MONTHLY ECONOMIC REVIEW
JANUARY 2010
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 2010. It highlights developments in money, credit and banking, inflation, interest rates and the exchange rates. It also highlights developments in the real sector, Government budgetary operations, public debt and balance of payments.

Monetary Expansion

Broad money supply, M3[1], grew by 19.2 percent in the year to January 2010 compared with 11.8 percent in a corresponding period in 2009 and was above the projected 17.0 percent growth rate for January 2010.

Interest Rates

The Monetary Policy Committee in its meeting of January 26, 2010 retained the Central Bank Rate (CBR) at 7.0 percent after concluding that its previous decision to reduce the CBR had successfully signalled a reduction in the short term interest rates.

Real GDP Growth

Economic growth stagnated in the third quarter of 2009 at zero percent with the level of output of goods and services remaining equal to that experienced in the same quarter of 2008. This was as a result of various shocks including the persistent drought which adversely affected the agricultural and electricity sectors and the rising fuel prices which suppressed the transport and manufacturing sectors. Agriculture, which constitutes 23.4 percent of GDP, declined by 3.5 percent during the third quarter of 2009, while manufacturing, transport and communications, and construction, which together account for about 25.0 percent of GDP also declined during the quarter by 2.4, 1.8 and 1.12 percent, respectively. The above decreases were counteracted by increases in some sectors, with the hotels and restaurants sector leading by 44.4 percent increase. Other shocks included the global economic crisis and the lag effects of the post election crisis experienced in 2008, all of which affected growth during the quarter. Growth rates during the first and second quarter of 2009 were equivalent to 4.0 and 2.1 percent, respectively.

Inflation

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

Government Fiscal Operations

The central Government budgetary operations in the seven months of the fiscal year 2009/10 resulted in a deficit of Ksh 60.1 billion or 2.4 percent of GDP on commitment basis compared with a deficit of Ksh 24.1 billion or 1.1 percent of GDP in a similar period of 2008/09. The budget deficit during the period was well within the programmed target of 4.0 percent of GDP on commitment basis.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by 4.9 percent in the first seven months of fiscal year 2009/10 to stand at Ksh 1,105.4 billion in January 2010 from Ksh 1,053.7 billion in June 2009. The external debt to GDP ratio increased from 22.4 percent in June 2009 to 21.1 percent in January 2010, while the domestic debt to GDP ratio increased from 21.7 percent to 23.4 percent during the period.

Balance of Payments

(Data for Dec 2009 not available)

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

Exchange Rates

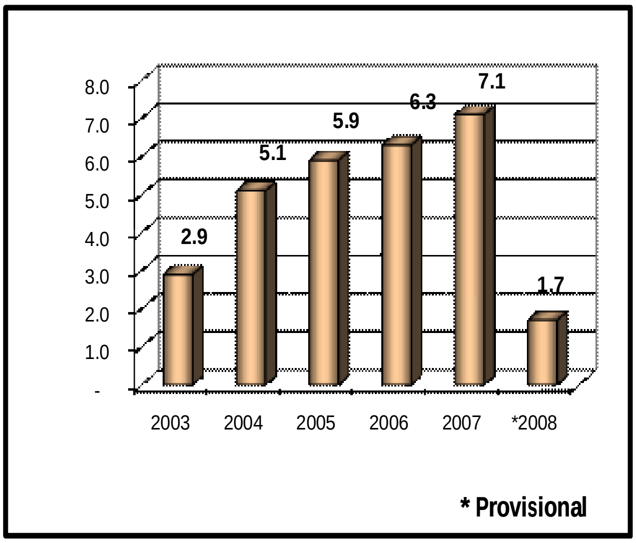
The Kenya shilling depicted mixed performance against major world currencies, weakening marginally against the US dollar but strengthening against the Sterling Pound, the Euro and the Japanese Yen in January 2010. Against the US dollar, the shilling exchanged at Ksh 75.79 per US dollar in January 2010 compared with Ksh 75.43 per US dollar in December 2009.

Banking Sector Developments

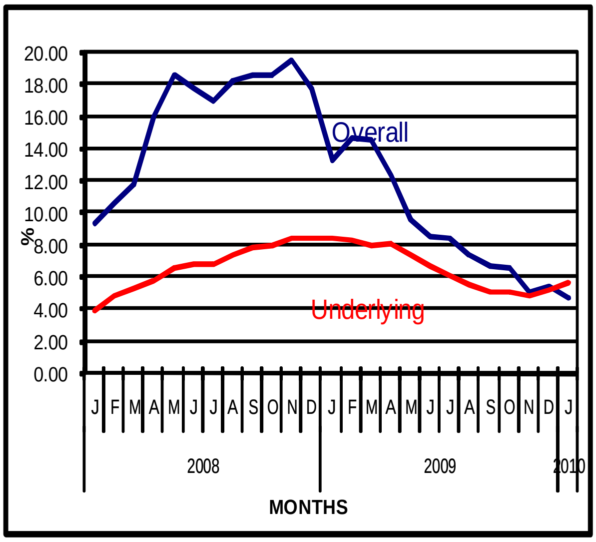
The Kenyan Banking sector registered growth in asset base largely supported by growth in deposits, injection of capital and retention of profits in January 2010. The sector registered sufficient capital adequacy and liquidity ratios. However, there was a slight increase in the level of non-performing loans compared to the same period in 2009.

SELECTED ECONOMIC PERFORMANCE INDICATORS

Real GDP Growth

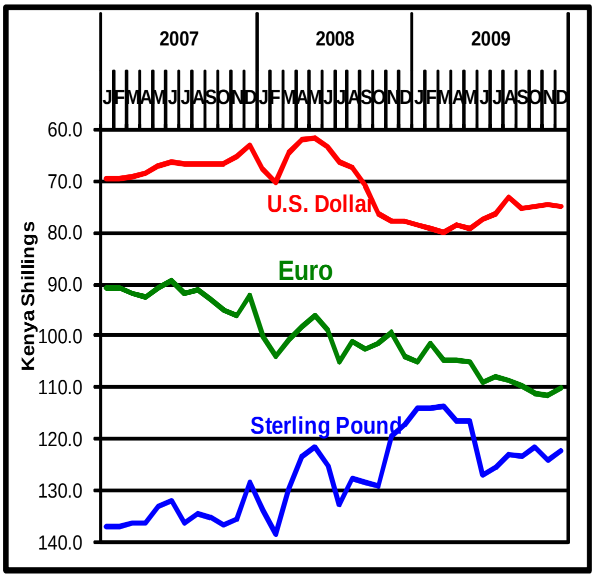


Inflation

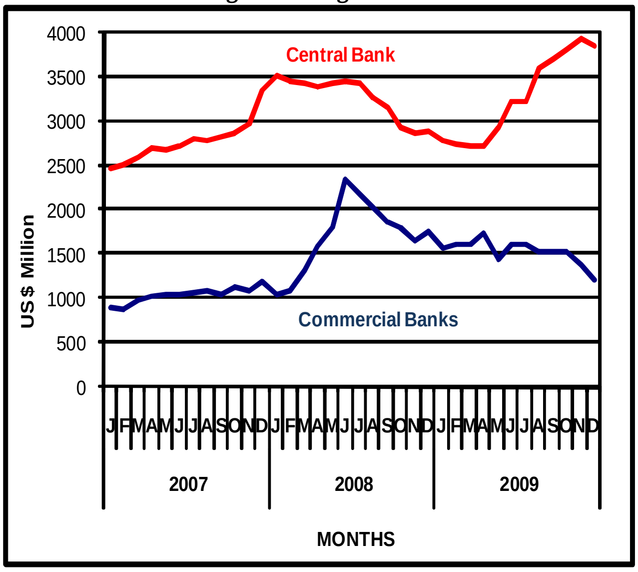


Treasury Bill Rates

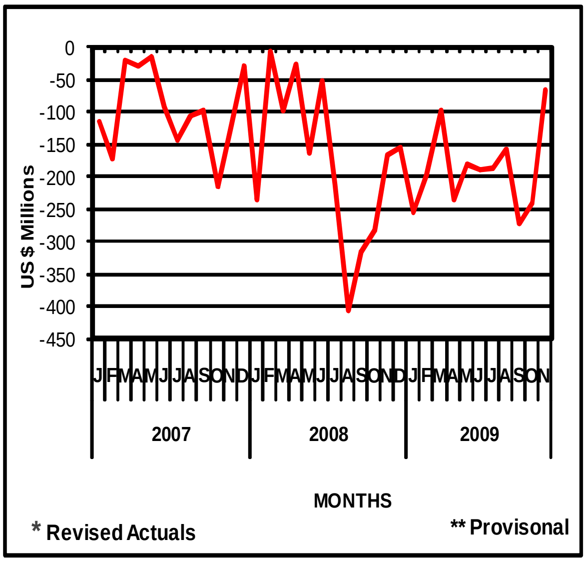
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008*
1.	POPULATION*									
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	1.03
2.	NATIONAL ACCOUNTS**									
	GDP at Basic Prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,527	1,443,981	1,610,831	1,852,263
	GDP at Market Prices (Ksh m):									
	At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,434	1,825,960	2,099,798
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,081	1,249,331	1,338,039	1,360,626
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.32	7.10	1.69
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,478	34,608	35,969	35,525
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]	12.9	10.0	8.1	10.1	12.2	13.4	14.9	13.1	14.8
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]	6.7	4.4	4.0	4.8	6.6	7.2	7.2	5.8	7.9
5.	GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	19.1	19.2
6.	CONSUMER PRICE INFLATION (URBAN) 1997 BASE									
	Average Annual Inflation	10.01	5.87	1.96	9.82	11.62	10.31	14.45	9.76	26.24
	Twelve-month Inflation (Dec-Dec) * Revised	11.89	1.78	4.10	8.35	16.25	7.56	15.59	12.03	27.72
7.	STOCK MARKET									
	Nairobi Stock Exchange Price Index (1966=100)	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18
	Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29
8.	GOVERNMENT BUDGET (Ksh bn) ***									
	Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84
	Budget Deficit (-) / Surplus (+)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)
	Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(1.54)	0.42	(2.39)	(1.18)	(3.68)
9.	MONEY AND CREDIT (Ksh bn)(end period)									
	Liquidity (L)[1]	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,092.01
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.13
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59
	Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	808.50
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	155.32
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	653.18
10.	BALANCE OF PAYMENTS (US$ m)**									
	Overall Balance	108.21	166.38	3.26	413.33	38.85	280.11	616.44	939.56	(479.42)
	Current Account	(237.48)	(383.39)	(117.69)	146.20	-131.76	-252.32	-510.44	-1,034.48	-1,978.35
	Capital and Financial Account	416.21	348.20	(31.67)	537.82	239.52	765.99	884.59	2,229.58	1,171.72
11.	FOREIGN EXCHANGE RESERVES (US$ m) End Period	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78
	Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46
	*Months of imports****	*(2.8)*	*(3.2)*	*(3.3)*	*(4.2)*	*(3.4)*	*(3.2)*	*(3.5)*	*(4.0)*	*(2.7)*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32
12.	PUBLIC DEBT (US$ bn) End Period***	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	13.46
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61
13.	EXCHANGE RATE (Ksh/US$) (Annual Average)	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18

* Provisional.
** Revised to reflect data in Economic Survey 2008.
*** Fiscal year to June 30th.
**** Figures in parentheses refer to official reserves in terms of average of current year of imports of goods and non-factor services.
[1] Previously M3XT
[2] Previously M3X
[3] Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2009								2010
	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan
1. INFLATION (%)									
CPI	141.16	140.18	139.77	139.94	140.51	141.21	141.5	141.88	141.96
Overall Inflation									
12-month overall inflation	9.57	8.57	8.41	7.34	6.72	6.60	4.99	5.34	4.69
Average annual overall inflation	15.86	15.05	14.30	13.37	12.39	11.41	10.24	9.25	8.54
Underlying Inflation*									
12-month underlying inflation	7.43	6.70	6.18	5.64	5.16	5.17	4.86	5.20	5.69
Average annual underlying inflation	7.88	7.85	7.79	7.63	7.39	7.14	6.84	6.57	6.35
2. INTEREST RATES (%)									
91-day Treasury bill interest rate	7.45	7.33	7.22	7.25	7.29	7.26	7.22	6.82	6.557
Overdraft interest rate	14.13	14.41	13.94	13.90	13.76	14.03	14.24	14.13	14.48
3. STOCK MARKET									
Nairobi Stock Exchange Price Index	2852.57	3294.56	3273.1	3102.68	3005.41	3083.63	3189.55	3247.44	3565.28
Turnover (%)	0.49	0.61	0.48	0.45	0.37	0.49	0.64	0.34	0.96
4. GOVERNMENT BUDGET** (Ksh bn.)									
Revenue	449.64	511.35	40.08	74.82	128.90	170.83	208.56	266.08	312.0
Expenses	515.70	621.91	44.77	98.61	159.30	210.69	246.75	296.13	372.0
Budget Deficit (-) / Surplus (+)	(66.06)	(110.56)	(4.69)	(23.79)	(30.40)	(39.86)	(38.18)	(30.05)	(60.06)
5. MONEY AND CREDIT (Ksh bn.)									
Liquidity (L)[1]	1,139.47	1,166.93	1,199.96	1,212.12	1,218.18	1,243.84	1,243.50	1,280.02	1,297.90
Money Supply (M3)[2]	928.60	950.24	973.62	982.85	986.90	1,006.01	1,022.30	1,045.21	1,067.27
Reserve Money	160.40	159.94	157.95	156.88	163.49	163.45	178.20	181.96	179.45
Total Domestic Credit	835.18	854.03	858.79	871.46	880.65	900.03	931.30	955.29	94.54
Government	162.55	173.87	176.02	183.19	187.11	192.34	216.40	205.08	220.69
Private sector and other public sector	672.63	680.16	682.77	688.27	693.54	707.69	708.70	738.27	737.70
6. MONEY AND CREDIT (Annual % Change)									
Liquidity (L)[1]	7.1	13.5	15.1	15.9	15.9	15.6	14.8	17.2	**19.2**
Money Supply (M3)[2]	10.6	13.0	14.4	15.0	14.8	13.9	14.8	16.0	19.2
Reserve Money	8.8	4.6	3.7	3.3	7.1	4.0	10.9	11.2	17.7
Total Domestic Credit	18.7	21.7	18.9	17.8	13.8	12.7	15.7	18.5	**20.7**
Government	38.1	30.3	26.9	26.1	24.8	19.6	37.0	32.0	40.8
Private and other public sector	14.8	19.7	17.0	15.7	11.2	11.0	10.5	15.5	15.2
7. BALANCE OF PAYMENTS (US$ m)									
Overall Balance	41.20	84.39	3.61	62.03	116.95	104.63	123.86		
Current Account	(179.62)	(188.77)	(185.20)	(157.20)	(270.86)	(239.49)	(64.89)		
Trade Balance	(422.82)	(446.29)	(419.60)	(415.36)	(532.83)	(584.97)	(525.42)		
Capital and Financial Account	220.82	273.16	181.59	219.42	387.81	344.12	188.75		
8. FOREIGN EXCHANGE RESERVES (US$ m)	4,370.19	4,821.67	4,830.14	5,125.15	5,235.15	5,346.66	5319.81	5062.40	
Official***	2,928.94	3,219.52	3,215.85	3,275.65	3,707.96	3,810.00	3934.28	3847.39	
Months of imports cover	*2.95*	*3.26*	*3.33*	3.83	4.01	4.13	4.27	4.15	
Commercial banks	1,441.25	1,602.15	1,614.29	1,534.33	1,527.18	1,536.00	1385.53	1215.00	
9. PUBLIC DEBT (US$ bn)	12.9	13.7	13.9	14.1	14.4	14.6	14.6	14.7	14.57
Domestic	6.25	6.72	6.93	7.18	7.34	7.54	14.56	14.70	14.57
As % of GDP	20.70	21.67	22.05	22.62	22.65	23.20	22.91	23.85	23.39
External	6.62	6.94	6.95	6.95	7.00	6.96	7.04	6.94	6.91
As % of GDP	21.95	22.36	22.12	21.92	21.59	21.43	21.47	21.29	21.13
10. GROSS DOMESTIC DEBT (Ksh bn)****	489.34	518.51	530.53	547.21	550.69	567.13	562.93	588.97	580.7
11. AVERAGE EXCHANGE RATE									
Ksh/US$	79.63	77.85	76.75	76.37	75.60	75.24	74.7	75.4	75.8
Ksh/Pound Sterling	116.98	127.22	125.58	126.34	123.57	121.65	124.1	122.5	122.5
Ksh/ 100 Yen	80.76	80.61	81.29	80.49	82.70	83.38	83.8	84.1	83.1
Ksh/Euro	105.08	109.03	108.02	108.83	110.01	111.25	111.7	110.3	108.3

