MONTHLY ECONOMIC REVIEW
June 2006
The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at:
http://www.centralbank.go.ke
email: info@centralbank.go.ke

CONTENTS

OVERVIEW

Introduction

This Monthly Economic Review highlights recent economic developments in Kenya through June 2006. It highlights developments in money, credit and banking, inflation, interest rates, the Kenya shilling exchange rates, and the real sector activity. It also highlights the government budgetary operations, public debt and balance of payments developments.

GDP Growth

The economy grew by 5.8 percent in 2005, up from 4.9 per cent in 2004. Outlook for 2006 remains good with most sectors having good growth prospects.

Inflation

Overall inflation declined to 10.9 percent in June 2006 from 13.1 percent in May 2006, largely due to a fall in food prices as supply improved.

Government Fiscal Operations

During the first ten months of the fiscal year 2005/06, Government expenditure on commitment basis amounted to Ksh 292.4 billion while revenue and grants amounted to Ksh 253.1 billion, resulting in a budget deficit of Ksh 39.3 billion or 2.8 per cent of GDP.

Monetary Expansion and Interest Rates

Extended broad money, M3[1], increased by 15.9 percent in the twelve months to May 2006 compared with 11.1 percent in a similar period in 2005. It was supported by 28.8 percent increase in net foreign assets (NFA) and 10.9 percent increase in net domestic assets (NDA) of the banking system.

[1] Effective January 2006, the CBK adopted a harmonized definition of monetary aggregates to conform to those of the East Africa partner states. Consequently, M3X, the intermediate target of monetary policy has been renamed extended broad money M3.

Short-term interest rates declined in June, 2006 with the 91-day Treasury bill rate falling to 6.60 percent, from 7.01 percent in May 2006 while the interbank rate fell to 6.41 percent from 8.12 percent in May, 2006.

Balance of Payments

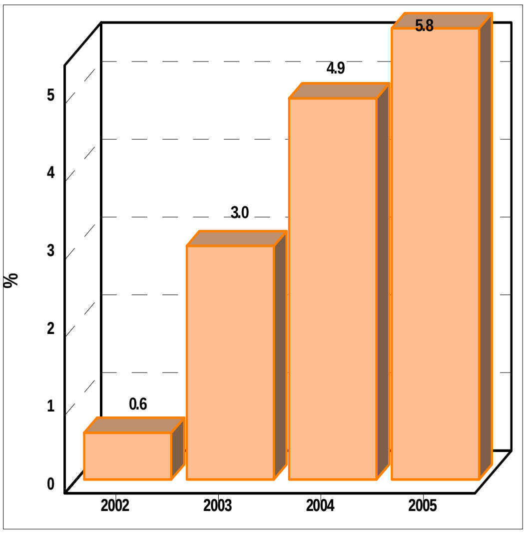
The overall balance of payments had a US$ 619 million surplus in the year to March 2006, compared with US$ 516 million and US$ 530 million surplus in the year to February 2006 and January 2006, respectively. The improvement was largely attributed to improved capital and financial account which more than offset the widening current account deficit.

Exchange Rates

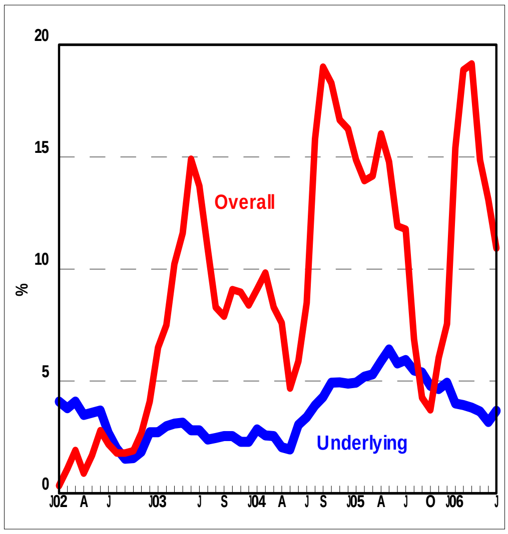
The Kenya shilling depreciated against the US dollar and Pound Sterling, while it appreciated against the Japanese Yen in June 2006. It exchanged at Ksh 73.4 per US dollar in June 2006 compared with Ksh 71.8 in May 2006. The shilling also lost against the Uganda shilling and Tanzania shilling.

SELECTED ECONOMIC PERFORMANCE INDICATORS

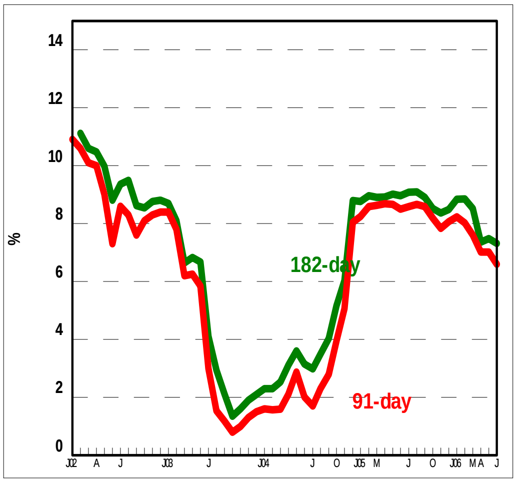
Real GDP Growth



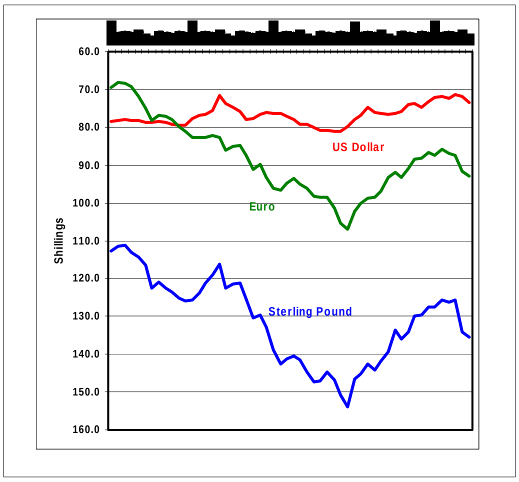
Inflation



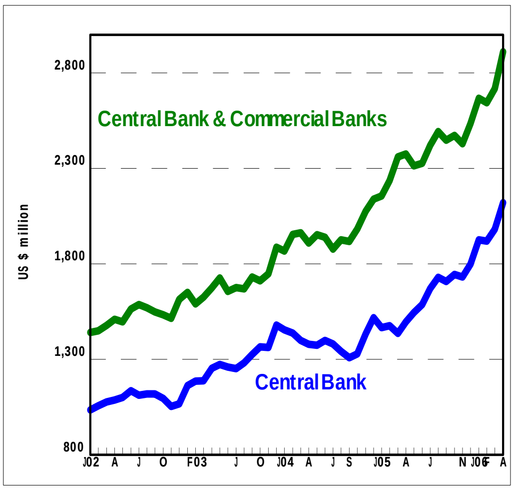
Treasury Bill Rates



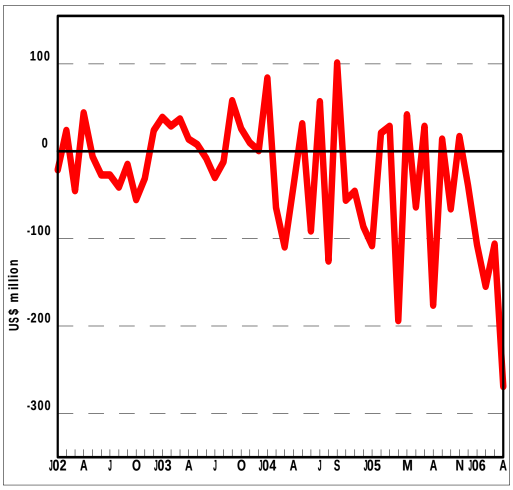
Kenya Shilling Exchange Rates



Foreign Exchange Reserves



Current Account Balance



Source: Central Bank of Kenya

SELECTED ANNUAL ECONOMIC INDICATORS, 2000 - 2005

	INDICATOR	1998	1999	2000	2001	2002	2003	2004	2005
1.	**POPULATION***								
	People in Millions	28.88	29.54	29.53	30.90	31.50	32.20	32.80	33.40
	Growth (%)	2.31	2.29	3.00	4.64	1.94	2.22	2.54	2.50
2.	**NATIONAL ACCOUNTS****								
	GDP at Basic Prices (Ksh m)	850.81	906.93	858,919	906,874	905,748	1,010,939	1,142,799	1,291,227
	GDP at Market Prices (Kshs m):								
	At Current Prices	844.38	867.18	967,838	1,020,022	1,022,208	1,136,288	1,282,504	1,415,155
	At Constant 2001 Market Prices	955.18	977.00	982,855	1,020,022	1,025,854	1,056,454	1,107,715	1,172,090
	Real GDP Growth (%)	3.30	2.30	0.60	4.50	0.60	3.00	4.90	5.80
	Per Capita Income Real 2001 prices (Ksh)	333.60	296.60	33,283	33,767	32,549	32,845	33,764	35,045
3.	**GROSS DOMESTIC SAVINGS (%of GDP at mkt prices)**	**9.77**	**10.88**	**10.6**	**13.9**	**13.2**	**9.9**	**13.2**	**10.8**
4.	**GROSS DOMESTIC INVESTMENTS (%of GDP at mkt prices)**	**0.00**	**0.00**	**17.4**	**18.8**	**15.3**	**16.4**	**16.9**	**16.8**
5.	**CONSUMER PRICE INFLATION (URBAN) 1997 BASE**								
	Average Annual Inflation	--	5.74	10.01	5.87	1.96	9.82	11.62	10.31
	Twelve-month Inflation (Dec-Dec)	0.67	10.43	11.89	1.57	4.27	8.35	16.25	18.87
6.	**STOCK MARKET**								
	Nairobi Stock Exchange Price Index (1966=100)	2,963.10	2,303.20	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04
	Trade Turnover (%)	0.40	0.23	0.17	0.17	0.50	0.89	0.92	0.88
7.	**GOVERNMENT BUDGET (Ksh bn) *****								
	Revenue and Grants	184.87	201.18	182.69	216.39	203.44	225.69	270.91	304.71
	Expenditure	194.97	197.34	175.12	232.92	225.76	264.14	282.19	303.71
	Budget Deficit (-) / Surplus (+)	-10.10	3.84	7.57	-16.53	-22.32	-38.45	-11.28	1.00
	Budget Deficit (%of GDP)	-1.25	0.44	0.81	-1.66	-2.19	-3.56	-0.93	0.07
8.	**MONEY AND CREDIT (Ksh bn)(end period)**								
	Liquidity (L)[1]	381.35	414.43	435.47	462.13	521.20	569.43	633.92	712.32
	Money Supply (M3)[2]	328.32	345.73	360.01	368.39	406.01	453.35	513.16	565.49
	Reserve Money	74.99	78.99	77.73	79.12	88.45	87.52	101.05	106.23
	Total Domestic Credit	**350.60**	**358.48**	**331.29**	**334.00**	**364.93**	**405.20**	**473.61**	**498.66**
	Government	91.10	84.13	76.45	89.08	108.61	133.85	132.34	122.16
	Others	260.60	274.35	254.85	244.93	256.33	271.41	341.27	376.50
9.	**BALANCE OF PAYMENTS (US$ m)****								
	Overall Balance	**-4.80**	**5.80**	**108.20**	**166.38**	**3.26**	**413.33**	**38.85**	**280.12**
	Current Account	-475.10	-89.60	-237.50	-383.39	-117.69	146.20	-353.30	-495.04
	Capital and Financial Account	617.50	263.80	416.22	348.20	-31.67	537.82	239.52	765.90
10.	**FOREIGN EXCHANGE RESERVES (US$ m) END PERIOD**	**1,100.00**	**1,104.00**	**1,398.72**	**1,459.35**	**1,612.69**	**1,888.04**	**2,078.40**	**2,534.16**
	Official	782.00	789.00	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82
	*Months of imports*****	*(2.5)*	*(2.9)*	*(2.8)*	*(3.2)*	*(3.3)*	*(4.2)*	*(3.4)*	*(3.3)*
	Commercial Banks	328.00	315.00	501.30	395.53	545.70	408.28	559.67	735.34
11.	**PUBLIC DEBT (US$ bn) END PERIOD*****	**8.45**	**8.00**	**7.58**	**7.85**	**8.09**	**9.29**	**9.14**	**9.84**
	Domestic	3.00	2.60	2.50	2.80	3.30	3.90	3.85	4.14
	As % of GDP	*22.01*	*21.84*	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*
	External	*5.45*	*5.40*	*5.08*	*5.05*	*4.79*	*5.39*	*5.29*	*5.69*
	As % of GDP	*39.99*	*45.36*	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.17*
12.	**EXCHANGE RATE (Ksh/US$) (ANNUAL AVERAGE)**	**60.40**	**70.30**	**76.20**	**78.60**	**78.70**	**75.93**	**79.28**	**75.55**

* Provisional.
** Revised to reflect data reported in Economic Survey 2005.
*** Fiscal year to June 30th.
**** Figures in parentheses refer to official reserves in months of imports of goods and non-factor services.
[1] Previously M3XT
[2] Previously M3X

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

SELECTED MONTHLY ECONOMIC INDICATORS

	2005									2006					
INDICATOR	Jan	Feb	Mar	Jun	Jul	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
1. INFLATION (%)															
CPI	**174.41**	**176.10**	**178.61**	**182.51**	**181.14**	**179.38**	**179.83**	**181.96**	**185.18**	**201.25**	**209.33**	**212.8**	**210.69**	**208.62**	**202.45**
Overall Inflation															
12-month overall inflation	14.87	13.94	14.15	11.91	11.77	4.27	3.72	6.04	7.56	15.39	18.87	19.14	14.85	13.09	10.93
Average annual overall inflation	12.10	12.43	12.91	14.97	15.21	13.13	11.89	11.01	10.31	10.41	10.88	11.36	11.31	11.2	11.12
Underlying Inflation*															
12-month underlying inflation	4.93	5.21	5.31	5.79	5.95	5.39	4.79	4.69	4.94	4.00	3.94	3.82	3.66	3.18	3.68
Average annual underlying inflation	3.64	3.86	4.09	5.01	5.22	5.43	5.42	5.39	5.40	5.31	5.08	4.89	4.89	4.62	4.44
2. INTEREST RATES (%)															
91-day Treasury bill interest rate	8.25	8.59	8.63	8.50	8.59	8.58	8.19	7.84	8.07	8.23	8.02	7.60	7.02	7.01	6.60
Overdraft interest rate	13.14	13.82	14.03	13.83	13.46	13.5	13.56	13.33	13.67	13.81	13.34	13.26	13.81	14.02	
3. STOCK MARKET															
Nairobi Stock Exchange Price Index	3,094.3	3,212.8	3,208.7	3,972.2	3,982.0	3,832.7	3,939.5	3,974.1	3,973.0	4,171.8	4,056.6	4,101.6	4,025.2		
Turnover (%)	0.72	0.82	0.63	2.00	2.24	2.96	1.12	1.58	1.64	2.74	1.18	1.31	1.08		
4. GOVERNMENT BUDGET (Ksh bn.)**															
Revenue and Grants	169.76	190.56	219.1	304.7	16.3	68.7	95.1	116.3	148.3	183.0	203.9	229.9	253.1		
Expenditure:	154.53	172.95	202.3	303.4	24.7	86.5	117.8	141.3	178.5	205.6	234.5	266.5	292.4		
Budget Deficit (-) / Surplus (+)	**15.23**	**17.61**	**16.88**	**1.33**	**(8.37)**	**(17.75)**	**(22.71)**	**(24.99)**	**(30.19)**	**(22.66)**	**(30.53)**	**(36.55)**	**(39.30)**		
5. MONEY AND CREDIT (Ksh bn.)															
Liquidity (L)[1]	634.10	639.50	648.1	663.8	676.9	688.3	699.5	702.7	712.3	716.4	725.6	738.2	758.9	760.7	
Money Supply (M3)[2]	510.90	514.70	522.5	526.8	533.9	543.8	555.1	558.7	565.5	568.1	576.4	587.6	606.7	603.9	
Reserve Money	95.53	95.11	93.7	94.6	95.1	96.1	100.3	101.7	106.2	102.4	101.3	102.8	107.0	102.5	
Total Domestic Credit	**470.2**	**470.7**	**477.1**	**466.3**	**469.6**	**481.6**	**491.5**	**501.0**	**498.7**	**498.0**	**504.8**	**520.2**	**527.5**	**524.5**	
Government	125.3	123.0	127.2	112.3	111.7	118.8	122.2	125.8	122.2	118.1	116.9	126.2	123.7	121.7	
Private sector and other public sector	343.8	346.5	350.0	354.0	357.9	362.8	369.4	375.2	376.5	379.9	387.9	382.2	403.8	402.8	
6. MONEY AND CREDIT (Annual %Change)															
Liquidity (L)[1]	11.1	11.6	11.7	12.4	13.8	13.7	13.6	13.2	12.4	13.2	13.7	13.9	16.7	16.5	
Money Supply (M3)[2]	12.8	13.3	13.4	11.3	12.4	11.8	11.4	11.5	10.2	11.2	12.0	12.5	16.8	16.8	
Reserve Money	13.5	11.5	8.2	4.8	5.3	0.7	5.9	6.5	5.1	7.2	6.5	9.8	14.2	9.7	
Total Domestic Credit	**13.4**	**13.6**	**14.9**	**7.8**	**7.2**	**7.1**	**6.2**	**8.1**	**5.3**	**5.9**	**7.2**	**9.0**	**12.9**	**10.7**	
Government	-6.8	-8.7	-6.1	-19.3	-20.5	-13.8	-13.6	-8.8	-7.7	-6.6	-5.9	-0.7	7.1	1.9	
Private and other public sector	23.11	24.43	25.1	20.6	20.3	16.4	14.8	15.3	10.3	10.5	12.0	12.8	14.9	13.6	
7. BALANCE OF PAYMENTS (US$ m)															
Overall Balance	**(122.19)**	**14.50**	**(35.66)**	**47.41**	**89.87**	**(15.90)**	**42.37**	**(4.73)**	**73.11**	**132.47**	**0.49**	**67.54**	**143.75**		
Current Account	(108.02)	20.89	28.61	(63.58)	28.65	14.11	(65.82)	17.00	(38.98)	(112.23)	(159.86)	(105.59)	(268.67)		
Trade Balance	(196.23)	(78.55)	(130.96)	(278.90)	(134.95)	(174.58)	(190.32)	(208.29)	(253.13)	(310.91)	(285.54)	(270.80)	(411.85)		
Capital and Financial Account	-14.17	-6.39	-64.28	110.99	61.22	-30.01	108.19	-21.74	112.09	244.71	160.35	173.13	412.42		
8. FOREIGN EXCHANGE RESERVES (US$ m)	2,154.7	2,234.8	2,358.1	2,326.8	2,421.1	2,446.4	2,471.5	2,429.5	2,534.2	2,666.9	2,643.5	2,718.4	2,910.5		
Official***	1467.44	1476.60	1435.61	1586.86	1671.39	1707.69	1744.73	1731.05	1798.82	1925.96	1919.15	1981.35	2119.76		
Months of imports cover	*3.24*	*3.24*	*3.15*	*3.13*	*3.27*	*3.22*	*3.22*	*3.19*	*3.30*	*3.49*	*3.38*	*3.44*	*3.68*		
Commercial banks	687.24	758.22	922.45	739.98	749.75	738.67	726.77	698.46	735.34	740.97	724.35	737.09	790.78		
9. PUBLIC DEBT (US$ bn)	**9.60**	**9.76**	**9.65**	**9.84**	**9.99**	**10.09**	**10.20**	**10.08**	**10.28**	**10.30**	**10.19**	**10.47**	**10.56**		
Domestic	3.79	3.86	3.95	4.14	4.26	*4.44*	4.52	4.47	4.63	4.64	4.63	4.81	4.89		
As %of GDP	*22.56*	*22.44*	*22.55*	*23.40*	*23.90*	*24.01*	*24.17*	*24.11*	*24.1*	*23.90*	*24.1*	*24.5*	*24.6*		
External	*5.81*	*5.89*	*5.70*	*5.69*	*5.73*	*5.65*	5.68	*5.61*	*5.65*	*5.66*	*5.56*	*5.65*	*5.66*		
As %of GDP	*35.21*	*34.84*	*32.54*	*32.17*	*32.14*	*30.58*	*30.40*	*30.21*	*29.4*	*29.17*	*29.00*	*28.60*	*28.4*		
10. GROSS DOMESTIC DEBT (Ksh bn)******	**291.22**	**292.23**	**296.33**	**315.57**	**324.03**	**328.8**	**332.7**	**333.50**	**335.0**	**334.0**	**338.6**	**346.1**	**348.2**	**349.5**	
11. AVERAGE EXCHANGE RATE															
Ksh/US$	77.9	76.9	74.8	76.7	76.2	74.1	73.7	74.7	73.1	72.2	71.8	72.3	71.3	71.8	73.4
Ksh/Pound Sterling	146.5	145.1	142.7	139.5	133.6	134.1	129.9	129.8	127.6	127.5	125.6	126.1	125.8	134.1	135.4
Ksh/ 100 Yen	75.5	73.3	71.3	70.6	68.1	66.7	64.2	63.2	61.6	62.6	60.9	61.6	60.9	64.2	64.0
Ksh/Euro	102.3	100.1	98.8	93.2	91.8	90.9	88.6	88.2	86.7	87.5	85.8	86.9	87.5	91.6	93.0

* Overall excluding food, energy and transport and communications

** Data on Government Budget remain provisional until the books for the fiscal year are audited.

Cumulative fiscal year 2002/03 budget out-turn: deficit including grants and on commitment basis.

