant 2001 Prices, Ksh)

MAIN SECTORS	Share in 2010 Nominal GDP (%)	Share in 2010 Real GDP (%)	Kshs Million							
			2003	2004	2005	2006	2007	2008	2009	*2010
Agriculture and Forestry	*21.50*	*21.65*	276,089	280,518	299,798	312,926	320,423	307,354	299,431	318,382
Fishing	*0.60*	*0.39*	4,765	5,246	5,751	6,249	6,181	5,363	5,564	5,713
Mining	*0.70*	*0.46*	5,213	5,195	5,334	5,554	6,272	6,453	6,163	6,770
Manufacturing	*10.00*	*9.73*	105,822	110,544	115,699	122,953	130,673	135,291	136,992	143,028
Electricity and water supply	*2.40*	*2.27*	27,074	27,877	27,862	27,288	29,771	31,345	30,390	33,404
Wholesale and retail trade, repairs	*10.30*	*10.51*	92,604	100,486	106,095	118,361	131,754	138,053	143,388	154,558
Hotels & Restaurants	*1.70*	*1.35*	9,899	13,741	15,572	17,894	20,814	13,298	18,993	19,796
Construction	*4.30*	*3.49*	31,530	32,932	35,401	37,649	40,405	43,735	49,141	51,351
Transport, Storage & Communications	*9.80*	*12.38*	104,915	112,260	122,316	136,306	156,845	161,616	171,976	182,051
Financial intermediation	*5.60*	*4.00*	42,064	42,657	45,030	47,170	50,306	51,659	54,043	58,797
Real estate, renting and business services	*4.80*	*5.31*	61,864	63,740	65,882	68,446	70,860	73,503	75,674	78,089
Public administration and defense	*4.70*	*3.20*	46,991	47,062	46,460	45,974	45,031	45,317	46,029	47,035
Education	*5.70*	*5.91*	71,045	72,435	72,963	73,188	76,257	80,771	82,952	86,851
Health and social work	*2.60*	*2.16*	25,431	26,408	27,249	28,075	28,983	30,035	31,352	31,785
Other community, social and personal services	*3.30*	*3.65*	42,917	44,514	45,829	47,814	49,420	50,829	52,219	53,729
Private households with employed persons	*0.40*	*0.30*	3,855	3,932	4,011	4,091	4,173	4,256	4,342	4,428
Less : Financial services indirectly measured	*(0.80)*	*-0.69*	(10,315)	(10,800)	(11,261)	(11,835)	(12,174)	(10,484)	(12,762)	(10,189)
All industries at basic 2001 prices	*87.50*	*86.06*	**941,763**	**978,746**	**1,029,991**	**1,088,103**	**1,155,994**	**1,168,394**	**1,195,887**	**1,265,578**
Taxes less subsidies on products	*12.50*	*13.94*	113,895	130,795	145,143	161,367	180,855	188,882	197,286	204,938
Real GDP at 2001 market prices	*100.00*	*100.00*	**1,055,658**	**1,109,541**	**1,175,134**	**1,249,470**	**1,336,849**	**1,357,276**	**1,393,173**	**1,470,516**
GDP at Mkt Prices			1,055,658	1,109,541	1,175,134	1,249,470	1,336,849	1,357,276	1,393,173	1,470,516
Overall GDP Deflator			107	115	120	130	137	156	170	173

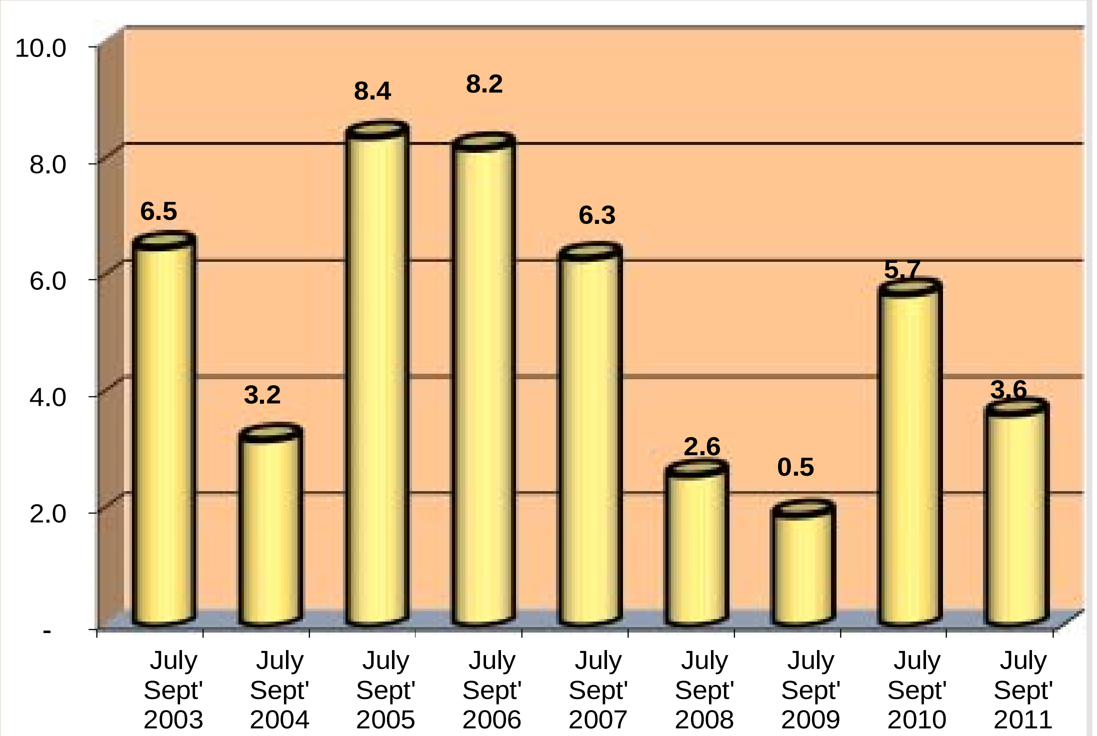
Annual Growth Rates in Percent

	Share in 2010 Nominal GDP	Share in 2010 Real GDP (%)	2003	2004	2005	2006	2007	2008	2009	*2010
Agriculture and Forestry	21.50	21.65	2.6	1.6	6.9	4.4	2.4	(4.1)	(2.6)	6.3
Fishing	0.60	0.39	-6.9	10.1	9.6	8.7	-1.1	(13.2)	3.7	2.7
Mining & Quarrying	0.70	0.46	3.5	-0.3	2.7	4.1	12.9	2.9	(4.5)	9.8
Manufacturing	10.00	9.73	6.0	4.5	4.7	6.3	6.3	3.5	1.3	4.4
Electricity and water supply	2.40	2.27	14.0	3.0	-0.1	-2.1	9.1	5.3	(3.0)	9.9
Wholesale and retail trade, repairs	10.30	10.51	1.5	8.5	5.6	11.6	11.3	4.8	3.9	7.8
Hotels & Restaurants	1.70	1.35	-20.3	38.8	13.3	14.9	16.3	(36.1)	42.8	4.2
Building & Construction	4.30	3.49	1.0	4.4	7.5	6.4	7.3	8.2	12.4	4.5
Transport & Communications	9.80	12.38	3.5	7.0	9.0	11.4	15.1	3.0	6.4	5.9
Financial intermediation	5.60	4.00	1.5	1.4	5.6	4.8	6.6	2.7	4.6	8.8
Real estate, renting and business services	4.80	5.31	2.3	3.0	3.4	3.9	3.5	3.7	3.0	3.2
Public administration and defense	4.70	3.20	0.6	0.2	-1.3	-1.0	-2.1	0.6	1.6	2.2
Education	5.70	5.91	9.7	2.0	0.7	0.3	4.2	5.9	2.7	4.7
Health and social work	2.60	2.16	2.8	3.8	3.2	3.0	3.2	3.6	4.4	1.4
Other community, social and personal services	3.30	3.65	-0.0	3.7	3.0	4.3	3.4	2.9	2.7	2.9
Private households with employed persons	0.40	0.30	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Less : Financial services indirectly measured	-0.80	-0.69	-3.3	4.7	4.3	5.1	2.9	(13.9)	21.7	(20.2)
Total GDP at basic 2001 prices	**87.50**	**86.06**	**3.1**	**3.9**	**5.2**	**5.6**	**6.2**	**1.1**	**2.4**	**5.8**
Taxes less subsidies on products	12.50	13.94	1.3	14.8	11.0	11.2	12.1	4.4	4.4	3.9
Real GDP at 2001 market prices	**100.00**	**100.00**	**2.9**	**5.1**	**5.9**	**6.3**	**7.0**	**1.5**	**2.6**	**5.6**

*Provisional

Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

CHART 3A: REAL GDP GROWTH IN THE THIRD QUARTERS



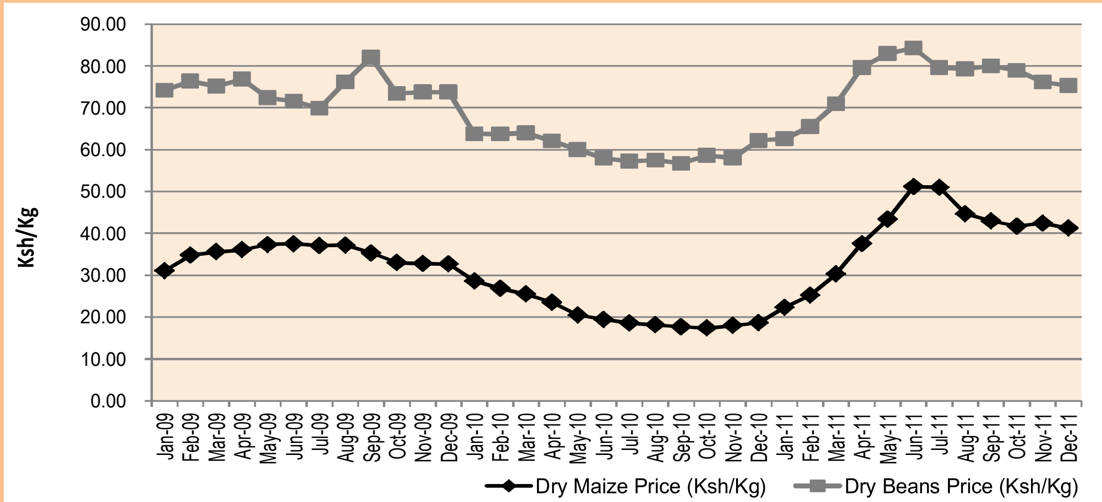
Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

The pace of economic expansion was sustained during the first quarter of 2011, with an estimated real growth rate of 4.9 percent for the quarter, but slowed to 4.3 percent in the second quarter to June 2011 and further to 3.6 percent in the September quarter of 2011 due to unfavourable weather conditions and high fuel prices. Output in the third quarter of 2011 amounted to Ksh 399.3 billion compared with output of Ksh 385.3 billion in the third quarter of 2010. 22.4 percent of 2011 quarter three output was attributed to agriculture and forestry, while the transport and communication, wholesale and retail trade and manufacturing sectors contributed 13.8 percent, 10.4 percent and 9.2 percent, respectively.

Agriculture

Agriculture contributed 21.7 percent of GDP in 2010. Output from the sector increased by 6.3 percent to Ksh 318.4 billion in 2010 compared with a decline of 2.6 percent in 2009. Improvement in the sector in 2010 was attributed to favourable weather conditions that prevailed during most of the year. Production of both food and industrial crops increased during the year. A subsequent decline in the prices of food items such as maize and beans was recorded (Chart 3B). In 2011 the prices of maize and beans were 122.0 percent and 21.1 percent higher than their respective levels in December 2010.

CHART 3B: MOVEMENT IN AVERAGE RETAIL PRICES FOR MAIZE AND BEANS



Source: Kenya National Bureau of Statistics

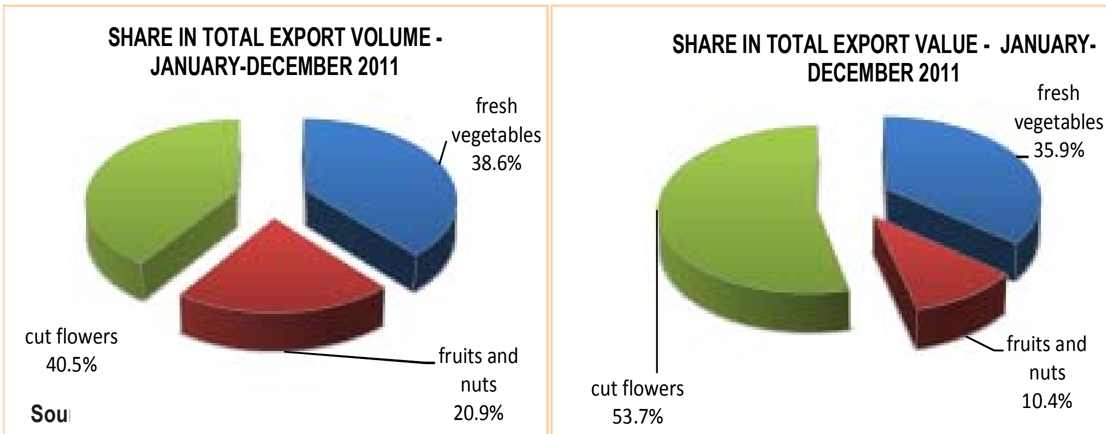
Tea

Indicators for agriculture for the January-December 2011 period were largely unfavourable. Production of tea declined by 5.3 percent from 399,006 metric tonnes in the period January to December 2010 to 377,913 metric tonnes in the period January to December 2011 (Table 3.2). The average auction price for tea however rose from Ksh 219 per kilogram in the January-December 2010 period to Ksh 265 per kilogram in the January-December 2011 period.

