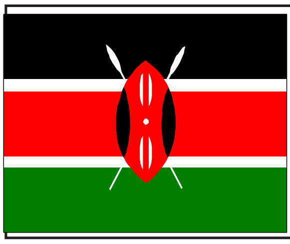


MONTHLY ECONOMIC REVIEW

JUNE 2009

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 through June 2009. It highlights developments in money, credit and banking, inflation, interest rates and the shilling exchange rate. It also highlights developments in the real sector, Government budgetary operations, public debt and balance of payments.

Real GDP Growth

The economy grew by 7.1 percent in 2007 compared with 6.4 percent in 2006. In 2008, growth decelerated to 1.7 percent due to post-election violence, external shocks including the global financial crisis and high fuel and food prices, and inadequate rainfall in various parts of the country. However, growth recovered to 3.9 percent during the first quarter of 2009 from a decline of 0.6 percent in the same quarter of 2008, partly signaling a rebound of economic activity.

Inflation

The overall 12-month inflation fell for the second consecutive month in June 2009 to 17.8 percent, a level last experienced over a year ago, while the annual average inflation eased up slightly. 12-month inflation without food, energy and transport inflation declined slightly to 8.5 percent in June 2009.

Government Fiscal Operations

The Central Government budgetary operations in the first eleven months of the fiscal year 2008/09 resulted in a budget deficit of Ksh 66.1 billion on commitment basis. The budget deficit however remained within the target of Ksh 116.9 billion or 4.9 percent of GDP for the period.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by 15.8 percent in the first eleven months of the fiscal year 2008/09 to Ksh 1,008.2 billion in May 2009 from Ksh 870.6 billion in June 2008. Specifically, public domestic debt increased by 13.6 percent during the period from Ksh 430.6 billion in June 2008 to Ksh 489.3 billion in May 2009, while Kenya's external debt increased by 17.9 percent from Ksh 440.0 billion

(USD 6.8 billion) to Ksh 518.9 billion (USD 6.6 billion) over the same period.

Cumulative Government expenditure on interest and other charges on domestic debt increased from Ksh 38.2 billion in the first eleven months of the fiscal year 2007/08 to Ksh 42.1 billion in a similar period of the fiscal year 2008/09.

Monetary Expansion

Money supply, M3, growth decelerated to 10.6 percent in the year to May 2009 compared with 21.5 percent in a corresponding period in 2008 and remained below the projected 15.0 percent growth for the June 2009 quarter.

Interest Rates

The central bank rate remained at 8.25 percent in June 2009, while both the 91 day and 182 day Treasury bills rates trended downwards. The interbank rate also declined while the commercial bank average lending rates and deposit rates increased in June 2009.

Balance of Payments

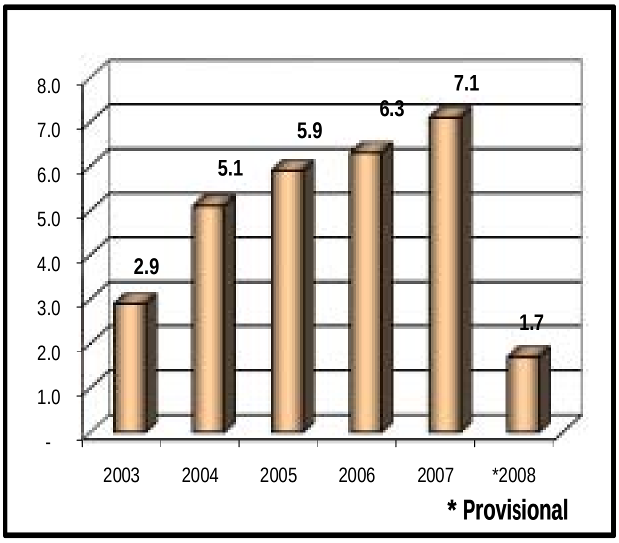
The balance of payments position declined to a deficit of US$ 497 million in the year to May 2009 from a surplus of US$ 716 million in the year to May 2008 due to a faster widening in the current account deficit.

Exchange Rates

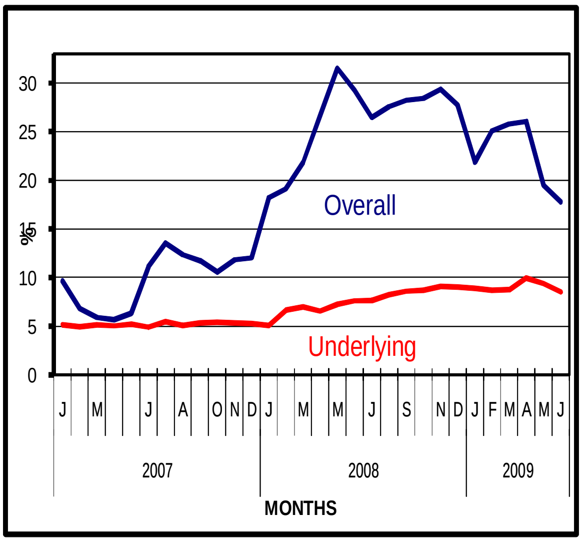
The Kenya Shilling depicted mixed performance against major world currencies in June 2009; weakening against the Sterling Pound and the Euro but strengthening against the Japanese Yen. Against the US dollar, the Shilling remained stable to exchange at an average of Ksh 77.85 per US dollar in June 2009.

SELECTED ECONOMIC PERFORMANCE INDICATORS

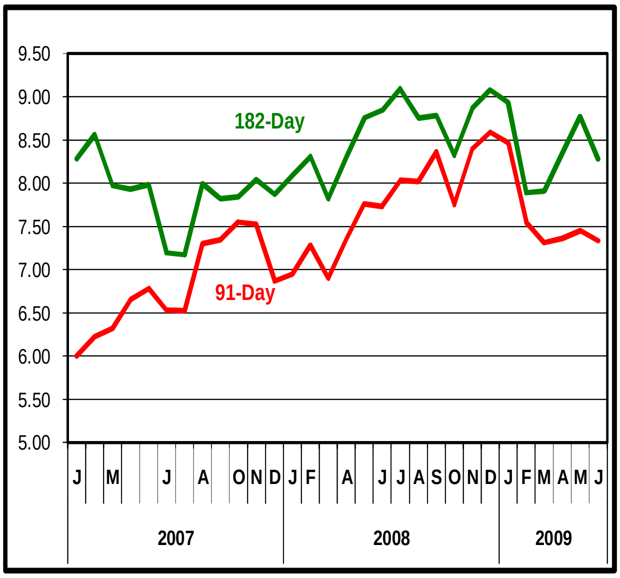
Real GDP Growth



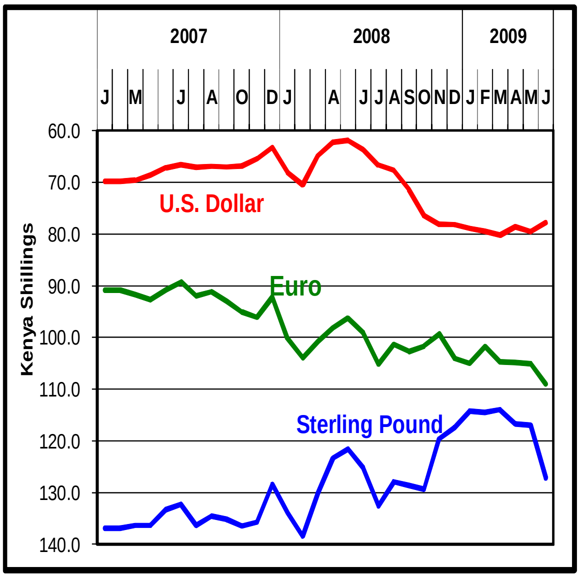
Inflation



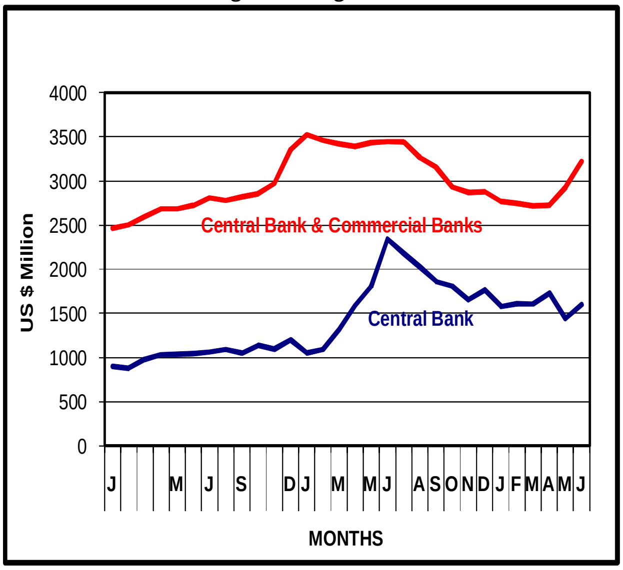
Treasury Bill Rates



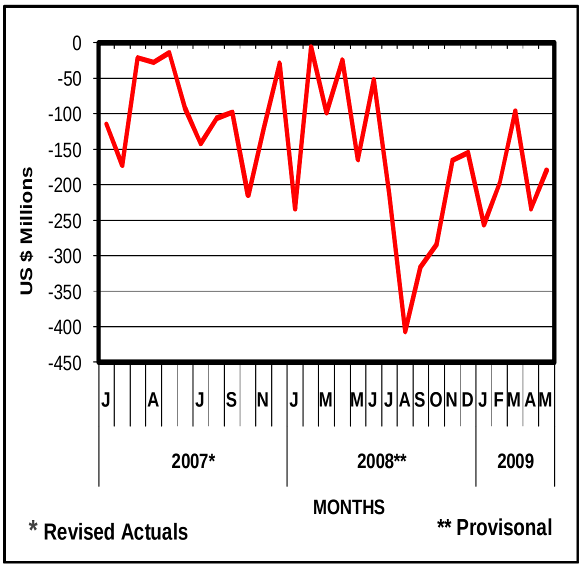
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

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

* Provisional.
** Revised to reflect data in Economic Survey 2008.
*** Fiscal year to June 30th.
**** Figures in parentheses refer to official reserves in terms of 12-months of imports of goods and non-factor services.
[1] Previously M3XT
[2] Previously M3X
[3] Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2008 Apr	2008 May	2008 Jun	2008 Dec	2009 Jan	2009 Feb	2009 Mar	2009 Apr	2009 May	2009 June
1. INFLATION (%)										
CPI	281.88	291.79	290.75	306.28	318.02	333.21	345.3	355.36	348.76	342.38
Overall Inflation										
12-month overall inflation	26.63	31.54	29.26	27.72	21.87	25.09	25.80	26.07	19.52	17.76
Average annual overall inflation	14.79	16.93	18.47	26.24	26.47	26.92	27.21	27.15	26.08	25.05
Underlying Inflation*										
12-month underlying inflation	6.54	7.24	7.60	9.04	8.89	8.67	8.75	9.95	9.37	8.51
Average annual underlying inflation	5.60	5.78	6.00	7.63	7.94	8.11	8.26	8.53	8.72	8.79
2. INTEREST RATES (%)										
91-day Treasury bill interest rate	7.35	7.76	7.73	8.59	8.46	7.55	7.31	7.33	7.45	7.33
Overdraft interest rate	13.46	13.53	13.30	14.39	13.84	13.46	13.78	13.16	14.13	14.41
3. STOCK MARKET										
Nairobi Stock Exchange Price Index	5,336.03	5,175.83	5,185.56	3,521.18	3,198.90	2,474.75	2,805.03	2,800.10	2852.6	3294.6
Turnover (%)	1.21	1.12	3.92	0.29	0.30	0.26	0.33	0.35	0.49	0.61
4. GOVERNMENT BUDGET** (Ksh bn.)										
Revenue	362.36	402.67	457.67	236.60	277.42	318.85	361.27	407.21	449.64	
Expenses	393.93	449.75	534.84	241.70	301.54	359.38	406.94	465.12	515.70	
Budget Deficit (-) / Surplus (+)	(31.57)	(47.08)	(77.17)	(5.10)	(24.12)	(40.53)	(45.67)	(57.91)	(66.06)	
5. MONEY AND CREDIT (Ksh bn.)										
Liquidity (L)[1]	1,051.52	1,063.99	1,028.56	1,091.93	1,089.21	1,103.41	1,107.95	1,135.46	1,139.47	
Money Supply (M3)[2]	864.10	839.24	840.68	901.05	895.40	900.03	906.07	928.82	928.60	
Reserve Money	146.98	147.39	152.91	163.59	152.49	151.82	155.40	152.90	160.40	
Total Domestic Credit	746.61	703.71	701.76	806.04	807.34	813.97	827.77	830.13	835.18	
Government	155.39	117.69	133.44	155.32	156.74	153.91	168.03	166.81	162.55	
Private sector and other public sector	591.22	586.02	568.32	650.72	650.60	660.05	659.74	663.32	672.63	
6. MONEY AND CREDIT (Annual % Change)										
Liquidity (L)[1]	24.26	19.64	17.39	12.38	9.75	10.19	10.15	7.98	7.1	
Money Supply (M3)[2]	7.49	7.49	7.49	7.49	7.49	7.49	11.69	7.49	10.6	
Reserve Money	4.03	4.03	4.03	4.03	4.03	4.03	1.57	4.03	8.8	
Total Domestic Credit	26.37	17.33	16.89	22.85	18.48	17.55	19.60	11.19	18.7	
Government	17.26	(12.37)	(15.10)	13.01	4.60	(2.20)	4.68	7.35	38.1	
Private and other public sector	-	-	-	25.45	22.40	23.36	24.10	12.19	14.8	
7. BALANCE OF PAYMENTS (US$ m)										
Overall Balance	(28.44)	45.33	9.59	6.14	(106.62)	(22.64)	(30.98)	176.86	41.20	
Current Account	(7.78)	(156.63)	(49.08)	(148.04)	(239.79)	(189.22)	(78.66)	(233.86)	(179.62)	
Trade Balance	(438.44)	(525.92)	(414.98)	(528.18)	(491.67)	(400.93)	(371.62)	(495.45)	(422.82)	
Capital and Financial Account	(20.66)	201.97	58.67	154.18	133.17	166.58	47.68	410.72	220.82	
8. FOREIGN EXCHANGE RESERVES (US$ m)	4,977.25	5,244.39	5,786.45	4,640.78	4,348.12	4,354.38	4,320.41	4,620.47	4,370.19	4,821.67
Official***	3,390.05	3,435.38	3,444.97	2,875.46	2,768.85	2,744.85	2,713.87	2,887.74	2,928.94	3,219.52
Months of imports cover	*3.74*	*3.73*	*3.71*	*2.75*	*2.67*	*2.67*	*2.66*	*2.86*	*2.95*	3.24
Commercial banks	1,587.20	1,809.01	2,341.48	1,765.32	1,579.27	1,609.52	1,606.54	1,732.74	1,441.25	1,602.15
9. PUBLIC DEBT (US$ bn)	13.90	14.06	13.46	12.50	12.15	12.46	12.3	12.8	12.9	
Domestic	7.05	7.14	6.66	5.87	5.71	6.00	5.90	6.33	6.25	
As % of GDP	22.09	22.03	21.15	20.60	20.24	21.07	20.61	21.32	20.70	
External	6.86	6.93	6.80	6.63	6.44	6.46	6.39	6.51	6.62	
As % of GDP	21.48	21.38	21.61	23.27	22.83	22.63	22.29	21.94	21.95	
10. GROSS DOMESTIC DEBT (Ksh bn)****	437.94	442.68	430.61	456.20	454.27	479.08	474.89	497.58	489.34	
11. AVERAGE EXCHANGE RATE										
Ksh/US$	62.26	61.90	63.78	78.22	78.95	79.53	80.26	78.66	79.63	77.9
Ksh/Pound Sterling	123.37	121.62	125.27	117.42	114.28	114.54	113.98	116.70	116.98	127.2
Ksh/ 100 Yen	60.83	59.38	59.60	85.37	87.45	86.18	82.22	80.84	80.76	80.6
Ksh/Euro	98.08	96.32	99.21	104.07	105.02	101.71	104.77	104.80	105.08	109.0

* Underlying inflation excluding food, energy and transport and communications

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

*** Figures in parentheses refer to official reserves in terms of 12 months of imports of goods and non-factor services.

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

1 Previously M3XT

2 Previously M3X

3 December 2008 figures are the average between 1 - 23 December, 2008 (Provisional)

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

Trends in Various Measures of Inflation

Overall Inflation

Overall 12-month inflation decreased from 19.5 percent in May 2009 to 17.8 percent in June 2009. This was reflected in lower prices of seasonal food items such as sukuma wiki (kale), cabbages and English potatoes which compensated for the increase in the prices of food items like sugar and milk. The prices of all the other commodities in the CPI basket increased marginally in June 2009.

Underlying Inflation

The 12-month underlying inflation fell from 9.4 percent in May 2009 to 8.5 percent in June 2009. Most of the components experienced marginal price increases, some of which were negligible in June 2009.

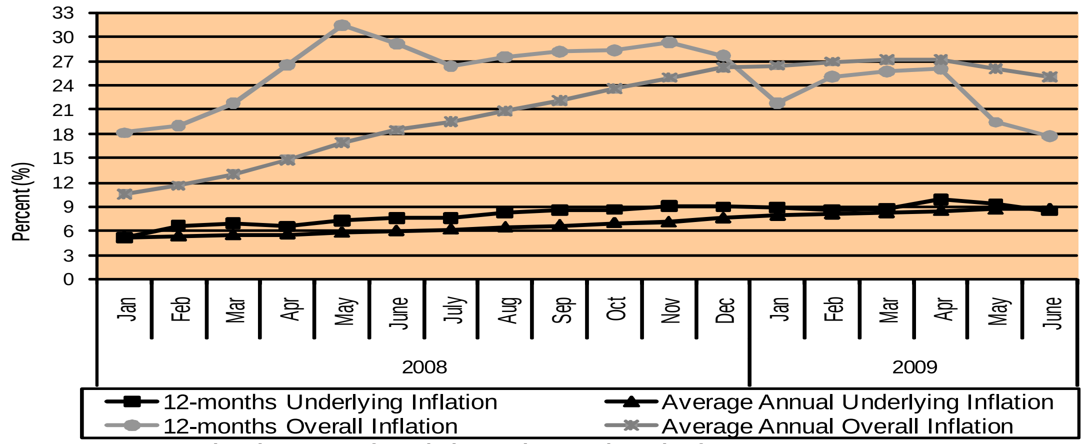
Table 1.1 and Chart 1A depict trends in overall and underlying inflation between January 2008 and June 2009.