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

**** Excludes the current value of Ksh 2,028m IMF disbursements on-lent to the Govt. by the CBK, which is included in external public debt.

[1] Previously M3XT

[2] Previously M3X

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

TRENDS IN VARIOUS MEASURES OF INFLATION

Overall Inflation

Overall month-on-month inflation eased to 10.9 percent in June 2006 from 13.1 percent in May, 2006 and 14.9 percent in April 2006. Similarly, average annual overall inflation declined to 11.1 percent in May 2006 from 11.2 percent and 11.3 percent in May and April 2006 respectively.

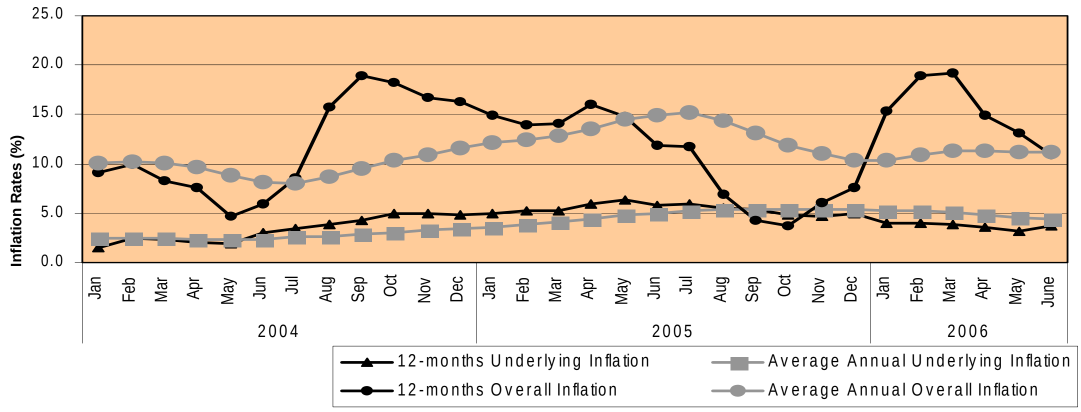
The decline in overall inflation in June, May and April 2006 reflected easing of price increases of the goods and services. Food and non-alcoholic drinks inflation fell to 14.9 percent in June 2006, from 18.9 percent in the previous month. The food and drinks index accounts for more than 50 percent of the overall Consumer Price Index (CPI), thus the decline in inflation in this category had a significant impact on overall inflation.

Underlying Inflation

Month-on-month underlying inflation, whose index excludes food and non-alcoholic drink, fuel and power and transport and communications, increased to 3.7 percent in June 2006 from 3.2 percent in May 2006. The CBK excludes food and non-alcoholic drinks index from the overall Consumer Price Index (CPI) because food prices are highly influenced by weather conditions while fuel and power prices are affected by weather conditions as well as by movements in crude oil prices in the world market. Transport and communications is dominated by petrol and diesel whose prices largely reflect oil price developments in the world market.

Chart 1A depicts trends in both overall and underlying inflation in the last two years. The chart shows that the underlying inflation has been on a downward trend since February 2006 and that unlike overall inflation, it has remained low and stable as shown in Table 1.1.

CHART 1A: TRENDS IN UNDERLYING AND OVERALL INFLATION



Sources: Central Bureau of Statistics & Central Bank of Kenya

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2005				2006					
	Mar	June	Sep	Dec	Jan	Feb	Mar	Apr	May	June
Underlying Inflation										
12-month	5.31	5.79	5.39	4.94	4.00	3.94	3.82	3.66	3.18	3.68
Average annual	4.09	5.01	5.43	5.40	5.31	5.20	5.08	4.89	4.62	4.44
Growth over one month	0.28	0.61	0.23	0.54	0.41	0.26	0.17	0.32	0.01	1.10
Growth over 3 months	1.93	1.58	0.65	0.70	0.98	1.22	0.85	0.76	0.51	1.44
Overall Inflation										
12-month	14.15	11.91	4.27	7.56	15.39	18.87	19.14	14.85	13.09	10.93
Average annual	12.91	14.97	13.13	10.31	10.41	10.88	11.36	11.31	11.20	11.12
Growth over one month	1.40	-1.10	-0.46	1.80	8.68	4.00	1.70	-1.00	-1.00	-3.00
Growth over 3 months	3.70	2.20	-1.71	3.20	11.91	15.00	14.90	4.70	-0.30	-4.90

Sources: Central Bureau of Statistics & Central Bank of Kenya

Inflation by Income Groups

As in May 2006, all income groups experienced a decline in inflation in June 2006. Moreover, all the four income groups experienced a month-on-month inflation of less than 14 percent with the “Nairobi middle/upper income” group realising the lowest inflation of 3.9 percent compared with 6.3 percent in May 2006. Inflation for the “Rest of Kenya” income group fell to 10.3 percent from 12.2 percent in May 2006 while that for the “Nairobi income” group (the “Nairobi lower income” and the “Nairobi upper income” groups combined) declined to 11.9 percent, from 14.4 percent in May 2006.

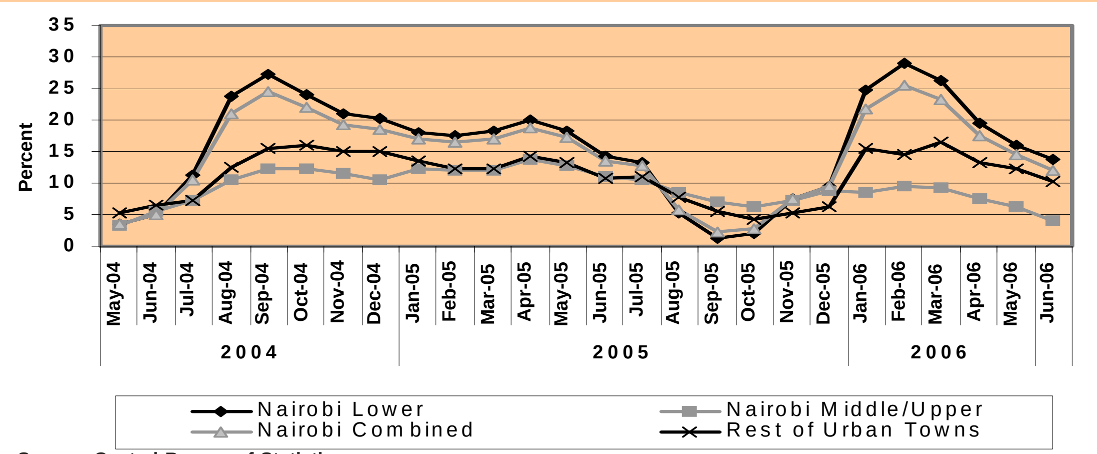
TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)

	2005								2006					
	Feb	Mar	Apr	May	June	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Nairobi Lower	17.43	18.13	19.92	18.33	14.17	1.99	7.41	9.60	24.74	29.04	26.27	19.51	16.10	13.65
Nairobi Middle/Upper	11.94	12.01	13.70	12.77	10.92	6.28	7.30	8.79	8.43	9.48	9.25	7.44	6.25	3.92
Nairobi Income \1	16.42	17.02	18.80	17.33	13.58	2.73	7.39	9.46	21.85	25.61	23.32	17.43	14.41	11.93
Rest of Urban Towns	12.36	12.32	14.25	13.16	10.86	4.35	5.19	6.35	11.21	14.45	16.38	13.15	12.21	10.28

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

Source: Central Bureau of Statistics and Central Bank of Kenya

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



Source: Central Bureau of Statistics

The highest inflation was in the “Nairobi lower income” group whose inflation declined to 13.7 percent in June 2006, compared with 16.0 percent in May 2006. This income group has been the hardest hit on account of spending a high proportion of its income on food and non-alcoholic drinks (Table 1.3).

On the other hand, the "Nairobi middle/upper income" group has been experiencing the lowest inflation among the four income groups because households in this category spend a smaller proportion of their income on food and non-alcoholic drinks.

Inflation Across Goods and Services Categories

Four of the ten categories of goods and services experienced a decline in month-on-month inflation in June 2006. Although inflation increased for six categories, it remained below 10 percent for all the six categories.

Table 1.3 provides detailed information on inflation developments across all the ten categories of goods and services that comprise the Kenya CPI, the overall weights attached to each as well as weights across the income groups.

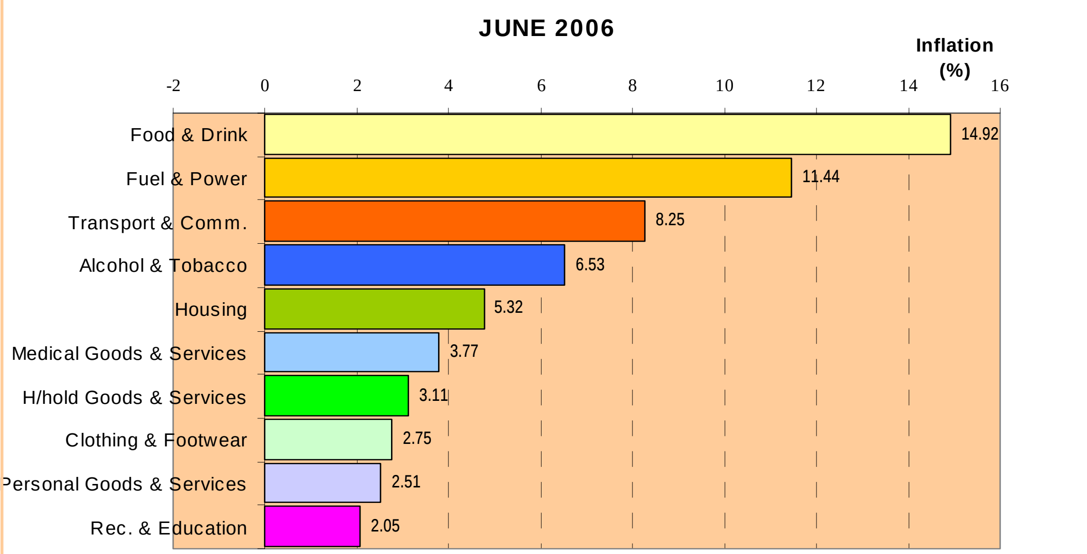
TABLE 1.3: 12-MONTH INFLATION ACROSS BASKET ITEMS - DECEMBER 05 TO JUNE 06

	Income Groups*				12-MONTH INFLATION						
Goods and Services	Nairobi Lower	Middle/Upper	Rest of Urban Towns	Combined weights	2005	2006					
Weight	*(31.9)*	*(8.0)*	*(60.1)*	*(100)*	December	January	February	March	April	May	June
Food and drink	55.70	31.90	50.20	50.50	8.76	22.62	28.62	29.01	21.66	18.91	14.92
Housing	11.90	31.70	9.00	11.70	5.50	3.86	3.86	3.80	4.47	3.40	4.77
Recr & education	4.60	7.30	6.60	6.00	4.30	3.22	3.59	2.97	2.88	2.00	2.05
H/hold goods & services	5.00	4.70	6.40	5.80	4.69	4.09	3.72	3.43	2.86	2.64	3.11
Clothing & footwear	9.20	7.40	9.10	9.00	3.12	2.42	1.98	2.03	1.52	1.56	2.75
Transport & comm	5.10	10.20	5.50	5.70	6.49	6.98	6.37	6.29	6.38	5.37	8.25
Fuel & Power	3.50	2.20	4.80	4.20	11.23	13.12	13.20	12.62	10.98	12.28	11.44
Medical goods & services	0.90	1.30	2.00	1.60	5.34	4.52	5.17	5.23	4.21	5.32	3.77
Personal goods & services	2.30	1.90	2.60	2.40	4.01	3.21	3.23	2.99	2.82	2.41	2.51
Alcohol & Tobacco	1.80	1.40	3.80	3.00	9.19	9.86	9.65	10.20	8.78	8.68	6.53

* Numbers in parentheses are income group weights

Source: Central Bureau of Statistics

CHART 1C: BASKET WEIGHTS ACROSS INCOME GROUPS AND 12-MONTH INFLATION



Source: Central Bureau of Statistics

Food and non-alcoholic drinks inflation continued to decline and by the end of June 2006, month-on-month inflation in this category had fallen to 14.9 percent from a high of 29.0 percent in March 2006, and from 18.9 percent in May 2006. Despite the decline in food inflation, the category continued to experience the highest inflation, in excess of 10 percent since January 2006. The other category whose inflation has been high is fuel and power whose inflation has exceeded 10 percent since August 2004. However, in June 2006, fuel and power inflation declined to 11.4 percent, from 12.3 percent in May 2006.

Other categories whose inflation declined in June 2006 were “alcohol and tobacco” with 6.5 percent , down from 8.7 percent in May 2006, and “medical goods and services” with 3.8 percent, from 5.3 percent in the previous month. Categories that experienced higher inflation in June 2006 were housing at 4.8 percent from 3.4 percent, clothing and footwear at 2.8 percent from 1.6 percent and recreation and education at 2.1 percent from 2.0 percent in May 2006. Others are household goods and services at 3.1 percent from 2.6 percent in May 2006, transport and communications at 8.3 percent from 5.4 percent and personal goods and services at 2.5 percent from 2.4 percent in May 2006.

Inflation Outlook

- Inflation is expected to decline further with decline in food inflation.

- Implementation of prudent monetary policy by the CBK is expected to contribute to low and stable underlying inflation.

- The recent increase in fuel prices following the Budget Speech 2006/07 will exert upward pressure on overall inflation but due to the low weights given to “fuel and Power” and “transport and communications” indices in the overall CPI, the inflationary impact is expected to be offset by the expected decline in “food and non-alcoholic drink” index due to the high weight given to the later.

- Oil prices in the world market are a major concern to the CBK because of their inflationary impact and any further increases will impact negatively on domestic inflation.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Money supply, M3, grew by 15.9 percent in the year to May 2006 compared with 11.1 percent a year ago. The expansion was a slowdown from 16.8 percent in April 2006, but was above the target for the June quarter by 5.9 percentage points. Broad money, M2, that is, M3 excluding foreign currency deposits, grew at 16.8 percent compared with 8.8 percent a year earlier and 17.0 percent in April 2006 as shown in Table 2.1 and Chart 2A.

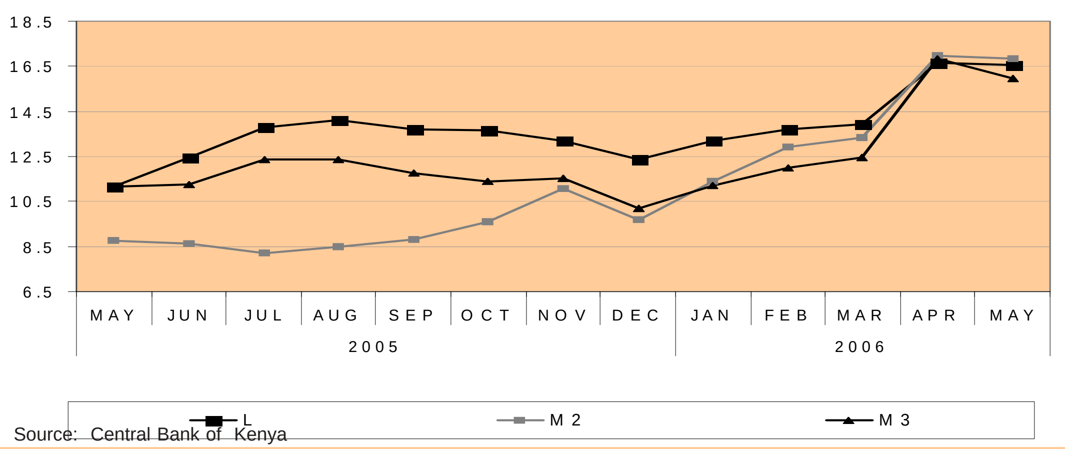
TABLE 2.1: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

Monetary	2005				2006			
Aggregates	May	Jun	Sep	Dec	Jan	Mar	Apr	May
M2	8.8	8.6	8.8	9.7	11.4	13.3	17.0	16.8
M3	11.1	11.3	11.8	10.2	11.2	12.5	16.8	15.9
L*	11.1	12.4	13.7	12.4	13.2	13.9	16.7	16.5

* Overall liquidity: M3 + non-bank public holdings of Government securities

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The increase in M3 was supported by increased net foreign assets (NFA) and net domestic assets (NDA) of the banking system. NFA expanded by 28.8 percent in the year to May 2006 compared with 24.3 percent a year earlier on account of a surplus in the capital and financial account of the balance of payments (Table 2.2). As a result, NFA of the banking system accounted for 8.1 percent of the expansion in M3 compared with 6.0 percent in May 2005.

Meanwhile, the NDA of the banking system increased by 10.9 percent compared with 6.7 percent a year ago. The expansion in NDA of the banking system mainly reflected increased credit to Government by 1.9 percent in the year to May 2006 compared with a 12.6 percent decline in a similar period in 2005. NDA accounted for 7.8 percent of the expansion in M3 compared with 5.0 percent in May 2005 as shown in Table 2.3.

TABLE 2.2: MONEY SUPPLY AND ITS SOURCES (Ksh billion)

	2004 May	2005 May	2006 May	2005 12 months %age change	2006 12 months %age change
1. Money Supply, M3 (2+3) 2/	**468.6**	**520.8**	**603.9**	**11.1**	**15.9**
1.1 Money supply, M2 3/	402.3	437.5	511.2	8.8	16.8
1.2 Money supply, M1	191.3	208.0	253.5	8.8	21.9
1.3 Currency outside banks	54.4	58.2	62.3	7.0	7.1
2. Net Foreign Assets 4/	**118.1**	**146.8**	**189.0**	**24.3**	**28.8**
Central Bank	83.9	92.3	143.8	10.0	55.8
Banking Institutions	34.1	54.5	45.2	59.6	-17.0
3. Net Domestic Assets (3.1+3.2)	**350.5**	**374.0**	**414.9**	**6.7**	**10.9**
3.1 Domestic Credit (3.1.1+3.1.2)	**424.4**	**474.0**	**524.5**	**11.7**	**10.7**
3.1.1 Government (net)	136.6	119.4	121.7	-12.6	1.9
3.1.2 Private sector and other public sector	287.8	354.6	402.8	23.2	13.6
3.2 Other Assets Net (3-3.1)	-73.8	-100.0	-109.7	35.4	9.7
Memorandum items					
1. Overall Liquidity, L 1/					
2. Reserve Money	**89.7**	**93.4**	**102.5**	**4.1**	**9.7**
Currency outside banks	54.4	58.2	62.3	7.0	7.1
Bank reserves	35.3	35.2	40.1	-0.4	14.0

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

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. Is comparable to M3X in the past publications.

3/ Broad money, M2, comprises currency outside banking institutions, and all private and other public sector holdings of demand savings and time deposits. It excludes central and local Government deposits with banking institutions. Is comparable to M3 in the past publications.

4/ NFA at constant exchange rate of shs 78.95 to the US dollar (Sept. 30th, 2001).

Source: Central Bank of Kenya

TABLE 2.3: CONTRIBUTION TO M3 GROWTH (%)

	2005				2006			
	May	Jun	Sep	Dec	Feb	Mar	Apr	May
Annual growth in M3	**11.1**	**11.0**	**11.3**	**10.2**	**12.0**	**12.5**	**16.8**	**15.9**
Net Foreign Assets	**6.1**	**5.0**	**6.1**	**7.4**	**7.7**	**6.5**	**8.1**	**8.1**
Net Domestic Assets	**5.0**	**6.0**	**2.9**	**2.8**	**4.3**	**6.0**	**8.7**	**7.8**
Domestic Credit	**10.6**	**10.7**	**5.4**	**4.9**	**6.6**	**8.2**	**-2.9**	**9.7**
Government (net)	-3.7	-2.1	-5.1	-2.0	-1.4	-0.2	-3.2	0.4
Rest of Economy	14.3	12.8	10.5	6.9	8.0	8.4	0.3	9.3
Other public sector	0.5	0.2	-0.1	0.2	0.5	0.1	0.3	0.3
Private Sector	13.7	12.6	10.6	6.7	7.6	8.3	9.8	9.0
Other items (net)	**-5.6**	**-4.7**	**-2.5**	**-2.1**	**-2.3**	**-2.3**	**-2.9**	**-1.9**

Source: Central Bank of Kenya

Credit Developments

Domestic credit from the banking system grew by 10.7 percent in the year to May 2006 compared with 11.7 percent a year earlier. The slowdown was on account of decelerated growth in private sector credit to 13.6 percent in May 2006 from 23.2 percent in May 2005. However, the share of private sector credit to total domestic credit increased to 74.4 percent from 72.5 percent a year ago while the Government share of the total domestic credit declined to 23.2 percent from 25.5 percent.

