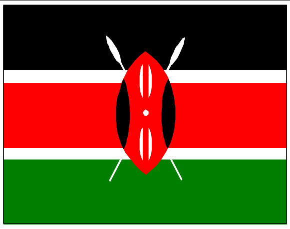


MONTHLY ECONOMIC REVIEW
DECEMBER 2008
The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at: **http://www.centralbank.go.ke**
email: info@centralbank.go.ke

CONTENTS

Overview

Introduction

This Monthly Economic Review highlights recent economic developments through December 2008. It highlights developments in money, credit and banking, inflation, interest rates and the shilling exchange rate. It also highlights developments in the real sector, Government budgetary operations, public debt and balance of payments.

GDP Growth

The economy grew by 7.0 percent in 2007 compared with 6.4 percent in 2006. In 2008, the economy recovered from an estimated 1 percent decline in the first quarter to a growth of 3.2 percent and 2.1 percent in the second and third quarter, respectively.

Inflation

Overall 12-month inflation declined to 21.9 percent in January 2009 from 27.7 percent in December 2008 mainly on account of declining prices of crude oil and some food items. However, overall annual average inflation increased slightly to 26.5 percent in January 2009 from 26.2 percent in December 2008.

Government Fiscal Operations

The central Government budgetary operations for the period July – November 2008 of the fiscal year 2008/09 resulted in an increase of the budget deficit by Ksh 2.8 billion to Ksh 26.4 billion or 1.2 percent of GDP from Ksh 23.6 billion or 1.3 percent of GDP on commitment basis a year earlier. Similarly, the budget deficit on cash basis increased to Ksh 37.6 billion or 1.7 percent from Ksh 30.7 billion or 1.7 percent of GDP during the period.

Public Debt Developments

Kenya's stock of public and publicly guaranteed debt increased by 1.9 percent to Ksh 887.1 billion in November 2008 from Ksh 870.6 billion in June 2008. In relation to GDP, the total public debt declined from 42.8 percent of GDP in June 2008 to 40.6 percent in November 2008. Specifically, the external debt to GDP ratio dropped from 21.6 percent in June 2008 to 19.9 percent in November 2008 while the domestic debt to GDP ratio dropped from 21.1 percent to 20.7 percent during the period. As a result of these developments, the share of external debt in total debt stock dropped from 50.5 percent in June 2008 to 49.1

percent in November 2008 while domestic debt increased from 49.5 percent to 50.7 percent during the same period.

Monetary Expansion

Money supply, M3, grew by 13.0 percent in the year to December 2008 compared with 20.9 percent a year ago and 17.0 percent target. M3 expansion in December 2008 mainly resulted from increased net domestic assets (NDA) of the banking system comprising domestic credit to the private sector.

Interest Rates

Short term interest rates rose in the month of December 2008. The average 91-day Treasury bill rate rose from 8.39 percent in November 2008 to 8.59 percent in December 2008 and the 182-day Treasury bill rate also increased from 8.86 percent in November 2008 to 9.05 percent in December 2008

Balance of Payments

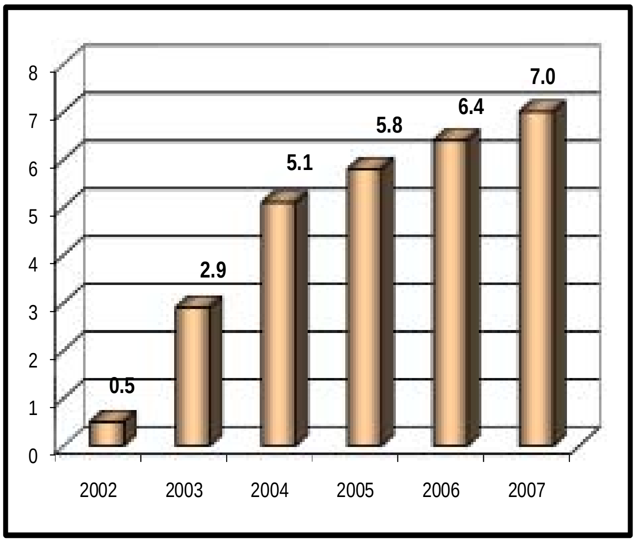
The balance of payments position declined to a deficit of US$ 43 million in the year to November 2008 from a surplus of US$ 473 million in the year to November 2007 due to a faster widening in the current account deficit that outweighed growth in inflows in the capital and financial account.

Exchange Rates

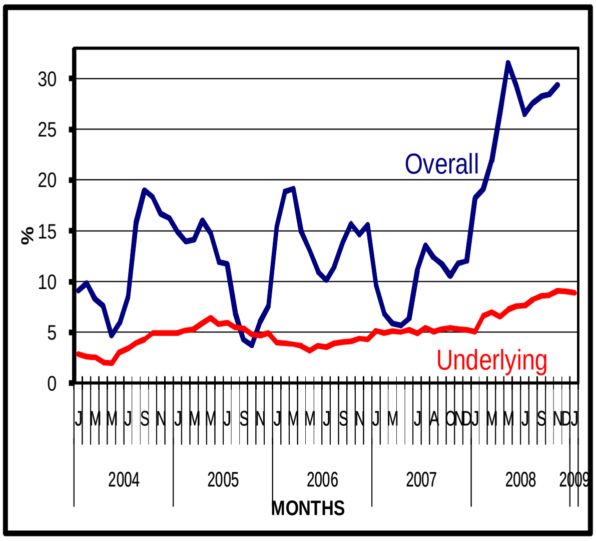
The Kenya Shilling weakened against the US dollar and the Japanese Yen, but strengthened against the Sterling Pound and the Euro in January 2009. Against the US dollar, the Shilling weakened to exchange at an average of Ksh 78.95 per US dollar in January 2009 compared with Ksh 78.04 per US dollar in December 2008.

SELECTED ECONOMIC PERFORMANCE INDICATORS

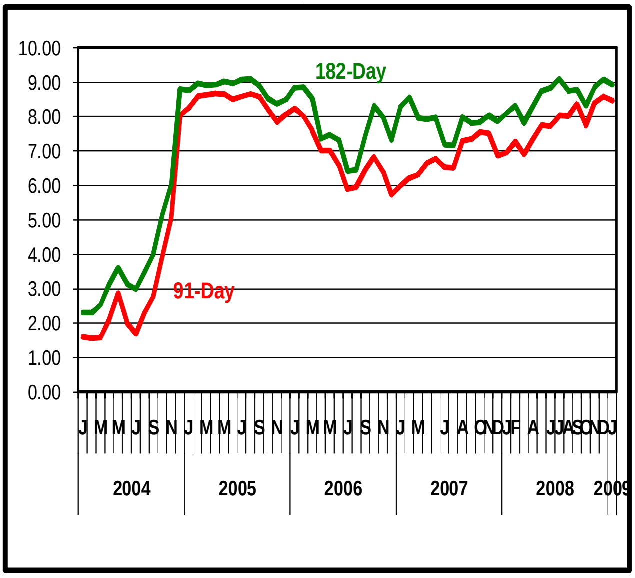
Real GDP Growth



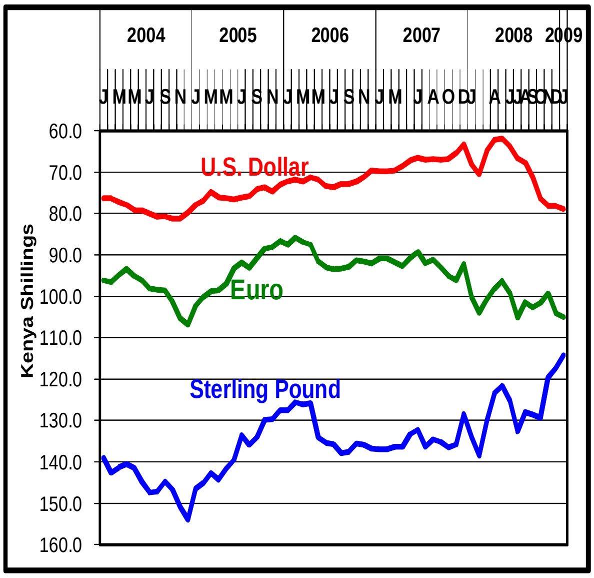
Inflation



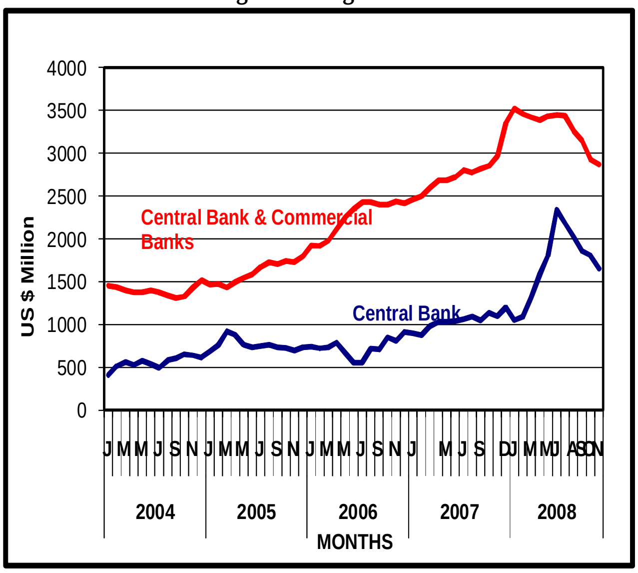
Treasury Bill Rates



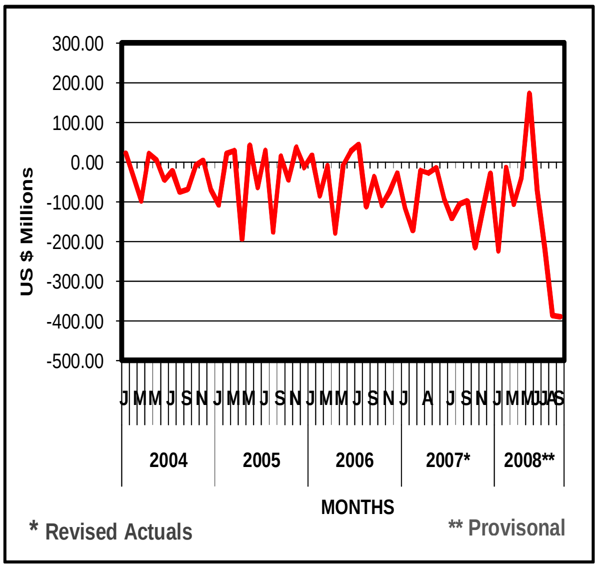
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS, 2000 - 2007

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007*
1.	POPULATION*								
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05
2.	NATIONAL ACCOUNTS**								
	GDP at Basic Prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,497	1,261,183	1,440,460	1,603,176
	GDP at Market Prices (Ksh m):								
	At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,273,975	1,418,071	1,620,732	1,814,243
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,373	1,173,727	1,248,833	1,335,763
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.80	6.40	7.00
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,457	33,402	34,556	35,939
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]	12.9	10.0	8.1	10.1	12.2	13.6	16.0	13.6
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]	6.7	4.4	4.0	4.8	6.6	7.4	8.3	6.5
5.	GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	20.2
6.	CONSUMER PRICE INFLATION (URBAN) 1997 BASE								
	Average Annual Inflation	10.01	5.87	1.96	9.82	11.62	10.31	14.45	9.76
	Twelve-month Inflation (Dec-Dec) * Revised	11.89	1.78	4.10	8.35	16.25	7.56	15.59	12.03
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
	Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29
8.	GOVERNMENT BUDGET (Ksh bn) ***								
	Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20
	Budget Deficit (-) / Surplus (+)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)
	Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(1.54)	0.42	(2.39)	(1.18)
9.	MONEY AND CREDIT (Ksh bn)(end period)								
	Liquidity (L)[1]	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62
	Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49
10.	BALANCE OF PAYMENTS (US$ m)**								
	Overall Balance	108.20	166.38	3.26	413.33	38.85	280.12	616.44	939.60
	Current Account	(237.50)	(383.39)	(117.69)	146.20	-131.76	-252.32	-478.83	-1,101.77
	Capital and Financial Account	416.22	348.20	(31.67)	537.82	239.52	765.90	884.59	2,364.12
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
	Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85
	*Months of imports**** *	*(2.8)*	*(3.2)*	*(3.3)*	*(4.2)*	*(3.4)*	*(3.2)*	*(3.5)*	*(4.0)*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12
12.	PUBLIC DEBT (US$ bn) END PERIOD***	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09
13.	EXCHANGE RATE (Ksh/US$) (ANNUAL AVERAGE)	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32

* Provisional.

** Revised to reflect data in Economic Survey 2007.

*** Fiscal year to June 30th.

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

[1] Previously M3XT

[2] Previously M3X

[3] Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

	2007		2008						2009
INDICATOR	Nov	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan
1. INFLATION (%)									
CPI	233.28	239.81	286.62	288.06	292.57	295.38	**301.79**	**306.28**	**318.02**
Overall Inflation									
12-month overall inflation	11.83	12.03	26.5	27.58	28.23	28.43	29.37	27.72	21.87
Average annual overall inflation	10.00	9.76	19.55	20.79	22.12	23.57	24.98	26.24	26.47
Underlying Inflation*									
12-month underlying inflation	5.30	5.25	7.62	8.23	8.59	8.67	9.1	9.04	8.89
Average annual underlying inflation	5.82	5.18	6.18	6.45	6.72	7.00	7.31	7.63	7.94
2. INTEREST RATES (%)									
91-day Treasury bill interest rate	7.82	6.87	8.03	8.02	7.69	7.75	8.39	8.59	8.46
Overdraft interest rate	13.43	12.96	13.49	13.11	13.43	13.91	13.85	14.40	
3. STOCK MARKET									
Nairobi Stock Exchange Price Index	5,215.36	5,444.83	4,868.27	4,648.78	4,180.40	3386.7	3341.0	3611.4	
Turnover (%)	1.33	0.97	1.78	0.89	0.88	0.71	0.52	0.29	
4. GOVERNMENT BUDGET** (Ksh bn.)									
Revenue	168.95	211.95	33.20	68.03	111.7	150.1	184.2		
Expenses	188.63	239.64	29.24	74.36	123.6	179.2	210.5		
Budget Deficit (-) / Surplus (+)	-19.682	-27.692	3.954	**-6.326**	**-11.955**	**-29.118**	**-26.358**		
5. MONEY AND CREDIT (Ksh bn.)									
Liquidity (L)[1]	949.20	989.42	1,041.72	1,045.56	1,051.22	1,075.18	1,081.91		
Money Supply (M3)[2]	760.41	797.54	850.41	854.95	859.33	883.50	890.23		
Reserve Money	140.54	155.62	152.37	151.91	152.63	157.22	160.65		
Total Domestic Credit	666.63	671.93	724.50	742.34	776.00	800.89	807.45		
Government	165.55	140.44	138.68	145.29	149.93	160.80	157.93		
Private sector and other public sector	501.08	531.49	585.81	597.06	626.08	640.09	649.52		
6. MONEY AND CREDIT (Annual % Change)									
Liquidity (L)[1]	16.60	19.65	15.47	13.58	13.39	15.27	13.98		
Money Supply (M3)[2]	16.68	20.91	17.57	15.36	15.50	17.78	17.07		
Reserve Money	19.84	25.34	18.65	14.76	16.22	17.37	14.31		
Total Domestic Credit	16.54	17.58	**17.54**	**17.29**	**21.62**	**23.89**	**21.13**		
Government	13.05	1.91	-11.11	-10.98	-6.54	-2.12	-4.60		
Private and other public sector	17.75	22.56	29.55	28.39	32.00	34.08	30.74		
7. BALANCE OF PAYMENTS (US$ m)									
Overall Balance	62.49	387.78	(2.06)	(169.29)	(108.44)	(215.58)	(54.13)		
Current Account	(111.77)	(39.78)	(219.03)	(386.83)	(389.36)	(278.58)	(180.23)		
Trade Balance	(478.87)	(307.56)	(599.08)	(633.75)	(648.18)	(552.01)	(503.09)		
Capital and Financial Account	174.26	427.56	216.97	217.54	280.91	63.00	125.10		
8. FOREIGN EXCHANGE RESERVES (US$ m)	4,069.23	4,556.97	5,616.06	5,286.92	5,012.09	4,735.27	4,523.85		
Official***	2,971.08	3,354.85	3,438.90	3,263.47	3,151.03	2,928.46	2,869.33		
Months of imports cover	*(3.53)*	*(4.00)*	*(3.65)*	*(3.37)*	*(3.16)*	*(2.93)*	*(2.87)*		
Commercial banks	1,098.14	1,202.12	2,177.16	2,023.45	1,861.07	1,806.81	1,654.53		
9. PUBLIC DEBT (US$ bn)	13.20	13.48	**12.79**	**12.62**	**12.05**	**11.16**	**11.37**		
Domestic	6.61	6.99	6.36	6.31	6.14	5.71	5.80		
As % of GDP	23.03	23.34	20.43	20.99	21.75	22.01	20.66		
External	6.59	6.49	6.43	6.31	5.91	5.45	5.58		
As % of GDP	22.93	21.68	20.95	20.70	20.66	20.73	19.89		
10. GROSS DOMESTIC DEBT (Ksh bn)****	426.02	438.06	**428.22**	**433.56**	**449.25**	**454.7**	**451.4**		
11. AVERAGE EXCHANGE RATE									
Ksh/US$	65.49	63.30	66.70	67.68	71.41	76.50	78.18	78.2	78.9
Ksh/Pound Sterling	135.79	128.45	132.62	127.97	128.58	129.38	119.59	117.4	114.3
Ksh/ 100 Yen	58.92	56.52	62.43	61.92	67.00	76.77	80.71	85.4	87.4
Ksh/Euro	96.13	92.24	105.18	101.40	102.73	101.67	99.33	104.1	105.0

* Underlying inflation excluding food, energy and transport and communications

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

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

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

1 Previously M3XT

2 Previously M3X

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

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

TRENDS IN VARIOUS MEASURES OF INFLATION

Overall Inflation

Overall 12-month inflation came down from 27.7 percent in December 2008 to 21.9 percent in January 2009. Part of the reason for decline is leveling out of trend which spiked in January 2008 following huge increase in oil prices and partly due to fuel and food prices which are coming down. Much of the inflation was in Nairobi lower income group where prices of kale (*sukuma wiki*), cabbage and potatoes went up. Annual average inflation increased slightly due to increases in nursery school tuition, secondary school boarding and college fees.

Underlying Inflation

Similar to overall inflation, 12-month underlying inflation declined from 9.0 percent in December 2008 to 8.9 percent in January 2009. Average underlying inflation, however, increased from 7.6 percent in December 2008 to 7.9 percent in January 2009.