* Underlying inflation excluding food, energy and transport and communications

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

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

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

1 Previously M3XT

2 Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

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

Underlying Inflation

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

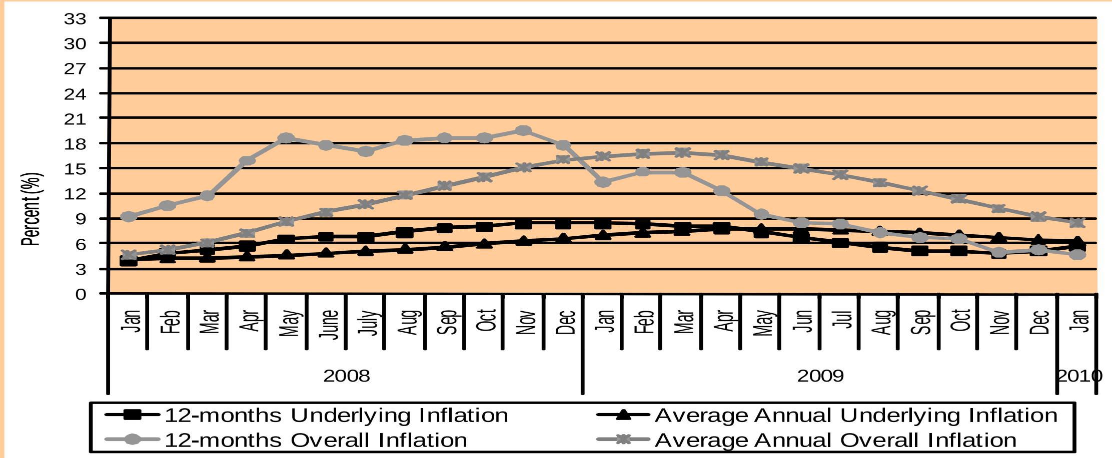
Table 1.1 and Chart 1A depict trends in overall and underlying inflation from December 2008 to January 2010.

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

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

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

CHART 1A: UNDERLYING AND OVERALL INFLATION (%)



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

Inflation by Income Groups

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

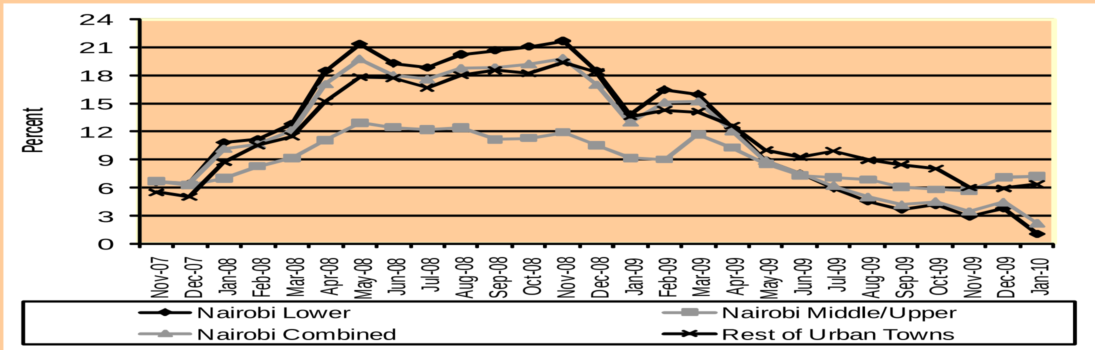
TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)

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

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

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

CHART 1B: 12-MONTH INFLATION BY INCOME GROUPS



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

Inflation Across Categories of Goods & Services

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

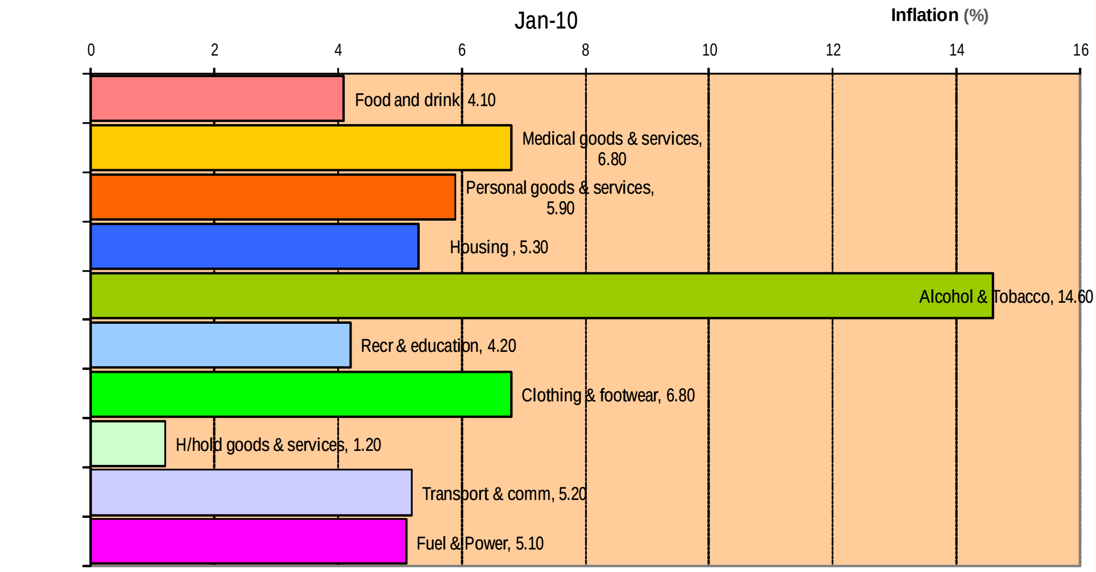
Table 1.3 and Chart 1C below show inflation developments across all the ten categories of goods and services covered in the CPI.

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

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

Source: Kenya National Bureau of Statistics

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



Source: Kenya National Bureau of Statistics

Inflation Outlook

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

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Broad money supply, M3[1], grew by 19.2 percent in the year to January 2010 compared with 11.8 percent in a corresponding period in 2009 and was above the projected 17.0 percent growth rate for January 2010. Broad money, denominated in local currency, M2, that is, M3 excluding foreign currency deposits, grew by 20.1 percent in January 2010 compared with 11.9 percent in January 2009 as shown in Table 2.1 and Chart 2A.

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

	2008 Jan	2009 Jan	2010 Jan	Jan-09 12 months %age change	Jan-10 12 months %age change
1. Money supply, M3 (2+3) 2/	**801.2**	**895.4**	**1067.3**	**11.8**	**19.2**
1.1 Money supply, M2 3/	682.3	763.6	916.9	11.9	20.1
1.2 Money supply, M1	378.0	398.7	463.4	5.5	16.2
1.3 Currency outside banks	90.6	91.1	95.5	0.6	4.8
2. Net foreign assets 4/	**277.4**	**260.4**	**275.6**	**-6.1**	**5.8**
Central Bank	255.9	196.6	220.5	-23.2	12.2
Banking Institutions	51.5	63.8	55.1	23.9	-13.6
3. Net domestic assets (3.1+3.2)	**523.9**	**634.9**	**791.6**	**21.2**	**24.7**
3.1 Domestic credit (3.1.1+3.1.2)	**681.4**	**807.3**	**974.5**	**18.5**	**20.7**
3.1.1 Government (net)	149.8	156.7	220.7	4.6	40.8
3.1.2 Private sector and other public sector	531.6	649.4	758.1	22.2	16.7
3.2 Other assets net (3-3.1)	**-157.5**	**-172.4**	**-182.9**	**9.5**	**6.1**
Memorandum items					
1. Overall liquidity, L 1/	**992.5**	**1089.2**	**1297.9**	**9.7**	**19.2**
2. Reserve money	**155.3**	**152.5**	**179.5**	**-1.8**	**17.7**
Currency outside banks	90.6	91.1	95.5	0.6	4.8
Bank reserves	64.7	61.4	84.0	-5.1	36.8

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

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

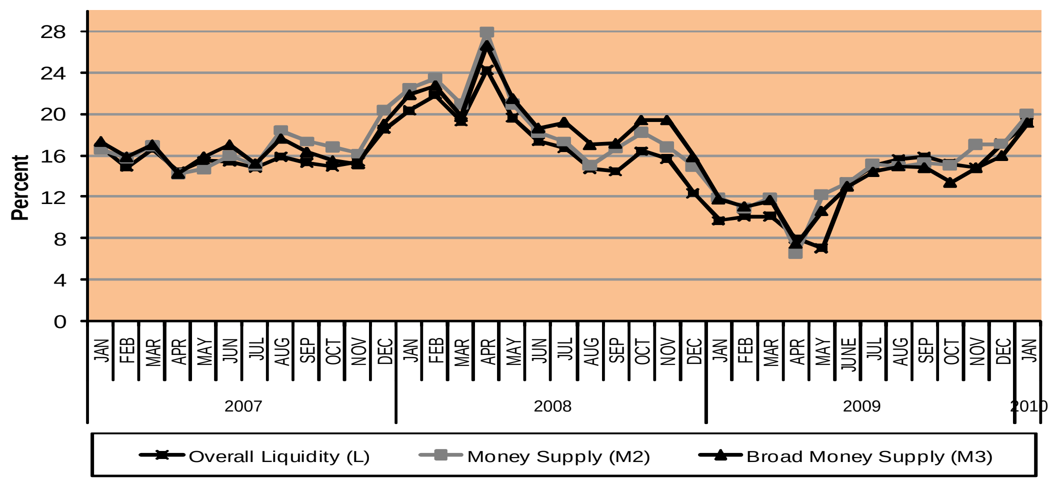
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits valued at current exchange rate from July 2008.

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. Is comparable to M3 in the past publications.

4/ NFA at current exchange rate to the US dollar.

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

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

The expansion of M3 in the year to January 2010 was attributed to the growth in net foreign assets (NFA) and net domestic assets (NDA) of the banking system. The NFA increased by 5.8 percent in the twelve months to January 2010 compared with a growth of -6.1 percent in a corresponding period in 2009. During the same period NDA increased by 24.7 percent compared with 21.2 percent increase a year earlier. The NDA expansion was reflected in domestic credit growth of 20.7 percent mainly to Government (40.8 percent) and to the private sector (16.7 percent).

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

	2009 Jan		2010 Jan		Annual Change Jan	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2008/09	2009/10
1. Credit to Government	162.1	19.9	216.3	22.3	4.6	40.8
Central Bank	2.7	0.3	-8.7	-0.9	-62.7	-423.7
Commercial Banks & NBFIs	159.4	19.6	225.0	23.2	1.5	41.1
2. Credit to other public sector	10.2	1.3	16.1	1.7	-19.0	57.9
Local government	-2.4	-0.3	-2.0	-0.2	48.2	-18.3
Parastatals	12.7	1.6	18.1	1.9	-11.3	43.3
3. Credit to private sector	640.4	78.8	737.7	76.0	23.4	15.2
Agriculture	29.7	3.7	35.0	3.6	4.8	17.8
Manufacturing	94.7	11.6	88.7	9.1	47.2	-6.3
Trade	92.3	11.4	115.7	11.9	45.7	25.3
Building and construction	39.4	4.8	49.9	5.1	7.7	26.7
Transport & communications	57.2	7.0	64.4	6.6	26.7	12.7
Finance & insurance	15.9	2.0	24.8	2.6	-44.0	56.1
Real estate	37.1	4.6	50.7	5.2	61.8	36.7
Mining and quarrying	7.0	0.9	15.5	1.6	26.6	121.6
Private households	91.5	11.3	111.0	11.4	4.0	21.3
Consumer durables	37.0	4.5	52.7	5.4	71.5	42.5
Business services	73.0	9.0	66.6	6.9	40.0	-8.8
Other activities	65.7	8.1	62.7	6.5	4.7	-4.5
4. TOTAL (1+2+3) *	812.7	100.0	970.1	100.0	18.5	20.7

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

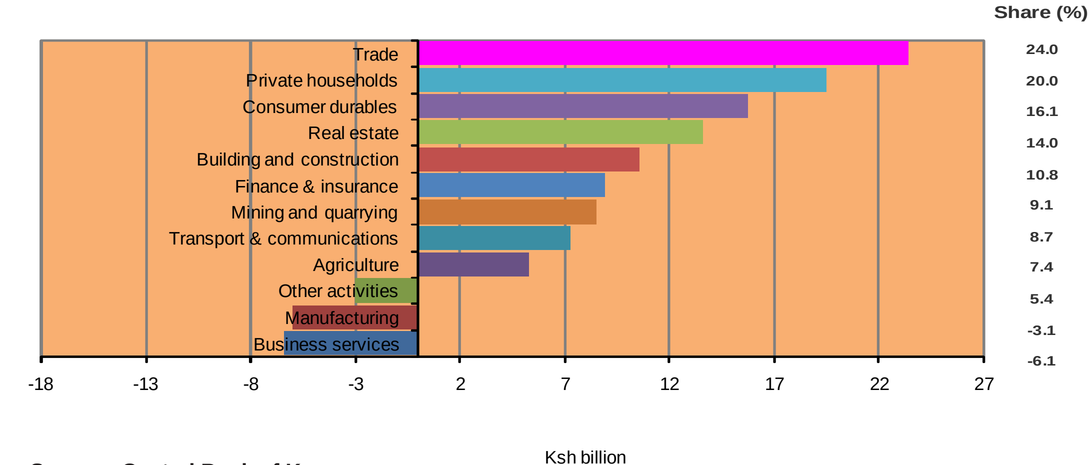
Source: Central Bank of Kenya

Domestic Credit Developments

The domestic credit growth of 20.7 percent in the year to January 2010 was higher than the 18.5 percent increase in a similar period in 2009. Credit to the private sector increased by 15.2 percent compared with 23.4 percent increase in a similar period in 2009 and was higher than the 14.5 percent target for January 2010. In terms of shares, total credit extended to the private sector declined by 2.8 percentage points to 76.0 percent from 78.8 percent in January 2009. Meanwhile, credit to Government increased by 40.8 percent in the year to January 2010 from 4.6 percent rise in 2009. The higher Government net borrowing was in respect of a larger domestic borrowing requirement that was facilitated through reopening benchmark bonds, issuance of a 364-days Treasury bill (bi-monthly) and issuance of bonds for infrastructural projects.

Bank credit to private sector was channeled mostly to trade (24 percent), private households (20 percent), consumer durables (16 percent) real estate (14 percent), building and construction (10.8 percent) and Finance and Insurance (9.1 percent) (Chart 2B).