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2008							2009					
	Jan	Feb	Mar	Apr	May	June	Dec	Jan	Feb	Mar	Apr	May	June
Underlying Inflation													
12-month	5.07	6.64	6.98	6.54	7.24	7.60	9.04	8.89	8.67	8.75	9.95	9.37	8.51
Average annual	5.17	5.32	5.48	5.60	5.78	6.00	7.63	7.94	8.11	8.26	8.53	8.72	8.79
Growth over one month	1.03	1.54	0.69	-0.18	0.85	1.13	0.38	0.89	1.33	0.77	0.91	0.31	0.34
Growth over 3 months	1.66	3.03	3.30	2.06	1.36	1.80	1.33	1.86	2.63	3.02	3.05	2.01	1.57
Overall Inflation													
12-month	18.22	19.13	21.83	26.63	31.54	29.26	27.72	21.87	25.09	25.80	26.07	19.52	17.76
Average annual	10.51	11.59	12.98	14.79	16.93	18.47	26.24	26.47	26.92	27.21	27.15	26.08	25.05
Growth over one month	8.80	2.10	3.00	2.70	3.50	-0.40	1.50	3.80	4.80	3.60	2.90	-1.90	-1.80
Growth over 3 months	13.50	14.20	14.50	8.00	9.50	5.90	4.70	7.70	10.40	12.70	11.70	4.70	-0.90

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

CHART 1A: UNDERLYING AND OVERALL INFLATION (%)



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

Inflation by Income Groups

All income groups experienced lower 12-month inflation in June 2009 with the "Nairobi lower" income group experiencing the largest fall from 21.7 percent in May 2009 to 18.7 percent in June 2009. The decline was attributed to lower food prices given that food and non-alcoholic drinks is a major component of this income group's expenditure. Inflation for the "Combined Nairobi" income group declined from 20.6 percent in May 2009 to 17.5 percent in June 2009 owing to lower food prices, while the "Nairobi middle/upper" income group recorded the lowest inflation at 10.5 percent in June 2009. Details on inflation by income groups are shown in Table 1.2 and Chart 1B.

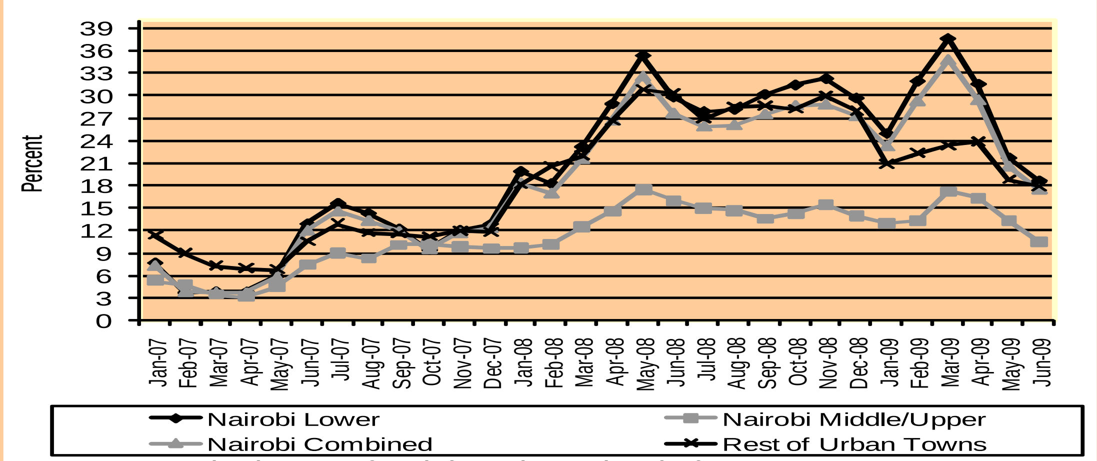
TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)

	2008						2009				
	Feb	Mar	Apr	May	June	Dec	Feb	Mar	Apr	May	June
Nairobi Lower	18.29	23.18	28.91	35.35	29.82	29.69	31.93	37.61	31.55	21.73	18.68
Nairobi Middle/Upper	10.14	12.51	14.59	17.53	16.01	13.97	13.34	17.28	16.33	13.33	10.49
Nairobi Income \[1]	17.01	21.56	26.67	32.54	27.65	27.27	29.25	34.74	29.40	20.56	17.51
Rest of Urban Towns	20.58	22.02	26.60	30.87	30.33	28.02	22.33	23.42	23.85	18.84	17.92

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

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

CHART 1B: 12-MONTH INFLATION BY INCOME GROUPS



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

Inflation across Goods and Services Categories

The 12 month inflation for most categories of goods and services declined in June 2009 with the exception of housing which remained constant and recreation and education which rose marginally. The most significant groups in this regard were alcohol and tobacco, medical goods and services, fuel and power and food and non-alcoholic drinks, which declined respectively from 14.7 percent, 18.2 percent, 0.2 percent and 25.3 percent in May 2009 to 8.6 percent, 15.3 percent, -2.6 percent and 23.4 percent, respectively, in June 2009. The rest of the categories declined marginally while recreation and education increased by 0.3 percent from 5.8 percent in May 2009 to 6.1percent in June 2009.

The decline in inflation for the above categories follows the fall in prices of petroleum products and seasonal food items. Table 1.3 and Chart 1C show inflation developments across all the ten categories of goods and services covered in the CPI.

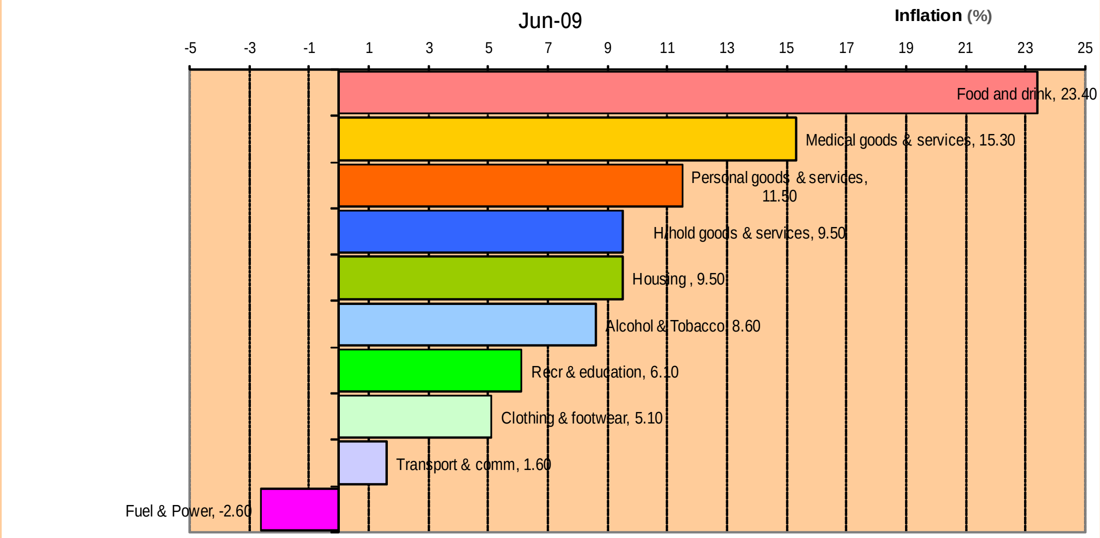
TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES

Goods and Services	Income Groups* Nairobi Lower	Middle/ Upper	Rest of Urban Towns	Combined weights	2008 Jan	Mar	Apr	May	June	Dec	2009 Jan	Feb	Mar	Apr	May	June
Weight	***(31.9)***	***(8.0)***	***(60.1)***	***(100)***												
Food and drink	55.70	31.90	50.20	50.50	24.60	28.80	36.80	44.20	40.10	37.50	28.90	33.90	34.80	34.60	25.30	23.40
Housing	11.90	31.70	9.00	11.70	5.20	6.20	5.70	6.50	6.60	7.20	6.80	8.20	9.70	10.00	9.50	9.50
Recr & education	4.60	7.30	6.60	6.00	2.70	6.70	5.50	6.80	6.90	7.00	8.30	5.40	5.00	6.40	5.80	6.10
H/hold goods & services	5.00	4.70	6.40	5.80	5.40	7.60	7.50	8.40	8.60	12.90	12.30	11.10	10.50	10.80	10.50	9.50
Clothing & footwear	9.20	7.40	9.10	9.00	3.60	4.90	4.30	5.20	5.30	6.10	5.80	5.40	4.40	6.20	5.50	5.10
Transport & comm	5.10	10.20	5.50	5.70	17.80	19.10	19.50	20.30	21.00	10.90	4.10	3.60	4.10	3.70	2.70	1.60
Fuel & Power	3.50	2.20	4.80	4.20	10.60	15.60	15.40	17.90	20.10	18.00	10.20	8.90	6.10	4.30	0.20	(2.60)
Medical goods & services	0.90	1.30	2.00	1.60	3.60	7.90	7.90	8.30	10.30	15.70	16.20	17.00	17.20	18.40	18.20	15.30
Personal goods & services	2.30	1.90	2.60	2.40	4.40	5.70	6.20	6.90	6.80	9.90	10.80	10.70	10.50	12.90	11.70	11.50
Alcohol & Tobacco	1.80	1.40	3.80	3.00	12.80	14.20	14.00	13.00	14.20	14.60	13.00	12.80	12.30	14.00	14.70	8.60

* Numbers in parentheses are income group weights

Source: Kenya National Bureau of Statistics

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



Source: Kenya National Bureau of Statistics

Inflation Outlook

Despite the poor rainfall experienced over most parts of the country during the long rains season, the inflation is forecast to decline through June to August 2009 as near normal rains are expected in the Western highlands, which is the bread basket of Kenya. In addition, the international oil price is expected to remain fairly low and stable.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Money supply, M3[1], growth decelerated to 10.6 percent in the year to May 2009 compared with 21.5 percent in a corresponding period in 2008 and remained below the projected 15.0 percent growth for the June 2009 quarter. Broad money, M2, that is, M3 excluding foreign currency deposits, grew by 12.2 percent in May 2009 compared with 21.0 percent in May 2008 (Table 2.1 and Chart 2A).

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

	2007 May	2008 May	2009 May	May-08 12 months %age change	May-09 12 months %age change
1. Money supply, M3 (2+3) 2/	**690.5**	**839.2**	**928.6**	**21.5**	**10.6**
1.1 Money supply, M2 3/	586.1	709.1	795.6	21.0	12.2
1.2 Money supply, M1	325.5	395.2	392.9	21.4	-0.6
1.3 Currency outside banks	77.1	81.6	86.5	5.8	6.0
2. Net foreign assets 4/	**219.9**	**278.8**	**260.3**	**26.8**	**-6.6**
Central Bank	161.9	193.9	204.9	19.8	5.7
Banking Institutions	58.0	85.0	55.3	46.4	-34.9
3. Net domestic assets (3.1+3.2)	**470.6**	**560.4**	**668.3**	**19.1**	**19.3**
3.1 Domestic credit (3.1.1+3.1.2)	**599.8**	**703.7**	**835.2**	**17.3**	**18.7**
3.1.1 Government (net)	134.3	117.7	162.6	-12.4	38.1
3.1.2 Private sector and other public sector	465.5	586.0	672.6	25.9	14.8
3.2 Other assets net (3-3.1)	-129.1	-143.3	-166.9	11.0	16.4
Memorandum items					
1. Overall liquidity, L 1/	**867.0**	**1064.0**	**1139.5**	**22.7**	**7.1**
2. Reserve money	**128.5**	**147.4**	**160.4**	**14.7**	**8.8**
Currency outside banks	77.1	81.6	86.5	5.8	6.0
Bank reserves	51.4	65.8	73.9	28.1	12.3

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

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

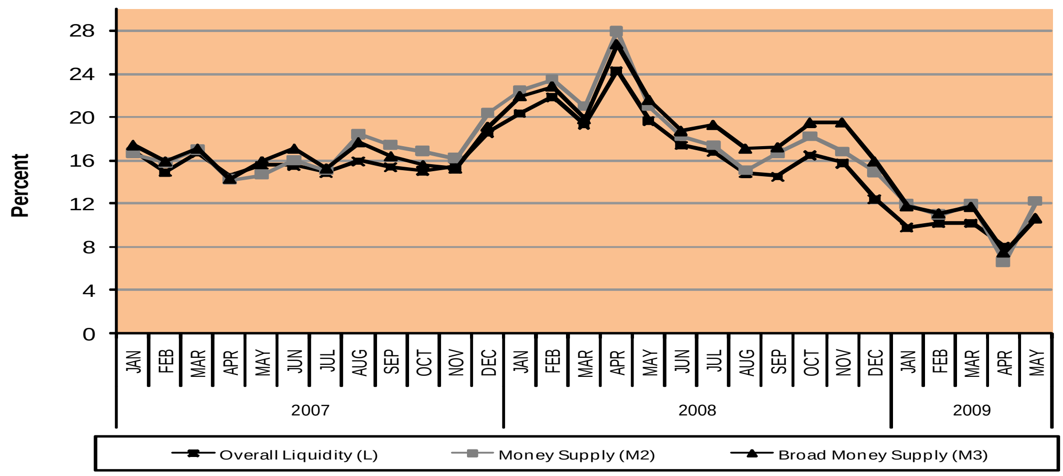
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. Is comparable to M3X in the past publications. Foreign currency deposits valued at current exchange rate from July 2008.

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

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The deceleration in money supply in the year to May 2009 followed decline in net foreign assets (NFA) of the banking system as growth in net domestic assets (NDA) of the banking system remained unchanged. NDA grew by 19.3 percent in the year to

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

May 2009 compared with 19.1 percent in a similar period of 2008. Meanwhile, NFA of the banking system declined by 6.6 percent compared with 26.8 percent growth in a corresponding period in 2008. The NFA of the banking institutions declined by 34.9 percent which more than offset the 5.7 percent increase in NFA of the Central Bank.

Credit Developments

Domestic credit grew by 18.7 percent in the year to May 2009 compared with 17.3 percent in a similar period in 2008. Credit to Government grew by 38.1 percent in the year to May 2009 compared with a net repayment of 12.4 percent in a corresponding period in 2008. Meanwhile, credit to the private sector grew by 16.5 percent in May 2009 compared with 27.0 percent in May 2008. Reflecting the slow down in credit expansion to the private sector, the sector's share in total bank credit declined from 81 percent in May 2008 to 79.5 percent in May 2009.

Most of the private sector credit expansion was to trade (33.5 percent), manufacturing (20.7 percent), mining and quarrying (16.2 percent), business services (15.3 percent), real estate (15.2 percent), and consumer durables (14.0 percent), as shown in Chart 2B.

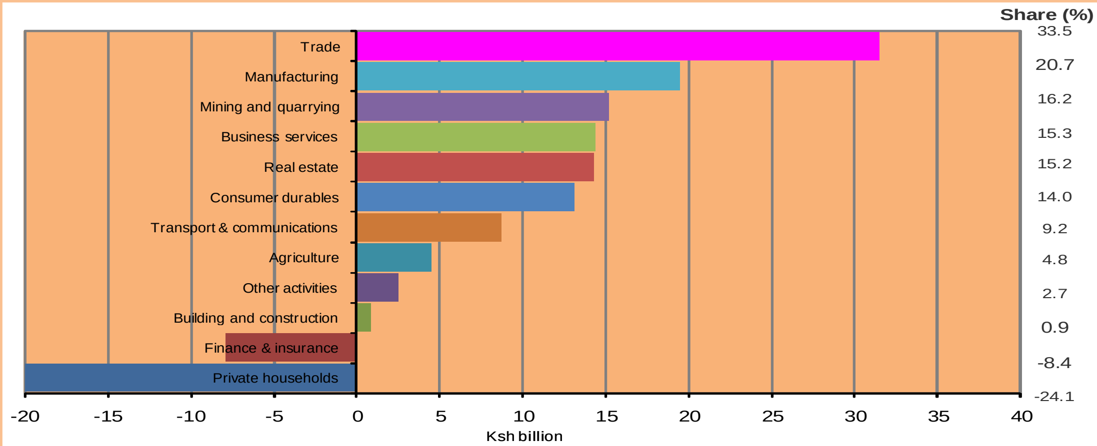
TABLE 2.2: BANKING SYSTEM NET DOMESTIC CREDIT (KSHS BILLION)

	2008 May		2009 May		Annual % Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2007/08	2008/09
1. Credit to Government	**117.7**	**16.7**	**162.6**	**19.5**	**-12.4**	**38.1**
Central Bank	0.0	0.0	-8.7	-1.0	-100.3	-38070.3
Commercial Banks & NBFIs	117.7	16.7	171.3	20.5	-17.8	45.5
2. Credit to other public sector	**16.0**	**2.3**	**8.5**	**1.0**	**-3.0**	**-46.9**
Local government	-3.1	-0.4	-3.4	-0.4	33.7	7.9
Parastatals	19.1	2.7	11.9	1.4	1.5	-37.9
3. Credit to private sector	**570.0**	**81.0**	**664.1**	**79.5**	**27.0**	**16.5**
Agriculture	27.4	3.9	32.0	3.8	-17.3	16.6
Manufacturing	69.4	9.9	88.9	10.6	-2.5	28.0
Trade	61.2	8.7	92.7	11.1	-6.5	51.4
Building and construction	37.0	5.3	37.8	4.5	-4.8	2.3
Transport & communications	45.0	6.4	53.7	6.4	8.7	19.3
Finance & insurance	26.2	3.7	18.3	2.2	-2.8	-30.3
Real estate	25.4	3.6	39.7	4.8	1.3	56.4
Mining and quarrying	5.2	0.7	20.5	2.5	32.7	291.9
Private households	112.5	16.0	89.8	10.8	89.3	-20.2
Consumer durables	28.4	4.0	41.5	5.0	65.0	46.4
Business services	62.4	8.9	76.8	9.2	21.4	23.1
Other activities	69.9	9.9	72.4	8.7	368.3	3.6
4. TOTAL (1+2+3) *	**703.7**	**100.0**	**835.2**	**100.0**	**17.3**	**18.7**

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Reserve Money

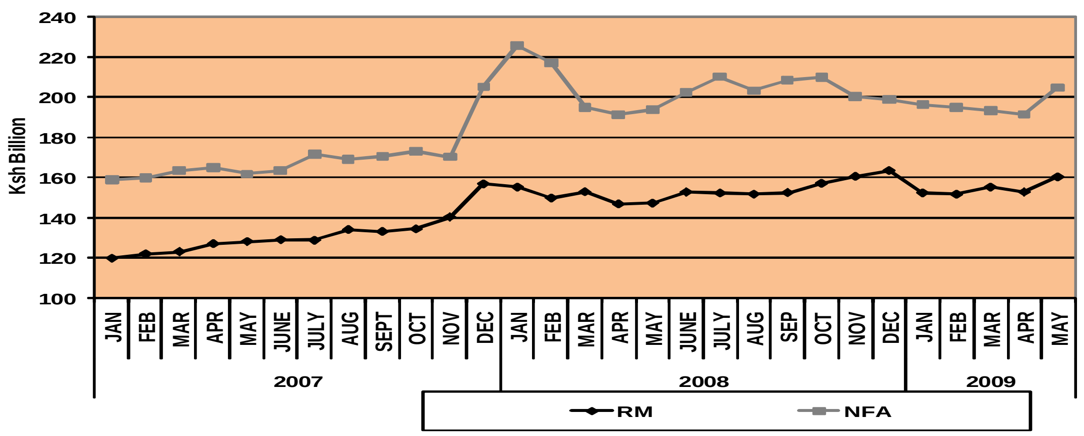
Reserve money increased by Ksh 13.0 billion to Ksh 160.4 billion in May 2009 from Ksh 147.4 billion in May 2008 as shown in Table 2.5. This represented an annual increase of 8.8 percent by May 2009. The bulk of the increase in reserve money constituted currency outside banks at 6.0 percent while bank reserves rose by 12.3 percent. At Ksh 160.4 billion in May 2009, reserve money was Ksh 4.9 billion below the Ksh 165.3 billion target.