Horticulture

Exports of fresh horticultural crops also declined by 11.2 percent from 268,533 metric tonnes in the period January to December 2010 to 238,562 metric tonnes in the period January to December 2011 (Chart 3C).

CHART 3C: HORTICULTURAL EXPORTS



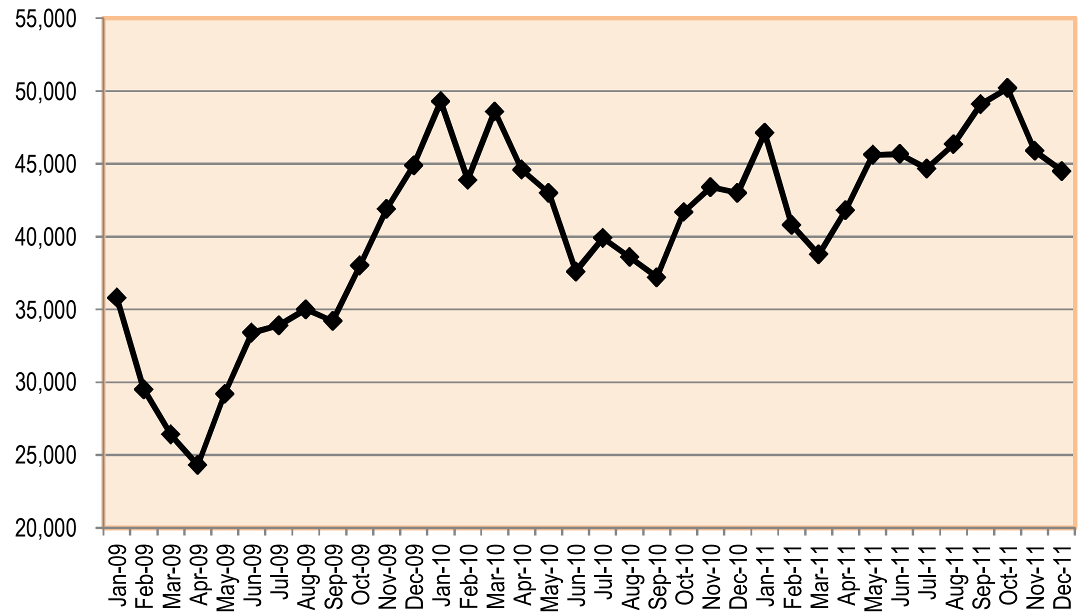
Coffee

Performance of the coffee sub-sector was sluggish with sales declining from 38,938 metric tonnes in the January-December 2010 period to 29,984 metric tonnes in the January-December 2011 period. The average auction price for coffee however rose from Ksh 353 per kilogram in the January-December 2010 period to Ksh 536 per kilogram in the January- December 2011 period.

Dairy

Production from the dairy sector, however, improved with milk delivered to factories increasing to 541 million litres in the January-December 2011 period compared with 511 million litres delivered in a comparable period in the previous year (Chart 3D).

CHART 3D: PROCESSED MILK ('000 LITRES)



Source: Kenya National Bureau of Statistics

Sugarcane

The sugar sub-sector, on the other hand registered lower output during the period under review. Cane deliveries declined by 6.5 percent from 5.71 million tonnes in the January-December 2010 period to 5.34 million tonnes in the January-December 2011 period.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	Annual Totals		
	2009	Jan-Dec 2010	Jan-Dec 2011*
Tea			
Output (Metric tonnes)	304,198	399,006	377,913
Growth (%)	*-12.0%*	*31.2%*	*-5.3%*
Horticulture			
Exports (Metric tonnes)	248,158	268,533	238,562
Growth (%)	*-1.5%*	*8.2%*	*-11.2%*
Coffee			
Sales (Metric tonnes)	49,498	38,938	29,984
Growth (%)	*27.9%*	*-21.3%*	*-23.0%*
Milk			
Output (million litres)	407	511	541
Growth %	*2.0%*	*25.7%*	*5.8%*
Sugar Cane			
Output (Metric tonnes)	5,610,702	5,709,620	5,338,571
Growth (%)	*12.7%*	*1.8%*	*-6.5%*

***Provisional**

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

Manufacturing The contribution of the manufacturing sector to total GDP remained stable at 9.7 percent in 2010 relative to 9.8 percent in 2009. Total manufactured output amounted to Ksh 143.0 billion in 2010 compared with Ksh 137.0 in 2009. Most of the sub-sectors within manufacturing registered improved performance in 2011 as indicated by increased production of galvanized sheets, cement, assembled vehicles and soft drinks (Table 3.3). Production of galvanized sheets increased by 34.3 percent to 270,540 tonnes in the January-December 2011 period while the amount of cement produced increased by 7.9 percent in the January-December 2011 period to 4.0 million tonnes (Chart 3E). The number of vehicles assembled locally also increased from 5,721 in the January-December 2010 period to 6,346 in the January-December 2011 period. The amount of soft drinks produced increased by 2.1 percent to 369,064 thousand litres in the January-December 2011 period. Output of processed sugar, however, declined to 475,061 metric tonnes in the January-December 2011 period.

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

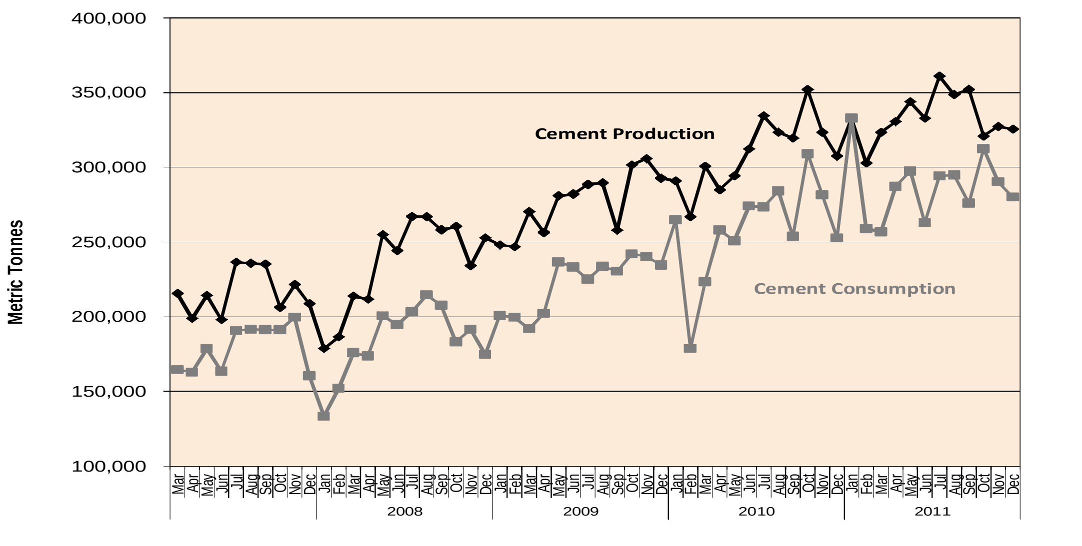
	Annual Totals 2009	Jan-Dec 2010	Jan-Dec 2011*
Cement production			
Output (MT)	3,320,282	3,709,806	4,001,336
Growth %	*17.4%*	*11.7%*	*7.9%*
Assembled vehicles			
Output (No.)	5,060	5,721	6,346
Growth %	*-12.0%*	*13.1%*	*10.9%*
Galvanized sheets			
Output (MT)	182,151	201,410	270,540
Growth %	*-3.8%*	*10.6%*	*34.3%*
Processed sugar			
Output (MT)	547,999	523,470	475,061
Growth %	*7.1%*	*-4.5%*	*-9.2%*
Soft drinks			
Output ('000 litres)	361,273	361,333	369,064
Growth %	*5.8%*	*0.0%*	*2.1%*

MT = Metric tonnes

* Provisional

Source: Kenya National Bureau of Statistics

CHART 3E: CEMENT PRODUCTION AND CONSUPTION



Source: Kenya National Bureau of Statistics

Energy Sector

Domestic electricity generation increased by 12.8 percent from 6,407 million kilowatt hours in the January-December 2010 period to 7,227 million kilowatt hours in the January-December 2011 period (Table 3.4). Of the total electricity produced in 2011, 44.0 percent was hydro-power, 36.0 percent was thermal power and the remaining 20.0 percent was geo-thermal power. However, production of hydro-electricity declined marginally by 0.4 percent to 3,183 million kilowatt hours in the period January-December 2011; while production of thermal power increased by 46.9 percent to 2,600 million kilowatt hours in the same period to compensate for the drought induced reduction in hydropower generation. Estimated consumption of electricity increased by 4.8 percent to 6,152 million kilowatt hours in the January-December 2011 period as compared with consumption over the same period in 2010 while consumption of fuels increased by 12.3 percent to 3,569 thousand tonnes.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	Annual Totals 2009	Jan-Dec 2010*	Jan-Dec 2011*
Electricity Supply (Generation)			
Output (million KWH)	5,332	6,407	7,227
Growth %	*-6.4%*	*20.2%*	*12.8%*
Of which:			
Hydro-power Generation (million KWH)	2,105	3,195	3,183
Growth (%)	*-35.0%*	*51.7%*	*-0.4%*
Geo-Thermal Generation (million KWH)	1,478	1,442	1,444
Growth (%)	*42.3%*	*-2.4%*	*0.1%*
Thermal (million KWH)	1,747	1,769	2,600
Growth (%)	*23.5%*	*1.3%*	*46.9%*
Consumption of electricity (million KWH)	5,299	5,870	6,152
Growth %	*0.7%*	*10.8%*	*4.8%*
Consumption of Fuels ('000 tonnes)	3,190	3,177	3,569
Growth %	*11.5%*	*-0.4%*	*12.3%*
Murban crude oil average price (US $ per barrel)	62.6	79.2	110.6
Growth %	*-36.0%*	*26.4%*	*39.7%*

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

The number of tourists arriving in Kenya rose by 15.5 percent from 1,095,284 in the January-December 2010 period to 1,265,136 in the January-December 2011 period (Table 3.5). Of the total tourist arrivals, 81.4 percent were through the Jomo-Kenyatta International Airport, Nairobi while 18.5 percent were through the Moi International Airport, Mombasa. The Number of tourists arriving on-board cruise ships amounted to 856 in the January-December 2011 period.

In terms of region of origin, Europe and Africa dominated accounting for 47.2 percent and 24.0 percent of total tourist arrivals, respectively in the January-December 2011 period (Table 3.6). Oceanic and Africa were the two highest growth sources of tourist arrivals at 31.7 percent and 18.2 percent, respectively.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2009	Jan - Dec 2010	Jan - Dec 2011	Jan - Dec 2011 % Share	Jan - Dec 2011 % Growth
CRUISE	12,096	0	856	0.1%	N.A.
MIAM	176,469	232,698	233,844	18.5%	0.5%
JKIA	763,916	862,586	1,030,436	81.4%	19.5%
TOTAL	**952,481**	**1,095,284**	**1,265,136**	**100.0%**	**15.5%**

Source: Kenya Tourist Board

TABLE 3.6: TOURIST ARRIVALS BY CONTINENT

REGION	2009	Jan - Dec 2010	Jan - Dec 2011	Jan - Dec 2011 % Share	Jan - Dec 2011 % Growth
Africa	228,827	257,132	303,886	24.0%	18.2%
Middle East	0	0	38,880	3.1%	N.A.
America	128,658	142,087	158,268	12.5%	11.4%
Asia	108,524	137,657	137,707	10.9%	0.0%
Europe	456,427	536,422	597,443	47.2%	11.4%
Oceanic	17,949	21,985	28,952	2.3%	31.7%
Cruise	12,096	0	856	0.1%	N.A.
Total	**952,481**	**1,095,284**	**1,265,136**	**100.0%**	**15.5%**

Source: Kenya Tourist Board

Transport and Tele-communications

The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) increased from 3,029,419 in the January-December 2010 period to 4,135,126 in the January-December 2011 period. This increase was attributed to both incoming and outgoing passengers. The number of incoming passengers increased by 38.4 percent to 2,088,798 in the January-December 2011 period, while the number of outgoing passengers increased by 34.6 percent to 2,046,328 (Table 3.7).