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



Source: Central Bank of Kenya

Reserve Money

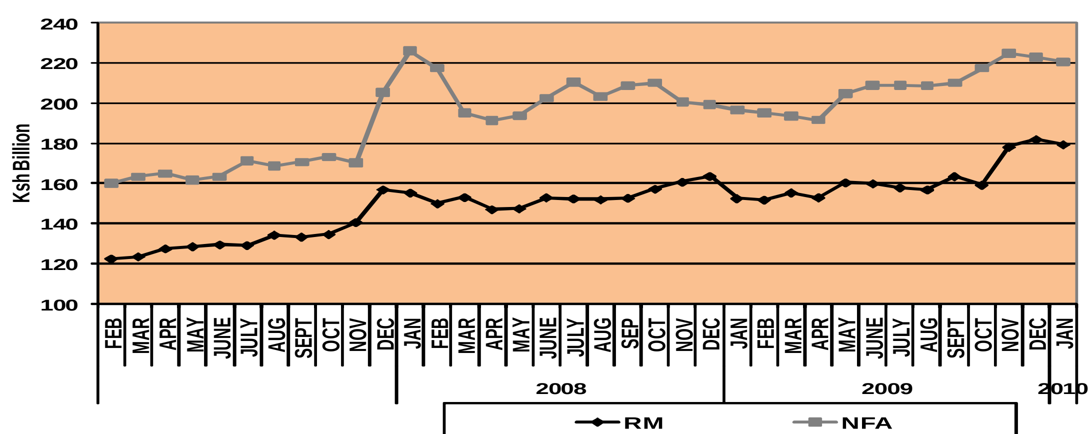
Reserve money increased by 17.7 percent to Ksh 179.5 billion in January 2010 from Ksh 152.5 billion in January 2009 (Table 2.3 and Chart 2C). The increase in reserve money reflected 36.6 percent growth in bank reserves and 4.9 percent increase in currency outside banks. At Ksh 179.5 billion in January 2010, reserve money was Ksh 4.2 billion above target.

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

	2008 Jan	2009 Jan	2010 Jan	Change (%) 2008/09	Change (%) 2009/10	2010 Jan Target	Deviation
1. Net Foreign Assets	225.9	196.6	220.5	-13.0	12.2	238.0	-17.5
2. Net Domestic Assets	-70.6	-44.1	-41.1	-37.5	-6.8	-64.6	23.5
2.1 Government Borrowing (net)	-7.2	-2.7	-8.7	-62.7	223.7	-8.1	-0.6
2.2 Advances & Discounts	-26.5	-8.3	0.0	-68.6	-100.0	-23.3	23.3
2.3 Other Domestic Assets (net)	-39.3	-35.5	-35.0	-9.5	-1.5	-43.3	8.3
3. Reserve Money	155.3	152.5	179.5	-1.8	17.7	175.2	4.2
3.1 Currency outside banks	89.1	91.1	95.5	2.2	4.9	108.0	-12.4
3.2 Bank reserves	60.9	61.4	83.9	0.9	36.6	67.3	16.6

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The expansion in reserve money in the year to January 2010 was supported by the growth in net foreign assets (NFA) and net domestic assets (NDA) of the Central Bank. NFA of the Central Bank rose by 12.2 percent to Ksh 220.5 billion in the year to January 2010. The rise in NFA reflected interbank purchases of foreign exchange to boost the level of gross reserves in relation to the statutory requirement reserves equal to 4 months of imports of goods and averaged over the previous 36 months.

NDA of the Central Bank rose by 6.8 percent to Ksh -41.1 billion in the year to January 2010, up from Ksh -44.1 billion in the previous year. The rise in NDA reflected redemptions of repos (Ksh 8.3 billion) previously mopped from the market through Open Market Operations and increase in other domestic assets of the Central Bank. Other domestic assets net of other liabilities increased by 1.5 percent in the twelve months to January 2010 from 9.5 percent in a corresponding period in 2009. During the period under review, Government on a net basis accumulated deposits of Ksh 6.0 billion at the Central Bank in January 2010 from a stock level of Ksh -2.7 billion in January 2009 to Ksh 8.7 billion in January 2010.

Interest Rates Overview

The Monetary Policy Committee in its meeting of January 26, 2010 retained the Central Bank Rate (CBR) at 7.0 percent after concluding that its previous decision to reduce the CBR had successfully signalled a reduction in the short term interest rates. The rate had previously been lowered in November 2009 to 7.0 percent from the previous position of 7.75 percent in October 2009. Other short term and long term interest rates increased slightly in January 2010 from their December 2009 levels.

Interbank Interest Rate

The average interbank rate increased to 3.69 percent in January 2010 from 2.95 percent in December 2009 having declined from 3.11 percent in November 2009 (Table 2.4). The reverse repo rate also increased from 3.59 percent in December 2009 to 3.91 percent in January 2010. This had an indication of increased liquidity demand from the Central Bank. The 91-day Treasury bill rate declined to 6.56 percent in January 2010 from 6.82 percent in December 2009

Lending and Deposit Rates

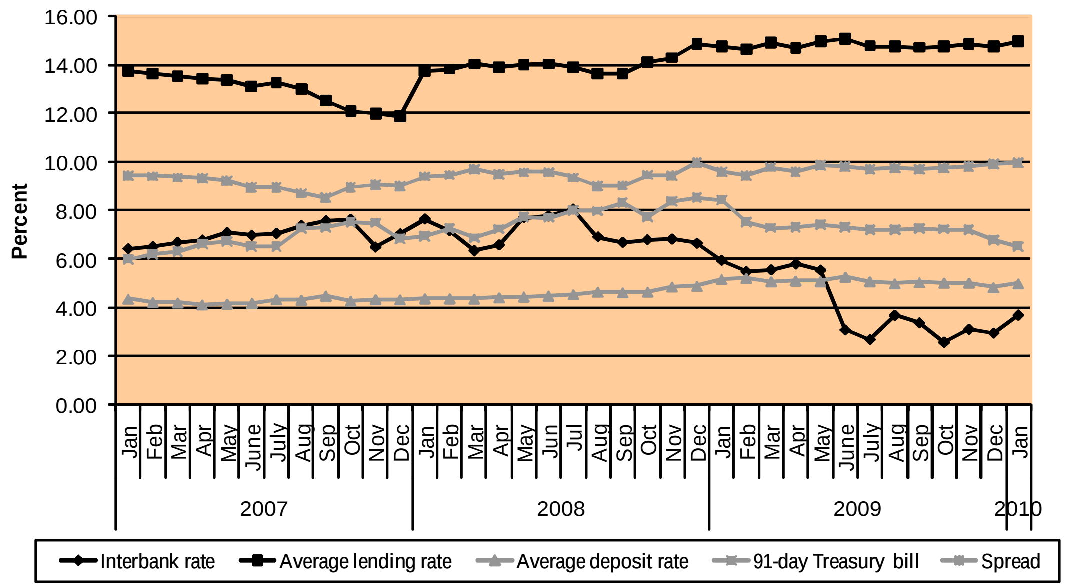
Commercial banks average lending rate and deposit rates increased in the month of January 2010. The deposit rate increased to 5.0 percent in January 2010 from 4.84 percent in December 2009 while the lending rates increased to 14.98 percent from 14.76 percent over the same period. As a result, the interest rate spread widened to 9.98 percent in January 2010 from 9.92 percent in December 2009.

TABLE 2.4: INTEREST RATES (%)

	2009								2010
	Jan	Feb	Mar	Aug	Sept	Oct	Nov	Dec	Jan
91-day Treasury bill rate	8.46	7.55	7.31	7.25	7.29	7.26	7.22	6.82	6.56
Overdraft rate	13.84	13.46	13.78	13.90	13.76	14.03	14.24	14.13	14.48
Interbank rate	5.95	5.49	5.57	3.68	3.38	2.57	3.11	2.95	3.69
Repo rate	5.10	5.08	4.62	6.18	6.18	6.18	6.18	6.18	6.18
Reverse Repo rate				4.29	4.01	3.17	4.36	3.59	3.91
Average lending rate (1)	14.78	14.67	14.92	14.76	14.74	14.78	14.85	14.76	14.98
Average deposit rate (2)	5.19	5.23	5.09	5.00	5.05	5.03	5.06	4.84	5.00
0 to 3 - month deposit	6.00	6.11	5.89	5.93	6.05	5.83	5.98	5.90	5.81
Savings deposits	2.10	2.13	1.90	1.65	1.65	1.85	1.71	1.73	1.75
Spread (1-2)	**9.59**	**9.44**	**9.78**	**9.76**	**9.69**	**9.75**	**9.79**	**9.92**	**9.98**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



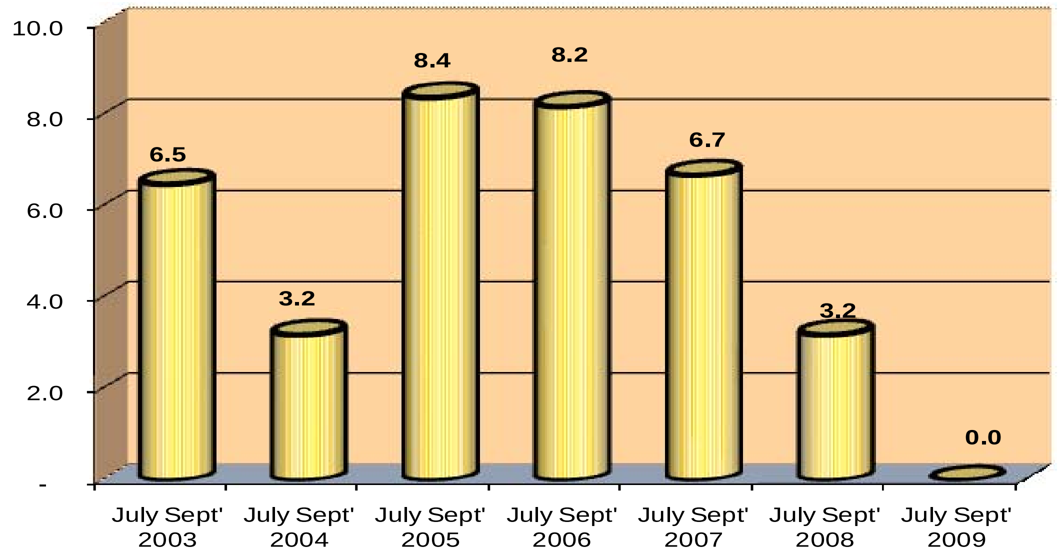
Source: Central Bank of Kenya

Performance of The Real Sector

Overview

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

CHART 3A: REAL GDP GROWTH IN THE THIRD QUARTERS



Source: Kenya National Bureau of Statistics

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

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

Source: Kenya National Bureau of Statistics

Agriculture

The agricultural sector generally performed dismally in the year to December 2009 compared with the same period during the two previous years. Output was lower for most of the cash crops under review with the exception of sugar which is a more resilient crop, able to grow with little rainfall. The short rains expected between October and December 2009 were erratic with some areas receiving above normal rains while others got lower than average rains, causing food insecurity to persist. Of the main cash crops sampled, tea and horticultural produce fell due to the prolonged dry weather conditions and poorly distributed rainfall, while coffee and sugarcane output improved in 2009. Selected performances of agricultural output are as shown in Table 3.2.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE			CHANGES	
	Jan - Dec 2007	Jan - Dec 2008	Jan- Dec 2009	2007-2009	2008-2009
Tea					
Output (Metric tonnes)	369,606.18	345,818.00	314,193.89	(55,412.29)	(31,624.11)
Growth (%)	*19.0%*	*-6.44%*	*-9.14%*	*-14.99%*	*-9.14%*
Horticulture					
Output (Metric tonnes)	192,147.45	193,117.06	180,763.97	(11,383.48)	(12,353.09)
Growth (%)	*17.7%*	*0.50%*	*-6.40%*	*-5.92%*	*-6.40%*
Coffee					
Output (Metric tonnes)	52,268.00	38,705.00	48,933.00	(3,335.00)	10,228.00
Growth (%)	*3.4%*	*-25.95%*	*26.43%*	*-6.38%*	*26.43%*
Sugar Cane					
Output (Metric tonnes)	5,204,214.00	4,979,470.28	5,571,126.84	366,912.84	591,656.56
Growth (%)	*5.48%*	*-4.32%*	*11.88%*	*7.05%*	*11.88%*

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

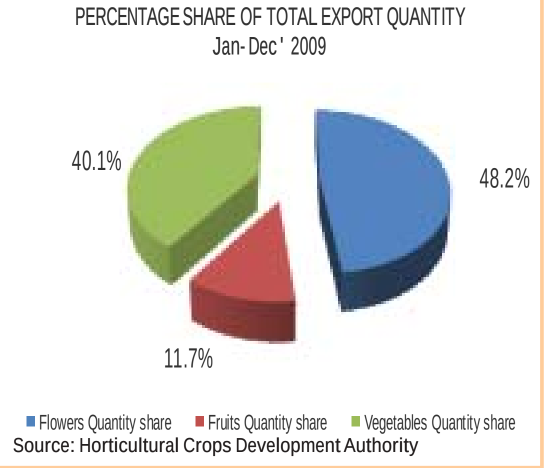
Tea

Cumulative tea production fell for two consecutive years from a total of 369,606.2 metric tonnes produced in the year 2007, 345,818.0 metric tonnes in 2008 and 314,193.9 metric tonnes in 2009. The decline in January - December 2009 was equivalent to 9.1 percent compared with the output for the same period in 2008. This followed the drought experienced in the early part of the year, and the poorly distributed rainfall in the tea growing areas. However, production improved in the third quarter of 2009 following the short rains experienced both in the east and west of the Rift, with December output which was equivalent to 36,113.8 metric tones, being the highest achieved in a single month in 2009. A rise in the average prices of tea worldwide was reflected in the monthly price of the Kenyan tea which increased to US$ 3.10 per kilogram in December 2009 compared with US$ 1.99 per kilogram in December 2008. Similarly, the yearly average price of Kenyan tea rose from US$ 2.38 per kilogram in 2008 to US$ 2.56 per kilogram in 2009.

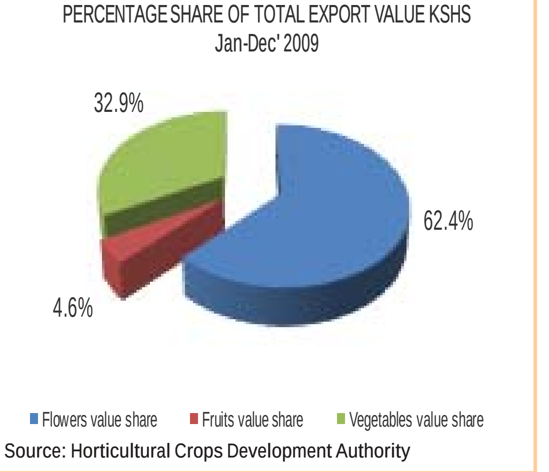
Horticulture

Horticultural export volumes declined by 6.4 percent in the period January – December 2009 from 193,117.1 metric tonnes in the same period in 2008. Compared with the exports of 2007, however, the decline was equivalent to 5.9 percent. The overall decline reflected reductions in the export volumes of flowers and vegetables as a result of insufficient rainfall in 2009. The reverse was true for fruit exports which increased to 21,223.0 metric tonnes in January - December 2009 from 17,122.9 metric tonnes in January – December 2008, equivalent to 23.9 percent increase, attributed to the dry and sunny weather which facilitated proper ripening of the fruits. Meanwhile, the declining trend of flower exports, and roses in particular, which was a consequence of depressed demand from Kenya's traditional markets, began to pick up from September 2009. Cumulative volumes of vegetable and flower exports declined by 12.0 and 7.0 percent, respectively in January – December 2009 compared with exports for the same period in the previous year, again due to the dry weather conditions. The value of horticultural exports fell by Ksh 8.6 billion or 14.9 percent in the period January – December 2009, from Ksh 58.0 billion in January – December 2008. Details on the performance of the horticultural sub-sector are provided in Chart 3B.

CHART 3B: HORTICULTURE EXPORTS



Source: Horticultural Crops Development Authority



Source: Horticultural Crops Development Authority

Coffee

Coffee proved to be fairly resilient as output continued to grow despite the unfavourable weather conditions throughout the year in most parts of the country. Cumulative production for the period January – December 2009 increased by 10,228.0 metric tonnes to stand at 48,933.0 metric tonnes compared to 38,705.0 metric tonnes produced during the same period in 2008. From the beginning of the year, coffee output responded well to improved export prices, reaching an all time high of US $ 4.69 per kilogram in December 2009, an increase of over 100.0 percent from a price of US $ 2.08 per kilogram in December 2008.