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

	2007 May	2008 May	2009 May	Change (%) 2007/08	2008/09	2009 May Target	Deviation
1. Net Foreign Assets	161.9	193.9	204.9	19.8	5.7	265.6	-60.7
2. Net Domestic Assets	-33.4	-46.5	-44.5	39.0	-4.1	-100.4	55.8
2.1 Government Borrowing (net)	-8.8	0.0	-8.7	-100.3	-38070.3	-5.2	-3.5
2.2 Advances & Discounts	-10.1	-32.2	6.8	219.5	-121.0	0.0	6.8
2.3 Other Domestic Assets (net)	-16.9	-16.7	-45.1	-0.6	169.4	-95.2	50.1
3. Reserve Money	128.5	147.4	160.4	14.7	8.8	165.3	-4.9
3.1 Currency outside banks	77.1	81.6	86.4	5.8	6.0	106.4	-19.9
3.2 Bank reserves	51.4	65.8	74.0	28.1	12.3	62.7	11.2

Source: Central Bank of Kenya

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



Net foreign assets (NFA) of the Central Bank, rose by Ksh 11.1 billion to Ksh 204.9 billion in May 2009, from Ksh 193.9 billion in May 2008. The rise in NFA of the Central Bank reflected purchases of foreign exchange, since April 2009 for the purpose of building up reserves.

Net domestic assets (NDA) of the Central Bank increased by Ksh 2.0 billion to Ksh -44.5 billion in May 2009 from Ksh -46.5 billion a year earlier. The increase in NDA reflected a drawdown of Government deposits at the Central Bank, as well as reduced indebtedness of Central Bank to commercial banks. On a net basis, Government borrowing from Central Bank declined by Ksh 8.7 billion in May 2009.

Meanwhile, net indebtedness of Central Bank to commercial banks rose by Ksh 39.0 billion on account of the large liquidity mop up operation by May 2008. Net advances and discounts of Ksh -32.2 billion represent a net deposit position for banks, which reversed to Ksh 6.8 billion indebtedness of commercial banks in May 2009 as liquidity tightened and the Central Bank injected liquidity through reverse repurchase arrangements with banks.

Other domestic assets net of liabilities declined by Ksh 28.4 billion to Ksh -45.1 billion in May 2009 from Ksh -16.7 billion in May 2008.

Central Bank and Short-term rate

The Central Bank rate remained unchanged at 8 percent in the month of June 2009. Short term interest rates trended downwards in June 2009. The average 91-day Treasury bills rate declined from 7.45 percent in May 2009 to 7.33 percent in June 2009 and the average 182-day Treasury bills rate declined from 8.77 percent in May 2009 to 8.27 percent in June 2009 (Table 2.6). The drop in the rates reflects increased demand for the Treasury bills by commercial banks and private individuals. The average interbank rate declined from 5.55 percent in May 2009 to 3.08 percent in June 2009 reflecting an easing of liquidity tightness from April through May. The average repo was unchanged at 6.18 percent. The Central Bank injected liquidity in the market using reverse repo and outright purchases of foreign exchange.

Lending and Deposit Rates

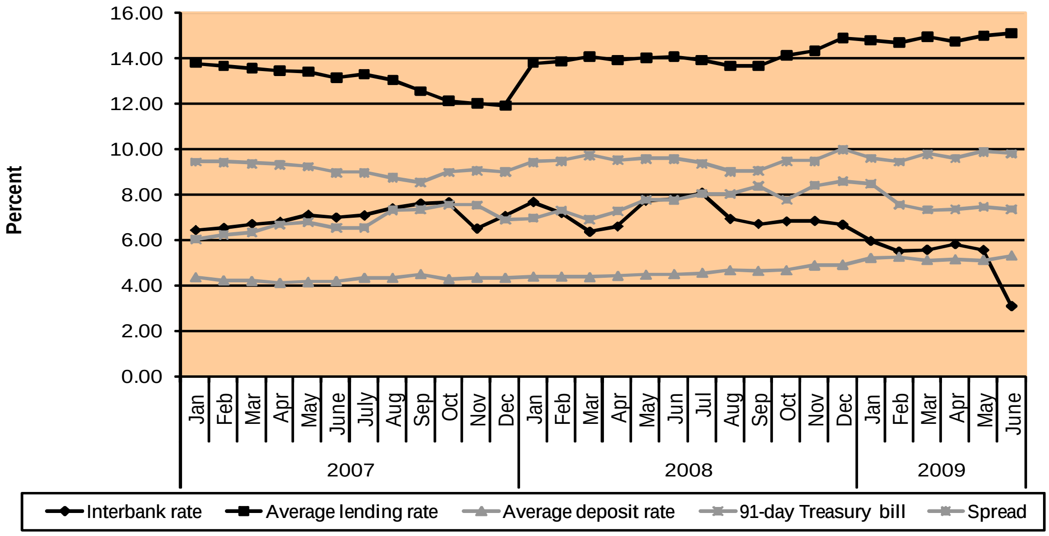
Commercial banks average lending rate and deposit rates rose slightly from 14.85 percent and 5.10 percent in May 2009 to 15.09 percent and 5.28 percent in June 2009, respectively. Consequently, the interest rate spread declined from 9.87 in May to 9.80 in June 2009, but remained above the February 2009 low of 9.44 percent.

TABLE 2.4: INTEREST RATES (%)

	2008				2009					
	Mar	**Apr**	**May**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**
91-day Treasury bill rate	6.89	7.35	7.76	8.59	8.46	7.55	7.31	7.33	7.45	7.33
Overdraft rate	13.48	13.46	13.53	14.40	13.84	13.46	13.78	13.66	14.46	14.41
Interbank rate	6.35	6.59	7.72	6.66	5.95	5.49	5.57	5.81	5.55	3.08
Repo rate	6.46	6.67	7.42	6.23	5.10	5.08	4.62	4.06	6.18	6.18
Average lending rate (1)	14.06	13.91	14.01	14.87	14.78	14.67	14.92	14.71	14.85	15.09
Average deposit rate (2)	4.35	4.41	4.45	4.89	5.19	5.23	5.09	5.12	5.10	5.28
0 to 3 - month deposit	5.21	5.10	5.14	5.68	6.00	6.11	5.89	5.96	5.95	6.02
Savings deposits	1.72	1.71	1.71	1.65	2.10	2.13	1.90	1.91	1.67	2.08
Spread (1-2)	**9.72**	**9.50**	**9.56**	**9.98**	**9.59**	**9.44**	**9.78**	**9.59**	**9.87**	**9.80**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

PERFORMANCE OF THE REAL SECTOR

Overview

During the first quarter of 2009 the economy grew at 3.9 percent compared with a growth of -0.6 percent recorded in the first quarter of 2008 (Chart 3A). The growth in real GDP in the first quarter is primarily a culmination of rebound of activities in wholesale and retail trade, transport and communications, construction and hotels and restaurants sector which expanded by 4.6, 4.3, 30.7 and 59.0, respectively. In addition, the economy also benefited from substantial drop in fuel prices during the first quarter of 2009 compared to a similar period of 2008. In 2008 the economy recorded subdued performance in all sectors other than building and construction, mining and quarrying and communication sectors. According to the Economic Survey 2009 the real GDP growth rate for 2008 was 1.7 percent down from 7.1 percent in 2007. The factors which combined to slow down growth included the post election violence in early 2008, global financial crisis and high fuel and food prices among others (Table 3.1 and Chart 3B).

CHART 3A: REAL GDP GROWTH IN THE FIRST QUARTERS

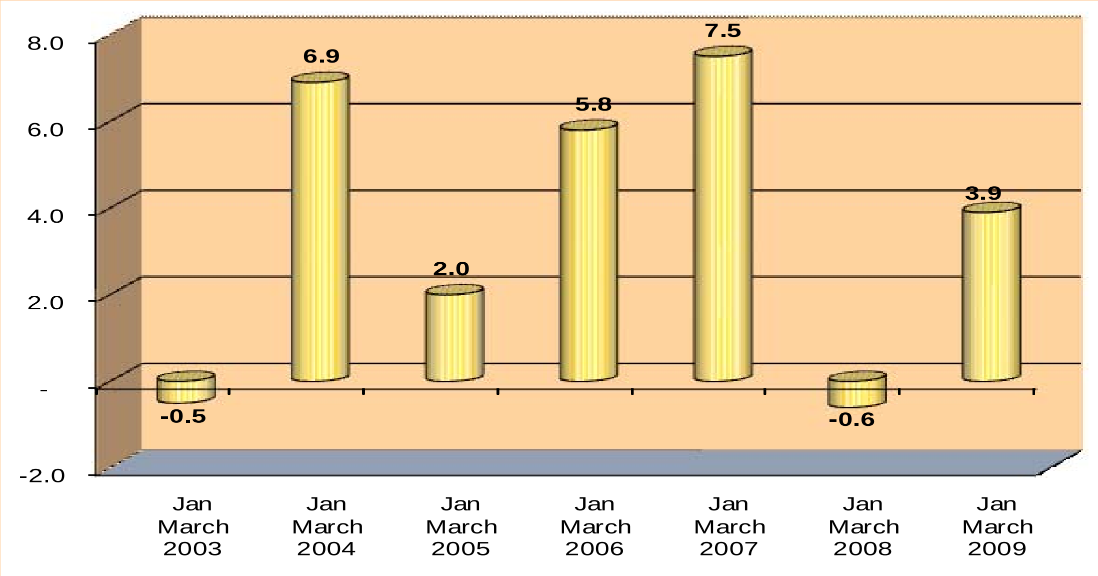


TABLE 3.1 GROWTH RATES FOR REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES (%)

MAIN SECTORS	Share in 2007 Real GDP (%)	Kshs Million 2003	2004	2005	2006	*2007	*2008
Agriculture, Forestry & Fishing	***24.34***	280,854	291,461	310,983	319,069	325,742	313,757
Mining	***0.47***	5,213	5,195	5,334	5,554	6,272	6,472
Manufacturing	***9.78***	105,822	110,544	115,699	122,953	130,892	135,802
Electricity and water supply	***2.24***	27,074	27,877	27,862	27,475	29,987	31,556
Wholesale and retail trade, repairs	***9.86***	92,604	100,486	106,091	118,357	131,989	138,677
Hotels & Restaurants	***1.56***	9,899	13,741	15,572	17,895	20,814	13,298
Construction	***3.01***	31,530	32,932	35,401	37,648	40,229	43,572
Transport, Storage & Communications	***11.72***	104,915	112,260	122,316	136,306	156,849	161,721
Financial intermediation	***3.76***	42,064	42,657	45,030	47,170	50,319	51,868
Real estate, renting and business services	***5.30***	61,864	63,740	65,882	68,446	70,860	73,461
Public administration and defense	***3.35***	46,991	47,062	46,460	45,722	44,788	45,074
Education	***5.67***	71,045	72,435	72,963	73,152	75,855	80,277
Health and social work	***2.17***	25,431	26,408	27,249	28,146	29,053	30,106
Other community, social and personal services	***3.69***	42,917	44,514	45,829	47,815	49,422	50,919
Private households with employed persons	***0.31***	3,855	3,932	4,011	4,091	4,173	4,256
Less : Financial services indirectly measured	***(0.91)***	(10,315)	(10,800)	(11,261)	(11,835)	(12,157)	(11,250)
Total GDP at basic 2001 prices	***86.33***	941,763	978,746	1,029,938	1,087,964	1,155,087	1,154,058
Taxes less subsidies on products	***13.67***	113,895	130,795	145,143	161,367	182,952	195,294
Real GDP at 2001 market prices	***100.00***	1,055,658	1,109,541	1,175,081	1,249,331	1,338,039	1,360,626
GDP at Mkt Prices		1,055,658	1,109,541	1,175,081	1,249,331	1,338,039	1,360,626
Overall GDP Deflator		107	115	121	130	136	138

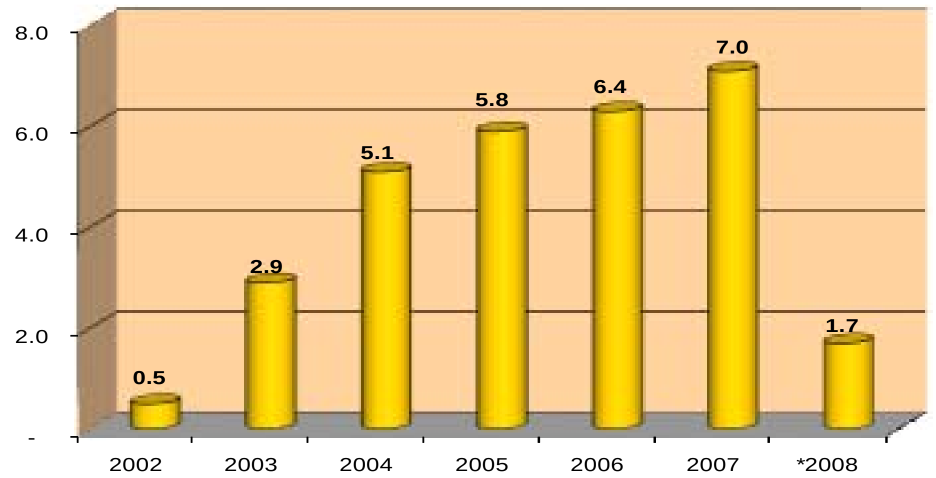
* Provisional

Source: Kenya National Bureau of Statistics (Economic Survey 2009)

Agriculture

The agricultural sector performance improved, but with mixed trends across activities in January – May 2009 resulting from unfavourable weather, expensive inputs and the delayed effects of the political crisis on one hand and good export prices on the other hand, affecting production of crops as shown in Table 3.2. The unfavourable weather conditions caused by the insufficient rainfall continued to adversely affect the agricultural sector which recorded a slower decline of 0.9 percent in the first quarter of 2009 compared with 6.1 percent in the same period in 2008.

CHART 3B: REAL GDP GROWTH RATES



Source: Kenya National Bureau of Statistics (Economic Survey 2009) and Central Bank of Kenya

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE					
	2007	2008	Jan-Apr 2008	Jan-Apr 2009	Jan-May 2008	Jan-May 2009
Tea						
Output (Metric tonnes)	369,606.18	345,818.00	98,170.00	84,144.51	134,572.00	113,947.24
Growth (%)	*19.0%*	*-6.44%*	*-29.56%*	*-14.29%*	*-21.51%*	*-15.33%*
Horticulture						
Output (Metric tonnes)	192,147.45	193,117.06	72,350.71	64,318.05	89,290.29	81,132.12
Growth (%)	*17.7%*	*0.50%*	*18.9%*	*-11.1%*	*16.7%*	*-9.1%*
Coffee						
Output (Metric tonnes)	52,268.00	38,705.00	19,734.00	27,849.00	22,913.00	33,612.00
Growth (%)	*3.4%*	*-25.95%*	*-13.81%*	*41.12%*	*-23.34%*	*46.69%*
Sugar Cane						
Output (Metric tonnes)	5,204,214.00	4,991,097.00	1,599,763.00	1,988,879.00	2,118,176.00	2,480,470.00
Growth (%)	*5.48%*	*-4.10%*	*-9.10%*	*24.32%*	*-3.49%*	*17.10%*

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

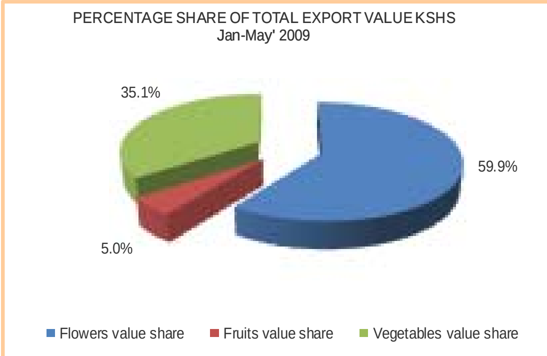
Tea

Monthly tea production fell by 4,125.0 metric tonnes from an average of 26,914.4 metric tonnes per month in the first five months of 2008 to 22,789.5 metric tonnes per month in the first five months of 2009. Total tea output fell by 20,624.8 metric tonnes from 134,572.0 metric tonnes in January – May 2008 to 113,947.2 metric tones in January – May 2009, representing a 15.3 percent decrease, which is attributed to the late onset of the long-rains in the tea growing areas and the effect of prolonged dry weather conditions during the first quarter of the year. The tea export prices edged up slightly to an average of US $ 2.5 per kilogram in May 2009 compared to US $ 2.3 per kilogram in May 2008.

Horticulture

Horticultural export volumes for the first five months of 2009 were considerably lower than those for the same period in 2008, with the margin of decline widening gradually from 1.7 percent in January 2009 to 9.1 percent at the end of May, 2009. Cumulative export volumes amounted to 81,132.1 metric tonnes in the period January – May 2009, compared with 89,290.3 metric tonnes in January – May 2008. This followed decreases in the production of cut flowers and vegetables as a consequence of depressed demand from Kenya's traditional markets. Similarly, the value of horticultural exports fell by Ksh 7.5 billion in the period January – May 2009, from Kshs 31.1 billion in January – May 2008. Details on the performance of the horticultural sub-sector are provided in Chart 3C.

CHART 3C: HORTICULTURE EXPORTS



Coffee

Coffee production in the period January – May 2009 continued to rise regardless of the deteriorating weather conditions experienced in the country. Total output increased by 46.7 percent to stand at 33,612.0 metric tonnes compared to 22,913.0 metric tonnes in the same period in 2008. From the beginning of the year, coffee output has responded well to improved export prices which moved from US $ 2.0 per kilogram in January 2009 to US $ 2.7 per kilogram in May 2009. Compared to the previous year a similar trend was experienced with the prices increasing from US $ 2.3 in May 2008 to US $ 2.7 in May 2009.

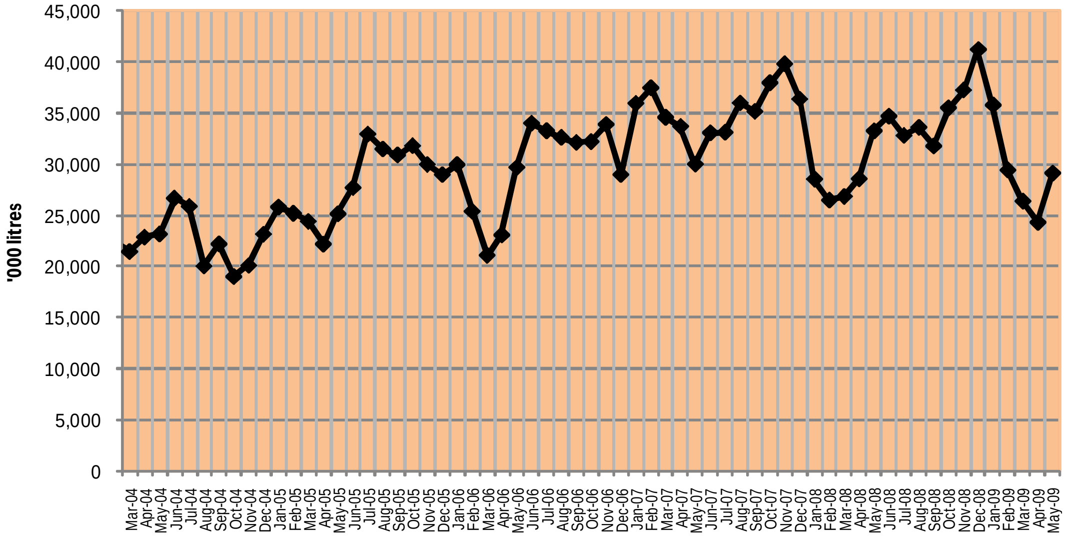
Sugarcane

In the first five months of 2009 total sugarcane deliveries rose by 362,294 metric tonnes or 17.1 percent to reach 2,480,470 metric tonnes, compared to the same period in 2008. Mumias Sugar factory was leading in deliveries followed at a distant by Nzoia Sugar factory.

Dairy

Cumulative volume of milk received in the formal sector remained virtually constant for the period between January and May 2009 compared to the same period the previous year. Overall, 145,220,746.3 litres were received in the first five months of 2009 compared to 143,906,688.1 litres in the same period the previous year, reflecting a marginal increase of just over 1 million litres which is equivalent to 0.9 percent increase. In May 2009, the monthly milk intake increased, reversing the declining trend that had been experienced from the beginning of year 2009 as a result of the dry weather (Chart 3D).