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2009	2010	Jan-Dec 2010	Jan-Dec 2011*
Number of Passengers thro' JKIA				
Total passenger flows	2,625,760	3,029,419	3,029,419	4,135,126
Growth (%)	*-10.8%*	*15.4%*	*15.4%*	*36.5%*
o.w. Incoming	1,334,482	1,508,841	1,508,841	2,088,798
Growth (%)	*-9.6%*	*13.1%*	*13.1%*	*38.4%*
Outgoing	1,291,278	1,520,578	1,520,578	2,046,328
Growth %	*-12.1%*	*17.8%*	*17.8%*	*34.6%*

* Provisional

Source: Kenya National Bureau of Statistics

Developments in the Balance of Payments and Exchange Rates

Overview

Kenya's overall balance of payments position reduced from a surplus of US$ 199 million in the year to January 2011 to a deficit of US$ 137 million in the year to January 2012. The movement follows the widening of the current account deficit which surpassed improvement in the capital and financial accounts (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Jan 2010*	Year to January 2011* Q1 Feb-Apr	Q2 May- Jul	Q3 Aug-Oct	Q4 Nov-Jan	Year to Jan 2012*	Absolute Change
1. OVERALL BALANCE	199	96	-87	-175	29	-137	-336
2. CURRENT ACCOUNT	-2582	-719	-1187	-1241	-1292	-4440	-1858
2.1 Goods	-7289	-1923	-2217	-2468	-2425	-9034	-1745
Exports (fob)	5254	1467	1466	1426	1450	5809	555
Imports (cif)	12543	3390	3683	3894	3875	14843	2300
2.2 Services	4707	1204	1030	1227	1133	4594	-113
Non-factor services (net)	559	573	651	620	2402	-124	-183
Income (net)	-105	64	-38	52	-36	42	147
Current Transfers	2286	581	496	524	549	2150	-136
3. CAPITAL & FINANCIAL ACCOUNT	2781	815	1100	1066	1322	4303	1522
3.1 Capital Tranfers (net)	185	30	59	28	60	177	-8
3.2 Financial Account	2596	785	1041	1039	1261	4126	1530
memo:							
Gross Reserves	5062	5430	5442	5915	5912	5912	850
Official	3992	4189	4159	3985	4144	4144	152
*imports cover***	3.5	3.5	3.3	3.0	3.1	3.1	-0.4
*imports cover****	3.8	3.9	3.8	3.6	3.6	3.6	-0.2
Commercial Banks	1071	1241	1283	1931	1768	1768	697

* 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 deficit in the current account widened from US$ 2,582 million in the year to January 2011 to US$ 4,440 million in the year to January 2012. The deterioration in the current account comprised a 23.9 per cent or US$ 1,745 million widening of the merchandise account deficit and a 2.4 percent or US$ 113 million decline in the services account (Table 4.2).

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

ITEM	Year to Jan 2011*	Year to January 2012* Q1 Feb-Apr	Q2 May- Jul	Q3 Aug-Oct	Q4 Nov-Jan	Year to Jan 2012*	Absolute Change
2. CURRENT ACCOUNT	-2582	-719	-1187	-1241	-1292	-4440	-1858
2.1 Goods	-7289	-1923	-2217	-2468	-2425	-9034	-1745
Exports (fob)	5254	1467	1466	1426	1450	5809	555
Coffee	216	57	59	65	42	222	6
Tea	1143	288	295	268	311	1162	19
Horticulture	726	185	173	156	153	667	-59
Oil products	98	36	31	24	22	112	14
Manufactured Goods	622	174	191	194	181	740	118
Raw Materials	216	92	82	99	126	399	183
Chemicals and Related Products (n.e.s)	446	134	149	138	145	566	120
Miscelleneous Man. Articles	448	125	139	136	131	531	83
Re-exports	305	80	92	73	74	318	13
Other	1034	296	256	273	267	1092	58
Imports (cif)	12543	3390	3683	3894	3875	14843	2300
Oil	2835	933	988	1058	1071	4050	1215
Chemicals	1648	500	500	416	535	1950	302
Manufactured Goods	1802	509	609	591	554	2262	460
Machinery & Transport Equipment	3764	845	932	1041	883	3700	-64
Other	2494	603	654	789	833	2880	386
2.2 Services	4707	1204	1030	1227	1133	4594	-113
Non-factor services (net)	2526	559	573	651	620	2402	-124
of which tourism	819	216	227	225	213	880	61
Income (net)	-105	64	-38	52	-36	42	147
of which official interest	-77	12	-27	-16	-22	-53	24
Current Transfers	2286	581	496	524	549	2150	-136
Private (net)	2086	586	500	529	554	2170	83
Public (net)	200	-5	-5	-5	-5	-19	-219

* Provisional.

Source: Central Bank of Kenya

Merchandise Account

The merchandise account deficit worsened from US$ 7,289 million in the year to January 2011 to US$ 9,034 million in the year to January 2012 due to higher import and slower growth in exports of goods.

Exports

The total value of exports increased by US$ 555 million to US$ 5,809 million in the year to January 2012 following increased exports of coffee, tea, oil products, manufactured goods, raw materials, chemicals and related products. The value of coffee exports increased by 2.9 percent or US$ 6 million to US$ 222 million in the year to January 2012; this increase largely reflected the higher exports prices. On the other hand, the value of horticulture exports declined by US$ 59 million to US$ 667 million in the year to January 2012; the lower value of horticulture exports mainly reflected lower export quantities. Tea exports increased by US$ 19 million to US$ 1,162 million in the year to January 2012. The exports of manufactured goods rose by 19 percent to US$ 740 million in the year to January 2012 following increased exports of Textiles and Fabrics, Iron, Steel, cement and metal manufactures. Exports of raw materials rose by 84.8 percent to US$ 399 million in the year to January 2012. The value of re-exports increased from US$ 305 million to US$ 318 million over the same period.

Imports

The value of imports increased by US$ 2,300 million to US$ 14,843 million in the year to January 2012, mainly on account of increased value of imports of oil, manufactured goods and chemicals. Oil imports accounted for 27.3 percent of the total import bill and increased by 42.9 percent to US$ 4,050 in the year to January 2012 due to high oil prices in the global market. Imports of manufactured items, mainly intermediate goods, accounted for 15.24 percent of the total import bill and increased from US$ 1,802 million in the year to January 2011 to US$ 2,262 million in the year to January 2012 following increased imports of rubber, paper, paperboard and articles, textile yarn, fabrics and articles, iron and steel and metal manufactures. Machinery and transport equipment account for 25 percent of total import bill and declined by US$ 64 million from US$ 3,764 million in the year to January 2011 to US$ 3,700 million in the year to January 2012 on account of reduced imports of power generating machines, metal work machines, passenger cars, goods vehicles, road vehicles and other transport equipment.

Services Account

The surplus in the services account decreased by 2.4 percent or US$ 113 million to US$ 4,594 million in the year to January 2012 mainly due to a decline in net receipts of non-factor services and current transfers. Net non-factor service receipts declined by US$ 124 million to US$ 2,402 million in the year to January 2012. This was attributed to reduced earnings from transportation services of US$ 257 million. However, receipts from foreigners travelling to Kenya increased by US$ 61 million from US$ 819 million in the year to January 2011 to US$ 880 million in the year to January 2012.

Receipts on the current transfer account decreased from US$ 2,286 million in the year to January 2011 to US$ 2,150 million in the year to January 2012 a decline of 5.9 percent. This was largely attributed to a decline in public sector receipts amounting to US$ 223 million. The private sector receipts increased by US$ 83 million to US$ 2,170 million in the year to January 2012 mainly on account of increased remittance inflows to Kenya, which totaled US$ 917 million in the year to January 2012 compared to US$ 661 million in the year to January 2011, and representing a 39 percent increase over the 2011 figures. In month of January 2012, and remittances to Kenya amounted to US$ 89.5 million, which was 40 percent higher than the level in January 2011. In addition, the average remittances inflow in the year to January 2012 amounted to US$ 76.3 million up from US$ 55 million recorded in the year to January 2011. North America accounted for 49.04 percent of the total remittances in the year to January 2012 while Europe and the rest of the world accounted for 27.18 percent and 23.78 percent respectively.

Direction of Trade

The share of exports to African countries accounted for 48.7 percent in the year to January 2012 compared to 46 per cent in the year to January 2011, while those to the East African Community (EAC) region were 26.7 percent, and increased from US$ 1,319 million in the year to January 2011 to US$ 1549 million in the year to January 2012. Exports to COMESA region accounted for 35.6 percent and increased from US$ 1,747 million to US$ 2,070 million over the same period. Kenya's exports were mainly to Uganda (14.7 percent), United Kingdom (8.9 percent), Tanzania (8.2 percent), Netherlands (6.4 percent) and USA (5.0 percent).

During the period under review, Kenya's imports were mainly from United Arab Emirates (14.8 percent), China (11.1 percent), India (11.0 percent), South Africa (5.3 percent) and Japan (4.5 percent). The share of imports from African countries accounted for 11.5 percent. Imports from the EAC region accounted for 2.1 percent of total imports and increased from US$ 254 million in the year to January 2011 to US$ 309 million in the year to January 2012. Imports from the COMESA region accounted for 4.3 percent of total imports in the year to January 2012 (Table 4.3).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to Jan			Year to Jan		
Country	2010	2011	2012	2010	2011	2012
Africa	**1,407**	**1,434**	**1,710**	**13.5**	**11.4**	**11.5**
Of which						
South Africa	951	731	791	9.1	5.8	5.3
Egypt	122	242	203	1.2	1.9	1.4
Others	335	461	716	3.2	3.7	4.8
EAC	**175**	**254**	**309**	**1.7**	**2.0**	**2.1**
COMESA	**332**	**524**	**635**	**3.2**	**4.2**	**4.3**
Rest of the World	**9,013**	**11,109**	**13,133**	**86.5**	**88.6**	**88.5**
Of which						
India	1,101	1,378	1,634	10.6	11.0	11.0
United Arab Emirates	1,247	1,500	2,202	12.0	12.0	14.8
China	1,013	1,502	1,654	9.7	12.0	11.1
Japan	620	728	673	6.0	5.8	4.5
USA	586	482	504	5.6	3.8	3.4
United Kingdom	492	609	493	4.7	4.9	3.3
Singapore	349	458	289	3.4	3.6	1.9
Germany	292	330	365	2.8	2.6	2.5
Saudi Arabia	362	403	623	3.5	3.2	4.2
Indonesia	246	344	552	2.4	2.7	3.7
Netherlands	210	250	241	2.0	2.0	1.6
France	197	243	230	1.9	1.9	1.6
Bahrain	73	74	242	0.7	0.6	1.6
Italy	180	145	169	1.7	1.2	1.1
Others	2,044	2,663	3,263	19.6	21.2	22.0
Total	**10,420**	**12,543**	**14,843**	**100**	**100**	**100**

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to Jan			Year to Jan		
Country	2010	2011	2012	2010	2011	2012
Africa	**2,112**	**2,417**	**2,829**	**46**	**46**	**49**
Of which						
Uganda	589	693	854	12.8	13.2	14.7
Tanzania	386	422	475	8.4	8.0	8.2
Egypt	163	219	278	3.6	4.2	4.8
Sudan	168	237	256	3.7	4.5	4.4
Somalia	154	162	193	3.4	3.1	3.3
DRC	147	163	204	3.2	3.1	3.5
Rwanda	124	134	156	2.7	2.6	2.7
Others	381	386	414	8.3	7.4	7.1
EAC	**1,157**	**1,319**	**1,549**	**25.2**	**25.1**	**26.7**
COMESA	**1,464**	**1,747**	**2,070**	**31.9**	**33.3**	**35.6**
Rest of the World	**2,474**	**2,837**	**2,980**	**53.3**	**53.2**	**53.7**
Of which						
United Kingdom	507	511	516	11.1	9.7	8.9
Netherlands	341	337	373	7.4	6.4	6.4
USA	223	283	291	4.9	5.4	5.0
Pakistan	193	230	241	4.2	4.4	4.1
United Arab Emirates	158	231	226	3.5	4.4	3.9
Germany	92	96	85	2.0	1.8	1.5
India	71	103	110	1.5	2.0	1.9
Afghanistan	112	143	158	2.4	2.7	2.7
Others	776	903	979	16.9	17.2	16.9
Total	**4,586**	**5,254**	**5,809**	**100**	**100**	**100**

Source: Kenya Revenue Authority

Capital and Financial Account

The capital and financial account surplus improved from US$ 2,781 million in the year to January 2011 to US$ 4,303 million in the year to January 2012. This was mainly on account of an increase in the Financial Account by US$ 1,530 million to US$ 4126 million in the year to January 2012. The increase reflected short term financial flows including errors and omissions which grew to US$ 2,240 million from US$ 1,664 million in the year to January 2011 to US$ 3,904 million in the year to January 2012. However, other private, medium and long term flows declined by US$ 122 million to US$ 53 million in January 2012 (Table 4.4).