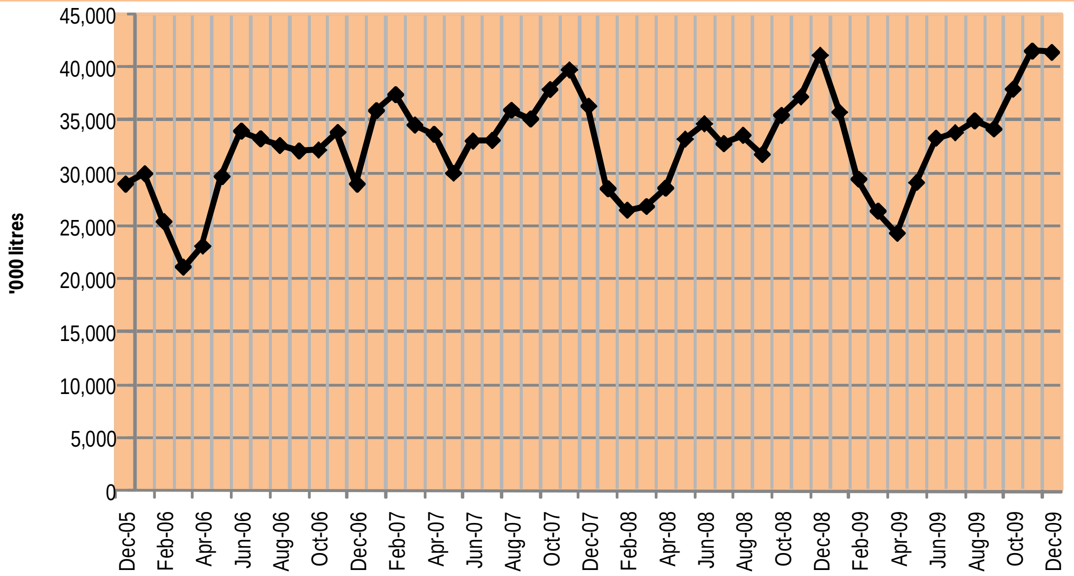
Sugarcane

Total sugarcane deliveries in the period January – December 2009 increased by 11.9 percent to 5.6 million metric tonnes compared with deliveries amounting to 5.0 million metric tonnes in the same period in 2008. This came about as a result of growth in the industry through expansion in acreage by the West Kenya Company and subsequent stabilization of production and increased competitiveness by most of the other companies including the fairly new Kibos sugar company in Kisumu.

Dairy

Milk intakes in the formal sector started picking up in the second half of 2009 after a period of decline occasioned by the drought experienced in the country during the year. Cumulative deliveries rose from 391.0 million litres between January and December 2008 to 406.3 million litres between January and December 2009 as a result of increased fodder following the rains experienced in the last quarter of the year. This output was, however, less than that of the same period in 2007 which was equivalent to 423.1 million litres (Chart 3C).

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



Source: Dairy Board of Kenya

Manufacturing

Cumulative sugar production increased from 512,192.3 metric tonnes in January – December 2008 to 547,998.0 metric tonnes in the period January – December 2009, equivalent to 7.0 percent increase. Total processed sugar, whose stocks move in tandem with the total sugarcane produced, went up in 2009 following increased competition by virtually all the companies and increased production capacity by West Kenya and Kibos sugar companies.

Similarly, total cement production rose by 5.9 percent in the year 2009. Production between January and December 2009 amounted to 3.0 million metric tonnes, from 2.8 million metric tonnes in the period January – December 2008. Growth in cement production has been gradual but steady through the years, reflecting increased economic activity (Table 3.3).

In the alcoholic beverages sector, cumulative beer production fell for the fifth consecutive month in the year to December 2009. Total output fell from 426.7 million litres in 2008 to 421.2 million litres in 2009. This was equivalent to 1.3 percent decline.

Cigarette output also fell from 14.8 million milles in January – December 2008 to 14.0 million milles in January – December 2009 (Table 3.3).

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE			CHANGES	
	Jan - Dec' 2007	Jan-Dec' 2008	Jan-Dec' 2009	2007-2009	2008-2009
Processed sugar					
Output (MT)	520,404.0	512,192.3	547,998.0	27,594.0	35,805.7
Growth %	*9.4%*	*-1.6%*	*7.0%*	*5.3%*	*7.0%*
Cement production					
Output (MT)	2,545,661.0	2,828,799.0	2,995,979.0	450,318.0	167,180.0
Output Growth %	17.1%	11.1%	5.9%	*17.7%*	*5.9%*
Soda ash					
Output (MT)	386,598.0	513,415.0	404,904.0	18,306.0	- 108,511
Growth %	*3.4%*	*32.8%*	*-21.1%*	*4.7%*	*-21.1%*
Milk					
Output ('000 litres)	423,110.9	390,963.0	402,845.4	- 20,266	11,882.4
Growth %	*17.5%*	*-7.6%*	*3.0%*	*-4.8%*	*3.0%*
Beer					
Output ('000 litres)	379,484.5	426,733.3	421,208.4	41,723.9	- 5,525
Growth %	*35.3%*	*12.5%*	*-1.3%*	*11.0%*	*-1.3%*
Cigarettes					
Output (Milles)	15,475,310	14,786,407	14,000,486	(1,474,824)	(785,921)
Growth %	*25.8%*	*-4.5%*	*-5.3%*	*-9.5%*	*-5.3%*

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

In early 2009, soda ash mining was dealt a severe blow by the stiff competition from cheaper synthetic imports from China, which forced closure of some plants at Magadi Soda Company. This affected production in 2009 as a whole, causing a decline of 21.1 percent in the output. In January to December 2009 production fell to 404,904 metric tonnes from 513,415 metric tonnes produced in a similar period in 2008.

Energy Sector

Local monthly generation of electricity , which has been on the decline since early 2008 reached 425.9 million Kilowatt hours in December 2009, the lowest it has been since February 2005. This decline in power production is attributed to a shortage in hydro-power occasioned by shrinking water levels in the various electricity producing dams due to drought conditions experienced in the country. Cumulative electricity generated in the year to December 2009 amounted to 5,414.0 million Kilowatt hours compared with 5,694.1 and 6,287.7 million Kilowatt hours produced in the same period in 2008 and 2007, respectively, (Table 3.4). Of this, cumulative Geo-Thermal and Thermal power increased by 32.7 percent and 29.5 percent, respectively, in January – December 2009 compared to the previous year, thus partly compensating for the 34.6 percent decline in hydro-power generation.

Consumption of electricity increased marginally by 0.7 percent from 5,286.4 million Kilowatt hours between January and December 2008, to 5,320.9 million Kilowatt hours between January and December 2009.

Fuel consumption, on the other hand, went up by 11.5 percent from 2,860.3 metric tonnes in January – December 2008 to 3,190.0 metric tonnes in January and December 2009, reflecting increased economic activity.

Average international crude oil prices declined by 36.0 percent from US $ 97.9 per barrel in the period January – December 2008, to US $ 62.6 per barrel in January – December 2009.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE			CHANGES	
	Jan - Dec 2007	Jan - Dec 2008	Jan - Dec 2009	2007-2009	2008-2009
Electricity Supply (Generation)					
Output (KWH Millions)	6,287.7	5,694.1	5,414.0	-873.7	-280.1
Growth %	*8.0%*	*-9.4%*	*-4.9%*	*-0.1*	*-0.0*
Of which:					
Hydro-power Generation (KWH Millions)	3,584.8	3,240.4	2,120.6	-1,464.1	-1,119.8
Growth (%)	*18.9%*	*-9.6%*	*-34.6%*	*-0.4*	*-0.3*
Geo-Thermal Generation (KWH Millions)	991.1	1,038.8	1,378.6	387.5	339.9
Growth (%)	*-5.2%*	*4.8%*	*32.7%*	*0.4*	*0.3*
Thermal (KWH Millions)	1,711.9	1,414.9	1,832.3	120.4	417.4
Growth (%)	*-2.9%*	*-17.4%*	*29.5%*	*0.1*	*0.3*
Consumption of electricity (KWH Millions)	5,125.8	5,286.4	5,320.9	195.1	34.5
Growth %	*8.1%*	*3.1%*	*0.7%*	*0.0*	*0.0*
Consumption of Fuels (Metric Tonnes)	3,121.7	2,860.3	3,190.0	68.3	329.7
Growth %	*11.2%*	*-8.4%*	*11.5%*	*0.0*	*0.1*
Murban crude oil average price (US $ per barrel)	72.5	97.9	62.6	-9.8	-35.2
Growth %	*11.6%*	*35.0%*	*-36.0%*	*-0.1*	*-0.4*

Source: Kenya National Bureau of Statistics

Tourism

Tourist arrivals grew by 30.7 percent in 2009 from a total of 729,000 visitors in 2008 to culminate at 952,481 visitors as at end of December 2009, narrowly missing the 1,000,000 tourists target. This increase of over 200,000 tourists in 2009 followed remarkable recovery from a decline of 30.5 percent, which resulted from the post election violence experienced during the same period of the previous year, where the numbers declined by over 300,000 visitors from 1,048,732 visitors in 2007 to 729,000 visitors in 2008. The high tourism season which begins in June took off well with arrivals increasing steadily from 69,059 visitors in June 2009 to peak at 100,314 visitors in August 2009 and ending the year at 99,261 visitors in December 2009. The cruise season which resumed in October 2009 with a total of 287 persons arriving via cruise ships, however, stagnated following cancellations due to fear of pirate kidnappings off the Kenyan coast (Table 3.5). Total tourism earnings for the period January – December 2009 fell marginally to US $ 630.4 million compared to US $ 659.4 million income for the same period in the previous year.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	Jan - Dec 2007	Jan-Dec 2008	Jan-Dec 2009	Jan -Dec 2009 % Share	Jan - Dec 2009 % Growth
CRUISE	2,837	6,877	12,096	*1.3%*	*75.9%*
MIAM	276,298	112,517	176,469	*18.5%*	*56.8%*
JKIA	769,597	609,606	763,916	*80.2%*	*25.3%*
TOTAL	1,048,732	729,000	952,481	***100.0%***	***30.7%***

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

Source: Kenya Tourism Board

In January – December 2009, 456,427 visitors arrived from Europe, constituting 47.9 percent of the total visitors and 48.1 percent growth from the arrivals of January – December 2008 (Table 3.6). Similarly, arrivals from America, Asia, the Oceanic region, and Africa increased, respectively by 31.6 percent, 14.8 percent, 28.5 percent and 10.1 percent. Arrivals via cruise ships increased by 75.9 percent from 6,877 persons in January – December 2008 to 12,096 persons in January – December 2009.

TABLE 3.6: TOTAL ARRIVALS BY CONTINENT

REGION	**Jan - Dec 2007**	**Jan-Dec 2008**	**Jan-Dec 2009**	**Jan - Dec'2009 % Share**	**Jan- Dec ' 2009 % Growth**
Africa	212,501	207,770	228,827	24.0%	10.1%
America	132,651	97,771	128,658	13.5%	31.6%
Asia	103,443	94,496	108,524	11.4%	14.8%
Europe	578,312	308,123	456,427	47.9%	48.1%
Oceanic	18,975	13,963	17,949	1.9%	28.5%
Cruise	2,850	6,877	12,096	1.3%	75.9%
Total	**1,048,732**	**729,000**	**952,481**	**100.0%**	**30.7%**

Source: Kenya Tourism Board

Transport and Tele-communications

The volume of cargo throughput handled by Kenya Ports Authority (KPA) at the port of Mombasa increased by 14.5 percent or 2,379,780 metric tonnes in January – December 2009 compared with the same period in the previous year. This consisted of 86.9 percent imports, 12.5 percent exports and 0.6 percent transit shipments, equivalent to 16,335,628 metric tonnes, 2,351,457 metric tonnes and 107,424 metric tonnes, respectively. In 2009, the port handled on average approximately 1.6 million metric tonnes of cargo per month compared with 1.4 million metric tonnes in the previous year. Similarly, cargo transported via Kenya Pipeline Company (KPC) increased marginally by 2.0 percent during the same period. In the transport and telecommunication sector, excise duty on airtime rose by 10.7 percent, from Ksh 6,528 million in the period January – December 2008 to Ksh 7,225 million in January – December 2009. The total number of passengers embarking and disembarking at JKIA went down in 2009 by 12.1 percent and 9.6 percent, respectively, as compared with the previous year. New vehicle registrations, however, went up by 32.8 percent in 2009 from 121,831 vehicles in 2008 to 161,813 vehicles in 2009 (Table 3.7).

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

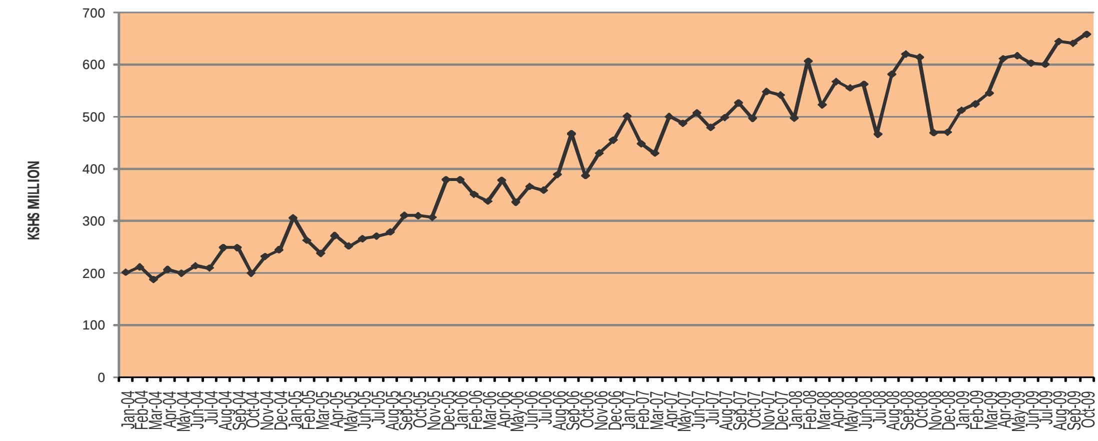
	CUMULATIVE			CHANGES	
	Jan - Dec 2007	Jan-Dec 2008	Jan-Dec 2009	2007-2009	2008-2009
Mombasa Port Cargo Throughput					
Output (MT) Equivalent	15,960,465	16,414,729	18,794,509*	2,834,044	2,379,780
Output Growth %	*10.7%*	*2.8%*	*14.5%*	*17.8%*	*14.5%*
Number of passengers Thro' JKIA					
Incoming	1,478,849	1,468,814	1,291,278	-187,571	-177,536
Growth (%)	*-0.7%*	*-0.7%*	*-12.1%*	*-12.7%*	*-12.1%*
Outgoing	1,480,620	1,476,851	1,334,482	-146,138	-142,369
Growth %	*-1.3%*	*-0.3%*	*-9.6%*	*-9.9%*	*-9.6%*
Kenya Pipeline oil Throughput					
Output ('000 litres)	3,962,279	3,859,481	3,934,742	-27,537	75,261
Output Growth %	*3.6%*	*-2.6%*	*2.0%*	*-0.7%*	*2.0%*
Kenya Revenue Authority (Excise tax on airtime)					
Kshs million	5,962	6,528	7,225	1,264	697
Output Growth %	*28.6%*	*9.5%*	*10.7%*	*21.2%*	*10.7%*
New vehicle registrations	85,324	121,831	161,813	76,489	39,982
Growth %	*61.7%*	*42.8%*	*32.8%*	*89.6%*	*32.8%*

MT = Metric tonnes

* Provisional

Source: Kenya Ports Authority and Kenya Pipeline Company Ltd.