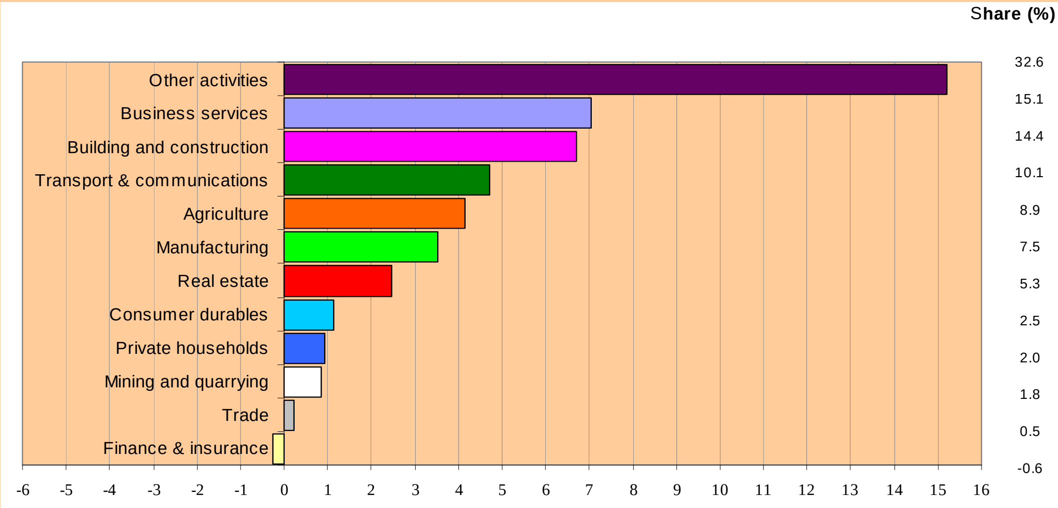
Most of the private sector credit expansion was to mining and quarry (38.3 percent), Building and construction (29.3 percent), business services (21.7 percent), and Agriculture (14.3 percent) as shown in Table 2.4. Loans to other activities, business services, building and construction, transport and communications, agriculture and manufacturing accounted for over 80 percent of the overall credit to private sector expansion in 2005 as shown in Chart 2B.

TABLE 2.4: BANKING SYSTEM NET DOMESTIC CREDIT

	2005 May		2006 May		Annual % Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2004/2005	2005/2006
1. Credit to Government	**119.4**	**25.2**	**121.7**	**23.2**	**-12.6**	**1.9**
Central Bank	15.6	3.3	-1.0	-0.2	-14.9	-106.4
Commercial Banks & NBFIs	103.9	21.9	122.7	23.4	-12.2	18.2
2. Credit to other public sector	**10.8**	**2.3**	**12.3**	**2.4**	**29.9**	**14.1**
Local government	-0.8	-0.2	-1.8	-0.3	-9.9	115.5
Parastatals	11.7	2.5	14.2	2.7	25.9	21.4
3. Credit to private sector	**343.8**	**72.5**	**390.5**	**74.4**	**23.0**	**13.6**
Agriculture	29.0	6.1	33.1	6.3	9.9	14.3
Manufacturing	65.3	13.8	68.8	13.1	24.8	5.4
Trade	54.2	11.4	54.4	10.4	9.5	0.4
Building and construction	22.9	4.8	29.6	5.6	17.8	29.3
Transport & communications	26.2	5.5	30.9	5.9	41.2	18.0
Finance & insurance	29.8	6.3	29.5	5.6	26.3	-0.9
Real estate	23.0	4.8	25.5	4.9	12.8	10.8
Mining and quarrying	2.2	0.5	3.0	0.6	24.1	38.3
Private households	46.2	9.7	47.1	9.0	61.6	2.0
Consumer durables	10.4	2.2	11.5	2.2	53.1	11.0
Business services	32.4	6.8	39.5	7.5	53.4	21.7
Other activities	2.2	0.5	17.4	3.3	-79.9	686.6
4. TOTAL (1+2+3) *	**474.0**	**100.0**	**524.5**	**100.0**	**11.7**	**10.7**

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

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO MAY 2006 (Ksh billion)



Source: Central Bank of Kenya

Reserve Money

Reserve money increased by Ksh 11.1 billion or 11.9 percent in the year to May 2006 compared with Ksh 3.7 billion or 4.1 per cent in a similar period in 2005. Of the Ksh 11.1 billion increase, deposits of commercial banks accounted for 38.9 percent increasing by Ksh 4.3 billion to Ksh 31.0 billion in May 2006 while currency in circulation accounted for 61.1 percent, increasing by Ksh 6.8 billion to Ksh 73.5 billion. Average reserve money in May 2006 at Ksh 104.6 billion was Ksh 4.2 billion above target.

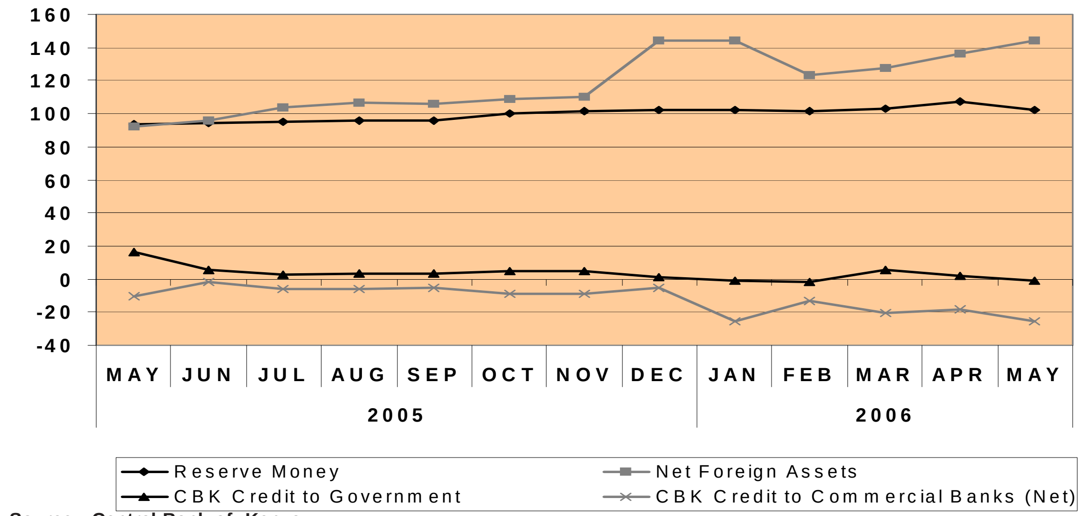
Net foreign assets (NFA) of the Central Bank supported the increase in reserve money in the year to May 2006 as net domestic assets (NDA) declined.

TABLE 2.5: RESERVE MONEY AND ITS SOURCES (Ksh. billion)

	2005 May	2006 May	Change Absolute	2006 May Target	Deviation
1. Net Foreign Assets	92.3	143.8	51.5	108.4	35.4
2. Net Domestic Assets	1.3	-41.3	-42.7	-8.0	-33.3
2.1 Government Borrowing (net)	15.6	-1.0	-16.6	6.4	-7.4
2.2 Advances & Discounts	-10.3	-25.8	-15.5	-9.6	-16.2
2.3 Other Domestic Assets (net)	-4.0	-14.6	-10.6	-4.8	-9.8
3. Reserve Money	93.6	102.5	8.8	100.4	2.1
3.1 Currency outside banks	58.0	62.3	4.3	62.0	0.3
3.2 Bank reserves	35.6	40.1	4.5	38.4	1.7

Source: Central Bank of Kenya

CHART 2C: TRENDS IN RESERVE MONEY Ksh billion)



Source: Central Bank of Kenya

NFA increased by Ksh 51.5 billion to Ksh 143.8 billion in May 2006 from Ksh 92.3 billion in May 2005 (Table 2.5 and Chart 2C). The annual growth in NFA reflected purchases made by the Central Bank to build up reserves to the statutory 4.0 months of import cover in addition to inflows for budgetary support from bilateral institutions. In May 2005, usable NFA of the Central Bank averaged Ksh 138.9 billion well above the target floor by Ksh 34.0 billion.

Meanwhile, NDA of the Central Bank declined by Ksh 42.7 billion to Ksh –41.3 billion in May 2006 from Ksh 1.3 billion in May 2005 due to build up in Government deposits at the Central Bank and increased Mop up by the Bank's Open Market Operations.

Government deposits at the Central Bank increased by Ksh 13.4 billion to Ksh 44.1 billion in May 2006 from Ksh 30.7 billion in May 2005 while Government borrowing from the Central Bank declined by Ksh 2.6 billion to Ksh 43.7 billion in May 2006. As a result, Government borrowing on a net basis declined to Ksh –1.0 billion in May 2006 from Ksh 15.6 billion in May 2005.

At the same time, net indebtedness of Central Bank to commercial banks increased by Ksh 15.5 billion in the twelve months to May 2006 to Ksh 25.8 billion from Ksh 10.3 billion in May 2005 due to increased mop up by the Central Banks through open market operations.

Interest Rates

Short-term interest rates were lower in June 2006 compared with May 2006. The average 91-day Treasury bill rate declined to 6.60 percent, in June 2006 from 7.01 percent in May 2006. Similarly, the average 182-day Treasury bill rate fell to 7.32 percent in June 2006, from 7.48 percent in the previous month.

The average interbank rate declined to 6.41 percent in June 2006 from 8.12 percent in May 2006, reflecting the high liquidity in the interbank market. The high interbank rate in May 2006 reflected the tight liquidity conditions in the the interbank market following the initial public share offer (IPO) by the Kenya Electricity Generation Company (KenGen). The application terms required prospective investors to pay upfront for the shares and this ended up drying up liquidity in most banks. Banks facing liquidity shortfall resorted to interbank borrowing thereby pushing up the interbank rate.

Table 2.6 provides a summary of various interest rates for selected months in 2005 and 2006 while chart 2D depicts trends in domestic interest rates.

TABLE 2.6: INTEREST RATES *(%)*

	2005				2006					
	Feb	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	**June
Treasury bill rate*	8.59	8.19	7.84	8.07	8.23	8.02	7.60	7.02	7.01	**6.60**
Overdraft rate	13.82	13.57	13.33	13.67	13.81	13.34	13.26	13.81	14.02	
Interbank rate	8.14	7.98	7.64	7.79	7.78	7.73	7.52	6.97	8.12	**6.41**
Average lending rate (1)	12.35	12.97	12.93	13.16	13.20	13.27	13.33	13.51	13.95	
Average deposit rate (2)	3.47	4.43	4.50	4.52	4.48	4.48	4.33	4.35	4.36	
0 to 3 - month deposit	4.24	5.55	5.49	5.61	5.61	5.49	5.74	5.28	5.04	
Savings deposits	0.96	1.32	1.37	1.38	1.33	1.36	1.34	1.33	1.31	
Spread (1-2)	8.88	8.54	8.43	8.64	8.72	8.78	9.05	9.17	9.59	

* 91-Day Treasury bill rate

** Lending and deposit rates not available for June 2006

Source: Central Bank of Kenya

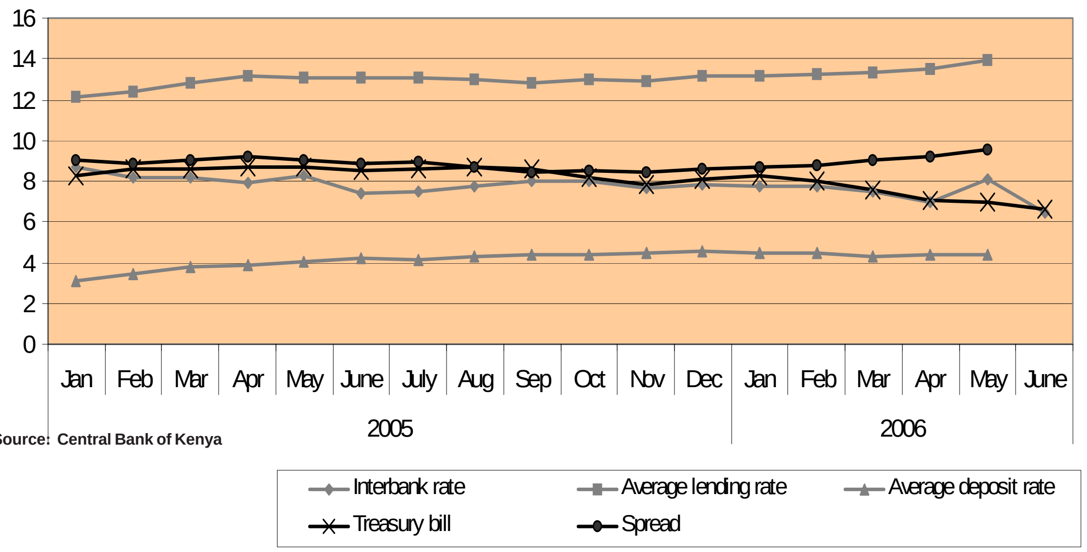
Lending Rates

The overall lending rate increased to 13.95 percent in May 2006 from 13.51 percent in the previous month. The increase in the overall lending rate in May 2006 reflected the increase in the overdraft rate which averaged 14.0 percent compared with 13.8 percent in April 2006. Also on the rise was the “1 to 5 year” lending rate which increased to 15.5 percent in May 2006, from 14.2 percent in April 2006. However, the “over 5 year” lending rate declined to 12.3 percent, from 12.6 percent the previous month. The decline in “over 5 year” lending rate in May 2006 was more than off set by the increase in the other lending rates – the overdraft rate and the “1 to 5 year” lending rate so that the net effect implied a higher overall lending rate.

Despite the increase in the overall lending rate in May 2006, it still remained closer to monthly average lending rates obtainable in the last two years as indicated in Table 2.6. Since January 2005, the average lending rate has attained a low of 12.12 percent and a high of 13.95 percent thus indicating relative stability as the lending rate varied within narrow margins.

The stability in the overall lending rate between January 2005 and May 2006 is consistent with the stability in the lending rates that comprise the overall lending rate, namely, the overdraft rate, the “1 to 5 year” lending rate and the “over 5 year” lending rate. Between January 2005 and May 2006 the overdraft rate attained a high of 14.0 percent and a low of 13.1 percent, while the “1 to 5 year” lending rate attained a high of 15.5 percent and a low of 12.5 percent. During the same period, the “over 5 year” lending rate attained a high of 12.6 percent and a low of 10.7 percent.

CHART 2D : TRENDS IN INTEREST RATES (%)



Source: Central Bank of Kenya

Commercial banks lending and deposit rates are not available for June 2006

Deposit Rates

The average deposit rate increased to 4.36 percent in May 2006, from 4.35 percent in April 2006. The average deposit rate has been on an upward trend since January 2005 which has seen it climb from 3.08 percent in January 2005 to 4.05 percent in May 2006.

Regarding the individual deposit rates, demand and savings deposits continued to attract the lowest deposit rates while deposits of maturities of “0 to 3 months” and “over 3 Months” attracted relatively higher deposit rates. Movements in the various deposit rates were mixed in May 2006.

The demand deposit rate increased to 1.23 percent in May 2006, from 0.97 percent in the previous month. Over the same period, the “over 3 months” deposit rate increased to 6.73 percent from 6.43 percent. On the decline was the "0 to 3 months" deposit rate which declined to 5.04 percent from 5.28 percent in April 2006. Interest rate on savings deposits declined to 1.31 percent in May 2006 from 1.33 percent in the previous month.

Interest Rate Spread

Following the increase in the overall lending rate since January 2006, the interest rate spread has continued to widen. By the end of May 2006, the spread had widened to 9.59 percent from 8.72 percent in January 2006.

Interest Rates Outlook

Domestic interest rates are expected to remain stable in view of:

(i) The expected decline in overall inflation.

(ii) The continued implementation of monetary policy that ensures carefully programmed growth in money supply

(iii) The fact that short term interest rates have been low and stable; and

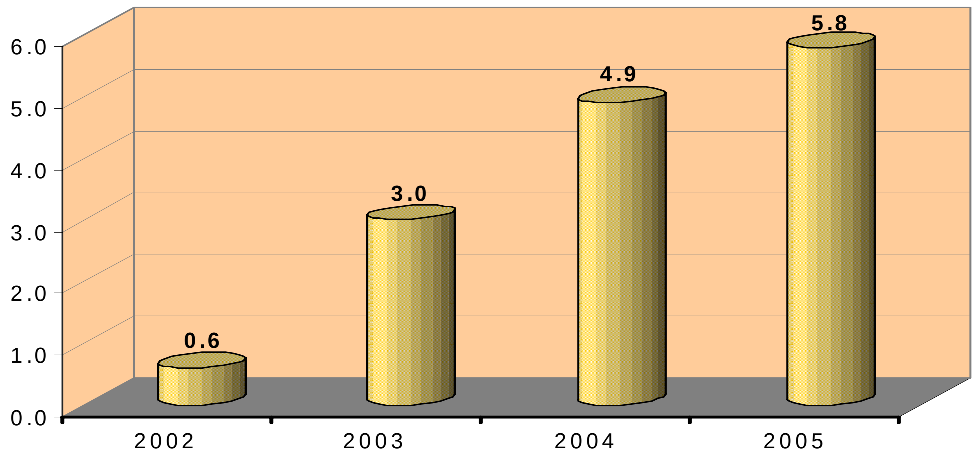
(iv) Implementation of prudent fiscal policy.

Performance of The Real Sector

Overview

Following improved performance in various sectors of the economy particularly tourism, agriculture, transport and communication, and construction, the economy grew by 5.8 percent in 2005 compared with 4.9 percent in 2004. The growth momentum is expected to be sustained with growth projection of 5.8 percent in 2006/07 (Chart 3A, Tables 3.1 and 3.2).

CHART 3A: REAL GDP GROWTH RATES, 2002 - 2005



Source: Economic Survey 2006 and Central Bank of Kenya

TABLE 3.1: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

MAIN SECTORS	Share in Real GDP (%) 2005	Ksh million 2002	2003	2004	2005
Agriculture,Forestry & Fishing	24.20	274,308	281,077	285,905	305,226
Manufacturing	10.50	99,894	105,891	110,617	116,157
Wholesale and retail trade, repairs	10.80	91,233	92,805	100,655	107,155
Hotels & Restaurants	1.40	12,428	9,903	13,747	15,581
Financial Services	3.10	41,443	42,064	42,657	46,111
Construction	4.00	31,218	31,538	32,790	35,143
Transport, Storage & Communications	10.90	101,408	105,091	112,126	121,479
Government	14.40	136,242	143,577	146,110	146,562
Others of which	11.40	125,278	130,608	134,482	137,181
Domestic Services	*0.40*	*3,780*	*3,855*	*3,932*	*4,011*
Real estate, renting & Business service	*5.60*	*60,452*	*61,864*	*63,740*	*65,882*
Other-Financial services indirectly measured	*-0.80*	*-10,665*	*-10,315*	*-10,801*	*-11,798*
Electricity & Water supply	*2.00*	*23,749*	*27,074*	*27,895*	*27,924*
Mining & Quarrying	*0.50*	*5,036*	*5,213*	*5,326*	*5,469*
Community,social & personal services	*3.70*	*42,926*	*42,917*	*44,390*	*45,693*
Total GDP at basic 2001prices	90.70	913,451	942,554	979,090	1,030,597
Taxes less subsidies on products	8.80	112,403	113,900	128,626	141,493
Real GDP at 2001 market prices	100.00	1,025,854	1,056,454	1,107,715	1,172,090
GDP at Mkt Prices		1,022,208	1,136,288	1,282,504	1,415,155
Overall GDP Deflator		100	108	116	121

Source: Central Bureau of Statistics

TABLE 3.2 GROWTH RATES IN REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES (%)

	Share in Real GDP in 2005	2002	2003	2004	2005**
Agriculture,Forestry & Fishing	24.20	-3.0	2.5	1.7	6.8
Manufacturing	10.50	0.1	6.0	4.5	5.0
Wholesale and retail trade, repairs	10.80	-2.5	1.2	9.5	10.5
Hotels & Restaurants	1.40	4.7	-20.3	15.1	16.1
Financial Services	3.10	-1.6	1.5	1.4	8.1
Building & Construction	4.00	-1.9	1.0	4.0	7.2
Transport & Communications	10.90	9.1	3.6	6.7	8.3
Government	14.40	0.3	2.6	1.8	2.8
Others	11.40	1.4	4.3	2.6	3.6
Domestic Services	*0.40*	2.0	2.0	2.0	2.0
Real estate, renting & Business service	*5.60*	3.0	2.3	3.0	3.4
Other-Financial services indirectly measured	*-0.80*	-9.4	-3.3	4.7	9.2
Electricity & Water supply	*2.00*	20.7	14.0	3.0	0.1
Mining & Quarrying	*0.50*	2.5	3.5	2.2	2.7
Community,social & personal services	*3.70*	2.7	-0.0	3.4	2.9
Real GDP Growth		0.6	3.0	4.9	5.8

Source: Central Bureau of Statistics

Agriculture

The agriculture sector production particularly tea, horticulture, and coffee slowed down in the first four months of 2006. However, the sector is slowly recovering from the adverse effects of drought with production of key crops like coffee, tea, sugarcane and dairy products increasing in April 2006 compared with April 2005.