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

ITEM	Year to Jan 2011*	Year to January 2012* Q1 Feb-Apr	Q2 May- Jul	Q3 Aug-Oct	Q4 Nov-Jan	Year to Jan 2012*	Absolute Change
3. CAPITAL & FINANCIAL ACCOUNT	2781	815	1100	1066	1322	4303	*1522*
3.1 Capital Tranfers (net)	185	30	59	28	60	177	*-8*
3.2 Financial Account	2596	785	1041	1039	1261	4126	*1530*
Official, medium & long-term	317	97	90	35	202	424	*106*
Inflows	545	144	174	109	263	690	*145*
Outflows	-228	-47	-84	-75	-61	-266	*-39*
Private, medium & long-term (net)	615	-32	240	-299	-110	-201	*-816*
Commercial Banks (net)	441	-45	209	-290	-128	-253	*-694*
Other private medium & long-term (net)	175	13	31	-8	18	53	*-122*
Short-term (net) incl. errors & omissions	1664	721	711	1303	1169	3904	*2240*

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from US$ 5,062 million in January 2011 to US$ 5,912 million in January 2012. Foreign exchange reserves held by commercial banks increased by 65.1 percent from US $ 1,071 million in January 2011 to US $ 1,768 million in January 2012. The increase in the commercial banks reserves was attributed to the accumulation of foreign deposits and equities by commercial banks. The official foreign exchange reserves held by the Central Bank also increased by US$ 152 million from US$ 3,992 million or 3.8 months of import cover in January 2011 to US$ 4,144 million (3.6 months of import cover) in January 2012. Over the same period residents' foreign currency deposits increased by 41.4 percent from US$ 2,257 million to US$ 3,192 million (Table 4.5).

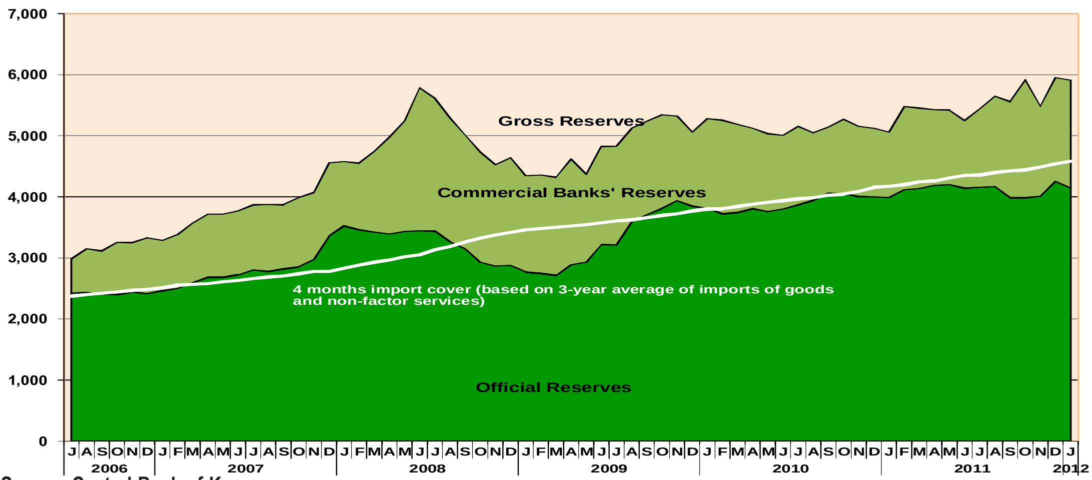
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12
1. Gross Foreign Exchange Reserves	**5,062**	**5,481**	**5,454**	**5,430**	**5,420**	**5,249**	**5,442**	**5,645**	**5,557**	**5,915**	**5,483**	**5,952**	**5,912**
of which:													
Official	3,992	4,118	4,138	4,189	4,202	4,142	4,159	4,171	3,986	3,985	4,011	4,248	4,144
*imports cover**	*3.8*	*3.9*	*3.9*	*3.9*	*3.9*	*3.8*	*3.8*	*3.8*	*3.6*	*3.6*	*3.6*	*3.7*	*3.6*
Commercial Banks	1,071	1,364	1,316	1,241	1,219	1,106	1,283	1,474	1,571	1,931	1,472	1,704	1,768
2. Residents' foreign currency deposits	**2,257**	**2,302**	**2,330**	**2,428**	**2,328**	**2,331**	**2,502**	**2,652**	**2,852**	**2,945**	**2,950**	**3,058**	**3,192**

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling posted mixed results against major world currencies in January 2012. Against the US dollar, the shilling appreciated by 0.37 percent to exchange at an average of Ksh 86.34 per US dollar in January 2012 compared with Ksh 86.66 per US dollar in December 2011.

Against the Sterling Pound and the Euro, the shilling appreciated by 0.86 percent and 2.38 percent respectively to trade at an average of Ksh 133.94 per Sterling Pound and Ksh. 111.42 per Euro in January 2012 compared to Ksh 135.10 per Sterling Pound, Ksh. 114.15 per Euro in December 2011 (Table 4.6 and Chart 4B). The shilling however depreciated against the Japanese Yen by 0.81 percent to trade at Ksh. 112.23 per Japanese Yen in January 2012 compared to 111.33 per Japanese Yen in December 2011. The appreciation was as a result of the effects of Monetary Policy tightening of liquidity in the domestic money market.

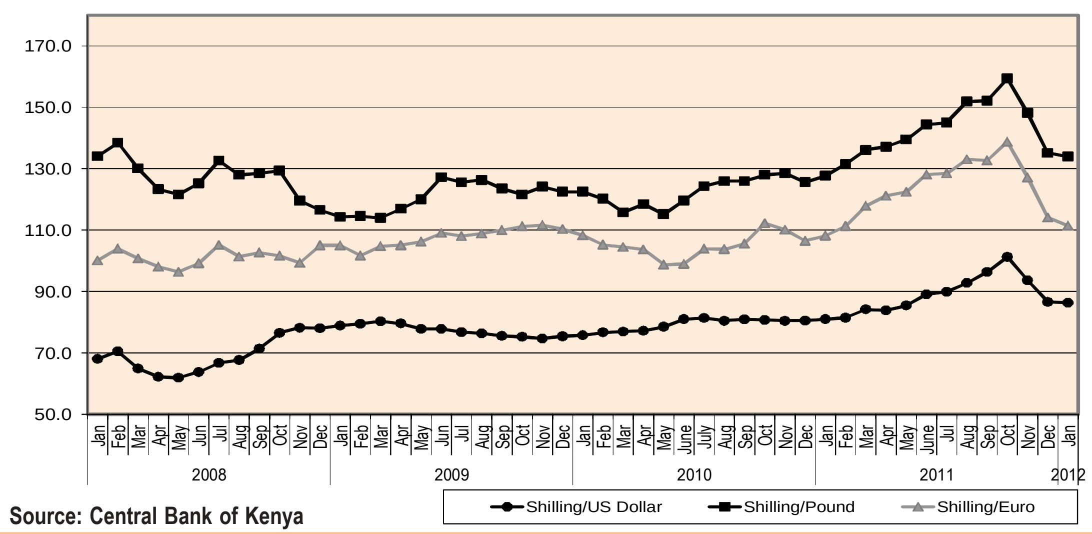
In the EAC region, the Kenya Shilling depreciated against the Uganda Shilling and the Tanzania Shilling and appreciated against the Rwanda Franc and the Burundi Franc. On average, the Uganda shilling exchanged at Ush 27.90 per Kenya Shilling, Tsh 18.44 per Kenya shilling, RWF 6.98 per Kenya shilling and BIF 15.18 per Kenya Shilling compared to Ush 28.25 per Kenya Shilling, Tsh 18.65 per Kenya Shilling, Rwanda Franc 6.96 per Kenya shilling and Burundi Franc 15.11 per Kenya Shilling in December 2011 (Table 4.6 and Chart 4B).

TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2011												2012	% Change Dec 11-Jan 12
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	
US Dollar	81.03	81.47	84.21	83.89	85.43	89.05	89.90	92.79	96.36	101.27	93.68	86.66	86.34	-0.37
Pound Sterling	127.70	131.45	136.10	137.14	139.54	144.40	145.00	151.90	152.12	159.41	148.17	135.10	133.94	-0.86
100 Japanese Yen	98.13	98.65	102.97	100.59	105.28	110.62	109.07	120.32	125.55	131.97	120.85	111.33	112.23	0.81
Uganda Shilling*	28.81	28.79	28.43	28.21	27.95	27.61	28.87	29.68	29.22	27.69	27.62	28.25	27.90	-1.22
Tanzania Shilling*	18.40	18.51	17.93	17.99	17.85	17.79	17.59	17.40	17.03	16.90	18.58	18.65	18.44	-1.11
Rwanda Franc*	7.34	7.36	7.12	7.15	7.02	6.74	6.68	6.46	6.23	5.93	6.43	6.96	6.98	0.30
Burundi Franc*	15.15	15.11	14.66	14.66	14.38	13.84	13.69	13.28	12.81	12.17	13.29	15.11	15.18	0.46
Euro	108.16	111.29	117.88	121.14	122.42	128.11	128.48	133.04	132.68	138.74	127.13	114.15	111.42	-2.38
Euro per US dollar	0.749	0.732	0.714	0.692	0.698	0.695	0.700	0.697	0.726	0.730	0.737	0.759	0.77	2.06

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

During the period ending January 31, 2012, the Kenyan Banking sector registered a growth in assets, driven by growth in deposits, capital injections and retention of profits. The sector registered improved performance in earnings and capital and the level of non-performing loans declined compared with a similar period in 2011.

As at January 31, 2012, the sector comprised of 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 111 foreign exchange bureaus and 2 Credit Reference Bureaus.

Structure of the Balance Sheet

The banking sector's aggregate balance sheet grew by 19.1 percent from Ksh 1,722.7 billion in January 2011 to Ksh 2,051.9 billion in January 2012. The main components of the balance sheet were loans and advances, government securities and placements, which accounted for 57 percent, 19 percent and 8 percent of total assets respectively.

Loans & Advances

The banking sector gross loans and advances grew from Ksh 944.4 billion in January 2011 to Ksh 1,206.6 billion in January 2012 representing a 27.8 percent growth. The growth was attributed to increased lending to households, trade and manufacturing sectors. Loans and advances net of provisions stood at Ksh 1,195.9 billion in January 2012, having increased from Ksh 933.8 billion registered in January 2011.

Deposit Liabilites

Deposits from customers were the primary source of funding for the banking sector, and accounted for 75.3 percent of total funding liabilities. The deposit base stood at Ksh 1,544.5 billion, reflecting an increase of 19.1 percent compared with Ksh 1,296.5 billion as at January 2012. The growth was supported by branch expansion and remittances from the diaspora.

Capital & Reserves

The banking sector registered increased capital levels in January 2012. Total capital increased by 17.3 percent from Ksh 246.9 billion in January 2011 to Ksh 289.6 billion in January 2012, while shareholders' funds increased by 11.8 percent from Ksh 268.0 billion to Ksh 299.5 billion as at end of January 2012. However, the ratios of core and total capital to total risk-weighted assets declined from 20.3 percent and 22.5 percent to 18.7 percent and 20.8 percent respectively on account of a more than proportionate increase in total risk weighted assets than the increase in core and total capital.

Non-performing Loans

The stock of gross non-performing loans (NPLs) declined by 8.3 percent from Ksh 59.2 billion in January 2011 to Ksh 54.3 billion in January 2012. As a result, the ratio of non-performing loans to gross loans improved from 6.3 percent in January 2011 to 4.4 percent in January 2012. Similarly, the quality of assets, measured as a proportion of net non-performing loans to gross loans improved from 2.3 percent to 1.4 percent in January 2012 (Table 5.1).

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

		Jan-12	Jan-11
1	Gross loans and advances	944.4	1,206.6
2	Interest in Suspense	10.6	10.7
3	Loans and advances (net of interest suspended)	933.8	1,195.9
4	Gross non-performing loans	59.2	54.3
5	Specific Provisions	27.1	26.9
6	General Provisions	7.3	8.7
7	Total Provisions (5+6)	34.4	35.6
8	Net Advances (3-7)	899.4	1,160.3
9	Total Non-Performing Loans and advances (4-2)	48.6	43.6
10	Net Non-Performing Loans and advances (9-5)	21.5	16.7
11	Total NPLs as % of total advances (9/3)	5.20%	3.60%
12	Net NPLs as % of gross advances (10/1)	2.30%	1.40%
13	Specific Provisions as % of Total NPLs (5/9)	55.80%	61.70%

Source: Central Bank of Kenya

Profitablility

The banking sector's un-audited pre-tax profit grew by 40.3 percent from Ksh 6.2 billion in January 2011 to Ksh 8.7 billion in January 2012. Total income increased by 64.7 percent from Ksh 17.3 billion in January 2011 to Ksh 28.5 billion in January 2012. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 63 percent, 14 percent and 12 percent of total income respectively. Total expenses increased by 80.0 percent from Ksh 11.0 billion in January 2011 to Ksh 19.8 billion in January 2012 with staff costs, other expenses and interest on deposits as the major components accounting for 22 percent, 19 percent and 39 percent respectively. However, return on assets improved from 3.5 percent in January 2011 to 4.0 percent in January 2012, while return on equity improved from 28.0 percent to 34.9 percent during the same period.

Liquidity Ratio Requirement

During the period ended January 31, 2012, average liquid assets amounted to Ksh 561.0 billion, while total short-term liabilities stood at Ksh 1,488.1 billion, with an average liquidity ratio of 37.7 percent, which represented a decline from 44.5 percent reported in a similar period in 2011. The ratio of gross loans to deposits stood at 78.1 percent in January 2012 from 72.8 percent in January 2011.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.53 percent in January 2012 compared with 5.40 percent in December 2011 and 5.25 percent statutory level as shown in Table 5.3 and Chart 5A. Commercial banks held excess reserves at the Central Bank averaging Ksh 4.0 million in January 2012 compared with Ksh 9.3 billion in December 2011. Commercial banks maintained Cash Reserve Ratio (CRR) on a monthly average of 5.25 percent but subject to a daily minimum of 3.0 percent.