CHART 3D: EXCISE TAX ON AIRTIME

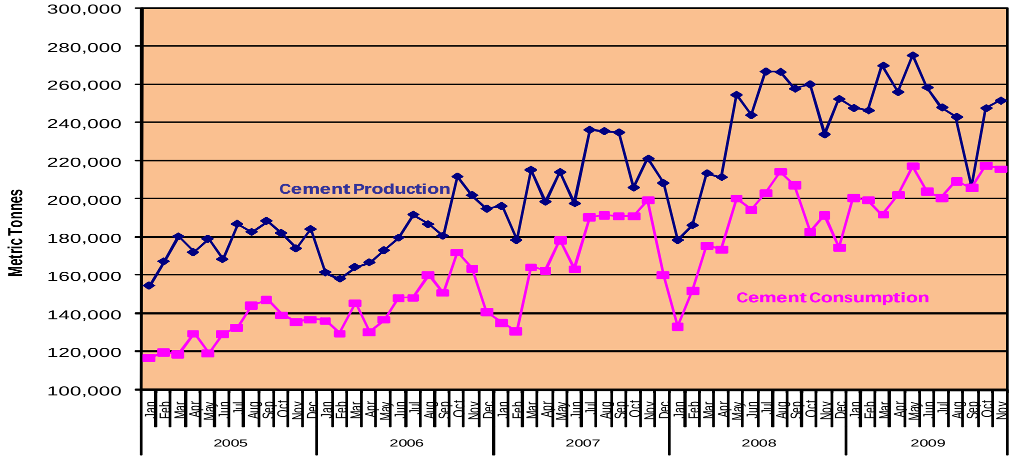


Source: Kenya Revenue Authority (KRA)

Building & Construction Industry

Cement consumption went up by 12.33 percent from 2.3 million metric tonnes in 2008 to 2.5 million metric tonnes in 2009, reflecting increased economic activity in the industry.

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

DATA FOR DECEMBER ON BALANCE OF PAYMENTS ARE NOT AVAILABLE. WILL BE INCORPORATED IN THE FEBRUARY 2010 ISSUE

Overview

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

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

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

* Provisional.

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

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

Source: Central Bank of Kenya

Current Account

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

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

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

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

* Provisional.

Source: Central Bank of Kenya

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

Services Account

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

Direction of Trade

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

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

TABLE 4.3: KENYA'S DIRECTION OF TRADE

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

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

Source: Kenya Revenue Authority

Capital and Financial Account

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

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

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

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

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system total foreign exchange holdings increased by 9.1 percent from US$ 4,641 million in December 2008 to US$ 5,062 million in December 2009. The increase was wholly in the gross official foreign exchange reserves held by the Central Bank which rose by 33.8 percent from US$ 2,875 million or 3.4 months of import cover in December 2008 to US$ 3,847 million or 4.2 months of import cover in December 2009 (Table 4.5). The accumulation of official reserves comprised of interbank purchases, balance of payments support under the exogenous shock facility and additional special drawing rights allocation from the IMF to mitigate adverse effects of the global economic recession.

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

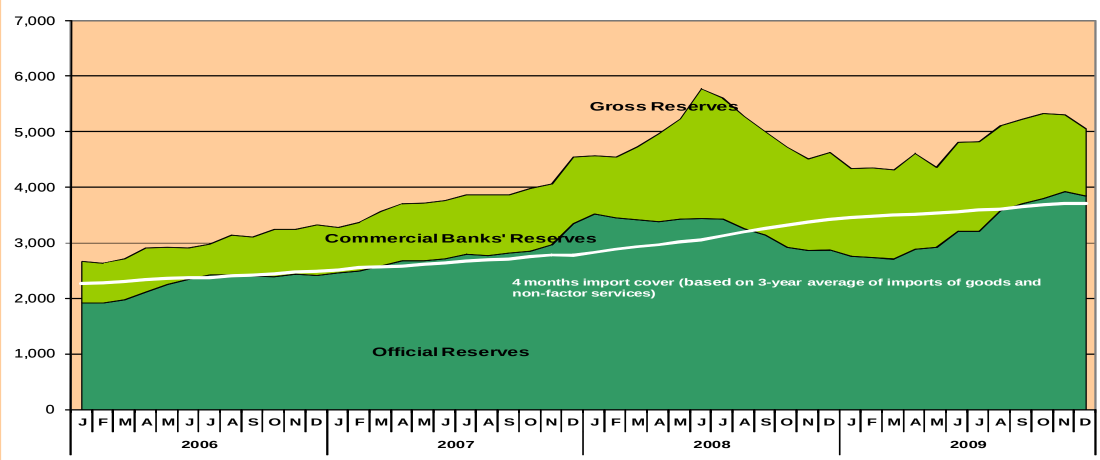
	Nov 08	Dec 08	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09
1. Gross Foreign Exchange Reserves	**4,524**	**4,641**	**4,822**	**4,830**	**4,810**	**5,235**	**5,347**	**5,320**	**5,062**
of which:									
Official	2,869	2,875	3,219	3,216	3,276	3,708	3,810	3,934	3,847
*imports cover**	*3.4*	*3.4*	*3.6*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

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

Source: Central Bank of Kenya

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

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling depicted mixed performance against major world currencies, weakening against the US dollar but strengthening against the Euro, the Sterling Pound and the Japanese Yen. The depreciation of the shilling during the month of December 2009 reflected increased demand for dollars by importers. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 75.79 per US dollar in January 2010 compared with Ksh 75.43 per US dollar in December 2009. The shilling, however, appreciated against the Euro, the Sterling Pound and the Japanese Yen to exchange at Ksh 108.27 per Euro, Ksh 122.53 per Sterling Pound and Ksh 83.11 per 100 Japanese Yen, respectively, in January 2010 compared with Ksh 110.27 per Euro, Ksh 122.54 per Sterling Pound and Ksh 84.12 per 100 Japanese Yen in December 2009 (Table 4.6 and Charts 4B).

Against the regional currencies, the Kenya shilling appreciated marginally against the Uganda Shilling and Tanzania Shilling to trade at Ush 25.53 per Kenya shilling and Tsh 17.71 per Kenya shilling in January 2010 compared with Ush 25.20 per Kenya shilling and Tsh 17.65 per Kenya shilling in December 2009, respectively.

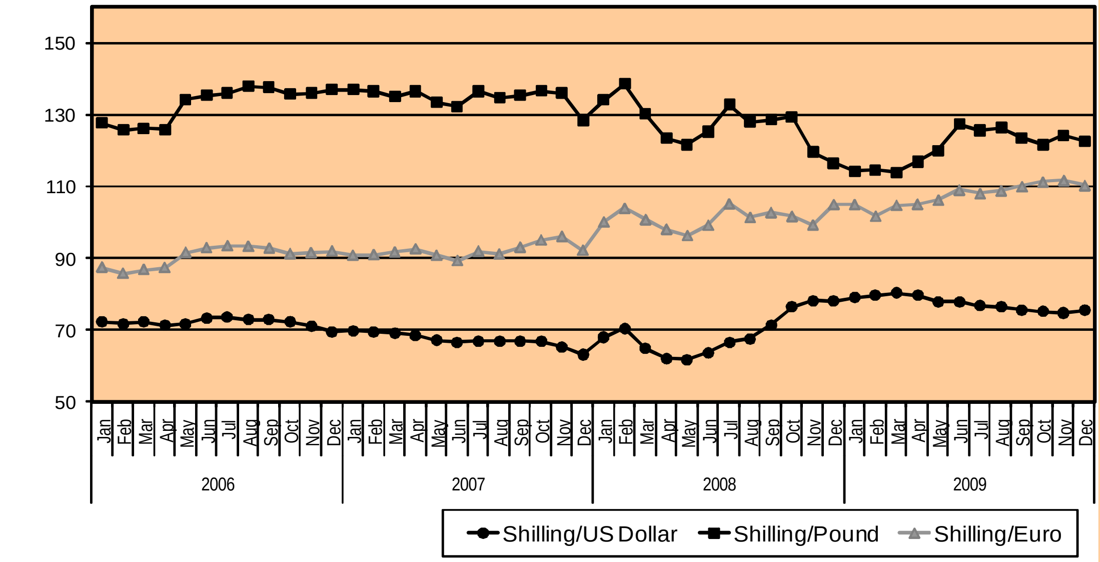
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

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

* Units of currency per Kenya shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

During the period ended January 31, 2010, the Kenyan Banking sector registered growth in asset base largely supported by growth in deposits, injection of capital and retention of profits. The sector registered sufficient capital adequacy and liquidity ratios. However, there was a slight increase in the level of non-performing loans compared to same period in 2009.

The Kenyan-banking sector comprised 44 commercial banks, 1 mortgage finance company (following the merge between Kenya Commercial Bank and Savings and Loan with effect from January 1, 2010), 1 deposit taking microfinance institution and 130 foreign exchange bureaus.

Structure of the Balance Sheet

The banking sector aggregate balance sheet expanded by 18.0 percent from Ksh 1,179.4 billion to Ksh 1,391.8 billion in January 2010. The main components of the balance sheet were net loans and advances, government securities and placements, which accounted for 53.0 percent, 21.0 percent and 8.0 percent of total assets respectively.

Loans & Advances

The banking sector gross loans and advances grew from Ksh. 690.7 billion in January 2009 to Ksh. 774.5 billion in January 2010 representing 12.1 percent growth. The increase was attributed to increased economic activities in the households and corporate sectors. Loans and advances net of provisions stood at Ksh 734.7 billion in January 2010, up from Ksh 646.1 billion registered in January 2009.

Deposit Liabilites

Deposits from customers which forms the main source of funding for the banking sector, accounted for 76.7 percent of total funding liabilities. The deposits expanded by 16.9 percent from Ksh 913.4 billion in January 2009 to Ksh 1,067.8 billion in January 2010, on account of receipts from exports and remittances from abroad.

Capital & Reserves

The banking sector registered strong capital levels in January 2010, with total capital increasing by 17.5 percent from Ksh 157.3 billion in January 2009 to Ksh 184.9 billion in January 2010, whereas shareholders' funds increased by 22.4 percent from Ksh 162.8 billion in January 2009 to Ksh 199.3 billion. However, the ratios of total and core capital to total risk-weighted assets declined from 20.0 percent and 17.9 percent to 19.7 percent and 17.7 percent in January 2010 respectively mainly due to increase in total risk weighted assets.

Profitability

In the month of January 2010, the sector registered a 17.1 percent growth in pre-tax profits, from Ksh 3.5 billion achieved in January 2009 to Ksh 4.1 billion in January 2010. Return on assets declined to 2.8 percent in January 2010 from 3.1 percent in January 2009, due to a higher increase in assets compared to the growth in profits. Total income increased by 18.0 percent from Ksh 12.8 billion to Ksh 15.1 billion in January 2010, while total expenses increased by 18.3 percent from Ksh 9.3 billion to Ksh 11.0 billion. Interest on loans and advances, driven by growth in loans, fees and commissions and government securities were the main sources of income accounting for 54 percent, 23 percent and 16 percent of total income respectively. Similarly, staff costs, other expenses and interest on deposits were the major components of expenses, accounting for 34 percent, 26 percent and 27 percent respectively.

Non-performing Loans

The stock of gross non-performing loans (NPLs), increased by 3.1 percent from Ksh 61.5 billion in January 2009 to Ksh 63.4 billion at end of January 2010. As a result, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined to 46.5 percent from 55.0 percent in January 2009. Similarly, the quality of assets, measured by the proportion of net non-performing loans to gross loans deteriorated from 3.2 percent to 3.8 percent in January 2010 as shown in Table 5.1. However, gross NPLs as ratio of gross loans declined from 8.9 percent in January 2009 to 8.2 percent in January 2010.

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

		Jan-10	Jan-09
1	Gross loans and advances	774.5	690.7
2	Loans and advances (net of interest suspended)	765.9	677.4
3	Gross non-performing loans	63.4	61.5
4	Specific Provisions	25.5	26.5
5	General Provisions	5.7	5.1
6	Total Provisions (4+5)	31.2	31.6
7	Net Advances (2-6)	734.7	646.1
8	Total Non-Performing Loans and advances	54.8	48.2
9	Net Non-Performing Loans and advances(8-4)	29.3	21.7
10	Total NPLs as % of total advances (8/2)	7.2	7.1
11	Net NPLs as % of gross advances (9/1)	3.8	3.2
12	Specific Provisions as % of Total NPLs (4/8)	46.5	55

Source: Central Bank of Kenya

Liquidity Ratio Requirement

As at January 2010, liquid assets stood at Ksh 420.6 billion while total liquid liabilities stood at Ksh 1,037.7 billion, resulting to an average liquidity ratio of 40.5 percent, against 38.0 percent registered in January 2009. The ratio of total loans to deposits ratio stood at 71.7 percent in January 2010 down from 74.2 percent in January 2009.

Cash Ratio Requirement

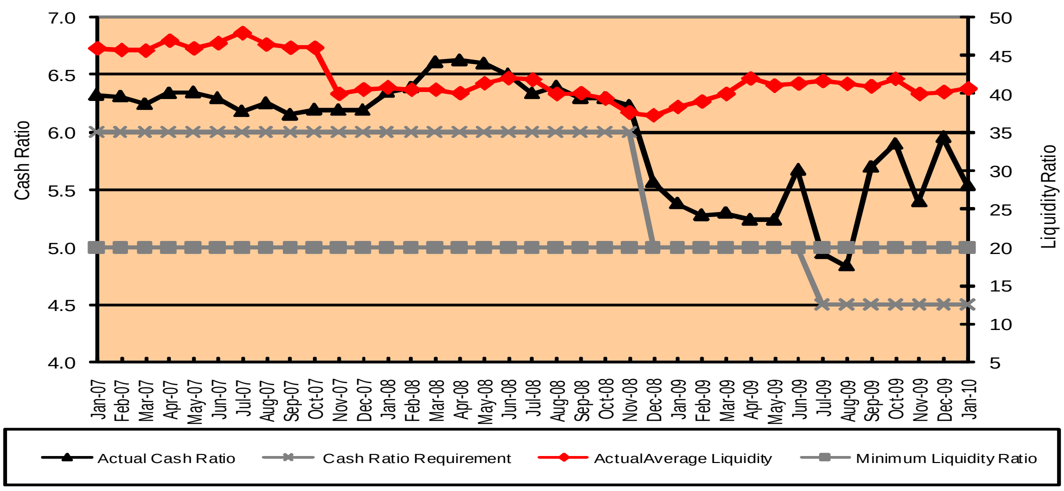
The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.54 percent in January 2010 compared with 5.96 percent in December 2009 and 4.5 percent statutory level as shown in Table 5.3 and Chart 5A. Commercial banks held excess reserves at the Central Bank averaging Ksh 10.1 billion in January 2010 compared with Ksh 8.8 billion in December 2009 (Table 5.2 and Chart 5A).

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2009							2010
	June	July	Aug	Sept	Oct	Nov	Dec	Jan
Commercial Banks								
Actual Average Liquidity	41.37	41.70	41.33	41.34	41.60	40.19	40.25	40.71
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.67	4.95	4.84	5.40	5.15	5.40	5.96	5.54
Minimum Cash Ratio Requirement	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50
NBFIs								
Actual Average Liquidity Ratio	24.59	24.83	23.93	23.38	22.89	24.61	23.96	26.24
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Minimum Cash Ratio Requirement	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 56,862 transaction messages worth Ksh 1,254 billion in January 2010 compared with a volume of 66,916 transaction messages valued at Ksh 1,454 billion moved in December 2009 representing 13.75 percent and 15.02 percent decrease in value and volume, respectively. The decline is consistent with those experienced in preceding years.