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



Source: Dairy Board

Manufacturing

Cumulative sugar production rose to a total of 245,177 metric tonnes in January – May 2009 from 219,344 metric tonnes in January – May 2008. This represented an 11.8 percent increase, from an average of 43,868.8 metric tonnes per month in the first five months of 2008 to 49,035.4 metric tonnes in the same period in 2009.

Cement manufacturing has generally been experiencing growth over the years except for the first three months of 2008. Production rose by 241,770 metric tonnes in the first four months of 2009 from a volume of 790,657 metric tonnes produced during the same period in 2008, equivalent to 30.6 percent increase.

Total beer production increased by 21.6 million litres in the period January 2009 – May 2009 from 149.6 million litres produced in the first five months of 2008. This was equivalent to a 14.4 percent increase.

Cigarette production dropped by 6.4 percent, from 5,091,347 milles in January-April 2008 to 4,764,635 milles in January – April 2009 (Table 3.3).

Soda ash production returned to normal in May 2009 following Magadi Soda Company's operations improving despite the stiff competition from cheaper synthetic exports from China. Cumulative output of soda ash in the year to May 2009 amounted to 145,272 metric tonnes compared with 196,579 metric tonnes for the same period in 2008, reflecting a 26.1 percent decrease, that resulted from the plant closures and below capacity production early in the year.

Energy Sector

Electricity generated in the current year to April 2009 dropped marginally by 3.4 million Kilowatt hours to 1,902.6 Kilowatt hours, from 1,906.1 million Kilowatt hours for the same period in 2008. This was equivalent to a 0.2 percent drop (Table 3.4). Cumulative Geo-Thermal and Thermal power increased by 20.2 percent and 46.0 percent respectively, in January – April 2009, to compensate for the 16.1 percent decline in hydro-power generation following inadequate rainfall experienced in areas

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE					
	2007	2008	Jan-Apr' 2008	Jan-Apr' 2009	Jan-May' 2008	Jan-May' 2009
Processed sugar						
Output (MT)	520,404	507,277	168,479	199,933	219,344	245,177
Growth %	*9.4%*	*-2.5%*	*-4.61%*	*18.67%*	*-1.22%*	*11.78%*
Cement production						
Output (MT)	2,545,661	3,134,571	790,657	1,032,427	1,045,466	NA
Output Growth %	17.1%	23.1%	0.2%	30.58%	4.2%	NA
Soda ash						
Output (MT)	386,598	513,415	152,004	101,671	196,579	145,272
Growth %	*3.4%*	*32.8%*	*23.5%*	*-33.1%*	*24.0%*	*-26.1%*
Milk						
Output ('000 litres)	423,111	390,963	110,626	116,723	143,907	145,221
Growth %	*17.5%*	*-7.6%*	*-21.8%*	*5.5%*	*-16.1%*	*0.9%*
Beer						
Output ('000 litres)	379,485	426,733	112,633	138,879	149,587	171,174
Growth %	*35.3%*	*12.5%*	*-8.3%*	*23.3%*	*-4.7%*	*14.4%*
Cigarettes						
Output (Milles)	15,475,310	14,786,407	5,091,347	4,764,635	6,004,455	NA
Growth %	*25.8%*	*-4.5%*	*9.8%*	*-6.4%*	*-3.5%*	*NA*

MT = Metric tonnes

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

which feed the hydro power stations. Consumption of electricity rose by 1.8 percent from 1,715.3 million Kilowatt hours between January and April 2008, to 1,745.7 million Kilowatt hours between January and April 2009, reflecting increased economic activity.

In the fuel sub-sector, average international crude oil prices declined by 52.2 percent from an average of US $ 96.5 per barrel in the period January – March 2008, to US $ 46.1 per barrel in January – March 2009.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE		CUMULATIVE	
	2007	2008	Jan-Apr'2008	Jan-Apr'2009
Electricity Supply (Generation)				
Output (KWH Millions)	6,287.68	5,694.05	1,906.08	1,902.64
Growth %	*8.0%*	*-9.4%*	*-5.1%*	*-0.2%*
Of which:				
Hydro-power Generation (KWH Millions)	3,584.76	3,240.44	1,135.50	952.34
Growth (%)	*18.9%*	*-9.6%*	*-1.9%*	*-16.1%*
Geo-Thermal Generation (KWH Millions)	991.12	1,038.79	339.20	407.68
Growth (%)	*-5.2%*	*4.8%*	*7.7%*	*20.2%*
Thermal (KWH Millions)	1,711.92	1,414.88	431.40	629.99
Growth (%)	*-2.9%*	*-17.4%*	*-19.7%*	*46.0%*
Consumption of electricity (KWH Millions)	5,125.80	5,300.70	1,715.30	1,745.70
Growth %	*8.1%*	*3.4%*	*3.9%*	*1.8%*
Consumption of Fuels (Metric Tonnes)	3,121,700.00	2,853,900	902,700	1,040,500
Growth %	*11.2%*	*-8.6%*	*-10.8%*	*15.3%*
Murban crude oil average price (US $ per barrel)	72.46	97.86	99.73	47.47
Growth %	*11.6%*	*35.0%*	*64.0%*	*-52.9%*

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

Monthly tourist arrivals declined from 78,482 tourists in January 2009 to 55,122 tourists in May 2009. This trend is, nevertheless, expected to change as we approach the high season in the coming months. Compared to January – May 2008, however, the tourism sector performed well, with an increase of 115,528 international arrivals in the year to May 2009, equivalent to an overall growth of 50.4 percent. Arrivals via cruise ships remained constant in May 2009 as the cruise season ended in April and will resume later in the year. Over 70 percent of the visitors arrived via the Jomo Kenyatta International Airport (JKIA) (Table 3.5). Tourism income fell by 20.1 percent from US$ 284.7 million in January – May 2008 to US$ 227.5 million in January – May 2009.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2007	2008	Jan-May 08	Jan-May 09	Jan - May 2009 % Share	Jan - May 2009 % Growth
CRUISE	2,837	6,877	3,168	11,809	*3.4%*	*272.8%*
MIAM	276,298	112,517	27,949	68,410	*19.9%*	*144.8%*
JKIA	769,597	609,606	197,963	264,389	*76.7%*	*33.6%*
TOTAL	1,048,732	729,000	229,080	344,608	***100.0%***	***50.4%***

Cruise ships - Entry through Port of Mombasa; JKIA - Entry through Jomo Kenyatta International Airport; MIAM - Entry through Moi International Airport Mombasa
N/A Not Available

Source: Kenya Tourism Board

The highest number of tourists to Kenya comes from Europe. In January – May 2009, the country received 160,598 total arrivals from Europe by air, representing 46.6 percent of the total visitors, compared with 85,819 tourists who came between January and May 2008. (Table 3.6). Similarly, arrivals from America, Asia and Africa increased by 53.5 percent, 21.8 percent and 17.0 percent respectively, while those from the Oceanic regions fell by 29.2 percent from 7,759 arrivals, during the same period. Arrivals via cruise ships from all the continents remained constant in May 2009 at 11,809 visitors as the cruise season stops in April until later in the year.

TABLE 3.6: TOTAL ARRIVALS BY CONTINENT

REGION	2007	2008	Jan-May 2008	Jan-May 2009	Jan - May 2009 % Share	Jan- May 2009 % Growth
Africa	212,501	207,737	73,144	85,545	24.8%	17.0%
America	132,651	97,771	28,592	43,896	12.7%	53.5%
Asia	103,443	94,496	30,598	37,270	10.8%	21.8%
Europe	578,312	308,123	85,819	160,598	46.6%	87.1%
Oceanic	18,975	13,963	7,759	5,490	1.6%	-29.2%
Cruise	2,850	7,400	3,168	11,809	3.4%	272.8%
Total	**1,048,732**	**729,490**	**229,080**	**344,608**	**100.0%**	**50.4%**

Source: Kenya Tourism Board

Transport and Tele-communications

The volume of cargo throughput handled by Kenya Ports Authority (KPA) at the port of Mombasa increased by 14.0 percent from 6,692,584 metric tonnes in January – May 2008 to 7,626,835 metric tonnes in January – May 2009. Of this, total imports constituted 85.1 percent, while total exports constituted 14.5 percent, equivalent to 6,488,989 metric tonnes and 1,103,383 metric tonnes respectively. Similarly, cargo transported via Kenya Pipeline Company (KPC) increased by 156,867.7 metric tonnes or 9.9 percent, during the same period. Excise duty on airtime increased marginally from Ksh 2,747.1 million in January –May 2008 to Ksh 2,808.5 in January – May 2009.

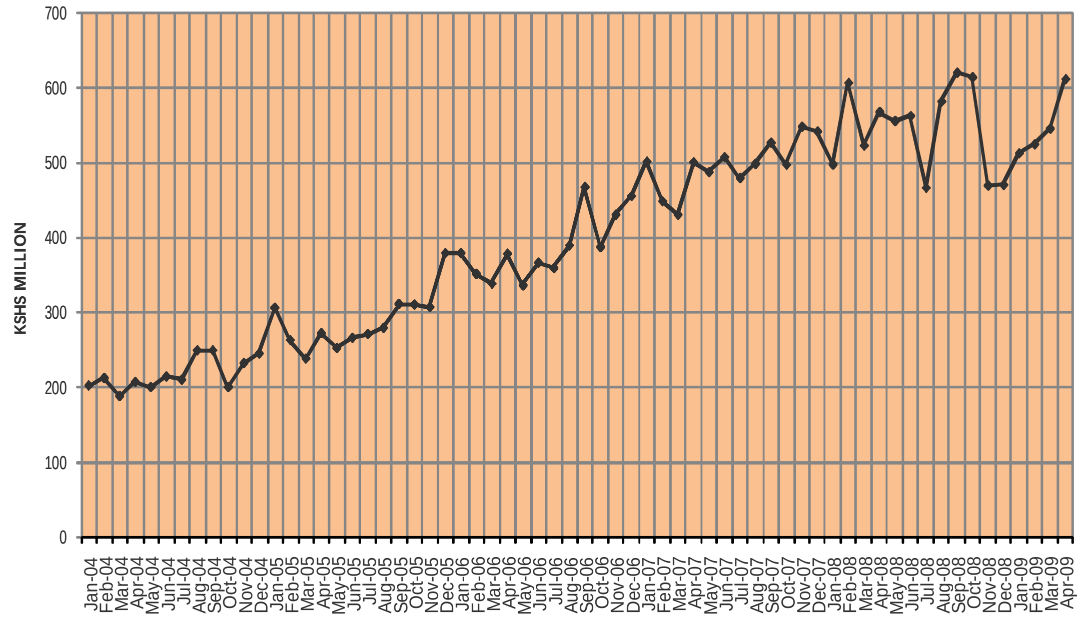
TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	CUMULATIVE					
	2007	2008	Jan-April 2008	Jan-April 2009	Jan-May 2008	Jan-May 2009
Mombasa Port Cargo Throughput						
Output (MT) Equivalent	15,960,465	16,414,729	5,360,052	5,975,582	6,692,584	7,626,835
Output Growth %	*10.70%*	*2.85%*	*5.86%*	*11.48%*	*5.61%*	*13.96%*
Number of passengers Thro' JKIA						
Incoming	1,478,849	1,757,475	399,196	409,926	NA	NA
Growth (%)	*-0.70%*	*18.84%*	*-16.72%*	*2.69%*	NA	NA
Outgoing	1,480,620	1,476,851	401,656	380,612	NA	NA
Growth %	*-1.30%*	*-0.25%*	*-15.93%*	*-5.24%*	NA	NA
Kenya Pipeline oil Throughput						
Output ('000 litres)	3,962,279	3,859,481	1,257,565	1,417,509	1,590,560	1,747,428
Output Growth %	*3.60%*	*-2.59%*	*-5.19%*	*12.72%*	*-4.31%*	*9.86%*
Kenya Revenue Authority (Excise tax on airtime)						
Kshs million	5,962	6,528	2,193	2,192	2,747	2,809
Output Growth %	*28.60%*	*9.50%*	*16.69%*	*-0.03%*	*16.11%*	*2.23%*

MT = Metric tonnes
NA = Not Available

Sources: Port of Mombasa and Kenya Pipeline

CHART 3E: EXCISE TAX ON AIRTIME



Source: Kenya Revenue Authority (KRA)

Building & Construction Industry

Cement consumption, one of several significant early indicators of economic activity under the building and construction industry, increased by 38 percent from 2,020,653 metric tonnes in 2007 to 2,788,910 metric tonnes in 2008. In January – May 2009, however, cement consumption fell by 13,213 metric tonnes, equivalent to 1.3 percent from 1,013,221 metric tonnes in January – May 2008, reflecting a marginal decrease in economic activity.

DEVELOPMENTS IN BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya's balance of payments declined from a surplus of US$ 716 million in the year to May 2008 to a deficit of US$ 497 million in the year to May 2009 following a faster widening in the current account deficit (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to May 2008*	Year to May 2009* Q1 Jun-Aug	Q2 Sep-Nov	Q3 Dec-Feb	Q4 Mar-May	Year to May 2009*	Absolute change May-09-May-08
1. OVERALL BALANCE	716	-170	-391	-123	187	-497	***-1213***
2. CURRENT ACCOUNT	-1113	-672	-793	-577	-492	-2535	***-1422***
2.1 Goods	-5426	-1697	-1813	-1421	-1290	-6221	*-794*
Exports (fob)	4593	1309	1213	1088	1054	4664	*71*
Coffee	180	37	33	37	63	169	*-11*
Tea	737	263	219	222	179	883	*146*
Horticulture	720	166	169	171	166	672	*-48*
Oil products	148	19	27	25	15	87	*-61*
Manufactured Goods	565	180	142	138	116	576	*12*
Raw Materials	312	83	56	60	57	256	*-55*
Re-exports	201	82	86	57	63	288	*86*
Other	1730	480	480	377	395	1732	*2*
Imports (cif)	10019	3006	3025	2509	2344	10884	*865*
Oil	2453	931	727	422	462	2543	*90*
Chemicals	1296	339	393	320	345	1397	*101*
Manufactured Goods	1484	423	435	348	305	1510	*27*
Machinery & Transport Equipment	2784	779	761	924	662	3126	*342*
Other	2003	535	709	494	571	2309	*306*
2.2 Services	4313	1025	1019	844	798	3686	*-627*
Non-factor services (net)	2037	525	547	493	404	1969	*-68*
of which tourism	792	217	183	149	146	695	*-97*
Income (net)	-98	-25	-8	-25	-29	-87	*11*
of which official interest	-151	-33	-20	-33	-30	-115	*36*
Current Transfers	2374	525	480	376	423	1804	*-570*
Private (net)	2049	530	485	378	423	1815	*-234*
Public (net)	325	-5	-5	-2	0	-11	*-336*
3. CAPITAL & FINANCIAL ACCOUNT	1829	503	402	454	679	2038	***209***
3.1 Capital Tranfers (net)	333	100	37	72	96	305	*-28*
3.2 Financial Account	1496	403	365	382	583	1733	*237*
Official, medium & long-term	111	10	14	14	89	126	*15*
Inflows	357	91	72	74	130	366	*10*
Outflows	-246	-81	-58	-61	-41	-241	*5*
Private, medium & long-term (net)	-13	300	301	-45	82	639	*651*
Commercial Banks (net)	-512	318	308	-44	81	663	*1175*
Other private medium & long-term (net)	499	-18	-7	-1	1	-25	*-524*
Short-term (net) incl. errors & omissions	1397	93	51	413	412	968	*-429*
memo:							
Gross Reserves	5244	5287	4523	4354	4370	4370	***-874***
Official	3435	3263	2869	2745	2929	2929	*-506*
*imports cover***	*3.7*	*3.3*	*2.8*	*2.7*	*3.0*	*3.0*	*-0.8*
*imports cover****	*4.6*	*4.1*	*3.4*	*3.2*	*3.3*	*3.3*	*-1.2*
Commercial Banks	1809	2023	1654	1610	1441	1441	*-368*

* Provisional.

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

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

Source: Central Bank of Kenya

Current Account

The current account deficit widened from US$ 1,113 million in the year to May 2008 to US$ 2,535 million in the year to May 2009. This deterioration reflected growth in merchandise imports that surpassed the growth in exports of both goods and services.

Merchandise Account

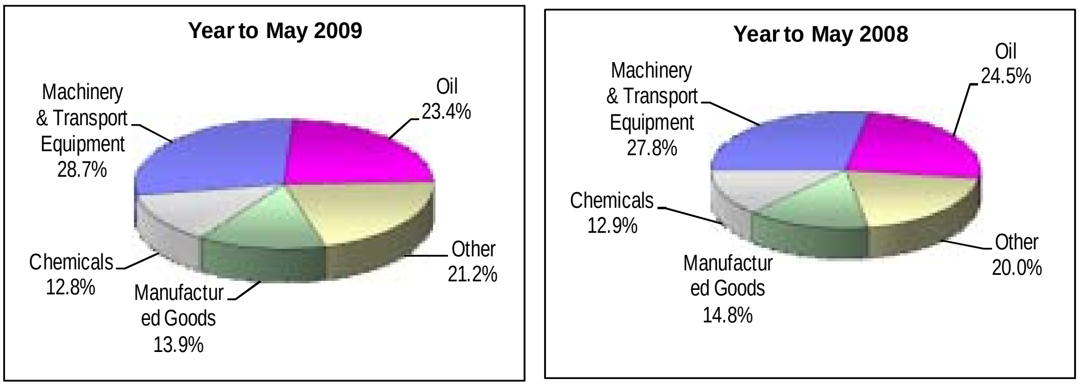
The trade deficit deteriorated by 14.6 percent to US$ 6,221 million in the year to May 2009 compared with US$ 5,426 million in the year to May 2008. This was attributed to sustained demand for merchandise imports, which rose by US$ 865 million to US$ 10,884 million in the year to May 2009. Merchandise exports also improved during the period in review but by a lesser margin of US$ 71 million to US$ 4,664 million.

Imports

The increase in the total value of merchandise imports during the year to May 2009 reflect increased imports of machinery and transport equipment, food and live animals, mineral fuels and lubricants and related minerals. The increase in the import value of machinery and transport equipment was mainly in power generating machinery, telephone and sound recording, and other transport equipments. The higher import values in the major import categories reflect both import volume and price increases.The increase in the value of and mineral fuels, lubricants and related minerals imports was mainly in other petroleum oils. These other petroleum products are obtained from Bitumin, motor spirits (premium), jet fuel kerosene type and diesel oil for low speed marine and stationary engines. The higher import values largely reflect increased import prices. The increase in the value of food and live animals imported was in cereals and cereals preparations mainly in maize, wheat and sugar, molasses and honey.

The share of machinery and transport equipment in total imports increased, from 27.8 percent in the year to May 2008 to 28.7 percent in the year to May 2009 (Chart 4A). However, the contribution of oil products, manufactured goods and chemicals in the total value of imports declined respectively from 24.5 percent, 14.8 percent and 12.9 percent in the year to May 2008 to 23.4 percent, 13.9 percent and 12.8 percent in the year to May 2009.