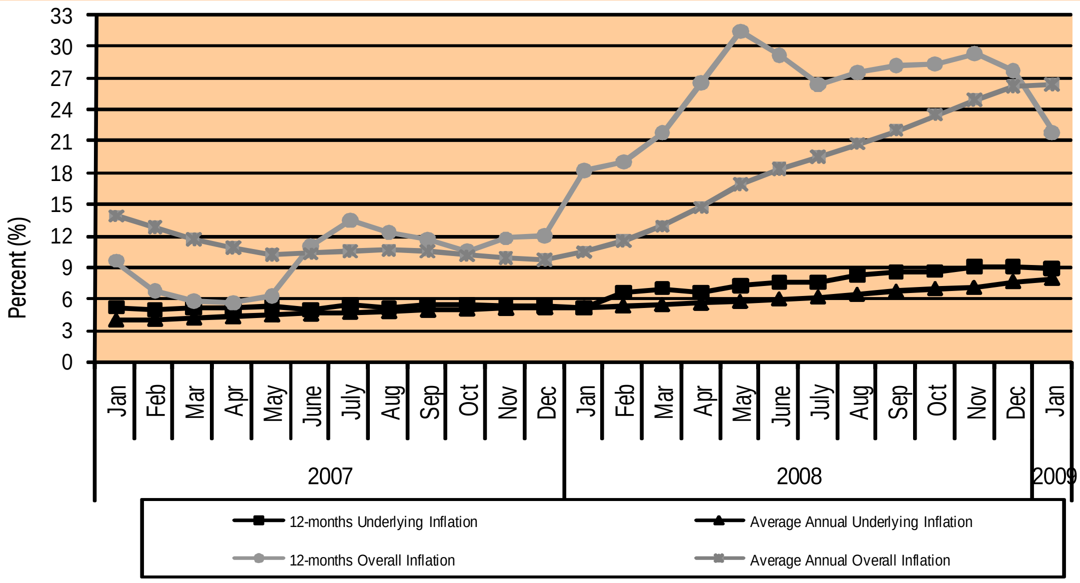
Table 1.1 and Chart 1A depict trends in overall and underlying inflation between January 2008 and January 2009.

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2008								2009
	Jan	Feb	Mar	Apr	Sep	Oct	Nov	Dec	Jan
Underlying Inflation									
12-month	5.07	6.64	6.98	6.54	8.59	8.67	9.10	9.04	8.89
Average annual	5.17	5.32	5.48	5.60	6.72	7.00	7.31	7.63	7.94
Growth over one month	1.03	1.54	0.69	-0.18	0.94	0.36	0.58	0.38	0.89
Growth over 3 months	1.66	3.03	3.30	2.06	2.34	2.03	1.89	1.33	1.86
Overall Inflation									
12-month	18.22	19.13	21.83	26.63	28.23	28.43	29.37	27.72	21.87
Average annual	10.51	11.59	12.98	14.79	22.12	23.57	24.98	26.24	26.47
Growth over one month	8.80	2.10	3.00	2.70	1.60	1.00	2.20	1.50	3.80
Growth over 3 months	13.50	14.20	14.50	8.00	0.60	3.10	4.80	4.70	7.70

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

CHART 1A: UNDERLYING AND OVERALL INFLATION (%)



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

Inflation by Income Groups

"Nairobi lower income group" continued to show highest recorded inflation. Overall 12-month inflation decreased from 29.7 percent in December 2008 to 25.0 percent in January 2009 while its annual average inflation increased from 27.9 percent in December 2008 to 28.3 percent in January 2009. "Rest of urban areas" showed inflation patterns similar to "Nairobi lower income group" while "Nairobi combined" is almost equal to overall inflation for the country as a whole. The only group with lowest inflation is "Nairobi middle and income upper" whose overall 12-month inflation dropped from 14.0 percent in December 2008 to 13.0 percent in January 2009 while the annual average component moved from 13.9 to 14.2 percent.

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

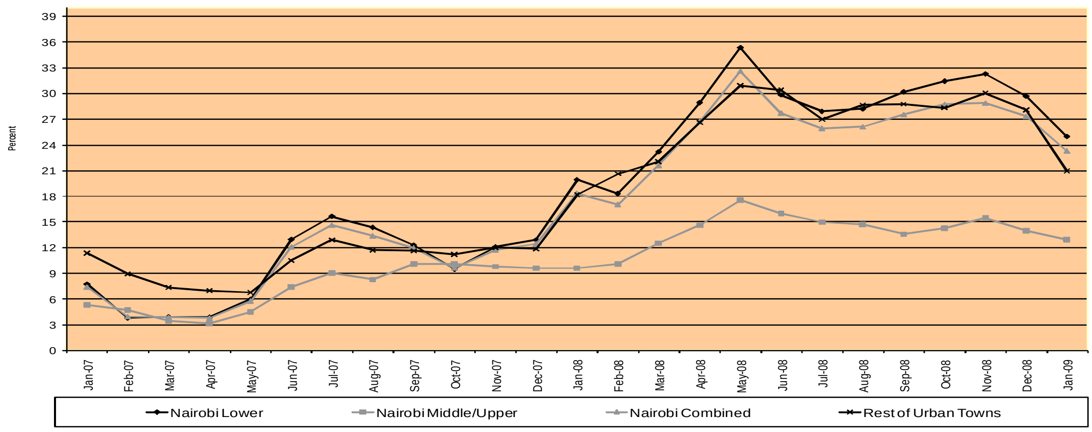
TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)

	2008							2009
	Jan	Feb	Mar	Sep	Oct	Nov	Dec	Jan
Nairobi Lower	19.92	18.29	23.18	30.18	31.43	32.27	29.69	24.97
Nairobi Middle/Upper	9.63	10.14	12.51	13.57	14.27	15.48	13.97	12.96
Nairobi Income \[1]	18.32	17.01	21.56	27.49	28.68	28.80	27.27	23.25
Rest of Urban Towns	18.15	20.58	22.02	28.72	28.27	30.02	28.02	20.93

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

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

CHART 1B: 12-MONTH INFLATION BY INCOME GROUPS



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

Inflation Across Goods and Services Categories

Compared to December 2008, 12-month inflation for seven of the ten categories eased down in January 2009. Only medical goods and services, recreation and education and personal goods and services categories recorded higher 12-month inflation of 16.2 percent, 8.3 percent and 10.8 percent, respectively, in January 2009 from 15.7 percent, 7.0 percent and 9.9 percent in December 2008.

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

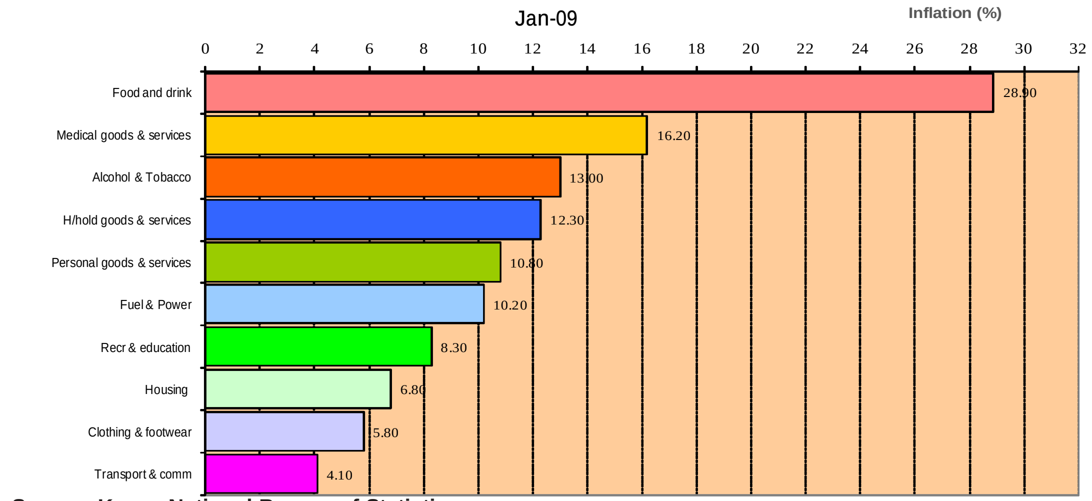
TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES - SEPTEMBER 2007 TO JANUARY 2009

	Income Groups*															
Goods and Services	Nairobi Lower	Middle/ Upper	Rest of Urban Towns	Combined weights	2007			2008								2009
Weight	*(31.9)*	*(8.0)*	*(60.1)*	*(100)*	Sep	Oct	Dec	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan
Food and drink	55.70	31.90	50.20	50.50	16.10	14.00	15.90	44.20	40.10	35.10	36.40	37.20	37.60	39.40	37.50	28.90
Housing	11.90	31.70	9.00	11.70	7.50	7.50	6.00	6.50	6.60	5.50	5.90	6.80	6.50	7.40	7.20	6.80
Recr & education	4.60	7.30	6.60	6.00	2.80	3.20	3.30	6.80	6.90	7.30	7.40	7.70	7.00	7.10	7.00	8.30
H/hold goods & services	5.00	4.70	6.40	5.80	6.20	6.20	5.50	8.40	8.60	9.40	10.30	10.50	12.00	12.70	12.90	12.30
Clothing & footwear	9.20	7.40	9.10	9.00	2.80	2.80	3.10	5.20	5.30	5.40	6.00	5.80	5.90	6.00	6.10	5.80
Transport & comm	5.10	10.20	5.50	5.70	2.80	3.10	9.50	20.30	21.00	20.60	19.70	19.10	18.90	13.40	10.90	4.10
Fuel & Power	3.50	2.20	4.80	4.20	6.30	5.90	5.70	17.90	20.10	27.00	30.80	31.60	28.80	26.90	18.00	10.20
Medical goods & services	0.90	1.30	2.00	1.60	4.10	4.40	3.90	8.30	10.30	11.30	12.50	14.00	13.60	14.60	15.70	16.20
Personal goods & services	2.30	1.90	2.60	2.40	3.90	3.70	4.20	6.90	6.80	7.40	8.60	9.10	9.80	10.30	9.90	10.80
Alcohol & Tobacco	1.80	1.40	3.80	3.00	8.10	7.80	11.60	13.00	14.20	15.30	16.30	15.60	16.00	15.10	14.60	13.00

* Numbers in parentheses are income group weights

Source: Kenya National Bureau of Statistics

CHART 1C: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES IN JANUARY 2009



Source: Kenya National Bureau of Statistics

Inflation Outlook

Inflation is expected to come down as crude oil and food prices continue to revert to lower levels.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Money supply, M3, grew by 13.0 percent in the year to December 2008 compared with 20.9 percent a year ago and 17.0 percent target. Broad money, M2, that is, M3 excluding foreign currency deposits, grew at 14.9 percent compared with 20.4 percent a year earlier as shown in Table 2.1 and Chart 2A.

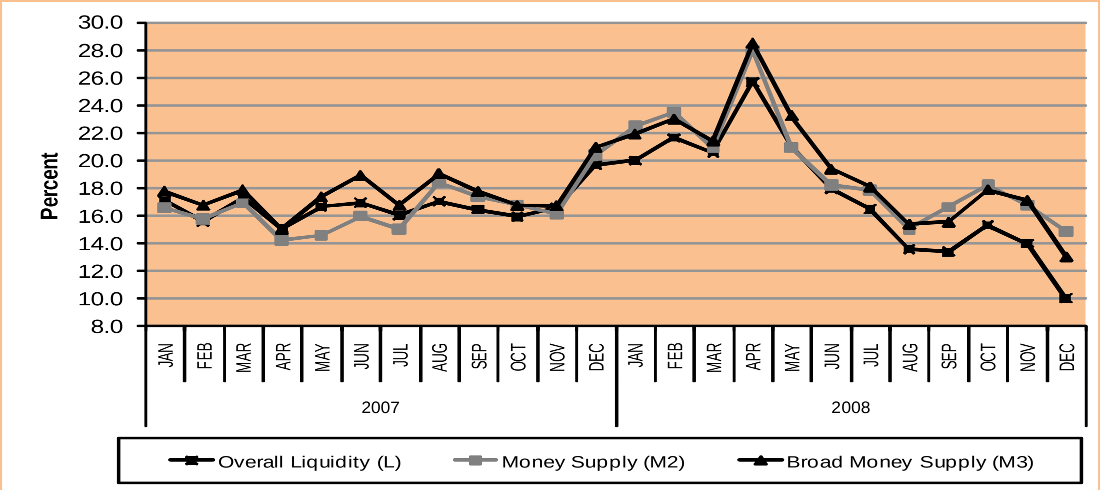
TABLE 2.1: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

Monetary Aggregates	2007		2008							
	Nov	Dec	Jan	May	Jun	Aug	Sep	Oct	Nov	Dec
Currency outside banks	20.2	25.6	23.8	5.8	7.0	5.4	6.7	9.8	4.7	-2.3
M2	16.2	20.4	22.5	21.0	18.2	15.0	16.7	18.2	16.8	14.9
M3	16.7	20.9	21.9	23.2	19.3	15.4	15.5	17.8	17.1	13.0
L*	16.6	19.7	20.0	21.0	17.9	13.6	13.4	15.3	14.0	10.0

* Overall liquidity (L): M3 + non-bank public holdings of Government securities.

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



During the year to December 2008, the banking system net foreign assets, NFA, declined by 4.2 percent compared to a growth of 24.3 percent a year earlier as shown in Table 2.2. This in particular reflects the decline by 5.8 percent in Central Bank's NFA in the year to December 2008. The commercial banks' NFA, however, grew by 1.4 percent over the same period. As a result, the contribution of NFA to the expansion in M3 declined from 8.0 percent in December 2007 to -1.4 percent in December 2008 (Table 2.3).

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

	2006 Dec	2007 Dec	2008 Dec	Dec-07 12 months %age change	Dec-08 12 months %age change
1. Money supply, M3 (2+3) 2/	**659.6**	**797.5**	**901.1**	**20.9**	**13.0**
1.1 Money supply, M2 3/	553.9	666.9	766.5	20.4	14.9
1.2 Money supply, M1	291.8	373.2	392.9	27.9	5.3
1.3 Currency outside banks	72.6	96.0	93.8	32.2	-2.3
2. Net foreign assets 4/	**217.6**	**270.4**	**259.1**	**24.3**	**-4.2**
Central Bank	159.2	211.3	199.1	32.7	-5.8
Banking Institutions	58.4	59.1	59.9	1.3	1.4
3. Net domestic assets (3.1+3.2)	**442.0**	**527.1**	**642.1**	**19.3**	**21.8**
3.1 Domestic credit (3.1.1+3.1.2)	**571.5**	**668.9**	**808.5**	**17.1**	**20.9**
3.1.1 Government (net)	137.8	137.4	155.3	-0.3	13.0
3.1.2 Private sector and other public sector	433.7	531.5	653.2	22.6	22.9
3.2 Other assets net (3-3.1)	-129.5	-141.8	-166.4	9.5	17.3
Memorandum items					
1. Overall liquidity, L 1/	**826.9**	**992.4**	**1092.0**	**20.0**	**10.0**
2. Reserve money	**124.2**	**155.6**	**163.6**	**25.3**	**5.1**
Currency outside banks	76.4	96.0	93.8	25.6	-2.3
Bank reserves	47.8	59.6	69.8	24.8	17.0

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

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

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

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

4/ NFA at current exchange rate from July 2008 onwards.

Source: Central Bank of Kenya

Meanwhile, the contribution of banking system net domestic assets, NDA, to the expansion in M3 increased from 12.9 percent in December 2007 to 14.4 percent in December 2008. This reflects the accelerated growth in NDA to 21.8 percent compared to 19.3 percent a year ago. The movement in NDA is associated with increased net credit to Government by 13.0 percent in the year to December 2008 compared with net repayment of 0.3 percent in December 2007. Meanwhile, credit to the private and other public sector expanded marginally to 22.9 percent in December 2008 from 22.6 percent in December 2007.

TABLE 2.3: CONTRIBUTION TO M3 GROWTH (%)

	2007		2008							
	Nov	Dec	Jan	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Annual growth in M3	**16.7**	**20.9**	**21.9**	**19.3**	**18.1**	**15.4**	**15.5**	**17.8**	**17.1**	**13.0**
Net Foreign Assets	**4.7**	**8.0**	**9.4**	**10.5**	**6.9**	**4.6**	**3.0**	**4.4**	**2.5**	**-1.4**
Net Domestic Assets	**12.0**	**12.9**	**12.5**	**8.7**	**11.1**	**10.9**	**12.5**	**13.3**	**14.5**	**14.4**
Domestic Credit	**14.5**	**15.2**	**16.7**	**14.7**	**14.8**	**14.9**	**18.5**	**20.6**	**18.5**	**17.5**
Government (net)	2.9	0.4	2.4	-3.3	-2.5	-2.4	-1.4	-0.5	-1.0	2.2
Rest of Economy	11.6	14.8	14.3	18.0	17.3	17.3	20.0	21.1	19.5	15.3
Other public sector	-1.3	-0.6	-0.9	-0.5	-0.9	-0.2	-0.1	-0.3	-0.3	-0.3
Private Sector	12.9	15.5	15.3	18.5	18.3	17.5	20.0	21.4	19.9	15.6
Other items (net)	**-2.5**	**-2.3**	**-4.2**	**-6.0**	**-3.7**	**-4.0**	**-6.1**	**-7.3**	**-4.0**	**-3.1**

Source: Central Bank of Kenya

Credit Developments

Domestic credit grew by 20.9 percent in the year to December 2008 compared with 17.1 percent a year earlier as shown in Table 2.4. This reflected an increment in credit to the private sector and to Government by 24.0 percent and 13.0 percent, respectively, in the year to December 2008 compared to 24.6 percent and -0.3 percent a year earlier. Repayment of credit to other public sector, however, decelerated to 17.7 percent in the year to December 2008 from 22.3 percent in December 2007.

Most of the credit extended went to private households (37.1 percent), trade (27.2 percent), manufacturing (19.6 percent), business services (17.4 percent) and consumer durables (12.5 percent) as shown in Chart 2B.