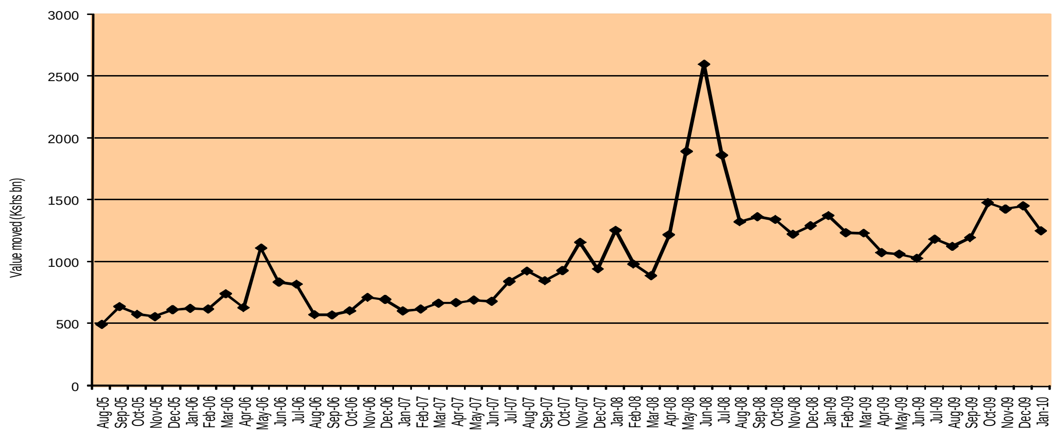
During the twelve months period to January 31, 2010, the value moved averaged Ksh 40.87 million per transaction, while the average value moved per day was approximately Ksh 58.92 billion (Table 5.3 and Chart 5B). Direct settlements through KEPSS in January 2010 averaged 98.5 percent of the total settlements, while indirect payments (ACH Net settlement) averaged 1.5 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-08	1,256	78	23,773	0.05	22	57	1,081
Feb-08	985	62	23,278	0.04	21	47	1,108
Mar-08	891	60	20,920	0.04	18	49	1,162
Apr-08	1,220	107	24,684	0.05	22	55	1,122
May-08	1,895	94	19,730	0.10	21	90	940
Jun-08	2,601	115	22,387	0.12	20	130	1,119
Jul-08	1,864	75	24,599	0.08	23	81	1,070
Aug-08	1,327	59	20,593	0.06	21	63	981
Sep-08	1,367	76	23,494	0.06	22	62	1,068
Oct-08	1,344	85	23,635	0.06	20	67	1,182
Nov-08	1,225	57	22,718	0.05	21	58	1,082
Dec-08	1,293	94	24,131	0.05	20	65	1,207
Jan-09	1,376	68	25,330	0.05	21	66	1,206
Feb-09	1,236	64	20,710	0.06	19	65	1,090
Mar-09	1,235	82	23,752	0.05	22	56	1,080
Apr-09	1,077	997	22,485	0.05	20	54	1,124
May-09	1,064	994	24,024	0.04	20	53	1,201
Jun-09	1,032	80	21,977	0.05	21	49	1,047
Jul-09	1,185	75	25,650	0.05	23	52	1,115
Aug-09	1,127	69	23,001	0.05	21	54	1,095
Sep-09	1,198	90	24,552	0.05	21	57	1,169
Oct-09	1,481	27	55,440	0.03	21	71	2,640
Nov-09	1,430	21	56,900	0.03	21	68	2,710
Dec-09	1,454	29	66,916	0.02	22	66	3,042
Jan-10	1,254	18	56,862	0.02	20	63	2,843

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third party Messages

Multiple third parties Message Type (MT 102) decreased by 5.17 percent from 6,928 transaction messages in December 2009 to 6,570 transaction messages in January 2010. Similarly single third party Message Type (MT 103) decreased by 17.43 percent from 59,418 transaction messages to 49,061 transaction messages in the same period. Overall, total third party messages through KEPSS decreased by 16.15 percent from 66,346 transaction messages in December 2009 to 55,631 transaction messages in January 2010.

Compared with January 2010, multiple third parties messages (MT 102) increased by 735.88 percent from 786 transaction messages to 6,570 transaction messages in January 2010 while single third party messages (MT 103) increased by 399.86 percent from 9,815 transaction messages to 49,061 transaction messages (Table 5.4 and Chart 5C).

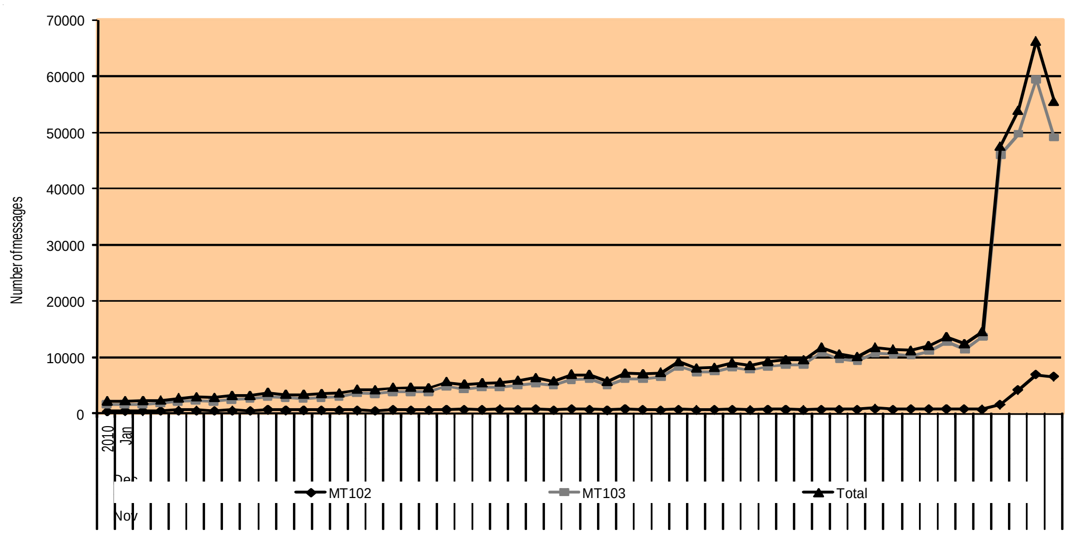
Inter-bank transfers (MT 202) accounted for 53.80 percent on average of the total value moved through KEPSS in January 2010, while third party messages accounted for 46.20 percent. The total number of third party messages (MT 102 and MT 103) grew by 424.77 percent from 10,601 messages in January 2009 to 55,631 messages in January 2010.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

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

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

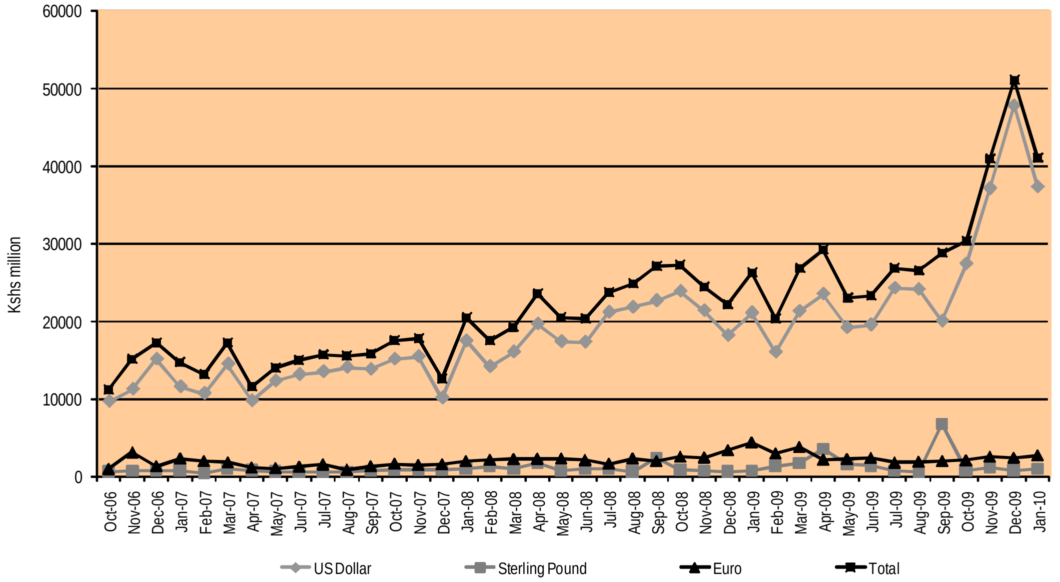


Source: Central Bank of Kenya

Domestic Foreign Currency Flows

Domestic Foreign Currency messages through KEPSS decreased by 17.27 percent from 4,608 transaction messages in December 2009 to 3,812 transaction messages in January 2010. The corresponding value in Kenya Shillings equivalent moved in this period also decreased by 19.52 percent from Ksh 51.08 billion to Ksh 41.10 billion. The US dollar accounted for 90.99 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 2.38 percent and 6.63 percent, respectively.

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



Source: Central Bank of Kenya

Government Budget Performance

Central Government budgetary operations in the first seven months of the fiscal year 2009/10 resulted in a deficit of Ksh 60.1 billion on commitment basis compared with a deficit of Ksh 24.1 billion in a similar period of 2008/09 (Table 6.1). The deficit-to-GDP ratio increased from 1.1 percent to 2.4 percent on commitment basis while the budget deficit on cash basis decreased from 11.6 percent to 2.5 percent of GDP during the period. The budget deficit during the period was within the programmed target of 4.0 percent of GDP on commitment basis. The performance of the Government budget during the period however reflected lower than budgeted Government expenditure by Ksh 67.9 billion.

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

	FY 2008/09	FY 2009/10		
	Jan Actual	Jan Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE	**277.4**	**312.0**	**339.7**	**-27.7**
Revenue	271.2	302.1	322.3	-20.2
Tax Revenue	242.9	271.5	282.8	-11.2
Non Tax Revenue	10.0	8.6	13.0	-4.4
Appropriations-in-Aid	18.3	21.9	26.5	-4.6
External Grants	6.2	9.9	17.4	-7.5
2. TOTAL EXPENSES & NET LENDING	**301.5**	**372.0**	**439.9**	**-67.9**
Recurrent Expenses	238.6	280.2	294.4	-14.2
Development Expenses	62.9	91.8	145.5	-53.7
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-24.1**	**-60.1**	**-100.2**	**-40.2**
As percent of GDP	-1.1	-2.4	-4.0	
4. ADJUSTMENT TO CASH BASIS	**-11.3**	**-1.2**	**0.0**	**-1.2**
5. DEFICIT ON A CASH BASIS	**-35.4**	**-61.3**	**-100.2**	**-39.0**
As percent of GDP	-1.6	-2.5	-4.0	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.0**	**9.1**	**0.0**	
7. FINANCING	**35.5**	**67.6**	**100.2**	**-32.6**
Domestic (Net)	34.8	66.2	70.4	-4.1
External (Net)	0.6	1.4	21.4	-20.0
Capital Receipts (privatisation)	0.0	0.0	6.0	-6.0
Others	0.0	0.0	2.5	-2.5
Financing gap	0.0	0.0	0.0	0.0

Source: Treasury

Revenue

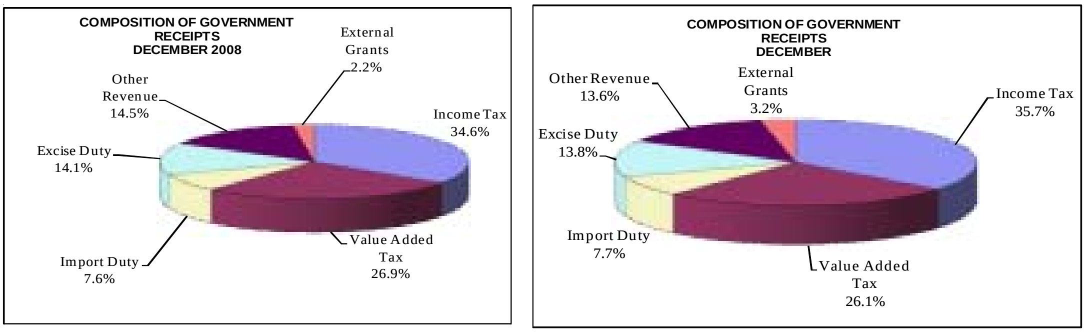
Government revenue and grants increased from Ksh 271.2 billion in the first seven months of fiscal year 2008/09 to Ksh 302.1 billion in the same period of fiscal year 2009/10 which was Ksh 20.2 billion below target. The shortfall in total revenue was from Government receipts and external grants that were Ksh 20.2 billion and Ksh 7.5 billion below target, respectively.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Jan-09 Ksh bn	Jan-10 Ksh bn	Change
1. Revenue (2+3+4)	**271.2**	**302.1**	**30.9**
2. Tax Revenue	242.9	271.5	28.6
Income Tax	96.1	111.3	15.3
Value Added Tax	74.7	81.3	6.6
Import Duty	21.2	24.0	2.8
Excise Duty	39.0	43.1	4.1
Others	11.9	11.8	-0.2
3. Appropriations-in-Aid	18.3	21.9	3.6
4. Other Revenue	10.0	8.6	-1.4
5. External Grants	**6.2**	**9.9**	**3.7**
TOTAL RECEIPTS (1+5)	**277.4**	**312.0**	**34.6**

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue increased from Ksh 242.9 billion in the first seven months of the fiscal year 2008/09 to Ksh 271.5 billion in the current period, representing a growth of 11.4 percent in the tax proceeds, following increases in income and value added tax during the period. External grants increased by Ksh 3.6 billion during the period.

Expenditure and Net Lending

During the first seven months of the fiscal year 2009/10, Government expenditure and net lending increased by 41.6 percent, from Ksh 301.5 billion in a similar period in the fiscal year 2008/09 to Ksh 372.0 billion (Table 6.3). This rise was due to increases of 17.5 percent and 45.8 percent in recurrent and development expenditures, respectively.

The recurrent expenditure increased by Ksh 41.6 billion, attributed to increases of Ksh 10.9 billion in salaries and wages, interest payments of Ksh 10.9 billion and Ksh 21.0 billion in other expenses. Development expenditure increased by Ksh 28.9 billion, from Ksh 62.9 billion to Ksh 91.8 billion in the period.

As a result, the percentage of development expenditure in total expenditure increased from 20.9 percent in the first seven months of the fiscal year 2008/09 to 24.7 percent in a similar period in the fiscal year in 2009/10 while recurrent expenditure decreased from 79.1 percent to 75.3 percent (Chart 6B).

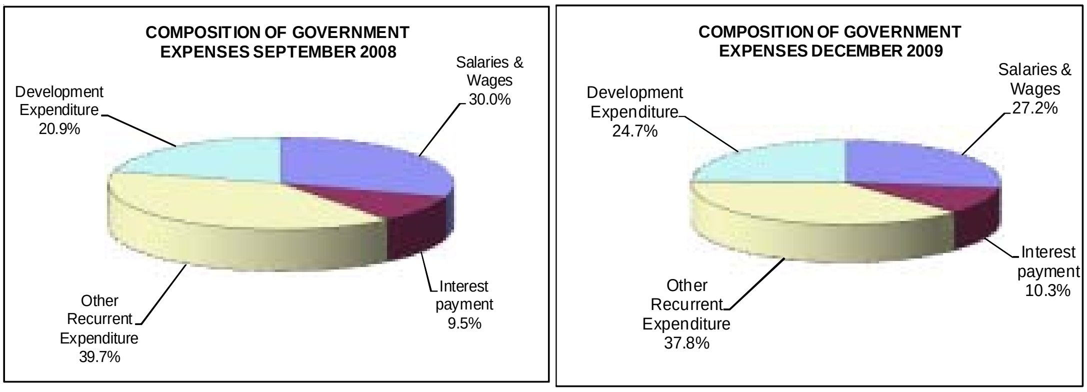
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Jan-09 Ksh bn	Jan-10 Ksh bn	Movement
1.Recurrent	**238.6**	**280.2**	**41.6**
Salaries & Wages	90.3	101.2	**10.9**
Total Interest	28.6	38.3	**9.7**
of which			
Domestic*	25.2	34.4	9.3
Foreign interest due	3.4	3.8	0.4
Others	119.7	140.8	21.0
2. Development	**62.9**	**91.8**	**28.9**
TOTAL EXPENSES	**301.5**	**372.0**	70.5

*Includes commission and other charges paid to CBK

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

During the first seven months of 2009/10 fiscal year, budgetary operations of the Government resulted in a financing requirement of Ksh 67.6 billion compared with Ksh 42.1 billion in a similar period of 2008/09 (Table 6.4). The financing requirement was entirely to finance the Ksh 67.6 billion of budget deficit which was sourced through net domestic borrowing of Ksh 53.3 billion, foreign borrowing of Ksh 1.4 billion and reduction in Government deposits at the Central Bank of Ksh 12.9 billion.