Performance of tea, horticulture, coffee and sugar sectors in January to April 2006 is shown in Table 3.3 below.

TABLE 3.3: OUTPUT GROWTH OF MAJOR CROPS

Crop	2004	2005	Jan - April 2005	Jan - April 2006
Tea				
Output (ton)	324,579	328,503	113,917	79,836
Output growth (%)	10.54%	1.21%	-3.07%	29.92%
Horticulture				
Output (ton)	145,637	163,156	61,473	58,952
Output growth (%)	24.63%	12.03%	16.23%	-4.10%
Coffee				
Output (ton)	49,926	47,650	27,023	24,515
Output growth (%)	-18.45%	-4.56%	13.43%	-9.28%
Sugar Cane				
Output (ton)	4,654,027	4,693,292	1,619,985	1,799,418
Output growth (%)	11.22%	22.12%	-2.01%	11.08%

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

Tea

Tea output for January-April 2006 period, at 79,836 tonnes, was 29.9 percent below the 113,917 tonnes delivered in the same period last year (Table 3.3). However, tea production is improving following the long rains with output increasing by 4.5 percent in April 2006 to 30,422 tonnes from 29,115 tonnes in April 2005. In January to April 2006, Kenya's tea was mainly exported to Pakistan, Egypt, and the UK whose share of total tea exports was 30.8 percent, 22.2 percent and 15.0 percent, respectively, as shown in table 3.4.

TABLE 3.4: TEA EXPORTS BY DESTINATION (KGS)

	Jan-April 2005	Jan-April 2006	% share Jan-April 05	% share Jan-April 2006	Growth in Jan - April 2006
Pakistan	32,500,000	24,618,954	27.80	30.84	98,277,295
Egypt	26,700,000	17,731,194	22.84	22.21	77,834,094
UK	18,500,000	11,976,569	15.83	15.00	53,470,739
Afghanistan	7,400,000	3,868,007	6.33	4.84	21,282,623
Sudan	5,200,000	2,809,682	4.45	3.52	21,170,835
Others	26,600,000	14,866,661	22.75	18.62	77,420,835
Total exports	116,900,000	79,836,331	100	100	349,456,421

Source: Tea Board of Kenya

Horticulture

In the horticultural sector, output dropped by 4.1 percent from 61,473 tonnes in January to April 2005 to 58,952 tonnes in January to April 2006 (Table 3.3). Fruits and vegetables production declined by 22.9 percent and 4.6 percent, respectively, in the period while deliveries of cut flowers increased by 0.2 percent in the first four months of 2006.

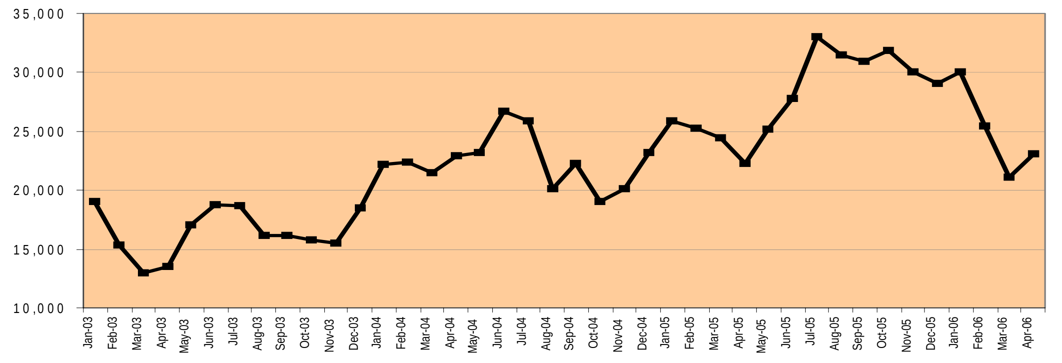
Coffee

Coffee production in the first four months of 2006 declined by 9.3 percent to 24,515 metric tonnes from 27,023 tonnes delivered in a similar period of 2005. Average prices of coffee, however, improved to US$3,002 per tonne in April 2006 from US$ 2,685 per tonne in April 2005.

Dairy

Milk deliveries in the formal dairy sector increased by 2.0 percent in the first four months of 2006 to 99,698,560 litres compared with 97,757,850 litres produced in a similar period last year. Milk production in April 2006 rose to 23,122,622 litres from 22,230,448 litres in April 2005. This indicates that the sector has overcome the adverse effects of drought experienced early in the year.

CHART 3B: MILK PRODUCTION BY FORMAL DAIRY SECTOR



Source: Dairy Board of Kenya

Manufacturing The manufacturing sector grew by 5 percent in 2005 compared with 4.5 percent in 2004 on account of stable macroeconomic conditions, improved access to credit and increased exports, particularly to the EAC and COMESA markets. In the Jan-April 2006 period, the sector recorded mixed performance in the production of selected manufactured goods. Beer and cigarettes production increased by 8.5 percent and 12.8 percent respectively, while production of soda ash declined by 4.1 percent during this period. Milk and sugar production on the other hand, increased by 2.0 percent and 6.2 percent, respectively, as shown in Table 3.5.

TABLE 3.5: PRODUCTION OF SELECTED MANUFACTURED GOODS

PRODUCT	2003	2004	2005	Jan-April 2005	Jan-April 2006
Processed sugar					
Output (MT)	448,208	516,395	491,001	174,102	184,801
Output Growth %	(8.4)	15.21	(5.0)	(7.3)	6.2
Cement production					
Output (MT)	1,658,073	1,789,102	2,123,256	502,844	N/A
Output Growth %	7.9	7.9	18.4		
Soda ash					
Output (MT)	352,560	355,380	364,301	120,281	115,320
Output Growth %	15.9	0.8	2.5	4.7	(4.1)
Milk					
Output ('000 litres)	197,278	269,591	336,979	97,758	99,699
Output Growth %	37.40	36.70	25.0	9.8	2.0
Beer					
Output ('000 litres)	194,233	259,486	286,419	83,866	91,029
Output Growth %	0.51	33.59	11.3	23.1	8.5
Cigarettes					
Output (Milles)	8,460,761	8,976,834	10,962,727	3,491	3,937
Output Growth %	24.5	6.1	22.1	22.4	12.8

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

NA = Not Available

With the gradual reduction in tariffs in the East African Community following the adoption of the customs union and the reconstruction underway in Southern Sudan, the growth momentum in the manufacturing sector is expected to accelerate in 2006. Elimination of 118 licenses and removal of duties on selected imported inputs as proposed in the budget speech, 2006/07 will boost growth in the sector.

Energy Sector During the first four months of 2006, electricity generation increased by 5.6 percent to 1,876.8 million kilowatt hours (KWH) from 1,776.7 million KWH over the same period last year. In tandem with increased economic activity, consumption of electricity grew by 5.3 percent to 1,540.2 million KWH during the period.

Hydropower, comprising 51.4 percent of total electricity generation in the first four months of 2006, decreased by 2.4 percent while thermal generation, with a 29.8 percent share, increased by 24.9 percent. Geothermal generation, with 18.7 percent of the total supply in the period rose by 3.6 percent. In the crude oil sector, combined demand pressure and static supplies on international crude oil market saw crude oil prices rise to US Dollar 67.5 per barrel in April 2006 from US Dollar 60.9 in March 2006. The price volatility reflects the sporadic supply and OPEC policy to prevent price drop. At the local level, the removal of road license and the transfer of the charge to road maintenance levy at an additional cost of Ksh 3.20 per litre triggered rise in fuel prices.

Tourism

Tourism sector remained buoyant in the first four months of 2006 as stepped up marketing and improved security resulted to increased tourist arrivals. As shown in table 3.6, tourist arrivals increased by 16.2 percent to 306,340 visitors in the January-April 2006 period compared with 263,726 visitors in a similar period of last year. Tourist arrivals at the Moi International Airport, Mombasa grew by 29.8 percent to 100,675 visitors in January to April 2006 compared with 77,554 visitors in a similar period of 2005. Arrivals through Jomo Kenyatta International Airport rose by 11.2 percent to 203,077 visitors from 182,691 visitors while those by cruise ships declined by 25.7 percent from 3,481 visitors to 2,588 visitors during the period.

TABLE 3.6: TOURIST ARRIVALS

	2004	2005	Growth rate %	Jan - April 2005	Jan - April 2006	Growth rate %
CRUISE	4,168	4,680	12.3	3,481	2,588	(25.7)
MIAM	187,424	214,476	14.4	77,554	100,675	29.8
JKIA	476,542	614,068	28.9	182,691	203,077	11.2
TOTAL	**668,134**	**833,224**	**24.7**	**263,726**	**306,340**	**16.2**

Cruise ships -- Entry through port of Mombasa

JKIA -- Entry through Jomo Kenyatta International Airport

MIAM -- Entry through Moi International Airport Mombasa

During the period under review, visitor arrivals from Europe increased by 20.1 percent and accounted for 60.6 percent of total tourist arrivals as shown in table 3.7 below. At the same time, tourist arrivals from Africa increased by 9.6 percent with a market share of 18.2 percent while the Americas, with a market share of 10.0 percent, increased by 17.7 percent.

TABLE 3.7: TOURIST ARRIVALS BY CONTINENT

REGION	2004	2005	Jan-April 2005	Jan-April 2006	% Change	% Share Jan to April 2005	% Share Jan to April 2006
AFRICA	137,347	161,304	50,919	55,825	9.6%	19.31	18.22
AMERICA	69,904	93,902	26,023	30,641	17.7%	9.87	10.00
ASIA	65,183	86,005	25,774	27,745	7.6%	9.77	9.06
EUROPE	380,727	473,637	154,428	185,527	20.1%	58.56	60.56
OCEANIC	9,015	13,682	3,098	4,014	29.6%	1.17	1.31
OTHERS	1,790	14	1	0	-100.0%	0.00	-
TOTAL	**663,966**	**828,544**	**260,243**	**303,752**	**16.7%**	**98.68**	**99.16**
CRUISE	**4,168**	**4,680**	**3,483**	**2,588**	**-25.7%**	**1.32**	**0.84**
TOTAL + CRUISE	**668,134**	**833,224**	**263,726**	**306,340**	**16.2%**	**100.00**	**100.00**

Source: Kenya Tourism Board

Transport

In the transport sector, registration of new motor vehicles increased by 11.7 percent in the first four months of 2006 as shown in Table 3.8. The volume of petroleum products transported by the Kenya Pipeline Company (KPC) grew by 4.3 percent to 1,225,381 million cubic metres in the Jan-April 2006 period. Cargo handled by the Kenya Railways grew by 10.2 percent to 631,619 metric tonnes compared to a decline of 14.9 percent in a similar period in 2005.

TABLE 3.8: NEW MOTOR VEHICLES REGISTRATION

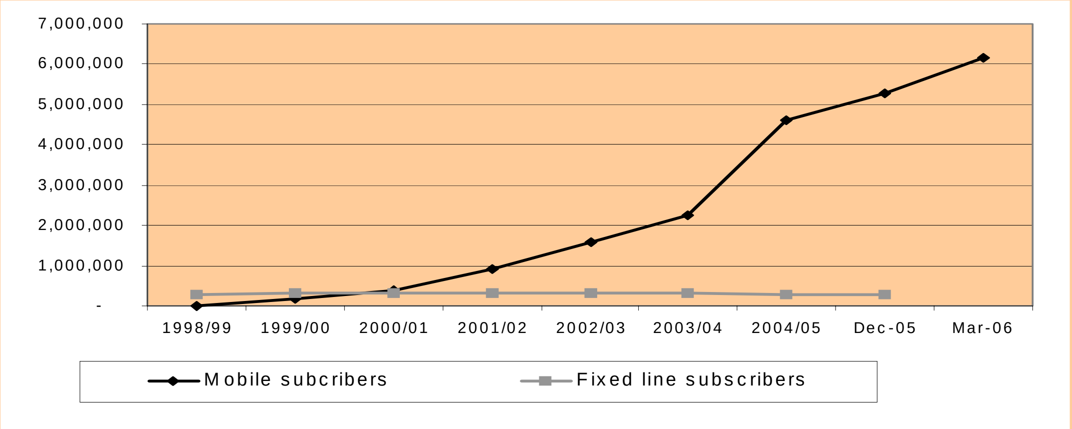
	2005	Growth 2005	Jan-April 2005	Jan-April 2006	Jan-April 2006 growth rate (%)
Type					
Saloons	14,214	12.6%	4,630	4,849	4.7%
St,Wagons	10,158	14.6%	3,078	3,568	15.9%
Vans, P/ups	6,308	-10.4%	2,024	2,245	10.9%
M/Buses	4,076	-7.5%	1,361	1,324	-2.7%
Buses	885	1.5%	227	315	38.8%
Lorries	3,113	26.5%	811	954	17.6%
Trailers	1,351	21.5%	407	505	24.1%
Motor cycles	3,759	-9.1%	1,220	1,483	21.6%
3 Wheelers	735	448.5%	205	253	23.4%
Wheeled tractors	856	3.3%	307	286	-6.8%
Others	198	30.3%	62	232	274.2%
Total	45,653	7.1%	14,332	16,014	11.7%

Source: Central Bureau of Statistics

Tele-communications

The telecommunications sector maintained strong performance with mobile telephone subscribers rising to 6,142,766 in March 2006 from 5,263,916 in December 2005. Over the period June 2005 to December 2005, fixed lines increased from 281,764 to 286,729 (Chart 3C).

CHART 3C: GROWTH OF FIXED AND MOBILE TELEPHONE NETWORKS, 1998 - 2006



Source: Communication Commission of Kenya

Building & Construction Industry

The construction sector improved in 2005 with cement consumption increasing by 10.9 percent from 1,418,300 metric tonnes in 2004 to 1,572,500 metric tonnes in 2005. Increased budgetary allocation to road sub-sector and tax incentives contained in the fiscal year 2006/07 budget, such as, making cost of constructing selected buildings income tax deductible and industrial building allowance of 10 percent for educational building will increase economic activity in the building and construction sector. However, the re-introduced taxation on capital gains on transfer of property other than road vehicles and marketable securities is likely to slow down the sector's performance.

DEVELOPMENTS IN BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

The overall balance of payments surplus improved by US$582 million, to US$ 619 million in the year to March 2006 as shown in Table 4.1. This improvement follows US$ 1090 million increase in the capital and financial account surplus, which more than offset the US$ 508 million deterioration in the current account deficit.

TABLE 4.1: BALANCE OF PAYMENTS (US$ MILLION)*

ITEM	Year to Mar 2005	Year to March 2006				Year to Mar 2006**	Absolute Change
		Q1 Apr-Jun	Q2 Jul-Sep	Q3 Oct-Dec	Q4 Jan-Mar**		
OVERALL BALANCE	37	171	137	111	201	619	***582***
I. CURRENT ACCOUNT	(306)	(215)	(133)	(88)	(378)	(814)	***(508)***
Goods	(1854)	(812)	(593)	(652)	(867)	(2923)	***(1069)***
Exports (fob)	2905	854	804	748	781	3187	***282***
Coffee	92	55	24	26	27	132	***40***
Tea	459	126	160	150	164	600	***142***
Horticulture	414	112	96	120	133	461	***46***
Oil products	30	9	64	13	9	95	***65***
Manufactured Goods	315	93	88	91	93	365	***49***
Raw Materials	403	102	75	97	123	397	***(5)***
Re-exports	736	202	141	112	92	547	***(189)***
Other	456	154	155	139	141	589	***133***
Imports (cif)	4759	1666	1396	1400	1649	6110	***1351***
Oil	1129	342	332	382	445	1501	***372***
Chemicals	817	185	203	215	237	839	***22***
Manufactured Goods	737	212	178	179	234	803	***66***
Machinery & Transport Equipment	1138	712	453	350	368	1882	***744***
Other	938	215	231	274	365	1085	***147***
Services	1548	596	459	564	490	2109	***561***
Non-factor services (net)	877	321	244	316	271	1152	***275***
of which tourism	489	142	152	163	175	632	***142***
Income (net)	(123)	(9)	(42)	(32)	(32)	(116)	***7***
of which official interest	(142)	(20)	(52)	(43)	(40)	(155)	***(12)***
Current Transfers	794	285	258	280	251	1073	***280***
Private (net)	699	262	235	258	190	945	***247***
Public (net)	95	23	23	23	61	128	***33***
II. CAPITAL & FINANCIAL ACCOUNT	344	386	270	199	578	1433	***1090***
Capital Tranfers (net)	178	59	40	26	52	178	***1***
Financial Account	166	327	230	172	526	1255	***1089***
Official, medium & long-term	(191)	(31)	(52)	(75)	(89)	(247)	***(55)***
Inflows	122	13	50	26	22	110	***(12)***
Outflows	(314)	(44)	(102)	(101)	(110)	(357)	***(43)***
Private, medium & long-term (net)	(381)	527	129	10	(58)	607	***987***
Commercial Banks (net)	(347)	143	16	26	(29)	157	***504***
Other private medium & long-term (net)	(33)	383	113	(17)	(30)	450	***483***
Short-term (net) incl. errors & omissions	738	(168)	153	237	673	895	***157***
Gross Reserves	2358	2327	2446	2534	2718	2718	***360***
Official	1436	1587	1708	1799	1981	1981	***546***
imports cover*	***3.1***	***3.1***	***3.2***	***3.3***	***3.4***	***3.4***	***0.3***
imports cover**	***3.8***	***3.9***	***4.0***	***4.0***	***4.2***	***4.2***	***0.5***
Commercial Banks	922	740	739	735	737	737	***(185)***

* Revised to reflect the new BOP presentation format US $ 1 = KSH 73.11

** Provisional

*** In months of goods and non-factor services (based on current year's imports of goods & non-factor services

**** In months of goods and non-factor services (based on 36 months average of imports of goods & non-factor services

Source: Central Bank of Kenya

Current Account

The current account deficit widened to US$ 814 million in the year to March 2006 due to the widening of the trade deficit by US$ 1,069 million, which was only partially offset by US$ 561 million improvement in the services account.

Merchandise Account

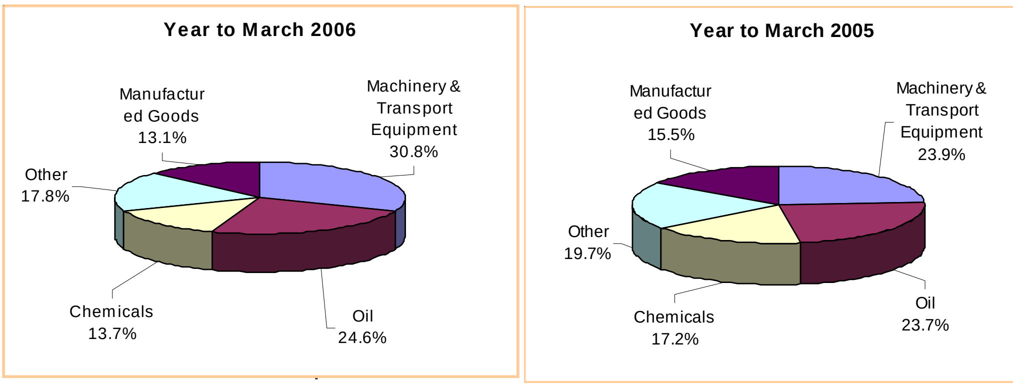
Merchandise imports rose by 28.4 percent in the year to March 2006 and thus continued to outperform the growth in merchandise exports of 9.7 percent. This resulted in a wider trade deficit of US$ 2,923 million from US$ 1,854 million in the year to March 2005.

