MONTHLY ECONOMIC REVIEW

JUNE 2010

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

CONTENTS

Information in the Monthly Economic Review is provided for public information and may be reproduced with due acknowledgment.

Enquiries concerning this publication should be addressed to: The Director, Research and Policy Analysis Department, Central Bank of Kenya, P. O. Box 60000-00200, Nairobi.
email: Researchstat@centralbank.go.ke

OVERVIEW

Introduction

This Monthly Economic Review highlights recent economic developments through June 2010. This includes developments in money, credit and banking, inflation, interest rates and the exchange rates. It also highlights developments in the real sector, Government budgetary operations, public debt and balance of payments.

Monetary Expansion

Money supply, M3[1], increased by 26.2 percent in the year to June 2010 compared with 13.0 percent in a corresponding period in 2009 and was above the projected 16.5 percent growth rate for June 2010. The increase in money supply in June 2010 was supported by increases in net domestic assets (NDA) and net foreign assets (NFA) of the Banking system.

Interest Rates

The Monetary Policy Committee in the meeting of 28 July, 2010 lowered the Central Bank Rate (CBR) by 75 basis points to 6.00 percent from its previous level of 6.75 percent, sending a strong signal to commercial banks to lower their lending rates. The rate had previously been lowered in May 2010 to 6.75 percent from the previous position of 7.00 percent in November 2009.

Real GDP Growth

In the first quarter of 2010, the economy grew by 4.4 percent compared with a growth of 5.6 percent in the first quarter of 2009. This slowdown was largely attributed to over-reliance on the costly thermal- generated electricity, among other reasons, with the electricity and water supply sector declining by 2.1 percent. Growth during the quarter was driven by improved performance in agricultural, mining and quarrying, manufacturing, wholesale and retail and the financial sectors. Total output during the quarter was equivalent to Ksh 356.6 billion. The growth momentum could continue during the second quarter as reflected by the leading indicative growth rates over sampled items for the various sectors of the economy.

Inflation

The overall 12-month inflation declined by 40 basis points to 3.5 percent in June 2010. from 3.9 percent in May 2010. Overall, the downward trend in the 12- month inflation has persisted for over a year and is reflected virtually in all categories of goods and services in the CPI basket. Similarly, the annual average inflation declined from 15.1 percent in June 2009 to 5.9 percent in May 2010 and closed lower at 5.4 percent in June 2010.

Government Fiscal Operations

The central Government budgetary operations in the fiscal year 2009/10 resulted in a deficit of Ksh 157.9 billion or 6.2 percent of GDP on commitment basis compared with a deficit of Ksh 110.6 billion or 4.6 percent of GDP in a similar period of 2008/

09. The budget deficit during the period was within the programmed target of 6.7 percent of GDP on a commitment basis.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by 13.2 percent in the first eleven months of fiscal year 2009/10 to Ksh 1192.2 billion in May 2010 from Ksh 1,053.7 billion in June 2009. The external debt to GDP ratio decreased from 22.4 percent in June 2009 to 21.4 percent in May 2010, while the domestic debt to GDP ratio increased from 21.7 percent to 25.7 percent during the period.

Balance of Payments

Kenya's overall balance of payments improved from a deficit of US$ 497 million in the year to May 2009 to a surplus of US$ 317 million in the year to May 2010. The improvement reflects a relatively narrow deficit in the current account.

Exchange Rates

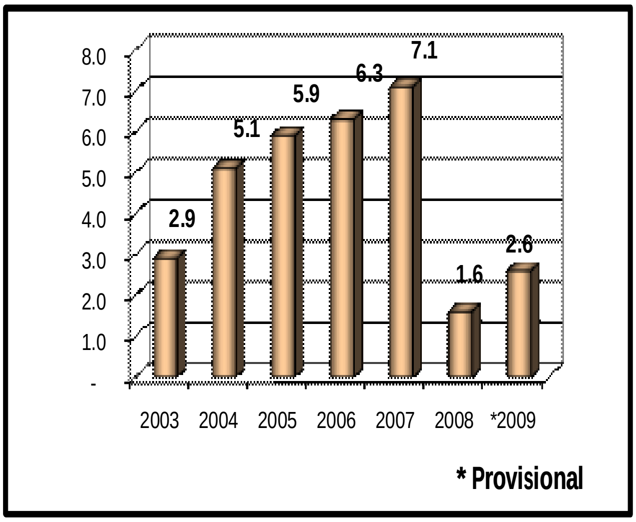
The Kenya Shilling depreciated in June 2010 against major international currencies. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.02 per US dollar in June 2010 compared with Ksh 78.54 per US dollar in May 2010. The depreciation was attributed to strengthening of the US dollar in the international markets.

Banking Sector Developments

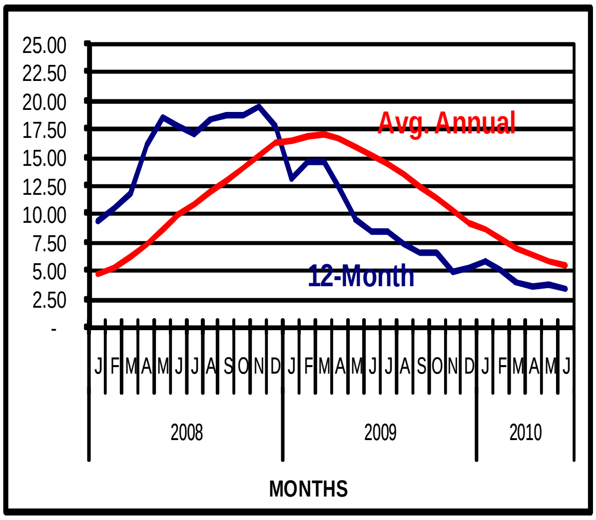
The Banking sector registered growth in asset base largely supported by growth in deposits, injection of capital and retention of profits in the year to May 2010. The stock of gross non-performing loans (NPLs) eased by 10.9 percent from Ksh 69.9 billion in May 2009 to Ksh 62.3 billion.

SELECTED ECONOMIC PERFORMANCE INDICATORS

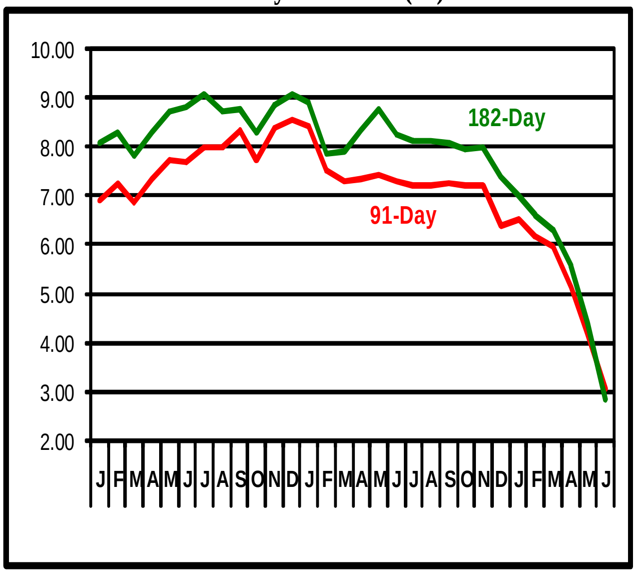
Real GDP Growth (%)



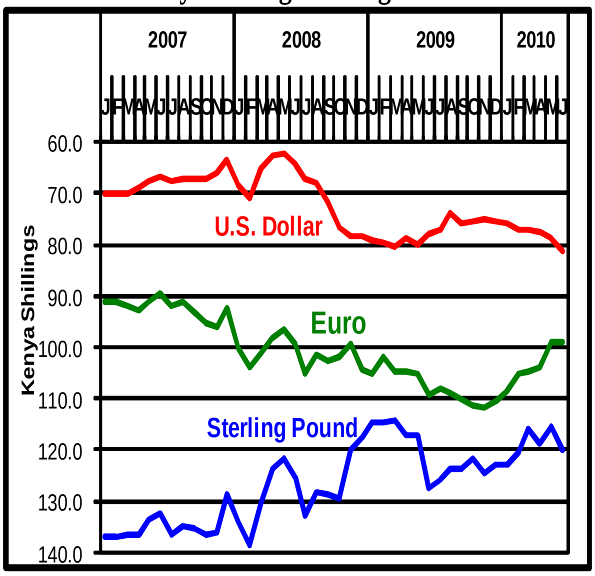
Inflation (%)



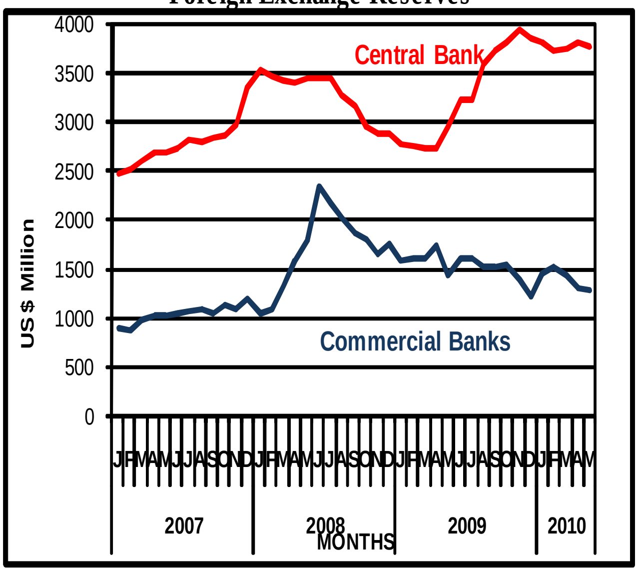
Treasury Bill Rates (%)



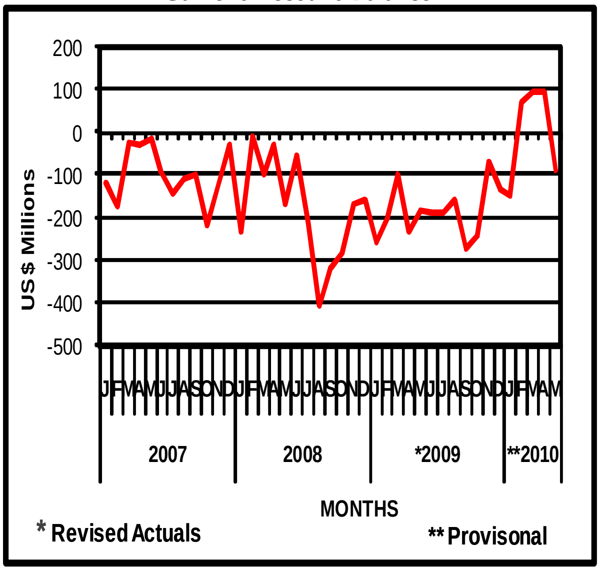
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
1.	POPULATION*										
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	39.40
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	2.87
2.	NATIONAL ACCOUNTS**										
	Gross value added at basic prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,625	1,444,139	1,615,214	1,833,646	2,048,485
	GDP at Market Prices (Ksh m):										
	At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,591	1,828,788	2,077,433	2,273,685
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,133	1,249,459	1,336,874	1,357,640	1,392,832
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.32	7.00	1.55	2.59
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,480	34,611	35,937	35,448	35,351
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]	12.9	10.0	8.1	10.1	12.2	13.4	14.9	13.7	15.5	11.1
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]	6.7	4.4	4.0	4.8	6.6	5.7	8.9	8.5	12.6	6.1
5.	GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	19.1	19.2	23.4
6.	OVERALL INFLATION BASE PERIOD= FEB 2009										
	Annual Average Inflation	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27	9.24
	12-Month Inflation	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32
7.	STOCK MARKET										
	Nairobi Stock Exchange Price Index (1966=100)	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44
	Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64
8.	GOVERNMENT BUDGET (Ksh bn) ***										
	Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67	511.36
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91
	Budget Deficit (-) / Surplus (+)	7.57	-16.53	-22.32	-27.11	-18.62	5.72	-37.44	-21.61	-77.17	-110.55
	Budget Deficit (% of GDP)	0.81	-1.66	-2.19	-2.51	-1.54	0.42	-2.39	-1.18	-3.68	4.79
9.	MONEY AND CREDIT (Ksh bn)(end period)										
	Liquidity (L)[1]	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,091.93	1,280.47
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.06	1,045.66
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96
	Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	827.41	978.32
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	162.78	218.53
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	664.64	759.79
10.	BALANCE OF PAYMENTS (US$ m)**										
	Overall Balance	217.00	372.00	59.00	365.00	117.00	306.00	675.00	854.00	-469.00	464.45
	Current Account	-240.00	-385.00	-117.69	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,608.84
	Capital and Financial Account	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00	2,073.29
11.	FOREIGN EXCHANGE RESERVES (US$ m) End Period	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78	5,064.03
	Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46	3,847.39
	*Months of imports**** *	*(2.8)*	*3.2*	*3.3*	*4.4*	*4.1*	*4.0*	*3.9*	*4.8*	*3.4*	*4.1*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63
12.	PUBLIC DEBT (US$ bn) End Period***	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	13.46	13.66
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15	21.67
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61	22.36
13.	EXCHANGE RATE (Ksh/US$) (Annual Average)	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18	77.35

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

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2009							2010					
	Jan	Feb	Mar	Apr	May	June	Dec	Jan	Feb	March	April	May	June
1. INFLATION (%)													
CPI	99.00	100.00	100.96	101.84	101.84	102.05	104.66	104.89	105.18	104.97	105.56	105.79	105.61
Overall Inflation													
12-month overall inflation	13.22	14.69	14.60	12.42	9.61	8.60	5.32	5.95	5.18	3.97	3.65	3.88	3.49
Average annual overall inflation	16.56	16.87	17.07	16.72	15.93	15.11	9.24	8.64	7.88	7.03	6.32	5.85	5.43
2. INTEREST RATES (%)													
91-day Treasury bill interest rate	8.46	7.55	7.31	7.33	7.45	7.33	6.82	6.56	6.21	5.98	5.17	4.21	3.06
Overdraft interest rate	13.84	13.46	13.78	13.16	14.13	14.41	14.13	14.48	14.25	14.06	14.50	14.38	14.23
3. STOCK MARKET													
Nairobi Stock Exchange Price Index	3,198.90	2,474.75	2,805.03	2,800.10	2,852.57	3294.56	3247.44	3565.28	3629.31	4072.93	4233.24	4241.81	4339.28
Turnover (%)	0.30	0.26	0.33	0.35	0.49	0.61	0.34	0.96	0.59	1.01	0.64	1.46	0.57
4. GOVERNMENT BUDGET* (Ksh bn.)													
Revenue	277.42	318.85	361.27	407.21	449.64	511.35	266.08	311.97	350.66	394.40	455.12	502.03	560.79
Expenses	301.54	359.38	406.94	465.12	515.70	621.91	296.13	372.03	440.03	490.64	561.39	644.54	718.65
Budget Deficit (-) / Surplus (+)	(24.12)	(40.53)	(45.67)	(57.91)	(66.06)	(110.56)	(30.05)	(60.06)	(89.37)	(96.24)	(106.26)	(142.52)	(157.86)
5. MONEY AND CREDIT (Ksh bn.)													
Liquidity (L)[1]	1,089.21	1,103.41	1,107.95	1,135.46	1,139.47	1,166.93	1,280.02	1,297.90	1,311.29	1,350.17	1,364.57	1,404.54	1,442.85
Money Supply (M3)[2]	895.40	900.03	906.07	928.82	928.60	950.24	1,045.21	1,067.27	1,084.35	1,107.90	1,122.79	1,159.59	1,198.93
Reserve Money	152.49	151.82	155.40	152.90	160.40	159.94	181.96	179.45	175.26	177.46	177.50	194.12	210.25
Total Domestic Credit	807.34	813.97	827.77	830.13	835.18	854.03	955.29	984.70	1,009.01	1,017.16	1,022.76	1,057.78	1,086.75
Government	156.74	153.91	168.03	166.81	162.55	173.87	205.08	220.69	243.36	246.86	241.89	261.49	277.69
Private sector and other public sector	650.60	660.05	659.74	663.32	672.63	680.16	738.27	737.70	743.97	770.30	780.87	796.29	809.06
6. MONEY AND CREDIT (Annual % Change)													
Liquidity (L)[1]	9.75	10.19	10.15	7.98	7.09	13.45	17.27	19.16	18.84	21.86	20.18	23.26	23.65
Money Supply (M3)[2]	7.49	7.49	11.69	7.49	10.65	13.03	16.00	19.20	20.40	22.28	20.88	24.88	26.17
Reserve Money	4.03	4.03	1.57	4.03	8.82	4.59	11.20	17.68	15.40	14.19	16.09	21.02	31.46
Total Domestic Credit	18.48	17.55	19.60	11.19	18.68	21.70	18.50	21.97	23.96	22.88	23.20	25.49	25.75
Government	4.60	(2.20)	4.68	7.35	38.11	30.30	32.00	40.80	58.11	46.91	45.01	60.87	59.71
Private and other public sector	22.40	23.36	24.10	12.19	14.78	19.68	15.50	15.20	14.20	16.76	17.72	17.04	17.20
7. BALANCE OF PAYMENTS (US$ m)													
Overall Balance	(106.62)	(22.64)	(30.98)	176.86	41.20	84.39	(81.81)	(37.85)	(84.88)	22.07	60.77	(50.05)	
Current Account	(199.68)	(143.91)	(29.09)	(184.31)	(142.09)	(138.11)	(72.76)	(81.61)	148.04	97.68	95.26	(85.56)	
Trade Balance	(495.25)	(404.04)	(376.20)	(499.66)	(427.78)	(450.59)	(642.04)	(535.67)	(351.53)	(526.20)	(528.62)	(599.37)	
Capital and Financial Account	93.06	121.27	(1.89)	361.17	183.29	222.50	(9.05)	43.76	(232.92)	(75.62)	(34.48)	35.51	
8. FOREIGN EXCHANGE RESERVES (US$ m)	4,348.12	4,354.38	4,320.36	4,620.28	4,369.96	4,821.61	5064.03	5279.39	5254.33	5187.64	5124.41	5034.35	
Official**	2,768.85	2,744.85	2,713.87	2,887.74	2,928.94	3,219.46	3847.39	3809.54	3722.55	3744.62	3805.39	3755.34	
Months of imports cover	*3.20*	*3.15*	*3.10*	*3.28*	*3.31*	*3.61*	4.09	4.02	3.93	3.92	3.96	3.88	
Commercial banks	1,579.27	1,609.52	1,606.49	1,732.54	1,441.03	1,602.15	1216.63	1,469.84	1,531.78	1,443.02	1,319.02	1,279.00	
9. PUBLIC DEBT (US$ bn)	12.15	12.46	12.3	12.8	12.9	13.7	14.7	14.57	14.93	15.08	15.41	14.95	14.66
Domestic	5.71	6.00	5.90	6.33	6.25	6.72	7.77	7.65	8.01	8.26	8.46	8.15	8.05
As % of GDP	20.24	21.07	20.61	21.32	20.70	21.67	23.85	23.39	24.36	25.48	26.06	25.66	25.90
External	6.44	6.46	6.39	6.51	6.62	6.94	6.94	6.91	6.92	6.81	6.96	6.80	6.60
As % of GDP	22.83	22.63	22.29	21.94	21.95	22.36	21.29	21.13	21.05	21.46	21.43	21.39	21.25
10. GROSS DOMESTIC DEBT (Ksh bn)***	454.27	479.08	474.89	497.58	489.34	518.51	588.97	580.7	608.0	639.1	653.6	650.3	659.6
11. AVERAGE EXCHANGE RATE													
Ksh/US$	78.95	79.53	80.26	78.66	79.63	77.85	75.43	75.79	76.69	76.95	77.25	78.54	81.02
Ksh/Pound Sterling	114.28	114.54	113.98	116.70	116.98	127.22	122.54	122.53	120.21	115.78	118.51	115.20	119.62
Ksh/ 100 Yen	87.45	86.18	82.22	80.84	80.76	80.61	84.12	83.11	84.99	85.04	82.76	85.30	89.18
Ksh/Euro	105.02	101.71	104.77	104.80	105.08	109.03	110.27	108.27	105.25	104.46	103.71	98.80	98.99