CHART 4A: COMPOSITION OF KENYA'S IMPORTS



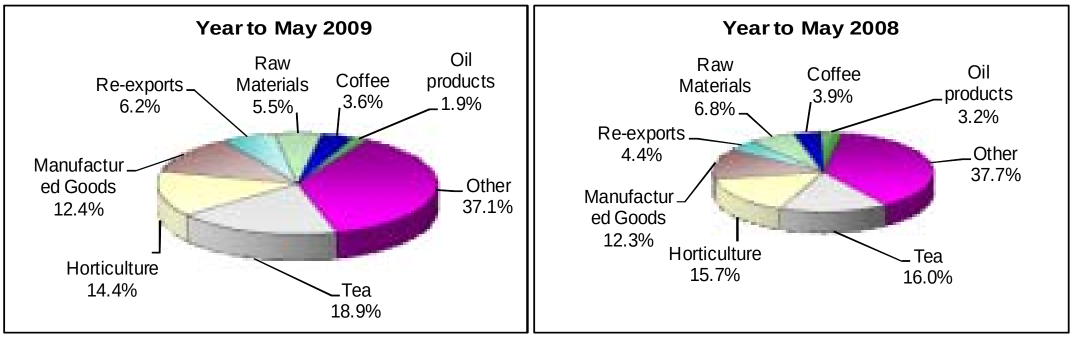
Source: Customs and Excise Department.

Exports

The value of merchandise exports during the year to May 2009 increased by 1.6 percent or US $ 71 million. The increase was largely reflected in tea, inorganic chemicals, manufactured goods and re-exports, as value of exports of coffee, horticulture, oil products and raw materials declined in the year to May 2009 compared with the previous period. Tea export benefited from both increased volume and prices. The increase in the value of manufactured goods exports was mainly in cement, lime and metal manufactures. The value of exports in horticulture declined following a drop in chilled, frozen or preserved fresh vegetables while that of oil exports declined following a drop in the export quantity of lubricating grease.

Tea, horticulture and manufactured goods made up 45.7 percent of the total value of exports in the year to May 2009 compared with 44.0 percent a year earlier. Raw materials, coffee and oil products, contributed 5.5 percent, 3.6 percent and 1.9 percent of the total value of exports compared to 6.8 percent, 3.9 percent and 3.2 percent, respectively, over the same period (Chart 4B).

CHART 4B: COMPOSITION OF KENYA'S EXPORTS



Source: Customs and Excise Department, KRA

Direction of Trade

In terms of bilateral trade in goods, the main destination countries for Kenya's merchandise exports in the period under review were Uganda (13.7 percent), United Kingdom (11.4 percent), Tanzania (9.4 percent), the Netherlands (8.0 percent), United States of America (6.4 percent), Pakistan (4.6 percent), Egypt (4.3 percent), Sudan (3.9 percent) and Somalia (3.5 percent) as shown in Table 4.2. Overall, African countries absorbed 50.3 percent of Kenya's merchandise exports. In terms of regional trade, Kenya's exports to EAC countries increased from US$ 1,059 million in the year to May 2008 to US$ 1,270 million (27.2 percent of total exports) in the year to May 2009. Exports to the COMESA region also rose from US$ 1,418 million in the year to May 2008 to US$ 1,610 million (34.5 percent of total exports) in the year to May 2009, with the increase largely attributed to exports to Uganda, Egypt and Sudan.

Bilaterally, imports of goods to Kenya during the year in review were mainly from the India (11.0 percent), United Arab Emirates (10.4 percent), China (8.7 percent), South Africa (7.2 percent), Japan (5.6 percent), United States of America (4.5 percent), Singapore (3.8 percent), United Kingdom (3.7 percent), Saudi Arabia (3.3 percent), Germany (3.3 percent), Indonesia (2.7 percent) and France (2.1 percent). Regionally, Kenya's imports from the EAC decreased from US$ 204 million in the year to May 2008 to US$ 170 million (1.6 percent of total imports) in the year to May 2009. Imports from the COMESA region also decreased from US$ 431 million in the year to May 2008 to US$ 351 million (3.2 percent of total imports) in the year to May 2009.

TABLE 4.2: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to May			Year to May		
Country	2007	2008	2009	2007	2008	2009
Africa	942	1,155	1,286	11.7	11.5	11.8
Of which						
South Africa	446	594	782	5.6	5.9	7.2
Egypt	149	139	141	1.9	1.4	1.3
Others	348	422	363	4.3	4.2	3.3
EAC	112	204	170	1.4	2.0	1.6
COMESA	315	431	351	3.9	4.3	3.2
Rest of the World	7,080	8,864	9,598	88.3	88.5	88.2
Of which						
India	690	1,024	1,198	8.6	10.2	11.0
United Arab Emirates	1,120	1,666	1,129	14.0	16.6	10.4
China	520	780	943	6.5	7.8	8.7
Japan	481	657	611	6.0	6.6	5.6
USA	693	394	489	8.6	3.9	4.5
United Kingdom	421	417	404	5.2	4.2	3.7
Singapore	288	181	418	3.6	1.8	3.8
Germany	285	361	357	3.5	3.6	3.3
Saudi Arabia	358	286	363	4.5	2.9	3.3
Indonesia	220	317	289	2.7	3.2	2.7
Netherlands	138	158	237	1.7	1.6	2.2
France	177	252	233	2.2	2.5	2.1
Bahrain	128	128	208	1.6	1.3	1.9
Italy	181	189	182	2.3	1.9	1.7
Others	1,383	2,055	2,537	17.2	20.5	23.3
Total	8,022	10,019	10,884	100	100	100

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to May			Year to May		
Country	2007	2008	2009	2007	2008	2009
Africa	1,675	2,070	2,347	43.7	45.1	50.3
Of which						
Uganda	428	567	637	11.2	12.3	13.7
Tanzania	284	356	437	7.4	7.7	9.4
Egypt	155	157	199	4.0	3.4	4.3
Sudan	160	197	181	4.2	4.3	3.9
Somalia	114	174	162	3.0	3.8	3.5
DRC	114	127	159	3.0	2.8	3.4
Others	420	492	572	11.0	10.7	12.3
EAC	819	1,059	1,270	21.4	23.1	27.2
COMESA	**1,172**	**1,418**	**1,610**	**30.6**	**30.9**	**34.5**
Rest of the World	2,158	2,523	2,317	56.3	54.9	49.7
Of which						
United Kingdom	393	509	533	10.2	11.1	11.4
Netherlands	294	364	373	7.7	7.9	8.0
USA	293	286	298	7.6	6.2	6.4
Pakistan	222	168	214	5.8	3.7	4.6
United Arab Emirates	76	156	102	2.0	3.4	2.2
Germany	66	97	95	1.7	2.1	2.0
India	63	99	89	1.6	2.1	1.9
Afghanistan	33	46	76	0.9	1.0	1.6
Others	719	799	537	18.7	17.4	11.5
Total	3,834	4,593	4,664	100	100	100

Source: Customs and Excise Department, KRA

Services

The surplus in the services account decreased by 14.5 percent or US $ 627 million to US$ 3,686 million in the year to May 2009 mainly due to a decline in net receipts on non-factor services and net current transfers (Table 4.1).

Net non-factor service receipts declined by US$ 68 million to US$ 1,969 million in the year to May 2009 reflecting increased payments for transportation services and decreased income from foreign travel. Gross receipts from non-factor services decreased during the period in review and this was mainly due to transportation and travel services. Gross receipts from foreign travel declined by 12.2 percent to US$ 695million in the year to May 2009. In the income account, gross interest earnings on official foreign exchange reserves declined by US$ 49 million to US$ 105 million in the year to May 2009 while income earned by the private sector declined to US$ 71 million. On the other hand, payments by the private sector being interest on foreign debt, dividends and distributed profits declined by US$ 41 million to US$ 98 million in the year to May 2009, while interest payments on official foreign debt declined by US$ 36 million to US$ 115 million. Net inflows from current transfers during the year to May 2009 amounted to US$ 1,804 million, of which the value of remittances received from Kenyans abroad through the banking system is estimated at US$ 577 million.

Capital and Financial Account

The capital and financial account improved by US $ 209 million to a surplus of US$ 2,038 million in the year to May 2009 compared with a surplus of US$ 1,829 million in the year to May 2008 (Table 4.1). The improvement was wholly in the financial account, that increased by US $ 237 million.

In the financial account, net private medium and long-term financial inflows declined from a surplus of US$ 499 million in the year to May 2008 to a deficit of US$ 25 million in the year to May 2009 reflecting mainly decline in foreign direct investment inflows. Commercial banks' holding of net foreign assets decreased by US$ 663 million, while net short term financial inflows (which include errors and omissions in recorded transactions) declined by US$429 million in the year to May 2009.

Foreign Exchange Reserves

Total foreign exchange holdings by the banking system declined from US$ 5,786 million at the end of June 2008 to US$ 4,822 million at end of June 2009. This decline was reflected in both official and commercial banks' foreign exchange reserves holdings.

Gross official foreign exchange reserves held by the Central Bank decreased by US$ 225 million from US$ 3,445 million (4.6 months of import cover) at end of June 2008 to US$ 3,220 million (3.6 months of import cover) at end of June 2009 (Table 4.3 and Chart 4C). The stock of official reserves is subject to exchange rate variations given that reserves are reported in US dollar, while a significant portion of reserves are also held in Sterling Pounds and Euros. Thus, changes in these currencies' rate of exchange vis-à-vis the US dollar in the year to June 2009 resulted in reserves revaluation losses. However, gross official foreign reserves have continued to rise since April 2009 due to sustained purchases from the interbank market and receipts under the balance of payments support through the Exogenous Shock Facility.

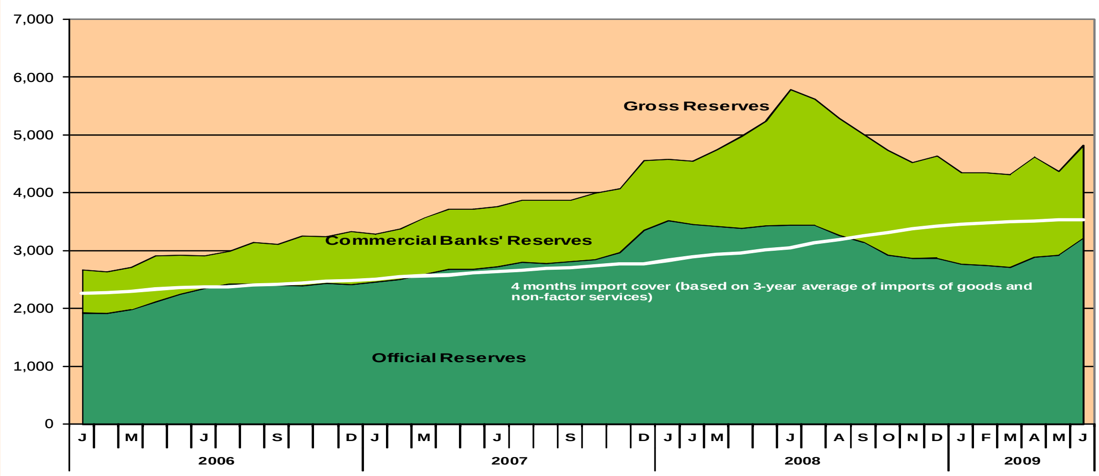
Foreign exchange holdings of commercial banks also declined by 31.6 percent, from US$ 2,341 million at the end of June 2008 to US$ 1,602 million at end of June 2009, with most of the assets held as balances with banks abroad in the amount of US$ 1,240 million. Other foreign assets of commercial banks included cash, foreign loans and foreign bills discounted.

TABLE 4.3: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	May 08	Jun 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09
1. Gross Foreign Exchange Reserves	**5,244**	**5,786**	**4,641**	**4,349**	**4,355**	**4,320**	**4,620**	**4,370**	**4,822**
of which:									
Official	3,435	3,445	2,875	2,769	2,745	2,714	2,888	2,929	3,220
*imports cover***	*4.6*	*4.6*	*3.4*	*3.2*	*3.2*	*3.1*	*3.3*	*3.3*	*3.6*
Commercial Banks	1,809	2,341	1,766	1,580	1,610	1,607	1,733	1,441	1,602
2. Residents' foreign currency deposits	**2,095**	**1,924**	**1,810**	**1,728**	**1,654**	**1,561**	**1,702**	**1,698**	**1,912**

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

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling depicted mixed performance against major world currencies in June 2009; weakening against the Sterling Pound and the Euro but strengthening against the Japanese Yen. The Shilling remained stable against the US dollar as the foreign exchange inflows matched corporate demand. Against the Sterling Pound and the Euro, the Shilling depreciated to exchange at an average of Ksh 127.22 and 109.03 in June 2009 compared with Ksh 120.03 and 106.23 in May 2009 respectively. However, the Shilling strengthened against the Japanese Yen to trade at an average of Ksh 80.61 in June 2009 compared with Ksh 80.63 per 100 Japanese Yen in May 2009 (Table 4.4 and Chart 4D).

In the regional scene, the Kenya Shilling weakened against the Uganda Shilling and the Tanzania Shilling in June 2009 to exchange respectively, at an average of Ush 27.47 per Kenya Shilling and Tsh16.86 per Kenya Shilling, as shown in Table 4.

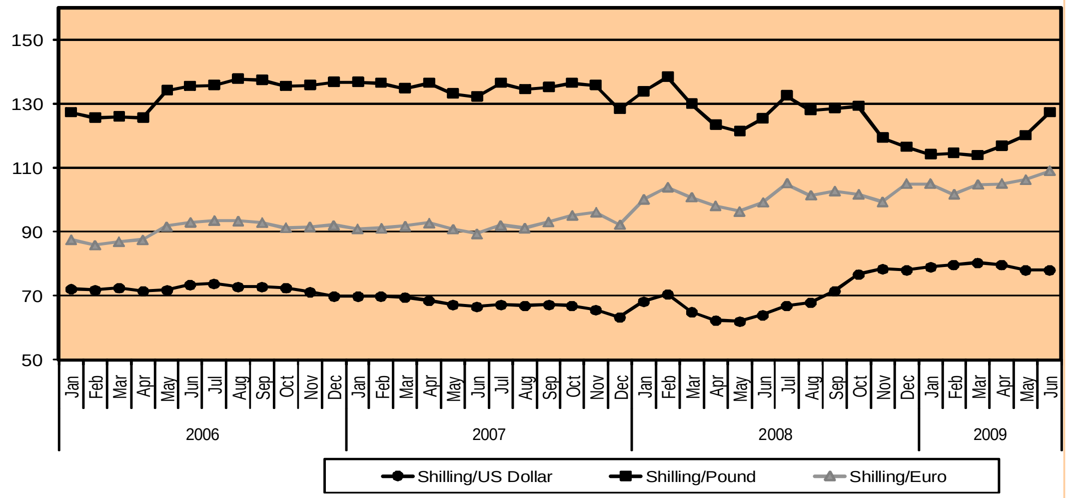
TABLE 4.4: KENYA SHILLING EXCHANGE RATE

	2008					2009						% change Jun 09-May 09
	May	Jun	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	
US Dollar	61.90	63.78	76.66	78.18	78.04	78.95	79.53	80.26	79.63	77.86	77.85	**-0.01**
Pound Sterling	121.62	125.27	129.38	119.59	116.53	114.28	114.54	113.98	116.98	120.03	127.22	**5.99**
100 Japanese Yen	59.38	59.60	76.77	80.71	85.42	87.45	86.18	82.22	80.76	80.63	80.61	**-0.03**
Uganda Shilling*	26.65	25.14	23.89	24.49	25.07	25.05	24.73	25.59	27.29	28.84	27.47	**-4.76**
Tanzania Shilling*	19.49	18.64	16.12	16.05	16.64	16.99	16.61	16.32	16.75	17.07	16.86	**-1.21**
Euro	96.32	99.21	101.67	99.33	105.56	105.02	101.71	104.77	105.08	106.23	109.03	**2.64**
Euro per US dollar	0.643	0.643	0.754	0.787	0.739	0.752	0.782	0.766	0.758	0.733	0.714	**-2.58**

* Units of currency per Kenya shilling

Source: Central Bank of Kenya

CHART 4D: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

The banking sector remained stable with all institutions being adequately capitalised during the year to May 2009, while total shareholders' funds registered a 26.0 percent increase, to Ksh 172.4 billion.

Structure of the banking sector

The sector comprised of 43 commercial banks, 2 mortgage finance companies and 123 foreign exchange bureaus.

Structure of the Balance Sheet

The aggregate balance sheet of the banking sector grew by 7.7 percent from Ksh 1,133 billion to Ksh 1,220 billion in May 2009. The balance sheet expansion was attributed to increase in deposits, reserves and capital injections. The main components of the balance sheet were net loans and advances, government investments and placements, which accounted for 45.0 percent, 19.0 percent and 9.0 percent of total assets, respectively.

Loans & Advances

Gross loans and advances increased by 15.9 percent from Ksh 610.7 in May 2008 to Ksh 707.5 billion in May 2009. The loans and advances were extended to various sectors of the economy including private households, manufacturing, trade, business services and other sectors. Total loans and advances, net of provisions increased by 16.7 percent to Ksh 663.2 billion in May 2009 from Ksh 568.2 billion registered in May 2008.

Deposit Liabilites

Deposits remained the banking sectors' principal source of funding and accounted for 76.7 percent of total liabilities and capital. Total deposit liabilities increased marginally by 3.1 percent from Ksh 907.0 billion in May 2008 to Ksh 935.0 billion in May 2009. The increase in the deposit base was attributed to increased outreach, remittances and receipts from exports.

Capital & Reserves

The capital adequacy for the banking sector, which is measured by the ratio of total capital to risk-weighted assets, remained fairly stable during the period under review. Total capital increased by 25.9 percent in the year to May 2009 from Ksh 128.0 billion to Ksh 161.2 billion. Similarly, total shareholders' funds rose by 26.0 percent from Ksh 136.9 billion to Ksh 172.4 billion. The increases were attributed to capital injections and retention of profits. Consequently, the ratios of total and core capital to total risk-weighted assets stood at 17.5 percent and 19.2 percent, having improved from 16.2 percent and 17.4 percent, respectively, in a similar period in 2008.

Profitability

The profitability of the banking sector declined by 2.4 percent from Ksh 19.2 billion in May 2008 to Ksh 18.8 billion. The decline was attributed to 20.6 percent growth in total expenses that more than offset the 13.1 percent growth in total income. The decline in profitability led to deterioration in annualized return on assets and shareholder's funds from 3.3 percent and 33.7 percent to 2.9 percent and 26.1 percent in May 2009, respectively. Total income stood at Ksh 66.8 billion in May 2009 with the major sources of income being from interest on loans and advances and income from non intermediation function, which accounted for 54 percent and 22 percent, respectively. Total expenses grew from Ksh 39.8 billion in May 2008 to stand at Ksh 48.0 billion with staff costs, interest on deposits and other expenses accounting for 33 percent, 27 percent and 26 percent accordingly.

Non-performing Loans

The stock of gross non-performing loans (NPLs) increased by 19.9 percent from Ksh 58.3 billion to Ksh 69.9 billion in May 2009. Consequently, the quality of assets which is measured by the ratio of net non-performing loans (NPLs) to gross loans declined from 3.5 percent to 4.2 percent in May 2009 (Table 5.1).

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

		May-09	May-08
1	Gross loans and advances	707.50	610.70
2	Loans and advances (net of interest suspended)	694.00	595.80
3	Gross non-performing loans	69.90	58.30
4	Specific Provisions	26.80	22.20
5	General Provisions	4.00	5.40
6	Total Provisions (4+5)	30.80	27.60
7	Net Advances (2-6)	663.20	568.20
8	Total Non-Performing Loans and advances	56.40	43.40
9	Net Non-Performing Loans and advances(8-4)	29.60	21.20
10	Total NPLs as % of total advances (8/2)	8.10	7.30
11	Net NPLs as % of gross advances (9/1)	4.20	3.50
12	Specific Provisions as % of Total NPLs (4/8)	47.50	51.20

Source: Central Bank of Kenya

Liquidity Ratio Requirement

Liquidity which represents the ability to fund increases in assets and meet obligations as they fall due is crucial to the sustained viability of any banking institution. The importance of liquidity transcends the individual bank as a liquidity shortfall at an individual bank can have systemic repercussions.