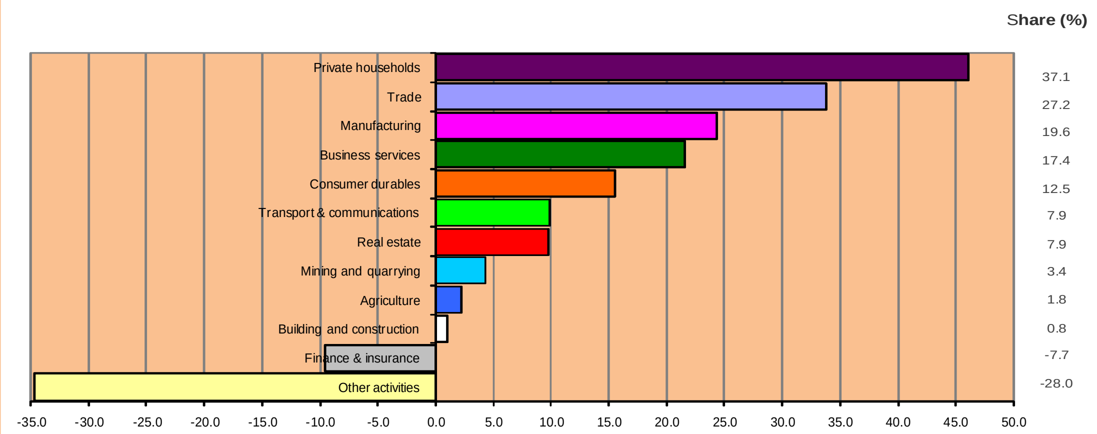
TABLE 2.4: BANKING SYSTEM NET DOMESTIC CREDIT

	2007 December		2008 December		Annual % Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2006/07	2007/08
1. Credit to Government	**137.4**	**20.5**	**155.3**	**19.2**	**-0.3**	**13.0**
Central Bank	-34.4	-5.1	0.0	0.0	383.5	-100.0
Commercial Banks & NBFIs	171.8	25.7	155.3	19.2	18.6	-9.6
2. Credit to other public sector	**14.3**	**2.1**	**11.8**	**1.5**	**-22.3**	**-17.7**
Local government	-1.8	-0.3	-2.0	-0.2	48.3	10.4
Parastatals	16.1	2.4	13.8	1.7	-18.0	-14.6
3. Credit to private sector	**517.1**	**77.3**	**641.4**	**79.3**	**24.6**	**24.0**
Agriculture	27.4	4.1	29.6	3.7	-15.2	8.3
Manufacturing	65.8	9.8	90.2	11.2	-6.2	37.0
Trade	64.2	9.6	98.0	12.1	13.9	52.6
Building and construction	36.5	5.5	37.5	4.6	6.0	2.7
Transport & communications	47.2	7.1	57.1	7.1	18.5	20.9
Finance & insurance	27.2	4.1	17.6	2.2	6.9	-35.2
Real estate	24.0	3.6	33.8	4.2	-1.9	40.7
Mining and quarrying	6.0	0.9	10.3	1.3	88.8	71.6
Private households	85.4	12.8	131.5	16.3	69.4	54.0
Consumer durables	20.8	3.1	36.3	4.5	58.6	74.6
Business services	47.9	7.2	69.5	8.6	4.6	45.0
Other activities	64.7	9.7	30.0	3.7	229.7	-53.7
4. TOTAL (1+2+3) *	**668.9**	**100.0**	**808.5**	**100.0**	**17.1**	**20.9**

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

Source: Central Bank of Kenya

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO DECEMBER 2008 (Ksh billion)



Source: Central Bank of Kenya

Reserve Money

Reserve money increased by 5.1 percent in the year to December 2008 compared with 25.3 percent annual growth to December 2007 as shown in Table 2.5. The increase in reserve money was in bank reserves of Ksh 10.0 billion or 16.8 percent, while currency outside banks declined by Ksh 2.0 billion or 2.1 percent. At Ksh 163.6 billion in December 2008, reserve money was Ksh 7.1 billion below the Ksh 170.7 billion target.

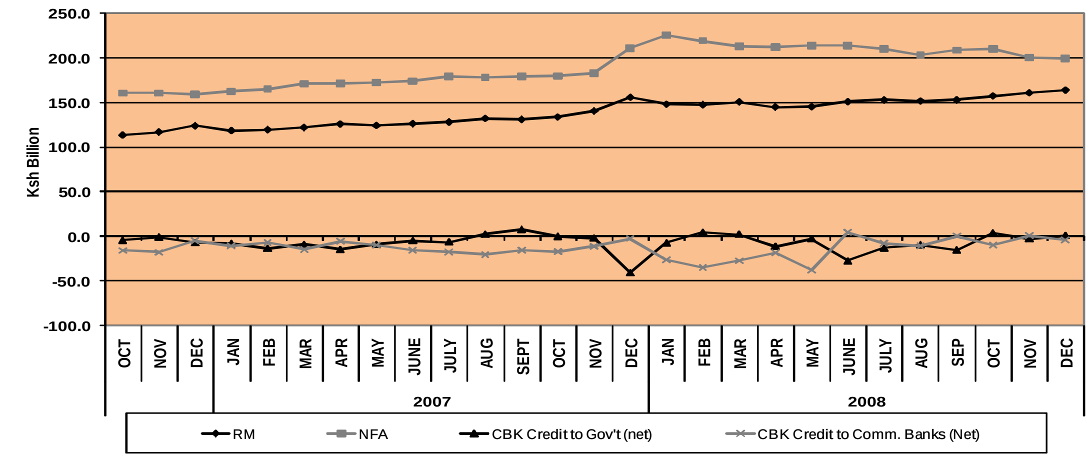
The Ksh 8.0 billion increase in reserve money in the year to December 2008 was supported by net domestic assets (NDA) of the Central Bank as the net foreign assets (NFA) of the Bank declined. NFA declined by 5.6 per cent in the year to

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

	2006	2007	2008	Change (%)		2008	
	Dec	Dec	Dec	2006/07	2007/08	Dec Target	Deviation
1. Net Foreign Assets*	153.2	211.3	199.5	37.9	-5.6	229.6	-30.0
2. Net Domestic Assets	-29.1	-55.7	-35.9	91.7	-35.5	-58.8	22.9
2.1 Government Borrowing (net)	-7.4	-41.0	1.1	457.5	-102.7	-4.9	6.0
2.2 Advances & Discounts	-4.9	-2.9	-4.0	-41.5	38.2	-23.7	19.7
2.3 Other Domestic Assets (net)	-16.8	-11.9	-33.1	-29.4	178.9	-30.3	-2.8
3. Reserve Money	124.2	155.6	163.6	25.3	5.1	170.7	-7.1
3.1 Currency outside banks	76.4	96.0	94.0	25.7	-2.1	108.6	-14.6
3.2 Bank reserves	47.8	59.6	69.6	24.8	16.8	62.2	7.5

Source: Central Bank of Kenya

CHART 2C: TRENDS IN RESERVE MONEY



Source: Central Bank of Kenya

December 2008 largely due to revaluation losses suffered in the foreign exchange portfolio. NDA of the Central Bank increased by Ksh 19.8 billion to Ksh -35.9 billion in December 2008 from Ksh -55.7 billion in December 2007. The increase in NDA of the Central Bank was largely due to draw down of Government deposits at the Central Bank as well as redemption of maturing repurchase agreement securities previously held by commercial banks.

Government deposits declined by Ksh 26.2 billion from Ksh 76.2 billion in December 2007 to Ksh 50.1 billion in December 2008. Meanwhile, Government borrowing rose from Ksh 41.9 billion to Ksh 50.1 billion over the same period. Meanwhile, monetary operations of the Bank led to increased net indebtedness of Central Bank to commercial banks by Ksh 1.1 billion from Ksh 2.9 billion in December 2007 to Ksh 4.0 billion in December 2008.

Other domestic assets of the Central Bank net of liabilities declined by Ksh 21.2 billion from Ksh -11.9 billion in December 2007 to Ksh -33.1 billion in December 2008.

Central Bank rate

The Central Bank Rate (CBR) was reduced from 9.00 percent in November 2008 to 8.50 percent in December 2008. The same revised rate was maintained in January 2009.

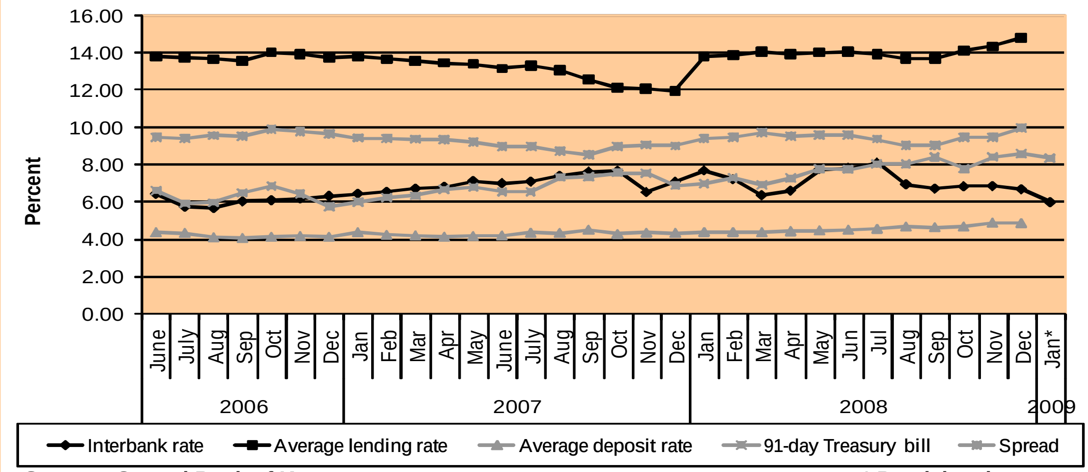
TABLE 2.6: INTEREST RATES (%)

	2008		2008						2009
	Jan	Feb	Mar	Apr	May	Oct	Nov	Dec	Jan
91-day Treasury bill rate	6.95	7.28	6.89	7.35	7.76	7.75	8.39	8.59	*8.46
Overdraft rate	13.41	13.26	13.48	13.46	13.53	13.91	13.85	14.40	
Interbank rate	7.66	7.18	6.35	6.59	7.72	6.81	6.83	6.66	*5.97
Repo rate	7.45	6.75	6.46	6.67	7.42	6.03	6.26	6.23	*5.09
Average lending rate (1)	13.78	13.84	14.06	13.91	14.01	14.12	14.32	14.80	
Average deposit rate (2)	4.37	4.37	4.35	4.41	4.45	4.65	4.86	4.84	
0 to 3 - month deposit	5.10	5.11	5.21	5.10	5.14	5.39	5.86	5.62	
Savings deposits	1.72	1.70	1.72	1.71	1.71	1.74	1.61	1.62	
Spread (1-2)	**9.41**	**9.47**	**9.72**	**9.50**	**9.56**	**9.47**	**9.47**	**9.96**	

* Provisional

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya * Provisional

Short-term Interest Rates

The average 91-day Treasury bill rate rose from 8.39 percent in November 2008 to 8.59 percent in December 2008 (Table 2.6) and the 182-day Treasury bill rate also increased from 8.86 percent in November 2008 to 9.05 percent in December 2008. The average interbank rate fell from 6.83 percent in November 2008 to 6.66 percent in December 2008. The repo rate also declined from 6.26 percent in November 2008 to 6.23 percent in December 2008.

In January 2009, all the short term interest rates trended downwards with the 91-day Treasury bill declining to 8.46 percent and the 182-day Treasury bill also declining to 8.74 percent. This is in part, due to oversubscription of the auctions following the reduction of the Treasury bill threshold from Ksh 1 million to Ksh 100,000 with effect from January 2009. The repo and interbank rates have also been declining in the month of January with the repo rate going from 5.68 percent in the first week of January down to 5.09 percent in the fourth week of January 2009. The interbank rate moved from 6.41 percent in the first week of January down to 5.97 percent in the fourth week of January 2009. This movement is in tandem with the reduction of the CBR in December 2008 which was aimed at increasing liquidity in the market.

Lending and Deposit Rates

Commercial banks average lending rate increased from 14.32 percent in November 2008 to 14.80 percent in December 2008. The overall deposit rate declined slightly from 4.86 percent in November 2008 to 4.84 percent in December 2008. Consequently, the interest rate spread rose to 9.96 percent in December 2008.

Performance of The Real Sector

Overview

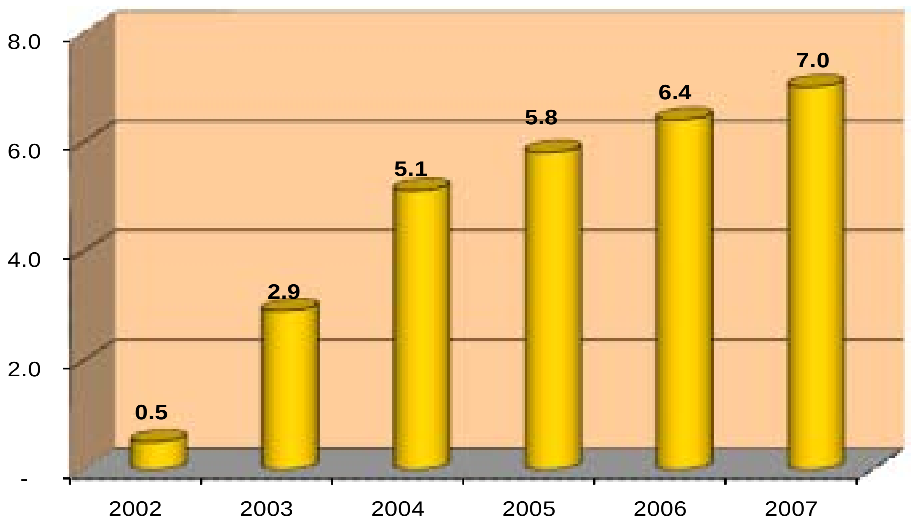
The economy grew by 7.0 percent in 2007 compared with 6.4 percent in 2006, supported by growth in the tourism, transport and communication, mining and quarrying, and electricity and water sectors (Table 3.1 and Chart 3A). However, in 2008, the economy has been performing below its potential as a result of the internal and external shocks experienced in the country such as the post election violence, global economic slowdown and high food prices. During the third quarter of 2008, the economy is estimated to have expanded by 2.1 percent compared with 6.3 percent in the corresponding quarter of 2007 (Chart 3B). This was mainly attributed to poor performance from the tourism, agriculture and manufacturing sectors.

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

	Share in Real GDP in 2007 (%)	2003	2004	2005	2006	2007
Agriculture, Forestry & Fishing	24.44	2.4	1.7	8.8	2.6	2.3
Mining & Quarrying	0.47	3.5	-0.3	2.7	4.1	12.9
Manufacturing	9.78	6.0	4.5	4.7	6.3	6.2
Electricity and water supply	2.25	14.0	3.0	-0.1	-1.4	9.2
Wholesale and retail trade, repairs	9.88	1.5	8.5	5.6	11.6	11.5
Hotels & Restaurants	1.56	-20.3	38.8	13.3	14.9	16.3
Building & Construction	3.01	1.0	4.4	7.5	6.3	6.9
Transport & Communications	11.71	3.5	7.0	9.0	11.4	14.9
Financial intermediation	3.69	1.5	1.4	2.7	5.5	6.5
Real estate, renting and business services	5.31	2.3	3.0	3.4	3.9	3.6
Public administration and defense	*3.35*	0.6	0.2	-1.3	-1.6	-2.0
Education	*5.63*	9.7	1.7	0.8	0.8	2.5
Health and social work	*2.19*	2.8	3.8	3.2	3.3	3.9
Other community, social and personal services	*3.72*	-0.0	3.7	3.0	4.4	3.8
Private households with employed persons	*0.31*	2.0	2.0	2.0	2.0	2.0
Less : Financial services indirectly measured	-0.90	-3.3	4.7	4.3	5.1	2.0
Total GDP at basic 2001 prices	86.40	3.1	3.9	5.1	5.7	6.1
Taxes less subsidies on products	13.60	1.3	14.8	11.0	11.3	12.4
Real GDP at 2001 market prices	100.00	2.9	5.1	5.8	6.4	7.0

Source: Kenya National Bureau of Statistics (Economic Survey 2008)

CHART 3A: REAL GDP GROWTH RATES FROM 2002 TO 2007



Source: Kenya National Bureau of Statistics (Economic Survey 2008) and Central Bank of Kenya

Agriculture

There was mixed performance in the agricultural sector during the first eleven months of 2008 as shown in Table 3.2. The sector has been affected mainly by low production of food crops owing to unfavourable weather coupled with effects of post election violence and high agricultural input costs.

CHART 3B: REAL GDP GROWTH IN THE THIRD QUARTERS JUL TO SEP 2003-2008

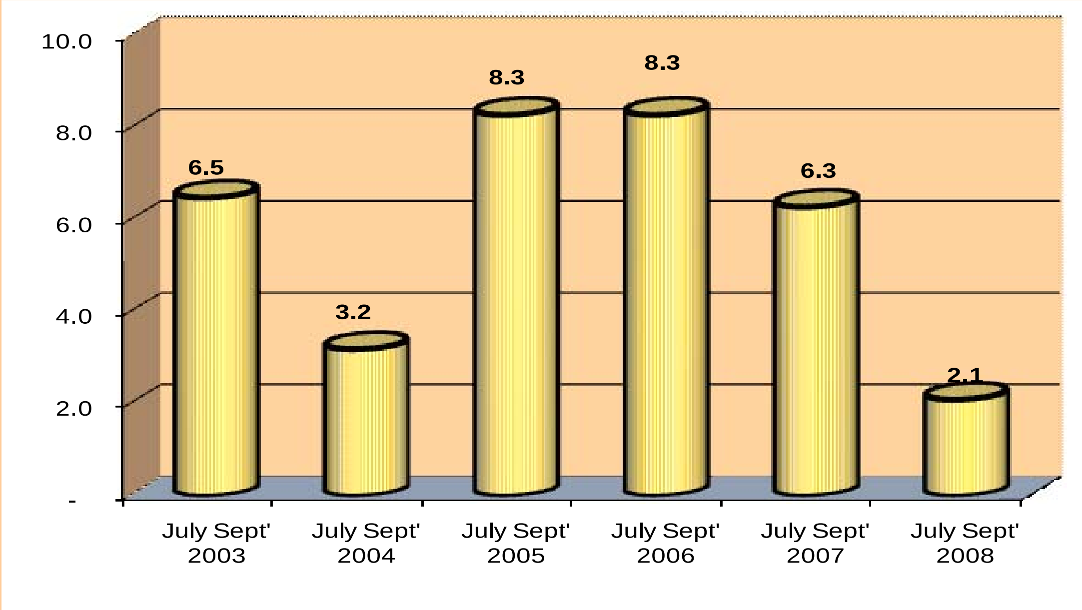


TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE					
	2006	2007	Jan-Oct 2007	Jan-Oct 2008	Jan-Nov 2007	Jan-Nov 2008
Tea						
Output (Metric tonnes)	310,578.33	369,606.18	308,438.39	273,492.00	340,774.54	307,902.00
Growth (%)	*-5.5%*	*19.01%*	*26.1%*	*-11.33%*	*23.4%*	*-9.65%*
Horticulture						
Output (Metric tonnes)	166,736.82	192,147.45	157,017.45	164,350.08	175,306.26	179,089.84
Growth (%)	*2.2%*	*17.71%*	*14.8%*	*4.67%*	*16.8%*	*2.16%*
Coffee						
Output (Metric tonnes)	50,527.91	52,268.00	48,077.00	35,691.00	50,972.00	38,705.00
Growth (%)	*6.0%*	*3.44%*	*7.3%*	*-29.98%*	*4.1%*	*-25.95%*
Sugar Cane						
Output (Metric tonnes)	4,933,805.00	5,208,026.00	4,331,147.00	4,103,767.00	4,810,322.00	4,567,617 *
Growth (%)	*5.1%*	*5.56%*	*4.08%*	*-5.25%*	*5.65%*	*-5.05%*

*** Provisional**

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

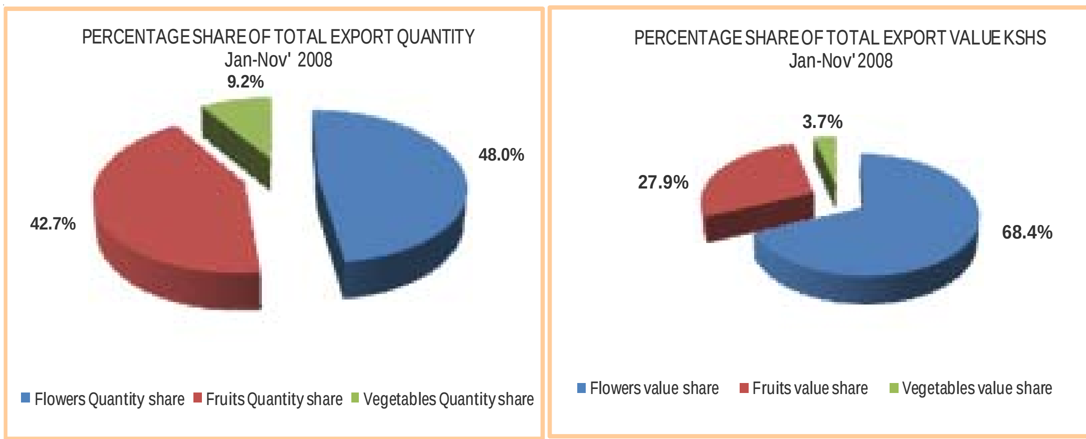
Tea

Tea production declined by 9.65 percent to 307,902 metric tonnes in the January to November 2008 period, from 340,774.54 metric tonnes in January to November 2007. This reflects unfavourable weather in tea growing areas. The tea export prices averaged US $ 2.81 per kilogram over the first nine months of 2008 compared with US $ 1.87 per kilogram in the first nine months of 2007.