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

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

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

[1] Previously M3XT

[2] Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

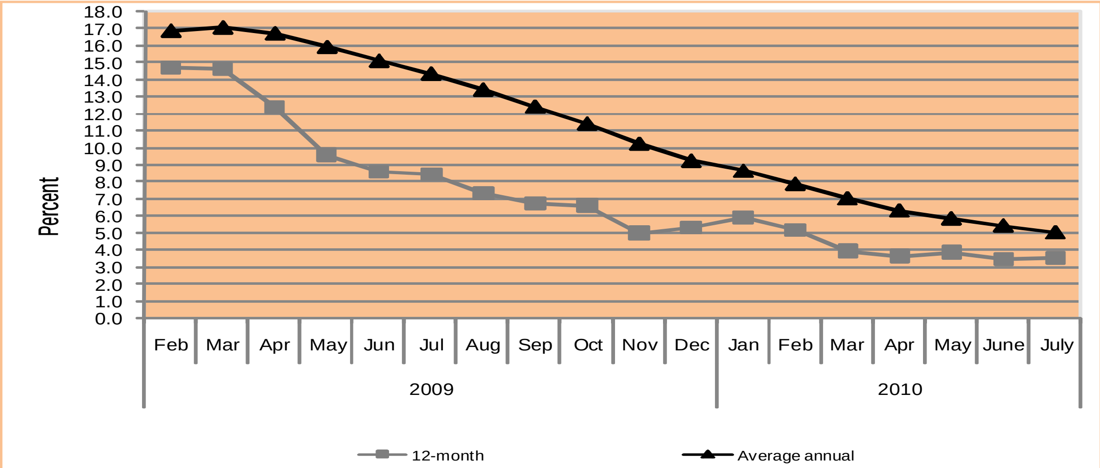
Overall 12-month inflation remained low declining within single digit level in the year to June 2010 (Table 1.1 and Chart 1A). The price levels for most goods and services over the last year declined, with food inflation recording the largest decline of 9.7 percentage points.

TABLE 1.1: OVERALL INFLATION (%)

Overall Inflation	2009											2010					
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
12-month	14.69	14.60	12.42	9.61	8.60	8.44	7.36	6.74	6.62	5.00	5.32	5.95	5.18	3.97	3.65	3.88	3.49
Average annual	16.87	17.07	16.72	15.93	15.11	14.35	13.42	12.41	11.42	10.24	9.24	8.64	7.88	7.03	6.32	5.85	5.43

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

CHART 1A: OVERALL INFLATION (%)



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

Inflation by Income Groups

All income groups experienced declining inflation in June 2010, with the "Nairobi upper" income group, though still having the highest 12- month inflation equivalent to 6.6 percent in June 2010, recording the largest decline from 7.2 percent in May 2010. The lower inflation in June 2010 for the upper income groups was reflected in a decline in inflation for housing, water, electricity, gas and other fuels category and transport, which account for 19.8 and 27.9 percent of the weight in the income groups CPI basket. The two categories of goods and services recorded the highest twelve month inflation at 5.6 percent and 15.4 percent, respectively in June 2010. The "Nairobi middle" income group, on the other hand, had the lowest 12-month inflation of 1.9 percent in June 2010. The 12-month inflation outside Nairobi declined from 3.8 percent in May 2010 to 3.5 percent in June 2010 mainly due to reduced tariffs as a result of increased local hydropower production.

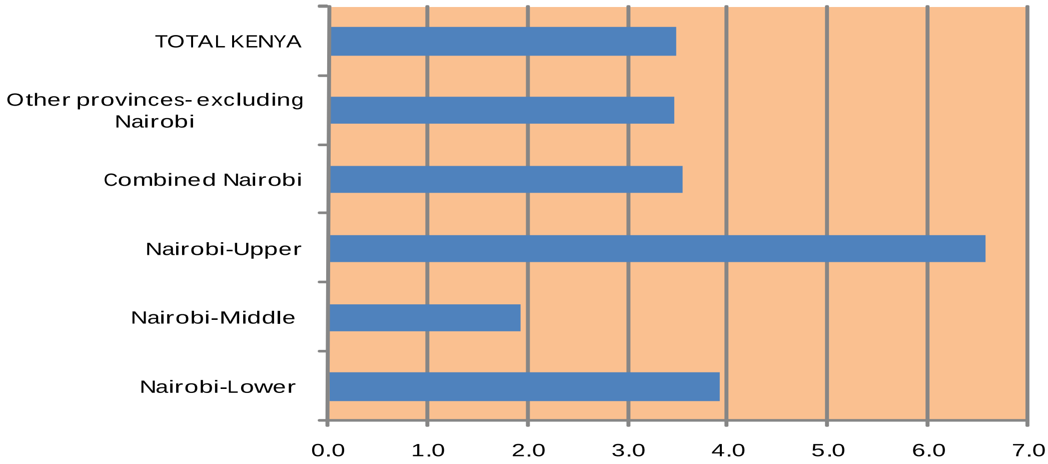
Details on inflation by income groups are shown in Table 1.2 and Chart 1B below.

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

	Feb-10	Mar-10	Apr-10	May-10	Jun-10
Combined Nairobi	5.36	3.91	3.77	3.89	3.54
Lower Income	6.16	4.12	4.04	4.18	3.92
Middle Income	2.95	2.87	2.55	2.45	1.92
Upper Income	5.56	6.32	6.28	7.21	6.56
Other provinces- excluding Nairobi	5.05	4.01	3.58	3.88	3.45
TOTAL KENYA	**5.18**	**3.97**	**3.65**	**3.88**	**3.49**

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

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



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

Inflation Across Categories of Goods & Services

The twelve month overall inflation declined by 40 basis points to 3.5 percent in June 2010. All categories recorded a decline in inflation except for alcoholic beverages and furnishings and household equipments, which posted increases of 80 and 54 basis points, respectively. The rainfall experienced towards the end of 2009 and in 2010 contributed largely in bringing down the overall inflation by increasing food supply and thereby causing food inflation to decline from 14.1 percent in June 2009 to 4.4 percent in June 2010. As a consequence of low food prices, hotels and restaurants' inflation also declined drastically during the same period from 9.0 percent to 2.4 percent. Similarly, health inflation declined during the same period, from 9.2 percent to 3.8 percent, indirectly benefiting in part from the declining food inflation.

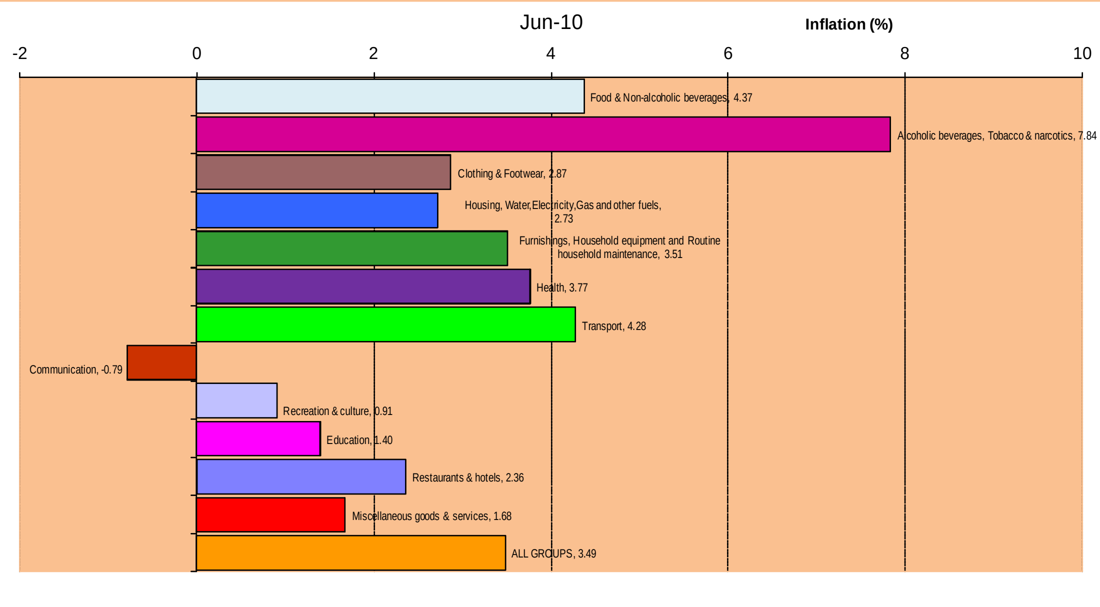
Table 1.3 and Chart 1C below show inflation developments across all the categories of goods and services in the CPI basket for June 2010.

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

JUNE 2010	NAIROBI				REST OF URBAN	
	Lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya Combined	TOTAL KENYA
Food & Non-alcoholic beverages	5.0	2.8	4.0	4.4	4.3	4.4
Alcoholic beverages, Tobacco & narcotics	7.6	6.3	-0.4	7.0	8.4	7.8
Clothing & Footwear	3.4	0.1	3.0	2.6	3.0	2.9
Housing, Water,Electricity,Gas and other fuels	5.4	0.1	5.6	4.1	1.7	2.7
Furnishings, Household equipment and Routine household maintenance	5.1	2.2	-0.3	4.2	3.0	3.5
Health	2.8	3.8	12.2	3.4	4.1	3.8
Transport	0.1	5.6	15.4	1.9	6.1	4.3
Communication	-1.2	-0.2	-5.1	-1.1	-0.6	-0.8
Recreation & culture	0.4	-1.1	6.2	0.2	1.4	0.9
Education	0.1	3.9	0.0	1.0	1.7	1.4
Restaurants & hotels	1.9	0.7	1.3	1.6	2.9	2.4
Miscellaneous goods & services	0.8	0.7	1.0	0.8	2.3	1.7
ALL GROUPS	3.9	1.9	6.6	3.5	3.5	3.5

Source: Kenya National Bureau of Statistics

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



Inflation Outlook

It is expected that Inflation will remain subdued in the coming months contingent on continuation of favourable weather conditions and stable or declining prices of crude oil.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Money supply, M3[1], increased by 26.2 percent in the year to June 2010 compared with 13.0 percent in a corresponding period in 2009 and was above the projected 16.5 percent growth rate for June 2010. The expansion in money supply in June 2010 was supported by increases in credit from Banking sector and net foreign assets (NFA) of the Banking sector. Broad money, M2, that is, M3 excluding foreign currency deposits, grew by 27.3 percent in June 2010 compared with 13.4 percent in June 2009 (Table 2.1 and Chart 2A).

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

	2008 June	2009 June	2010 June	Jun-09 12 months %age change	Jun-10 12 months %age change
1. Money supply, M3 (2+3) 2/	**840.7**	**950.2**	**1,198.9**	**13.03**	**26.17**
1.1 Money supply, M2 3/	716.0	812.1	1,033.7	13.42	27.29
1.2 Money supply, M1	391.8	400.7	511.6	2.25	27.69
1.3 Currency outside banks	83.6	87.3	101.3	4.48	15.98
2. Net foreign assets 4/	**291.3**	**268.0**	**279.3**	**(8.00)**	**4.21**
Central Bank	202.6	208.8	241.9	3.07	15.85
Banking Institutions	88.7	59.2	37.4	(33.29)	(36.83)
3. Net domestic assets (3.1+3.2)	**549.4**	**682.3**	**919.7**	**24.19**	**34.80**
3.1 Domestic credit (3.1.1+3.1.2)	**701.8**	**864.2**	**1,086.7**	**23.15**	**25.75**
3.1.1 Government (net)	133.4	173.9	277.7	30.30	59.71
3.1.2 Private sector and other public sector	568.3	690.3	809.1	21.47	17.20
3.2 Other assets net (3-3.1)	**(152.4)**	**(181.9)**	**(167.1)**	**19.41**	**(8.16)**
Memorandum items					
1. Overall liquidity, L 1/	1,028.6	1,166.9	1,442.8	**13.45**	**23.65**
2. Reserve money	152.9	159.9	210.3	**4.59**	**31.46**
Currency outside banks	83.6	87.3	101.3	4.48	15.98
Bank reserves	**69.3**	**72.6**	**109.0**	4.73	50.09

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

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

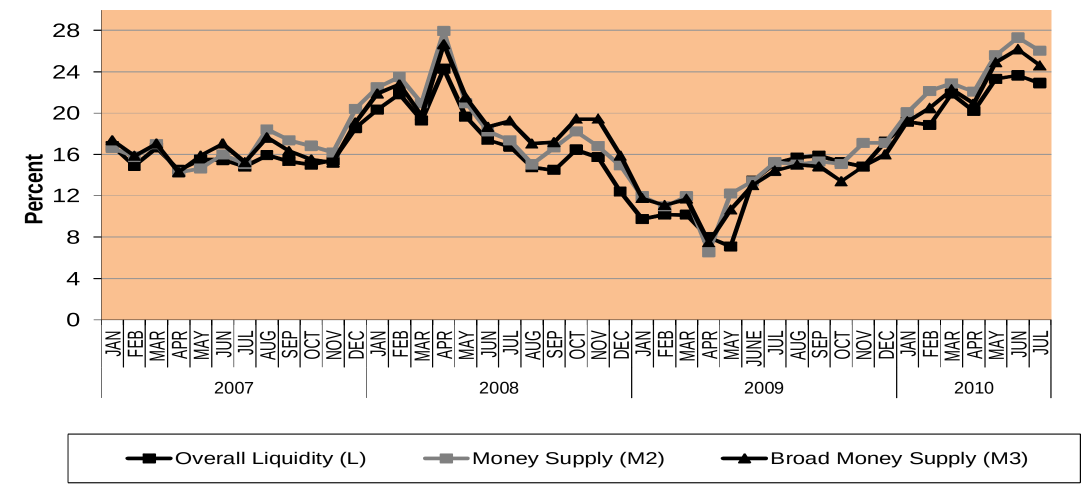
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications.

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

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

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

The increase in money supply in the year to June 2010 was supported by the growth in net domestic asset (NDA) and NFA of the banking sector (Table 2.1). NDA grew by 34.8 percent in the year to June 2010 compared with 24.2 percent a year earlier due to enhanced credit to government and private sector (Table 2.2). NFA of the banking system also increased by 4.2 percent in the twelve months to June 2010 compared with a deceleration of 8.0 percent in a corresponding period in 2009. The increase in the current period reflected increased NFA of the Central Bank.

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

	2009 June		2010 June		Annual %age Change June	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2008/09	2009/10
1. Credit to Government	173.9	20.1	277.7	25.6	30.3	59.7
Central Bank	-23.5	-2.7	7.5	0.7	-14.9	-131.7
Commercial Banks & NBFIs	197.4	22.8	270.2	24.9	22.5	36.9
2. Credit to other public sector	6.3	0.7	9.9	0.9	-37.2	56.1
Local government	-4.2	-0.5	-4.5	-0.4	61.2	5.3
Parastatals	10.5	1.2	14.3	1.3	-16.9	35.7
3. Credit to private sector	684.0	79.2	799.2	73.5	22.5	16.8
Agriculture	31.3	3.6	38.6	3.6	15.2	23.6
Manufacturing	86.3	10.0	98.8	9.1	23.2	14.5
Trade	99.6	11.5	130.4	12.0	56.1	31.0
Building and construction	40.0	4.6	31.1	2.9	13.5	-22.3
Transport & communications	54.6	6.3	66.4	6.1	23.2	21.7
Finance & insurance	19.9	2.3	23.7	2.2	-25.3	19.2
Real estate	43.3	5.0	81.7	7.5	60.9	88.6
Mining and quarrying	21.3	2.5	16.3	1.5	299.7	-23.5
Private households	84.3	9.8	118.0	10.9	-19.7	40.0
Consumer durables	42.8	5.0	50.4	4.6	58.7	17.8
Business services	78.1	9.0	74.9	6.9	27.4	-4.1
Other activities	82.6	9.6	68.8	6.3	25.8	-16.7
4. TOTAL (1+2+3) *	864.2	100.0	1086.7	100.0	23.1	25.8

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

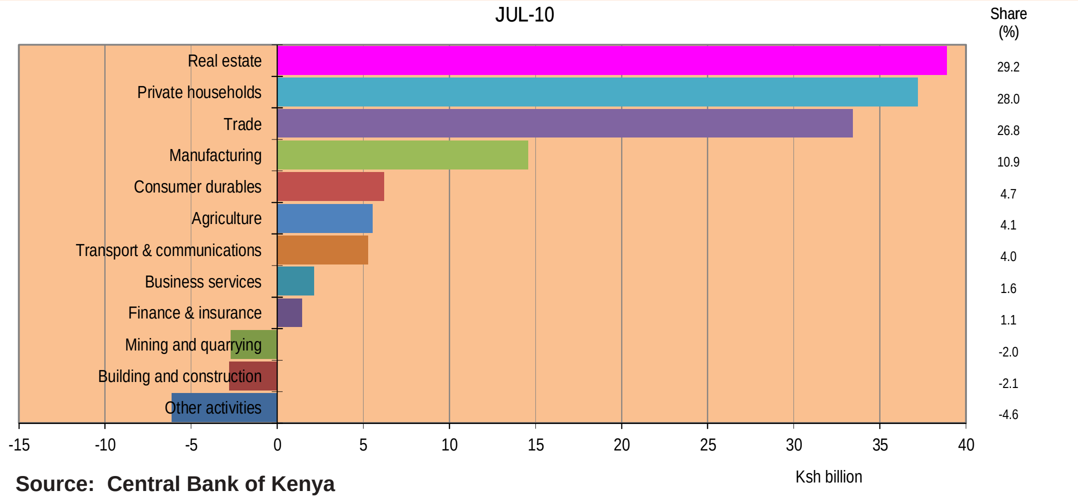
Source: Central Bank of Kenya

Domestic Credit Developments

Domestic credit grew by 25.8 percent in the year to June 2010 compared with 23.1 percent in a similar period in 2009, while credit to Government increased to 59.7 percent in the year to June 2010 compared with a growth of 30.3 percent in a corresponding period in 2009. Growth in credit to the private sector decreased from 22.5 percent in the year to June 2009 to 16.8 percent in the year to June 2010. Net credit to Government more than compensated for the deceleration in credit provision to the private sector.