The Kenyan banking sector's average liquidity ratio stood at 40.6 percent, for the month of May, 2009, exceeding the minimum statutory requirement of 20 percent.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the CBK for reserve requirements averaged 5.16 percent in May 2009 compared with 5.24 percent in April 2009 and 5.0 percent statutory level as shown in Table 5.3 and Chart 5a. Commercial banks held excess reserves at the Central Bank averaging Ksh 4.26 billion in May 2009 compared with Ksh 2.0 billion in May 2008.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2008				2009				
	Apr	May	June	Dec	Jan	Feb	Mar	Apr	May
Commercial Banks									
Actual Average Liquidity	40.1	41.4	42.1	37.2	38.3	38.75	40.03	42.0	41.09
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio - All Banks	6.6	6.6	6.5	5.6	5.4	5.3	5.3	5.2	5.2
Minimum Cash Ratio Requirement**	6.0	6.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0
NBFIs									
Actual Average Liquidity Ratio	21.2	20.0	22.0	26.8	24.6	22.72	23.89	23.2	23.79
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio	6.0	6.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0
Minimum Cash Ratio Requirement***	6.0	6.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0

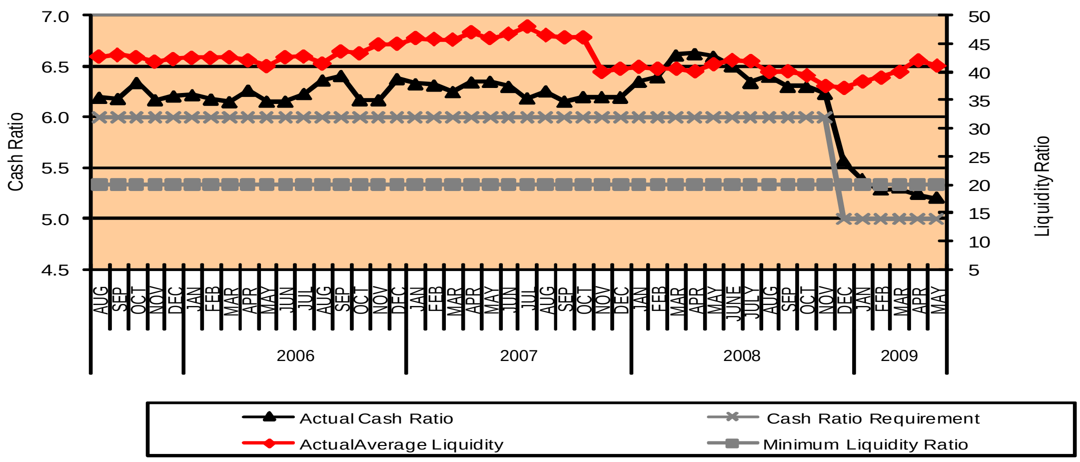
* Monthly average liquidity and cash ratios

** Commercial banks and NBFIs observed a daily minimum of 6% cash ratio effective from 1st July 2003 to 30th Nov 2008.

** Commercial banks and NBFIs observed a daily minimum of 5% cash ratio effective 1st Dec 2008

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 21,977 transaction messages worth Ksh 1,032 billion in June 2009 compared with a volume of 24,024 transaction messages valued at Ksh 1,064 billion moved in May 2009 representing 3.1 percent decrease in value and 8.5 percent decrease in volume. KEPSS flows are expected to rise with the implementation of value capping in the Nairobi Clearing House effective October 1, 2009.

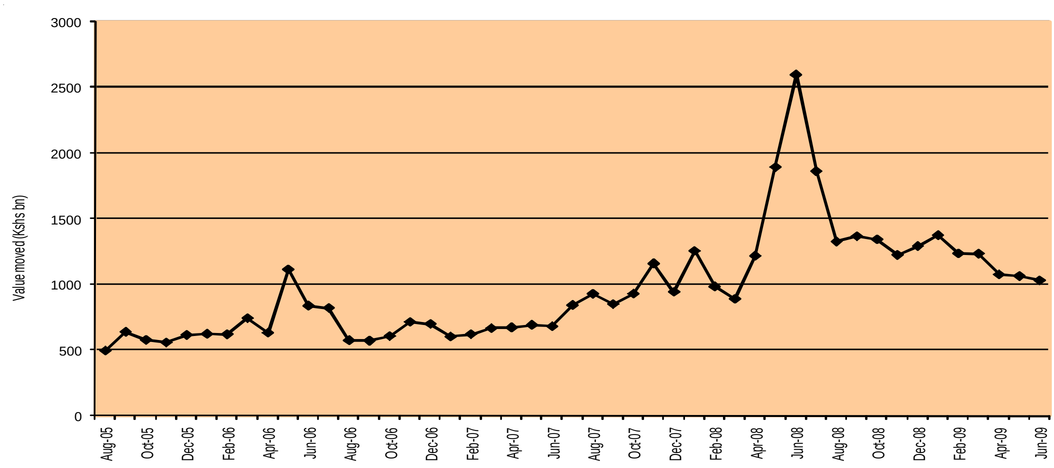
During the twelve month period to June 30, 2009, the value moved averaged Ksh 55.67 million per transaction while the average value moved per day was approximately Ksh 62.14 billion. Direct settlements through KEPSS in June 2009 averaged 92.2 percent of the total settlements, while indirect payments (ACH Net settlement) averaged 7.8 percent (Table 5.3 and Chart 5B).

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

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

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third party Messages

Multiple third parties Message Type (MT 102) increased by 1.6 percent from 852 transaction messages in May 2009 to 866 transaction messages in June 2009. Similarly, single third party Message Type (MT 103) increased by 8.1 percent from 10,351 transaction messages to 11,194 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 7.7percent from 11,203 transaction messages in May 2009 to 12,060 transaction messages in June 2009.

Compared with June 2008, multiple third parties messages (MT 102) increased by 20.6 percent from 718 transaction messages to 866 transaction messages in June 2009, while in the same period single third party messages (MT 103) increased by

49.2 percent from 7,503 transaction messages to 11,194 transaction messages. Overall, KEPSS usage is on the increase as reflected by the increased third parties volumes through the system over the period the system has operated (Table 5.4 and Chart 5C).

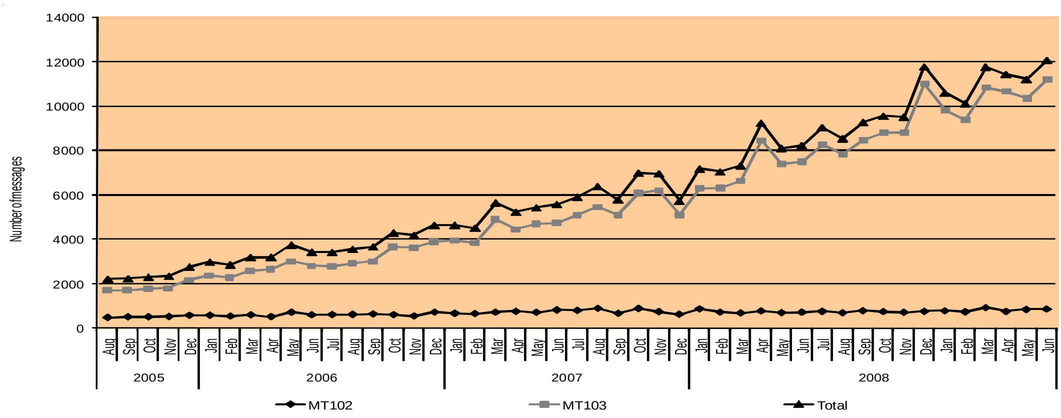
Inter-bank transfers (MT 202) accounted for 69.2 percent on average of the total value moved through KEPSS in June 2009, while third party messages accounted for 30.8 percent. The total number of third party messages (MT 102 and MT 103) grew by 46.7 percent from 8,221 messages in June 2008 to 12,060 messages in June 2009.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2008	January	877	6,300	7,177
	February	724	6,318	7,042
	March	684	6,637	7,321
	April	781	8,457	9,238
	May	708	7,393	8,101
	June	718	7,503	8,221
	July	764	8,268	9,032
	August	696	7,839	8,535
	September	791	8,481	9,272
	October	751	8,803	9,554
	November	711	8,804	9,515
	December	766	11,009	11,775
2009	January	786	9,815	10,601
	February	740	9,376	10,116
	March	929	10,832	11,761
	April	758	10,671	11,429
	May	852	10,351	11,203
	Jun	866	11,194	12,060

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

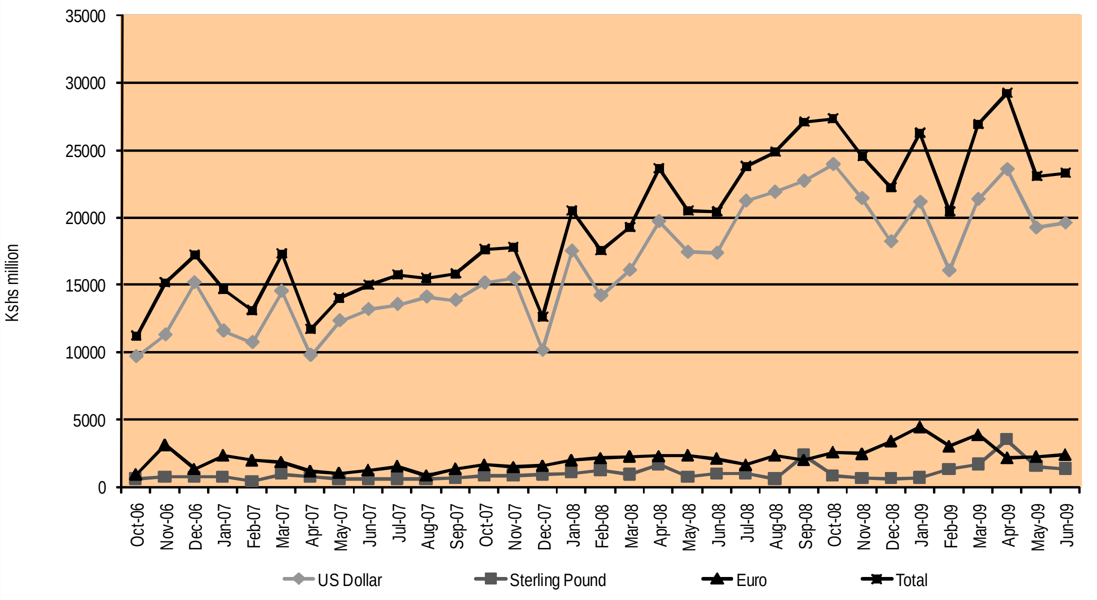


Source: Central Bank of Kenya

Domestic Foreign Currency Flows

Domestic Foreign Currency messages through KEPSS increased by 3.6 percent from 2,361 transaction messages in May 2009 to 2,445 transaction messages in June 2009. The corresponding value in Kenya Shillings equivalent moved in this period also increased by 1.3 percent from Ksh 23.01 billion to Ksh 23.32 billion. The US dollar accounted for 84.0 percent of the value moved (Chart 5D).

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



Source: Central Bank of Kenya

Government Budget Performance

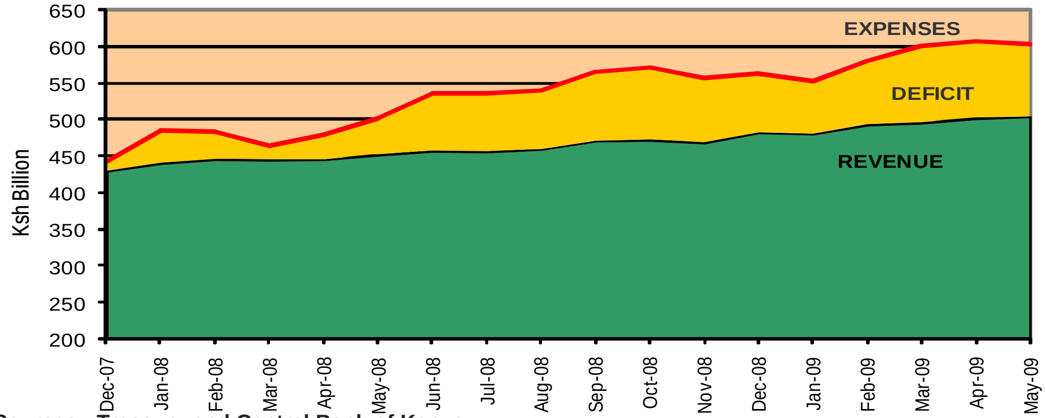
The performance of the Government budgetary operations in the first eleven months of the fiscal year 2008/09 resulted in a budget deficit of Ksh 66.1 billion or 2.8 percent of GDP on commitment basis which was higher than the deficit of Ksh 47.1 billion or 2.8 percent of GDP in a similar period in the fiscal year 2007/08 (Table 6.1). Similarly, the budget deficit on cash basis decreased from 3.1 percent to 2.8 percent of GDP during the period. The deficit remained within the 4.9 percent of GDP target for the period, since the Government expenditure also remained inline with the budget. The 12-month cumulative budget outturn shows a wider deficit in February 2009 since Government expenditure grew faster than revenues (Chart 6a).

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

	FY 2007/08	FY 2008/09		
	May Actual	May Provisional	Target	Over (+) / Below (-) Target
1. TOTAL REVENUE	402.7	449.6	486.7	-37.1
Revenue	381.6	432.4	456.9	-24.5
Tax Revenue	344.4	390.2	403.8	-13.5
Non Tax Revenue	11.4	14.5	17.9	-3.4
Appropriations-in-Aid	25.8	27.8	35.3	-7.5
External Grants	21.0	17.2	29.8	-12.6
2. TOTAL EXPENSES	449.7	515.7	603.6	-87.9
Recurrent Expenses	353.4	393.5	430.1	-36.6
Development Expenses	96.3	122.2	173.5	-51.3
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-47.1	-66.1	-116.9	-50.8
As % of GDP	-261.1	-2.8	-4.9	
4. ADJUSTMENT TO CASH BASIS	-5.5	-0.9	0.0	-0.9
5. DEFICIT ON A CASH BASIS	-52.6	-67.0	-116.9	-49.9
As % of GDP	-291.7	-2.8	-4.9	
6. DISCREPANCY:Exp. (+) / Rev. (-)	-9.3	-1.9	0.0	
7. FINANCING	43.3	65.1	117.0	-51.8
Domestic (Net)	20.2	36.4	30.9	5.5
External (Net)	5.5	10.2	20.3	-10.1
Capital Receipts (privatisation)	26.4	0.0	8.0	-8.0
Others	-8.8	18.6	57.8	-39.2
Financing gap	0.0	0.0	0.0	0.0

Sources: Treasury

CHART 6A: 12-MONTH CUMULATIVE BUDGET OUT-TURN



Sources: Treasury and Central Bank of Kenya

Revenue

Government revenue (including grants) amounted to Ksh 449.6 billion in the fiscal year 2008/09 compared with Ksh 402.7 billion in a similar period in the fiscal year 2007/08 (Table 6.2). The growth in revenue during the period followed increased tax revenue by Ksh 86.1 billion, attributed to increased efficiency resulting from improved tax administration by the Kenya Revenue Authority. The total revenue was however below target by Ksh 37.1 billion. Government receipts fell below the

Ksh 432.4 billion target for the period by Ksh 24.5 billion. This reflected performance of the tax revenue, which fell below the target by Ksh 13.5 billion for the period and external grants that were below target by Ksh 12.6 billion.

Tax revenue increased from Ksh 344.4 billion in the first eleven months of the fiscal year 2007/08 to Ksh 390.2 billion in the current period, representing a growth of Ksh 13.3 percent in the tax proceeds during the period. Similarly, Appropriation in Aid (AIA) increased by Ksh 2.0 billion while non-tax revenue increased by Ksh 3.1 billion. However, external grants decreased by Ksh 3.8 billion.

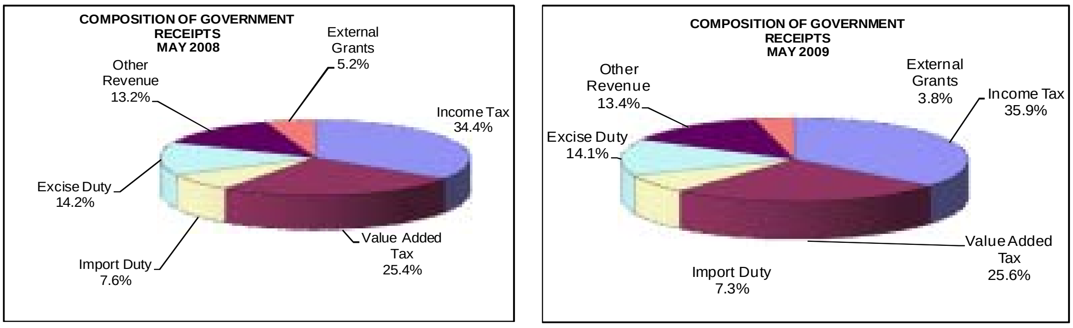
Following these developments, the percentage of tax revenue in total revenue increased from 85.6 percent in the first eleven months of the fiscal year 2007/08 to 86.8 percent in a similar period in the fiscal year 2008/09 (Chart 6B). Similarly, the percentage of non-tax revenue increased from 2.8 percent to 3.2 percent during the same period. The proportion of AIA decreased from 6.4 percent to 6.2 percent while the percentage of external grants in total revenue decreased from 5.2 percent to 3.8 percent during the same period.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	May-08 Ksh bn	May-09 Ksh bn	Change
1. Revenue (2+3+4)	**381.6**	**432.4**	**50.8**
2. Tax Revenue	344.4	390.2	45.8
Income Tax	138.7	161.3	22.6
Value Added Tax	102.2	115.0	12.9
Import Duty	30.5	32.6	2.1
Excise Duty	57.1	63.4	6.3
Others	16.0	17.8	1.8
3. Appropriations-in-Aid	25.8	27.8	2.0
4. Other Revenue	11.4	14.5	3.1
5. External Grants	**21.0**	**17.2**	**-3.8**
TOTAL RECEIPTS (1+5)	**402.7**	**449.6**	**47.0**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Expenditure and Net Lending

During the first eleven months of the fiscal year 2008/09, Government expenditure and net lending increased by 14.7 percent, from Ksh 449.7 billion in a similar period in the fiscal year 2007/08 to Ksh 515.7 billion (Table 6.3). This incremental expenditure comprised increases of 11.3 percent and 26.8 percent in recurrent and development expenditures, respectively.

TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	May-08 Ksh bn	May-09 Ksh bn	Movement
1.Recurrent	**353.4**	**393.5**	**40.1**
Salaries & Wages	130.3	143.3	**13.0**
Total Interest	43.0	48.4	**5.4**
of which			
Domestic*	38.2	42.1	**3.8**
Foreign interest due	4.7	6.3	**1.5**
Others	180.1	201.8	**21.7**
2. Development	**96.3**	**122.2**	**25.9**
TOTAL EXPENSES	**449.7**	**515.7**	**66.0**

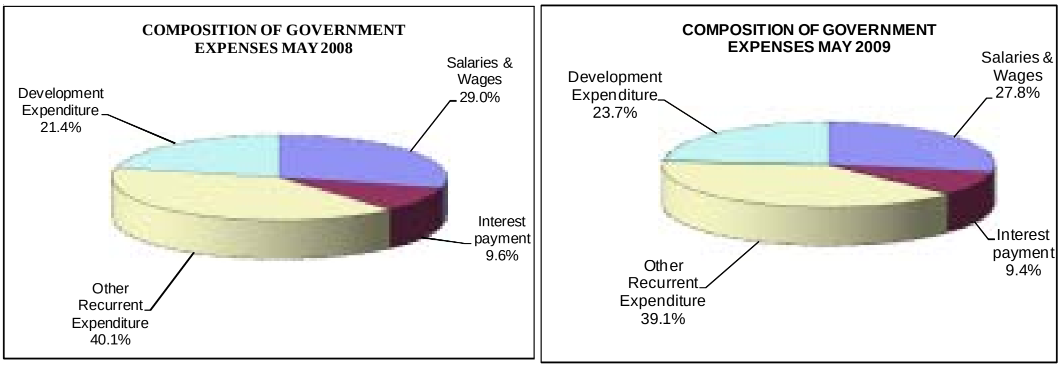
*Includes commission and other charges paid to CBK and other agencies

Source: Treasury

The recurrent expenditure increased by Ksh 40.1 billion, attributed to increases of Ksh 13.0 billion in wages and salaries, interest payments of Ksh 5.4 billion and Ksh 25.9 billion in other expenses. Development expenditure increased from Ksh 96.3 billion to Ksh 122.2 billion in the period largely to finance increased expenditure towards infrastructure development.

Following these developments, the percentage of development expenditure in total expenditure increased from 21.4 percent in the first eleven months of the fiscal year 2007/08 to 23.7 percent in a similar period in the fiscal year in 2008/09, while recurrent expenditure declined from 78.6 percent to 76.3 percent (Chart 6C).

CHART 6C: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

The budgetary operations of the central Government during the period under review resulted in a financing requirement of Ksh 71.1 billion compared with Ksh 57.3 billion in a similar period in the fiscal year 2007/08 (Table 6.4). The financing requirement comprised Ksh 65.8 billion to finance the budget deficit and Ksh 5.3 billion to repay domestic debt owed to the Central Bank. The financing requirement was sourced through net domestic borrowing of Ksh 43.6 billion from commercial banks and non-bank sources, foreign borrowing of Ksh 10.2 billion, and draw down of Government deposits at the Central Bank by Ksh 17.3 billion.

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank declined from Ksh 42.7 billion in May 2008 to Ksh 41.6 billion in May 2009 (Table 6.5). The decline was as a result of decreases of Ksh 1.5 billion in rediscounted securities, Ksh 1.1 billion in the Pre-1997 Government overdraft at Central Bank and Ksh of 0.3 billion in the cleared

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

I. FINANCING REQUIREMENTS	May-08 Ksh bn	May-09 Ksh bn
1. Budget deficit	43.3	65.8
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	3.6	5.3
3.1 Central Bank (incl. items in transit)	0.0	5.3
3.2 Commercial banks (net of deposits)	3.6	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	10.4	0.0
TOTAL	57.3	71.1
II. FINANCING SOURCES	**May-08 Ksh bn**	**May-09 Ksh bn**
1. Budget surplus	0.0	0.0
2. External debt increase	1.3	10.2
3. Increase in domestic debt	38.4	43.6
3.1 Central Bank	5.8	0.0
3.2 Commercial banks	0.0	20.8
3.3 Non-bank sources	32.6	22.8
4. Reduction in GoK deposits at CBK	0.0	17.3
5. Privatisation proceeds	17.6	0.0
TOTAL	57.3	71.1

Sources: Treasury and Central Bank of Kenya

items in transit. However, this decline was partially offset by an increase of Ksh 1.6 billion in the overdraft at the Central Bank.

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

	2008 May	2009 May	Movement
Total Credit	**42.7**	**41.6**	**-1.0**
1. Overdraft	5.1	6.7	1.6
2. Rediscounted securities	1.5	0.0	-1.5
Treasury bills	1.5	0.0	-1.5
Treasury bonds	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	35.0	33.9	-1.1
4. IMF funds onlent to Government	1.0	0.7	-0.3
5. Cleared items in transit	0.1	0.3	0.2
Memorandum			
Authorised overdraft limit	**14.8**	**16.9**	**5.6**
Amount utilised to date	5.1	6.7	6.7
Amount available	9.7	10.2	-1.1

Source: Central Bank of Kenya

Outlook for FY 2008/09

In the revised budget estimates for the fiscal year 2008/09, Government revenue excluding external grants is projected at Ksh 510.8 billion (22.1 percent of GDP). External grants are projected to decline to Ksh 29.4 billion (1.3 percent of GDP) during the fiscal year. Similarly, Government expenditure is projected at Ksh 676.2 billion or 29.3 percent of GDP which will comprise Ksh 467.5 billion (20.3 percent of GDP) in recurrent expenditure and Ksh 205.7 billion (8.9 percent of GDP) in development expenditure.

The overall budget deficit including grants is therefore projected at Ksh 136.4 billion (5.9 percent of GDP) in 2008/09. The deficit was to be financed through net external borrowing of Ksh 41.5 billion, net domestic borrowing of Ksh 92.4 billion and net refinancing costs of Telkom totalling Ksh 2.5 billion.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt Kenya's public and publicly guaranteed debt increased by 15.8 percent in the first eleven months of the fiscal year 2008/09 to stand at Ksh 1,008.2 billion in May 2009 from Ksh 870.6 billion in June 2008 (Table 7.1). The increase in the overall Government debt stock followed a rise of Ksh 58.7 billion in domestic debt and Ksh 78.9 billion in external debt. The percentage of domestic debt in total debt decreased from 49.5 percent to 48.5 percent during the period, while external debt increased from 50.5 percent to 51.5 percent.

However, as a percentage of GDP, overall public debt stock decreased marginally from 42.8 percent to 42.7 percent during the period following a faster growth in GDP. In particular, the proportion of external debt in GDP rose from 21.6 percent to 22.0 percent while domestic debt decreased from 21.1 percent of GDP to 20.7 percent. Since June 2003, the overall debt-to-GDP ratio has been on downward trend which is indicative of a sustainable debt stock in the medium term (Chart 7A).

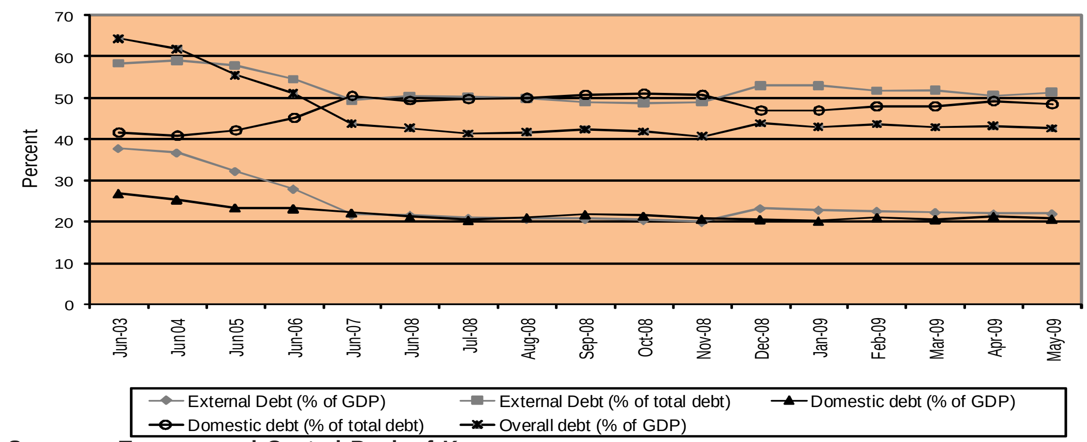
TABLE 7.1: KENYA'S PUBLIC DEBT (Ksh billion)

	April-08	May-08	Jun-08	Sept-08*	Dec-08*	Jan-09**	Feb-09**	Mar-09**	Apr-09**	May-09**	Change 2008/09
EXTERNAL											
Bilateral	149.1	150.6	153.2	165.2	187.2	186.1	187.2	182.7	182.9	184.9	31.7
Multilateral***	258.6	260.8	268.2	290.4	305.9	304.0	305.2	307.9	306.1	310.9	42.7
Commercial Banks	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	18.0	18.0	18.5	21.0	22.3	22.3	22.3	23.1	23.1	23.1	4.5
Sub-Total	426.0	429.6	440.0	476.6	515.4	512.4	514.7	513.6	512.0	518.9	78.9
(As a % of GDP)	21.1	21.4	21.6	22.7	23.3	22.8	22.6	22.3	21.9	22.0	
(As a % of total debt)	49.3	49.3	50.5	51.5	53.0	53.0	51.8	52.0	50.7	51.5	
DOMESTIC\[1]											
Banks	221.1	228.4	228.8	243.2	254.1	252.4	266.0	263.4	281.2	268.0	39.2
Central Bank	37.6	42.2	46.4	40.4	49.4	39.4	51.3	40.6	48.3	41.1	-5.3
Commercial Banks	183.5	186.3	182.5	202.8	204.7	213.0	214.7	222.8	232.9	227.0	44.5
Non-banks	213.7	211.6	199.2	202.8	198.9	199.6	209.7	208.8	213.7	218.8	19.5
Non-bank Financial Inst.	0.7	0.7	0.7	0.7	0.7	0.7	0.8	1.1	1.3	1.2	0.5
Other Non-bank Sources	213.0	210.8	198.5	202.1	198.2	198.8	208.9	207.8	212.4	217.5	19.0
Non-residents	3.0	2.7	2.6	3.2	3.2	2.3	2.5	2.7	2.7	2.5	0.0
Sub-Total	437.9	442.7	430.6	449.3	456.2	454.3	478.2	474.9	497.6	489.3	58.7
(As a % of GDP)	21.7	22.0	21.1	21.7	20.6	20.2	21.0	20.6	21.3	20.7	
(As a % of total debt)	50.7	50.7	49.5	48.5	47.0	47.0	48.2	48.0	49.3	48.5	
GRAND TOTAL	863.9	872.3	870.6	925.8	971.6	966.7	992.9	988.5	1009.6	1008.2	137.6
(As a % of GDP)	42.8	43.4	42.8	44.5	43.9	43.1	43.7	42.9	43.3	42.7	

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

Sources: Treasury and Central Bank of Kenya

CHART 7A:TRENDS IN KENYA'S PUBLIC AND PUBLICLY GUARANTEED DEBT



Sources: Treasury and Central Bank of Kenya

Domestic Debt

Public domestic debt increased by 15.6 percent in the first eleven months of the fiscal year 2008/09 from Ksh 430.6 billion in June 2008 to Ksh 497.6 billion in May 2009 (Table 7.2). This followed an increase of Ksh 22.2 billion in Treasury bills (excluding Repos), Ksh 33.1 billion in Treasury bonds and Ksh 12.2 billion in other domestic debt. Government overdraft at Central Bank, which is the main component of other domestic debt, increased to Ksh 6.7 billion, which was within the legal limit of Ksh 16.9 billion. Similarly, as shown in Table 7.1, the percentage of domestic debt owed to commercial banks increased from 42.4 percent to 46.4 percent during the period.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2008						2009										Change Jun-08-May-09
	Jun	%	Sept	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%	May	%	
Total stock of Domestic Debt (A+B)	430.6	100.0	449.3	100.0	456.2	100.0	454.3	100.0	478.2	100.0	474.9	100.0	497.6	100.0	497.6	100.0	67.0
A. Government Securities	427.2	98.5	443.3	98.7	440.7	96.6	449.0	98.8	461.7	96.6	468.2	98.6	483.1	97.1	482.0	96.9	54.8
1. Treasury Bills (excluding Repo Bills)	76.8	17.7	93.4	20.8	87.5	19.2	93.7	20.6	96.9	20.3	99.2	20.9	105.0	21.1	99.1	19.9	22.2
Banking institutions	27.2	6.3	46.0	10.2	42.1	9.2	48.5	10.7	51.0	10.7	55.2	11.6	60.5	12.2	57.4	11.5	30.2
Others	49.6	11.5	47.3	10.5	45.3	9.9	45.2	10.0	46.0	9.6	44.0	9.3	44.5	8.9	41.7	8.4	-8.0
2. Treasury Bonds	315.2	72.7	314.7	70.1	318.6	69.8	320.6	70.6	330.2	69.0	334.4	70.4	343.5	69.0	348.3	70.0	33.1
Banking institutions	156.1	36.0	155.6	34.6	162.6	35.6	164.5	36.2	163.7	34.2	167.6	35.3	172.3	34.6	169.5	34.1	13.4
Others	159.1	36.7	159.1	35.4	156.0	34.2	156.2	34.4	166.5	34.8	166.8	35.1	171.1	34.4	178.8	35.9	19.7
3. Long term Stocks	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.0
4. Pre-1997 Government Overdraft at CBK	34.4	7.9	34.4	7.7	33.9	7.4	33.9	7.5	33.9	7.1	33.9	7.1	33.9	6.8	33.9	6.8	-0.6
Of which: Repo T/Bills	34.4	8.1	34.4	7.7	33.9	7.4	33.9	7.5	33.9	7.1	33.9	7.1	33.9	6.8	33.9	6.8	-0.6
B. Others:	6.3	1.5	6.0	1.3	15.5	3.4	5.3	1.2	16.5	3.4	6.7	1.4	14.5	2.9	15.6	3.1	12.2
Of which CBK overdraft to Government	0.0	0.0	4.4	1.0	15.1	3.3	4.7	1.0	16.9	3.5	6.2	1.3	12.4	2.5	6.7	1.3	6.7

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

During the first eleven months of the fiscal year 2008/09, Government domestic financing was mainly through Treasury bills and drawdown of its deposits at Central Bank. As a result, Treasury bills increased from Ksh 76.8 billion (17.7 percent) in June 2008 to Ksh 99.1 billion (19.9 percent) in May 2009 (Table 7.2). As shown in Table 7.3, Treasury bills held by commercial banks rose from Ksh 26.4 billion (34.4 percent) to Ksh 57.4 billion (57.9 percent).

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

	2008						2009							
Holders	Jun	%	Sept	%	Dec	%	Feb	%	Mar	%	Apr	%	May	%
Banking Institutions	26.4	34.4	46.0	49.3	42.1	48.2	51.0	52.6	55.2	55.6	60.5	57.7	57.4	57.9
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	26.4	34.4	46.0	49.3	42.1	48.2	51.0	52.6	55.2	55.6	60.5	57.7	57.4	57.9
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	17.0	22.1	19.7	21.1	18.9	21.7	18.7	19.3	18.4	18.6	17.9	17.0	16.5	16.7
Parastatals	7.1	9.3	4.7	5.1	3.2	3.6	2.9	3.0	1.6	1.6	1.4	1.4	2.2	2.3
Of which: NSSF	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Building Societies	1.1	1.4	1.1	1.1	0.5	0.6	1.0	1.0	1.1	1.1	1.0	1.0	0.2	0.2
Pension Funds	12.5	16.3	7.3	7.9	8.5	9.7	9.3	9.6	8.6	8.6	10.8	10.3	7.3	7.3
Others	12.7	16.5	14.5	15.6	14.2	16.2	14.1	14.5	14.3	14.4	13.4	12.8	15.5	15.6
Total*	76.8	100.0	93.4	100.0	87.5	100.0	96.9	100.0	99.2	100.0	105.0	100.0	99.1	100.0

*** Excludes repurchase order bills**
Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds increased from Ksh 315.2 billion in June 2008 to Ksh 348.3 billion in May 2009 (Table 7.4). However, as shown in Table 7.2, the percentage of Treasury bonds in total domestic debt decreased from 72.7 percent to 70.0 percent during the period while commercial banks holdings of Treasury bonds increased from Ksh 156.1 billion (49.5 percent) to Ksh 169.5 billion (48.7 percent).

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

	2008										2009					
Holders	April	%	May	%	Jun	%	Sept	%	Dec	%	Mar	%	Apr	%	May	%
Banking Institutions	152.8	49.0	158.3	51.1	156.8	49.8	157.5	50.1	163.3	51.3	168.3	50.3	173.1	50.4	170.2	48.9
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	152.1	48.7	157.6	50.8	156.1	49.5	156.8	49.8	162.6	51.0	167.6	50.1	172.3	50.2	169.5	48.7
NBFIs	0.7	0.2	0.7	0.2	0.7	0.2	0.7	0.2	0.7	0.2	0.8	0.2	0.8	0.2	0.7	0.2
Insurance Companies	31.6	10.1	31.7	10.2	31.9	10.1	30.9	9.8	32.4	10.2	35.4	10.6	35.4	10.3	35.6	10.2
Parastatals	30.1	9.6	30.1	9.7	29.9	9.5	29.0	9.2	29.5	9.2	29.6	8.9	31.5	9.2	30.2	8.7
Of which: NSSF	11.5	3.7	11.5	3.7	11.7	3.7	12.0	3.8	12.5	3.9	12.5	3.7	14.7	4.3	14.7	4.2
Building Societies	0.9	0.3	0.9	0.3	0.9	0.3	0.6	0.2	0.6	0.2	0.6	0.2	0.5	0.2	0.5	0.1
Pensions Fund	30.2	9.7	31.1	10.0	31.8	10.1	35.5	11.3	37.6	11.8	46.8	14.0	49.4	14.4	54.2	15.6
Others	66.4	21.3	57.7	18.6	63.9	20.3	61.2	19.4	55.2	17.3	53.7	16.1	53.5	15.6	57.7	16.6
Total	**312.0**	**100.0**	**309.9**	**100.0**	**315.2**	**100.0**	**314.7**	**100.0**	**318.6**	**100.0**	**334.4**	**100.0**	**343.5**	**100.0**	**348.3**	**100.0**

Source: Central Bank of Kenya

Outstanding Government Securities

During the period June 2008 to May 2009, the percentage of 91-day Treasury bills in total government securities declined from 4.6 percent to 3.9 percent while the percentage of 182-day Treasury bills in total Government securities increased from 15.0 percent to 18.2 percent (Table 7.5).

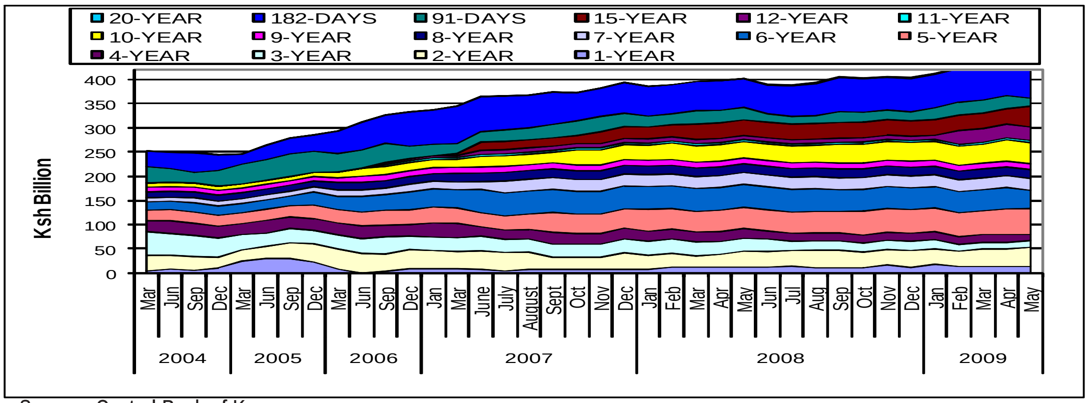
The 5-year Treasury bonds accounted for the largest proportion of outstanding Government securities during the period increasing from 11.1 percent in June 2008 to 11.8 percent in May 2009. However, the percentage of Treasury bonds with maturities of between 10-years and 20-years increased from 20.7 percent to 27.1 percent during the period following successful issuance of longer dated Treasury bonds. The average maturity profile of domestic debt (by days to maturity) decreased from 3 years and 8 months in June 2008 to 3 years and 6 months in May/June 2009.