Horticulture

Unlike the tea sector, horticultural output increased by 2.2 percent in the first eleven months of 2008 from 175,306.26 metric tonnes in a similar period of 2007 to 179,089.84 metric tonnes. This reflected increases in production of cut flowers and vegetables. Details on the export performance of the horticulture sub-sector are provided in Chart 3C.

CHART 3C: HORTICULTURE EXPORTS JANUARY - NOVEMBER 2008



Coffee

Coffee production declined by 26.0 percent, from 50,972 metric tonnes in the first eleven months of 2007 to 38,705 metric tonnes in the first eleven months of 2008. This follows high cost of production occasioned by increasing prices of fertilizer, chemicals, labour and farm implements. The average coffee price increased from US$ 2,360 per tonne in September 2007 to US$ 2,370 per tonne in September 2008.

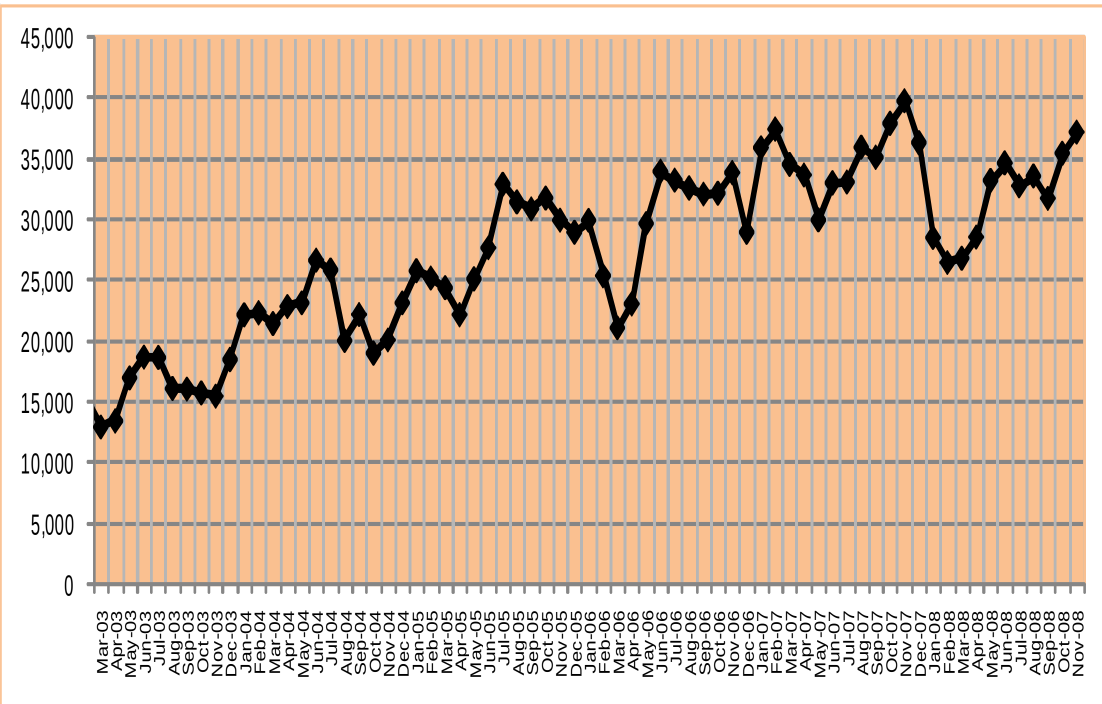
Sugarcane

Cumulative sugar production in the first eleven months of 2008 declined by 5.1 percent, from 4,810,322 metric tonnes in the January to November period of 2007 to 4,567,617 metric tonnes. Similarly, processed sugar declined by 2.9 percent, from 478,713 metric tonnes to 464,929 metric tonnes during the same period.

Dairy

Milk deliveries declined by 9.9 percent, from 386,718 metric tonnes in January to November 2007 to 349,726 metric tonnes in January to November 2008 as shown in Chart 3D.

CHART 3D: PROCESSED MILK PRODUCTION IN KENYA



Manufacturing

There was mixed performance in the manufacturing sector in the first eleven months of 2008 as shown by selected manufactured goods (Table 3.3). Cement production increased by 18.9 percent, from 2,337,005 metric tonnes in January to November 2007 to 2,779,422 metric tonnes. Similarly, soda ash and beer production increased by 39.5 percent and 14.9 percent, respectively, in the first eleven months of 2008. However, cigarette production declined by 5.1 percent to 13,378,113 milles in the January – November 2008 period, from 14,101,457 milles in January to November 2007.

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE					
	2006	2007	Jan-Oct'2007	Jan-Oct' 2008	Jan-Nov'2007	Jan-Nov'2008
Processed sugar						
Output (MT)	475,660	520,100	434,558	418,544	478,713	464,929
Growth %	*-3.1%*	*9.3%*	*6.5%*	*-3.7%*	*8.3%*	*-2.9%*
Cement production						
Output (MT)	2,174,090	2,314,236	2,115,521	2,315,872	2,337,005	2,779,422
Output Growth %	2.39	6.5%	19.1%	9.5%	18.1%	18.9%
Soda ash						
Output (MT)	374,010	386,598	304,175	424,317	346,091	468,714
Growth %	*2.7%*	*3.4%*	*-1.3%*	*39.5%*	*1.4%*	*39.5%*
Milk						
Output ('000 litres)	356,758	423,542	346,877	312,454	386,718	349,726
Growth %	*5.9%*	*18.7%*	*18.4%*	*-9.9%*	*18.3%*	*-9.9%*
Beer						
Output ('000 litres)	280,500	379,485	311,539	353,280	337,294	387,378
Growth %	*5.3%*	*35.3%*	*44.3%*	*13.4%*	*38.4%*	*14.9%*
Cigarettes						
Output (Milles)	12,303,278	15,475,310	12,491,414	12,012,045	14,101,457	13,378,113
Growth %	*12.2%*	*25.8%*	*26.7%*	*-3.8%*	*27.0%*	*-5.1%*

MT = Metric tonnes

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

Energy Sector

Electricity generation declined by 9.6 percent in January - November of 2008 (Table 3.4). Consumption of electricity increased by 3.3 percent, from 4,710.1 million (KWH) to 4,863.1 million (KWH) in the period under review. Electricity generation by source was as follows: Hydro-power generation declined by 9.0 percent, from 3,285.16 million KWH in the first eleven months of 2007 to 2,988.36 million KWH in the first eleven months of 2008, following inadequate rainfall in areas hosting hydro electricity generation plants. Similarly, the thermal generation declined by 17.7 percent, from 1,583.22 million KWH to 1,302.46 million KWH in the same period. Geo-thermal generation, however, increased by 2.6 percent, from 908.92 million KWH to 932.07 million KWH during the same period.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE					
	2006	2007	Jan-Oct' 2007	Jan-Oct' 2008	Jan-Nov' 2007	Jan-Nov' 2008
Electricity Supply (Generation)						
Output (KWH Millions)	5,823.03	6,287.68	5,236.60	4,761.70	5,777.18	5,222.85
Growth %	*5.5%*	*8.0%*	*8.9%*	*-9.1%*	*8.6%*	*-9.6%*
Of which:						
Hydro-power Generation (KWH Millions)	3,013.96	3,584.76	2,977.76	2,726.06	3,285.16	2,988.36
Growth (%)	*0.2%*	*18.9%*	*21.2%*	*-8.5%*	*20.3%*	*-9.0%*
Geo-Thermal Generation (KWH Millions)	1,045.69	991.12	823.12	846.63	908.92	932.07
Growth (%)	*4.4%*	*-5.2%*	*-5.0%*	*2.9%*	*-4.7%*	*2.6%*
Thermal (KWH Millions)	1,762.59	1,711.92	1,435.72	1,189.01	1,583.22	1,302.46
Growth (%)	*16.9%*	*-2.9%*	*-3.3%*	*-17.2%*	*-3.1%*	*-17.7%*
Consumption of electricity (KWH Millions)	4,743.10	5,125.80	4,253.30	4,413.80	4,710.10	4,863.10
Growth %	*5.3%*	*8.1%*	*8.5%*	*3.8%*	*8.6%*	*3.3%*
Consumption of Fuels (Metric Tonnes)	2,866,700	3,121,700	2,630	2,361	2,845	2,614
Growth %	*5.8%*	*11.6%*	*13.0%*	*-10.3%*	*11.2%*	*-8.1%*
Murban crude oil average price (US $ per barrel)	64.57	72.46	68.72	108.11	70.81	97.70
Growth %	*20.3%*	*11.6%*	*4.6%*	*57.3%*	*8.7%*	*34.8%*

Source: Kenya National Bureau of Statistics

In the international market, crude oil prices increased by 34.8 percent, from an average of US $ 70.81 per barrel in January to November 2007 to an average of US $ 97.70 per barrel in January to November 2008.

Tourism

International tourist arrivals between January and November 2008 period declined by 33.8 percent, from 952,396 visitors in the same period of 2007 to 630,941 visitors as shown in Table 3.5. Arrivals through the Jomo Kenyatta International Airport (JKIA) declined by 23.6 percent, from 702,471 visitors in the first eleven months of 2007 to 537,039 visitors. The Moi International Airport Mombasa (MIAM) registered a decline of 63.5 percent in the tourist arrivals, from 247,088 visitors to 90,119 visitors during the same period.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2006	2007	Jan-Nov' 2007	Jan-Nov' 2008	Jan-Nov' 2008 % share	Jan-Nov' 2008 % Growth
CRUISE	6,161	2,837	2,837	3,783	*0.60%*	*33.3%*
MIAM	263,699	276,298	247,088	90,119	*14.28%*	*-63.5%*
JKIA	684,475	769,597	702,471	537,039	*85.12%*	*-23.6%*
TOTAL	**954,335**	**1,048,732**	**952,396**	**630,941**	*100.00%*	*-33.8%*

Cruise ships - Entry through Port of Mombasa; JKIA - Entry through Jomo Kenyatta International Airport; MIAM - Entry through Moi International Airport Mombasa

Source: Kenya Tourism Board

Europe continues to register the highest share of tourist arrivals, (41.7 percent of total tourist arrivals), although the arrivals have significantly declined by 49.3 percent between January and November 2008, from 519,620 visitors in the same period of 2007 to 263,379 visitors (Table 3.6). Arrivals from Africa declined by 3.6 percent from 194,921 visitors to 187,838 visitors while those from America declined by 29.4 percent, from 122,215 visitors in the first eleven months of 2007 to 86,321 visitors in the same period of 2008. The tourism industry is still recovering from the effects of the post election crisis earlier in the year despite aggressive marketing of the sector to both local and international markets.

TABLE 3.6: TOTAL ARRIVALS BY CONTINENT

REGION	2006	2007	Jan-Nov' 2007	Jan-Nov' 2008	Jan-Nov' 2008 % Share	Jan-Nov' 2008 % Growth
Africa	188,872	212,501	194,921	187,838	*29.8%*	*-3.6%*
America	110,967	132,651	122,215	86,321	*13.7%*	*-29.4%*
Asia	93,518	103,443	95,737	77,335	*12.3%*	*-19.2%*
Europe	537,195	578,312	519,620	263,379	*41.7%*	*-49.3%*
Oceanic	15,529	18,975	17,053	12,165	*1.9%*	*-28.7%*
Others	2,093	13	13	120	*0.0%*	*823.1%*
Sub-Total	**948,174**	**1,045,895**	**949,559**	**627,158**	*99.4%*	*-34.0%*
Cruise	6,161	2,837	2,837	3,783	*0.6%*	*33.3%*
Total	**954,335**	**1,048,732**	**952,396**	**630,941**	*100.0%*	*-33.8%*

Source: Kenya Tourism Board

Transport and Tele-communications

The volume of cargo throughput handled by Kenya Ports Authority (KPA) increased by 0.7 percent from 10,492,802 metric tonnes in the first eight months of 2007 to 10,565,688 metric tonnes in the first eight months of 2008. Cargo transported by the Kenya Pipeline Company (KPC) declined by 3.7 percent in the January –

November period of 2008, from 3,678,923 metric tonnes to 3,527,581 metric tonnes, as shown in Table 3.7.

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	CUMULATIVE					
	2006	2007	Jan-Oct' 2007	Jan-Oct' 2008	Jan-Nov' 2007	Jan-Nov' 2008
Mombasa Port Cargo Throughput						
Output (MT) Equivalent	14,418,901	15,960,465	13,179,083		14,639,892	
Output Growth %	*8.6%*	*10.7%*	*10.0%*		*10.6%*	
Number of passengers Thro' JKIA						
Incoming	1,489,615	1,478,849	1,227,078	1,216,263	1,365,087	1,341,752
Growth (%)	*10.3%*	*-0.7%*	*-0.5%*	*-0.9%*	*0.5%*	*-1.7%*
Outgoing	1,499,876	1,480,620	1,236,406	1,216,942	1,364,818	1,354,358
Growth %	*10.2%*	*-1.3%*	*-1.3%*	*-1.6%*	*-1.0%*	*-0.8%*
Kenya Pipeline oil Throughput						
Output ('000 litres)	3,826,154	3,962,279	3,343,284	3,219,156	3,678,923	3,527,581
Output Growth %	*8.5%*	*3.6%*	*5.1%*	*-3.7%*	*4.9%*	*-3.7%*
Kenya Revenue Authority (Excise tax on airtime)						
Kshs million	4,635	5,962	4,873	5,589	5,420	6,058
Output Growth %	*35.8%*	*28.6%*	*29.9%*	*14.7%*	*29.7%*	*11.8%*

MT = Metric tonnes

Sources: Port of Mombasa and Kenya Pipeline

The number of new motor vehicles registration grew by 44.2 percent in the first eleven months of 2008. A total of 109.612 new motor vehicle units were registered during the period compared with 76,005 units registered in a similar period of 2007 as shown in Table 3.8.

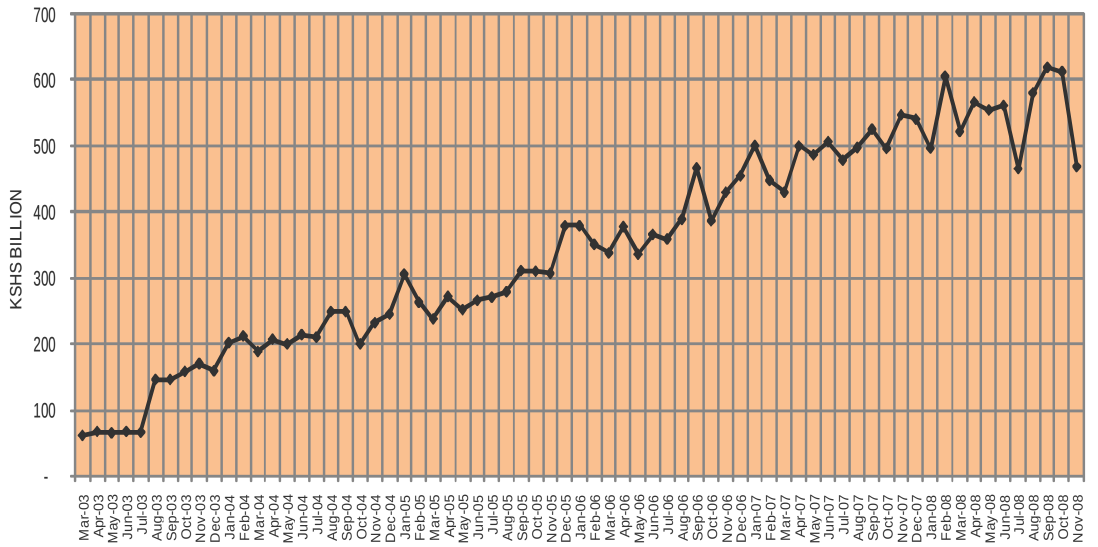
TABLE 3.8: NEW VEHICLES REGISTRATION

CUMULATIVE									
	2003	2004	2005	2,006	2007	Jan-Nov' 2007	Jan-Nov' 2008	Jan-Nov' 2008 Share	Jan-Nov '2008 Growth
Type									
Saloons	9,709	12,628	14,214	14,829	17,893	16,172.00	16,853.00	15.4%	4.2%
St,Wagons	8,032	8,863	10,158	12,631	24,115	21,466.00	24,089.00	22.0%	12.2%
Vans, P/ups	6,819	7,042	6,308	6,661	9,470	8,593.00	6,277.00	5.7%	-27.0%
M/Buses	2,854	4,405	4,076	3,714	4,252	4,168.00	5,019.00	4.6%	20.4%
Buses	667	872	885	856	2,006	1,292.00	1,095.00	1.0%	-15.2%
Lorries	2,069	2,461	3,113	3,610	6,329	5,696.00	6,029.00	5.5%	5.8%
Trailers	861	1,112	1,351	1,706	2,193	2,015.00	1,879.00	1.7%	-6.7%
Motor cycles	2,084	4,136	3,759	6,250	16,293	14,128.00	45,935.00	41.9%	225.1%
3 Wheelers	10	134	735	1,075	1,072	960.00	660.00	0.6%	-31.3%
Wheeled tractors	663	829	856	920	1,213	1,059.00	1,015.00	0.9%	-4.2%
Others	147	152	198	505	488	456.00	761.00	0.7%	66.9%
Total	33,915	42,634	45,653	52,757	85,324	76,005.00	109,612.00	100.0%	44.2%

Source: Kenya National Bureau of Statistics

The telecommunications sector remained vibrant in the January to November 2008 period, with excise on airtime (Kenya Revenue Authority) increasing by 11.8 percent, from Ksh 5,420 million in a similar period of 2007 to Ksh 6,058 million as shown in Chart 3E.

CHART 3E: EXCISE TAX ON AIRTIME



Source: Kenya Revenue Authority (KRA)

Building & Construction Industry

Cumulative cement consumption in the first eleven months of 2008 increased by 36.27 percent, from 1,862,636 metric tonnes in the same period of 2007 to 2,538,179 metric tonnes. This reflects increased activity in the building and construction sector.