Bank credit to private sector was channeled to real estate (33.3 percent), private households (29.3 percent), Trade (26.8 percent), manufacturing (10.8 percent), transport and communication (10.3 percent), consumer durables (6.6 percent), Agriculture (6.4 percent) and finance and insurance (3.3 percent) as shown in Chart 2B.

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



Source: Central Bank of Kenya

Reserve Money

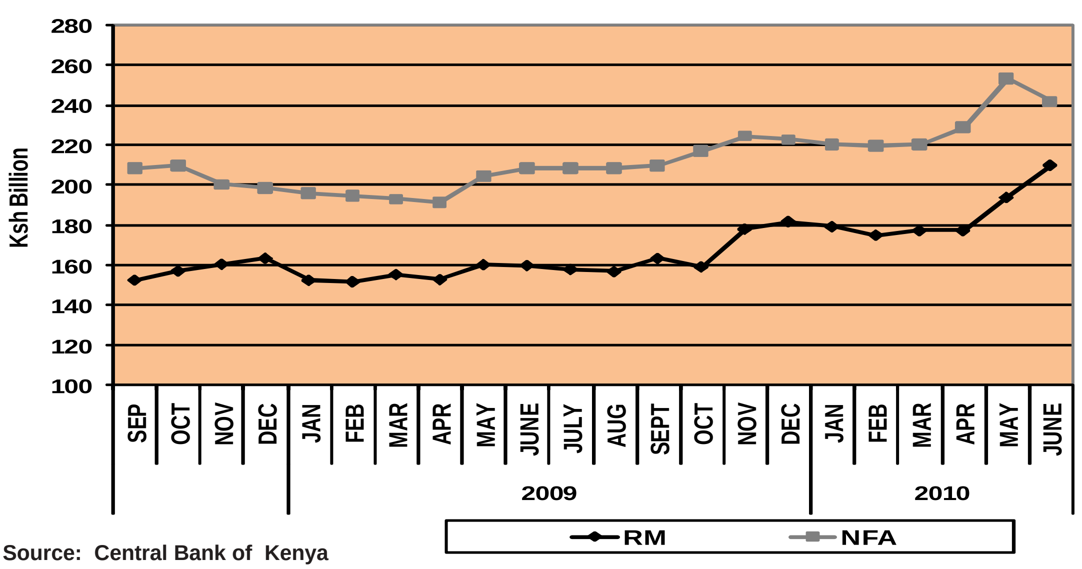
Reserve money increased by 31.5 percent to Ksh 210.3 billion in June 2010 from Ksh 159.9 billion in June 2009 (Table 2.3 and Chart 2C). The increase in reserve money reflected 50.1 percent growth in bank reserves and 16.0 percent increase in currency outside banks. At Ksh 210.3 billion in June 2010, reserve money was Ksh 28.9 billion above target.

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

	2008 June	2009 June	2010 June	Change (%) 2008/09	Change (%) 2009/10	2010 June Target	Deviation
1. Net Foreign Assets	202.6	208.8	241.9	3.1	15.8	239.2	2.7
2. Net Domestic Assets	-49.6	-48.8	-31.6	-1.6	-35.3	-57.8	26.2
2.1 Government Borrowing (net)	-27.7	-23.5	7.5	-14.9	-131.7	-20.3	27.7
2.2 Advances & Discounts	7.0	17.5	2.8	151.4	-84.0	1.6	1.2
2.3 Other Domestic Assets (net)	-28.9	-42.8	-41.9	47.9	-2.1	-41.7	-0.2
3. Reserve Money	152.9	159.9	210.3	4.6	31.5	181.4	28.9
3.1 Currency outside banks	83.6	87.3	101.3	4.5	16.0	110.6	-9.3
3.2 Bank reserves	69.3	72.6	109.0	4.7	50.1	70.8	38.1

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The 31.5 increase in reserve money in the year to June 2010 was supported by increased NFA and NDA of the Central Bank. NFA of the Central Bank rose by 15.8 percent to Ksh 241.9 billion in the year to June 2010 reflecting interbank purchases of foreign exchange to boost the level of gross reserves, by the Bank.

NDA of the Central Bank rose by 35.3 percent to Ksh -31.6 billion in the year to June 2010, up from Ksh -48.8 billion in the previous year. The rise in NDA was due to an increase in government spending that was partially offset by the reduction in advances and discounts to commercial banks.

Government borrowing net of its deposits at the Central Bank increase by 131.7 percent to Ksh 7.5 billion from Ksh -23.5 billion in June 2009, while advances and discounts to commercial banks reduced to Ksh 2.8 billion in June 2010 from Ksh.17.5 billion in June 2009.

Other domestic assets net of other liabilities rose by 2.1 percent from Ksh -42.8 billion in June 2009 to Ksh -41.9 billion in June 2010. .

The Central Bank Rate

The Monetary Policy Committee in its meeting of 28 July, 2010 lowered the Central Bank Rate (CBR) by 75 basis points to 6.00 percent from 6.75 percent previously sending a strong signal to commercial banks to lower their lending rates. The rate had previously been lowered in March 2010 to 6.75 percent from the previous position of 7.00 percent in November 2009

Interbank Interest Rate

The average interbank rate declined to 1.15 percent in June 2010 from 2.16 percent in May 2010 and 2.46 percent in April 2010 (Table 2.4 and Chart 2D). Similarly the reverse repo rate declined from 2.41 percent in May 2010 to 1.95 percent in June 2010. The 91-day Treasury bill rate declined to 3.06 percent in June 2010 from 4.21 percent in May 2010. The decline reflected excess liquity in the interbank market, and was consistent with the stance of monetary policy.

Lending and Deposit Rates

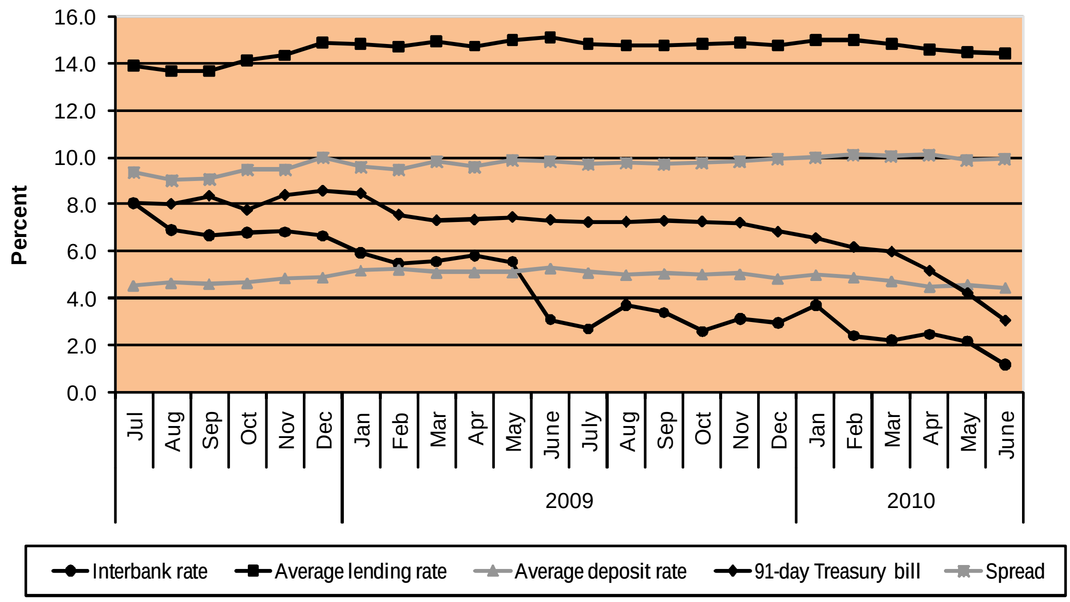
Commercial banks average lending rates declined to 14.39 percent in June 2010 from 14.46 percent in May 2010 (Chart 2D). The average deposit rate declined from 4.58 percent in May 2010 to 4.45 percent in June 2010. Reflecting the larger decline in deposit rates, the interest rate spread widened to 9.94 percent in June 2010 from 9.88 percent in May 2010.

TABLE 2.4: INTEREST RATES (%)

	2009						2010					
	Mar	Apr	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
91-day Treasury bill rate	7.31	7.33	7.29	7.26	7.22	6.82	6.56	6.19	5.98	5.17	4.21	3.06
Overdraft rate	13.78	13.66	13.76	14.03	14.24	14.13	14.48	14.25	13.59	14.50	14.38	14.23
Interbank rate	5.57	5.81	3.38	2.57	3.11	2.95	3.69	2.39	2.21	2.46	2.16	1.15
Repo rate	4.62	4.06	6.18	6.18	6.18	-	-	-	-	-	-	-
Reverse Repo rate		6.67	4.01	3.17	4.36	3.62	3.91	2.80	2.43	2.47	2.41	1.95
Average lending rate (1)	14.92	14.71	14.74	14.78	14.85	14.76	14.98	14.98	14.80	14.58	14.46	14.39
Average deposit rate (2)	5.09	5.12	5.05	5.03	5.06	4.84	5.00	4.89	4.74	4.49	4.58	4.45
0 to 3 - month deposit	5.89	5.96	6.05	5.83	5.98	5.90	5.81	5.57	5.28	4.90	5.26	5.11
Savings deposits	1.90	1.91	1.65	1.85	1.71	1.73	1.75	1.81	1.81	1.85	1.76	1.75
Spread (1-2)	**9.78**	**9.59**	**9.69**	**9.75**	**9.79**	**9.92**	**9.98**	**10.08**	**10.06**	**10.09**	**9.88**	**9.94**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

Performance of The Real Sector

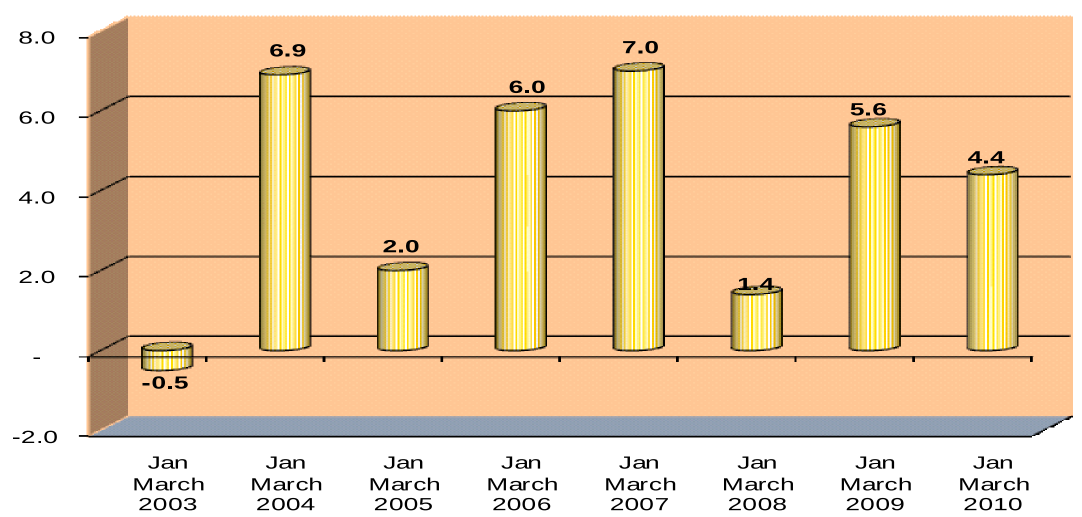
Overview

The 2.6 percent growth in real GDP in the year 2009 reflected mixed performances in the key sectors of the economy. Tourism, transport and communication and the building and construction sectors experienced the most growth at 42.8 percent, 6.4 percent and 14.1 percent, respectively in 2009 from a decline of 36.1 percent in tourism, and respective growth rates of 3.1 percent and 8.2 percent for the transport and construction sectors in 2008. The services sector continued to drive economic growth in 2009 with tourism recording the highest growth rate as indicated above. Despite agriculture remaining a major contributor to GDP in 2009 at 24.4 percent, the sector partially recovered from -4.1 percent in 2008 to -2.6 percent in 2009, owing to the persistent drought experienced in 2009.

Analyses of the quarterly GDP indicate a 4.4 percent growth in the first three months of 2010 compared with a growth of 5.6 percent in the same period of 2009. The reduction in growth reflect declines in the growth of the fishing, electricity and water supply, construction, hotels and restaurants, transport and communication and real estate, renting and business services sectors of 13.8 percent, 3.4 percent, 19.3 percent, 155.9 percent, 11.1 percent and 6.8 percent respectively, during the quarter. The huge decline in the growth of hotels and restaurants sector was a base effect reflecting the dramatic recovery of the sector in 2009 following the post election crisis. Output in most other sectors, however, improved during the quarter with the agricultural sector, which benefited greatly from the rainfall experienced towards the end of 2009 and early 2010, growing by 4.6 percent. Other sectors which expanded during the quarter included the manufacturing sector, the mining and quarrying sector, the wholesale and retail sector and the financial intermediation sector which grew respectively by 7.8 percent, 9.0 percent, 3.7 percent and 11.9 percent.

The current momentum in the agricultural sector, which constitutes 24.4 percent of the total GDP, is expected to support GDP growth in 2010 towards the projected 4.5 percent (Table 3.1 and Chart 3A).

CHART 3A: REAL GDP TREND IN THE FIRST QUARTERS



Source: Kenya National Bureau of Statistics

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

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

* Provisional

Source: Economic Survey 2009

Agriculture

Agriculture's contribution to GDP increased from 23.4 percent in 2008 to 24.4 percent in 2009. The year 2010 started well with total output for the first quarter growing at 4.6 percent, compared with a decline of 1.1 percent experienced in the first quarter of the previous year. This was attributed to the rains experienced across the country at the end of 2009 and early 2010. Despite the overall increase in agricultural output, the sector still experienced mixed performances across production activities with some cash crops performing better than others. In the period January – May 2010, tea production increased, while coffee exports, horticultural exports and sugar production all declined as compared with output of the same period in the previous year. This mixed production was attributed to the weather conditions, which favoured the tea growing areas west of the rift more than other areas in the country. Selected performances of agricultural output are as shown in Table 3.2.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE			
	2008	2009	Jan - May 2009	Jan-May 2010
Tea				
Output (Metric tonnes)	345,818.00	314,193.89	113,947.24	183,197.17
Growth (%)	*-6.44%*	*-9.14%*	*-15.33%*	*60.77%*
Horticulture				
Output (Metric tonnes)	253,730.57	248,162.54	114,783.14	109,179.32
Growth (%)	*-2.72%*	*-2.19%*	*-6.52%*	*-4.88%*
Coffee				
Output (Metric tonnes)	38,705.00	48,933.00	33,612.00	21,363.00
Growth (%)	*-25.95%*	*26.43%*	*46.69%*	*-36.44%*
Sugar Cane				
Output (Metric tonnes)	4,979,470.28	5,610,702.00	2,478,477.00	2,390,604.00
Growth (%)	*-4.32%*	*12.68%*	*17.01%*	*-3.55%*

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

Tea

Tea production benefited greatly from the rains experienced in the country towards the end of 2009 and early 2010 with production for the first five months of 2010 surpassing that of the same period in 2009 by 69,249.9 metric tonnes or 60.8 percent to 183,197.2 metric tonnes. The increase in production during the period was largely attributed to unexpected wet and favourable weather conditions experienced in the tea growing areas in the east and west rift regions during the first two months of 2010, which under normal circumstances are dry months and thereafter followed by the normal March – April long-rains season. Monthly production, however, eased marginally after reaching an all time high level of 39,175 metric tonnes in March 2010. International tea prices edged up slightly from US$ 2.49 per kilogram in May 2009 to US$ 2.53 per kilogram in May 2010.

Horticulture

Horticultural export industry had to contend with a number of shocks in 2010, which led to reduced production in the first five months of 2010. Some of these shocks included insufficient rainfall, depressed demand from Kenya's traditional flower markets, which was aggravated by the global financial crisis and the volcanic ash tragedy in April 2010 in Iceland. Consequently, cumulative export volumes declined in the period January – May 2010 by 5,603.8 metric tonnes to 109,179.3 metric tonnes. This was equivalent to 4.9 percent decline compared with the volumes for the same period in the previous year. The value of horticultural exports in the same period, however, increased by Ksh 974.3 million from Ksh 22.3 billion in the same period in the previous year following the weakening of the Kenyan shilling against the sterling pound. Compared with May 2009, export volumes of flowers and fruits declined, respectively by 1.4 percent and 50.5 percent, while vegetable exports increased by 70.9 percent. Details on the performance of the horticultural sub-sector are provided in Chart 3B.

CHART 3B: HORTICULTURE EXPORTS

Source: Horticultural Crops Development Authority

Coffee

Coffee production between January and May 2010 amounted to 21,363.0 metric tonnes compared with 33,612.0 metric tonnes produced during the same period in the previous year. This represents a 36.4 percent decline, which was attributed to climatic changes characteristic by excessive droughts in 2009 and unpredictable rainfall patterns in 2010, which made crop management and disease control difficult and costly to the farmers. However, from the beginning of 2009, coffee prices maintained an upward trend, reaching an all time high of US $ 5.66 per kilogram in February 2010 and falling to US $ 3.05 per kilogram in May 2010.

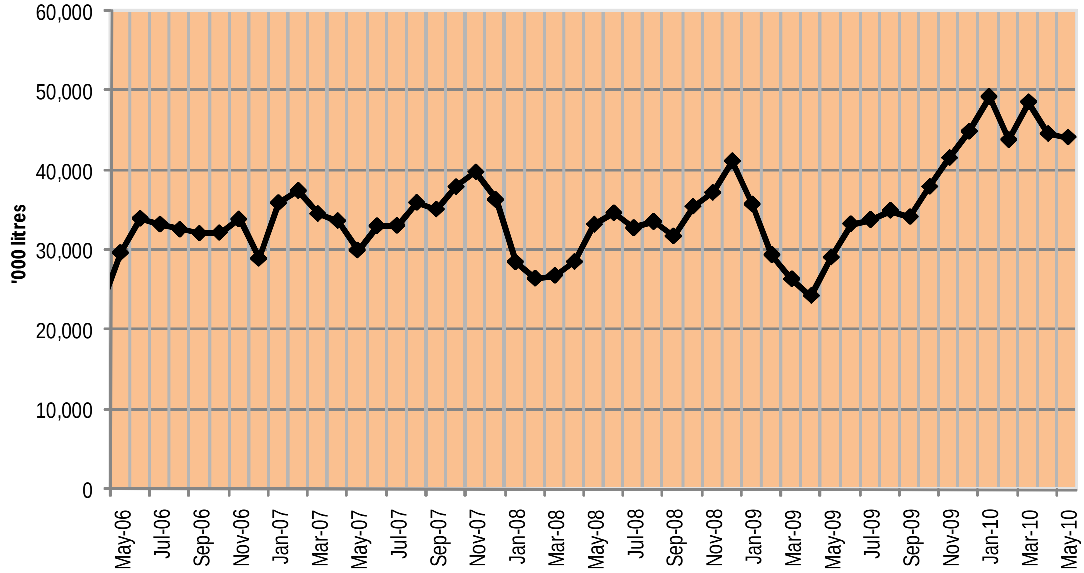
Sugarcane

Cumulative sugarcane deliveries declined by 12,249 metric tonnes in May 2010 compared with May 2009. The 3.6 percent decline was attributed to both cane shortage early in the year due to competition by new entrants into the sugar industry including the Kibos sugar company in Kisumu, and poor performance by some companies like Chemelil and Muhoroni sugar factories during the period. The sugarcane industry has been growing in terms of expansion in acreage by the West Kenya Company and subsequent stabilization of production and increased competitiveness by most of the other companies and production is expected to increase in the year.