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

I. FINANCING REQUIREMENTS	Jan-09	Jan-10
1. Budget deficit	35.5	67.6
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	6.6	0.0
3.1 Central Bank (incl. items in transit)	6.6	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0
TOTAL	42.1	67.6
II. FINANCING SOURCES	**Jan-09**	**Jan-10**
1. Budget surplus	0.0	0.0
2. External debt increase	0.6	1.4
3. Increase in domestic debt	16.9	53.3
3.1 Central Bank	0.0	1.9
3.2 Commercial banks	12.5	37.6
3.3 Non-bank sources	4.5	13.8
4. Reduction in GoK deposits at CBK	24.5	12.9
5. Privatisation proceeds (Net of Restructuring Cost	0.0	0.0
TOTAL	42.1	67.6

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank increased from Ksh 40.3 billion in January 2009 to Ksh 42.5 billion in January 2010. The decline in Government indebtedness during the period follows a increase of Ksh 4.5 billion in the Government overdraft which was offset by Ksh 1.1 billion in Pre-1997 Government overdraft at Central Bank, Ksh 0.5 billion in IMF funds on-let to Government and Ksh 0.3 billion in cleared items in transit.

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

	2009 Jan	2010 Jan	Movement
Total Credit	**40.27**	**42.54**	**2.27**
1. Overdraft	4.71	9.18	**4.47**
2. Rediscounted securities	0.30	0.02	**-0.28**
Treasury bills	0.30	0.01	**-0.29**
Treasury bonds	0.00	0.01	**0.01**
3. Pre-1997 Government Overdraft at CBK	33.88	32.77	**-1.11**
4. IMF funds onlent to Government	0.96	0.47	**-0.48**
5. Cleared items in transit	0.42	0.10	**-0.32**
Memorandum			
Authorised overdraft limit	16.88	21.00	**9.68**
Amount utilised to date	4.71	9.18	9.14
Amount available	12.17	11.82	0.54

Source: Central Bank of Kenya

Outlook for FY 2009/10

In the budget estimates for the fiscal year 2009/10, Government revenue excluding external grants is estimated at Ksh 569.6 billion (22.4 percent of GDP). External grants are estimated at Ksh 35.3 billion (1.4 percent of GDP) during the fiscal year. Similarly, Government expenditure is estimated at Ksh 772.4 billion or 30.3 percent of GDP which will comprise Ksh 509.1 billion (19.9 percent of GDP) in recurrent expenditure, Ksh 261.3 billion (10.3 percent of GDP) in development expenditure and Ksh 2.0 billion (0.08 percent) in civic contingency fund .

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

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt

Kenya's public and publicly guaranteed debt increased by Ksh 51.7 billion in the first seven months of fiscal year 2009/10 to stand at Ksh 1,105.4 billion or 44.5 percent of GDP in January 2010 from Ksh 1,053.7 billion or 44 percent of GDP in June 2009 (Table 7.1). The external debt to GDP ratio decreased from 22.4 percent in June 2009 to 21.1 percent in January 2010 while the domestic debt to GDP ratio increased from 21.7 percent to 23.4 percent during the period.

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

	Jun-09	Jul-09	Aug-09	Sep-09	Oct-10	Nov-10	Dec-09*	Jan-09**	Change 2009/10
EXTERNAL***									
Bilateral	185.9	185.5	184.8	188.7	188.2	189.5	189.3	188.8	2.9
Multilateral	327.1	324.5	323.1	312.6	311.9	314.2	312.9	312.1	-15.0
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	22.1	22.1	22.1	23.7	23.7	23.7	23.7	23.7	1.6
Sub-Total	**535.1**	**532.1**	**530.1**	**525.0**	**523.9**	**527.5**	**525.9**	**524.6**	**-10.5**
(As a % of GDP)	22.4	22.1	21.9	21.6	21.4	21.5	21.3	21.1	
(As a % of total debt)	50.8	50.1	49.2	48.8	48.0	48.4	47.2	47.5	
DOMESTIC									
Banks	**290.8**	**292.8**	**306.3**	**310.5**	**325.1**	**331.0**	**343.0**	**338.6**	**47.8**
Central Bank	40.1	37.6	40.3	41.6	42.9	43.4	44.7	42.8	2.8
Commercial Banks	250.7	255.1	266.0	268.9	282.2	287.6	298.3	295.7	45.0
Non-banks	**225.1**	**235.6**	**238.5**	**237.7**	**239.4**	**229.1**	**243.0**	**239.2**	**14.1**
Non-bank Financial Institutions	1.0	0.8	0.8	0.8	0.8	0.9	1.1	1.1	0.1
Other Non-bank Sources	224.1	234.8	237.7	236.9	238.6	228.2	241.9	238.1	14.0
Non-residents	**2.6**	**2.2**	**2.4**	**2.5**	**2.6**	**2.9**	**2.9**	**3.0**	**0.4**
Sub-Total	**518.5**	**530.5**	**547.2**	**550.7**	**567.1**	**562.9**	**589.0**	**580.7**	**62.2**
(As a % of GDP)	21.7	22.1	22.6	22.6	23.2	22.9	23.8	23.4	
(As a % of total debt)	49.2	49.9	50.8	51.2	52.0	51.6	52.8	52.5	
GRAND TOTAL	**1053.7**	**1062.7**	**1077.3**	**1075.7**	**1091.0**	**1090.4**	**1114.9**	**1105.4**	**51.7**
(As a % of GDP)	44.0	44.2	44.5	44.2	44.6	44.4	45.1	44.5	

* External Revised
** External Debt Provisional
*** Includes IMF Loans.

Note

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

Sources: Treasury and Central Bank of Kenya

Domestic Debt

Total domestic debt increased by 62.2 billion during the first seven months of the fiscal year 2009/10 from Ksh 518.5 billion in June 2009 to Ksh 580.7 billion in January 2010 (Table 7.2). The rise in domestic debt during the period followed an increase of Ksh 24.9 billion in Treasury bills (excluding Repos), Ksh 34.7 billion in Treasury bonds and Ksh 3.1 billion in other domestic debt. Government overdraft at Central bank, which is the main component of other domestic debt, increased from Ksh 5.1 billion in June 2009 to Ksh 4.1 billion in January 2010.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2009								2010		Change
	June	%	Sep	%	Oct	%	Dec	%	Jan	%	Jun-09 - Jan-10
Total Stock of Domestic Debt (A+B)	**518.5**	**100.0**	**550.7**	**100.0**	**547.2**	**100.0**	**562.9**	**100.0**	**580.7**	**100.0**	**62.2**
A. Government Securities	**511.6**	**98.7**	**542.4**	**98.5**	**557.5**	**101.9**	**577.6**	**102.6**	**570.7**	**98.3**	**59.1**
1. Treasury Bills (excluding Repo Bills)	**116.8**	**22.5**	**122.2**	**22.2**	**133.6**	**24.4**	**140.8**	**25.0**	**141.7**	**24.4**	**24.9**
Banking institutions	74.6	14.4	81.3	14.8	92.8	17.0	110.8	19.7	111.2	19.1	**36.5**
Others	42.2	8.1	40.9	7.4	40.7	7.4	30.0	5.3	30.5	5.3	**-11.6**
2. Treasury Bonds	**360.7**	**69.6**	**386.1**	**70.1**	**389.9**	**71.3**	**402.7**	**71.5**	**395.5**	**68.1**	**34.7**
Banking institutions	176.0	33.9	187.5	34.1	189.3	34.6	187.5	33.3	184.6	31.8	**8.6**
Others	184.8	35.6	198.5	36.1	200.5	36.6	215.2	38.2	210.9	36.3	**26.1**
3. Long Term Stocks	**0.8**	**0.1**	**0.8**	**0.1**	**0.8**	**0.1**	**0.8**	**0.1**	**0.8**	**0.1**	**0.0**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Others	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	**0.0**
4. Non-Interest Bearing Debt	**33.3**	**6.4**	**33.3**	**6.1**	**33.3**	**6.1**	**33.3**	**5.9**	**32.8**	**5.6**	**-0.6**
Of which: Repo T/Bills	33.3	6.4	33.3	6.1	33.3	6.1	33.3	5.9	32.8	5.6	**-0.6**
B. Others:*	**6.89**	**1.3**	**8.33**	**1.5**	**9.60**	**1.8**	**11.37**	**2.0**	**10.03**	**1.7**	**3.1**
Of which CBK overdraft to Government	5.1	1.0	8.0	1.5	9.3	1.7	11.1	2.0	9.2	1.6	4.1

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

Source: Central Bank of Kenya

Treasury Bills

Treasury bills increased from Ksh 116.8 billion in June 2009 to Ksh 141.7 billion in January 2010 (Table 7.3). The proportion of Treasury bills in total domestic debt increased from 22.5 percent of total domestic debt to 24.4 percent during the period. Commercial banks holding in Treasury bills rose from Ksh 74.6 billion to Ksh 111.2 billion. The proportion of the 364 day treasury bills in total Government securities stood at 5.3 percent up from 1.9 percent in August 2009 when it was first issued. With its popularity in the securities' market, the percentage of 91-day Treasury bills in total Government securities decreased from 4.9 percent to 3.9 percent in January 2010 while the 182-day treasury bills increased from 19.5 percent to 20.7 percent during the period (Table 7.5).

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

	2009						2010	
Holders	**June**	**%**	**Oct**	**%**	**Dec**	**%**	**Jan**	**%**
Banking Institutions	74.6	63.9	92.8	69.5	110.8	78.7	111.2	78.5
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	74.6	63.9	92.8	69.5	110.8	78.7	111.2	78.4
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	17.0	14.6	14.9	11.1	11.6	8.2	11.7	8.2
Parastatals	2.3	2.0	3.9	2.9	3.3	2.4	2.9	2.0
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	7.0	6.0	7.4	5.5	7.5	5.3	8.3	5.8
Others	15.8	13.6	14.5	10.9	7.6	5.4	7.7	5.5
Total*	**116.8**	**100.0**	**133.6**	**100.0**	**140.8**	**100.0**	**141.7**	**100.0**

* Excludes repurchase order bills

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds outstanding amount increased from Ksh 360.7 billion in June 2009 to Ksh 395.5 billion in January 2010 (Table 7.4). Similarly, as shown in Table 7.2, the percentage of Treasury bonds in total domestic debt decreased from 69.6 percent to 68.1 percent during the period while commercial banks holdings of Treasury bonds increased from Ksh 176.0 billion to Ksh 184.6 billion.

The 5-year Treasury bonds accounted for the largest proportion of outstanding Government securities during the period, increasing from 11.1 percent in June 2009 to 12.4 percent in January 2010 while the 10-year Treasury bonds accounted for 10.6 percent of outstanding Government securities. The percentage of Treasury bonds with maturities of between 10-years and 20-years increased from 27.0 percent to 33.6 percent during the period following successful issuance of longer dated Treasury bonds. Following the increase in outstanding Treasury bonds during the period, the average maturity profile of domestic debt (by days to maturity) stood at 4 years and 3 months in January 2010.

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

Holders	2007		2008		2009						2010	
	June	%	June	%	June	%	Oct	%	Dec	%	Jan	%
Banking Institutions	141.5	52.0	156.8	49.8	**176.8**	**49.0**	**190.2**	**48.8**	**188.6**	**46.8**	**185.7**	**46.9**
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	140.7	51.7	156.1	49.5	176.0	48.8	189.3	48.6	187.5	46.6	184.6	46.7
NBFIs	0.9	0.3	0.7	0.2	0.8	0.2	0.8	0.2	1.1	0.3	1.1	0.3
Insurance Companies	27.5	10.1	31.9	10.1	38.3	10.6	44.0	11.3	48.5	12.1	48.0	12.1
Parastatals	27.3	10.0	29.9	9.5	31.4	8.7	28.8	7.4	33.6	8.4	34.0	8.6
Of which: NSSF	6.8	2.5	11.7	3.7	15.8	4.4	15.8	4.0	17.0	4.2	16.6	4.2
Building Societies	1.3	0.5	0.9	0.3	0.5	0.1	0.5	0.1	0.4	0.1	0.4	0.1
Pension Funds	5.9	2.2	31.8	10.1	54.2	15.0	64.1	16.5	68.2	16.9	66.7	16.9
Others	68.7	25.2	63.9	20.3	59.6	16.5	62.3	16.0	63.3	15.7	60.7	15.3
Total	**272.2**	**100.0**	**315.2**	**100.0**	**360.7**	**100.0**	**389.9**	**100.0**	**402.7**	**100.0**	**395.5**	**100.0**

Source: Central Bank of Kenya

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

	2009														2010		Change Jun-09 to Jan-10
	June	%	Jul	%	Aug	%	Sep	%	Oct	%	Nov	%	Dec	%	Jan	%	
91-DAY	23.5	4.9	26.9	5.5	30.3	6.0	22.8	4.5	23.1	4.4	23.5	4.5	24.8	4.6	21.1	3.9	-2.4
182-DAY	93.3	19.5	93.9	19.1	87.9	17.4	89.9	17.7	91.0	17.4	94.8	18.3	87.4	16.1	92.0	17.1	-1.3
364-DAY	0.0	0.0	0.0	0.0	9.4	1.9	9.4	1.9	19.5	3.7	19.5	0.0	28.6	5.3	28.6	5.3	28.6
1-YEAR	14.8	3.1	12.6	2.6	12.6	2.5	12.6	2.5	12.6	2.4	6.7	1.3	6.7	1.2	0.0	0.0	-14.8
1.5-YEAR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-YEAR	45.2	9.5	45.2	9.2	45.2	8.9	53.2	10.5	53.2	10.2	51.9	10.0	43.8	8.1	43.3	8.1	-1.9
3-YEAR	12.8	2.7	12.8	2.6	9.6	1.9	5.8	1.1	5.8	1.1	5.8	1.1	5.8	1.1	5.8	1.1	-7.0
4-YEAR	12.9	2.7	12.9	2.6	12.9	2.6	12.9	2.5	7.3	1.4	7.3	1.4	7.3	1.3	7.3	1.4	-5.6
5-YEAR	52.8	11.1	52.8	10.7	63.2	12.5	66.7	13.1	66.7	12.7	66.7	12.9	66.7	12.3	66.7	12.4	13.9
6-YEAR	38.8	8.1	38.8	7.9	38.8	7.7	38.8	7.6	38.8	7.4	37.1	7.1	37.1	6.8	37.1	6.9	-1.7
7-YEAR	24.2	5.1	24.2	4.9	24.2	4.8	24.2	4.8	24.2	4.6	24.2	4.7	24.2	4.4	24.2	4.5	0.0
8-YEAR	17.9	3.8	17.9	3.6	17.9	3.5	17.9	3.5	17.9	3.4	17.9	3.5	17.9	3.3	17.9	3.3	0.0
9-YEAR	12.6	2.6	12.6	2.6	12.6	2.5	12.6	2.5	12.6	2.4	12.6	2.4	12.6	2.3	12.6	2.3	0.0
10-YEAR	44.4	9.3	57.0	11.6	57.0	11.3	57.0	11.2	57.0	10.9	57.0	11.0	57.0	10.5	57.0	10.6	12.6
11-YEAR	4.0	0.8	4.0	0.8	4.0	0.8	4.0	0.8	4.0	0.8	4.0	0.8	4.0	0.7	4.0	0.8	0.0
12-YEAR	28.5	6.0	28.5	5.8	28.5	5.6	28.5	5.6	28.5	5.4	28.5	5.5	47.4	8.7	47.4	8.8	18.9
15-YEAR	42.3	8.9	42.3	8.6	42.3	8.4	42.3	8.3	51.7	9.9	51.7	10.0	51.7	9.5	51.7	9.6	9.4
20-YEAR	9.5	2.0	9.5	1.9	9.5	1.9	9.5	1.9	9.5	1.8	9.5	1.8	20.4	3.7	20.4	3.8	10.8
Total	**477.5**	**100.0**	**492.0**	**100.0**	**506.1**	**100.0**	**508.3**	**100.0**	**523.4**	**100.0**	**518.8**	**96.2**	**543.5**	**100.0**	**537.2**	**100.0**	

Source: Central Bank of Kenya

Government Long-term Stocks

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

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Government securities from February 2010 to April 2010 will comprise Ksh 63.3 billion in Treasury bills and Ksh 14.4 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 21.1 billion and Ksh 42.2 billion in 91-days and 182-days Treasury bills, respectively. The Treasury bonds maturing during this period comprise of Ksh 1.25 billion, Ksh 3.92 billion, Ksh 4.42 billion and Ksh 2.80 billion in the 2-year, 4-year, 6-year and 7-year tenure, respectively.