Imports

The value of merchandise imports rose by US$ 1,351 million to US$ 6,110 million during the year to March 2006. Increases were in all import categories particularly machinery and transport equipment, petroleum, chemicals and manufactured goods. The value of imports of machinery and transport equipment increased by US$ 744 million and reflected increased imports of aircraft, road vehicles and industrial machinery while the rise in imported petroleum products by US$ 372 million was largely due to increased imports of crude oil, diesel, motor spirit and kerosene. The increase in imports of manufactured goods by US$ 66 million followed increased imports of textile, paper and rubber products. The value of chemicals imported also rose by US$ 22 million and largely reflected increased import values of medicines and plastics.

As shown in Chart 4A, the share of machinery and transport equipment in the import bill increased to 30.8 percent during the year to March 2006 from 23.9 percent in the previous period. The share of oil imports in total imports also increased to 24.6 percent from 23.7 percent while the share of chemicals, manufactured goods and other miscellaneous imports in total imports declined.

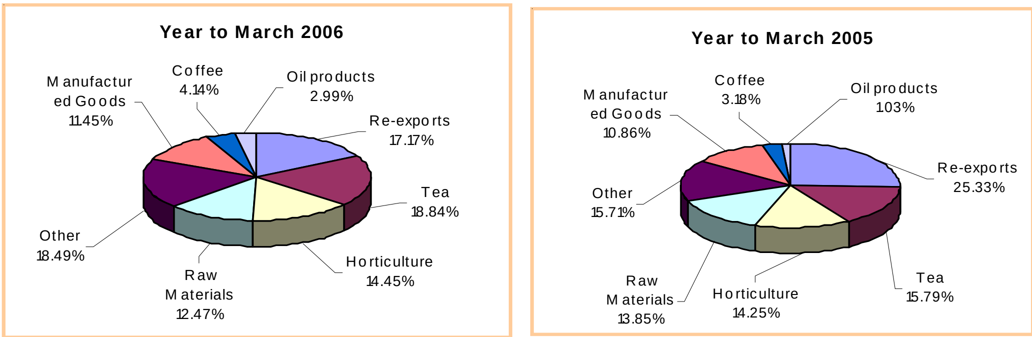
CHART 4A: COMPOSITION OF KENYA'S IMPORTS



Exports

Merchandise exports rose by US$ 282 million to US$ 3,187 million in the year to March 2006 following increased exports of tea, horticulture, coffee, oil products and manufactured goods. Earnings from tea exports rose by US$ 142 million to US$ 600 million while earnings from exports of horticulture and coffee rose to US$ 461 million and US$ 132 million, respectively. Coffee, tea and horticulture exports, which accounted for 37.4 percent of the total exports, benefited from improved export prices. The export values of manufactured goods also rose by US$ 49 million to US$ 365 million during the year to March 2006 while the export values of raw materials and re-exports declined to US$ 397 million and US$ 547 million, respectively. The contributions of coffee, tea, and manufactured goods to total exports increased during the year to March 2006 while those of re-exports and raw materials declined (Chart 4B).

CHART 4B: COMPOSITION OF KENYA'S EXPORTS



Source: Customs and Excise Dept.

Direction of Trade

The main destination countries for Kenya's merchandise exports in the year to March 2006 were Uganda, United Kingdom, Tanzania, the Netherlands, Pakistan, Egypt, the Democratic Republic of Congo and Sudan which accounted for 15.5 percent, 10.2 percent, 8.3 percent, 7.8 percent, 6.4 percent, 4.0 percent, 3.3 percent and 3.2 percent of total export earnings, respectively. Exports to African countries accounted for 47.7 percent of Kenya's merchandise exports (Table 4.2).

During the year to March 2006, most of the imports originated from United Arab Emirates (15.4 percent), United Kingdom (12.8 percent), South Africa (9.2 percent), United States of America (9.2 percent), India (5.8 percent), Saudi Arabia (5.1 percent), Japan (4.9 percent), China (4.5 percent), Germany (3.7 percent) and Singapore (2.9 percent).

TABLE 4.2: DIRECTION OF TRADE

IMPORTS (in Millions of US$)			
	Year to March		
Country	**2004**	**2005**	**2006**
Africa	**523**	**717**	**796**
Of which			
South Africa	332	464	562
Egypt	71	81	89
Others	120	172	146
Rest of the World	**3,373**	**4,043**	**5,314**
United Arab Emirates	467	537	942
United Kingdom	263	417	779
USA	181	202	560
India	202	295	357
Saudi Arabia	334	435	311
Japan	260	318	297
China	107	183	276
Germany	151	169	227
Singapore	30	66	179
France	128	163	176
Indonesia	166	80	133
Netherlands	79	99	130
Italy	74	95	124
Bahrain	117	153	121
Others	816	831	702
Total	**3,896**	**4,759**	**6,110**

EXPORTS (in Millions of US$)			
	Year to March		
Country	**2004**	**2005**	**2006**
Africa	**1,111**	**1,371**	**1,519**
Of which			
Uganda	416	499	495
Tanzania	182	220	265
Egypt	75	84	126
DRC	77	121	105
Sudan	64	75	102
Rwanda	73	85	87
Others	225	286	340
Rest of the World	**1,311**	**1,535**	**1,667**
Of which			
United Kingdom	269	290	325
Netherlands	194	221	250
Pakistan	117	150	203
USA	39	54	72
Germany	60	59	71
United Arab Emirates	28	32	58
France	43	57	57
India	34	50	52
Total	**2,423**	**2,905**	**3,187**

Source: Customs and Excise Department

Services

The services account improved to a surplus of US$ 2,109 million in the year to March 2006 from a surplus of US$ 1,548 million in the year to March 2005. This improvement reflected increased receipts from non-factor services and current transfers. Net non-factor service receipts increased by US$ 275 million to US$ 1,152 million on account of increased receipts from transportation, tourism and other private sector services. Earnings from tourism rose to US$ 632 million during the year under review. Net outflows from the income account reduced by US$ 7 million, following increased interest earnings on foreign investments by both the public and the private sectors. Interest earnings on official foreign exchange reserves rose by US$ 24 million to US$ 61 million while interest income by the private sector rose by US$ 7 to US$ 17 million. Foreign interest payments by both the private and public sectors also rose; the private sector paid US$ 40 million while the Government paid US$ 155 million. Current transfer receipts, particularly through the private sector, improved by US$ 280 million to US$ 1,073 million.

Capital and Financial Account

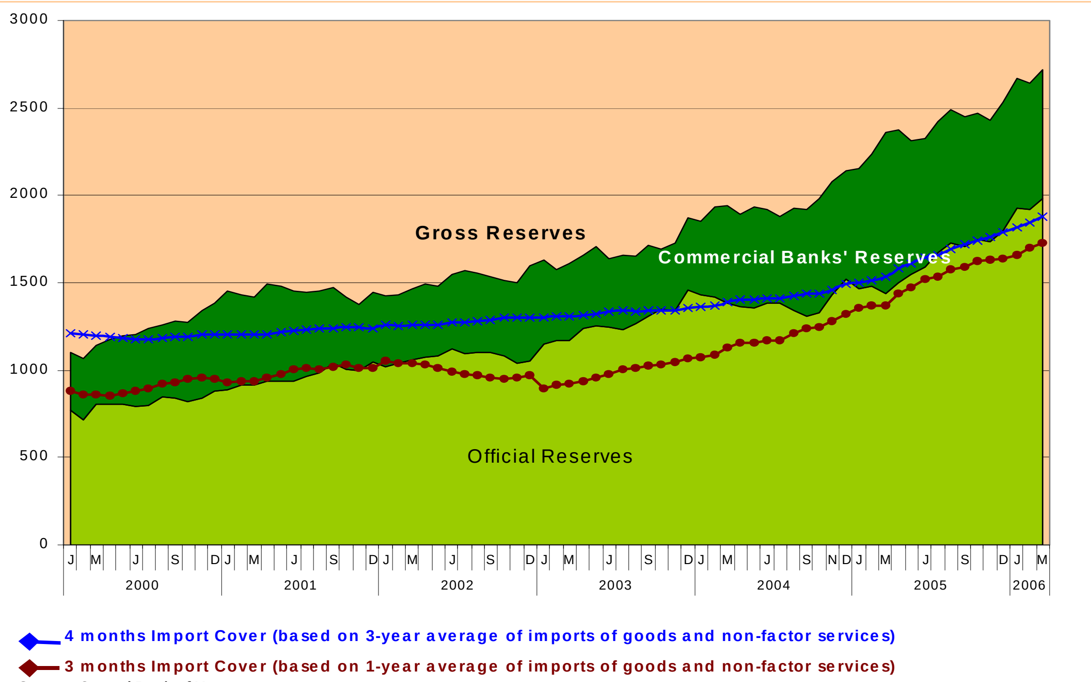
The surplus in the capital and financial account improved to US$ 1,433 million in the year to March 2006 following increased private sector inflows, which more than offset the increase in official outflows. Private sector medium and long-term financial inflows rose by US$ 987 million to US$ 607 million while net short-term inflows (including errors and omissions in recorded transactions) rose by US$ 157 million to US$ 895 million.

Official capital and financial flows worsened in the year to March 2006. On a net basis, official medium and long-term outflows rose by US$ 55 million to US$ 247 million reflecting increased repayments of official foreign loans by US$ 43 million to 357 million and reduced receipts of official foreign loans by US$ 12 million to US$ 110 million. Net foreign capital transfers to the Government, which comprise project grants, remained at US$ 178 million.

Foreign Exchange Reserves

Official foreign exchange reserves held by the Central Bank increased by US$ 546 million to US$ 1,981 million at the end of March 2006, which is 4.2 months of import cover, measured using average imports for the preceding 36 months of imports of goods and non-factor services as required by law (Chart 4C). This build up in official reserves was achieved through CBK purchases of foreign

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



Source: Central Bank of Kenya

exchange from the domestic foreign exchange market equivalent to US$ 694 million. The Bank also received US$ 283 million interest earnings on foreign exchange reserves and receipts of foreign grants and loans in aid of the Government. During the year to March 2006, however, the Bank spent US$ 36 million on its own operations and US$ 313 million on behalf of the Government to cover expenses related to Government imports and to service official foreign debt.

Foreign exchange holdings of commercial banks, however, declined by US$ 185 million to US$ 737 million at the end of March 2006. These assets were largely held as balances with banks abroad amounting to US$ 513 million. Other foreign assets of commercial banks included cash, foreign loans and foreign currency bills discounted. Foreign exchange held by the entire banking system therefore rose to US$ 2,718 million at the end of March 2006. Besides these holdings, foreign currency deposits held locally by residents increased by US$ 90 million to US$ 1,199 million at the end of March 2006.

Exchange Rates

As shown in Table 4.3 and Charts 4D, 4E and 4F, the Kenya shilling depreciated against major currencies in June 2006. The shilling lost against the US dollar to exchange at an average of Ksh 73.4 in June 2006 compared with Ksh 71.8 in May 2006. The shilling also lost against the Sterling Pound and Euro to exchange at Ksh 135.4 and Ksh 93.0, respectively in June 2006 compared with Ksh 134.1 and Ksh 91.6 in May 2006. The shilling gained marginally against the Japanese Yen to trade at an average of Ksh 64.0 in June 2006 compared with an average of Ksh 64.2 in the previous month.

The shilling lost against the Uganda shilling and Tanzania shilling to trade at Ush 25.3 and Tsh 17.1, respectively in June 2006 compared with Ush 25.6 and Tsh 17.3 in the previous month.

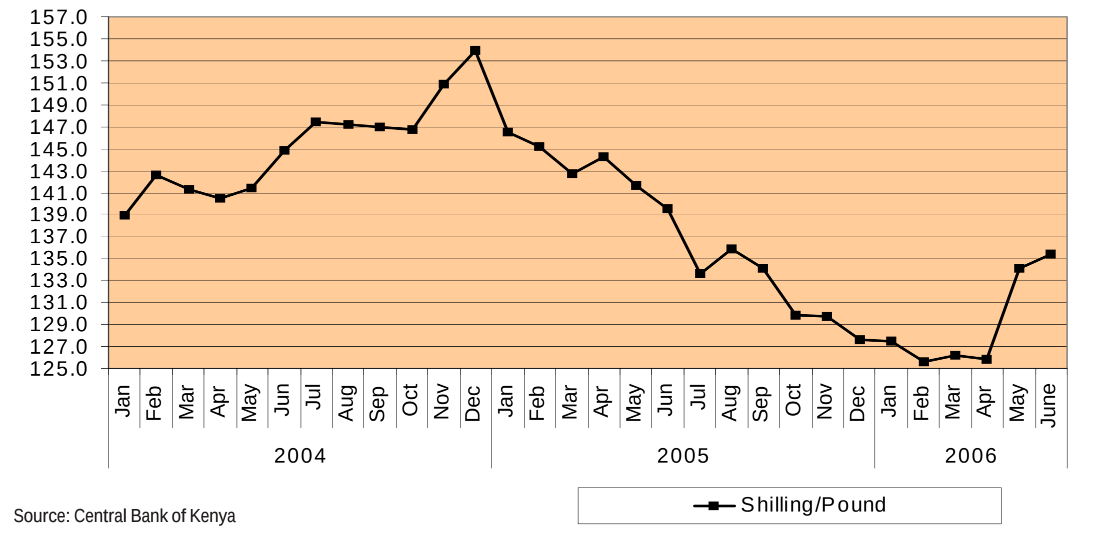
TABLE 4.3: SHILLING EXCHANGE RATE

	2005						2006						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	%change
US Dollar	76.23	75.81	74.10	73.71	74.74	73.107	72.21	71.80	72.28	71.30	71.76	73.41	**2.29**
Pound Sterling	133.60	135.87	134.10	129.85	129.76	127.62	127.51	125.61	126.13	125.84	134.13	135.37	**0.93**
100 Japanese Yen	68.09	68.46	66.72	64.22	63.19	61.633	62.55	60.94	61.63	60.94	64.24	64.03	**-0.33**
Uganda Shilling*	23.00	23.94	24.93	25.15	24.52	24.807	25.17	25.27	25.19	25.61	25.56	25.32	**-0.95**
Tanzania Shilling*	14.89	14.91	15.32	15.47	15.64	15.998	16.29	16.57	16.75	17.16	17.31	17.07	**-1.37**
Euro	91.83	93.16	90.86	88.56	88.15	86.69	87.53	85.84	86.90	87.45	91.64	92.96	**1.44**
Euro per US dollar	0.83	0.81	0.82	0.83	0.85	0.84	0.825	0.836	0.832	0.815	0.783	0.790	**0.83**

* Units of currency per Kenya shilling

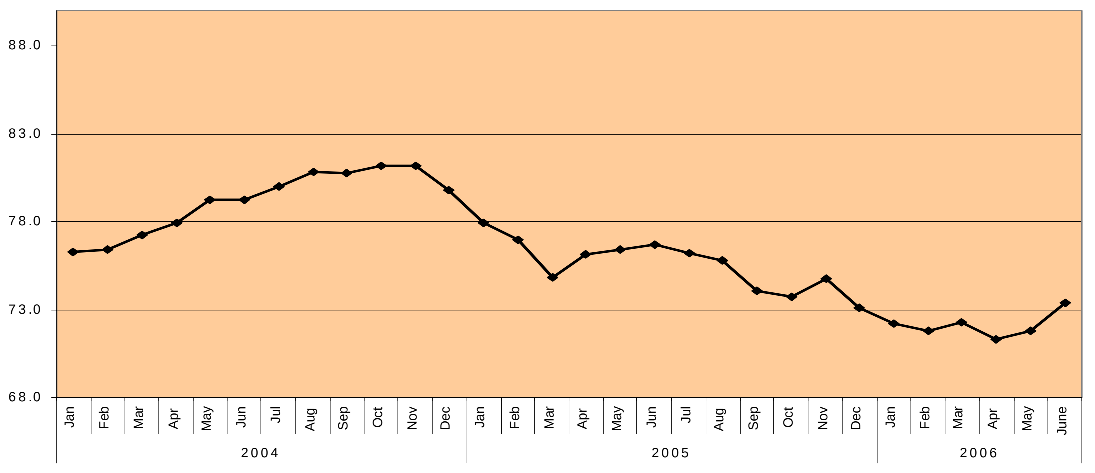
Source: Central Bank of Kenya

CHART 4D: SHILLING EXCHANGE RATE (Ksh/ Pound)



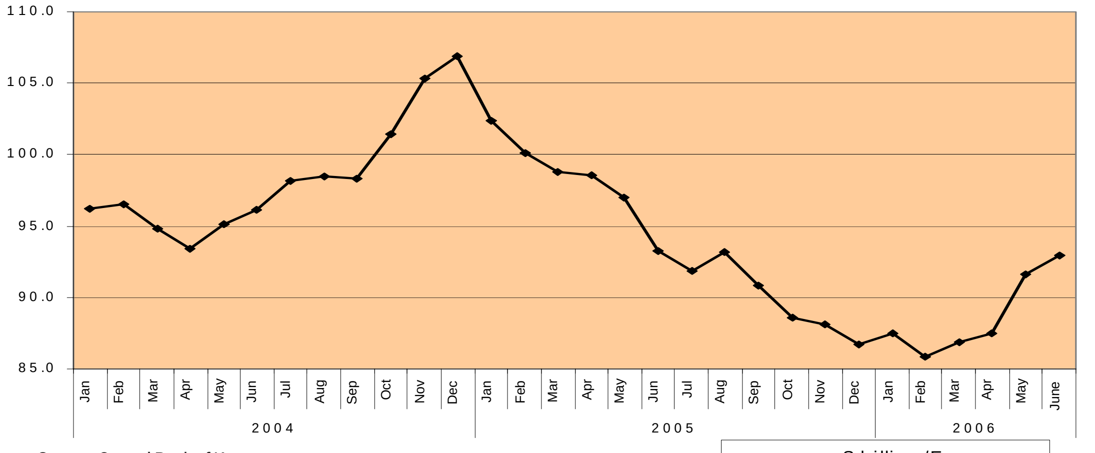
Source: Central Bank of Kenya

CHART 4E: SHILLING EXCHANGE RATE (Ksh/ US Dollar)



Source: Central Bank of Kenya

CHART 4F: SHILLING EXCHANGE RATE (Ksh/ Euro)



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

The banking sector remained stable through April 2006, mainly due to favourable macroeconomic conditions during the period. Non - performing loans and advances net of provisions maintained a downward trend while gross loans and advances increased leading to better asset quality ratios and improved profitability. Overall performance of the sector was satisfactory, the same rating achieved in March 2006.

Structure of the Banking Sector

Financial institutions declined from 49 in April 2005 to 45 in April 2006. The reduction followed closure of two institutions and acquisition of assets and liabilities of two other institutions. Foreign exchange bureaus increased from 89 to 96 over the same period.

Balance Sheet Structure

The assets portfolio in the banking sector increased by 12.1 per cent to Ksh 704.1 billion in April 2006 from Ksh 628 billion in April 2005. Total loans and advances, net of provisions, comprised 51 per cent of total assets and stood at Ksh 356.0 billion in April 2006 compared to Ksh 314.7 billion or 51 per cent of total net assets in April 2005. Local currency loans and advances expanded by 12.3 per cent from Ksh 267.4 billion from Ksh 300.4 billion in April 2006 while foreign currency loans and advances increased by 17.6 per cent from Ksh 47.3 billion to Ksh 55.6 billion in April 2006. The increase was attributed to lending to private households, transport and communications, building and construction and manufacturing sectors. Investment in capital and equity instruments of other institutions and corporate increased 75 per cent from Ksh 4.4 billion in April 2005 to Ksh 7.7 billion in April 2006. The increase was mainly attributed to investment in commercial paper and corporate bonds of other corporates.

Deposit liabilities, including accrued interest, increased by 20.5 per cent to Ksh 576.1 billion at the end of April 2006 from Ksh 478.0 billion in April 2005. Foreign currency deposits increased by 13.4 per cent from Ksh 81.8 billion in April 2005 to Ksh 92.8 billion in April 2006. However, other foreign liabilities declined from Ksh 3.6 billion April 2005 to Ksh 2.0 billion in April 2006.

Paid up capital of the banking sector increased by 9.5 per cent to Ksh 46.2 billion from Ksh 42.2 billion. The increase in paid up capital in the sector was a result of fresh capital injection by some institutions. Core Capital increased by 16.5 percent to Ksh. 77.1 billion in April 2006 from Ksh 66.2 billion in April 2005 mainly due to retention of profits made in year 2005. Capital adequacy in the sector, as measured by the ratio of total capital to total risk weighted assets ratio increased to 17.4 per cent in April 2006 from 15.4 per cent in 2005. This improvement was attributed to an increase in total capital that more than offset the increase in total risk weighted assets.