Dairy

The dairy sector continued to perform well even after the end of the glut experienced early in the year. Production in the first five months surpassed that of the same period of 2009 by 58.8 percent. This was attributed to increased fodder following the rains experienced in the first quarter of the year. Cumulative intakes for the period January-May 2010, the highest received in a similar period in the history of the dairy industry in Kenya, amounted to 230.6 million litres compared with 145.2 million litres delivered in the period January-May 2009 (Chart 3C).

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



Source: Dairy Board of Kenya

Manufacturing

The contribution of manufacturing to GDP fell marginally from 9.8 percent in 2008 to 9.5 percent in 2009. In the first quarter of 2010, however, total manufacturing output increased by 7.8 percent from a growth of 5.0 achieved in the first quarter of 2009, increasing the share of manufacturing sector outputs in real GDP to 10.1 percent. Production of the sampled commodities during the period January – May 2010 was varied with milk and soda ash production recording the highest growth rates of 58.8 percent and 17.6 percent, respectively.

During the first five months of 2010, sugar production fell by 31,198.7 metric tonnes or 12.7 percent as a result of cane shortage following intense competition for the cane by sugar companies, and poor performance in production by some companies including Chemelil and Muhoroni sugar companies.

Cumulative cement output for January – May 2010 was equivalent to 1.4 million metric tonnes or a 9.4 percent growth, which was lower than the 24.6 percent growth recorded in a comparable period in 2009. Growth in cement production has been gradual but steady through the years, reflecting increased economic activity (Table 3.3 and Chart 3E).

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE			
	2008	2009	Jan-May 2009	Jan-May 2010
Processed sugar				
Output (MT)	512,192.3	548,207.0	245,935.0	214,736.3
Growth %	*-1.6%*	*7.0%*	*12.1%*	*-12.7%*
Cement production				
Output (MT)	2,828,799.0	3,320,282.0	1,302,252.0	1,424,240.0
Output Growth %	11.1%	17.4%	24.6%	9.4%
Soda ash				
Output (MT)	513,415.0	404,904.0	145,272.0	170,850.0
Growth %	*32.8%*	*-21.1%*	*-26.1%*	*17.6%*
Milk				
Output ('000 litres)	390,963.0	406,276.5	145,220.7	230,633.2
Growth %	*-7.6%*	*3.9%*	*0.9%*	*58.8%*
Beer				
Output ('000 litres)	426,733.3	421,208.4	173,919.0	173,768.1
Growth %	*12.5%*	*-1.3%*	*16.3%*	*-0.1%*
Cigarettes				
Output (Milles)	14,786,407	14,000,486	5,930,817	5,579,617
Growth %	*-4.5%*	*-5.3%*	*-1.2%*	*-5.9%*

MT = Metric tonnes

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

In the alcoholic beverages sector, cumulative beer production declined marginally by 0.1 percent from 173.9 million litres in January-May 2009 to 173.8 million litres in January-May 2010.

Cigarette output, on the other hand, declined by 5.9 percent in the first five months of 2010 compared with 1.2 percent drop in January-May 2009. (Table 3.3).

Soda ash mining picked up in the first five months of 2010 as output increased by 17.6 percent from 145,272.0 metric tonnes mined in January –May 2009 to 170,850.0 metric tonnes.

Energy Sector

Local generation of electricity picked up in April 2010 after fourteen consecutive months of decline attributed to persistent drought conditions in 2009. The unexpected rainfall at the end of 2009 and early 2010, however, reversed this downward trend in power generation and increased the water levels in the electricity producing dams. Cumulative generation for the period January –May 2010 increased by 116.3 million Kilowatt hours from 2,275.7 million kilowatt hours produced in January –May 2009, equivalent to a 5.1 percent rise. Collectively, Geo-Thermal and Thermal power accounted for 56.8 percent of the total power generated between January and May 2010. Hydro-power generated in the period under review increased, thereby minimizing the margin of decline from 23.0 percent experienced during the period January – May 2009 to a decline of 5.9 percent in the same period of 2010. Geo-thermal and thermal power generation grew by 4.7 percent and 24.6 percent, respectively, during the period under review (Table 3.4).

Electricity consumption escalated by 10.9 percent from 2,189.6 million Kilowatt hours between January and May 2009 to 2,427.5 million Kilowatt hours between January and May 2010.

Similarly, total fuel consumption rose up by 2.8 percent from 1,202.7 metric tonnes in January –May 2009 to 1,236.4 metric tonnes in January-April 2010, reflecting increased economic activity.

Average international crude oil prices increased by 36.1 percent from US $ 49.5 per barrel in January-May 2009 to US $ 67.3 per barrel in January-May 2010.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE			
	2008	2009	Jan-May 2009	Jan-May 2010
Electricity Supply (Generation)				
Output (KWH Millions)	5,694.1	5,331.5	2,275.7	2,392.0
Growth %	*-9.4%*	*-6.4%*	*-5.3%*	*5.1%*
Of which:				
Hydro-power Generation (KWH Millions)	3,240.4	2,105.4	1,098.7	1,033.4
Growth (%)	*-9.6%*	*-35.0%*	*-23.0%*	*-5.9%*
Geo-Thermal Generation (KWH Millions)	1,038.8	1,478.1	542.9	568.3
Growth (%)	*4.8%*	*42.3%*	*27.3%*	*4.7%*
Thermal (KWH Millions)	1,414.9	1,747.0	634.1	790.3
Growth (%)	*-17.4%*	*23.5%*	*15.3%*	*24.6%*
Consumption of electricity (KWH Millions)	5,286.4	5,320.9	2,189.6	2,427.5
Growth %	*3.1%*	*0.7%*	*1.3%*	*10.9%*
Consumption of Fuels (Metric Tonnes)	2,860.3	3,190.0	1,202.7	1,236.4
Growth %	*-8.4%*	*11.5%*	*3.0%*	*2.8%*
Murban crude oil average price (US $ per barrel)	97.9	62.6	49.5	67.3
Growth %	*35.0%*	*-36.0%*	*-52.9%*	*36.1%*

Source: Kenya National Bureau of Statistics

Tourism

The number of arrivals of international tourists into the country via Mombasa International airport and the Jomo-Kenyatta international airport in the first five months of 2010 was 403,487 or 17.1 percent above arrivals over the same period in 2009. Arrivals went up during this period despite a drop in arrivals in April 2010, which was caused by cancellations due to the volcanic ash eruptions experienced in Iceland that affected flights to and from Europe during the month. Of the total arrivals, 196,933 visitors, equivalent to 48.8 percent came from Europe. The rest in proportion of 25.0 percent, 12.3 percent, 12.3 percent and 1.6 percent originated from Africa, Asia, America and the Oceanic regions, respectively. There were, however, no cruise arrivals for the period under review following cancellations due to fear of pirate kidnappings off the Kenyan coast (Table 3.5 and 3.6). Cumulative tourism earnings for January – May 2010 amounted to US $ 445.3 million, more than double the income for the same period in the previous year, which amounted to US $ 208.1 million.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2008	2009	Jan-May 2009	Jan-May 2010	Jan - May 2010 % Share	Jan - May 2010 % Growth
CRUISE	6,877	12,096	11,809	-	*0.0%*	*-100.0%*
MIAM	112,517	176,469	68,442	92,302	*22.9%*	*34.9%*
JKIA	609,606	763,916	264,389	311,185	*77.1%*	*17.7%*
TOTAL	729,000	952,481	344,640	403,487	***100.0%***	***17.1%***

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

Source: Kenya Tourism Board

Despite there being no cruise arrivals so far in 2010, growth in the first five months surpassed that of the same period in the previous year by close to 60,000 visitors of which the majority came from Europe. This reflects Kenya as an attractive destination and is attributed to massive campaigns in both the local and international media by the Kenya Tourists Board. In January – May 2010, arrivals from Asia increased by 33.2 percent, while those from America increased by 12.7 percent. Arrivals from Europe, Africa and the Oceanic regions grew by 22.6 percent, 17.8 percent and 19.9 percent, respectively, during the period (Table 3.6).

TABLE 3.6: TOTAL ARRIVALS BY CONTINENT

REGION	2008	2009	Jan-May 2009	Jan-May 2010	Jan - May 2010 % Share	Jan- May 2010 % Growth
Africa	207,770	228,827	85,545	100,805	25.0%	17.8%
America	97,771	128,658	43,919	49,483	12.3%	12.7%
Asia	94,496	108,524	37,303	49,682	12.3%	33.2%
Europe	308,123	456,427	160,574	196,933	48.8%	22.6%
Oceanic	13,963	17,949	5,490	6,584	1.6%	19.9%
Cruise	6,877	12,096	11,809	-	0.0%	-100.0%
Total	**729,000**	**952,481**	**344,640**	**403,487**	**100.0%**	**17.1%**

Source: Kenya Tourism Board

Transport and Tele-communications

The transport and communications sector constitutes 9.8 percent of GDP. The sector has experienced rapid growth in the recent years, with a peak rate of 16.2 percent in the fourth quarter of 2009 compared with 6.9 percent in 2008 (Table 3.7 and Chart 3D). In the first five months of 2010, the volume of cargo throughput handled by Kenya Ports Authority (KPA) at the port of Mombasa increased by 2.2 percent from 7.6 million metric tonnes equivalent in January-May 2009. The incremental comprised 86.1 percent imports, 13.3 percent exports and 0.6 percent transit shipments, equivalent to 6,709,915.1 metric tonnes, 1,036,490.9 metric tonnes and 46,759.0 metric tonnes, respectively. Similarly, cargo transported via Kenya Pipeline Company (KPC) for the same period increased by 0.6 percent to 1.8 billion litres. In the telecommunication subsector, excise duty on airtime rose by 20.7 percent in January-May 2010, from Ksh 2.8 billion received between January and May 2009. During the same period, the total number of passengers embarking and disembarking at JKIA increased by 16.8 percent and 4.2 percent, respectively.

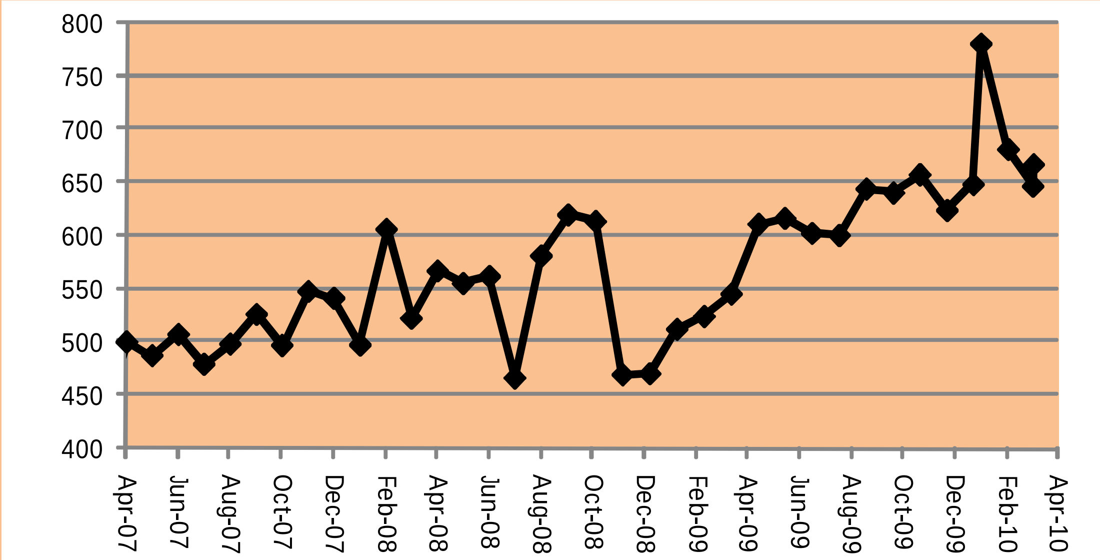
TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	CUMULATIVE			
	2008	2009	Jan-May 2009	Jan-May 2010
Mombasa Port Cargo Throughput				
Output (MT) Equivalent	16,414,729	19,061,631	7,626,335	7,793,165
Output Growth %	*2.8%*	*16.1%*	*14.0%*	*2.2%*
Number of passengers Thro' JKIA				
Incoming	1,468,814	1,291,278	484,173	565,661*
Growth (%)	*-0.7%*	*-12.1%*	*-5.3%*	*16.8%*
Outgoing	1,476,851	1,334,482	502,141	523,109*
Growth %	*-0.3%*	*-9.6%*	*-5.7%*	*4.2%*
Kenya Pipeline oil Throughput				
Output ('000 litres)	3,859,481	4,323,370	1,747,428	1,758,027
Output Growth %	*-2.6%*	*12.0%*	*9.9%*	*0.6%*
Kenya Revenue Authority (Excise tax on airtime)				
Kshs million	6,528	7,225	2,809	3,389
Output Growth %	*9.5%*	*10.7%*	*2.2%*	*20.7%*

MT = Metric tonnes

Source: Kenya Ports Authority and Kenya Pipeline Company Ltd.

CHART 3D: EXCISE TAX ON AIRTIME

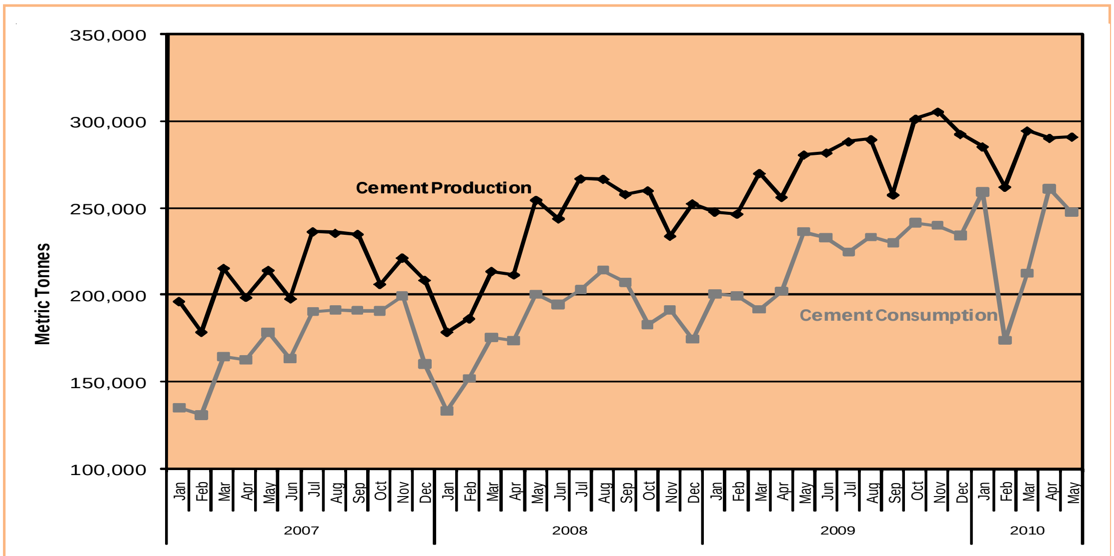


Source: Kenya Revenue Authority (KRA)

Building & Construction Industry

Cement consumption rose by 12.1 percent from 1.0 million metric tonnes in January-May 2009 to 1.2 million metric tonnes in January-May 2010, reflecting increased economic activity in the economy (Chart 3E).

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya's overall balance of payments improved from a deficit of US$ 497 million in the year to May 2009 to a surplus of US$ 317 million in the year to May 2010. The improvement is largely attributed to a relatively narrow deficit in the current account. Kenya's balance of payments outcome continue to reflect the fragile recovery of the global economy (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to May 2009*	Year to May 2010* Q1 Jun-Aug	Q2 Sep-Nov	Q3 Dec-Feb	Q4 Mar-May	Year to May 2010*	Absolute Change
1. OVERALL BALANCE	-497	143	345	-205	33	317	*814*
2. CURRENT ACCOUNT	-2189	-395	-442	-6	107	-736	***1452***
2.1 Goods	-6245	-1294	-1656	-1529	-1654	-6134	*111*
Exports (fob)	4679	1149	1171	1243	1280	4843	*164*
Imports (cif)	10924	2444	2828	2772	2934	10977	*53*
2.2 Services	4056	899	1214	1523	1761	5398	*1341*
Non-factor services (net)	1971	355	634	942	1121	3051	*1081*
Income (net)	-84	-14	-30	-3	48	1	*85*
Current Transfers	2169	558	611	584	593	2345	*176*
3. CAPITAL & FINANCIAL ACCOUNT	1692	538	788	-198	-74	1053	***-639***
3.1 Capital Tranfers (net)	305	44	32	78	35	189	*-116*
3.2 Financial Account	1386	494	756	-276	-109	864	*-522*
memo:							
Gross Reserves	4370	5125	5321	5254	5034	5034	***664***
Official	2929	3591	3934	3723	3755	3755	*826*
*imports cover***	*2.9*	*3.8*	*4.2*	*3.9*	*3.8*	*3.8*	*0.9*
*imports cover****	*3.3*	*4.0*	*4.2*	*3.9*	*3.9*	*3.9*	*0.6*
Commercial Banks	1441	1534	1387	1532	1279	1279	*-162*

* 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 improved by 66.4 percent from US$ 2,189 million in year to May 2009 to US$ 736 million in year to May 2010. This mainly reflects a 33.1 percent or US$ 1,341 million improvement in the services account surplus and 1.8 percent or US$ 110.0 reduction in the trade deficit. The improvement in the services account mainly reflect increase in net receipts on non-factor services attributed to improved earnings from tourism and transportation services. The merchandise account also improved marginally from a deficit of US$ 6,245 million in the year to May 2009 to a deficit of US$ 6,134 million in the year to May 2010 largely due to an increase in the value of exports (Table 4.2).