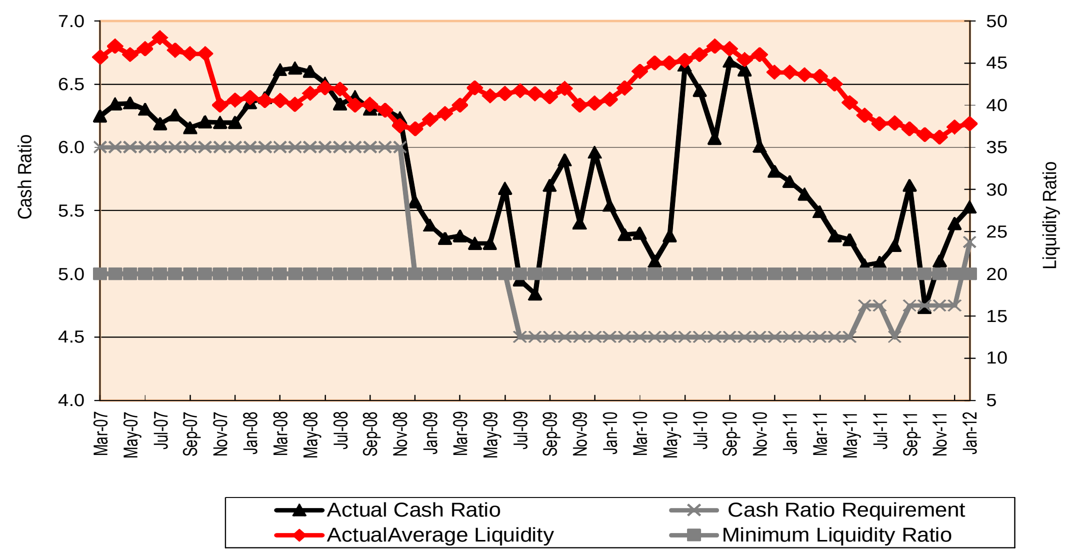
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2011												2012
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Commercial Banks													
Actual Average Liquidity	43.90	43.60	43.40	42.50	40.30	38.80	37.80	37.90	37.20	36.50	36.20	37.40	37.80
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.73	5.63	5.49	5.30	5.28	5.07	5.09	5.22	5.70	4.73	5.10	5.40	5.53
Minimum Cash Ratio Requirement	4.50	4.50	4.50	4.50	4.5	4.5	4.5	4.5	4.75	4.75	4.75	4.75	5.25
NBFIs													
Actual Average Liquidity Ratio	57.70	58.00	55.60	50.80	46.70	46.40	43.60	38.20	41.80	35.10	31.10	29.10	28.30
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00

* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS (%)



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 107,230 transaction messages worth Ksh 1,579 billion in January 2012 compared with a volume of 117,916 transaction messages valued at Ksh 1,562 billion moved in December 2011 representing 1.10 percent increase in value and 9.06 percent decrease in volume. Compared with January 2011, the volume increased by 38.14 percent from 77,625 transaction messages to 107,230 transaction messages in January 2012 while value increased by 19.66 percent from 1,320 billion to 1,579 billion indicating an increased usage of KEPSS by the public (Table 5.3).

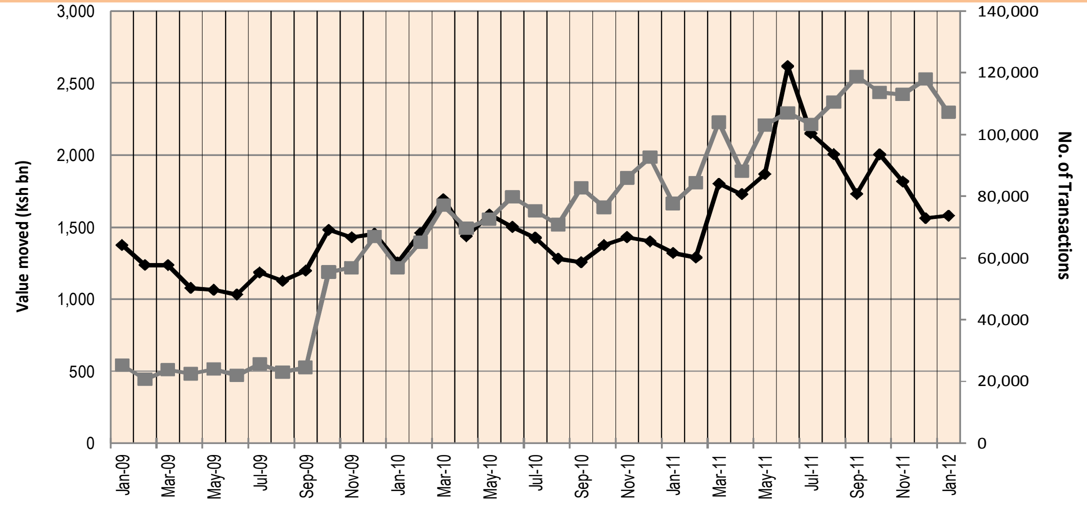
During the twelve months period to January 31, 2012 the value moved averaged Ksh 17 million per transaction. On average 5,093 transaction messages with an average value of approximately Ksh 88 billion per message were moved daily (Table 5.3 and Chart 5B). Settlements through KEPSS from commercial banks accounted for 99.0 percent of the total settlements while payments processed through ACH and settled in KEPSS averaged 1.0 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-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
Feb-11	1,289	23	84,448	0.02	20	64	4,222
Mar-11	1,802	26	103,986	0.02	22	82	4,727
Apr-11	1,728	21	88,168	0.02	19	91	4,640
May-11	1,868	26	103,112	0.02	21	89	4,910
May-11	1,868	26	103,112	0.02	21	89	4,910
Jun-11	2,617	24	107,063	0.02	21	125	5,098
Jul-11	2,151	24	103,338	0.02	21	102	4,921
Aug-11	2,007	25	110,498	0.02	22	91	5,023
Sep-11	1,730	27	118,798	0.01	22	79	5,400
Nov-11	1,816	28	112,923	0.02	22	83	5,133
Dec-11	1,562	30	117,916	0.01	20	78	5,896
Jan-12	1,579	28	107,230	0.01	21	75	5,106

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third Party Messages

Multiple third party Message Type (MT 102) decreased by 6.68 percent from 11,424 transaction messages in December 2011 to 10,661 transaction messages in January 2012, while single third party Message Type (MT 103) decreased by 9.08 percent from 116,384 transaction messages to 105,817 transaction messages in the same period. Overall, total third party messages through KEPSS decreased by 8.86 percent from 127,808 transaction messages in December 2011 to 116,478 transaction messages in January 2012.

Compared with January 2011, multiple third parties messages (MT 102) increased by 24.25 percent from 8,580 transaction messages to 10,661 transaction messages in January 2012 while single third party messages (MT 103) increased by 42.99 percent from 74,004 transaction messages to 105,817 transaction messages (Table 5.4 and Chart 5C).

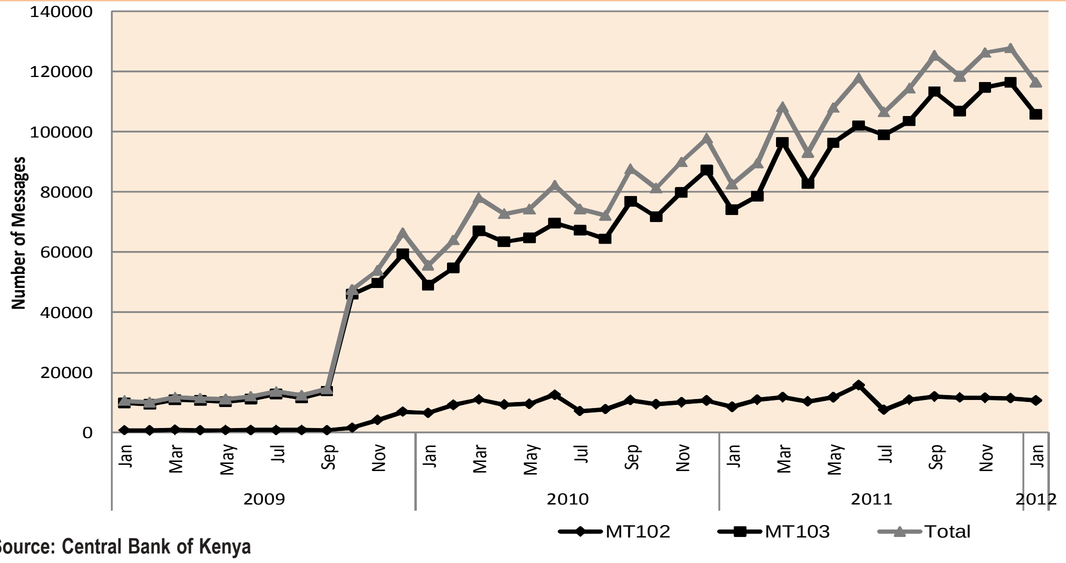
Inter-bank transfers (MT 202) accounted for 50.9 percent of the total value moved through KEPSS as at end of January 2012, while third party messages accounted for 49.1 percent. The total number of third party messages (MT 102 and MT 103) grew by 41.04 percent from 82,584 messages in January 2011 to 116,478 messages in January 2012.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2011	Jan	8580	74,004	82,584
	Feb	10955	78,589	89,544
	Mar	11778	96,550	108,328
	Apr	10392	82,691	93,083
	May	11739	96,324	108,063
	Jun	15794	102,098	117,892
	Jul	7584	98,977	106,561
	Aug	10929	103,561	114,490
	Sep	12028	113,333	125,415
	Oct	11653	106,768	118,421
	Nov	11602	114,741	126,343
	Dec	11424	116,384	127,808
2012	Jan	10661	105,817	116,478

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

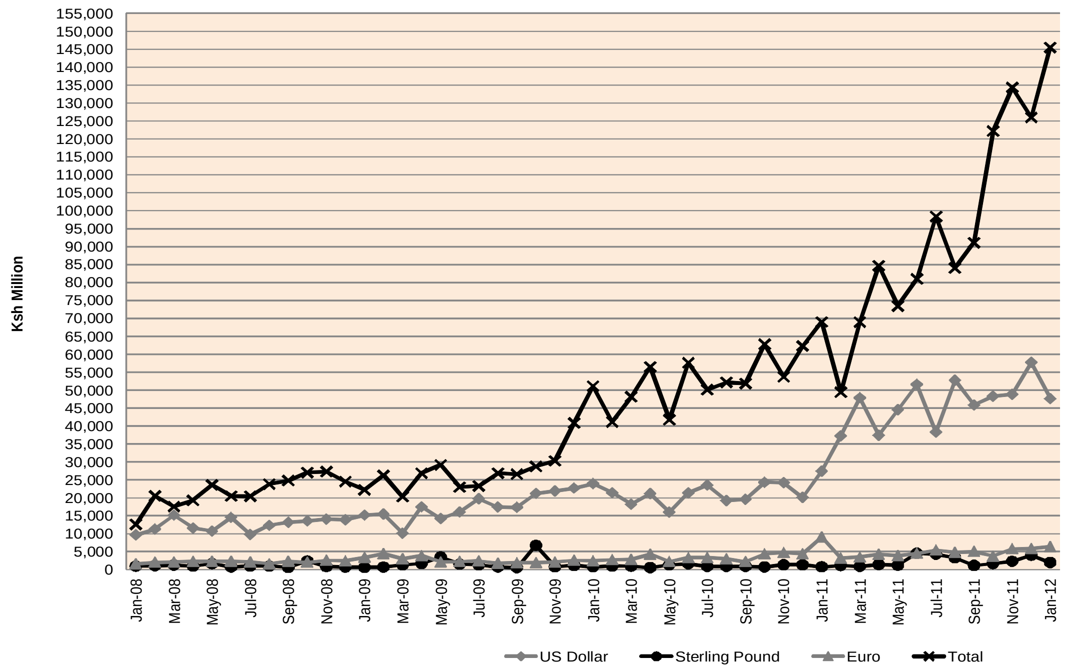


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS decreased by 12.47 percent from 10,919 transaction messages in December 2011 to 9,557 transaction messages in January 2012. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period decreased by 29.96 percent from Ksh 145.4 billion to Ksh 106.3 billion. The US dollar accounted for 94.96 percent of the value moved (Chart 5D) while the Sterling Pound and the Euro accounted for 0.86 percent and 4.18 percent respectively.

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



Source: Central Bank of Kenya

Government Budget Performance

Central Government budgetary operations for the period July 2011 – January 2012 in the fiscal year 2011/12 resulted in a deficit of Ksh 114.5 billion on commitment basis compared with a deficit of Ksh 70.2 billion in the same period during the fiscal year 2010/11 (Table 6.1). The deficit-to-GDP ratio stood at 3.5 percent on commitment basis and 3.2 percent on cash basis during this period. The budget deficit for the period was within the programmed target of 4.5 percent of GDP.