DEVELOPMENTS IN BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya's balance of payments declined from a surplus of US$ 473 million in the year to November 2007 to a deficit of US$ 43 million in the year to November 2008 following a faster widening in the current account deficit than the improvement in the capital and financial account (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Nov 2007*	Year to November 2008*				Year to Nov 2008*	Absolute change Nov 08 - Nov 07
		Q1 Dec-Feb	Q2 Mar-May	Q3 Jun-Aug	Q4 Sep-Nov		
1. OVERALL BALANCE	473	503	(10)	(158)	(379)	(43)	***(516)***
2. CURRENT ACCOUNT	(1085)	(293)	(318)	(706)	(796)	(2113)	***(1029)***
2.1 Goods	(4917)	(1269)	(1316)	(1619)	(1703)	(5908)	***(991)***
Exports (fob)	4123	1096	1302	1291	1195	4885	***761***
Coffee	163	33	55	37	33	158	***(5)***
Tea	707	173	227	263	219	882	***176***
Horticulture	606	199	220	166	169	754	***148***
Oil products	165	39	27	19	27	112	***(53)***
Manufactured Goods	516	129	159	180	142	610	***94***
Raw Materials	251	84	89	83	56	312	***62***
Re-exports	189	47	64	82	86	279	***90***
Other	1526	392	460	462	463	1777	***250***
Imports (cif)	9041	2365	2618	2911	2898	10793	***1752***
Oil	1959	550	756	931	727	2965	***1006***
Chemicals	1143	345	370	339	393	1447	***304***
Manufactured Goods	1403	378	332	423	435	1567	***164***
Machinery & Transport Equipment	2877	659	715	779	761	2914	***37***
Other	1659	434	445	439	582	1900	***241***
2.2 Services	3833	976	998	913	907	3795	***(38)***
Non-factor services (net)	1859	439	392	405	440	1677	***(182)***
of which tourism	924	153	182	217	183	735	***(189)***
Income (net)	(172)	31	11	14	12	68	***240***
of which official interest	(147)	(31)	(26)	(24)	(15)	(97)	***51***
Current Transfers	2146	506	595	494	454	2049	***(97)***
Private (net)	1968	435	595	494	454	1978	***10***
Public (net)	178	72	0	0	0	72	***(106)***
3. CAPITAL & FINANCIAL ACCOUNT	1557	796	308	549	417	2070	***513***
3.1 Capital Tranfers (net)	250	49	123	100	37	309	***60***
3.2 Financial Account	1308	747	185	448	380	1761	***453***
Official, medium & long-term	(23)	17	60	10	14	100	***123***
Inflows	209	90	120	91	72	372	***163***
Outflows	(232)	(73)	(60)	(81)	(58)	(272)	***(40)***
Private, medium & long-term (net)	5	632	(671)	300	300	561	***556***
Commercial Banks (net)	(97)	44	(668)	318	307	2	***98***
Other private medium & long-term (net)	102	588	(3)	(18)	(7)	559	***457***
Short-term (net) incl. errors & omissions	1325	99	796	138	67	1100	***(225)***
memo:							
Gross Reserves	4069	4552	5244	5287	4524	4524	***455***
Official	2971	3460	3435	3263	2869	2869	***(102)***
imports cover*	***3.5***	***4.0***	***3.8***	***3.4***	***2.9***	***2.9***	***(0.7)***
imports cover**	***4.3***	***4.8***	***4.6***	***4.1***	***3.4***	***3.4***	***(0.9)***
Commercial Banks	1098	1092	1809	2023	1655	1655	***556***

* Provisional

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

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

Source: Central Bank of Kenya

Current Account

The current account deficit widened from US$ 1,085 million in the year to November 2007 to US$ 2,113 million in the year to November 2008. This deterioration reflected growth in merchandise imports that surpassed the growth in exports of both goods and services.

Merchandise Account

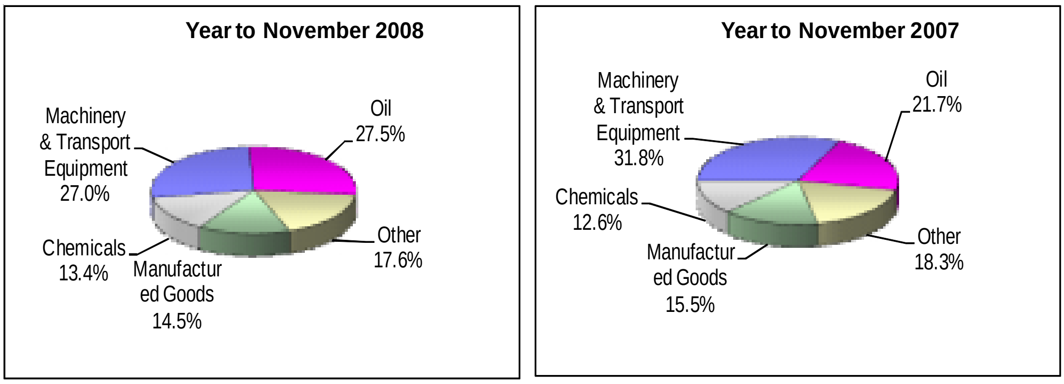
The trade deficit deteriorated by 20.1 percent to US$ 5,908 million in the year to November 2008 compared with US$ 4,917 million in the year to November 2007. This was attributed to sustained demand for merchandise imports, which rose by US$ 1,752 million to US$ 10,793 million in the year to November 2008. Merchandise exports also improved during the period in review but by a lesser margin of US$ 761 million to US$ 4,885 million.

Imports

The increase in the total value of merchandise imports during the year to November 2008 reflected increased imports of machinery and transport equipment, oil, manufactured goods, chemicals and other miscellaneous imports particularly palm oil, raw materials, wheat and miscellaneous manufactured articles. The increase in the value of oil imports was mainly in crude oil, diesel oil & jet fuel, and largely reflected increased import prices. The increase in the value of manufactured goods imported was in iron, steel, paper products, construction material of mainly cement and clay and other metal manufactures. The increase in the import value of machinery and transport equipment was mainly in road vehicles, electrical machinery, industrial machinery and equipment, and power generating machinery while the increase in the value of chemicals imported was mainly in medicinal and pharmaceutical products, plastics and manufactured fertilisers. The higher import values in the major import categories reflected both import volume and price increases.

The share of oil products and chemicals in total imports increased, respectively, from 21.7 percent and 12.6 percent in the year to November 2007 to 27.5 percent and 13.4 percent in the year to November 2008 (Chart 4A). However, the contribution of manufactured goods and machinery & transport equipment in the total value of imports, however, declined from 15.5 percent and 31.8 percent in the year to November 2007 to 14.5 percent and 27.0 percent in the year to November 2008.

CHART 4A: COMPOSITION OF KENYA'S IMPORTS



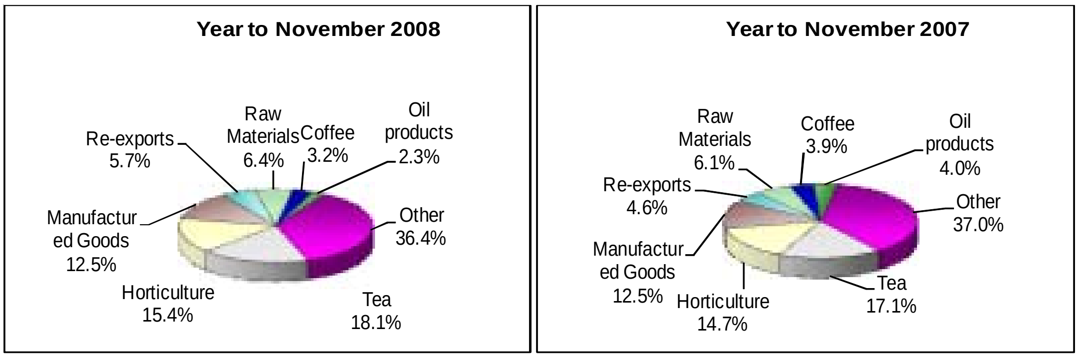
Source: Customs and Excise Department.

Exports

The increase in the total value of merchandise exports during the year to November 2008 was largely reflected in horticulture, tea, raw materials, manufactured goods, coffee, and other miscellaneous exports, particularly chemical products, electrical machinery, tobacco products and sugar. Despite decline in their export volumes, improvement in horticulture, coffee and tea exports was attributed to increased export prices. The increase in the value of manufactured goods exports was mainly in processed leather, cement and metal manufactures. The value of oil exports declined following a drop in the export quantity of diesel and lubricating grease.

Coffee, tea and horticulture made up 36.7 percent of the total value of exports in the year to November 2008 compared with 35.7 percent a year earlier, while manufactured goods and oil, respectively, contributed 12.5 percent and 2.3 percent of the total value of exports (Chart 4B).

CHART 4B: COMPOSITION OF KENYA'S EXPORTS



Source: Customs and Excise Department, KRA

Direction of Trade

In terms of bilateral trade in goods, the main destination countries for Kenya's merchandise exports in the period under review were Uganda (12.3 percent), United Kingdom (11.2 percent), Tanzania (8.3 percent), the Netherlands (7.7 percent), United States of America (6.0 percent), Sudan (4.2 percent), Egypt (4.1 percent), Somalia (3.9 percent) and Pakistan (3.9 percent) as shown in Table 4.2. Overall, African countries absorbed 46.8 percent of Kenya's merchandise exports. In terms of regional trade, Kenya's exports to EAC countries increased from US$ 949 million in the year to November 2007 to US$ 1,174 million (24.0 percent of total exports) in the year to November 2008. Exports to the COMESA region also rose from US$ 1,284 million in the year to November 2007 to US$ 1,566 million (32.2 percent of total exports) in the year to November 2008, with the increase largely attributed to exports to Uganda, Sudan and Rwanda.

Bilaterally, imports of goods to Kenya during the year in review were mainly from the United Arab Emirates (16.2 percent), India (11.5 percent), China (7.8 percent), Japan (6.1 percent), South Africa (5.9 percent), United States of America (3.8 percent), United Kingdom (3.6 percent), Germany (3.4 percent), Saudi Arabia (3.2 percent), Indonesia (3.2 percent) and France (2.0 percent). Regionally, Kenya's imports from the EAC increased from US$ 182 million in the year to November 2007 to US$ 192 million (1.8 percent of total imports) in the year to November 2008. Imports from the COMESA region also increased from US$ 398 million in the year to November 2007 to US$ 428 million (4.1 percent of total imports) in the year to November 2008 with the increase attributed to imports from Uganda, Djibouti and Mauritius.

TABLE 4.2: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to November			Year to November		
Country	2006	2007	2008	2006	2007	2008
Africa	875	1,033	1,256	12.2	11.0	11.5
Of which						
South Africa	477	517	662	6.7	5.5	5.9
Egypt	109	157	160	1.5	1.8	1.4
Others	289	359	434	4.0	3.7	4.2
EAC	80	182	192	1.1	1.9	1.8
COMESA	235	398	428	3.2	4.2	4.1
Rest of the World	6,339	8,006	9,516	87.8	89.0	88.5
Of which						
United Arab Emirates	1,068	1,376	1,624	14.8	14.9	16.2
India	516	855	1,279	7.1	9.3	11.5
China	362	698	862	4.8	7.6	7.8
Japan	400	601	639	5.5	6.5	6.1
United Kingdom	534	452	380	7.9	5.2	3.6
USA	333	652	410	4.1	7.7	3.8
Germany	267	335	371	3.6	3.8	3.4
Indonesia	189	276	336	2.6	2.9	3.2
Saudi Arabia	365	254	353	5.2	2.8	3.2
France	161	242	217	2.5	2.7	2.0
Singapore	288	206	334	4.2	2.3	2.9
Italy	171	196	161	2.3	2.2	1.6
Netherlands	125	133	187	1.8	1.6	1.6
Korea (South)	123	106	133	1.7	1.2	1.2
Others	1,436	1,624	2,230	19.8	18.1	20.4
Total	7,214	9,039	10,772	100	100	100

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to November			Year to November		
Country	2006	2007	2008	2006	2007	2008
Africa	1,463	1,797	2,298	44.0	44.9	46.8
Of which						
Uganda	383	502	593	11.4	12.2	12.3
Tanzania	255	327	409	7.7	8.0	8.3
Sudan	136	168	208	3.9	4.3	4.2
Somalia	102	123	186	3.0	2.8	3.9
Egypt	141	134	206	4.1	3.3	4.1
DRC	104	123	141	3.0	3.0	2.9
Others	342	421	555	10.8	11.4	11.2
EAC	736	949	1,174	22.1	23.1	24.0
COMESA	**1,033**	**1,284**	**1,566**	30.7	30.7	32.2
Rest of the World	1,941	2,279	2,583	56.0	55.1	53.2
Of which						
United Kingdom	371	428	545	10.9	10.5	11.2
Netherlands	268	328	374	7.9	8.1	7.7
USA	229	283	296	6.3	7.0	6.0
Pakistan	205	209	192	6.0	5.3	3.9
United Arab Emirates	68	126	114	1.8	3.0	2.6
India	57	86	94	1.6	2.0	2.0
Germany	67	82	91	2.0	2.0	1.9
France	53	58	70	1.6	1.4	1.5
Others	624	679	807	17.9	15.8	16.3
Total	3,404	4,076	4,882	100	100	100

Source: Customs and Excise Department, KRA

Services

The surplus in the services account declined by 1.0 percent to US$ 3,795 million in the year to November 2008 mainly due to increased current transfers and net income (Table 4.1).

Net non-factor service receipts declined by US$ 182 million to US$ 1,677 million in the year to November 2008 reflecting increased payments for transportation services, royalties & licence fees and decreased income from foreign travel. Gross receipts from services decreased during the period in review and this was mainly due to other government and private sector services. Gross receipts from foreign travel declined to US$ 735 million in the year to November 2008. In the income account, gross interest earnings on official foreign exchange reserves rose by US$ 17 million to US$ 153 million in the year to November 2008 while income earned by the private sector improved to US$ 117 million. On the other hand, payments by the private sector being interest on foreign debt, dividends and distributed profits declined by US$ 40 million to US$ 103 million in the year to November 2008, while interest payments on official foreign debt increased by US$ 7 million to US$ 86 million. Net inflows from grants during the year to November 2008 amounted to US$ 2,044 million, out of which the value of remittances received from Kenyans abroad through the banking system was estimated at US$ 630 million.

Capital and Financial Account

The capital and financial account improved to a surplus of US$ 2,070 million in the year to November 2008 compared with a surplus of US$ 1,557 million in the year to November 2007 (Table 4.1).

Net private medium and long-term financial inflows improved from US$ 5 million in the year to November 2007 to US$ 561 million in the year to November 2008 reflecting increased foreign direct investment inflows and other private medium and long-term financial flows. Other changes in the year to November 2008 included increased net foreign loan repayments, capital repatriation and commercial banks' holding of net foreign assets. Net short term financial inflows, including errors and omissions in recorded transactions, decreased to US$ 1,100 million in the year to November 2008.

Net official capital and financial inflows improved to US$ 681 million in the year to November 2008 compared with a net inflow of US$ 458 million in the year to November 2007. This improvement was due to increased project related grants to the Government amounting to US$ 297 million and increased foreign loans to the Government amounting to US$ 372 million. Repayment of official foreign loans however rose by US$ 40 million to US$ 272 million.

Foreign Exchange Reserves

Despite the overall decline in Kenya's balance of payments, total foreign exchange holdings by the banking system increased from US$ 4,557 million at the end of December 2007 to US$ 4,641 million at end of December 2008. This increase was attributed to a larger build up in the commercial banks' foreign exchange reserves than the decline in official foreign exchange reserves. Besides these holdings, foreign currency deposits held locally by residents increased by US$ 45 million to US$ 1,810 million at the end of December 2008.

Gross official foreign exchange reserves held by the Central Bank however decreased by US$ 480 million from US$ 3,355 million (4.9 months of import cover) at end of December 2007 to US$ 2,875 million (3.4 months of import cover) at end of December 2008 (Table 4.3 and Chart 4C). The stock of official reserves is subject to exchange rate variations given that reserves are reported in US dollars while a significant portion of reserves are also held in Sterling Pounds and Euros. Thus, changes in these currencies' rate of exchange vis-à-vis the US dollar in the year to December 2008 resulted in reserves revaluation losses.

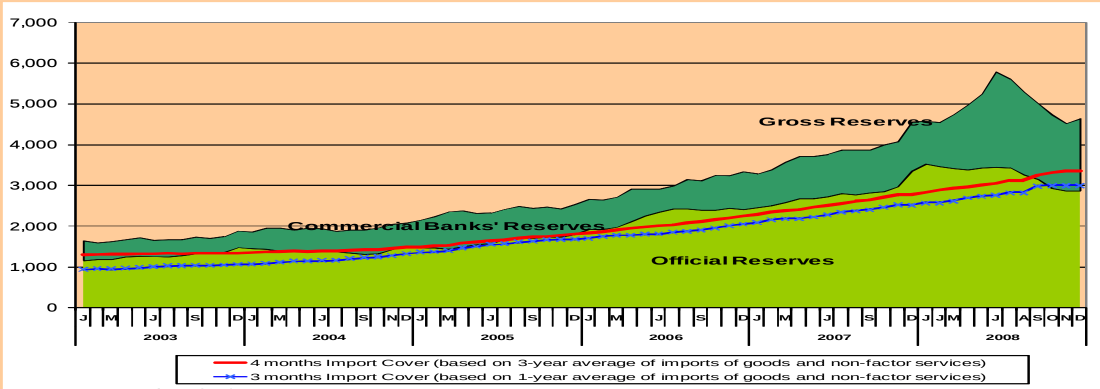
Foreign exchange holdings of commercial banks rose by US$ 564 million to US$ 1,766 million at end of December 2008, with most of the assets held as balances with banks abroad in the amount of US$ 1,428 million. Other foreign assets of commercial banks included cash, foreign loans and foreign bills discounted.

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

	Dec 07	Mar 08	Jun 08	Sep 08	Oct 08	Nov 08	Dec 08
1. Gross Foreign Exchange Reserves	**4,557**	**4,743**	**5,786**	**5,012**	**4,735**	**4,524**	**4,641**
of which:							
Official	3,355	3,422	3,445	3,151	2,928	2,869	2,875
*imports cover**	*4.0*	*3.9*	*3.8*	*3.2*	*2.9*	*2.9*	*2.9*
*imports cover***	*4.9*	*4.7*	*4.6*	*3.9*	*3.6*	*3.4*	*3.4*
Commercial Banks	1,202	1,321	2,341	1,861	1,807	1,655	1,766
2. Residents' foreign currency deposits	**1,764**	**1,813**	**1,924**	**1,768**	**1,714**	**1,867**	**1,810**

*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

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling weakened against the US dollar and the Japanese Yen, but strengthened against the Sterling Pound and the Euro in January 2009. The Shilling weakened relative to the US dollar mainly due to increased demand for the US dollar in the domestic foreign exchange market that was driven by expectations of increased importation of maize. Thus, against the US dollar, the Shilling weakened to exchange at an average of Ksh 78.95 per US dollar in January 2009 compared with Ksh 78.04 per US dollar in December 2008. The Shilling also weakened vis-à-vis the Japanese Yen to exchange at an average of Ksh 87.45 per 100 Japanese Yen in January 2009 compared with Ksh 85.42 per 100 Japanese Yen in December 2008. However, the Shilling strengthened against the Sterling Pound and the Euro in January 2009 to trade, respectively, at an average of Ksh 114.28 per Sterling Pound and Ksh 105.02 per Euro, compared with Ksh 116.53 per Sterling Pound and Ksh 105.56 per Euro in December 2008. In the international foreign exchange market, the US dollar on average strengthened against both the Sterling Pound and the Euro (Table 4.4 and Chart 4D).