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

ITEM	Year to May 2009*	Year to May 2010* Q1 Jun-Aug	Q2 Sep-Nov	Q3 Dec-Feb	Q4 Mar-May	Year to May 2010*	Absolute Change
2. CURRENT ACCOUNT	-2189	-395	-442	-6	107	-736	***1452***
2.1 Goods	-6245	-1294	-1656	-1529	-1654	-6134	*111*
Exports (fob)	4679	1149	1171	1243	1280	4843	*164*
Coffee	169	60	40	35	62	197	*28*
Tea	883	222	256	323	297	1098	*215*
Horticulture	672	167	170	190	186	713	*41*
Oil products	87	22	32	22	22	99	*12*
Manufactured Goods	576	128	143	139	149	558	*-18*
Raw Materials	256	49	45	71	60	225	*-32*
Re-exports	288	102	65	72	78	318	*30*
Other	1748	398	421	390	426	1635	*-112*
Imports (cif)	10924	2444	2828	2772	2934	10977	*53*
Oil	2543	531	651	623	810	2614	*72*
Chemicals	1397	304	340	352	402	1398	*2*
Manufactured Goods	1510	329	424	395	429	1577	*67*
Machinery & Transport Equipment	3126	696	828	809	777	3110	*-16*
Other	2349	583	584	594	517	2277	*-71*
2.2 Services	4056	899	1214	1523	1761	5398	*1341*
Non-factor services (net)	1971	355	634	942	1121	3051	*1081*
of which tourism	707	150	218	249	278	895	*188*
Income (net)	-84	-14	-30	-3	48	1	*85*
of which official interest	-115	-14	-18	-22	-18	-72	*43*
Current Transfers	2169	558	611	584	593	2345	*176*
Private (net)	1920	479	532	561	598	2169	*248*
Public (net)	249	79	79	23	-5	176	*-73*

* Provisional.

Source: Central Bank of Kenya

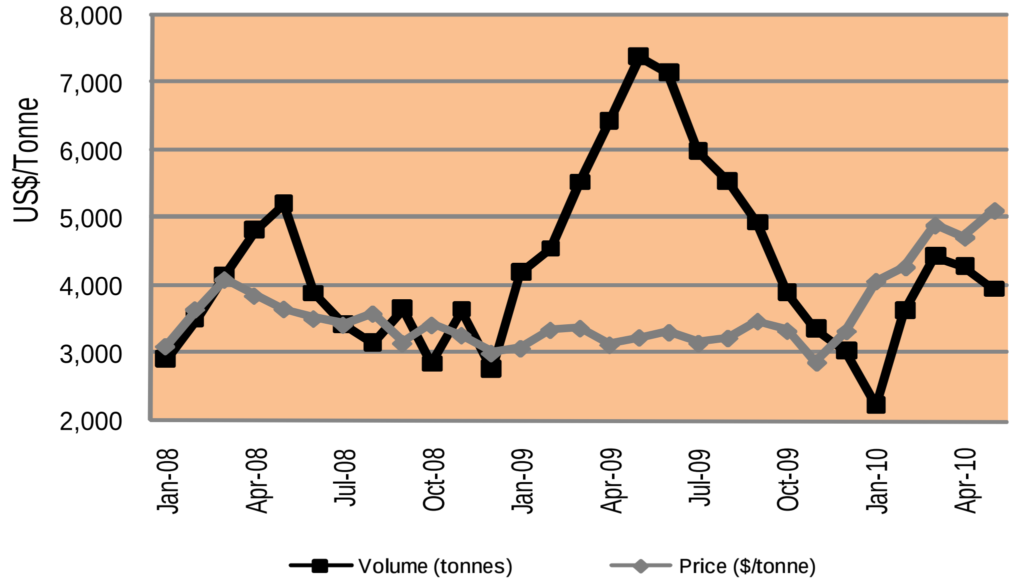
Imports

The value of imports increased by 0.5 percent to US$ 10,977 million over the same period, on account of increases in the value of oil and manufactured goods imports. The oil import bill rose by 2.8 percent from US$ 2,543 million in May 2009 to US$ 2,614 million in May 2010, mainly attributed to an increase in import volume. Manufactured goods imports increased by 4.4 percent from US$ 1,510 million over the same period.

Exports

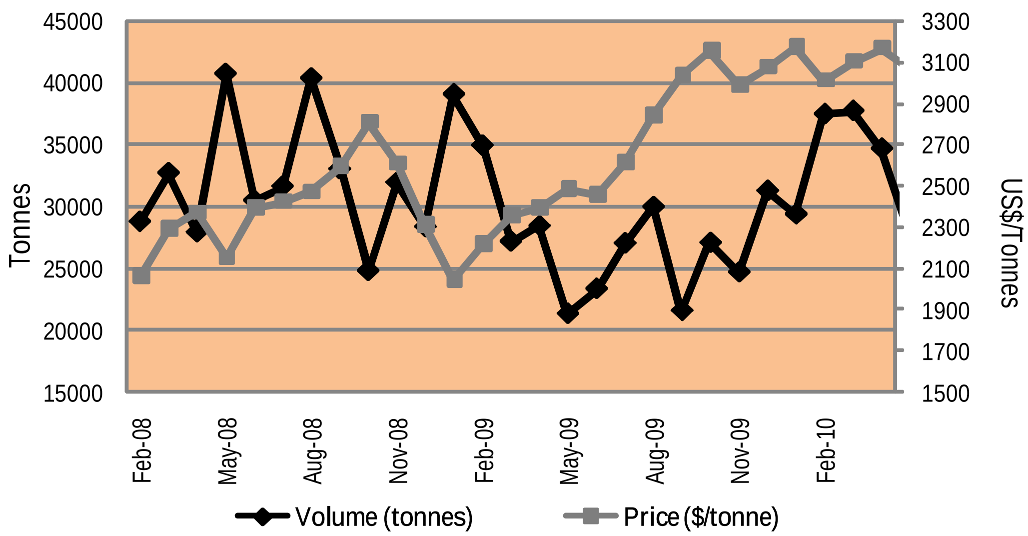
The value of exports increased by 3.5 percent from US$ 4,679 million in May 2009 to US$ 4,843 million in May 2010. The rise in export earnings for coffee and tea was largely supported by improvement in export prices (Chart 4A and 4B).

CHART 4A: COFFEE EXPORTS: UNIT PRICE AND QUANTITY



Source: Central Bank of Kenya

CHART 4B: TEA EXPORTS: UNIT PRICE AND QUANTITY



Source: Central Bank of Kenya

Services Account

The surplus on the services improved from US$ 4,056 million to US$ 5,398 million in the year to May 2010. The recovery in service related flows was in commercial, insurance and transport activities. Tourism related flows improved from US$ 707 million to US$ 895 million in the year to May 2010.

Direction of Trade

Kenya's exports were mainly to Uganda (12.3 percent), United Kingdom (11.1 percent), Tanzania (8.3 percent) and Netherlands (7.3 percent). The share of exports to African countries accounted for 46 percent. The share of exports to the East African Community (EAC) region were 24.6 percent, while that to COMESA region decreased from 32.4 percent to 32.1 percent in the year to May 2010.

During the period under review, Kenya's imports were mainly from United Arab Emirates (14.2 percent), India (11.1 percent), China (9.9 percent), South Africa (7.9 percent), Japan (6.2 percent), United States of America (5.1 percent) and United Kingdom (4.6 percent). The share of imports from African countries accounted for 12.8 percent. Imports from the EAC region increased from US$ 170 million to US$ 209 million (1.9 percent of total imports). Imports from the COMESA region increased from US$ 351 million to US$ 390 million (3.6 percent of total imports) in the year to May 2010 (Table 4.3).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to May			Year to May		
Country	2008	2009	2010	2008	2009	2010
Africa	1,155	1,286	1,401	11.5	11.8	12.8
Of which						
South Africa	594	782	864	5.9	7.2	7.9
Egypt	139	141	163	1.4	1.3	1.5
Others	422	363	374	4.2	3.3	3.4
EAC	204	170	209	2.0	1.6	1.9
COMESA	431	351	390	4.3	3.2	3.6
Rest of the World	8,864	9,638	9,577	88.5	88.2	87.2
Of which						
India	1,024	1,198	1,215	10.2	11.0	11.1
United Arab Emirates	1,666	1,129	1,556	16.6	10.3	14.2
China	780	943	1,089	7.8	8.6	9.9
Japan	657	611	682	6.6	5.6	6.2
USA	394	489	565	3.9	4.5	5.1
United Kingdom	417	404	500	4.2	3.7	4.6
Singapore	181	418	315	1.8	3.8	2.9
Germany	361	357	305	3.6	3.3	2.8
Saudi Arabia	286	363	441	2.9	3.3	4.0
Indonesia	317	289	299	3.2	2.6	2.7
Netherlands	158	237	207	1.6	2.2	1.9
France	252	233	188	2.5	2.1	1.7
Bahrain	128	208	68	1.3	1.9	0.6
Italy	189	182	171	1.9	1.7	1.6
Others	2,055	2,577	1,975	20.5	23.6	18.0
Total	10,019	10,924	10,977	100	100	100

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to May			Year to May		
Country	2008	2009	2010	2008	2009	2010
Africa	2,070	2,202	2,227	45	47	46
Of which						
Uganda	567	602	596	12.3	12.9	12.3
Tanzania	356	412	401	7.7	8.8	8.3
Egypt	157	184	205	3.4	3.9	4.2
Sudan	197	172	187	4.3	3.7	3.9
Somalia	174	147	169	3.8	3.2	3.5
DRC	127	149	149	2.8	3.2	3.1
Rwanda	97	135	131	2.1	2.9	2.7
Others	396	401	389	8.6	8.6	8.0
EAC	1,059	1,202	1,192	23.1	25.7	24.6
COMESA	1,418	1,518	1,556	**30.9**	**32.4**	**32.1**
Rest of the World	2,523	2,477	2,617	54.9	52.9	54.0
Of which						
United Kingdom	509	491	540	11.1	10.5	11.1
Netherlands	364	342	353	7.9	7.3	7.3
USA	286	276	215	6.2	5.9	4.4
Pakistan	168	205	213	3.7	4.4	4.4
United Arab Emirates	156	93	200	3.4	2.0	4.1
Germany	97	88	95	2.1	1.9	2.0
India	99	83	81	2.1	1.8	1.7
Afghanistan	46	69	150	1.0	1.5	3.1
Others	799	828	770	17.4	17.7	15.9
Total	4,593	4,679	4,843	100	100	100

Source: Kenya Revenue Authority

Capital and Financial Account

The capital and financial account surplus reduced from US$ 1,692 million in the year to May 2009 to US$ 1,053 million in the year to May 2010. This decline was largely in the financial account and particularly reflected a reduction in private capital flows (Table 4.4).

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

ITEM	Year to May 2009*	Year to May 2010* Q1 Jun-Aug	Q2 Sep-Nov	Q3 Dec-Feb	Q4 Mar-May	Year to May 2010*	Absolute Change
3. CAPITAL & FINANCIAL ACCOUNT	1692	538	788	-198	-74	1053	*-639*
3.1 Capital Tranfers (net)	305	44	32	78	35	189	*-116*
3.2 Financial Account	1386	494	756	-276	-109	864	*-522*
Official, medium & long-term	126	-28	24	22	146	164	*38*
Inflows	366	55	76	90	202	423	*57*
Outflows	-241	-84	-53	-68	-55	-259	*-19*
Private, medium & long-term (net)	664	-108	234	-177	340	288	*-376*
Commercial Banks (net)	663	-111	261	-182	346	315	*-348*
Other private medium & long-term (net)	1	3	-27	5	-7	-27	*-28*
Short-term (net) incl. errors & omissions	596	630	498	-121	-595	412	*-184*

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

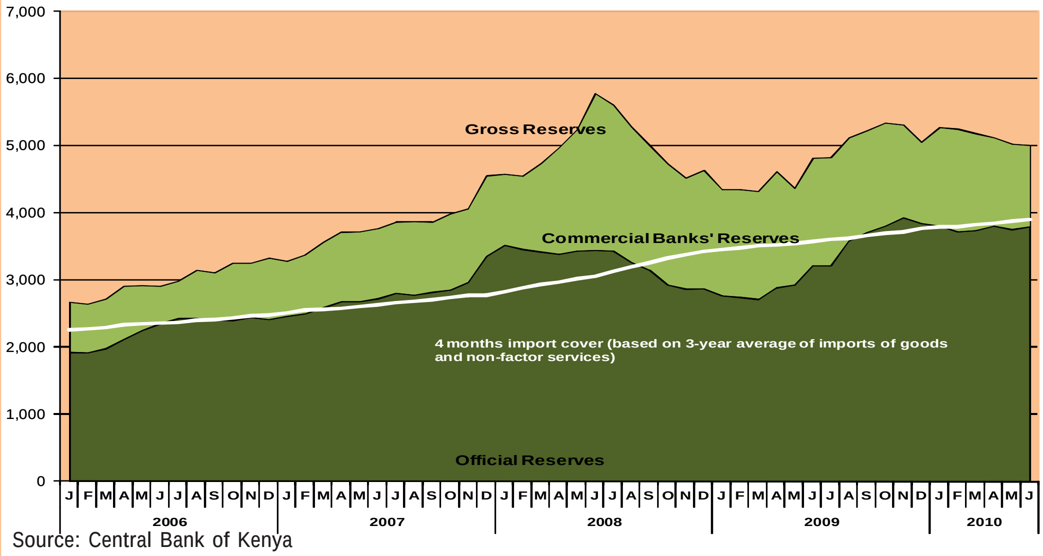
The banking system's total foreign exchange holdings increased by 3.9 percent from US$ 4,822 million in June 2009 to US$ 5,009 million in June 2010. The accumulation was in gross official foreign exchange reserves held by the Central Bank, which rose from US$ 3,219 million or 3.6 months of import cover in June 2009 to US$ 3,799 million or 3.9 months of import cover in June 2010 (Table 4.5 and Chart 4C). The accumulation of official reserves reflected interbank purchases, balance of payments support under the exogenous shock facility and additional special drawing rights allocation from the IMF to mitigate adverse effects of the global economic recession.

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

	Apr 09	Jun 09	Sep 09	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10	May 10	Jun 10
1. Gross Foreign Exchange Reserves	**4,620**	**4,822**	**5,235**	**5,062**	**5,279**	**5,254**	**5,188**	**5,124**	**5,034**	**5,009**
of which:										
Official	2,888	3,219	3,708	3,847	3,810	3,723	3,745	3,805	3,755	3,799
*imports cover**	*3.3*	*3.6*	*4.1*	*4.1*	*4.0*	*3.9*	*3.9*	*4.0*	*3.9*	*3.9*
Commercial Banks	1,733	1,602	1,527	1,215	1,470	1,532	1,443	1,319	1,279	1,211
2. Residents' foreign currency deposits	**1,702**	**1,912**	**1,920**	**2,036**	**2,065**	**2,013**	**2,025**	**2,100**	**2,114**	**2,140**

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling depreciated in June 2010 against major international currencies. The depreciation of the shilling during the month reflected increased global demand for dollars. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.02 per US dollar in June 2010 compared with Ksh 78.54 per US dollar in May 2010. The shilling, also depreciated against the Euro, the Sterling Pound and the Japanese Yen to exchange at Ksh 98.99 per Euro, Ksh 119.62 per Sterling Pound and Ksh 89.18 per 100 Japanese Yen in June2010, respectively, compared with Ksh 98.79 per Euro, Ksh 115.20 per Sterling Pound and Ksh 85.25 per 100 Japanese Yen in May 2010 (Table 4.6 and Chart 4D).

TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2009					2010						% change May10 - June 10
	Jan	Feb	May	June	Dec	Jan	Feb	Mar	Apr	May	June	
US Dollar	78.95	79.53	77.86	77.85	75.43	75.79	76.69	76.95	77.25	78.54	81.02	**3.15**
Pound Sterling	114.28	114.54	120.03	127.22	122.54	122.53	120.21	115.78	118.51	115.20	119.62	**3.84**
100 Japanese Yen	87.45	86.18	80.63	80.61	84.12	83.11	84.99	85.04	82.76	85.25	89.18	**4.60**
Uganda Shilling*	25.05	24.73	28.84	27.47	25.20	25.53	25.97	27.10	26.96	27.66	27.91	**0.91**
Tanzania Shilling*	16.99	16.61	17.07	16.86	17.65	17.71	17.58	17.63	17.75	18.20	17.99	**-1.17**
Euro	105.02	101.71	106.23	109.03	110.27	108.27	105.25	104.46	103.71	98.79	98.99	**0.21**
Euro per US dollar	0.752	0.782	0.733	0.714	0.684	0.700	0.729	0.737	0.745	0.795	0.818	**2.94**

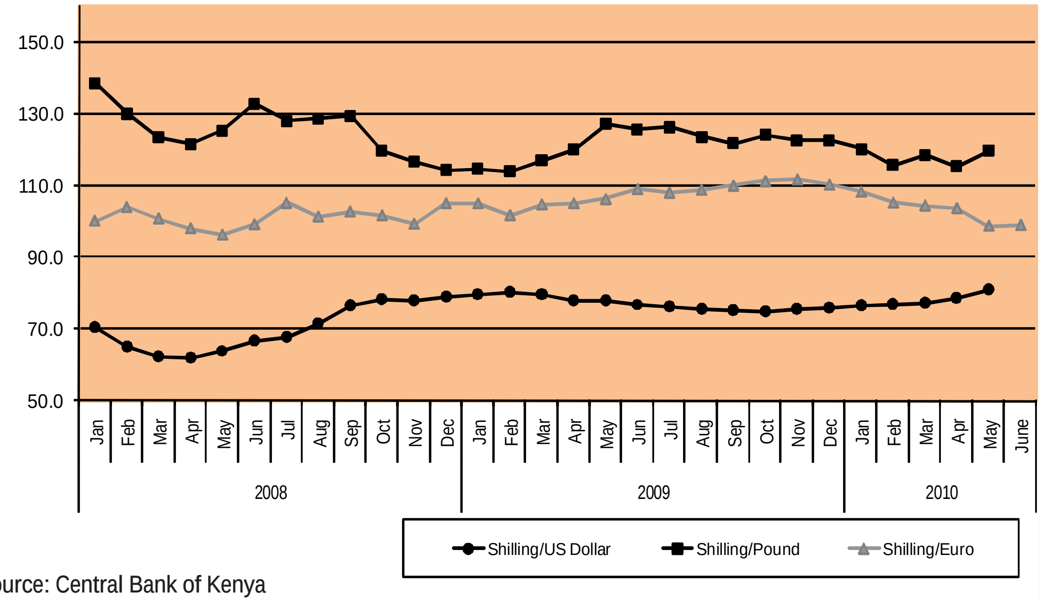
* Units of currency per Kenya shilling

Source :Central Bank of Kenya

Source: Central Bank of Kenya

Against the regional currencies, the Kenya shilling strengthened against the Uganda Shilling and depreciated against the Tanzania Shilling, respectively, to trade at Ush 27.91 per Kenya shilling and Tsh 17.99 per Kenya shilling in June 2010 compared with Ush 27.66 per Kenya shilling and Tsh 18.20 per Kenya shilling in May 2010.

CHART 4D: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

The sector comprised of 43 commercial banks, 1 mortgage finance company, 2 deposit taking microfinance institutions and 127 foreign exchange bureaus.