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

	FY 2010/11	FY 2011/12		
	January Actual	January Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	**362.6**	**398.2**	**451.7**	**-53.5**
Revenue	350.7	389.5	431.6	-42.1
Tax Revenue	313.6	351.8	376.8	-25.0
Non Tax Revenue	12.7	10.3	13.6	-3.3
Appropriations-in-Aid	24.4	27.4	41.1	-13.7
External Grants	11.9	8.7	20.1	-11.5
2. TOTAL EXPENSES & NET LENDING	**432.8**	**512.6**	**598.7**	**-86.1**
Recurrent Expenses	320.2	375.3	385.4	-10.1
Development Expenses	112.6	137.3	213.3	-75.9
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-70.2	-114.5	-147.0	-32.5
As percent of GDP	**-2.8**	**-3.48**	**-4.5**	
4. ADJUSTMENT TO CASH BASIS	**0.0**	**8.0**	**0.0**	**8.0**
5. DEFICIT ON A CASH BASIS	-70.2	-106.5	-147.0	-40.5
As percent of GDP	**-2.8**	**-3.2**	**-4.5**	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**13.1**	**-15.7**	**1.0**	
7. FINANCING	83.3	**90.7**	**148.0**	**-57.3**
Domestic (Net)	69.9	67.6	95.8	-28.2
External (Net)	13.3	23.2	52.2	-29.0
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

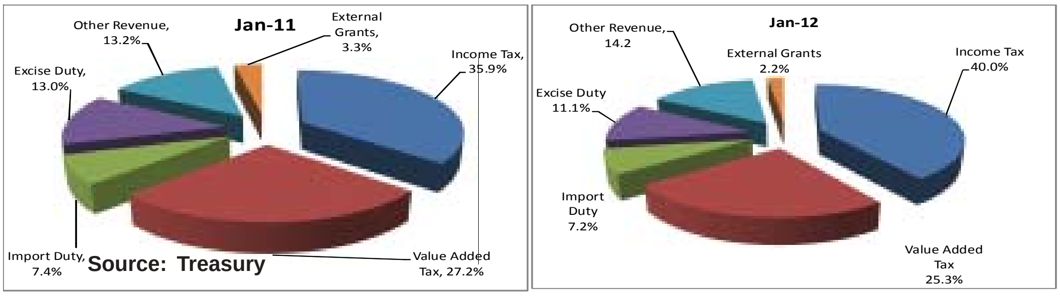
In the first seven months of the fiscal year 2011/12, government revenues and grants increased to Ksh 398.2 billion compared with Ksh 350.7 billion collected in a similar period of the fiscal year 2010/2011. Despite this increase, total government revenue and external grants was below target by Ksh 42.1 billion and Ksh 11.5 billion respectively, the targeted amounts being Ksh 431.6 billion and Ksh 20.1 billion during the period. The underperformance was attributed to slowdown in economic activity.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Jan-11 Ksh bn	Jan-12 Ksh bn	Change
1. Revenue (2+3+4)	**350.7**	**389.5**	**38.8**
2. Tax Revenue	313.6	351.8	38.1
Income Tax	130.2	159.1	28.8
Value Added Tax	98.6	100.8	2.2
Import Duty	26.8	28.6	1.8
Excise Duty	47.2	44.4	-2.8
Others	10.8	18.9	8.2
3. Appropriations-in-Aid	24.4	27.4	2.98
4. Other Revenue	12.7	10.3	-2.3
5. External Grants	**11.9**	**8.7**	**-3.2**
TOTAL RECEIPTS (1+5)	**362.6**	**398.2**	**35.6**

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue grew by Ksh 38.1 billion, equivalent to 12.2 percent, from Ksh 313.6 billion collected in the first seven months of 2010/11 to Ksh 351.8 billion for a similar period of fiscal year 2011/12. The increase was largely on account of income tax, value added tax and import duty collections amounting to Ksh 28.8, Ksh 2.2 and Ksh 1.8 billion, respectively, during the period under review. Collectively, other taxes increased during the period by Ksh 8.2 billion. Despite the increase in value added tax, however, its contribution to total revenue declined to 25.3 percent in the first seven months of fiscal year of 2011/12 from 27.2 percent in a similar period of fiscal year 2010/11. Similarly, the proportion of import and excise duty in total revenue declined from 7.4 and 13.0 percent in July 2010 – January 2011 in the fiscal year 2010/11 to 7.2 and 11.1 percent, respectively in a similar period of 2011/12. The decline in excise duty was attributed to lower tax collections on petroleum products, beer and airtime, during the period. External grants constituted 2.2 percent of total revenue during the period.

Expenditure and Net Lending

Government expenditure and net lending increased by Ksh 79.9 billion in the period July 2011 – January 2012 from Ksh 432.8 billion expended during the same period in the fiscal year 2010/11. Total expenditure for the first seven months of fiscal year 2011/12 amounted to Ksh 512.6 billion, comprising Ksh 375.3 billion and Ksh 137.3 billion in recurrent and development expenditure, respectively.

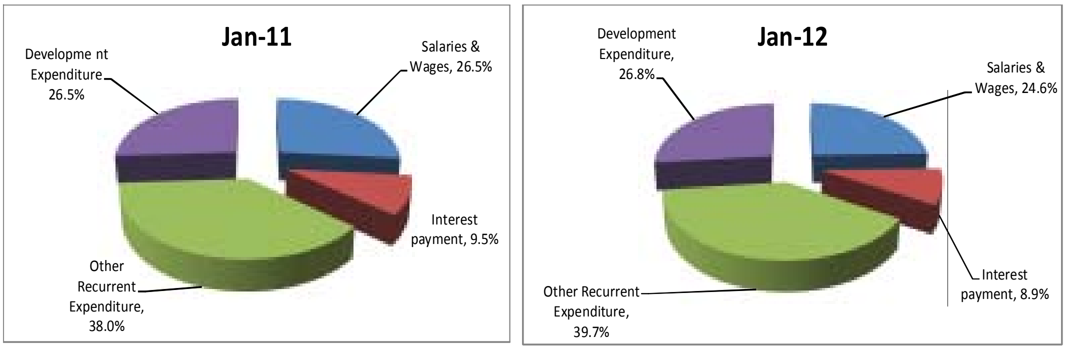
The main recurrent expenditure items included salaries and wages and interest on domestic debt, which increased by Ksh 11.3 billion and Ksh 4.9 billion, respectively. Other recurrent expenditures increased by Ksh 39.0 billion to stand at Ksh 203.5 billion in the period July 2011 – January 2012. Expenditure and net lending targets were missed by Ksh 87.1 billion of which Ksh 76.9 billion was on account of development expenditure (Table 6.3).

TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Jan-11 Ksh bn	Jan-12 Ksh bn	Movement
1.Recurrent	**320.2**	**375.3**	**55.1**
Salaries & Wages	114.8	126.1	**11.3**
Total Interest	40.9	45.7	**4.8**
of which			
Domestic*	36.7	41.6	4.9
Foreign interest	4.2	4.1	-0.1
Others	164.5	203.5	39.0
2. Development	**112.6**	**137.3**	**24.8**
TOTAL EXPENSES	**432.8**	**512.6**	**79.9**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

Budgetary operations of the Government resulted in a financing requirement of Ksh 113.5 billion in the period July 2011 – January 2012 compared with Ksh 83.3 billion in the same period in 2010/11. The Government sourced the required funds through domestic borrowing to the tune of Ksh 59.8 billion and net external debt borrowing of Ksh 23.2 billion. In addition, the Government reduced own deposits at the Central Bank by Ksh 30.5 billion (Table 6.4).

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

I. FINANCING REQUIREMENTS	Jan-11	Jan-12 *
1. Budget deficit	83.3	90.7
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	14.7
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	14.7
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0
5. Adjustments to cash basis	0.0	8.0
TOTAL	83.3	113.5
II. FINANCING SOURCES	**Jan-11**	**Jan-12**
1. Budget surplus	0.0	0.0
2. External debt increase	12.4	23.2
3. Increase in domestic debt	69.2	59.8
3.1 Central Bank	0.0	22.0
3.2 Commercial banks	25.9	0.0
3.3 Non-bank sources	43.2	37.8
4. Reduction in GoK deposits at CBK	1.7	30.5
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	83.3	113.5

* Provisional

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank increased by Ksh 12.2 billion to stand at Ksh 61.7 billion in the period July 2011 – January 2012, compared with Ksh 49.5 billion in the same period of the previous fiscal year. The increase in Government's liability to the Central Bank was attributed to the overdraft at the Central Bank and the rediscounted securities during the period. The holdings of rediscounted securities remained significantly high following the tight monetary stance taken prior to January 2012. Rediscounted Treasury bills and bonds amounted to Ksh 1.9 billion and Ksh 3.8 billion, respectively, at the end of January 2012. Amortization of the pre-1997 overdraft reduced Government indebtedness at the Central Bank by Ksh 1.2 billion while Government overdraft at the Central Bank was maintained within the statutory limit of Ksh 25.4 billion.

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

	2011	2012	Movement
	January	January	
Total Credit	**49.5**	**61.7**	**12.2**
1. Overdraft	17.6	25.4	7.7
2. Rediscounted securities	0.0	5.7	5.7
Treasury bills	0.0	1.9	1.9
Treasury bonds	0.0	3.8	3.8
3. Pre-1997 Government Overdraft at CBK	31.8	30.6	-1.2
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.1	0.1	0.0
Memorandum			
Authorised overdraft limit	**22.9**	**25.4**	2.4
Amount utilised to date	17.6	25.4	7.7
Amount available	5.3	0.0	-5.3

Source: Central Bank of Kenya

Outlook for FY 2011/12

In the Budget Estimates for the fiscal year 2011/12, Government revenue excluding external grants is estimated at Ksh 789.5 billion (28.6 percent of GDP), while external grants are estimated at Ksh 41.1 billion (1.5 percent of GDP). Government expenditure is estimated at Ksh 1066.8 billion or 38.6 percent of GDP. The main components of expenditure includes Ksh 663.7 billion (24.0 percent of GDP) in recurrent expenditure, and Ksh 401.1 billion or 14.5 percent of GDP in development expenditure (Table 6.6).

TABLE 6.6: BUDGET ESTIMATES FOR THE FISCAL YEAR 2011/12 (Ksh Billion)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE	**830.60**	**30.10**
Revenue	789.50	28.60
Tax Revenue	645.80	23.40
Non Tax Revenue	67.90	2.50
Appropriations-in-Aid	75.90	2.70
External Grants	41.10	1.50
2. TOTAL EXPENSES & NET LENDING	**1,066.80**	**38.60**
Recurrent Expenses	663.70	24.00
Development Expenses	401.10	14.50
Civil Contigency Fund	2.00	0.10
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-236.20**	**-8.60**
4. ADJUSTMENT TO CASH BASIS	**0.00**	**0.00**
5. DEFICIT ON A CASH BASIS	**-236.20**	**-8.60**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.00**	**0.00**
7. FINANCING	**236.20**	**8.60**
Domestic (Net)	119.50	4.30
External (Net)	116.70	4.20

Source: Central Bank of Kenya

The overall budget deficit including grants is therefore estimated at Ksh 236.2 billion (8.6 percent of GDP) in 2011/12. The deficit will be financed through net external borrowing of Ksh 116.7 billion (4.2 percent of GDP) and net domestic borrowing of Ksh 119.5 billion (4.3 percent of GDP).

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt

Kenya's public and publicly guaranteed debt amounted to Ksh 1,514.5 billion by the end January 2012, representing an increase of Ksh 23.0 billion since June 2011. The debt stock by January 2012 was equivalent to 46.0 percent of GDP, while that in June 2011 was Ksh 1,491.5 billion or 54.2 percent of GDP. Domestic debt to GDP ratio declined from 27.8 percent in June 2011 to 24.6 percent in January 2012, while external debt to GDP ratio stood at 21.4 percent during the period. Domestic debt constituted 53.4 percent of total debt during the period. In January 2012, total domestic debt increased by Ksh 45.1 billion largely due to increased Treasury bond stocks and Central Bank overdraft to the Government, while total external debt declined by Ksh 22.1 billion following appreciation of the Kenya Shilling against the world's major currencies.