Similarly, the Kenya Shilling in January 2009 depicted mixed performance against the regional currencies; weakening against the Uganda Shilling but strengthening vis-à-vis the Tanzania Shilling. It exchanged, respectively, at an average of Ush 25.05 per Kenya Shilling and Tsh16.99 per Kenya Shilling, as shown in Table 4.4.

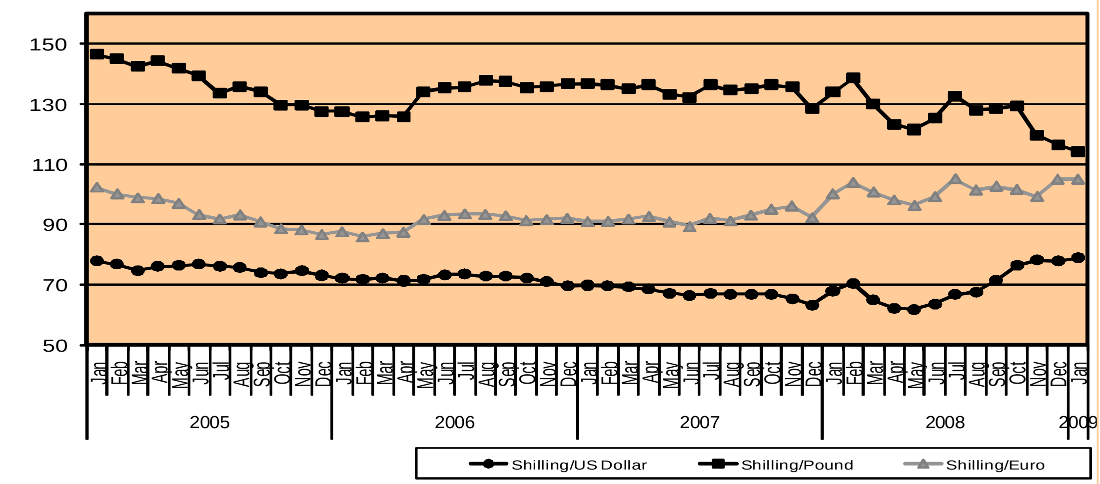
TABLE 4.4: KENYA SHILLING EXCHANGE RATE

	2007	2008									2009	% change
	Dec	Jan	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Jan 09 - Dec 08
US Dollar	63.30	68.08	61.90	63.78	66.70	67.68	71.41	76.66	78.18	78.04	78.95	**1.17**
Pound Sterling	128.45	134.01	121.62	125.27	132.62	127.97	128.58	129.38	119.59	116.53	114.28	**-1.93**
100 Japanese Yen	56.52	63.16	59.38	59.60	62.43	61.92	67.00	76.77	80.71	85.42	87.45	**2.38**
Uganda Shilling*	27.11	25.16	26.65	25.14	24.36	24.00	23.07	23.89	24.49	25.07	25.05	**-0.07**
Tanzania Shilling*	18.36	17.10	19.49	18.64	17.65	18.00	16.27	16.12	16.05	16.64	16.99	**2.09**
Euro	92.24	100.16	96.32	99.21	105.18	101.40	102.73	101.67	99.33	105.56	105.02	**-0.51**
Euro per US dollar	0.69	0.68	0.64	0.64	0.63	0.67	0.70	0.75	0.79	0.74	0.75	**1.69**
Sterling Pound per US dollar	0.493	0.508	0.509	0.509	0.503	0.529	0.555	0.593	0.654	0.670	0.691	**3.16**

* Units of currency per Kenya shilling

Source: Central Bank of Kenya

CHART 4D: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

The banking sector remained stable with all institutions being adequately capitalised during the period ending November 2008. Instutions maintained capital adequacy ratios above the minimum requirement of 12.0 percent. Total assets increased by 31 percent, deposits expanded by 25.5 percent, while pre tax profits increased by 21 percent compared with similar period in 2007. Similarly, the level of gross non-performing loans declined marginally by 3.0 percent. However, return on assets declined from 3.2 percent in November 2007 to 2.8 percent in November 2008 mainly due to increase in assets.

Structure of thebanking sector

As at 30th November 2008, the Kenyan banking sector comprised of 43 commercial banks, two mortgage finance companies and 122 foreign exchange bureaus.

Structure of the Balance Sheet

The aggregate balance sheet of the banking sector registered significant growth in November 2008 compared with a similar period in 2007. The banking sector's assets increased by 31 percent from Ksh 907.9 billion in November 2007 to Ksh 1,189.5 billion in November 2008. Major components of total banking assets were loans and advances, which accounted for 54.0 percent, followed by Government securities and placements at 18.0 percent and 11.0 percent of total assets respectively.

Loans & Advances

Gross loans and advances, as at the end of November 2008, stood at Ksh 679.8 billion compared with Ksh 519.8 billion recorded in November 2007, representing an increase of 30.8 percent. The banking industry extended credits to various sectors of the economy including private households, manufacturing, trade, business services and other sectors. Loans and advances, net of provisions stood at Ksh 637.3 billion in November 2008 compared with Ksh 477.1 billion in November 2007. The increase in gross advances was attributed to borrowing by existing customers and new customers to meet business needs.

Deposit Liabilites

During the period under review, the banking sectors' deposits remained the primary source of funding for the banking sector, and represented 77.0 percent of total liabilities as at November 2008 compared with 80.0 percent in November 2007. Total deposit liabilities increased by 24.8 percent from Ksh 730.0 billion in November 2007 to Ksh 911.2 billion in November 2008. Foreign currency deposits rose by 63 percent from Ksh 116.3 billion to Ksh 190.0 billion over the same period. This increase in deposit base was attributed to external donor inflows, remittances by Kenyans in the diaspora and receipts from exports.

Capital & Reserves

The capital adequacy for the banking sector which is measured by the ratio of total capital to risk-weighted assets remained fairly stable during the period to November 2008. In the eleven months to November 2008, total capital of the banking sector rose by 42 percent from Ksh 101.4 billion to Ksh 144.3 billion. Similarly, the total shareholders' funds of the banking system increased by 35.7 percent from Ksh 117.7 billion in November 2007 to Ksh 159.7 billion in November 2008. Consequently, the ratio of total capital to total risk-weighted assets ratio increased from 16.7 percent in November 2007 to 18.1 percent in November 2008. The increase in capital adequacy ratio was attributed to retention of profits and fresh capital injection by some institutions.

Non-performing Loans

The stock of gross non-performing loans (NPLs) declined by 3.0 percent from Ksh 59.1 billion in November 2007 to Ksh 57.4 billion as at November 2008. The ratio of gross non-performing loans to gross loans was 8.4 percent in November 2008 compared with 11.4 percent as at the end of November 2007. Consequently, the quality of assets, measured by the ratio of net non-performing loans to gross loans improved from 4.1 percent to 3.0 percent over the period as shown in Table 5.1. The reduction was attributable to the growing prudence in risk management, write offs and recoveries of NPLs.

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

		Nov – 07	Nov – 08
1	Gross loans and advances	519.80	679.80
2	Loans and Advances (net of interest suspended)	504.50	665.80
3	Gross non-performing loans	59.10	57.40
4	Specific Provisions	22.70	22.60
5	General Provisions	4.70	5.90
6	Total Provisions (4+5)	27.40	28.50
7	Net Advances (2-6)	477.10	637.30
8	Total Non-Performing Loans and Advances	43.90	43.30
9	Net Non-Performing Loans and advances (8-4)	21.20	20.70
10	Total NPLs as % of total advances (8/2)	8.70	6.50
11	Net NPLs as % of gross advances (9/1)	4.10	3.00
12	Specific Provisions as % of Total NPLs (4/8)	51.70	52.20

Source: Central Bank of Kenya

Profitability

The banking sector's profits for the twelve months to November 2008 improved compared to a similar period in 2007. Consequently, profit before tax increased by 21 percent, from Ksh 33.2 billion in November 2007 to Ksh 40.2 billion in 2008. The major sources of income were from the intermediation function and foreign exchange transactions. Interest income on advances rose by 34 percent, from Ksh 50.2 billion in November 2007 to Ksh 67.5 billion in November 2008. Similarly, foreign exchange gains rose by 68 percent from Ksh 6.6 billion to Ksh 11.1 billion over similar period in 2007. Total expenses rose by 34 percent, from Ksh 70.4 billion in November 2007 to Ksh 94.2 billion in November 2008. Loan loss provision for the period increased from Ksh 4.2 billion in November 2007 to Ksh 5.2 billion in November 2008 while salaries and wages expenses increased from Ksh 23.2 billion in November 2007 to Ksh 30.8 billion in November 2008 as institutions continued to recruit staff to match the expansion in their branch network and roll-out of new products. However, despite the increase in profitability, annualized return on assets declined from 3.2 percent to 2.8 percent in 2008 due to significant increase in assets.

Liquidity Ratio Requirement

Liquidity ratio, that is the proportion of liquid assets to deposit liabilities of the banking sector was above the minimum requirement of 20 percent in December, 2008 with commercial banks maintaining an average ratio of 37.2 percent.

Cash Ratio Requirement

Commercial banks maintained an average 5.6 percent reserve ratio with the Central Bank in December 2008 against the 5.0 percent reserve ratio requirements as shown in Table 5.2 and Chart 5A. Cash reserve ratio was adjusted from 6 percent to 5 percent effective December 2008. In addition to reserve requirements, commercial banks held on average Ksh 4,664 million in December 2008 as excess reserves compared with Ksh 1,877 million held in November 2008.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2007					2008						
	June	Sept	Oct	Nov	Dec	June	July	Aug	Sep	Oct	Nov	Dec
Commercial Banks												
Actual Average Liquidity	46.7	46.9	46.1	40.0	40.6	42.1	41.9	40.4	40.1	39.4	37.6	37.2
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio - All Banks	6.3	6.2	6.2	6.2	6.2	6.5	6.3	6.4	6.3	6.3	6.2	5.6
Minimum Cash Ratio Requirement**	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.0
NBFIs												
Actual Average Liquidity Ratio	26.2	28.2	27.6	23.6	31.48	22.0	35.2	30.69	29.72	26.6	27.1	26.8
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.0
Minimum Cash Ratio Requirement***	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.0

* Monthly average liquidity and cash ratios

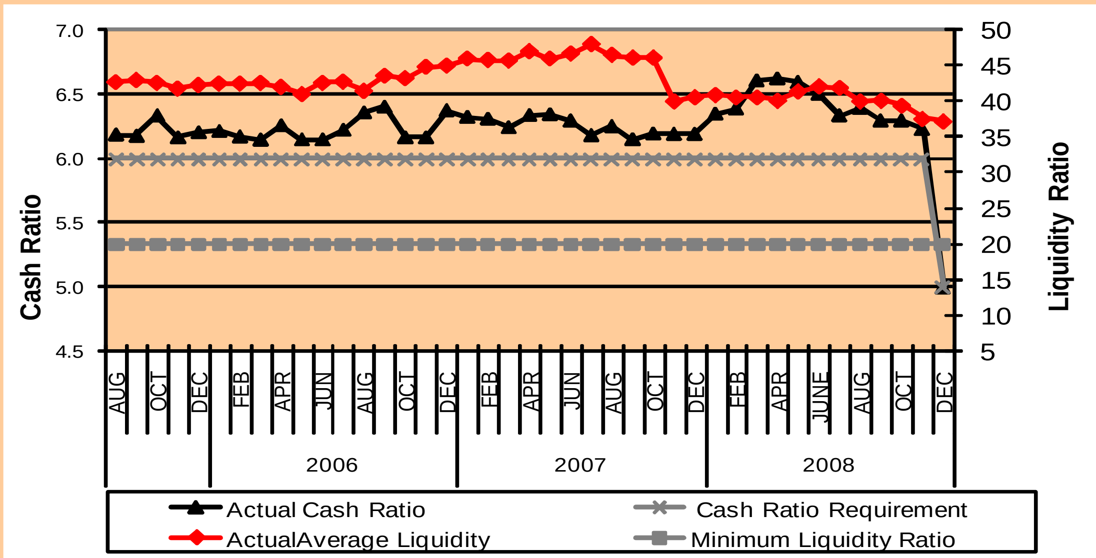
** Commercial banks and NBFIs observed a daily minimum of 6% cash ratio effective from 1st July 2003 to 30th Nov 2008.

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

*** Ratio includes NBFIs and Mortgage companies

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 24,131 transaction messages worth Ksh 1,293 billion in December 2008 compared with a volume of 22,718 transaction messages valued at Ksh 1,225 billion moved in November 2008, representing a 5.57 percent increase in value and 6.22 percent increase in volume. The amount moved represents 36.90 percent increase compared with Ksh 945 billion moved in December 2007.

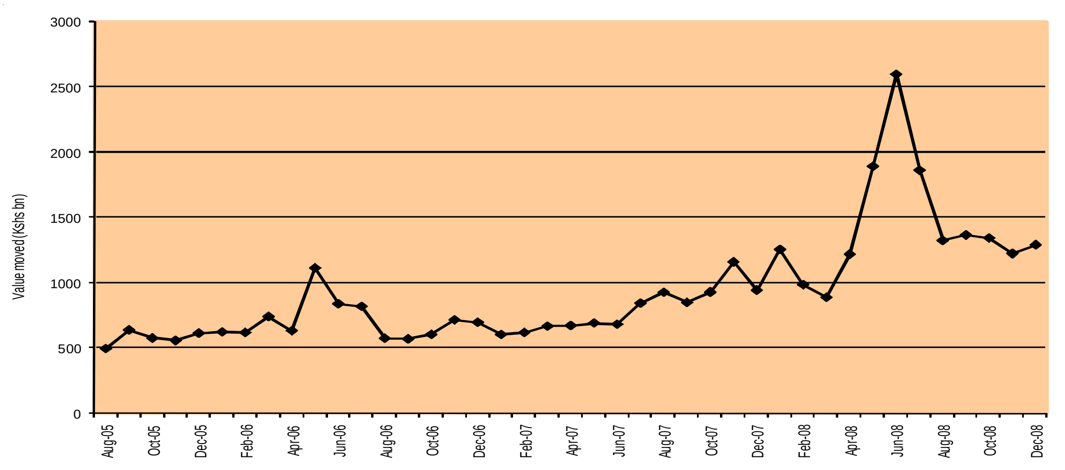
The value moved through the system for the twelve months to November 30, 2008 averaged Ksh 64.46 million per transaction message, while the average amount moved per day was approximately Ksh 69.57 billion in this period (Table 5.3 and Chart 5B). Direct settlements through KEPSS in December 2008 averaged 92.7 percent of the total settlements, while indirect payments (ACH Net settlement) averaged 7.3 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
Jun-07	682	61	13,924	0.05	20	34	696
Jul-07	844	59	14,633	0.06	22	38	665
Aug-07	928	68	17,527	0.05	23	40	762
Sep-07	851	73	14,770	0.06	20	43	739
Oct-07	930	62	16,638	0.06	22	42	756
Nov-07	1,161	74	19,613	0.06	22	53	892
Dec-07	945	48	14,563	0.06	14	67	1,040
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

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third party Messages

Multiple third party Message Type (MT) 102 increased by 7.74 percent from 711 transaction messages in November 2008 to 766 transaction messages in December 2008, while single third party Message Type (MT) 103 increased by 25.05 percent from 8,804 transaction messages to 11,009 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 23.75 percent from 9,515 transaction messages in November 2008 to 11,775 transaction messages in December 2008.

Compared with December 2007, multiple third party messages (MT102) increased by 22.76 percent from 624 transaction messages to 766 transaction messages in December 2008, while in the same period single third party message (MT103) increased by 115.78 percent from 5,102 transaction messages to 11,009 transaction messages (Table 5.4 and Chart 5C).

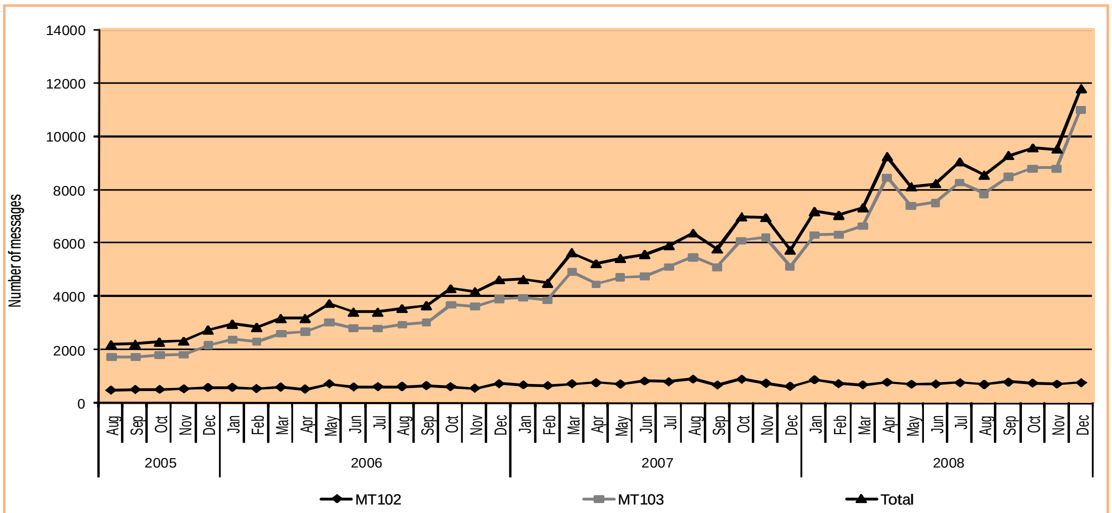
Inter-bank transfers (MT202) accounted for 61.49 percent on average of the total value moved through KEPSS in December 2008, while third party messages including those processed by CBK accounted for 38.51 percent.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2007	January	680	3,953	4,633
	February	654	3,850	4,504
	March	723	4,919	5,642
	April	767	4,459	5,226
	May	717	4,706	5,423
	June	828	4,749	5,577
2007	July	799	5,100	5,899
	August	902	5,471	6,373
	September	679	5,097	5,776
	October	892	6,090	6,982
	November	744	6,206	6,950
	December	624	5,102	5,726
2008	January	877	6,300	7,177
	February	724	6,318	7,042
	March	684	6,637	7,321
	April	781	8,457	9,238
	May	708	7,393	8,101
	June	718	7,503	8,221
	July	764	8,268	9,032
	August	696	7,839	8,535
	September	791	8,481	9,272
	October	751	8,803	9,554
	November	711	8,804	9,515
	December	766	11,009	11,775

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

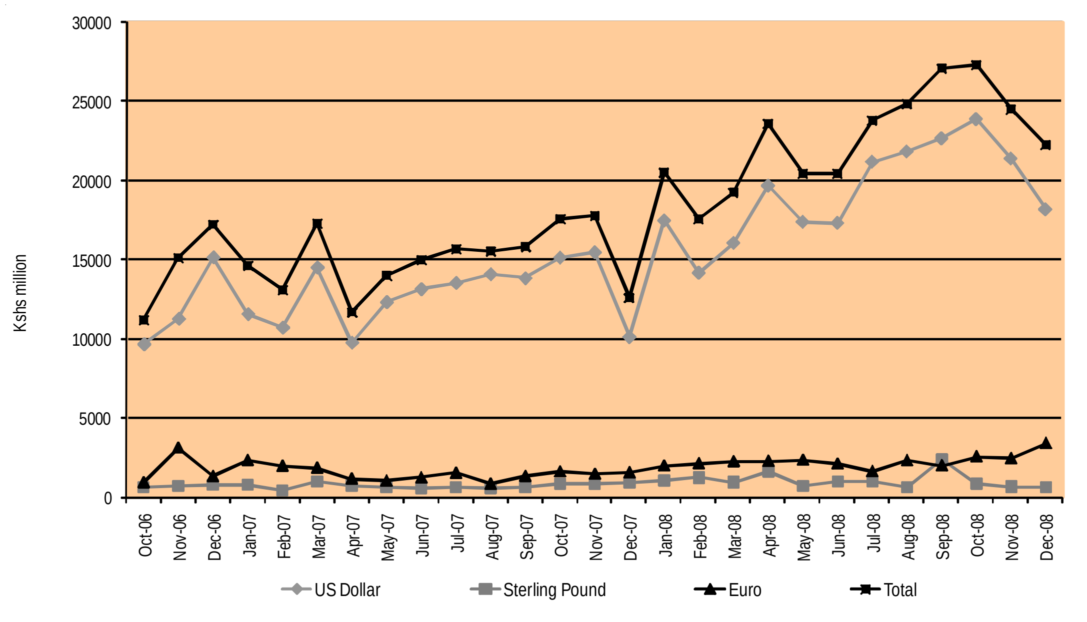


Source: Central Bank of Kenya

Domestic Foreign Currency Flows

Domestic Foreign Currency messages through KEPSS increased by 11.01 percent from 1,835 transaction messages in November 2008 to 2,037 transaction messages in December 2008. The corresponding value in Kenya Shilling equivalent moved in this period decreased by 9.25 percent from Ksh 24.52 billion to Ksh 22.25 billion. The US dollar accounted for 81.84 percent of the value moved (Chart 5D).