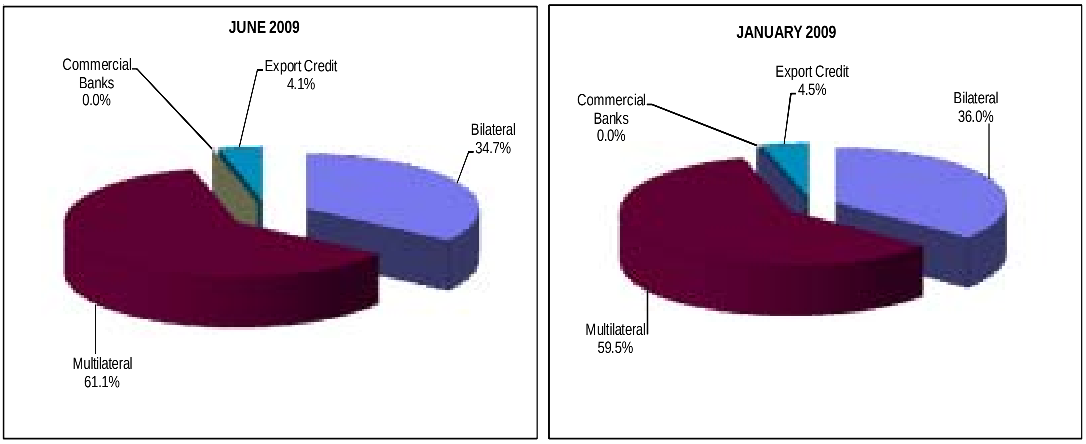
External Debt

Kenya's external debt decreased by 2.0 percent from Ksh 535.1 billion (USD 6.94 billion) in June 2009 to Ksh 524.6 billion (USD 6.91 billion) in January 2010 (Table 7.1). The drop in external debt followed external loans disbursement of Ksh 8.4 billion and revaluation gain of Ksh 7.2 billion and debt repayments of Ksh 11.7 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to multilateral creditors (including IMF) decreased from 61.1 percent of total external debt to 59.5 percent during the period. However, the percentage of external debt owed to bilateral creditors and that which is contracted through export credits increased from 34.7 percent and 4.1 percent, respectively, in June 2009 to 36.0 percent and 4.5 percent in January 2010 (Chart 7A).

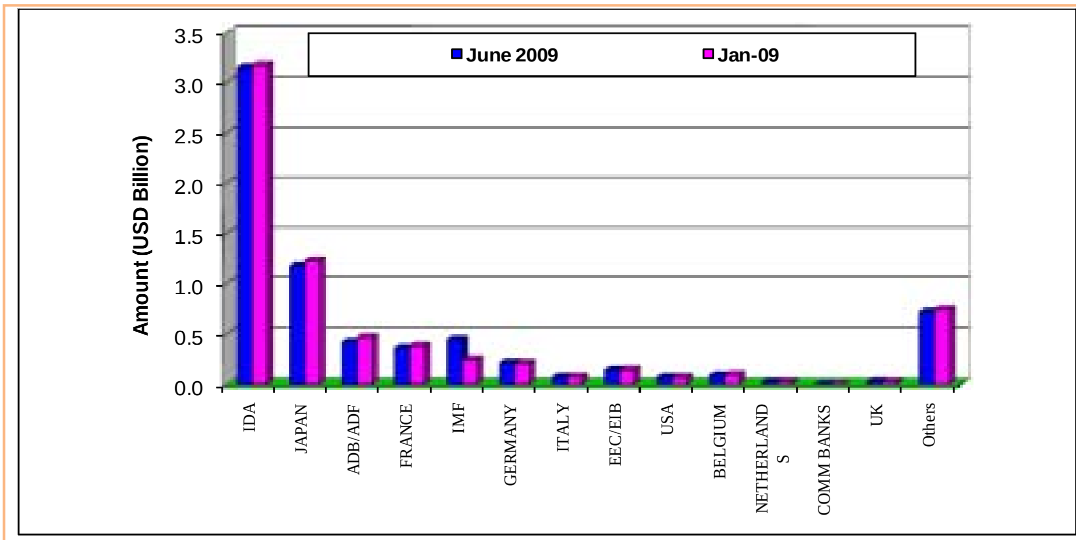
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

External debt owed to IDA and Japan remained unchanged at USD 3.2 billion and USD 1.2 billion, respectively, in January 2010 (Chart 7B). The two remained the largest multilateral and bilateral creditors to Kenya during the period.

CHART 7B: EXTERNAL DEBT BY CREDITOR

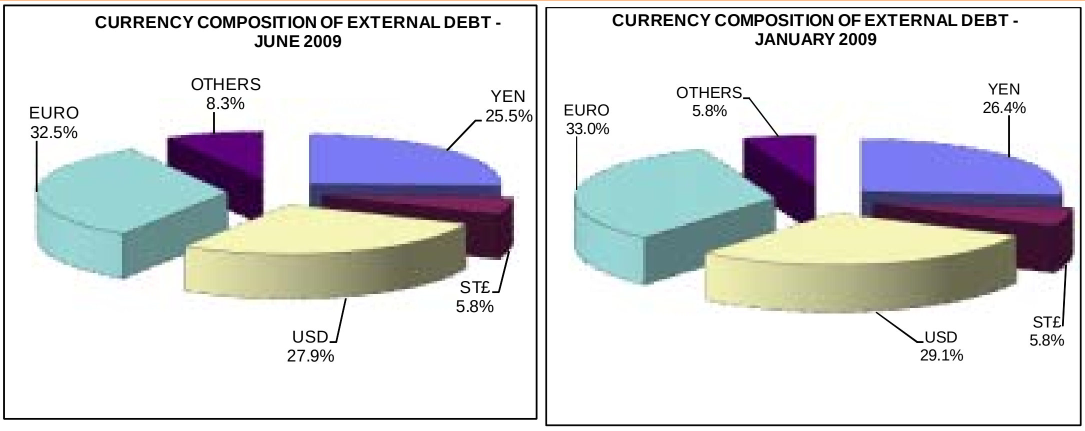


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in US dollars, Euro and Japanese Yen increased from 27.9 percent, 32.5 percent and 25.5 percent in June 2009, respectively, to 29.1 percent, 33.0 percent and 26.4 percent in January 2010. However the external debt proportion held in other currencies including SDRs decreased from 8.3 percent to 5.8 percent during the period (Chart 7C). The external debt proportion held in Sterling Pounds remained unchanged at 5.8 percent in January 2010.

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt increased from Ksh 24.9 billion in the first seven months of fiscal year 2008/09 to Ksh 34.4 billion in a similar period of the fiscal year 2009/10. Consequently, the percentage of domestic interest in ordinary Government revenue increased from 10.3 percent to 12.9 percent during the period. External debt service increased from Ksh 8.1 billion to Ksh 15.6 billion. The external debt service in the period comprised Ksh 11.7 billion in principal repayments and Ksh 3.9 billion in interest payments.

Outlook for the FY 2009/10

The budget estimates for 2009/10 has Government domestic borrowing projected at Ksh 109.5 billion (4.3 percent of GDP) while external borrowing is estimated at Ksh 50.2 billion (2.0 percent of GDP. However, as indicated in the Budget Strategy Paper for 2009/10 to 2011/12, gross domestic debt-to-GDP ratio is projected to increase from 22.7 percent in June 2009 to 24.2 percent in June 2010 of GDP. Consequently, external debt-to-GDP ratio is expected to increase from 22.0 percent to 23.9 percent during the period, which will, however, be lower than the 24.1 percent in June 2009.

Activity in the Stock Market

Equity Market

There was improved performance at the equities market in the month of January 2010 as reflected by key market indicators (Table 8.1). The number of shares traded increased by 181.0 percent from 214.9 million in December 2009 to 603.9 million in January 2010.

Equity turnover increased by Ksh 3,766.8 million (145.4 percent), from Ksh 2,591.2 million in December 2009 to Ksh 6,358.0 million in January 2010. The market capitalization improved by Ksh 78.2 billion (9.4 percent), from Ksh 831.8 billion in December 2009 to Ksh 910.0 billion in January 2010. The increase in market capitalization is attributed to the increase in price of most counters. The NSE 20 Share Index rose by 317.8 points (9.8 percent) to close at 3565.3 points in January 2010. Market liquidity ratio improved by 62 basis points to 0.96 percent in January 2010 from 0.34 percent in December 2009 reflecting an increase in the number of shares traded.

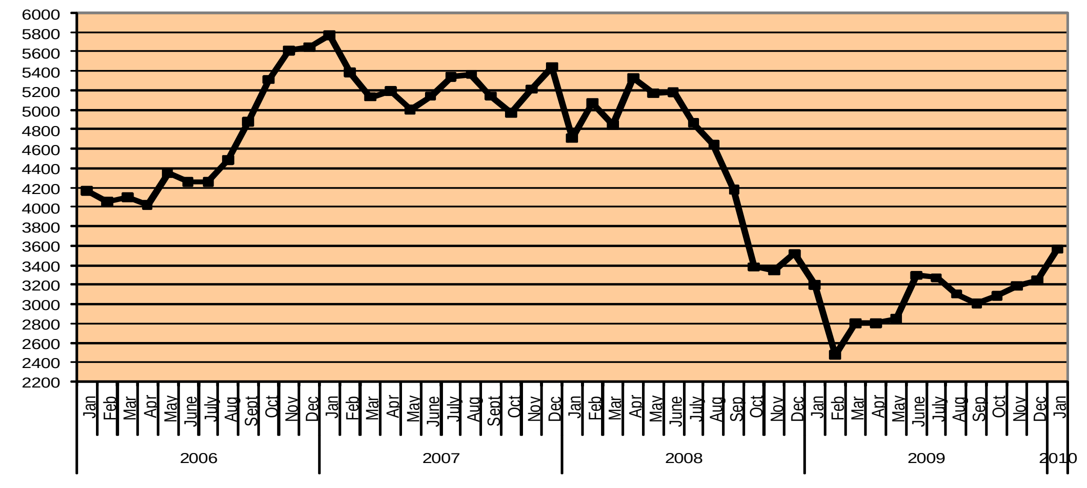
TABLE 8.1: SELECTED STOCK MARKET INDICATORS 2008 -2010

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

Source: Nairobi Stock Exchange

The Commercial and Services sector dominated the market trading 448.3 million shares during the month. The most traded share in the sector was Safaricom which traded 430.3 million shares. The Finance and Investment sector traded 113.6 million shares. The most active stock was Equity Bank which traded 66.0 million shares. The Industrial and Allied sector traded 39.6 million shares with Mumias Sugar trading 39.6 million shares. The agricultural sector traded 2.1 million shares.

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



Source: Nairobi Stock Exchange

Bond Market

The bond turnover increased by 68 percent, with bonds worth Ksh 26,750 million traded in January 2010, compared with Ksh 15,940 million worth of bonds traded in December 2009.

Balance Sheet of the Central Bank of Kenya
(Kenya shillings million)

	Jan-10	Jan-09	Jan 10/Jan 09 Movement
ASSETS	311,680	267,080	44,600
Foreign Exchange	260,720	220,115	40,605
Advances and Discounts to Banks	0	0	0
Discounted Government Securities	26	1,655	-1,629
Government Accounts	42,516	39,971	2,545
Government of Kenya Overdraft	9,180	4,713	4,467
Clearing Account	90	418	-328
IMF funds on-lent to Government	472	956	-484
Frozen Government Accounts	32,774	33,884	-1,110
Other assets	8,418	5,339	3,079
Debtors	5,357	3,773	1,584
Retirement Benefits Assets	1,425	55	1,370
Building and Equipment	1,124	1,235	-111
Prepaid Leases	273	276	-3
Intangible assets	239		239
LIABILITIES	311,680	267,080	44,600
Currency in Circulation	116,324	107,960	8,364
Repo Securities	0	9,660	-9,660
Deposits	165,324	120,311	45,013
Banks - Kenya	63,134	44,539	18,595
External	101	91	10
Non-Bank Financial Institutions	0	0	0
Other Public Entities and Project A/Cs	10,732	9,260	1,472
International Monetary Fund	36,270	21,961	14,309
Government of Kenya	51,255	42,968	8,287
Local Banks Forex Settlement Fund	3,832	1,492	2,340
Other Liabilities	1,685	5,352	-3,667
Capital and Reserves	28,347	23,797	4,550
Capital	5,000	5,000	0
General Reserve Fund	26,804	9,254	17,550
Surplus b/f from previous year	-6,598	9,543	-16,141
Period's Surplus	3,141	0	3,141
Dividend payable	0	0	0

Source: Central Bank of Kenya

Notes on the Balance Sheet

Asset

Foreign exchange reserves of the Bank increased by Ksh 40,605 million to Ksh 260,720 million in January 2010 from Ksh 220,115million in January 2009 reflecting forex purchases from the interbank market.

Government accounts increased by Ksh 2,545 million to Ksh 42,516 million in January 2010 from Ksh 39,971 million in January 2009. The increase can be attributed to an increase of Ksh 4,467 million in the overdraft. This increase however is offset by a decline of Ksh 325 million in clearing account balances due and a decline of Ksh 484 million on IMF funds on-lent to government. There was also a decline of Ksh 1,110 million in non-interest bearing Government debt.

Other assets increased by Ksh 3,079 million in the year to January 2010 on account of increases in the value of retirement benefits by Ksh 1,370 million, debtors by Ksh 1,584. These increases were offset by a decline of Ksh 111 million in the value of property and equipment as well as a decline of Ksh 3 million in prepaid leases.

Liabilites

Currency in circulation increased by Ksh 8,364 million to Ksh 116,324 million in January 2010 from Ksh 107,960 million in January 2009.

The stock of **repo securities** declined to zero in the year to January 2010 from Ksh 9,660 million in January 2009.

Deposits increased by Ksh 45,013 million to Ksh 165,324 million in January 2010 on account of Ksh 8,287 million increase in Government of Kenya deposits, increase of Ksh 14,309 million in IMF deposits held with the Bank and Ksh 2,340 million increase in local banks forex settlement balances. There was also an increase of Ksh 18,595 in commercial banks' deposits at the Central Bank and an increase of Ksh 1,472 million in other public entities and project account.

Other liabilities and provisions declined by Ksh 3,667 million to Ksh 1,685 million in the year to January 2010.

Capital and reserves increased by Ksh 4,550 million to Ksh 28,347 million in the year to January 2010, mainly due to increases of Ksh 17,550 million in the general reserve fund. The increase was partially offset by a decline in the surplus brought forward from the previous year.