Asset Quality

Non - performing loans, net of interest in suspense, declined to Ksh 66.8 billion in April from Ksh 72.1 billion in April 2005. Consequently, asset quality measured by the ratio of net non-performing loans to gross loans improved from 8.4 per cent to 6.1 per cent over the period as shown in table 5.1.

TABLE 5.1: NON-PERFORMING LOANS (NPLs) & PROVISIONS (KSH BILLION)

		April-05	April-06
1.	Gross loans and advances	397.1	438.2
2.	Total loan and Advances	356.9	400.1
3.	Specific Provisions	38.9	40.0
4.	General Provisions	3.3	4.1
5.	Total Provisions (3+4)	42.2	44.1
6.	Net Advances (2-5)	314.7	356.0
7.	Total Non-Performing Loans and Advances	72.1	66.8
8.	Net Non-Performing Loans and Advances(7-3)	33.2	26.8
9	Total NPLs as % of total advances (7/2)	20.2	16.7
10	Net NPLsas % of gross advances (8/1)	8.4	6.1
11.	Total Provisions as % of total NPLs (5/7)	58.7	66.0

Source: Central Bank of Kenya

Profitability

The Pre-tax profit of the banking sector in the four months to April 2006 increased by 33.9 per cent to Ksh7.5 billion from Ksh 5.6 billion in a similar period of 2005. Interest income on advances increased by 21 percent to Ksh 14.4 billion compared with Ksh 11.9 billion achieved over the same period in 2005. The increase in interest income was attributed to growth in loans and advances, increase in interest rates and decline in non- performing loans and advances. Non- funded income from fees and commissions increased by 12.7 per cent to Ksh 7.1 billion from Ksh 6.3 billion in April 2005. Loan loss provision for the period was Ksh 2.9 billion compared to Ksh 2.0 billion provided for in a similar period in 2005. The increase in loan loss provision was due to the implementation of the new Prudential Guidelines by banks which requires higher provisioning levels on loans and advances. Salaries and wages for the first four months of year 2006 was Ksh 6.2 billion compared with Ksh 5.9 billion in April 2005. Return on assets for the sector increased from 2.2 per cent to 2.6 per cent while return on shareholders funds increased from 23.7 per cent to 26.5 per cent over the same period.

Liquidity Ratios Requirement

Commercial banks maintained an average 6.2 per cent reserve ratio requirements in May 2006 compared with the 6.0 percent statutory requirement (Table 5.3 and Chart 5A). During the same period, NBFIs maintained an average of 6.0 percent.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2004	2005												2006				
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Commercial Banks																		
Average Liquidity	42.4	42.0	42.6	43.2	43.2	42.7	42.7	43.1	42.7	43.0	42.6	41.8	42.3	42.5	42.5	42.6	42.0	41.0
Minimum Liquidity	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20	20	20	20	20	20
Cash Ratio - All Banks	6.4	6.5	6.4	6.3	5.9	5.9	5.8	5.8	6.2	6.2	6.3	6.2	6.2	6.2	6.2	6.2	6.3	6.2
Minimum Cash Ratio**	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
NBFIs																		
Average Liquidity	36.3	35.0	34.7	34.7	32.8	34.2	35.5	34.7	34.0	33.6	33.8	35.1	35.9	33.2	31.5	33.6	33.3	28.6
Minimum Liquidity	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Cash Ratio	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Minimum Cash Ratio***	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

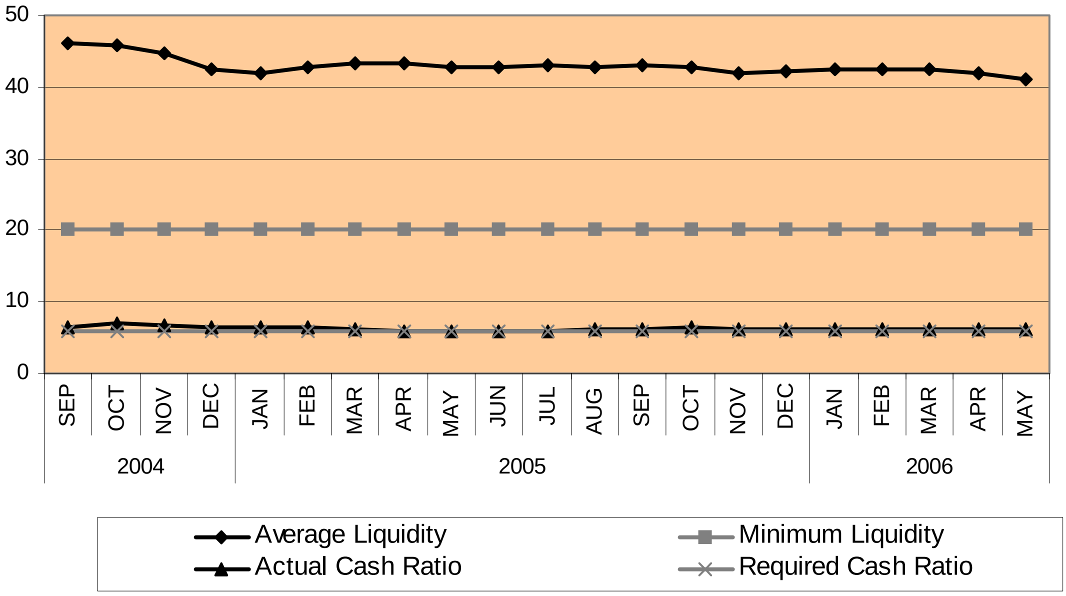
* Monthly average liquidity and cash ratios

** Commercial banks and NBFIs must observe a daily minimum of 6% cash ratio.
The requirement became effective from 1st July 2003

*** Ratio includes NBFIs and Mortgage companies

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

On average, commercial banks held Ksh 757 million as excess reserves in the clearing account at the Central Bank in May 2006 compared with Ksh 1.3 billion in April 2006.

The proportion of liquid assets to deposit liabilities of the banking sector was above the minimum requirement of 20 per cent in April and May 2006. Commercial banks maintained an average ratio of 41.0 per cent in May 2006 from 42.0 per cent in April 2006 while building societies maintained 30.4 per cent compared with 33.3 per cent over a similar period. Non bank financial institutions (NBFIs) average ratio was 28.6 cent in May 2006.

The National Payment Systems (NPS) initiative was mooted in 1996 as an offshoot of the committee, which oversaw the implementation of various projects directly related to payment systems namely; the Magnetic Ink Character Recognition (MICR) project, Electronic Clearing House transmission project and the Shared Automated Teller Machine Point of Sale switch project. At the Central Bank, the NPS Technical Committee was formed with the mandate of liaising with the Kenya Bankers Association (KBA) NPS Committee to come up with ideas of improving the payments system in Kenya.

The NPS function was established within the Bank in 1998 in line with the responsibility assigned to it by section 4A(D) of the Central Bank of Kenya Act which states that " the Bank shall formulate and implement such policies as best to promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems". The primary goal of the NPS is therefore to facilitate the efficient and effective flow of money within the economy and to ensure that Kenya has in place a well developed and modern payment system that is secure, accessible, reliable, robust, viable and demand driven.

Introduction to KEPSS

In pursuit of it's primary goal, CBK in consultation with other stakeholders in the industry, launched a Real Time Gross Settlement (RTGS) system for Kenya by the name **Kenya Electronic Payment and Settlement System (KEPSS)** which went live on 29th July 2005 and was officially launched by the Minister of Finance in September 2005.

A Real Time Gross Settlement System is a system in which both processing and final settlement of fund transfer transactions take place on an item by item (gross) basis continuously throughout a business day. It is an on-line system that facilitates the transfer of high value and/or time critical payments between participants in a real time. An RTGS system runs on a credit push basis in which final and irrevocable settlement can only occur if funds are available in the commercial bank's settlement account at the Central Bank of Kenya. The system is available to both individuals and corporate entities through all commercial banks in Kenya.

Benefits of KEPSS

- It is faster , that is, it executes transactions on a real time basis.
- It eliminates settlement risk by minimising payment exposure.
- It ensures finality and irrevocability of payments.
- It enables commercial banks manage their liquidity as well as their settlement accounts at the Central Bank of Kenya.
- It provides a secure medium for inter bank funds transfer.
- It boosts the confidence of investors and the general public in Kenya's payment system.

KEPSS Utilization - July 2005 to May 2006

Since KEPSS launch there has been a steady increase in its usage mainly for inter-bank transfers. However, customer (third party) transactions are still relatively low and the Central Bank of Kenya jointly with Kenya Bankers Association (KBA) are working on modalities to create public awareness.

In August 2005, the first month of operation, KEPSS handled 8,999 transactions corresponding to approximately Ksh 496 billion, equivalent to an average of 391 transactions and Ksh 22 billion per day.

The volume and value of transactions has steadily increased to reach the highest level since the inception of KEPSS i.e. 13,647 transactions with a value of Ksh 1,138 billion in the month of May 2006 This translates to an average of 620 transactions with a value of about Ksh 51.7 billion per day.

PERFORMANCE OF THE GOVERNMENT BUDGET

Budgetary operations of the central Government resulted in a budget deficit of Ksh 39.3 billion or 2.8 percent of GDP on commitment basis during the first ten months of the fiscal year 2005/06. As shown in Table 6.1 and Chart 6A, the deficit was attributed to Government expenditure which increased to Ksh 292.4 billion by the end of April 2006, in the face of lower than expected revenue performance. The deficit was, however, within the budget target for the period which was Ksh 53.3 billion, or 3.8 percent of GDP. Likewise, on a cash basis, the Government had a budget deficit of Ksh 32.6 billion, or 2.3 percent of GDP which was also within the target for the period.

During the first ten months of the fiscal year 2004/05, the Government had a budget surplus of Ksh 14.1 billion or 1.1 percent of GDP on cash basis. The result in the first ten months of the fiscal year 2005/06, therefore, is a complete contrast to that in a corresponding period in the previous fiscal year.

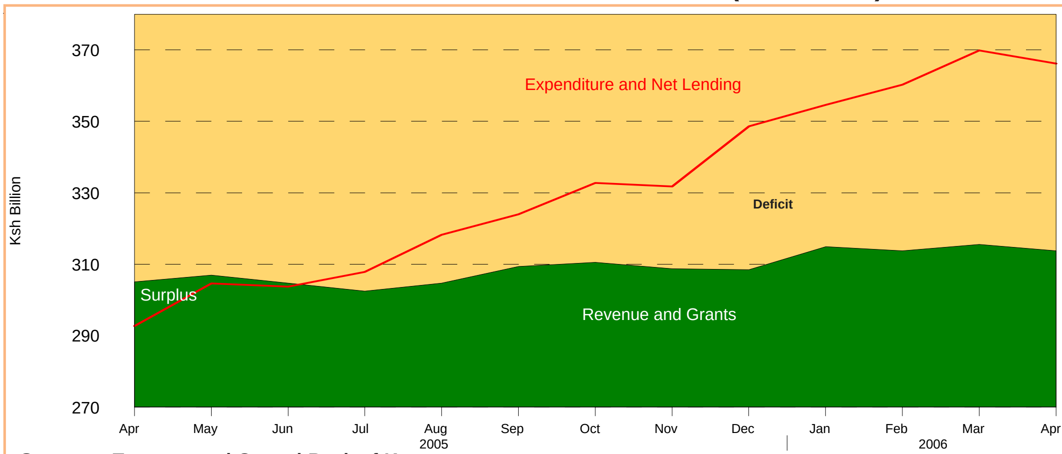
TABLE 6.1: BUDGET OUT-TURN (Ksh billion)

	FY 2004/05	FY 2005/06		
	April Actual	April Actual*	Target	Over (+) / Below (-) Target
1. TOTAL REVENUE & GRANTS	**244.0**	**253.1**	**283.2**	**-30.0**
Revenue	232.8	237.3	259.9	-22.6
Tax Revenue	196.8	206.7	218.8	-12.1
Non Tax Revenue	23.1	17.9	22.8	-4.8
Appropriations-in-Aid	12.9	12.7	18.4	-5.7
External Grants	11.2	15.8	23.2	-7.4
2. TOTAL EXPENDITURE AND NET LENDING	**230.0**	**292.4**	**336.4**	**-44.0**
Recurrent Expenditure	200.3	248.3	248.9	-0.7
Development Expenditure	29.6	44.2	87.5	-43.4
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**14.1**	**-39.3**	**-53.3**	**14.0**
As % of GDP	1.1	-2.8	-3.8	
4. ADJUSTMENT TO CASH BASIS	**-6.5**	**6.7**	**0.0**	**6.7**
5. DEFICIT ON A CASH BASIS	**7.6**	**-32.6**	**-53.3**	**20.7**
As % of GDP	0.6	-2.3	-3.8	
6. DISCREPANCY:Exp. (+) / Rev. (-)	**-1.9**	**-6.0**	**0.0**	
7. FINANCING	**-9.5**	**26.5**	**53.3**	**-26.8**
Domestic (Net)	-9.2	26.7	33.7	-7.0
External (Net)	-0.2	-0.1	9.1	-9.2
Capital Receipts (privatisation)	0.0	0.0	8.5	-8.5
Others	0.0	0.0	2.0	-2.0
Financing gap	0.0	0.0	0.0	0.0

* Provisional

Sources: Treasury

CHART 6A: 12-MONTH CUMULATIVE BUDGET OUT-TURN (Ksh billion)



Sources: Treasury and Central Bank of Kenya

Revenue and Grants

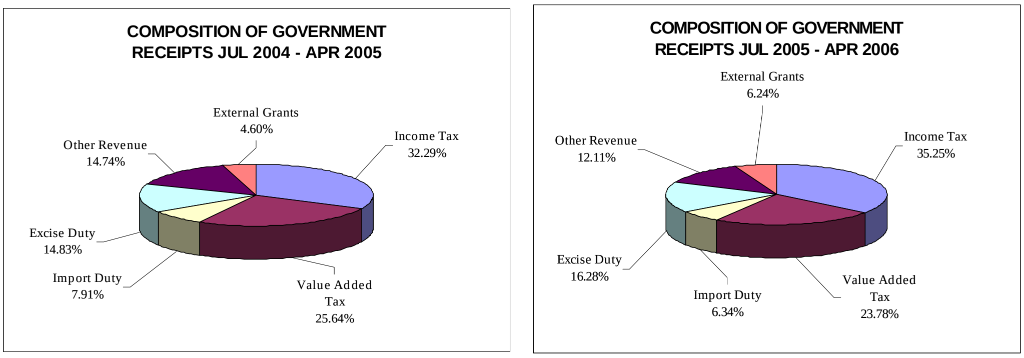
Government revenue collection and receipts of external grants during the first ten months of the fiscal year 2005/06 amounted to Ksh 253.1 billion compared with Ksh 244.0 billion in a corresponding period of the previous fiscal year (Table 6.2). This represented a growth of Ksh 9.1 billion or 3.7 percent in Government receipts. The revenue collection and receipts of grants were, however, below the budget target for the period by Ksh 30.0 billion. As a share of GDP, the revenue and grants fell to 17.9 percent from 18.6 percent in the first ten months of the fiscal year 2004/05.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Apr-05 Ksh bn	Apr-06 Ksh bn	Movement
1. Revenue (2+3+4)	**232.8**	**237.3**	**4.5**
2. Tax Revenue	196.8	206.7	9.8
Income Tax	78.8	89.2	10.4
Value Added Tax	62.6	60.2	-2.4
Import Duty	19.3	16.1	-3.3
Excise Duty	36.2	41.2	5.0
3. Appropriations-in-Aid	12.9	12.7	-0.1
4. Other Revenue	23.1	17.9	-5.2
5. External Grants	**11.2**	**15.8**	**4.5**
Total Receipts (1+5)	**244.0**	**253.1**	**9.1**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue collection from July 1, 2005 to the end of April 2006 amounted to Ksh 206.7 billion against a target of Ksh 218.8 billion. This represented tax revenue collection performance of 94.5 percent. However, tax revenue grew by Ksh 9.8 billion or 5.0 percent compared to collections in a similar period in the previous fiscal year. Similarly, the share of tax revenue in total Government receipts increased to 81.7 percent from 80.7 percent in a similar period of the previous fiscal year. However, as a share of GDP, tax revenue collection declined to 14.6 percent from 15.0 percent in the first ten months of fiscal year 2004/05.

The growth in tax revenue collection during the period was largely in income taxes and excise duty which increased by 13.2 percent and 13.9 percent respectively. Collection of VAT, however, declined by 3.8 percent during the period while import duty collection fell by 16.9 percent.

The growth in tax revenue collection in the fiscal year 2005/06 is mainly due to improved performance of the economy and revenue administrative measures by the Kenya Revenue Authority. However, the performance of tax revenue in the period was affected by teething problems of the new customs computer systems (Simba 2005) and the stand off following the introduction of electronic tax registers.

During the first ten months of the fiscal year 2005/06, Government receipts of external grants increased to Ksh 15.8 billion from Ksh 11.2 billion in a corresponding period of the previous fiscal year. This represented a growth of Ksh 4.5 billion or 40.5 percent in receipts of external grants during the period.

Expenditure and Net Lending

During the first ten months of the fiscal year 2005/06, cumulative Government expenditure and net lending to public institutions amounted to Ksh 292.4 billion compared with Ksh 230.0 billion in a similar period of fiscal year 2004/05. This represented an increase of Ksh 62.5 billion or 27.2 percent in Government expenditure.

However, compared to the targets for the period, recurrent and development expenditures were short by Ksh 0.7 billion and Ksh 43.4 billion respectively. Total Government financing of the budget deficit during the period was Ksh 26.8 billion below target.

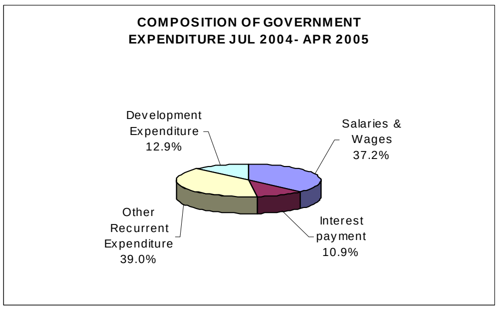
TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)

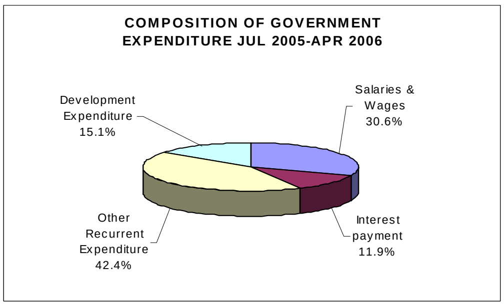
	Apr-05 Ksh bn	Apr-06 Ksh bn	Movement
1.Recurrent	**200.3**	**248.3**	**47.9**
Salaries & Wages	85.6	89.4	**3.8**
Total Interest	25.1	34.7	**9.6**
of which			
Domestic*	18.4	25.4	**7.0**
Foreign interest due	6.7	9.3	**2.6**
Others	89.6	124.1	**34.5**
2. Development	**29.6**	**44.2**	**14.5**
TOTAL EXPENDITURE	**230.0**	**292.4**	**62.5**

*Includes commission and other charges paid to CBK

Source: Treasury

CHART 6C: COMPOSITION OF GOVERNMENT EXPENDITURE





Source: Treasury

The rise in Government expenditure during the period resulted in an increase in the expenditure to GDP ratio to 20.6 percent from 17.4 percent in the first ten months of the fiscal year 2004/05.

The Government expenditure during the period comprised Ksh 248.3 billion in recurrent expenditure and Ksh 44.2 billion in development expenditure (Table 6.3 and Chart 6c). Recurrent expenditure accounted for 84.9 percent of total expenditure from July 2005 to the end of April 2006 down from 87.1 percent in a similar period of the previous fiscal year. Consequently, the proportion of development expenditure in total expenditure increased to 15.1 percent from 12.9 percent in the first ten months of the fiscal year 2004/05.

Financing

During the first ten months of the fiscal year 2005/06, Government budgetary operations resulted in a financing requirement of Ksh 30.8 billion compared with Ksh 23.1 billion in a similar period of the fiscal year 2004/05 (Table 6.4). The financing requirement comprised Ksh 26.5 billion to finance the budget deficit, Ksh 0.1 billion external repayments and Ksh 4.2 billion to build up Government deposits at the Central Bank of Kenya. The Ksh 30.8 billion financing requirement was funded through domestic borrowing consisting of Ksh 15.1 billion from commercial banks, Ksh 14.8 billion from non-bank sources and Ksh 1.0 billion from the Central Bank of Kenya.