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



Source: Central Bank of Kenya

Government Budget Performance

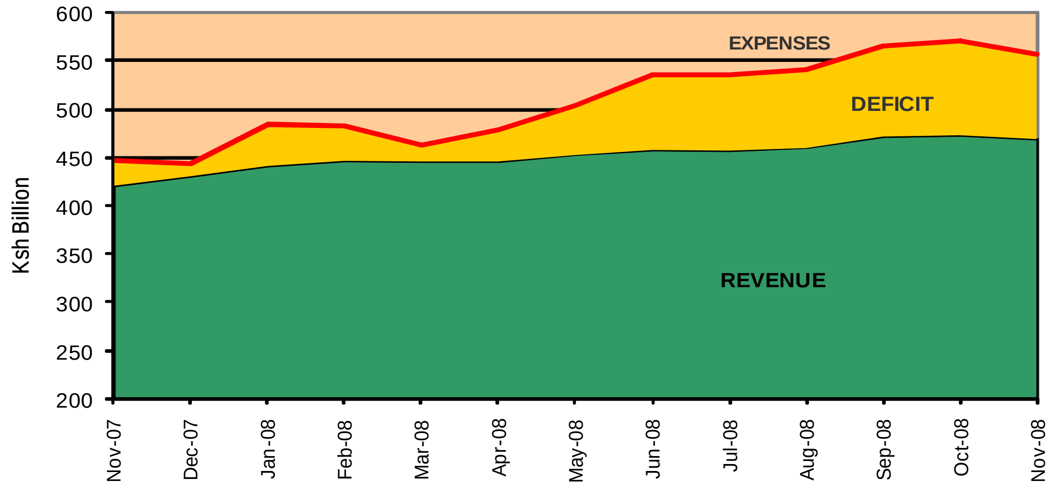
The central Government budgetary operations for the period July – November 2008 of the fiscal year 2008/09 resulted in an increase in the budget deficit by Ksh 2.8 billion from Ksh 23.6 billion (1.3 percent of GDP) on commitment basis in a similar period of fiscal year 2007/08 to Ksh 26.4 billion (1.2 percent of GDP). Similarly, the budget deficit on cash basis increased from Ksh 30.7 billion or 1.7 percent of GDP to Ksh 37.6 billion (1.7 percent) during the period (Table 6.1).

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

	FY 2007/08	FY 2008/09		
	Nov Actual	Nov Provisional	Target	Over (+) / Below (-) Target
1. TOTAL REVENUE	182.0	184.2	201.4	-17.2
Revenue	168.7	180.3	192.3	-12.0
Tax Revenue	152.8	165.6	171.4	-5.8
Non Tax Revenue	4.7	2.6	7.0	-4.4
Appropriations-in-Aid	11.1	12.1	13.9	-1.8
External Grants	13.4	3.9	9.1	-5.2
2. TOTAL EXPENSES	194.5	210.5	244.1	-33.6
Recurrent Expenses	149.0	164.4	186.9	-22.4
Development Expenses	45.5	46.1	57.2	-11.2
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-12.5	-26.4	-42.7	-16.4
As % of GDP	-0.7	-1.2	-2.0	
4. ADJUSTMENT TO CASH BASIS	-7.0	-11.2	0.0	-11.2
5. DEFICIT ON A CASH BASIS	-19.5	-37.6	-42.7	-5.1
As % of GDP	-1.1	-1.7	-2.0	
6. DISCREPANCY:Exp. (+) / Rev. (-)	-3.2	-1.3	0.0	
7. FINANCING	23.3	36.4	42.7	-6.3
Domestic (Net)	22.1	34.1	38.2	-4.0
External (Net)	-0.6	2.3	4.5	-2.3
Capital Receipts (privatisation)	1.8	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Sources: Treasury

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



Sources: Treasury and Central Bank of Kenya

Revenue

During the period July –November 2008 of the fiscal year 2008/09, Government revenue and grants increased by 1.2 percent from Ksh 182.0 billion in a similar period of the fiscal year 2007/08 to Ksh 184.2 billion (Table 6.1). The increase in government revenue was as a result of growth in all revenue items, except for import duty, excise duty, other revenue and external grants. The growth in revenue during the period was attributed to economic recovery and worldwide decline in the cost of crude oil.

Tax revenue increased to Ksh 165.6 billion in the period July- November of the fiscal year 2008/09 from Ksh 152.8 billion in a similar period of the fiscal year 2007/08 (Table 6.2). This represents a growth of Ksh 12.7 billion or 8.3 percent in the tax proceeds during the period. Similarly, Appropriation-in-Aid increased by Ksh 0.9 billion while external grants and non-tax revenue decreased by Ksh 9.5 billion and Ksh 2.1 billion, respectively, during the period.

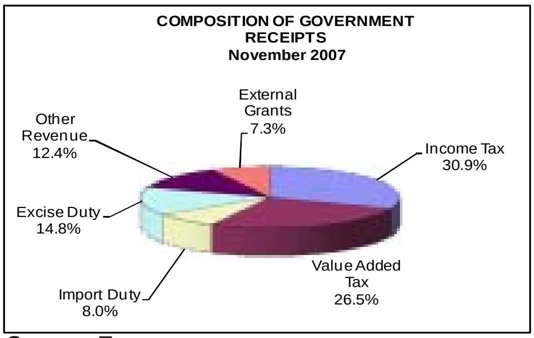
TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

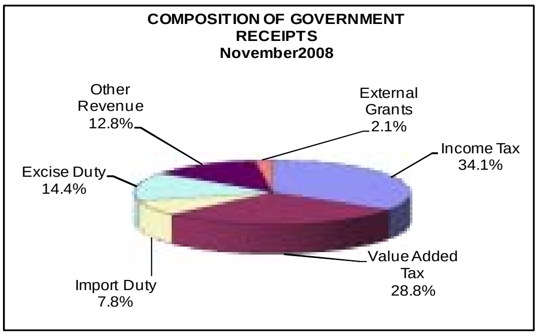
	Nov-07 Ksh bn	Nov-08 Ksh bn	Change
1. Revenue (2+3+4)	**168.7**	**180.3**	**11.6**
2. Tax Revenue	152.8	165.6	12.7
Income Tax	56.3	62.8	6.5
Value Added Tax	48.2	53.1	4.9
Import Duty	14.6	14.3	-0.3
Excise Duty	27.0	26.4	-0.6
Others	6.7	8.9	2.1
3. Appropriations-in-Aid	11.1	12.1	0.9
4. Other Revenue	4.7	2.6	-2.1
5. External Grants	**13.4**	**3.9**	**-9.5**
TOTAL RECEIPTS (1+5)	**182.0**	**184.2**	**2.1**

Source: Treasury

The proportion of tax revenue in total government receipts remained high during the period. The shares of income tax, value added tax and other revenue increased from 30.9 percent, 26.5 percent and 12.4 percent, respectively, in November 2007 to 34.1 percent, 28.8 percent and 12.8 percent in November 2008. However, the shares of import duty and excise duty decreased from 8.0 percent and 14.8 percent, respectively, to 7.8 percent and 14.4 percent, during the period. Similarly, the share of external grants decreased from 7.3 percent to 2.1 percent (Chart 6B).

CHART 6B: COMPOSITION OF GOVERNMENT RECEIPTS





Source: Treasury

Expenditure and Net Lending

Cumulatively, Government expenditure and net lending for the period July-November 2008 stood at Ksh 210.5 billion compared with Ksh 194.5 billion in a similar period of FY 2007/08. This represents growth of expenditure and net lending by Ksh 16.0 billion or 8.2 percent (Table 6.3). The rise in the overall expenditure during the period is as a result of increases of both recurrent and development expenditures by Ksh 15.4 billion (10.4 percent) and Ksh 0.5 billion (1.2 percent), respectively.

The recurrent expenditure increased by 10.3 percent from Ksh 149.0 billion to Ksh 164.4 billion during the period. The increase in recurrent expenditure during the period is attributed to increases of wages and salaries of Ksh 9.5 billion, other expenses of Ksh 4.7 billion and interest payment of Ksh 1.3 billion. Also, development expenditure increased by Ksh 0.5 billion from Ksh 45.5 billion in November 2007 to Ksh 46.1 billion in November 2008.

As a result, the percentage of development expenditure in total expenditure dropped from 23.4 percent in November 2008 of the fiscal year 2007/08 to 21.9 percent in a similar period in the fiscal year 2008/09, while the proportion of recurrent expenditure increased from 76.6 percent to 78.1 percent (Chart 6C). The declining share of development expenditure is a worrying development as it is not in conformity the Government Vision 2030 development strategy which seeks to allocate more resources towards flagship projects such as infrastructure development in order to promote investment which is prerequisite for achieving and sustaining higher economic growth rates.

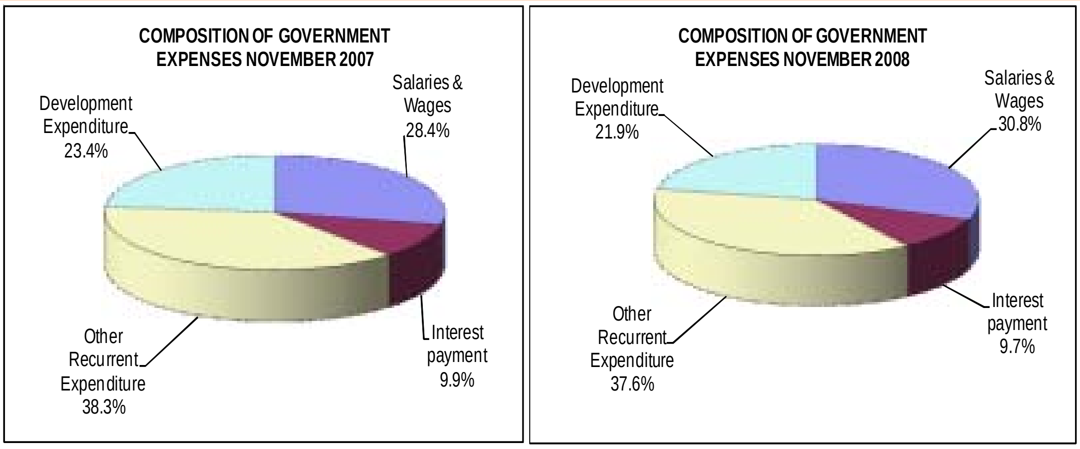
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Nov-07 Ksh bn	Nov-08 Ksh bn	Movement
1.Recurrent	**149.0**	**164.4**	**15.4**
Salaries & Wages	55.3	64.8	**9.5**
Total Interest	19.2	20.5	**1.3**
of which			
Domestic*	17.6	18.8	**1.2**
Foreign interest due	1.7	1.7	**0.0**
Others	74.4	79.1	**4.7**
2. Development	**45.5**	**46.1**	**0.5**
TOTAL EXPENSES	**194.5**	**210.5**	**16.0**

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

Source: Treasury

CHART 6C: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

The budgetary operations of the central Government in the first five months of the fiscal year 2008/09 resulted in a financing requirement of Ksh 43.8 billion compared with Ksh 24.5 billion in a similar period in the fiscal year 2007/08 (Table 6.4). The financing requirement was needed to finance the budget deficit of Ksh 36.4 billion. The financing requirement was sourced through net domestic borrowing of Ksh 14.8 billion of which Ksh 10.3 billion was sourced from the commercial banks. A further Ksh 26.8 billion and Ksh 2.3 billion was obtained though reduction in GOK deposits at the Central Bank and external debt, respectively.

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

I. FINANCING REQUIREMENTS	Oct-07 Ksh bn	Oct-08 Ksh bn
1. Budget deficit	23.3	36.4
2. External debt reduction	0.6	0.0
3. Domestic debt reduction	0.0	7.4
3.1 Central Bank (incl. items in transit)	0.0	7.4
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	0.6	0.0
TOTAL	24.5	43.8
II. FINANCING SOURCES	**Oct-07 Ksh bn**	**Oct-08 Ksh bn**
1. Budget surplus	0.0	0.0
2. External debt increase	0.0	2.3
3. Increase in domestic debt	22.7	14.8
3.1 Central Bank	3.5	0.0
3.2 Commercial banks	5.7	10.3
3.3 Non-bank sources	13.5	4.5
4. Reduction in GoK deposits at CBK	0.0	26.8
5. Privatisation proceeds	1.8	0.0
TOTAL	24.5	43.8

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank of Kenya declined by Ksh 1.5 billion from Ksh 41.0 billion in November 2007 of the fiscal year 2007/08 to Ksh 39.5 billion in November 2008 of the fiscal year 2008/09 (Table 6.5). The decrease in Government indebtedness to the CBK during the period was as a result of decreases of Ksh 0.2 billion, Ksh 1.1 billion and Ksh 0.3 billion in Government overdraft, pre-1997 Government overdraft at CBK and the IMF funds on-lent to Government, respectively, which was marginally offset by an increase of Ksh 0.1 billion in cleared items in transit.

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

	2007 Nov	2008 Nov	Movement
Total Credit	**41.0**	**39.5**	**-1.5**
1. Overdraft	4.1	3.9	-0.2
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	35.5	34.4	-1.1
4. IMF funds onlent to Government	1.2	0.9	-0.3
5. Cleared items in transit	0.1	0.2	0.1
Memorandum			
Authorised overdraft limit	**13.3**	**16.9**	**5.6**
Amount utilised to date	4.1	3.9	3.9
Amount available	9.1	13.0	1.7

Source: Central Bank of Kenya

Outlook of FY 2008/09

The fiscal year 2008/09 budget has a total revenue (excluding grants) target of Ksh 512.8 billion (21.4 percent of GDP) while external grants are projected at Ksh 33.8 billion (1.4 percent of GDP). Similarly, total Government expenditure is projected at Ksh 673.5 billion (28.1 percent of GDP) comprising Ksh 474.7 billion (19.8 percent of GDP) in recurrent expenditure and Ksh 198.8 billion (8.3 percent of GDP) in development expenditure.

Consequently, the overall budget deficit (including grants) in the fiscal year 2008/09 is projected at Ksh 127.0 billion (5.3 percent of GDP). The deficit will be financed through: net external borrowing of Ksh 25.2 billion (1.1 percent of GDP); net domestic borrowing of Ksh 54.5 billion (2.3 percent of GDP) including Ksh 18.8 billion in long term domestic infrastructure bonds; privatization receipts totalling Ksh 8 billion (0.3 percent of GDP); Ksh 33.6 billion from issuance of a sovereign bond to finance infrastructure development and Ksh 5.7 billion additional financing for TELKOM Kenya and Kenya Petroleum Refineries.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt

Kenya's stock of public and publicly guaranteed debt increased by Ksh 16.5 billion (or 1.9 percent) from Ksh 870.6 billion in June 2008 to Ksh 887.1 billion in November 2008 (Table 7.1). As a percentage of GDP, the total public debt declined from 42.8 percent of GDP in June 2008 to 40.6 percent in November 2008. Specifically, the external debt to GDP ratio dropped from 21.6 percent in June 2008 to 19.9 percent in November 2008 while the domestic debt to GDP ratio dropped from 21.1 percent to 20.7 percent during the period. The overall debt to GDP ratio has been falling in the last five years (Chart 7A) which is consistent with the results of recent debt sustainability studies for Kenya which indicated that the public debt is sustainable in the medium term.

The rise in the overall Government debt during the period is as a result an increase of domestic debt of Ksh 20.8 billion which was partially offset by a decrease of Ksh 4.3 billion in external debt. As a result, the share of external debt in total debt stock dropped from 50.5 percent in June 2008 to 49.1 percent in November 2008, while domestic debt increased from 49.5 percent to 50.9 percent during the same period.