During the period ended June 30th, 2010, the Kenyan Banking sector registered significant growth in assets driven by growth in deposits, injection of capital and retention of profits. Similarly, the level of non-performing loans declined compared to June 2009.

Structure of the Balance Sheet

The banking sector aggregate balance sheet grew by 22.6 percent from Ksh 1,263.4 billion in June 2009 to Ksh 1,548.4 billion in June 2010. The major components of the balance sheet were loans and advances, government securities and placements, which accounted for 51.0 percent, 25.0 percent and 7.0 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances grew from Ksh 712.4 billion in June 2009 to Ksh 828.9 billion in June 2010, translating to a growth of 16.4 percent. The growth was attributed to increased economic activities in the households, trade and manufacturing sectors. Loans and advances net of provisions stood at Ksh 786.6 billion in June 2010, up from Ksh 668.6 billion registered in a similar period in 2009.

Deposit Liabilites

Deposits from customers were the main source of funding for the banking sector accounting for 78.8 percent of total funding liabilities. The deposit base increased by 27.8 percent from Ksh 954.1 billion in June 2009 to Ksh 1,219.5 billion in June 2010 mainly due to branch expansion, remittances and receipts from exports.

Capital & Reserves

The banking sector registered strong capital levels in June 2010 with total capital increasing by 16.6 percent from Ksh 163.9 billion in June 2009 to Ksh 191.1 billion in June 2010, whereas shareholders' funds increased by 25.6 percent from Ksh 177 billion in June 2009 to Ksh 222.3 billion. However, the ratios of total and core capital to total risk-weighted assets declined from 19.8 percent and 17.6 percent to 19.6 percent and 17.5 percent, respectively, mainly due to higher growth in total risk weighted assets compared to both total and core capital.

Non-performing Loans

The stock of gross non-performing loans (NPLs) declined by 7.9 percent from Ksh 66.8 billion in June 2009 to Ksh 61.5 billion in June 2010. However, the coverage ratio, which is measured as a percentage of specific provisions to total NPLs, increased to 52.2 percent from 47.2 percent in June 2009 mainly due to increase in provisions. The quality of assets, measured as a proportion of net non-performing loans to gross loans improved from 4.0 percent to 2.9 percent in June 2010 (Table 5.1). Similarly, the ratio of gross NPLs to gross loans improved from 9.4 percent in June 2009 to 7.4 percent in June 2010.

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

		Jun-10	Jun-09
1	Gross loans and advances	828.90	712.40
2	Loans and advances (net of interest suspended)	818.80	699.10
3	Gross non-performing loans	61.50	66.80
4	Specific Provisions	26.50	25.20
5	General Provisions	5.80	5.30
6	Total Provisions (4+5)	32.30	30.50
7	Net Advances (2-6)	786.60	668.60
8	Total Non-Performing Loans and advances	50.80	53.40
9	Net Non-Performing Loans and advances(8-4)	24.30	28.20
10	Total NPLs as % of total advances (8/2)	6.20	7.60
11	Net NPLs as % of gross advances (9/1)	2.90	4.00
12	Specific Provisions as % of Total NPLs (4/8)	52.20	47.20

Source: Central Bank of Kenya

Profitability

In the six months to June 2010, the sector registered a 41.9 percent growth in pre-tax profits, from 24.6 billion in June 2009 to Ksh 34.9 billion as at end of June 2010. As a result, the annualised return on assets improved from 3.1 percent to 3.5 percent in June 2010, while the return on equity increased from 27.8 percent to 31.4 percent. Total income increased by 24.1 percent from Ksh 81.8 billion in June 2009 to Ksh 101.5 billion in June 2010, while total expenses increased by 16.4 percent from Ksh 57.2 billion in June 2009 to Ksh 66.6 billion in June 2010. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 50 percent, 26 per cent and 17 percent of total income, respectively. On the other hand, staff costs, other expenses and interest on deposits were the key components of expenses, accounting for 34 percent, 27 percent and 25 percent, respectively.

Liquidity Ratio Requirement

As at end of June 2010, liquid assets amounted to Ksh 527.0 billion, while total liquid liabilities stood at Ksh 1,168.1 billion, resulting to an average liquidity ratio of 45.1 percent, against 40.9 percent registered in June 2009. The ratio of gross loans to deposits stood at 68.0 percent, down from 74.6 percent in June 2009.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 6.62 percent in June 2010 compared with 5.34 percent in May 2010 and the 4.5 percent statutory level (Table 5.2 and Chart 5A). Commercial banks held excess reserves at the Central Bank averaging Ksh 23.54 billion in June 2010 compared with Ksh 9.00 billion in May 2010. The build in excess cash reserves derived from large payments by Government from its deposits at the Central Bank

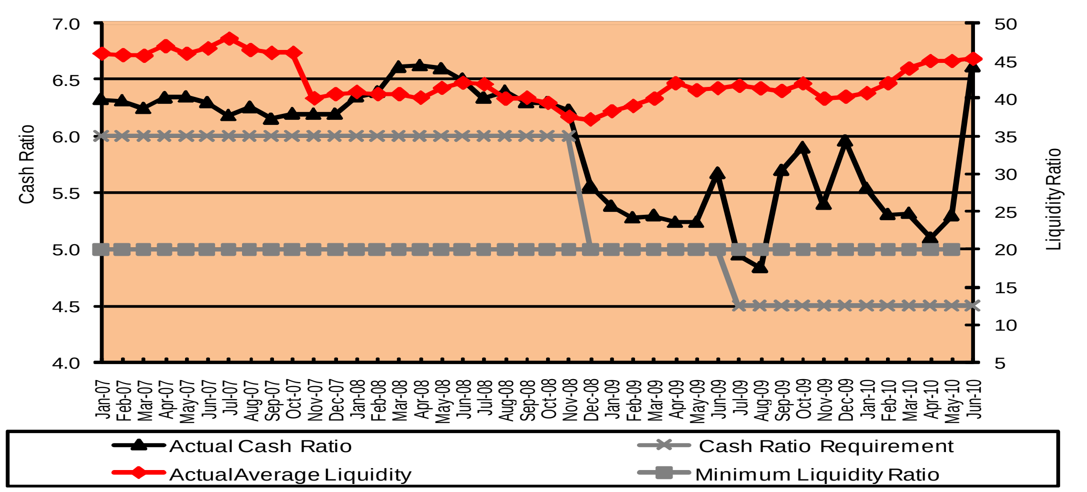
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2009					2010					
	Apr	May	June	Sept	Dec	Jan	Feb	Mar	Apr	May	June
Commercial Banks											
Actual Average Liquidity	42.04	41.09	41.37	41.34	40.25	40.71	42.02	43.99	44.60	44.80	45.30
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.24	5.16	5.67	5.40	5.96	5.54	5.31	5.32	5.14	5.34	6.62
Minimum Cash Ratio Requirement	5.00	5.00	5.00	4.50	4.50	4.50	4.51	4.51	4.51	4.51	4.51
NBFIs											
Actual Average Liquidity Ratio	23.22	23.79	24.59	23.38	23.96	26.24	30.43	29.70	29.00	32.40	35.30
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Minimum Cash Ratio Requirement	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50

* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved 79,760 transaction messages worth Ksh 1,501 billion in June 2010 compared with 72,588 transaction messages valued at Ksh 1,587 billion moved in May 2010. Consequently KEPSS transactions decreased by 5.43 percent in value but increased by 9.88 percent in volume, respectively. The general trend in volume growth is consistent with expectation following the introduction of value capping policy in October 2009.

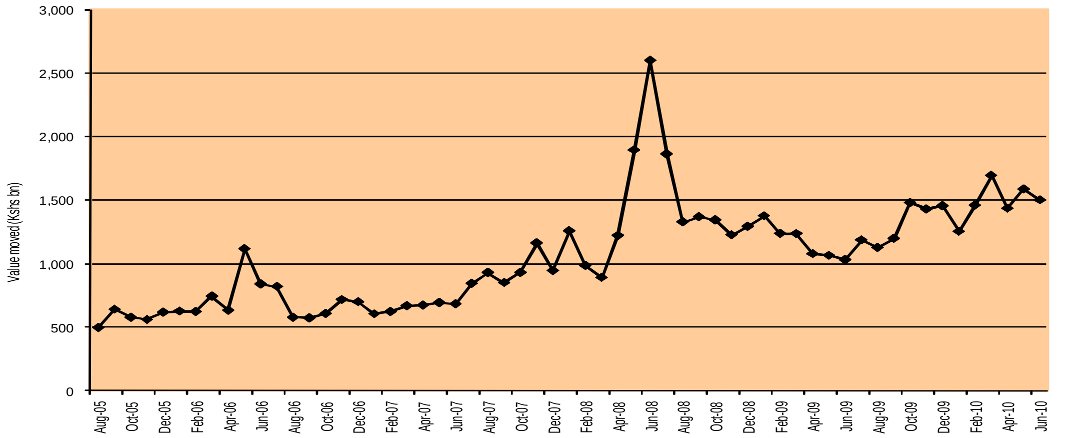
During the twelve months period to June 30, 2010, the value moved averaged Ksh 28.78 million per transaction. On average 2,663 transaction messages valued at approximately Ksh 66.26 billion per message were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS accounted for 98.5 percent of the total settlements, while indirect payments (ACH Net settlement) averaged 1.5 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-08	1,256	78	23,773	0.05	22	57	1,081
Feb-08	985	62	23,278	0.04	21	47	1,108
Mar-08	891	60	20,920	0.04	18	49	1,162
Apr-08	1,220	107	24,684	0.05	22	55	1,122
May-08	1,895	94	19,730	0.10	21	90	940
Jun-08	2,601	115	22,387	0.12	20	130	1,119
Jul-08	1,864	75	24,599	0.08	23	81	1,070
Aug-08	1,327	59	20,593	0.06	21	63	981
Sep-08	1,367	76	23,494	0.06	22	62	1,068
Oct-08	1,344	85	23,635	0.06	20	67	1,182
Nov-08	1,225	57	22,718	0.05	21	58	1,082
Dec-08	1,293	94	24,131	0.05	20	65	1,207
Jan-09	1,376	68	25,330	0.05	21	66	1,206
Feb-09	1,236	64	20,710	0.06	19	65	1,090
Mar-09	1,235	82	23,752	0.05	22	56	1,080
Apr-09	1,077	80	22,485	0.05	20	54	1,124
May-09	1,064	70	24,024	0.04	20	53	1,201
Jun-09	1,032	80	21,977	0.05	21	49	1,047
Jul-09	1,185	75	25,650	0.05	23	52	1,115
Aug-09	1,127	69	23,001	0.05	21	54	1,095
Sep-09	1,198	90	24,552	0.05	21	57	1,169
Oct-09	1,481	27	55,440	0.03	21	71	2,640
Nov-09	1,430	21	56,900	0.03	21	68	2,710
Dec-09	1,454	29	66,916	0.02	22	66	3,042
Jan-10	1,254	18	56,862	0.02	20	63	2,843
Feb-10	1,458	22	65,010	0.02	20	73	3,251
Mar-10	1,694	26	77,058	0.02	23	74	3,350
Apr-10	1,436	23	69,634	0.02	20	72	3,482
May-10	1,587	22	72,588	0.02	21	76	3,457
Jun-10	1,501	23	79,760	0.02	21	71	3,798

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) (or a message sent by or on behalf of the financial institution of the ordering customer(s) to another financial institution for payment to the beneficiary customer. It requests the receiver to credit the beneficiary customer(s) directly or indirectly through a clearing mechanism or another financial institution, or to issue a cheque to the beneficiary) increased by 31.7 percent from 9,564 transaction messages in May 2010 to 12,601 transaction messages in June 2010. Similarly single third party Message Type (MT 103) (or a message sent by or on behalf of the financial institution of the ordering customer, directly or through a correspondent(s), to the financial institution of the beneficiary customer. It is used to convey a funds transfer instruction in which the ordering customer or the beneficiary customer, or both, are non-financial institutions from the perspective of the sender) increased by 7.6 percent from 64,707 transaction messages to 69,659 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 10.8 percent from 74,271 transaction messages in May 2010 to 82,260 transaction messages in June 2010.

Compared with June 2009, multiple third parties messages (MT 102) increased by 1,355.1 percent from 866 transaction messages to 12,601 transaction messages in June 2010, while single third party messages (MT 103) increased by 522.3 percent from 11,194 transaction messages to 69,659 transaction messages (Table 5.4 and Chart 5C). This was attributed to the implementation of the value capping policy in October 2009 and the increased public awareness of KEPSS as a safer payment system. Following value capping, the Government discontinued the usage of cheques and chanelled all payments through KEPSS.

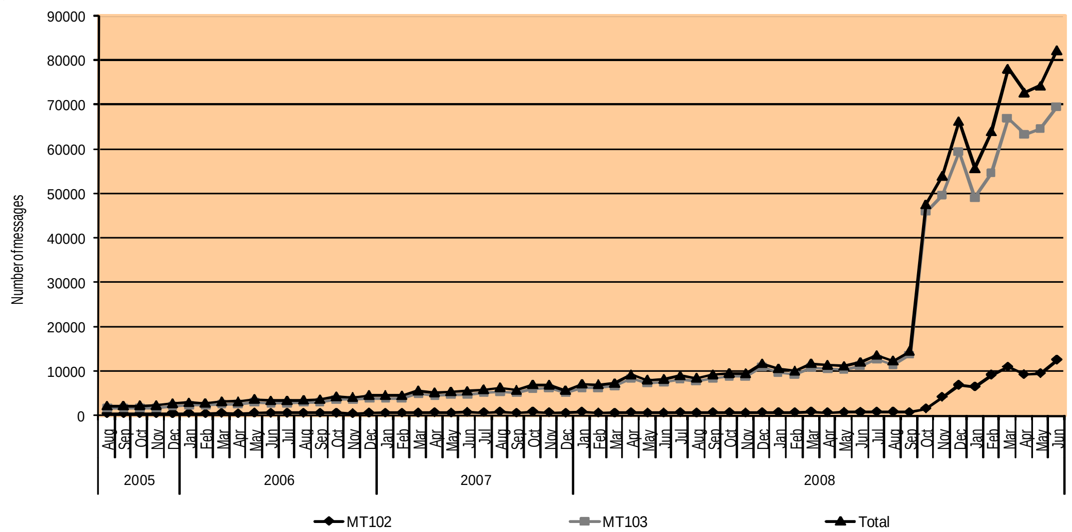
Inter-bank transfers (MT 202) accounted for 49.4 percent on average of the total value moved through KEPSS in June 2010, while third party messages accounted for 50.6 percent. The total number of third party messages (MT 102 and MT 103) grew by 582.1 percent from 12,060 messages in June 2009 to 82,260 messages in June 2010.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2009	January	786	9,815	10,601
	February	740	9,376	10,116
	March	929	10,832	11,761
	April	758	10,671	11,429
	May	852	10,351	11,203
	Jun	866	11,194	12,060
	Jul	879	12,778	13,657
	Aug	875	11,511	12,386
	Sep	813	13,740	14,553
	Oct	1639	45,940	47,579
	Nov	4214	49,759	53,973
	Dec	6928	59,418	66,346
2010	Jan	6570	49,061	55,631
	Feb	9238	54,747	63,985
	Mar	11038	67,052	78,090
	Apr	9345	63,396	72,741
	May	9564	64,707	74,271
	Jun	12601	69,659	82,260

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

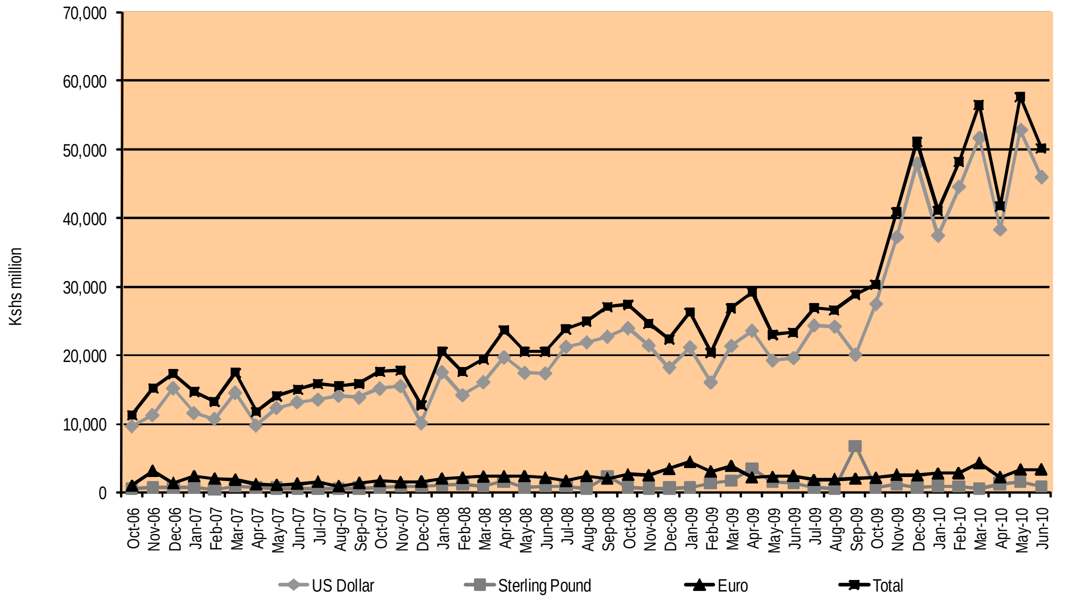


Source: Central Bank of Kenya

Domestic Foreign

Domestic Foreign Currency messages through KEPSS increased by 6.6 percent from 5,222 transaction messages in May 2010 to 5,565 transaction messages in June 2010. However, the corresponding value in Kenya Shillings equivalent moved in this period decreased by 13.1 percent from Ksh 57.66 billion to Ksh 50.13 billion. The US dollar accounted for 91.5 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.8 percent and 6.7 percent, respectively.

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



Source: Central Bank of Kenya

GOVERNMENT BUDGET PERFORMANCE

Central Government budgetary operations in the fiscal year 2009/10 resulted in a deficit of Ksh 157.9 billion on commitment basis compared with a deficit of Ksh 110.6 billion in a similar period of 2008/09 (Table 6.1). The deficit-to-GDP ratio increased from 4.6 percent to 6.2 percent on commitment basis, while the budget deficit on cash basis increased from 4.6 percent to 6.6 percent of GDP during the period. The budget deficit during the period was within the programmed target of 6.7 percent of GDP on commitment basis.