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

	2008													
	May	%	Jun	%	Sept	%	Dec	%	Mar	%	Apr	%	May	%
91-Day	26.1	6.5	18.0	4.6	23.1	5.7	18.5	4.6	26.7	6.2	22.1	4.9	17.4	3.9
182-Day	59.3	14.7	58.9	15.0	70.3	17.2	68.9	17.0	72.4	16.7	82.9	18.5	81.6	18.2
1-Year	13.2	3.3	13.2	3.4	12.1	3.0	12.5	3.1	14.8	3.4	14.8	3.3	14.8	3.3
2-Year	32.7	8.1	31.7	8.1	35.4	8.7	34.5	8.5	35.5	8.2	35.5	7.9	39.1	8.8
3-Year	26.7	6.6	26.7	6.8	19.8	4.8	19.8	4.9	14.0	3.2	14.0	3.1	14.0	3.1
4-Year	20.6	5.1	16.5	4.2	16.5	4.1	16.5	4.1	16.5	3.8	16.5	3.7	12.9	2.9
5-Year	43.5	10.8	43.5	11.1	44.3	10.9	48.7	12.0	48.7	11.2	52.8	11.8	52.8	11.8
6-Year	47.6	11.8	47.6	12.1	45.6	11.2	45.6	11.2	44.2	10.2	44.2	9.8	38.8	8.7
7-Year	24.2	6.0	24.2	6.2	24.2	5.9	24.2	5.9	24.2	5.6	24.2	5.4	24.2	5.4
8-Year	17.9	4.4	17.9	4.6	17.9	4.4	17.9	4.4	17.9	4.1	17.9	4.0	17.9	4.0
9-Year	12.6	3.1	12.6	3.2	12.6	3.1	12.6	3.1	12.6	2.9	12.6	2.8	12.6	2.8
10-Year	34.4	8.5	34.4	8.8	39.4	9.7	39.4	9.7	39.4	9.1	44.4	9.9	44.4	9.9
11-Year	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0	4.0	0.9	4.0	0.9	4.0	0.9
12-Year	8.8	2.2	8.8	2.2	8.8	2.1	8.8	2.2	28.5	6.6	28.5	6.4	28.5	6.4
15-Year	32.1	8.0	32.1	8.2	32.1	7.9	32.1	7.9	32.1	7.4	32.1	7.2	42.3	9.5
20-Year	0.0	0.0	1.9	0.5	1.9	0.5	1.9	0.5	1.9	0.4	1.9	0.4	1.9	0.4
Total	403.8	100.0	392.0	100.0	408.1	100.0	406.1	100.0	433.6	100.0	448.4	100.0	447.4	100.0

Source: Central Bank of Kenya

CHART 7B: OUTSTANDING TREASURY BILLS AND BONDS



Source: Central Bank of Kenya

Long-term Stocks

During the first eleven months of the fiscal year 2008/09, Government long term stocks remained unchanged from Ksh 0.8 billion or 0.2 percent of total domestic debt as there were neither new issues nor redemptions of the instrument.

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Government securities in June to August 2009 will comprise Ksh 60.0 billion in Treasury bills and Ksh 6.6 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 18.8 billion and Ksh 41.2 billion in 91-days and 182-days Treasury bills, respectively. Treasury bonds maturities in the period will consist of Ksh 2.2 billion and Ksh 4.4 billion in 1-year and 3-year bonds, respectively.

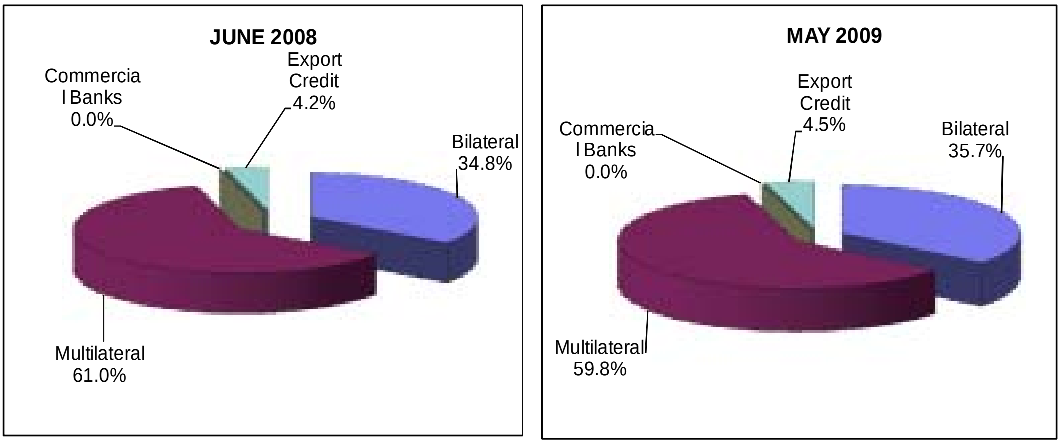
External Debt

Kenya's external debt increased by 17.9 percent from Ksh 440.0 billion (USD 6.8 billion) in June 2008 to Ksh 518.9 billion (USD 6.6 billion) in May 2009 following weakening of the shilling against the Euro, dollar and the sterling Pound (Table 7.1). The increase followed external loans disbursement of Ksh 19.1 billion and revaluation loss of Ksh 68.2 billion which more than offset repayment of Ksh 15.2 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to bilateral creditors and contracted through export credits increased from 34.8 percent and 4.2 percent in June 2008 to 35.6 percent and 4.4 percent respectively in May 2009 (Chart 7C). However, multilateral external loans (including loans from the IMF) decreased from 61.0 percent of total external debt to 59.9 percent during the period.

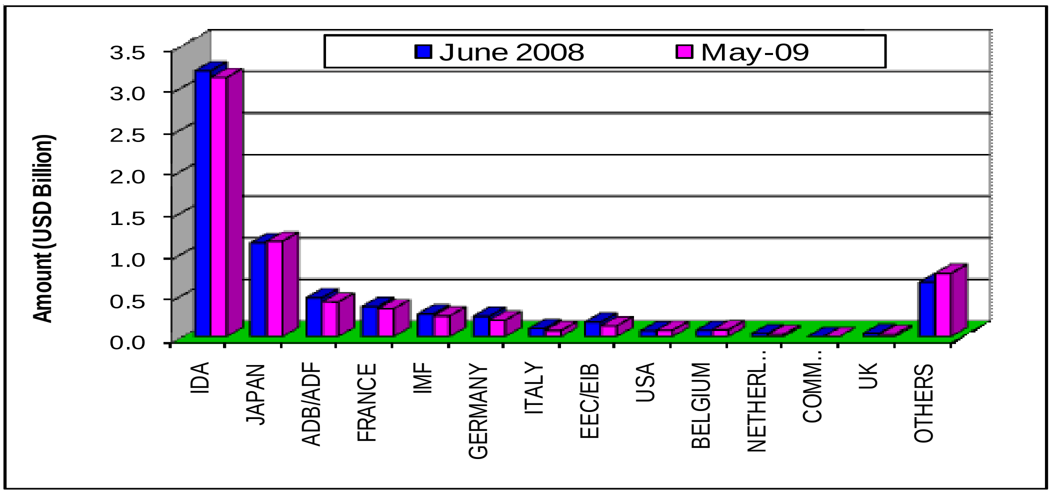
CHART 7C: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

As shown in Chart 7D, external debt owed to IDA decreased from USD 3.2 billion in June 2008 to USD 3.1 billion in May 2009 while debt owed to Japan increased from Ksh 1.1 USD in June 2008 to USD 1.2 billion in May 2009. However, the two remained the largest multilateral and bilateral creditors to Kenya during the period.

CHART 7D: EXTERNAL DEBT BY CREDITOR

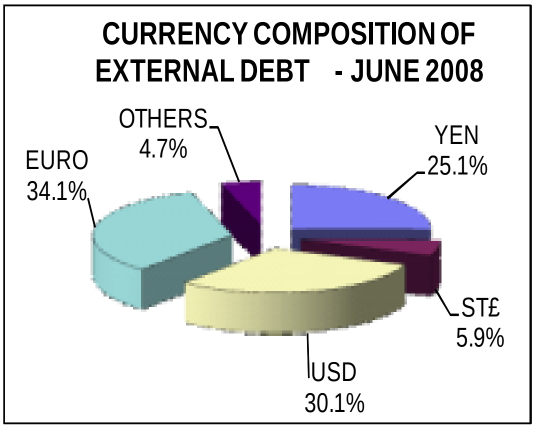


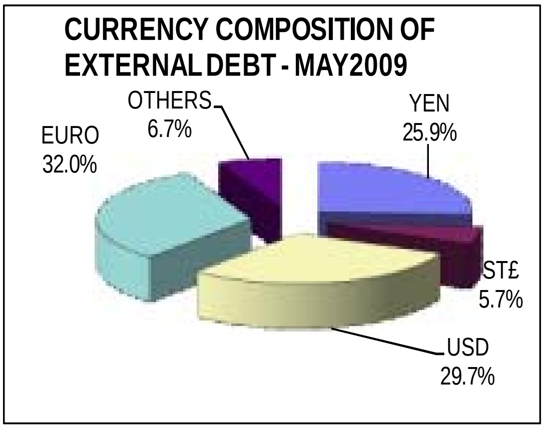
Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in US dollars, sterling Pound, and the Euro decreased from 30.1 percent, 5.9 percent and 34.1 percent in June 2008 to 29.7 percent, 5.7 percent and 32.0 percent in May 2009, respectively. The external debt proportion held in Yen and in other currencies including SDRs increased from 25.1 percent and 4.7 percent respectively to 25.9 percent and 6.7 percent during the period. (Chart 7E).

CHART 7E: EXTERNAL DEBT DISTRIBUTION BY CURRENCY





Source: Treasury

Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt increased from Ksh 38.2 billion in the first eleven months of the fiscal year 2007/08 to Ksh 42.1 billion in a similar period of the fiscal year 2008/09. Consequently, the percentage of domestic interest in ordinary Government revenue decreased from 10.7 percent to 10.4 percent during the period. External debt service increased from Ksh 19.5 billion or 5.5 percent of ordinary revenue to Ksh 21.7 billion or 5.3 percent of ordinary revenue following weakening of the shilling against the major currencies. The external debt service in the period comprised Ksh 14.3 billion in principal repayments and Ksh 7.3 billion in interest payment.

Outlook for the FY 2008/09

The revised budget estimates for 2008/09 had Government domestic borrowing increased to Ksh 92.4 billion (4.0 percent of GDP) while external borrowing was revised downwards to Ksh 41.5 billion (1.8 percent of GDP. As indicated in the Budget Strategy Paper for 2009/10 to 2011/12, gross domestic debt-to-GDP ratio is projected to increase from 21.9 percent in June 2008 to 22.7 percent in June 2009 as GDP is expected increase at a faster rate compared with domestic debt. Consequently, external debt-to-GDP ratio is expected to increase from 21.6 percent to 22.6 percent during the period.

ACTIVITY IN THE STOCK MARKET

Equity Market

Performance at the equities market improved in June 2009 as reflected by key market indicators (Table 8.1). The number of shares traded increased by 22.6 percent from 308.0 million in May 2009 to 377.6 million in June 2009.

Equity turnover increased by Ksh 1,039 million (33.7 percent), from Ksh 3,087.7 million in May 2009 to Ksh 4,126.9 million in June 2009. The market capitalization increased by Ksh 128.3 billion (18.5 percent), from Ksh 693.4 billion in May 2009 to Ksh 821.8 billion in June 2009. The increase in market capitalization is attributed to the increase in price of most counters. The NSE 20 Share Index increased by 442.0 points (15.5 percent) to close at 3294.56 points in June 2009. Market liquidity ratio increased by 11 basis points to 0.61 percent in June 2009 from 0.49 percent in May 2009 reflecting an increase in the number of shares traded.

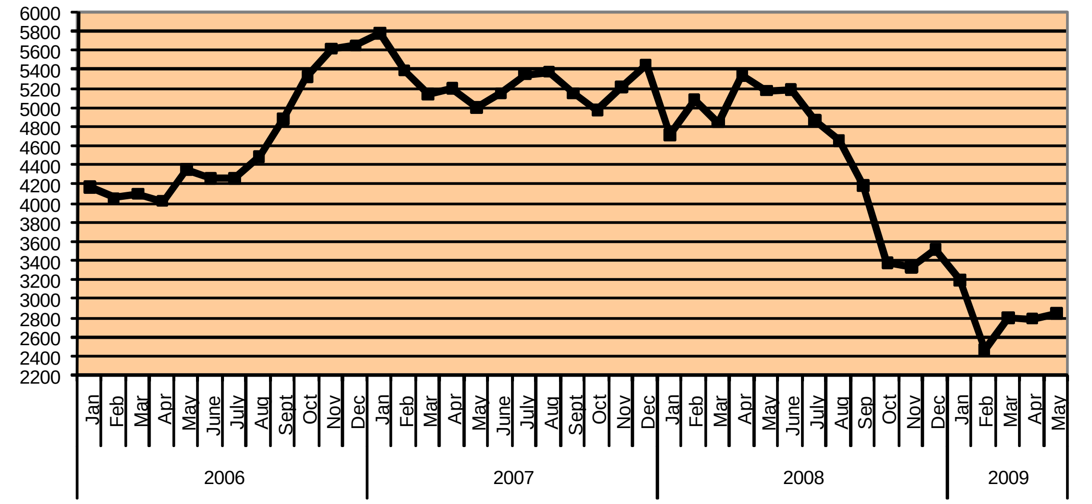
TABLE 8.1: SELECTED STOCK MARKET INDICATORS

Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
January 08	4,712.71	197.04	7,046.14	775.20	5,937.90
February 08	5,072.41	198.83	8,011.26	830.65	3,212.55
March 08	4,843.17	180.64	7,320.55	781.66	14,345.35
April 08	5,336.03	141.76	5,635.56	907.90	2,145.10
May 08	5,175.83	168.03	6,840.00	916.74	3,040.00
June 08	5,185.56	2,154.90	22,130.01	1,230.67	4,910.00
July 08	4,868.27	983.75	14,280.00	1,120.08	2,397.93
August 08	4,648.78	490.81	7,490.20	1,081.86	18,490.36
September 08	4,180.40	485.30	6,787.80	972.30	22,611.94
October-08	3,386.65	393.50	3,642.40	764.90	4,344.11
November-08	3,341.00	290.94	3,723.72	791.60	6,319.71
December-08	3,521.18	170.86	4,617.11	853.67	7,473.44
January-09	3,198.90	177.55	2,624.39	777.45	12,458.82
February-09	2,474.75	150.64	1,645.28	611.49	12,555.25
March-09	2,805.03	207.39	2,414.12	688.67	18,520.00
April-09	2,800.10	215.56	2,549.12	683.03	1,370.00
May-09	2,852.57	308.00	3,087.67	693.44	22,310.00
June-09	3,294.56	377.56	4,126.87	821.78	21,600.00

Source: Nairobi Stock Exchange

The Commercial and Services sector dominated the market trading 230.4 million shares during the month. The most traded share in the sector was Safaricom which traded 219.7 million shares. The Finance and Investment sector traded 101.6 million shares. The most active stock, Equity Bank, traded 58.0 million shares. The Industrial and Allied sector traded 40.5 million shares with Mumias Sugar trading 17.5 million shares. The agricultural sector traded 5.0 million shares.

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



Source: Nairobi Stock Exchange

Bond Market The bond turnover declined by 3.2 percent, with bonds worth Ksh 21,600 million traded in June 2009, compared with Ksh 22,310 million worth of bonds traded in May 2009.

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

	Jun-09	Jun-08	June 08/June 09 Movement
ASSETS	309,655	275,178	34,477
Foreign Exchange	246,970	223,692	23,278
Advances and Discounts to Banks	0	0	0
Discounted Government Securities	15,010	8,539	6,471
Government Accounts	40,600	38,377	2,223
Overdraft to Government	5,124	0	5,124
Clearing Account	1,430	2,885	(1,455)
IMF funds on-lent to Government	717	1,053	(336)
Non-interest Bearing Government Debt	33,329	34,439	(1,110)
Other assets	7,075	4,570	2,505
Debtors	5,298	3,652	1,646
Retirement Benefits	55	55	0
Property and Equipment	1,447	585	862
Prepaid Leases	275	278	(3)
			0
LIABILITIES	309,655	275,178	34,477
Currency in Circulation	108,042	99,750	8,292
Repo Securities	0	1,807	(1,807)
Deposits	162,435	150,838	11,597
Commercial Banks			0
Kenya	51,901	53,868	(1,967)
External	89	21	68
Non-Bank Financial Institutions	0	0	0
Other Public Entities and Project A/Cs	8,180	8,506	(326)
IMF	36,731	19,697	17,034
Government	64,169	67,507	(3,338)
Local Banks Forex Settlement Fund	1,365	1,239	126
Other Liabilities and Provisions	1,237	4,529	(3,292)
Capital and Reserves	37,941	18,254	19,687
Capital	5,000	1,500	3,500
General Reserve Fund	10,776	7,759	3,017
Period's Surplus	22,165	8,995	13,170
Dividend payable	0	0	0

Source: Central Bank of Kenya

Notes on the Balance Sheet

Asset

Foreign exchange reserves of the Bank rose by Ksh 23,278 million in June 2009, from Ksh 223,692million in June 2008 to Ksh 246,970 million.

Advances and discounts to commercial banks remained at zero in the year to June 2009.

Government accounts rose by Ksh 2,223 million, from Ksh 38,377 million in June 2008 to Ksh 40,600 million in June 2009. The increase reflected Ksh 5,124 million increase in utilisation of the overdraft facility and partially offsetting repayments of; Ksh 1,455 million in the clearing account balances, Ksh 336 million in IMF funds on-lent to Government and Ksh 1,110 million on outstanding non-interest bearing Government debt.

Other assets rose by Ksh 2,505 million in the year to June 2009 on account of an increase of Ksh 862 million in the value of property and equipment and a Ksh 1,646 million increase in the value of debtors. The value of retirement benefits remained unchanged.

Liabilites

Currency in circulation rose by Ksh 8,292 million in June 2009, from Ksh 99, 750 million in June 2008 to Ksh 108,042 million.

The **stock of repo securities** declined by Ksh 1,807 million, from Ksh 1,807 million in June 2008 to zero in June 2009.

Deposits rose by Ksh 11,597 million, from Ksh 150,838 million in June 2008 to Ksh 162,435 million in June 2009, reflecting increases in IMF deposits liabilities with the Bank of Ksh 17,034 million and an increase in Local banks forex settlement funds of Ksh 126 million. The increases were however offset by a decline in other Public Entities and Project account deposits of Ksh 326 million, a decline in Government of Kenya deposits of Ksh 3,338 million and a decline in Commercial Banks' deposits at the Central Bank of Ksh 1,967 million.

Other liabilities and provisions declined by Ksh 3,292 million, from Ksh 4,529 million in June 2008 to Ksh 1,237 million in the year to June 2009.

Capital and reserves rose by Ksh 19,687 million, from Ksh 18,254 million in June 2008 to Ksh 37,941 million in the year to June 2009, due to an increase in the surplus in the year to June 2009 by Ksh 13,170 million, an increase of Ksh 3,017 million in the general reserve fund and an increase of Ksh 3,500 in the capital reserves.