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

	Jun-09	Jun-10	Jun-11	Sep-11	Dec-11	Jan-12	Change 2011/12
EXTERNAL* **							
Bilateral	185.9	196.3	257.0	258.5	240.7	263.3	6.4
Multilateral	327.6	348.6	445.3	514.7	422.9	419.7	-25.6
Supplier Credits	23.8	20.5	25.0	26.6	22.0	22.2	-2.9
Sub-Total	**537.4**	**565.5**	**727.3**	**799.83**	**685.61**	**705.20**	**-22.1**
(As a % of GDP)	22.5	22.2	26.4	29.0	20.8	21.4	
(As a % of total debt)	50.9	46.1	48.8	51.1	46.1	46.6	
DOMESTIC/[1]							
Banks	**290.8**	**401.8**	**418.1**	**413.1**	**431.2**	**425.3**	**7.3**
Central Bank	40.1	51.9	39.7	58.1	68.5	61.7	**22.0**
Commercial Banks	250.7	350.0	378.4	355.0	362.7	363.7	**-14.7**
Non-banks	**225.1**	**255.3**	**338.3**	**343.1**	**360.5**	**373.2**	**34.9**
Non-bank Financial Institutions	1.0	3.0	2.6	2.1	1.9	1.8	**-0.8**
Other Non-bank Sources	224.1	252.4	335.7	341.0	358.6	371.4	**35.6**
Non-residents	**2.6**	**3.1**	**7.9**	**8.1**	**9.1**	**10.7**	**2.9**
Sub-Total	**518.5**	**660.3**	**764.2**	**764.3**	**800.7**	**809.3**	**45.1**
(As a % of GDP)	21.7	25.9	27.78	27.68	24.32	24.58	
(As a % of total debt)	49.1	53.9	51.2	48.9	53.9	53.4	
GRAND TOTAL	**1055.9**	**1225.7**	**1491.5**	**1564.1**	**1486.3**	**1514.5**	**23.0**
(As a % of GDP)	44.1	48.0	54.2	56.6	45.1	46.0	

*** 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 Government 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 45.1 billion from a stock of Ksh 764.2 billion at the end of June 2011 to Ksh 809.3 billion at the end of January 2012 (Table 7.2). The rise was largely attributed to increases of Ksh 44.5 billion in Treasury bonds and Ksh 17.8 billion in the Government overdraft at the Central Bank, which were partially offset by decreases of Ksh 16.0 billion and Ksh 1.1 billion in Treasury bills and non-interest bearing debt, respectively.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2011						2012		Change
	June	%	Sept	%	Dec	%	Jan	%	June-11 - Jan-12
Total Stock of Domestic Debt (A+B)	**764.2**	**100.0**	**764.3**	**100.0**	**800.7**	**100.0**	**809.3**	**100.0**	**45.1**
A. Government Securities	**753.9**	**98.7**	**736.4**	**96.3**	**771.7**	**96.4**	**781.3**	**96.5**	**27.4**
1. Treasury Bills (excluding Repo Bills)	**126.6**	**16.6**	**113.7**	**14.9**	**107.1**	**13.4**	**110.6**	**13.7**	**-16.0**
Banking institutions	87.7	11.5	72.9	9.5	54.1	6.8	53.9	6.7	**-33.8**
Others	38.9	5.1	40.9	5.3	53.0	6.6	56.7	7.0	**17.8**
2. Treasury Bonds	**595.7**	**77.9**	**591.5**	**77.4**	**633.5**	**79.1**	**640.1**	**79.1**	**44.5**
Banking institutions	288.4	37.7	279.8	36.6	305.9	38.2	307.2	38.0	**18.8**
Others	307.3	40.2	311.7	40.8	327.6	40.9	332.9	41.1	**25.6**
4. Non-Interest Bearing Debt	31.7	**4.1**	31.1	**4.1**	31.1	**3.9**	30.6	**3.8**	**-1.1**
Of which: Repo T/Bills	30.8	4.0	30.8	4.0	30.8	3.8	29.8	3.7	**-1.0**
B. Others:	**10.29**	**1.3**	**27.91**	**3.7**	**28.93**	**3.6**	**27.99**	**3.5**	**17.7**
Of which CBK overdraft to Government	7.6	1.0	25.4	3.3	26.2	3.3	25.4	3.1	**17.8**

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

Source: Central Bank of Kenya

Treasury Bills

Treasury bill stocks declined from Ksh 126.6 billion in June 2011 to Ksh 110.6 billion in January 2012. Consequently, the proportion of Treasury bills in total domestic debt declined from 16.6 percent in June 2011 to 13.7 percent in January 2012. At the end of January 2012, commercial banks held 48.8 percent of total Treasury bills (Table 7.3).

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

	2011						2012	
Holders	Jun	%	Sep	%	Dec	%	Jan	%
Banking Institutions	87.7	69.3	72.9	64.1	54.1	50.5	53.9	48.8
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	87.7	69.3	72.9	64.1	54.1	50.5	53.9	48.8
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	4.7	3.7	8.6	7.5	9.2	8.6	7.7	7.0
Parastatals	3.2	2.6	3.6	3.1	2.9	2.7	2.7	2.5
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	4.8	3.8	2.6	2.3	14.9	13.9	18.8	17.0
Others	26.1	20.6	26.1	23.0	26.1	24.4	27.4	24.8
Total*	**126.6**	**100.0**	**113.7**	**100.0**	**107.1**	**100.0**	**110.6**	**100.0**

* **Excludes repurchase order bills**

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds outstanding increased by Ksh 44.5 billion from Ksh 595.7 billion in June 2011 to Ksh 640.1 billion at the end of January 2012, following successful bond issues during the period, which included the 12-year infrastructure bond, the 30-year special development bond and other discounted fixed rate bonds. As a result, Treasury bonds in total domestic debt increased from 77.9 percent in June 2011 to 79.1 percent in January 2012.

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

Holders	2011						2012	
	June	%	Sep	%	Dec	%	Jan	%
Banking Institutions	290.9	48.8	281.9	47.7	307.8	48.6	309.0	48.3
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	288.4	48.4	279.8	47.3	305.9	48.3	307.2	48.0
NBFIs	2.5	0.4	2.1	0.4	1.9	0.3	1.8	0.3
Insurance Companies	70.9	11.9	76.8	13.0	79.5	12.6	80.9	12.6
Parastatals	46.6	7.8	48.7	8.2	48.7	7.7	47.7	7.5
Of which: NSSF	23.6	4.0	25.7	4.3	25.7	4.1	24.7	3.9
Building Societies	0.3	0.0	0.6	0.1	0.6	0.1	0.6	0.1
Pension Funds	118.5	19.9	136.6	23.1	147.2	23.2	161.6	25.2
Others	68.4	11.5	46.9	7.9	49.7	7.8	40.2	6.3
Total	**595.7**	**100.0**	**591.5**	**100.0**	**633.5**	**100.0**	**640.1**	**100.0**

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Total domestic debt amounted to Ksh 809.3 billion at the end of January 2012, and comprised of Ksh 640.1 billion, Ksh 110.6 billion, Ksh 25.4 billion, Ksh 29.8 billion and Ksh 3.4 billion in Treasury bonds, Treasury bills, Government overdraft at the Central Bank, Repo Treasury bills and other domestic debt, respectively. The average maturity profile of domestic debt (by days to maturity) declined to 5 years and 8 months in January 2011, from 5 years and 10 months in June 2011.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2010		2011						2012		Change Jun-11 to Jan-12
		Jun	%	June	%	Sep	%	Dec	%	Jan	%	
Treasury bills	91-Day	23.7	3.6	69.1	9.0	54.5	7.1	54.1	6.8	51.1	6.3	-18.0
	182-Day	85.3	12.9	22.5	2.9	23.9	3.1	29.3	3.7	37.3	4.6	14.8
	364-Day	49.5	7.5	34.9	4.6	35.4	4.6	23.6	3.0	22.1	2.7	-12.8
Treasury Bonds	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	11.1	1.4	26.0	3.2	26.0
	2-Year	46.6	7.1	73.0	9.6	69.7	9.1	93.4	11.7	86.2	10.7	13.2
	3-Year	1.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	3.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	5-Year	86.6	13.1	114.6	15.0	113.2	14.8	113.2	14.1	110.4	13.6	-4.1
	6-Year	59.1	8.9	70.8	9.3	70.8	9.3	63.4	7.9	63.4	7.8	-7.4
	7-Year	21.4	3.2	24.3	3.2	22.5	2.9	22.5	2.8	22.5	2.8	-1.8
	8-Year	29.6	4.5	25.7	3.4	20.6	2.7	20.6	2.6	20.6	2.6	-5.0
	9-Year	17.8	2.7	27.7	3.6	27.7	3.6	27.7	3.5	27.7	3.4	0.0
	10-Year	69.1	10.5	91.4	12.0	95.3	12.5	95.3	11.9	95.3	11.8	3.9
	11-Year	4.0	0.6	4.0	0.5	4.0	0.5	4.0	0.5	4.0	0.5	0.0
	12-Year	20.1	3.0	20.1	2.6	20.1	2.6	34.7	4.3	36.4	4.5	16.3
	15-Year	61.9	9.4	75.4	9.9	75.4	9.9	75.4	9.4	75.4	9.3	0.0
	20-Year	20.4	3.1	29.7	3.9	29.7	3.9	29.7	3.7	29.7	3.7	0.0
	25-Year	7.0	1.1	20.2	2.6	20.2	2.6	20.2	2.5	20.2	2.5	0.0
	30-Year	n.a	n.a	18.8	2.5	22.1	2.9	22.1	2.8	22.1	2.7	3.4
	Repo T bills	32.22	4.9	30.78	4.0	30.78	4.0	30.78	3.8	29.78	3.7	-1.0
	Overdraft	17.65	2.7	7.57	1.0	25.37	3.3	26.17	3.3	25.37	3.1	17.8
	Other Domestic debt	3.53	0.5	3.60	0.5	2.86	0.4	3.08	0.4	3.39	0.4	-0.2
Total Debt		**660.5**	**100.0**	**764.2**	**100.0**	**764.3**	**100.0**	**800.7**	**100.0**	**809.3**	**100.0**	

Source: Central Bank of Kenya

Maturity Profile of Treasury Bills and Bonds

In terms of actual maturities, Government securities worth Ksh 92.1 billion will fall due between February and April 2012 in the 2011/12 fiscal year. Of the total maturing debt, Ksh 82.9 billion, equivalent to 90.0 percent will be in Treasury bills, while the remainder will be in Treasury bonds. Treasury bill maturities in the period will comprise Ksh 51.14 billion, Ksh 16.20 billion and Ksh 15.53 billion in 91-days, 182-days and 364-days Treasury bills, respectively, while Treasury bonds maturing during this period will comprise of Ksh 3.0 billion and Ksh 6.2 billion in 8-year and 2 year discounted fixed rate bonds respectively.

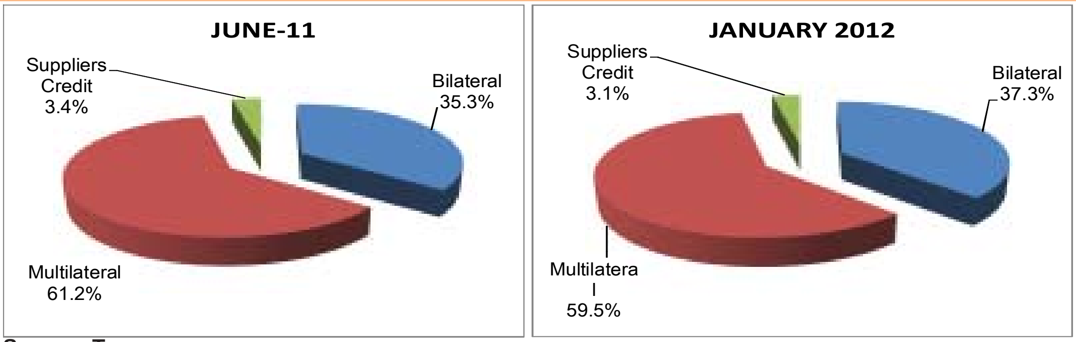
External Debt

Kenya's external debt declined by Ksh 22.1 billion from Ksh 727.3 billion (US$ 7.88 billion) in June 2011 to Ksh 705.2 billion (US$ 8.34 billion) at the end of January 2012 (Table 7.1). Debt owed to multilateral creditors and that acquired through suppliers' credits declined by Ksh 25.6 billion and Ksh 2.9 billion, respectively, while that owed to bilateral lenders increased by Ksh 6.4 billion, following exchange rate movements during the period.

Composition of External Debt by Creditor

Kenya's official creditors, the multilateral and bilateral lenders, accounted for over 96 percent of total external debt in January 2012. The proportion of external debt owed to multilateral creditors declined from 61.2 percent in June 2011 to 59.5 percent in January 2012. Bilateral creditors accounted for 37.3 percent, while debt contracted through suppliers credits accounted for 3.2 percent of total external debt in January 2012 (Chart 7A).

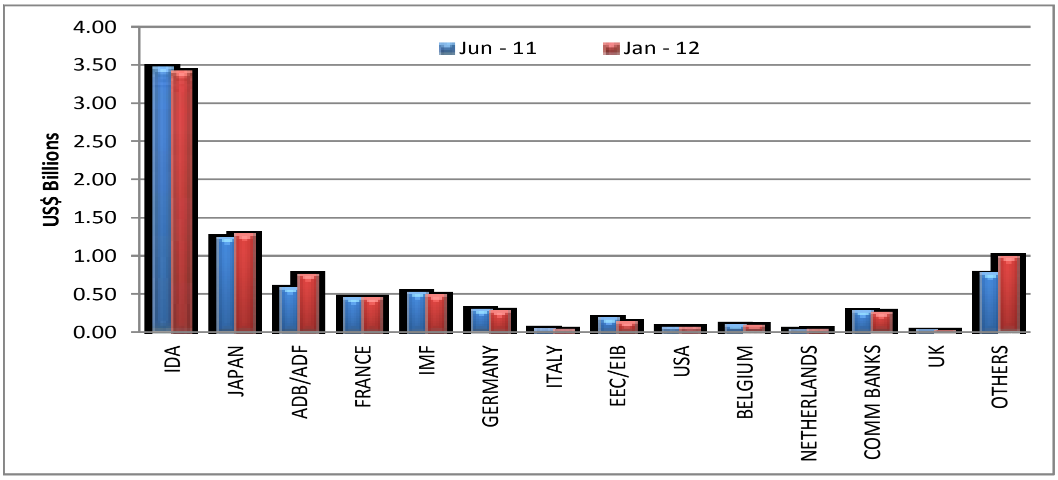
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

Debt owed to IDA, Kenya's largest multilateral lender, declined by US$ 47.6 million from US$ 3,473.7 million in June 2011 to US$ 3,426.1 million in January 2012. Similarly, debt owed to the European Economic Community/European Investment Bank (EEC/EIB) and the IMF declined by US$ 50.2 million and US$ 39.6 million respectively, during the period. In addition, debt owed to Japan, Kenya's largest bilateral lender increased by US$ 41.5 million to stand at US$ 1,286.1 million at the end of January 2012 (Chart 7B).