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

	FY 2008/09	FY 2009/10		
	June Actual	June Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE	**511.4**	**560.8**	**620.3**	**-59.6**
Revenue	493.3	543.8	588.4	-44.7
Tax Revenue	437.0	487.7	502.5	-14.8
Non Tax Revenue	18.8	19.7	38.4	-18.7
Appropriations-in-Aid	37.5	36.3	47.5	-11.3
External Grants	18.1	17.0	31.9	-14.9
2. TOTAL EXPENSES & NET LENDING	**621.9**	**718.6**	**791.8**	**-73.2**
Recurrent Expenses	462.2	519.8	536.4	-16.6
Development Expenses	159.7	198.8	255.4	-56.6
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-110.6	-157.9	-171.5	**-13.6**
As percent of GDP	**-4.6**	**-6.2%**	**-6.7%**	
4. ADJUSTMENT TO CASH BASIS	**17.2**	**-9.0**	**0.0**	**-9.0**
5. DEFICIT ON A CASH BASIS	-93.4	-166.9	-171.5	**-4.6**
As percent of GDP	**-4.6**	**-6.6**	**-6.7**	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**-3.6**	**-3.2**	**0.0**	
7. FINANCING	83.5	163.7	172.2	**-8.5**
Domestic (Net)	50.9	152.5	124.0	28.5
External (Net)	11.6	11.1	48.2	-37.1
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	21.1	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: Treasury

Revenue

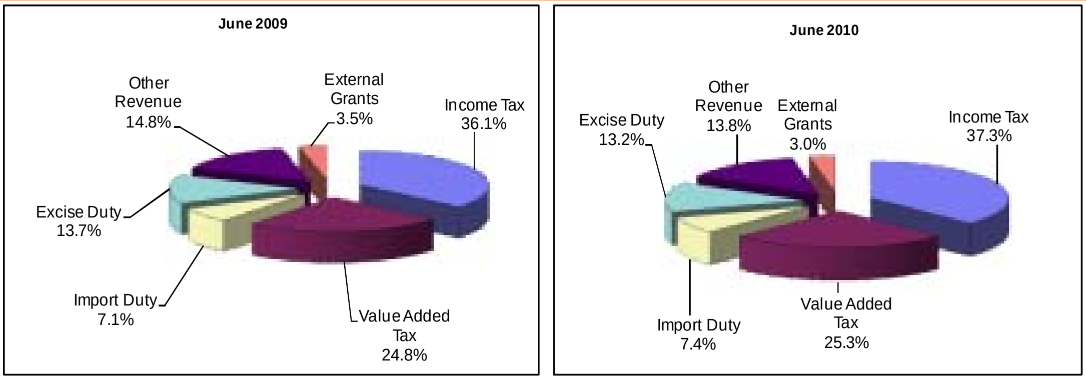
Government revenue and grants increased from Ksh 511.4 billion in the fiscal year 2008/09 to Ksh 560.8 billion in the fiscal year 2009/10 but was below target by Ksh 59.6 billion (Table 6.2 and Chart 6A). The underperformance in revenue comprised Ksh44.7 billion in revenue and Ksh 14.9 billion in external grants.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Jun-09 Ksh bn	Jun-10 Ksh bn	Change
1. Revenue (2+3+4)	**493.3**	**543.8**	**50.5**
2. Tax Revenue	437.0	487.7	50.8
Income Tax	184.4	209.1	24.7
Value Added Tax	126.9	142.0	15.1
Import Duty	36.2	41.3	5.1
Excise Duty	69.9	74.1	4.2
Others	19.6	21.3	1.7
3. Appropriations-in-Aid	37.5	36.3	-1.2
4. Other Revenue	18.8	19.7	0.9
5. External Grants	**18.1**	**17.0**	**-1.0**
TOTAL RECEIPTS (1+5)	**511.4**	**560.8**	**49.4**

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue grew by 11.6 percent from Ksh 437.0 billion in the fiscal year 2008/09 to Ksh 487.7 in the fiscal year 2009/10. All revenue sources except Appropriation-in-Aid and external grants registered improved performance compared to the same period of the year 2008/09 fiscal year. This performance is consistent with the economic recovery recorded in 2009 and in the January - March quarter of 2010.

Expenditure and Net Lending

During the fiscal year 2009/10, Government expenditure and net lending increased by Ksh 96.7 billion (or 15.6 percent) from Ksh 621.9 billion in the fiscal year 2008/09 to Ksh 718.6 billion in the fiscal year 2009/10 (Table 6.3). This increase comprised increases of Ksh 57.6 billion and Ksh 39.1 billion in the recurrent and the development expenditures, respectively.

The increase in recurrent expenditure reflects increases of Ksh 17.1 billion in salaries and wages, Ksh 10.6 billion in interest payments and Ksh 29.9 billion in other expenses. In terms of the composition of Government expenditures, (Chart 6B) 72.3 percent (20.4 percent of GDP) was Government consumption in the fiscal year 2009/10, and 27.7 percent (7.8 percent of GDP) was in Government investment.

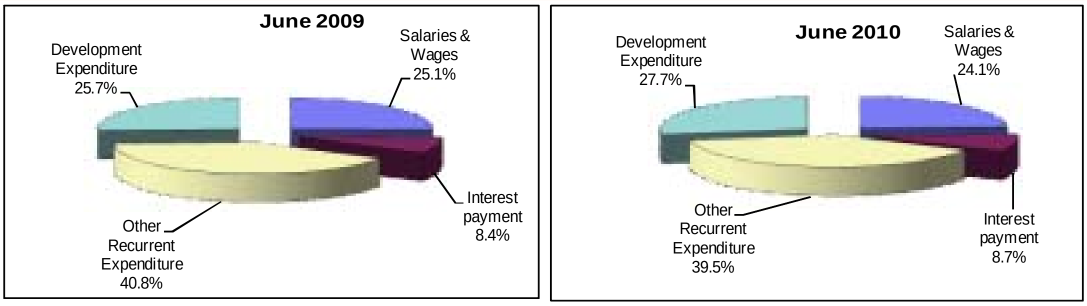
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Jun-09 Ksh bn	Jun-10 Ksh bn	Movement
1.Recurrent	**462.2**	**519.8**	**57.6**
Salaries & Wages	156.4	173.5	**17.1**
Total Interest	52.0	62.6	**10.6**
of which			
Domestic*	45.9	57.4	11.4
Foreign interest due	6.1	5.2	-0.9
Others	253.9	283.8	29.9
2. Development	**159.7**	**198.8**	**39.1**
TOTAL EXPENSES	**621.9**	**718.6**	96.7

* Includes commissions and other charges

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

During the 2009/10 fiscal year, budgetary operations of the Government resulted in a financing requirement of Ksh 163.7 billion compared with Ksh 89.8 billion in a similar period of 2008/09 (Table 6.4). The financing requirement was wholly to finance the budget deficit. The Government sourced the funds through net domestic borrowing amounting to 131.1 billion, net external debt borrowing of Ksh 11.9 billion and a draw down of Government deposit at the Central Bank of Ksh 20.7 billion.

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

I. FINANCING REQUIREMENTS	Jun-09	Jun-10
1. Budget deficit	83.5	163.7
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	6.3	0.0
3.1 Central Bank (incl. items in transit)	6.3	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0
TOTAL	**89.8**	**163.7**
II. FINANCING SOURCES	**May-09**	**Jun-10**
1. Budget surplus	0.0	0.0
2. External debt increase	11.6	11.9
3. Increase in domestic debt	72.4	131.1
3.1 Central Bank	0.0	9.8
3.2 Commercial banks	43.6	91.6
3.3 Non-bank sources	28.8	29.7
4. Reduction in GoK deposits at CBK	3.3	20.7
5. Privatisation proceeds (Net of Restructuring Costs)	2.5	0.0
TOTAL	**89.8**	**163.7**

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the central bank increased by Ksh 9.8 billion from Ksh 40.6 billion in June 2009 to Ksh 50.5 billion in June 2010 (Table 6.5). The increase in Government indebtedness to central bank was largely in Ksh 12.5 utilisation of overdraft facility and partially offsetting amortization of pre-1997 overdraft by Ksh 1.1 billion and a repayment of IMF funds on-lent to Government by Ksh 0.5 billion.

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

	2009	2010	Movement
	June	June	
Total Credit	**40.6**	**50.5**	**9.8**
1. Overdraft	5.1	17.6	12.5
2. Rediscounted securities	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.0
Treasury bonds	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	33.3	32.2	-1.1
4. IMF funds onlent to Government	0.7	0.2	-0.5
5. Cleared items in transit	1.4	0.3	-1.1
Memorandum			
Authorised overdraft limit	**16.9**	**21.0**	**9.7**
Amount utilised to date	5.1	17.6	17.6
Amount available	11.8	3.4	-7.9

Source: Central Bank of Kenya

Outlook for FY 2009/10

In the budget estimates for the fiscal year 2010/11, Government revenue excluding external grants is estimated at Ksh 689.6 billion (24.9 percent of GDP), while external grants are estimated at Ksh 40.4 billion (1.5 percent of GDP). Government expenditure is estimated at Ksh 918.0 billion or 33.1 percent of GDP. The main components of expenditure include Ksh 592.5 billion (21.4 percent of GDP) in recurrent expenditure and Ksh 323.6 billion (11.7 percent of GDP) in development expenditure.

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

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

Source: Treasury

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

Developments in Public Debt

Overall Debt

Kenya's public and publicly guaranteed debt increased by Ksh 147.0 billion during the fiscal year 2009/10 to Ksh 1,200.7 billion or 47.1 percent of GDP from Ksh 1,053.7 billion or 44 percent of GDP in June 2009 (Table 7.1). The external debt to GDP ratio decreased from 22.4 percent in June 2009 to 21.3 percent in June 2010, while the domestic debt to GDP ratio increased from 21.7 percent to 25.9 percent during the period.

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

	Jun-09	Sep-09	Dec-09	Mar-10*	Jun-10	Change 2009/10
EXTERNAL* **						
Bilateral	185.9	188.7	185.3	187.3	188.7	2.8
Multilateral	327.1	312.6	316.5	333.7	335.2	8.1
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	22.1	23.7	23.7	17.1	17.1	-5.0
Sub-Total	**535.1**	**525.0**	**525.5**	**538.2**	**541.1**	**5.9**
(As a % of GDP)	22.4	21.6	21.3	21.46	21.25	
(As a % of total debt)	50.8	48.8	47.2	45.7	45.1	
DOMESTIC						
Banks	**290.8**	**310.5**	**343.0**	**384.5**	**401.7**	**111.0**
Central Bank	40.1	41.6	44.7	39.6	51.8	**11.7**
Commercial Banks	250.7	268.9	298.3	345.0	350.0	**99.3**
Non-banks	**225.1**	**237.7**	**243.0**	**251.2**	**254.8**	**29.7**
Non-bank Financial Institutions	1.0	0.8	1.1	2.0	3.0	**1.9**
Other Non-bank Sources	224.1	236.9	241.9	249.2	251.8	**27.7**
Non-residents	**2.6**	**2.5**	**2.9**	**3.3**	**3.1**	**0.5**
Sub-Total	**518.5**	**550.7**	**589.0**	**639.1**	**659.6**	**141.1**
(As a % of GDP)	21.7	22.6	23.8	25.5	25.9	
(As a % of total debt)	49.2	51.2	52.8	54.3	54.9	
GRAND TOTAL	**1053.7**	**1075.7**	**1114.5**	**1177.2**	**1200.7**	**147.0**
(As a % of GDP)	44.0	44.2	45.1	46.9	47.1	

* External Debt Revised

** External Debt Provisional

*** Includes IMF Loans

/1 Domestic Debt is reported on a gross basis

Note

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

Sources: Treasury and Central Bank of Kenya

Domestic Debt

Total domestic debt increased by 141.1 billion during the fiscal year 2009/10 from Ksh 518.5 billion in June 2009 to Ksh 659.6 billion in June 2010 (Table 7.2). The rise in domestic debt during the period followed an increase of Ksh 42.3 billion in Treasury bills (excluding Repos) and Ksh 87.9 billion in Treasury bonds. Government overdraft at Central bank, which is the main component of other domestic debt, increased from Ksh 5.1 billion in June 2009 to Ksh 17.6 billion in June 2010.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2009				2010						Change
	June	%	Dec	%	Mar	%	May	%	June	%	Jun-09 -Jun-10
Total Stock of Domestic Debt (A+B)	**518.5**	**100.0**	**562.9**	**100.0**	**639.1**	**100.0**	**650.3**	**100.0**	**659.6**	**100.0**	**141.1**
A. Government Securities	**511.6**	**98.7**	**577.6**	**102.6**	**632.3**	**98.9**	**643.9**	**99.0**	**640.6**	**97.1**	**129.0**
1. Treasury Bills (excluding Repo Bills)	**116.8**	**22.5**	**140.8**	**25.0**	**161.3**	**25.2**	**167.0**	**25.7**	**159.0**	**24.1**	**42.3**
Banking institutions	74.6	14.4	110.8	19.7	132.6	20.7	144.7	22.2	133.8	20.3	**59.2**
Others	42.2	8.1	30.0	5.3	28.7	4.5	22.3	3.4	25.3	3.8	**-16.9**
2. Treasury Bonds	**360.7**	**69.6**	**402.7**	**71.5**	**437.5**	**68.5**	**443.4**	**68.2**	**448.6**	**68.0**	**87.9**
Banking institutions	176.0	33.9	187.5	33.3	202.9	31.7	209.0	32.1	208.9	31.7	**32.9**
Others	184.8	35.6	215.2	38.2	234.6	36.7	234.4	36.1	239.7	36.3	**55.0**
3. Long Term Stocks	**0.8**	**0.1**	**0.8**	**0.1**	**0.8**	**0.1**	**0.8**	**0.1**	**0.8**	**0.1**	**0.0**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Others	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	**0.0**
4. Non-Interest Bearing Debt	**33.3**	**6.4**	**33.3**	**5.9**	32.8	**5.1**	32.8	**5.0**	32.2	**4.9**	**-1.1**
Of which: Repo T/Bills	33.3	6.4	33.3	5.9	32.8	5.1	32.8	5.0	32.2	4.9	**-1.1**
B. Others:	**6.89**	**1.3**	**11.37**	**2.0**	**6.80**	**1.1**	**6.33**	**1.0**	**18.97**	**2.9**	**12.1**
Of which CBK overdraft to Government	5.1	1.0	11.1	2.0	6.5	1.0	5.2	0.8	17.6	2.7	12.5

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

Source: Central Bank of Kenya

Treasury Bills

Treasury bills increased from Ksh 116.8 billion in June 2009 to Ksh 159.1 billion in June 2010 (Table 7.3). The proportion of Treasury bills in total domestic debt increased from 22.5 percent of total domestic debt to 24.1 percent during the period, which was within the Government domestic debt strategy of 30:70 ratios of total domestic debt in favour of long term securities. Commercial banks holding in Treasury bills rose from Ksh 74.6 billion to Ksh 133.8 billion. The proportion of the 364 day Treasury bills in total Government securities stood at 8.1 percent up from 1.9 percent in the first issue of August 2009, which underscored strong uptake on the instrument. The percentage of 91-day Treasury bills in total Government securities decreased from 4.9 percent to 3.9 percent in June 2010, while the 182-day Treasury bills decreased from 19.5 percent to 14.1 percent during the period (Table 7.5).

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

	2009						2010							
Holders	Jun	%	Sep	%	Dec	%	Mar	%	Apr	%	May	%	Jun	%
Banking Institutions	74.6	63.9	81.3	66.6	110.8	78.7	138.1	85.6	153.8	87.3	144.9	86.8	134.0	84.3
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	74.6	63.9	81.3	66.6	110.8	78.7	137.9	85.5	153.6	87.2	144.7	86.6	133.8	84.1
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.2	0.1	0.2	0.1	0.2	0.1
Insurance Companies	17.0	14.6	15.1	12.3	11.6	8.2	9.3	5.7	8.5	4.8	8.8	5.2	8.4	5.3
Parastatals	2.3	2.0	3.7	3.0	3.3	2.4	2.8	1.7	3.2	1.8	2.0	1.2	1.9	1.2
Of which: NSSF	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
Pension Funds	7.0	6.0	6.5	5.3	7.5	5.3	9.3	5.7	7.2	4.1	5.0	3.0	4.0	2.5
Others	15.8	13.6	15.6	12.8	7.6	5.4	1.9	1.2	3.4	1.9	6.4	3.8	10.8	6.8
Total*	**116.8**	**100.0**	**122.2**	**100.0**	**140.8**	**100.0**	**161.3**	**100.0**	**176.1**	**100.0**	**167.0**	**100.0**	**159.050**	**100.0**

* Excludes repurchase order bills

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds outstanding amount increased from Ksh 360.7 billion in June 2009 to Ksh 448.6 billion in June 2010 (Table 7.4). But, the percentage of Treasury bonds in total domestic debt decreased from 69.6 percent to 68.0 percent during the period, while commercial banks holdings of Treasury bonds increased from Ksh 176.0 billion to Ksh 208.9 billion (Table 7.2).

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

Holders	2009 June	%	Dec	%	2010 Apr	%	May	%	Jun	%
Banking Institutions	176.8	49.0	188.6	46.8	212.9	48.1	211.8	47.8	211.7	47.2
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	176.0	48.8	187.5	46.6	211.1	47.7	209.0	47.1	208.9	46.6
NBFIs	0.8	0.2	1.1	0.3	1.8	0.4	2.8	0.6	2.8	0.6
Insurance Companies	38.3	10.6	48.5	12.1	52.4	11.8	54.4	12.3	53.8	12.0
Parastatals	31.4	8.7	33.6	8.4	36.4	8.2	37.3	8.4	38.0	8.5
Of which: NSSF	15.8	4.4	17.0	4.2	18.3	4.1	19.5	4.4	20.1	4.5
Building Societies	0.5	0.1	0.4	0.1	0.4	0.1	0.4	0.1	0.4	0.1
Pension Funds	54.2	15.0	68.2	16.9	78.8	17.8	81.5	18.4	80.1	17.8
Others	59.6	16.5	63.3	15.7	61.5	13.9	58.1	13.1	64.7	14.4
Total	360.7	100.0	402.7	100.0	442.4	100.0	443.4	100.0	448.6	100.0

Source: Central Bank of Kenya

The 5-year Treasury bonds accounted for the largest proportion of outstanding Government securities during the period, increasing from 11.1 percent in June 2009 to 14.2 percent in June 2010, while the 10-year Treasury bonds accounted for 11.4 percent of outstanding Government securities. The percentage of Treasury bonds with maturities of between 10-years and 25-years increased from 27.0 percent to 30.0 percent during the period following successful issuance of a 25-year Treasury bonds. Following the increase in outstanding Treasury bonds during the period, the average maturity profile of domestic debt (by days to maturity) stood at 4 years and 3 month in June 2010 from 3 years 7 months in June 2009.