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

I. FINANCING REQUIREMENTS	Apr-05 Ksh bn	Apr-06 Ksh bn
1. Budget deficit	0.0	26.5
2. External debt reduction	0.2	0.1
3. Domestic debt reduction	21.1	0.0
3.1 Central Bank (incl. items in transit)	4.8	0.0
3.2 Commercial banks (net of deposits)	16.3	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	1.8	4.2
TOTAL	**23.1**	**30.8**
II. FINANCING SOURCES	**Apr-05 Ksh bn**	**Apr-06 Ksh bn**
1. Budget surplus	9.5	0.0
2. External debt increase	0.0	0.0
3. Increase in domestic debt	13.7	30.8
3.1 Central Bank	0.0	1.0
3.2 Commercial banks	0.0	15.1
3.3 Non-bank sources	13.7	14.8
4. Reduction in GoK deposits at CBK	0.0	0.0
5. Privatisation proceeds	0.0	0.0
TOTAL	**23.1**	**30.8**

Sources: Treasury & Central Bank of Kenya

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

	2005		2006	Movement
	April	June	April	Mar 05-Mar 06
Total Government Credit (1+2+3+4+5)	**48.3**	**48.8**	**49.8**	1.5
1. Overdraft	8.9	5.2	11.3	2.4
2. Rediscounted securities	0.0	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.0	0.0
Treasury bonds	0.0	0.0	0.0	0.0
3. Non-interest bearing T/bills & bonds	35.9	35.9	35.9	0.0
4. IMF funds onlent to Government	2.3	2.2	1.9	-0.4
5. Cleared items in transit	1.2	5.5	0.7	-0.5
Memorandum				
Authorised overdraft limit	**8.9**	**8.9**	**11.3**	2.4
Amount utilised to date	**8.9**	**5.2**	**11.3**	2.4
Amount available	0.0	3.7	0.0	0.0

Source: Central Bank of Kenya

Government Borrowing from the Central Bank

At the end of April 2006, Government indebtedness to the Central Bank stood at Ksh 49.8 billion, up from Ksh 48.8 billion at the end of June 2005 and Ksh 48.3 billion at the end of April 2005 (Table 6.5). The Ksh 1.5 billion increase in the debt between April 2005 and April 2006 mainly reflected an increase of Ksh 2.4 billion in the Government overdraft which was partly offset by revaluation gain of Ksh 0.4 billion on IMF funds on-lent to the Government and Ksh 0.5 decline in cleared items on transit at the Central Bank. There was no significant change in the stock of rediscounted Treasury securities.

Outlook for the Fiscal Year 2005/06

Following tabling in the Parliament of the budget estimate for fiscal year 2006/07, the Government revenue collections and grants receipts is projected at Ksh 403.8 billion while overall Government expenditures are projected at Ksh 461.2 billion.

Outlook for the Fiscal Year 2006/07

The targeted revenue collection comprises of Ksh 336.5 billion in ordinary revenue and Ksh 38.9 billion appropriations-in-aid. Recurrent expenditures are anticipated to grow by 7.6 percent to stand at Ksh 338.3 billion while development expenditure is projected to increase to Ksh 122.9 billion from Ksh 86.9 billion in 2005/06.

The overall budget deficit including grants is projected at Ksh 57.4 billion which will be financed through net external financing of projects totalling Ksh 9.7 billion, privatisation proceeds totalling Ksh 18.2 billion and domestic borrowing totalling Ksh 29.5 billion.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt In the first ten months of the fiscal year 2005/06, Kenya's public and publicly guaranteed debt increased by Ksh 1.7 billion, or 0.2 percent, to Ksh 751.3 billion at the end of April 2006 from Ksh 749.5 billion at the end of June 2005 (Table 7.1). The increase in the stock of debt during the period reflected Ksh 32.6 billion increase in domestic debt coupled with Ksh 30.9 billion decline in external debt. The rise in domestic debt is attributed to domestic borrowing to finance fiscal operations while the decline in external debt is attributed mainly to revaluation gains arising from the strengthening of the Kenya shilling during the period.

Domestic debt increased to Ksh 348.2 billion at the end of April 2006 from Ksh 315.6 billion at the end of June 2005 while external debt decreased to Ksh 403.1 billion from Ksh 434.0 billion. As a result, the ratio of domestic debt in total debt increased to 46.3 percent at the end of April 2006 from 42.1 percent at the end of June 2005 whereas the ratio of external debt in total debt declined to 53.7 percent from 57.9 percent in the same period.

Despite the rise in the total stock of debt, the ratio of the debt stock to GDP declined to 53.0 percent at the end of April 2006 from 55.6 percent at the end of June 2005. This reflected a decline in the external debt to GDP ratio to 28.4 percent at the end of April 2006 from 32.2 percent at the end of June 2005 while domestic debt to GDP ratio increased slightly to 24.6 percent from 23.4 percent at the end of June 2005.

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

	Jun 04	Jun 05	Sep 05	Dec 05	Mar 06*	Apr 06**	Change 2005/06
EXTERNAL* **							
Bilateral	162.91	157.67	152.96	146.77	145.06	144.88	-12.8
Multilateral	260.7	255.3	245.5	240.3	237.1	236.8	-18.5
Commercial Banks	2.9	1.8	1.7	1.7	1.7	1.7	-0.1
Export Credit	16.7	19.2	18.7	19.9	19.7	19.7	0.5
Sub-Total	**443.2**	**434.0**	**418.9**	**408.6**	**403.5**	**403.1**	-30.9
(As a % of GDP)	36.6	32.2	30.6	29.4	28.6	28.4	
(As a % of total debt)	59.1	57.9	56.0	54.9	53.8	53.7	
DOMESTIC							
Banks	**181.5**	**169.5**	**175.4**	**179.6**	**187.1**	**188.1**	18.6
Central Bank	50.8	46.6	44.8	44.9	47.5	47.9	1.3
Commercial Banks	130.7	122.9	130.7	134.7	139.6	140.2	17.3
Non-banks	**120.7**	**139.5**	**146.1**	**149.2**	**153.1**	**154.4**	14.8
Non-bank Financial Inst.	3.2	2.1	1.8	2.0	1.7	1.7	-0.4
Other Non-bank Sources	117.5	137.4	144.3	147.3	151.4	152.7	15.3
Non-residents	**4.0**	**6.5**	**7.3**	**6.1**	**5.9**	**5.8**	-0.8
Sub-Total	**306.2**	**315.6**	**328.8**	**335.0**	**346.1**	**348.2**	32.6
(As a % of GDP)	25.3	23.4	24.0	24.1	24.5	24.6	
(As a % of total debt)	40.9	42.1	44.0	45.1	46.2	46.3	
GRAND TOTAL	**749.4**	**749.5**	**747.7**	**743.6**	**749.6**	**751.3**	1.7
(As a % of GDP)	62.0	55.6	54.6	53.5	53.1	53.0	

* Revised

** Provisional

***Includes IMF Loans.

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 shs 2,028m. 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

During the first ten months of the fiscal year 2005/06, domestic debt increased by Ksh 32.6 billion or 10.3 percent to stand at Ksh 348.2 billion as at the end of April 2006 (Table 7.2). This reflected increases of Ksh 14.5 billion, Ksh 17.1 billion and Ksh 1.0 billion in the stock of Treasury bills, Treasury bonds and in other forms of domestic debt, respectively, during the period. The level of Government overdraft at the Central Bank increased to Ksh 11.3 billion at the end of April 2006 from the end June 2005 position of Ksh 5.2 billion.

TABLE 7.2: GOVERNMENT DOMESTIC DEBT (Ksh billion)

	2005											2006					
	Jan	%	%	Mar	%	June	%	Sep	%	Dec	%	Feb	%	Mar	%	Apr	%
Total stock of Domestic Debt (A+B)	291.2	100.0	100.0	296.3	100.0	315.6	100.0	328.8	100.0	335.0	100.0	338.6	100.0	346.1	100.0	348.2	100.0
A. Government Securities	278.1	95.5	95.5	284.5	96.0	302.3	95.8	317.4	96.5	323.8	96.7	330.9	97.7	332.2	96.0	333.9	95.9
1. Treasury Bills (excluding Repo Bills)	60.0	20.6	20.3	61.5	20.7	71.9	22.8	79.6	24.2	77.4	23.1	85.0	25.1	84.9	24.5	86.5	24.8
Banking institutions	27.6	9.5	9.4	28.2	9.5	32.8	10.4	37.3	11.4	36.6	10.9	41.4	12.2	39.5	11.4	41.2	11.8
Others	32.4	11.1	10.9	33.3	11.2	39.2	12.4	42.2	12.8	40.9	12.2	43.6	12.9	45.5	13.1	45.3	13.0
2. Treasury Bonds	181.1	62.2	62.5	186.0	62.8	193.4	61.3	200.9	61.1	209.4	62.5	209.0	61.7	210.3	60.8	210.5	60.4
Banking institutions	83.8	28.8	29.5	88.5	29.9	89.7	28.4	92.7	28.2	98.0	29.3	96.1	28.4	97.9	28.3	96.8	27.8
Others	97.3	33.4	33.1	97.5	32.9	103.6	32.8	108.2	32.9	111.4	33.3	112.8	33.3	112.4	32.5	113.7	32.6
3. Long term Stocks	1.1	0.4	0.4	1.1	0.4	1.1	0.3	1.1	0.3	1.1	0.3	1.1	0.3	1.1	0.3	1.1	0.3
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	1.1	0.4	0.4	1.1	0.4	1.1	0.3	1.1	0.3	1.1	0.3	1.1	0.3	1.1	0.3	1.1	0.3
4. Non-interest bearing debt	35.9	12.3	12.3	35.9	12.1	35.9	11.4	35.9	10.9	35.9	10.7	35.9	10.6	35.9	10.4	35.9	10.3
Of which: Repo T/Bills	35.9	12.3	12.3	35.9	12.1	35.9	11.4	35.9	10.9	35.9	10.7	35.9	10.6	35.9	10.4	35.9	10.3
B. Others:	13.1	4.5	4.5	11.9	4.0	13.3	4.2	11.4	3.5	11.2	3.3	7.7	2.3	13.8	4.0	14.3	4.1
Of which CBK overdraft to Government	9.2	3.2	2.9	8.4	2.8	5.2	1.7	8.9	2.7	8.9	2.7	5.2	1.5	11.3	3.3	11.3	3.3

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 71.9 billion at the end of June 2005 to Ksh 86.5 billion at the end of April 2006. Consequently, Treasury bills comprised 24.8 percent of domestic debt at the end of April 2006 up from 22.8 percent at the end of June 2005 (Table 7.2). Treasury bills holding by commercial banks increased to Ksh 41.2 billion or 47.6 percent of the stock of Treasury bills at the end of April 2006 from Ksh 31.9 billion or 44.3 percent of the stock of Treasury bills at the end of June 2005 (Table 7.3 and Chart 7A).

The proportion of 91-day Treasury bills in the total stock of outstanding Treasury bills and bonds decreased from 16.1 percent at the end of June 2005 to 12.5 percent at the end of April 2006. However, the share of 182-day Treasury bills increased to 16.6 percent from 11.0 percent during the period (Table 7.3).

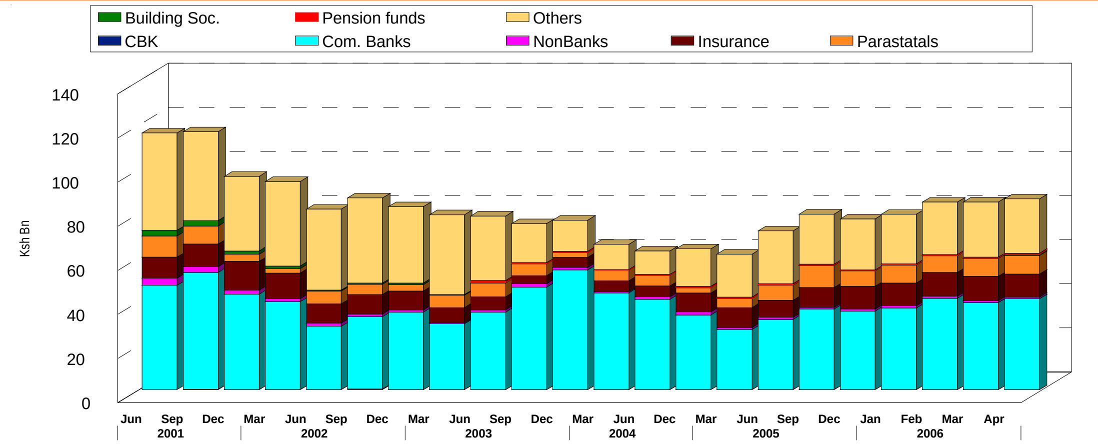
TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

	2005						2006							
Holders	June	%	Sep	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%
Banking Institutions	32.8	45.6	37.3	46.9	36.6	47.2	38.0	47.8	42.4	49.9	40.4	47.5	42.0	48.5
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	31.9	44.3	36.6	46.0	35.6	46.0	37.0	46.5	41.4	48.7	39.5	46.5	41.2	47.6
NBFIs	0.9	1.3	0.7	0.9	0.9	1.2	1.0	1.3	1.0	1.2	0.9	1.0	0.8	0.9
Insurance Companies	7.7	10.7	9.0	11.3	10.3	13.3	10.3	13.0	10.8	12.7	11.0	12.9	10.4	12.1
Parastatals	6.9	9.6	10.1	12.7	7.0	9.0	8.2	10.2	7.5	8.9	8.1	9.5	8.4	9.7
Of which: NSSF	0.1	0.1	0.2	0.2	0.1	0.2	0.4	0.5	0.4	0.4	0.4	0.4	0.1	0.1
Building Societies	0.2	0.3	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.6	0.6
Pension Funds	0.5	0.7	0.4	0.5	0.3	0.4	0.5	0.6	0.5	0.5	0.4	0.5	0.5	0.6
Others	23.9	33.2	22.7	28.5	23.2	29.9	22.5	28.3	23.7	27.9	25.0	29.4	24.6	28.5
Total*	71.9	100.0	79.6	100.0	77.4	100.0	**79.6**	**100.0**	**85.0**	**100.0**	**84.9**	**100.0**	**86.5**	**100.0**

*** Excludes repurchase order bills**

Source: Central Bank of Kenya

CHART 7A: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)



Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds increased from Ksh 193.4 billion at the end of June 2005 to Ksh 210.5 billion at the end of April 2006 (Table 7.2 and Chart 7B). Despite the increase, the ratio of Treasury bonds in total domestic debt declined to 60.4 percent at the end of April 2006 from 61.3 percent at the end of June 2005. Treasury bonds holdings by commercial banks increased from Ksh 88.5 billion at the end of June 2005 to Ksh 96.8 billion at the end of April 2006. Similarly, Treasury bonds holdings by non-bank financial institutions, corporate entities and individuals increased from Ksh 104.9 billion to Ksh 113.7 billion.

The largest proportion of Treasury bonds as at end April 2006 was in 2-year Treasury bonds, which comprised 13.7 percent of the stock of Treasury bills and bonds compared with 9.3 percent as at end June 2005. The Government did not issue any 1-year Treasury bonds during the period. Consequently, the proportion of 1-year Treasury bonds in the stock of Treasury bills and bonds declined from 11.7 percent at the end of June 2005 to 1.8 percent at the end of April 2006.

The proportion of Treasury bonds of tenors between 4 and 10 years in the stock of Treasury bills and bonds increased from 41.4 percent at the end of June 2005 to 45.3 percent at the end of April 2006. This follows the successful issuance of

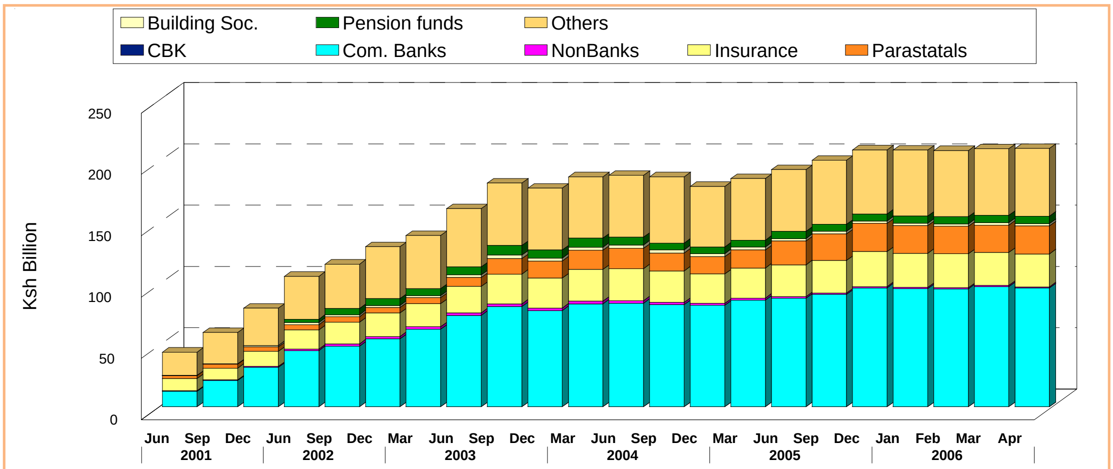
TABLE 7.4: OUTSTANDING TREASURY BONDS BY HOLDER (Ksh billion)

	2005						2006							
Holders	June	%	Sep	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%
Banking Institutions	89.7	46.4	92.7	46.1	98.0	46.8	97.3	46.6	97.1	46.2	98.8	47.0	97.7	46.4
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	88.5	45.8	91.6	45.6	97.0	46.3	96.3	46.1	96.1	45.7	97.9	46.6	96.8	46.0
NBFIs	1.2	0.6	1.1	0.5	1.0	0.5	1.0	0.5	1.0	0.5	0.9	0.4	0.9	0.4
Insurance Companies	25.9	13.4	26.6	13.2	28.5	13.6	27.8	13.3	27.6	13.1	27.0	12.9	26.9	12.8
Parastatals	19.5	10.1	21.7	10.8	23.0	11.0	22.6	10.8	22.4	10.7	22.3	10.6	22.8	10.8
Of which: NSSF	3.0	1.5	3.2	1.6	3.8	1.8	3.8	1.8	3.7	1.7	3.7	1.8	4.0	1.9
Building Societies	2.0	1.0	2.0	1.0	2.0	0.9	2.0	0.9	2.0	1.0	1.9	0.9	1.9	0.9
Pensions Fund	5.8	3.0	5.8	2.9	5.8	2.8	5.9	2.8	5.9	2.8	6.0	2.8	6.1	2.9
Others	50.4	26.0	52.1	26.0	52.2	24.9	53.7	25.7	53.9	25.6	54.4	25.8	55.2	26.2
Total	193.4	100.0	200.9	100.0	209.4	100.0	209.3	100.1	209.0	99.4	210.3	100.0	210.5	100.0

Source: Central Bank of Kenya

Treasury bonds of tenors from 4 to 10 years during the first ten months of the fiscal year 2005/2006. As a result, the proportion of bonds of tenors from 1 to 3 years in the total stock of outstanding Treasury bills and bonds declined from 31.5 percent at end June 2005 to 25.6 percent at the end of April 2006 (Table 7.5 and Chart 7C). These developments are consistent with the Government debt management strategy of restructuring domestic debt from short to long dated Treasury bonds.