CHART 7B: EXTERNAL DEBT BY CREDITOR

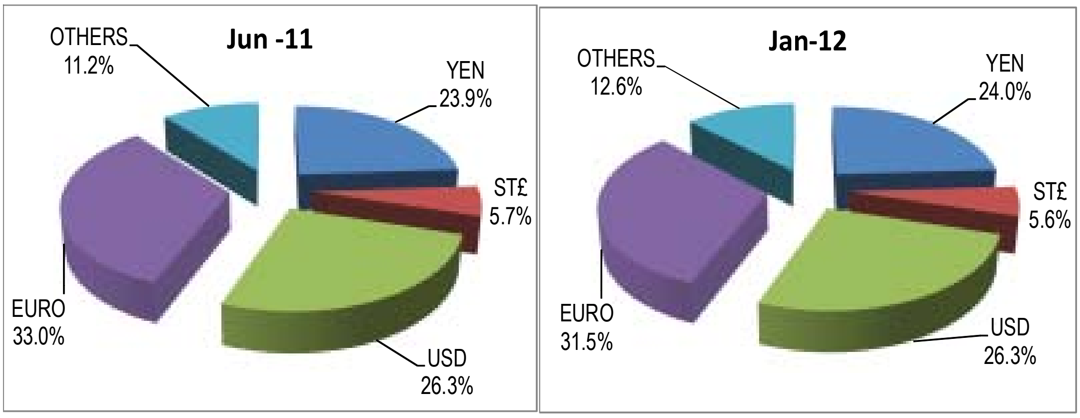


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in Japanese Yen and other currencies increased from 23.9 percent and 11.2 percent to 24.0 percent and 12.6 percent, respectively, in January 2012. Debt held in Euros and Sterling pounds declined during the period from 33.0 percent and 5.7 percent to 31.5 and 5.6 percent respectively (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 for the period July 2011 – January 2012 amounted to Ksh 41.6 billion, compared with Ksh 36.7 billion for the same period of the previous fiscal year. This comprised Ksh 33.1 billion, Ksh 7.1 billion and Ksh 1.4 billion, respectively, in interest and other charges on Treasury bonds, Treasury bills and Government overdraft at the Central Bank. External debt service for the period July 2011 – January 2012 amounted to Ksh 19.9 billion comprising Ksh 15.1 billion in principal repayments and Ksh 4.8 billion in interest cost.

Outlook for the FY 2011/12

The budget estimates for fiscal year 2011/12 indicate projected domestic and external borrowing equivalent to Ksh 119.5 billion and Ksh 116.7 billion, respectively.

ACTIVITY IN THE STOCK MARKET

The equities market remained vibrant in January 2012, but the Bonds' segment was subdued, recording a 6.3 percent fall in volume traded, despite a 36 percent rise in the number of deals involved.

Equity Market

The NSE 20 Share Index and NASI added 60 basis points and 135 basis points to level 3,224.18 points and 68.95 points in January from 3,205.02 points and 68.03 points in December 2011, respectively. Market Capitalization gained Ksh 11.56 billion to close at Ksh 879.80 billion from 868.24 billion during the period. Similarly, Turnover Ratio as a measure of market liquidity gained 2 basis points to reach 0.48 percent from 0.46 percent. The number of shares traded rose to 350.6 million in January from 336.5 million in December. Equity turnover was, however, down Ksh 429 million to close the month at Ksh 3,544 million from Ksh 3,973 million in December 2011, signifying general decline in share prices.

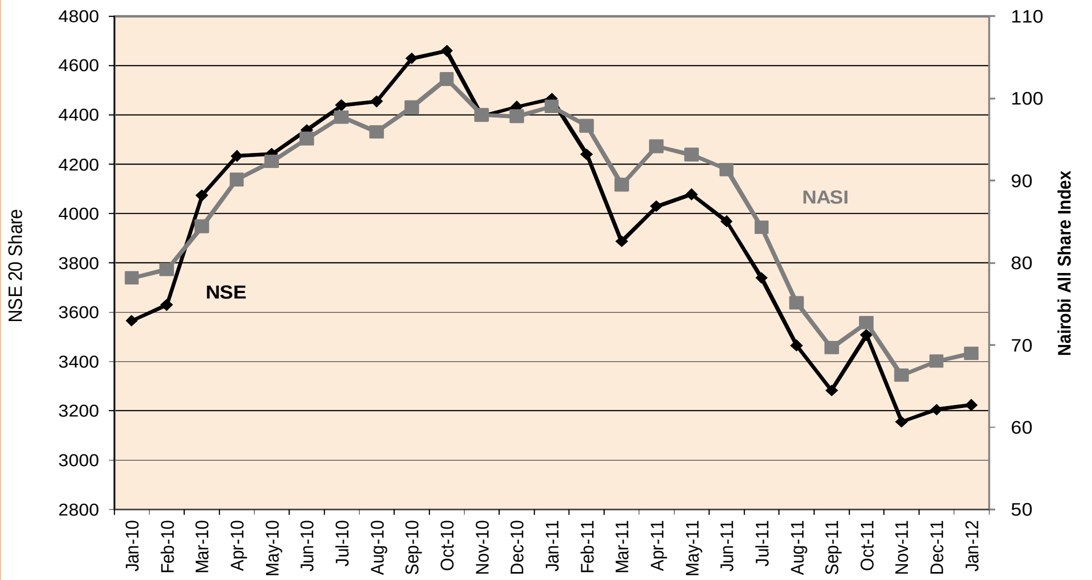
Net foreign investors' participation was down to 43.00 percent from 56.42 percent of total equity turnover during the period. Foreign investors bought less at 31.55 percent of total equity turnover against 54.46 percent of sales.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

Month	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
Jan-11	4,464.92	99.02	725.05	9,462.18	1,192.28	19,891.30
Feb-11	4,240.18	96.66	335.25	6,215.78	1,176.85	49,040.10
Mar-11	3,887.07	89.50	469.03	7,984.12	1,090.23	40,116.05
Apr-11	4,029.23	94.18	497.18	7,883.04	1,154.92	33,376.20
May-11	4,078.10	93.15	410.00	8,405.61	1,144.00	33,646.10
Jun-11	3,968.12	91.36	411.00	7,047.50	1,121.00	69,415.48
Jul-11	3,738.46	84.32	434.00	7,132.18	1,050.00	33,414.55
Aug-11	3,465.02	75.15	551.88	6,109.01	950.41	44,111.70
Sep-11	3,284.06	69.68	582.39	5,453.00	885.57	36,112.40
Oct-11	3,507.34	72.71	570.14	4,466.00	927.00	34,737.60
Nov-11	3,155.46	66.33	398.90	3,928.00	854.68	26,691.60
Dec-11	3,205.02	68.03	336.50	3,973.00	868.24	24,999.05
Jan-12	3,224.00	69.00	351.00	3,544.00	880.00	24,513.50

Source: Nairobi Stock Exchange

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



Source: Nairobi Stock Exchange

Telecommunications and Technology sector dominated trading, with 202.52 million shares being traded during the month, which accounted for 57.78 percent of the entire market activity. Safaricom dominated trading, with 201.05 million shares or 57.4 percent of the entire market. Banking sector came second, with 104.62 million shares or 29.84 percent, with Equity bank leading at 65.81 million shares. Manufacturing and Allied sector closed third best with 16.24 million shares or 4.63 percent of market activity, where Mumias Sugar Co. Ltd dominated for 12.60 million shares.

FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index which measures performance of 15 largest stocks ranked by market capitalization at NSE and FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks trading at the Exchange, closed the month up at 90.69 points and 92.65 points from 90.31 points and 92.64 points on December 30th 2011.

Bond Market

The turnover of bonds traded at the NSE was down 2 percent with total deals dropping to 400 for Ksh 24,514 million in January 2012 from 436 deals valued Ksh 24,599 million in December 2011. This drop may be due to investor preference for Treasury bills that offered high return and less risky.

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

	Jan-12	Jun-11	Jan 12/June 11 Movement
ASSETS			
Balances due from Banking Institutions and Gold holdings	349,442	368,835	(19,393)
Items in the course of collection	786	409	377
Funds held with International Monetary Fund	74	2,731	(2,657)
Advances to commercial banks	5,695	49	5,646
Loans and Advances	29,941	30,642	(701)
Other Assets	5,173	5,385	(212)
Retirement Benefits Assets	1,897	1,897	(0)
Property and Equipment	3,072	2,849	223
Prepaid operating lease rentals	267	268	(1)
Intangible Assets	1,293	1,171	122
Due from Government of Kenya	30,554	32,380	(1,826)
TOTAL ASSETS	**428,195**	**446,616**	**(18,421)**
LIABILITIES			
Balances due to Banking Institurions (RAMP A/Cs	0	0	0
Currency in Circulation	160,148	147,718	12,430
Repos sold to Banks	0	0	0
Deposits	117,459	135,792	(18,333)
International Monetary Fund	90,731	81,829	8,902
Other Liabilities	6,865	9,447	(2,582)
Dividends Payable	1,661	2,641	(980)
Provisions	98	98	0
TOTAL LIABILITIES	**376,963**	**377,525**	**(562)**
EQUITIES AND RESERVES	**51,232**	**69,091**	**(17,859)**
Share capital	5,000	5,000	0
General Reserve Fund	62,722	62,722	0
Period Surplus	(17,859)	0	(17,859)
Asset Revaluation	1,369	1,369	0
Proposed Dividends	0	0	0
			0
TOTAL LIABILITIES AND EQUITY	**428,195**	**446,616**	**(18,421)**

Source: Central Bank of Kenya

Notes on the Financial Position

Assets

Balances due from Banking institutions and Gold holdings category consist of foreign reserves held in external current accounts, deposits and special/projects accounts, foreign travelers cheques, Domestic Foreign Currency Clearing Accounts, Gold, Special Drawing Rights and RAMP securities invested with World Bank. The category decreased by Ksh 19,393 million or 5.3 percent, to Ksh 349,442 million in January 2012 from Ksh 368,835 million in June 2011.

Items in course of collection represent the value of clearing instruments which are held by the Bank, while awaiting clearing by respective commercial banks. The balances as at January 2012 were Ksh 786 million, an increase of 377million compared with Ksh 409 million as at June 2011.

Advances to commercial banks are balances of money lend by Central Bank to commercial banks through reverse Repo (injection of liquidity) for a short duration of up to 7 days only. These advances are secured against government securities of any maturity. The balance outstanding increased to Ksh 5,695 million in January 2012 from Ksh 49 million in June 2011.

Loans and Advances class of asset includes mainly outstanding balances on advances to commercial bank under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF fund on-lent to Government. The balances declined by Ksh 701 million to Ksh 29,941 million in January 2012 from Ksh 30,642 million in June 2011 largely reflecting decreased utilization of the OLF window by commercial banks.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets decreased by Ksh 212 million or 4.1 percent to Ksh 5,173 million in January 2012 from Ksh 5,385 million in June 2011.

Due from Government of Kenya liability category arose from overdrawn accounts which were converted to a long term debt with effect from 1 July 1997 after an amendment to the Central Bank of Kenya Act to limit lending to GoK to 5 percent of GoK audited revenue. The change in the balances represents partial payment of the loan.

Liabilities

Currency in circulation increased by Ksh 12,430 million or 7.8 percent to Ksh 160,148 million in January 2012 from Ksh 147,718 million in June 2011. This reflected increased demand for cash end of the year festivities. .

Deposits liability represents deposits held by Government of Kenya, local commercial bank deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances decreased by 15.6 percent or Ksh

18,333million to Ksh 117,459 million in January 2012 largely reflecting a decline in government deposits.

Amount due to International Monetary Fund represents the Banks obligations to the IMF. The balances increased by Ksh 8,902 million to Ksh 90,731 million in January 2012. The increase reflected depreciation of the Shilling against the SDR denominated liability and receipts of loan disbursement from the IMF.

Other liabilities and provisions include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance decreased by Ksh 2,582 million to Ksh 6,865 million in January 2012 from Ksh 9,447 million in June 2011.

Equities and reserves decreased by Ksh 17,859 million to Ksh 51,232 million in January 2012 and reflecting a decline in the period surplus of Ksh 17,859 million.