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

	2009 June	%	Dec	%	2010 Mar	%	Apr	%	May	%	Jun	%	Change Jun-09 to Apr 10
91-Day	23.5	4.9	24.8	4.6	26.7	4.5	34.8	5.6	29.2	4.8	23.7	3.9	0.1
182-Day	93.3	19.5	87.4	16.1	105.1	17.5	103.7	16.8	92.4	15.1	85.9	14.1	-7.4
364-Day	0.0	0.0	28.6	5.3	29.5	4.9	37.6	6.1	45.4	7.4	49.5	8.1	49.5
1-Year	14.8	3.1	6.7	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-14.8
2-Year	45.2	9.5	43.8	8.1	56.7	9.5	53.4	8.6	46.6	7.6	46.6	7.7	1.4
3-Year	12.8	2.7	5.8	1.1	5.8	1.0	5.8	0.9	1.8	0.3	1.8	0.3	-11.0
4-Year	12.9	2.7	7.3	1.3	7.3	1.2	3.4	0.5	3.4	0.6	3.4	0.6	-9.5
5-Year	52.8	11.1	66.7	12.3	76.5	12.8	76.5	12.4	88.4	14.5	86.6	14.2	33.8
6-Year	38.8	8.1	37.1	6.8	59.3	9.9	59.1	9.6	59.1	9.7	59.1	9.7	20.3
7-Year	24.2	5.1	24.2	4.4	21.4	3.6	21.4	3.5	21.4	3.5	21.4	3.5	-2.8
8-Year	17.9	3.8	17.9	3.3	27.6	4.6	29.6	4.8	29.6	4.8	29.6	4.9	11.6
9-Year	12.6	2.6	12.6	2.3	15.3	2.5	17.8	2.9	17.8	2.9	17.8	2.9	5.1
10-Year	44.4	9.3	57.0	10.5	57.0	9.5	69.1	11.2	69.1	11.3	69.1	11.4	24.7
11-Year	4.0	0.8	4.0	0.7	4.0	0.7	4.0	0.7	4.0	0.7	4.0	0.7	0.0
12-Year	28.5	6.0	47.4	8.7	24.4	4.1	20.1	3.2	20.1	3.3	20.1	3.3	-8.4
15-Year	42.3	8.9	51.7	9.5	61.9	10.3	61.9	10.0	61.9	10.1	61.9	10.2	19.6
20-Year	9.5	2.0	20.4	3.7	20.4	3.4	20.4	3.3	20.4	3.3	20.4	3.4	10.8
25-Year											7.0	1.2	
Total	477.5	100.0	543.5	100.0	598.8	100.0	618.5	100.0	610.4	100.0	607.7	100.0	

Source: Central Bank of Kenya

Government Long-term Stocks

With no new issues of redemption, Government long term stocks was unchanged at Ksh 0.8 billion or 0.1 percent of total domestic debt in fiscal year 2009/10

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Government securities from first quarter of the fiscal year 2010/11 will comprise Ksh 79.0 billion in Treasury bills and Ksh 6.2 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 23.7 billion, Ksh 45.9 billion and Ksh 9.4 billion in 91-days, 182-days and 364-days Treasury bills, respectively. The Treasury bonds maturing during this period comprise of Ksh 3.7 billion and Ksh 2.5 billion for the 2-year and 6-year tenure, respectively.

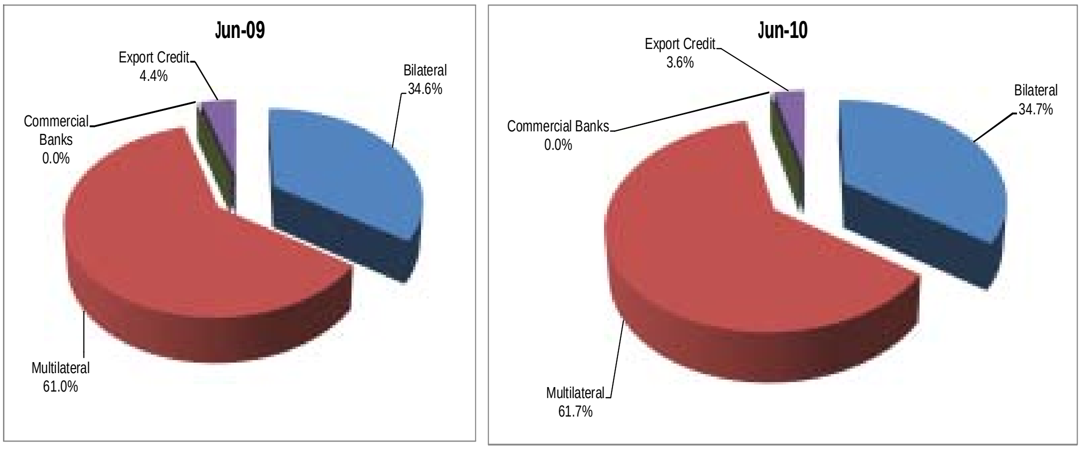
External Debt

Kenya's external debt increased by 1.1 percent from Ksh 535.1 billion (USD 6.94 billion) in June 2009 to Ksh 541.1 billion (USD 6.6 billion) in June 2010 following weakening of the shilling against the Euro, Dollar and the Sterling Pound (Table 7.1). The rise in the Kenya Shilling component of external debt followed external loans disbursement of Ksh 29.2 billion which more than offset the revaluation gains of Ksh 2.9 billion on IMF debt and debt repayments of Ksh 20.5 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to multilateral creditors (including IMF) increased from 61.1 percent of total external debt to 62.0 percent during the period. The percentage of external debt owed to bilateral creditors and that which is contracted through export credits also increased from 34.7 percent and 4.1 percent, respectively, in June 2009 to 34.9 percent and 3.2 percent in May 2010 (Chart 7A).

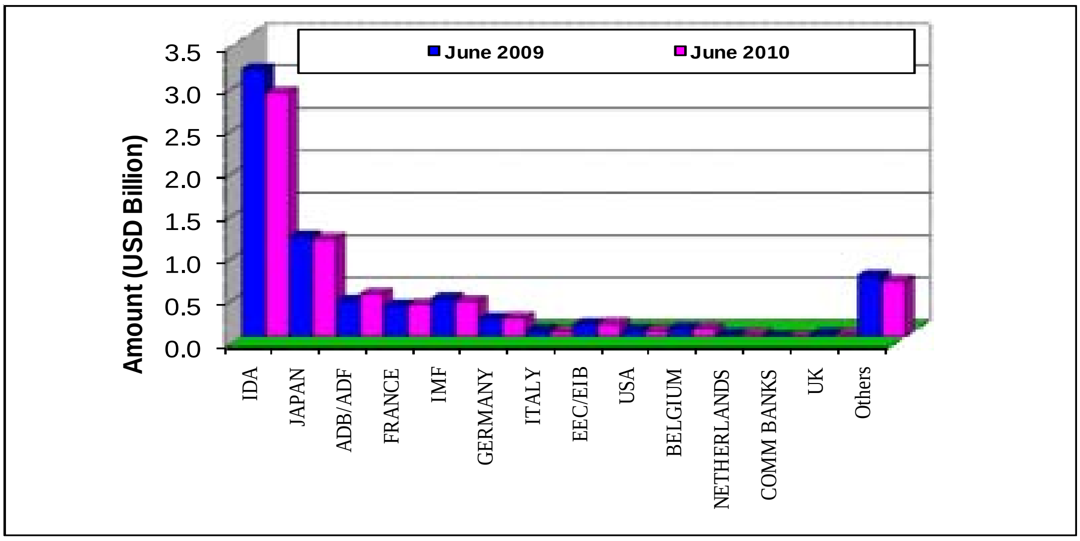
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

As shown in Chart 7B, IDA and Japan remained the largest multilateral and bilateral creditors to Kenya during the period.

CHART 7B: EXTERNAL DEBT BY CREDITOR

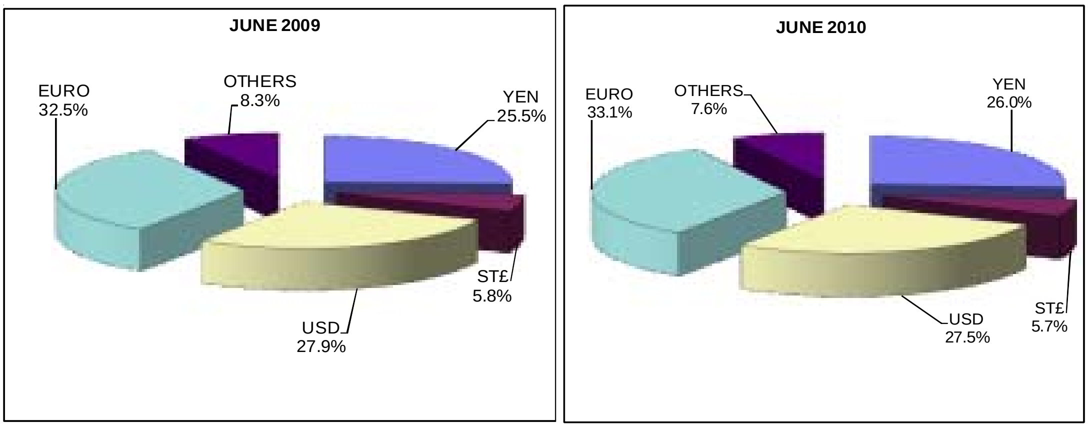


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in Euro and Japanese Yen increased from 32.5 percent and 25.5 percent in June 2009, respectively, to 33.1 percent and 26.0 percent in June 2010. However, the external debt proportion held in US Dollar, Sterling Pounds and other currencies including SDRs decreased from 27.9 percent, 5.8 percent and 8.3 percent to 27.5 percent, 5.7 percent and 7.6 percent, respectively, during the period (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt increased from Ksh 45.5 billion in the fiscal year 2008/09 to Ksh 57.4 billion in the fiscal year 2009/10. The external debt service in the period comprised Ksh 20.5 billion in principal repayments and Ksh 5.4 billion in interest payments.

Outlook for the FY 2010/11

The budget estimates for 2010/11 has Government domestic borrowing projected at Ksh 105.3 billion (3.8 percent of GDP), while external borrowing is estimated at Ksh 82.7 billion (3.0 percent of GDP). However, as indicated in the Budget Strategy Paper for 2009/10 to 2012/13, gross domestic debt-to-GDP ratio is projected to increase from 24.2 percent of GDP in June 2010 to 27.1 percent of GDP in June 2011. The external debt-to-GDP ratio is expected to decrease from 24.3 percent to 23.2 percent during the period.

ACTIVITY IN THE STOCK MARKET

Equity Market

Performance at the equities market slowed down in June 2010 as reflected in key market indicators (Table 8.1). The number of shares traded decreased by 60.9 percent from Ksh 933.5 million in May 2010 to Ksh 364.7 million in June 2010.

Equity turnover decreased by Ksh 3,538 million (34.2 percent) from Ksh 10,342.4 million in May 2010 to Ksh 6,804.1 million in June 2010. The NSE 20 Share Index rose by 97.47 points (2.30 percent) to 4,339.28 in June 2010 (Chart 8A). The market capitalization, therefore, improved by Ksh 33.3 billion (3.4 percent) from Ksh 1,073 billion in May 2010 to Ksh 1,109 billion in June 2010. Market liquidity decreased by 89 basis points to 0.57 percent in June 2010 from 1.46 percent in May 2010 reflecting a decrease in the number of shares traded. The slowdown in performance in the equities market is attributed to risk aversion by foreign investors following the weakening of the Euro economy and political uncertainity associated with the approaching August 4, 2010 referendum on the proposed constitution.

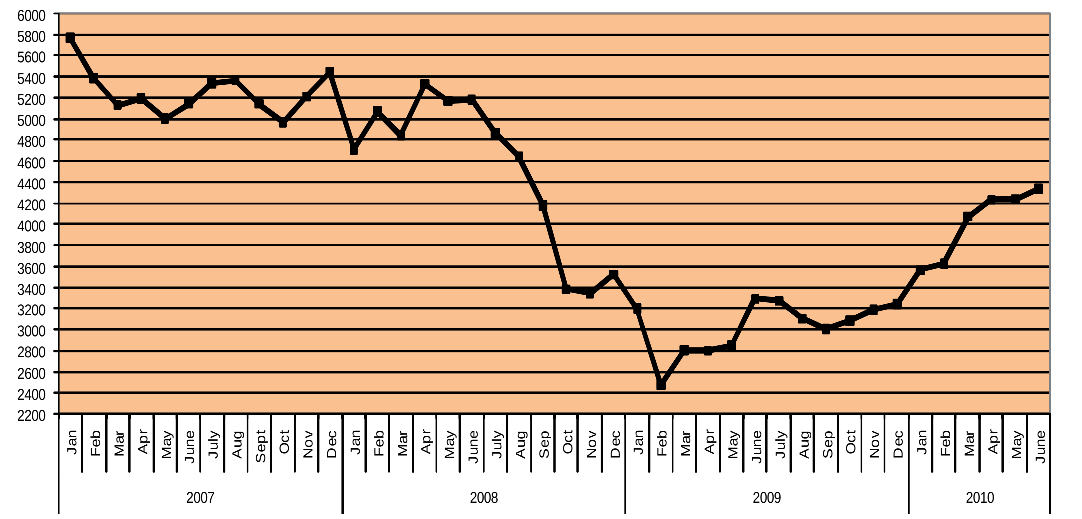
TABLE 8.1: SELECTED STOCK MARKET INDICATORS

Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
August 08	4,648.78	490.81	7,490.20	1,081.86	18,490.36
September 08	4,180.40	485.30	6,787.80	972.30	22,611.94
October-08	3,386.65	393.50	3,642.40	764.90	4,344.11
November-08	3,341.00	290.94	3,723.72	791.60	6,319.71
December-08	3,521.18	170.86	4,617.11	853.67	7,473.44
January-09	3,198.90	177.55	2,624.39	777.45	12,458.82
February-09	2,474.75	150.64	1,645.28	611.49	12,555.25
March-09	2,805.03	207.39	2,414.12	688.67	18,520.00
April-09	2,800.10	215.56	2,549.12	683.03	1,370.00
May-09	2,852.57	308.00	3,087.67	693.44	22,310.00
June-09	3,294.56	377.56	4,126.87	821.78	21,600.00
July-09	3,273.10	296.19	3,261.63	826.75	16,650.00
August-09	3,102.68	280.89	3,149.21	785.28	12,890.00
September-09	3,005.41	231.69	3,547.59	771.63	20,930.00
October-09	3,083.63	303.30	4,520.97	783.97	22,380.00
November-09	3,189.55	396.36	4,646.57	825.84	9,210.00
December-09	3,247.44	214.90	2,591.19	831.83	15,940.00
January-10	3,565.28	603.91	6,358.02	910.02	26,750.00
February-10	3,629.41	369.76	4,214.87	922.10	41,638.70
March-10	4,072.93	627.00	8,325.6	983.12	50,411.00
April-10	4,233.24	398.53	6,754.90	1,062.00	23,241.00
May-10	4,241.81	933.53	10,342.00	1,073.00	37,204.50
June-10	4,339.28	364.71	6,804.00	1,108.65	95,241.75

Source: Nairobi Stock Exchange

With regards to equities market performance at the sectoral level, the Commercial and Services sector dominated trading activity and traded 183.6 million shares during the month. The most traded share in the sector was Safaricom with 170.2 million shares. The Finance and Investment sector traded 126.1 million shares, with Equity Bank being the most active trading 47.9 million shares. The Industrial and Allied sector traded 51.9 million shares with Mumias Sugar trading 18.0 million shares. In the agricultural sector, 2.9 million shares were traded and Sasini Ltd. accounted for 2.0 million shares.

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



Source: Nairobi Stock Exchange

Bond Market

The bond turnover increased by 155.9 percent, with bonds worth Ksh 95.2 billion traded in June 2010, compared with Ksh 37.2 billion worth of bonds traded in May 2010. This increase was attributed to the shift of investors' preference from the primary market to the secondary market, which has continued to record impressive performance, following declining yields in the primary market.

Statement of Financial Position Of The Central Bank of Kenya

(Kenya shillings million)

	Jun-10	Jun-09	June 10/June 09 Movement
ASSETS	343,235	311,715	31,520
Foreign Assets	283,189	247,648	35,541
Advances and Discounts to Banks	0	0	0
Discounted Government Securities	31	15,010	-14,979
Government Accounts	50,980	40,600	10,380
Government of Kenya Overdraft	17,649	5,124	12,525
Clearing Account	316	1,430	-1,114
IMF funds on-lent to Government	241	717	-476
Frozen Government Accounts	32,774	33,329	-555
Other assets	9,035	8,457	578
Debtors	5,475	5,345	130
Retirement Benefits Assets	1,425	1,425	0
Building and Equipment	845	1,412	-567
Prepaid Leases	271	275	-4
Intangible assets	1,019	0	1,019
LIABILITIES	343,235	311,715	31,520
Foreign Liabilities	1,026	0	1,026
Currency in Circulation	125,024	108,042	16,982
Repo Securities	0	0	0
Deposits	180,777	163,084	17,693
Banks - Kenya	85,235	51,901	33,334
External	94	89	5
Non-Bank Financial Institutions	0	0	0
Other Public Entities and Project A/Cs	10,672	8,180	2,492
International Monetary Fund	37,002	37,448	-446
Government of Kenya	43,557	64,167	-20,610
Local Banks Forex Settlement Fund	4,217	1,299	2,918
Other Liabilities	5,574	1,407	4,167
Capital and Reserves	30,834	39,182	-8,348
Capital	5,000	5,000	0
General Reserve Fund	26,804	34,182	-7,378
Period's Surplus	-3,611	0	-3,611
Dividend payable	2,641	0	2,641

Source: Central Bank of Kenya

Notes on the Financial Positon

Assets

Foreign exchange reserves of the Bank increased by 14.3 percent to Ksh 283,189 million in June 2010 from Ksh 247,648 million in June 2009 reflecting forex purchases from the interbank market.

Government accounts rose by 25.5 percent or Ksh 10,380 million to Ksh 50,980 million in June 2010 from Ksh 40,600 million in June 2009. The increase was wholly in the outstanding overdraft by Ksh 12,525 million. This increase was partially offset by repayments of Ksh 1,114 million in clearing account balances due, Ksh 476 million on IMF funds on-lent to government and Ksh 555 million amortization of Government's Central Bank.

Other assets rose by Ksh 578 million in the year to June 2010 on account of an increase in intangible assets and other debtors, and partially offsetting the decline in value of building and equipment and in prepaid leases.

Liabilites

Currency in circulation increased by Ksh 16,982 million to Ksh 125,024 million in June 2010 from Ksh 108,042 million in June 2009.

There were no outstanding **repo securities** in June 2010 as in June 2009.

Deposits increased by 10.8 percent or Ksh 17,693 million to Ksh 180,777 million in the year June 2010 on account of increases of Ksh 33,334 million in commercial banks' deposits at the Central Banks, Ksh 2,918 million increase in local banks forex settlement balances and Ksh 2,492 million in other public entities and project accounts, respectively. These increases were partially offset by a repayment of Ksh 446 million in program support from the IMF and a drawdown of Ksh 20,610 million in Government deposits.

Other liabilities and provisions increased by Ksh 4,167 million to Ksh 5,574 million in the year to June 2010.

Capital and reserves declined by 21.3 percent or Ksh 8,348 million to Ksh 30,834 million in the year to June 2010 due to lower earnings on the Bank's foreign currency deposits as interests declined on account of the global economic recession. Consequently, the period's surplus reversed to a negative alance of Ksh 3,611 million. The general reserve fund also declined by Ksh 7,378 million, while dividends payable recovered by Ksh 2,641 million.