CHART 7C: STOCK OF TREASURY BILLS & BONDS (Ksh billion)



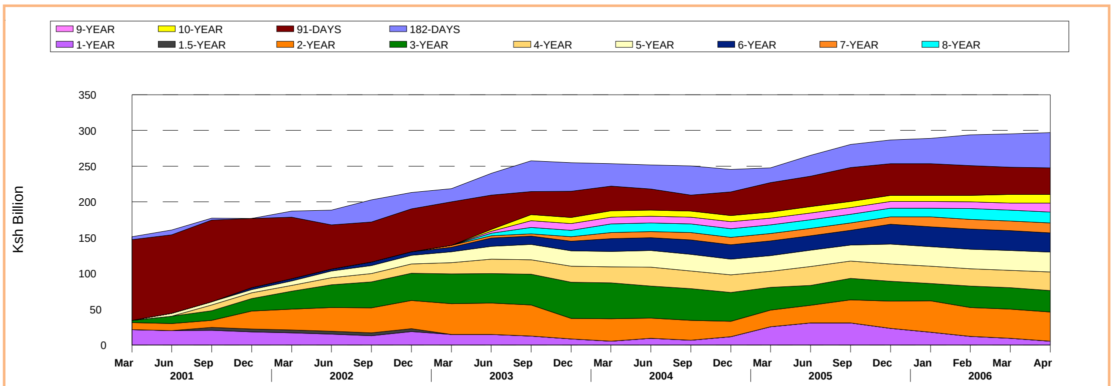
Source: Central Bank of Kenya

CHART 7B: OUTSTANDING TREASURY BONDS BY HOLDER (Ksh billion)

	2004						2005							2006							
	Jun	%	Sep	%	Dec	%	Mar	%	June	%	Sep	%	Oct	Jan	%	Feb	%	Mar	%	Apr	%
91-DAY	29.5	11.7	22.2	8.9	33.2	13.5	41.1	16.6	42.8	16.1	47.3	16.9	44.8	44.3	15.3	41.9	14.2	38.4	13.0	37.1	12.5
182-DAY	33.4	13.3	40.8	16.3	31.6	12.9	20.4	8.2	29.2	11.0	32.3	11.5	33.0	35.3	12.2	43.1	14.7	46.6	15.8	49.3	16.6
1-YEAR	9.3	3.7	6.5	2.6	11.5	4.7	25.3	10.2	31.0	11.7	30.8	11.0	29.2	17.8	6.2	12.2	4.1	9.5	3.2	5.3	1.8
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	0.0	0.0	0.0	0.0
2-YEAR	28.2	11.2	27.8	11.1	21.6	8.8	23.4	9.4	24.7	9.3	32.5	11.6	32.5	43.9	15.2	40.1	13.7	40.7	13.8	40.7	13.7
3-YEAR	44.8	17.8	44.6	17.8	40.4	16.4	31.9	12.9	27.9	10.5	29.8	10.6	29.1	24.3	8.4	30.0	10.2	30.0	10.2	30.0	10.1
4-YEAR	26.5	10.5	24.5	9.8	24.5	10.0	22.5	9.1	26.2	9.9	24.2	8.6	29.8	24.2	8.4	24.2	8.2	24.2	8.2	26.3	8.9
5-YEAR	23.1	9.2	23.1	9.2	22.0	9.0	22.0	8.9	22.7	8.6	22.7	8.1	22.7	27.6	9.6	27.6	9.4	27.6	9.3	27.6	9.3
6-YEAR	17.9	7.1	20.4	8.2	20.4	8.3	20.4	8.3	20.4	7.7	20.4	7.3	20.4	27.8	9.6	27.8	9.5	27.8	9.4	27.1	9.1
7-YEAR	8.6	3.4	10.3	4.1	10.3	4.2	10.3	4.2	10.3	3.9	10.3	3.7	10.3	13.6	4.7	13.6	4.6	13.6	4.6	13.6	4.6
8-YEAR	12.0	4.8	12.0	4.8	12.0	4.9	12.0	4.8	12.0	4.5	12.0	4.3	12.0	12.0	4.1	15.3	5.2	15.3	5.2	15.3	5.1
9-YEAR	9.6	3.8	9.6	3.8	9.6	3.9	9.6	3.9	9.6	3.6	9.6	3.4	9.6	9.6	3.3	9.6	3.3	9.6	3.2	12.6	4.2
10-YEAR	8.6	3.4	8.6	3.4	8.6	3.5	8.6	3.5	8.6	3.3	8.6	3.1	8.6	8.6	3.0	8.6	2.9	12.1	4.1	12.1	4.1
Total	251.6	100.0	250.5	100.0	245.6	100.0	247.5	100.0	265.3	100.0	280.4	100.0	282.0	288.8	100.0	293.9	100.0	295.3	100.0	297.0	100.0

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Maturity Profile of Treasury Bills and Bonds

Treasury bills and bonds totalling Ksh 12.2 billion and Ksh 62.7 billion, respectively, will mature between May and July 2006. The Treasury bonds maturities during the period comprise Ksh 5.3 billion in 1-year bonds, Ksh 1.9 billion in 2-year bonds, Ksh 1.9 billion in 3 - year bonds, Ksh 2.0 billion in 4-year bonds and Ksh 1.1 billion in 5-year bonds. On the other hand, the Treasury bills maturities during the period comprise Ksh 40.9 billion in 91-day Treasury bills and Ksh 21.8 billion in 182-day Treasury bills.

Government Long-term Stocks

As shown in Table 7.2, the ratio of the stock of Government long-term stocks in total domestic debt remained unchanged at 0.3 percent in April 2006 as at the end of June 2005. Non-bank financial institutions held 61.3 percent of the outstanding stocks while the remaining 38.7 percent was held by the National Social Security Fund (NSSF).

External Debt

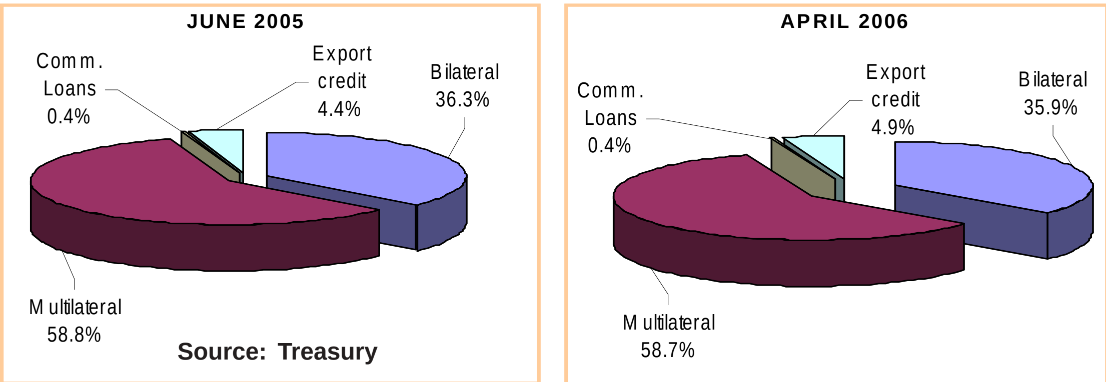
During the first ten months of the fiscal year 2005/06, Kenya's external public and publicly guaranteed debt fell by Ksh 30.9 billion or 9.2 percent to stand at Ksh 403.1 billion at the end of April 2006 from Ksh 434.0 billion at the end of June 2005. However, in US dollars, the stock of external public and publicly guaranteed debt was virtually unchanged from the USD 5.7 billion position at end June 2005.

The decrease in the stock of external debt during the period, therefore, largely reflected Ksh 30.5 billion revaluation gain following appreciation of the Kenya shilling against the US dollar, and Ksh 6.8 billion principal repayments. However, the decrease in the debt was partially offset by Ksh 6.4 billion external loan disbursements during the period. The disbursements comprised Ksh 1.6 billion programme loans from the African Development Bank (ADB) and Ksh 4.8 billion project loans.

Composition of External Debt by Creditor

The ratio of external debt owed to multilateral and bilateral creditors decreased slightly to 58.7 percent and 35.9 percent, respectively, at the end of April 2006 from 58.8 percent and 36.3 percent, respectively, at the end of June 2005 (Chart 7D). Commercial loans and suppliers credits accounted for the remaining 5.3 percent, up from 4.9 percent at the end of June 2005.As shown in Chart 7E, the

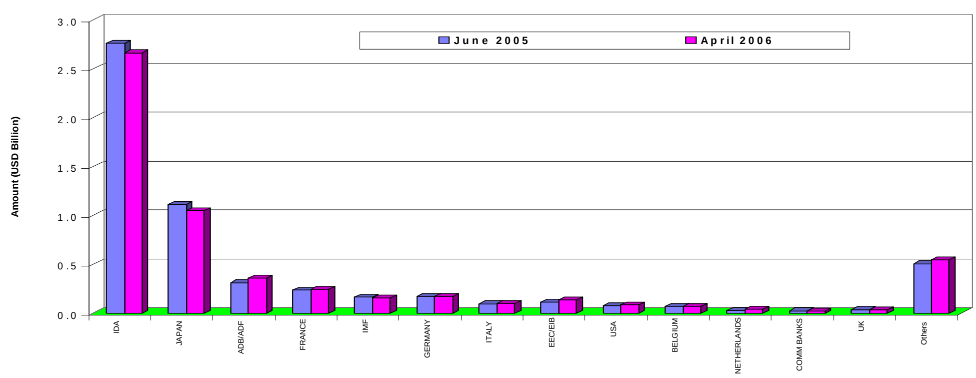
CHART 7D: EXTERNAL DEBT DISTRIBUTION BY CREDITOR



Source: Treasury

International Development Association (IDA), Japan, the African Development Bank (ADB), IMF and the Governments of France and Germany continue to be the largest lenders to Kenya. As at the end of April 2006, outstanding loans to Kenya from IDA and Japan stood at USD 2.7 billion and USD 1.1 billion, respectively.

CHART 7E: EXTERNAL DEBT BY CREDITOR

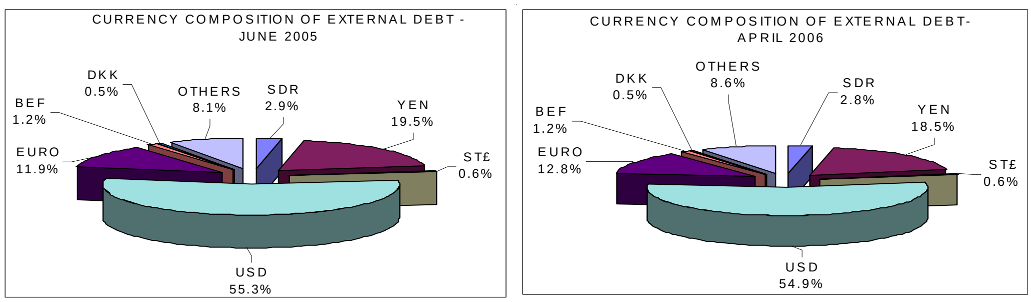


Source: Treasury

Currency Composition of External Debt

Reflecting strengthening of the Kenya shilling during the first ten months of the fiscal year 2005/06, the proportion of external debt held in US dollars, Japanese Yen and SDRs decreased to 54.9 percent, 18.5 percent and 2.8 percent, respectively, at the end of April 2006 from 55.3 percent, 19.5 percent and 2.9 percent, respectively, at the end of June 2005 (Chart 7F). However, the proportion of external debt held in Euros increased to 12.8 percent at the end of March 2006 from 11.9 percent at the end of June 2005.

CHART 7F: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

During the first ten months of the fiscal year 2005/06, Government expenditure on interest and other charges on domestic debt increased to stand at Ksh 25.4 billion or 10.7 percent of total Government revenue as at end April 2006 from Ksh 19.3 billion or 8.3 percent of total Government revenue in the corresponding period of the fiscal year 2004/05. The increase in the expenditure on domestic interest during the period reflects higher domestic borrowing compared to a similar period the previous fiscal year.

During the first ten months of the fiscal year 2005/06, external debt service including repayments to the IMF amounted to Ksh 11.3 billion or 5.3 percent of total Government revenue in the period, which was lower compared with Ksh 11.5 billion or 5.5 percent of Government revenue paid in a corresponding period of the previous fiscal year. The external debt service during the period comprised Ksh 6.8 billion in principal repayments and Ksh 4.5 billion in interest payments while that in a corresponding period of the fiscal year 2004/05 comprised Ksh 8.4 billion in principal repayments and Ksh 3.1 billion in interest payments.

During the period, external debt service amounting to Ksh 6.5 billion was re-scheduled down from Ksh 7.7 billion in a similar period in the previous fiscal year. The Government accumulated external debt arrears totalling Ksh 10.1 billion on commercial loans during the period following suspension of the repayments until completion of the on-going investigations by the Kenya Anti-Corruption Commission to ascertain whether the contracts were genuine.

Outlook for FY 2005/06

Government domestic debt increased during the first ten months of the fiscal year 2005/06 reflecting increased domestic borrowing operations in the period. The upward trend in the debt stock is expected to continue to the end of the fiscal year as the Government has revised net domestic financing in the fiscal year 2005/06 from the initial Ksh 25.3 billion to Ksh 36.3 billion.

ACTIVITY IN THE STOCK MARKET

Equity Market

The equity market was bullish in May 2006. The NSE 20 Share Index gained 324.5 points during the month, moving from 4025.2 points in April to 4349.7 by end of May 2006. Shares traded increased by 220 percent to 183.5 million from 57.3 million in the previous month spurred by KenGen and Mumias shares. Turnover increased by 300 percent to Ksh 11.4 billion, the highest in NSE history. Market capitalization increased by Ksh 128.1 billion to Ksh 614.9 billion from Ksh 486.8 billion in April 2006.

During the month, the Capital Markets Authority suspended the listing and trading of the shares of Uchumi Supermarkets following the receipt of a resolution of the Board of Directors of Uchumi indicating that the company was insolvent.

KenGen listed its 659 million shares and started trading on May 17, 2006 moving from an IPO price of Ksh 11.90 to an average of Ksh 40.00, it transacted 56 million shares. Several companies announced their results for the period ended March 31st 2006 registering declining profitability. Total Kenya showed a drop in their profitability by 30 percent to Ksh 114 million from Ksh 164 million over a similar period. Rea Vipingo profitability declined by 29 percent to Ksh 57 million while Sasini Tea and Coffee declined by 76 percent to Ksh 45.7 million. Kenya Airways

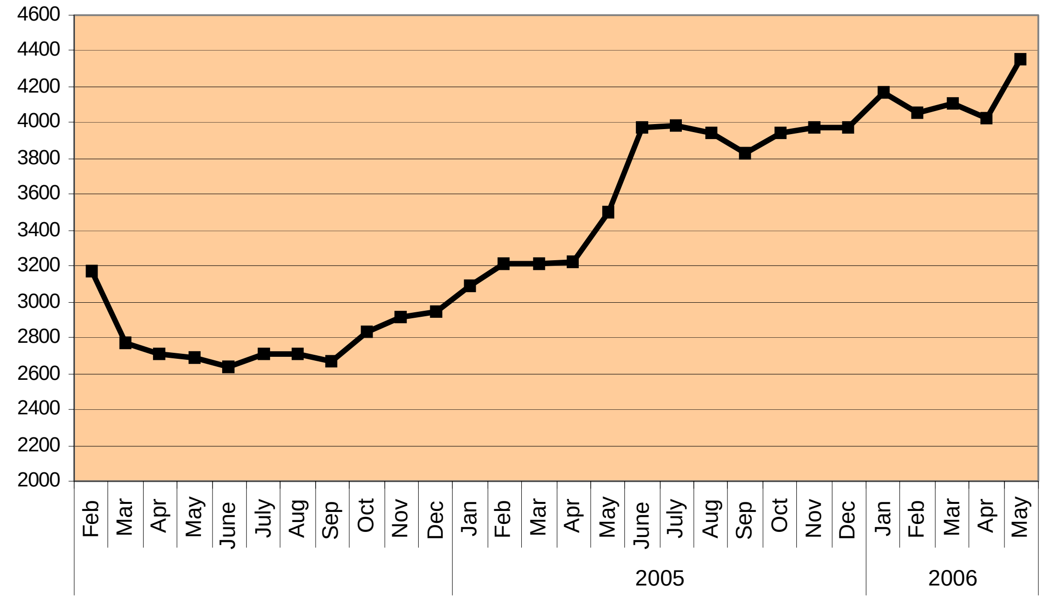
TABLE 8.1: SELECTED STOCK MARKET INDICATORS, 2004 - 2005

Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
Jan 05	3,094.30	38.81	1,554.62	321.23	1,015.25
Feb 05	3,212.81	41.97	1,540.70	334.85	636.25
Mar 05	3,208.66	31.90	1,513.10	329.01	133.00
Apr 05	3,227.59	36.80	1,626.10	335.80	1,005.10
May 05	3,505.39	58.61	2,422.95	373.07	780.00
June 05	3972.15	101.95	3,840.00	420.33	1,300.00
July 05	3,982.00	114.33	5,150.00	439.73	1,460.00
Aug 05	3,938.70	72.01	3,850.00	442.82	1,780.00
Sept 05	3,832.69	150.99	2,759.43	449.80	1,283.50
Oct 05	3,939.45	58.42	3,850.00	455.00	1,520.00
Nov 05	3,974.12	82.42	4,350.00	455.50	1,180.00
Dec 05	3,973.04	85.88	4,070.00	462.52	1,480.00
Jan 06	4,171.80	143.50	6,146.38	481.29	1,054.90
Feb 06	4,056.63	61.95	3,392.49	469.66	4,696.25
Mar 06	4,101.64	69.20	3,692.22	484.18	2,859.70
Apr 06	4,025.21	57.28	2,861.62	486.78	6,002.15
May 06	4,349.75	183.46	11,437.33	614.90	4,783.25

Source: Nairobi Stock Exchange

profitability, however, increased by 24 percent to Ksh 4.8 billion, while BOC Kenya recorded 21 percent improvement in net profits to Ksh 109 million.

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



Source: Nairobi Stock Exchange

The industrial and allied sector led in trading with 119 million shares valued at Ksh 6.8 billion compared with 24 million shares valued at Ksh 1.4 billion in the previous month. This represented 65 percent of total traded volume. KenGen traded 56 million while Mumias traded 36 million. The commercial and services sector traded 37 million shares valued at Ksh 2.8 million representing 24.5 percent of total traded volume. The best counters were Kenya Airways and Uchumi Supermarkets that traded 18 million and 13 million respectively.

Security Market

Bond turnover declined by Ksh 1.2 billion to Ksh 4.8 billion from Ksh 6.0 billion in April 2006. The most traded bond was 10-year Treasury Bond FXD 1/2006 with a coupon rate of 14.00 percent per annum which transacted bonds worth Ksh 1,114.2 million. Two bonds were issued during the month, a 5-year FXD1/2006 and 10- year FXD 1/2006 dated 27/03/2006 for subsequent listing on the NSE. The two bonds are worth Ksh 7.0 billion.

Balance Sheet of the Central Bank of Kenya

(Kenya shillings million)

	MAY 2006	MAY 2005	May 06/May 05 Movement
ASSETS	211,727	173,473	38,254
Foreign Exchange	162,042	117,810	44,232
Advances and Discounts to Banks	0	0	0
Investment in Government Securities	3	3	0
Government Accounts	43,772	46,264	-2,492
Overdraft to Government	5,645	7,694	-2,049
Clearing Account	270	367	-97
IMF funds on-lent to Government	1,940	2,286	-346
Non-interest Bearing Government Debt	35,917	35,917	0
Other assets	5,910	9,396	-3,486
Past Revaluation Losses	0	4,000	-4,000
Debtors	4,497	3,658	839
Retirement Benefits	478	511	-33
Property and Equipment	650	938	-288
Prepaid Leases	285	289	-4
LIABILITIES	211,727	173,473	38,254
Currency in Circulation	71,457	66,768	4,689
Repo Securities	25,739	10,321	15,418
Deposits	102,030	81,516	20,514
Commercial Banks			
Kenya	35,072	26,537	8,535
External	20	19	1
Non -bank Financial Institutions	118	118	0
IMF	13,532	15,308	-1,776
Government	44,775	30,697	14,078
Other Public Entities and Project A/Cs	7,531	7,888	-357
Local Banks forex settlement fund	982	949	33
Other Liabilities and Provisions	3,082	1,610	1,472
Capital and Reserves	9,419	13,258	-3,839
Capital	1,500	1,500	0
General Reserve Fund	5,398	9,533	-4,135
Period's Surplus	2,521	2,225	296
Dividend payable	0	0	0

Source: Central Bank of Kenya

Notes on the Balance Sheet

Assets

Foreign exchange reserves of the Bank increased by Ksh 44,232 million to Ksh 162,042 million in May 2006 from Ksh 117,810 million in May 2005 reflecting interbank purchases by the Bank and inflows from multilateral donors in support of the PRGF program.

Investment in Government securities remained at Ksh 3 million in May 2006.

Balances in Government accounts at CBK declined by Ksh 2,492 million to Ksh 43,772 million in May 2006 from Ksh 46,264 million in May 2005. The decline was in reduced utilization of the overdraft facility by Ksh 2,049 million, reduced past revaluation gain on IMF funds on-lent to the Government by Ksh 346 million and reduced balances in clearing accounts by Ksh 97 million.

Other assets including the revaluation account declined by Ksh 3,486 million after recovery of Ksh 4,000 million revaluation losses, reduction in the value of property and equipment by Ksh 288 million that was offset by Ksh 839 million increase in debtors of the Bank.

Liabilities

Currency in circulation increased by Ksh 4,689 million to Ksh 71,457 million in May 2006 from Ksh 66,768 million in May 2005.

The stock of **repo securities** increased by Ksh 15,418 million to Ksh 25,739 million in May 2006 from Ksh 10,321 million in May 2005.

Deposits increased by Ksh 20,514 million to Ksh 102,030 million in May 2006 due to increase of Ksh 14,078 million in Government of Kenya deposits and an increase of Ksh 8,535 million in commercial banks' deposits at the Central Bank. The increases were partly offset by declines in deposits of other public and project entities by Ksh 357 million and IMF liabilities by Ksh 1,776 million.

Other liabilities and provisions increased by Ksh 1,472 million to Ksh 3,082 million in May 2006 from Ksh 1,610 million in May 2005.

Capital and reserves declined by Ksh 3,839 million to Ksh 9,419 million in May 2006 from Ksh 13,258 million in May 2005 mainly on account of reduced General Reserve Fund balances by Ksh 4,135 million that was partly offset by an increased surplus of the Bank by Ksh 296 million to Ksh 2,521 million in May 2006 from Ksh 2,225 million.