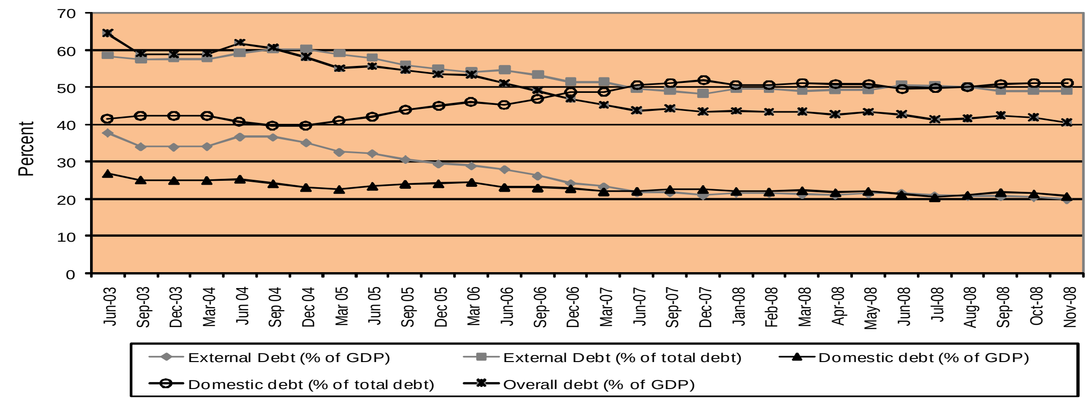
TABLE 7.1: KENYA'S PUBLIC DEBT (Ksh billion)

	Nov-07	Dec-07	May-08	Jun-08	Jul-08	Aug 08	Sept-08	Oct*	Nov**	Change 2007/08
EXTERNAL										
Bilateral	147.6	146.3	150.6	153.2	152.9	153.4	153.0	153.4	154.1	0.9
Multilateral***	258.0	242.1	260.8	268.2	261.3	261.7	261.4	262.5	263.0	-5.2
Commercial Banks	0.6	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	18.0	18.0	18.0	18.5	18.5	18.5	18.5	18.5	18.5	0.0
Sub-Total	424.2	406.9	429.6	440.0	432.8	433.7	433.0	434.5	435.6	-4.3
(As a % of GDP)	22.0	20.9	21.4	21.6	21.0	20.7	20.7	20.7	19.9	
(As a % of total debt)	49.9	48.2	49.3	50.5	50.3	50.0	49.1	48.9	49.1	
DOMESTIC\[1]										
Banks	230.2	230.2	228.4	228.8	223.0	229.0	243.2	253.5	249.5	20.6
Central Bank	40.9	40.7	42.2	46.4	36.7	37.2	40.4	48.8	38.6	-7.8
Commercial Banks	189.3	189.6	186.3	182.5	186.3	191.8	202.8	204.7	210.9	28.4
Non-banks	194.6	206.8	211.6	199.2	202.0	201.3	202.8	197.9	198.6	-0.6
Non-bank Financial Inst.	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.0
Other Non-bank Sources	193.7	206.0	210.8	198.5	201.2	200.6	202.1	197.1	197.9	-0.6
Non-residents	1.2	1.0	2.7	2.6	3.3	3.2	3.2	3.3	3.3	0.7
Sub-Total	426.0	438.1	442.7	430.6	428.2	433.6	449.3	454.7	451.4	20.8
(As a % of GDP)	22.1	22.5	22.0	21.1	20.4	21.0	21.7	22.0	20.7	
(As a % of total debt)	50.1	51.8	50.7	49.5	49.7	50.0	50.9	51.1	50.9	
GRAND TOTAL	850.3	845.0	872.3	870.6	861.0	867.2	882.2	889.2	887.1	16.5
(As a % of GDP)	44.2	43.5	43.4	42.8	41.4	41.7	42.4	42.7	40.6	

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

Sources: Treasury and Central Bank of Kenya

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



Sources: Treasury and CBK

Domestic Debt

Public domestic debt increased by Ksh 20.8 billion (or 4.8 percent) during the first five months of the fiscal year 2008/09 from Ksh 430.6 billion in June 2008 to Ksh 451.4 billion in November 2008 (Table 7.2). The rise in domestic debt during the period was as a result of increases of Ksh 14.0 billion and Ksh 5.7 billion in Treasury bills (excluding Repos) and Treasury bonds respectively which was partly offset by a decrease of Ksh 1.9 billion in other debt. Government overdraft at CBK which is the main component of other domestic debt increased from zero in June 2008 to Ksh 3.9 billion in November 2008. In addition, domestic debt owed to commercial banks increased from Ksh 182.5 billion in June 2008 to Ksh 210.9 billion in November 2008 (Table 7.1). Consequently, the percentage of total domestic debt owed to commercial banks rose from 42.4 percent to 46.7 percent during the period.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2007				2008												Change Jun-08- Nov-08
	Nov	%	Dec	%	Jun	%	Jul	%	Aug	%	Sept	%	Oct	%	Nov	%	
Total stock of Domestic Debt (A+B)	426.0	100.0	426.0	100.0	430.6	100.0	428.2	100.0	433.6	100.0	449.3	100.0	454.7	100.0	451.4	100.0	20.8
A. Government Securities	420.7	98.7	431.8	101.4	427.2	98.5	425.9	99.5	430.7	99.3	443.3	98.7	440.0	96.8	447.0	99.0	19.7
1. Treasury Bills (excluding Repo Bills)	90.6	21.3	90.8	21.3	76.8	17.7	79.4	18.5	83.0	19.1	93.4	20.8	89.8	19.8	90.9	20.1	14.0
Banking institutions	37.0	8.7	35.5	8.3	27.2	6.3	31.6	7.4	35.4	8.2	46.0	10.2	44.2	9.7	45.8	10.1	18.6
Others	53.6	12.6	55.3	13.0	49.6	11.5	47.8	11.2	47.6	11.0	47.3	10.5	45.7	10.0	45.1	10.0	-4.6
2. Treasury Bonds	293.8	69.0	304.7	71.5	315.2	72.7	311.3	72.7	312.6	72.1	314.7	70.1	315.0	69.3	320.9	71.1	5.7
Banking institutions	153.2	36.0	153.7	36.1	156.1	36.0	154.7	36.1	156.4	36.1	155.6	34.6	160.6	35.3	165.1	36.6	9.0
Others	140.6	33.0	151.0	35.4	159.1	36.7	156.6	36.6	156.1	36.0	159.1	35.4	154.4	34.0	155.8	34.5	-3.3
3. Long term Stocks	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.0
4. Pre-1997 Government Overdraft at CBK	35.5	8.3	35.5	8.3	34.4	7.9	34.4	8.0	34.4	7.9	34.4	7.7	34.4	7.6	34.4	7.6	0.0
Of which: Repo T/Bills	35.5	8.3	35.5	8.3	34.4	8.1	34.4	8.0	33.9	7.8	34.4	7.7	34.4	7.6	34.4	7.6	0.0
B. Others:	17.5	4.1	-5.8	-1.4	6.3	1.5	2.3	0.5	2.8	0.7	6.0	1.3	14.7	3.2	4.4	1.0	-1.9
Of which CBK overdraft to Government	4.1	1.0	2.0	0.5	0.0	0.0	1.3	0.3	0.0	0.0	4.4	1.0	14.1	3.1	3.9	0.9	3.9

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

Source: Central Bank of Kenya

Treasury Bills

Government domestic borrowing during the first five months of the fiscal year 2008/09 was mainly through Treasury bills. As a result, Treasury bills increased from Ksh 76.8 billion in June 2008 to Ksh 90.9 billion in November 2008 (Table 7.2). As shown in Table 7.2 and Chart 7B, the share of Treasury bills in total domestic debt increased from 17.7 percent in June to 20.1 percent in November 2008. Similarly, Treasury bills held by commercial banks rose from Ksh 26.4 billion (34.4 percent) to Ksh 45.8 billion (50.4 percent) during the period (Table 7.3). The percentage share of 91-day Treasury bills and 182- day Treasury bills in total Government securities increased from 4.6 percent and 15.0 percent in June 2008 to 4.9 percent and 16.7 percent, respectively in November 2008 (Table 7.5).

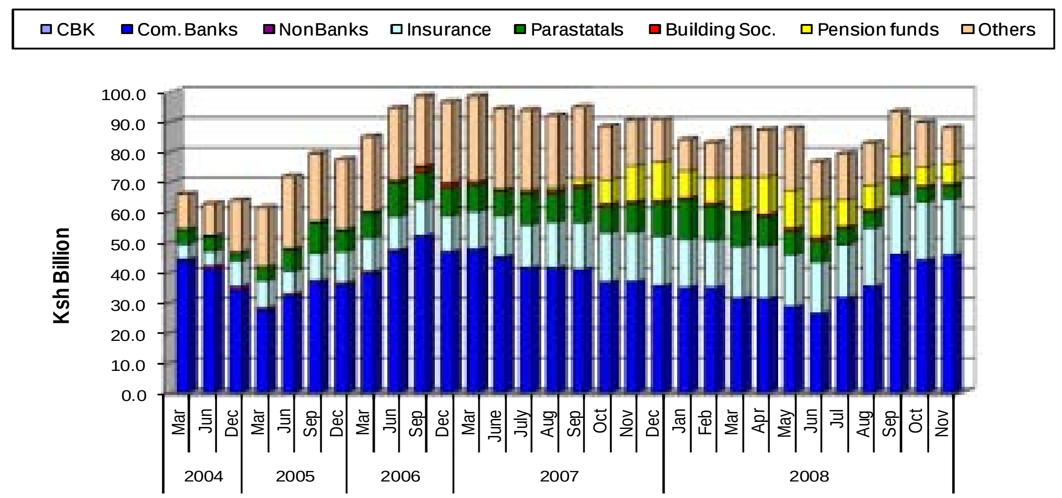
TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

	2007				2008											
Holders	Nov	%	Dec	%	Jun	%	July	%	Aug	%	Sept	%	Oct	%	Nov	%
Banking Institutions	37.0	40.8	35.6	39.2	26.4	34.4	31.6	39.8	35.4	42.6	46.0	49.3	44.2	49.2	45.8	50.4
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	36.9	40.6	35.5	39.1	26.4	34.4	31.6	39.8	35.4	42.6	46.0	49.3	44.2	49.2	45.8	50.4
NBFIs	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	16.2	17.9	16.4	18.1	17.0	22.1	17.5	22.0	19.3	23.2	19.7	21.1	19.1	21.3	18.6	20.4
Parastatals	9.5	10.4	11.1	12.2	7.1	9.3	5.4	6.8	5.2	6.3	4.7	5.1	4.7	5.3	4.3	4.8
Of which: NSSF	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Building Societies	0.9	1.0	0.8	0.8	1.1	1.4	0.7	0.9	0.9	1.0	1.1	1.1	0.7	0.8	0.7	0.8
Pension Funds	11.8	13.0	12.9	14.2	12.5	16.3	8.9	11.3	8.1	9.7	7.3	7.9	6.4	7.1	6.7	7.4
Others	15.4	16.9	14.2	15.6	12.7	16.5	15.3	19.3	14.2	17.1	14.5	15.6	14.7	16.4	14.8	16.2
Total*	90.6	100.0	90.8	100.0	76.8	100.0	79.4	100.0	83.0	100.0	93.4	100.0	89.8	100.0	90.9	100.0

*** Excludes repurchase order bills**

Source: Central Bank of Kenya

CHART 7B: OUTSTANDING TREASURY BILLS BY HOLDER



Source: Central Bank of Kenya

Treasury Bonds

Government domestic borrowing during the first five months of the fiscal year 2008/09 through Treasury bonds increased by Ksh 5.7 billion from Ksh 315.2 billion in June 2008 to Ksh 320.9 billion in November 2008 (Table 7.4 and Chart 7C). Furthermore, the percentage share of Treasury bonds in total domestic debt decreased from 72.7 percent to 71.1 percent during the period (Table 7.2). Commercial banks holdings of Treasury bonds increased from Ksh 156.1 billion (49.5 percent) in June 2008 to Ksh 165.1 billion (51.4 percent) in November 2008 (Table 7.4).

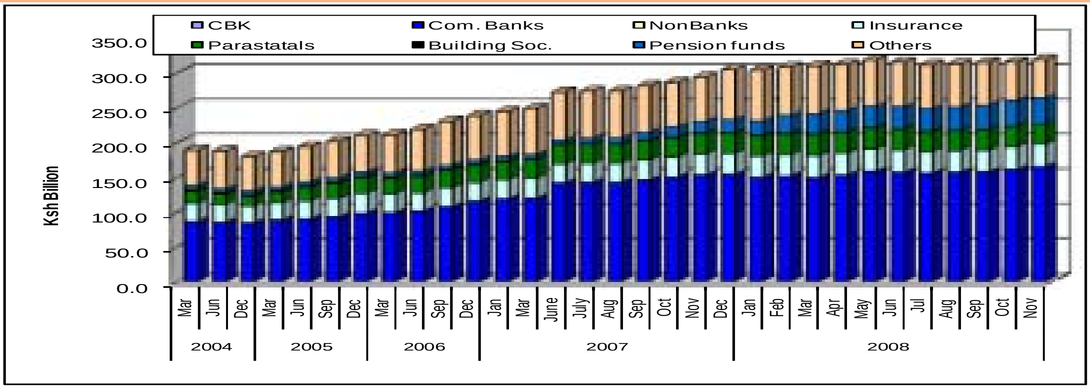
As shown in Table 7.5, the 5-year Treasury bonds and 6-year Treasury bonds accounted for the largest proportion of government securities at 11.8 percent and 11.1 percent, respectively. Furthermore, the share of Treasury bonds with maturities of between 10-years and 20-years increased from 20.7 percent to 21.1 percent during the period as a result of issuance of Treasury bonds with longer maturity. However, the average maturity profile of domestic debt (by days to maturity) decreased from 3 years and 8 months in June 2008 to 3 years and 5 months in November 2008.

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

	2007				2008											
Holders	Nov	%	Dec	%	Jun	%	Jul	%	Aug	%	Sept	%	Oct	%	Nov	%
Banking Institutions	153.2	52.2	153.7	50.5	156.8	49.8	155.5	49.9	157.2	50.3	157.5	50.1	161.3	51.2	165.8	51.7
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	152.4	51.9	152.9	50.2	156.1	49.5	154.7	49.7	156.4	50.0	156.8	49.8	160.6	51.0	165.1	51.4
NBFIs	0.8	0.3	0.8	0.3	0.7	0.2	0.7	0.2	0.7	0.2	0.7	0.2	0.7	0.2	0.7	0.2
Insurance Companies	30.0	10.2	30.1	9.9	31.9	10.1	30.7	9.9	30.6	9.8	30.9	9.8	32.1	10.2	32.4	10.1
Parastatals	29.1	9.9	28.9	9.5	29.9	9.5	29.0	9.3	28.3	9.0	29.0	9.2	29.4	9.3	29.5	9.2
Of which: NSSF	10.0	3.4	9.7	3.2	11.7	3.7	11.6	3.7	11.3	3.6	12.0	3.8	12.4	3.9	12.5	3.9
Building Societies	1.2	0.4	1.2	0.4	0.9	0.3	0.9	0.3	0.7	0.2	0.6	0.2	0.6	0.2	0.6	0.2
Pensions Fund	16.6	5.7	18.6	6.1	31.8	10.1	32.3	10.4	33.8	10.8	35.5	11.3	37.1	11.8	37.6	11.7
Others	63.7	21.7	72.2	23.7	63.9	20.3	63.0	20.2	62.0	19.8	61.2	19.4	54.6	17.3	55.1	17.2
Total	293.8	100.0	304.7	100.0	315.2	100.0	311.3	100.0	312.6	100.0	314.7	100.0	315.0	100.0	320.9	100.0

Source: Central Bank of Kenya

CHART 7C: STOCK OF TREASURY BONDS



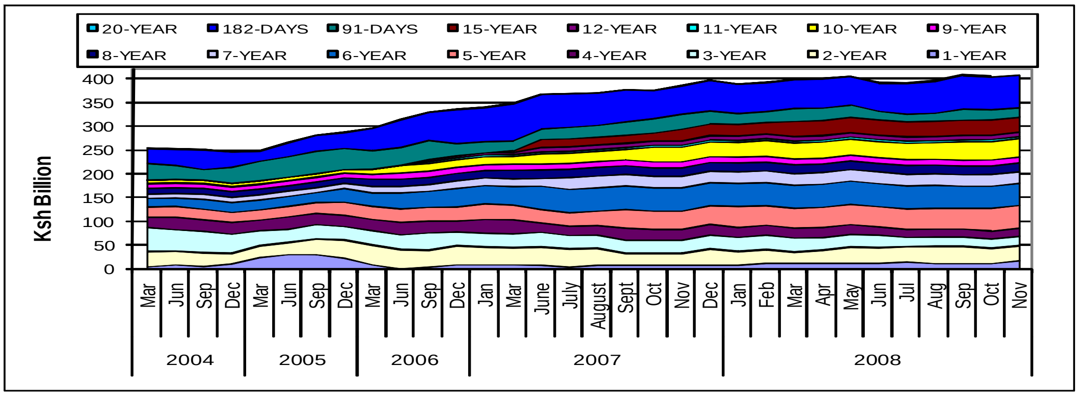
Source: Central Bank of Kenya

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

	2007				2008											
	Nov	%	Dec	%	Jun	%	Jul	%	Aug	%	Sept	%	Oct	%	Nov	%
91-Day	31.7	8.3	27.5	7.0	18.0	4.6	16.1	4.1	16.7	4.2	23.1	5.7	21.3	5.3	20.1	4.9
182-Day	58.8	15.3	63.3	16.0	58.9	15.0	63.3	16.2	66.3	16.8	70.3	17.2	68.6	16.9	70.8	17.2
1-Year	8.4	2.2	8.7	2.2	13.2	3.4	15.4	3.9	12.1	3.1	12.1	3.0	12.1	3.0	18.0	4.4
2-Year	24.3	6.3	33.6	8.5	31.7	8.1	31.7	8.1	35.4	9.0	35.4	8.7	31.3	7.7	31.3	7.6
3-Year	27.9	7.3	29.1	7.4	26.7	6.8	19.8	5.1	19.8	5.0	19.8	4.8	19.8	4.9	19.8	4.8
4-Year	22.5	5.8	22.5	5.7	16.5	4.2	16.5	4.2	16.5	4.2	16.5	4.1	16.5	4.1	16.5	4.0
5-Year	39.5	10.3	39.5	10.0	43.5	11.1	43.5	11.1	44.3	11.2	44.3	10.9	48.7	12.0	48.7	11.8
6-Year	47.6	12.4	47.6	12.0	47.6	12.1	47.6	12.2	47.6	12.0	45.6	11.2	45.6	11.3	45.6	11.1
7-Year	24.2	6.3	24.2	6.1	24.2	6.2	24.2	6.2	24.2	6.1	24.2	5.9	24.2	6.0	24.2	5.9
8-Year	17.9	4.7	17.9	4.5	17.9	4.6	17.9	4.6	17.9	4.5	17.9	4.4	17.9	4.4	17.9	4.4
9-Year	12.6	3.3	12.6	3.2	12.6	3.2	12.6	3.2	12.6	3.2	12.6	3.1	12.6	3.1	12.6	3.1
10-Year	31.4	8.2	31.4	7.9	34.4	8.8	35.3	9.0	35.3	8.9	39.4	9.7	39.4	9.7	39.4	9.6
11-Year	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0
12-Year	8.8	2.3	8.8	2.2	8.8	2.2	8.8	2.2	8.8	2.2	8.8	2.1	8.8	2.2	8.8	2.1
15-Year	24.7	6.4	24.7	6.3	32.1	8.2	32.1	8.2	32.1	8.1	32.1	7.9	32.1	7.9	32.1	7.8
20-Year	24.7	6.4	0.0	0.0	1.9	0.5	1.9	0.5	1.9	0.5	1.9	0.5	1.9	0.5	1.9	0.5
Total	384.4	100.0	395.5	100.0	392.0	100.0	390.7	100.0	395.5	100.0	408.1	100.0	404.8	100.0	411.8	100.0

Source: Central Bank of Kenya

CHART 7D: OUTSTANDING TREASURY BILLS AND BONDS



Source: Central Bank of Kenya

Long-term Stocks

During the first five months of the fiscal year 2008/09, Government long term stocks remained unchanged from Ksh 0.8 billion or 0.2 percent of total domestic debt as there were neither new issues nor redemptions of the instrument (Table 7.2). The National Social Security Fund (NSSF) held 54.2 percent of the outstanding stocks while insurance companies, other public enterprises and individuals held the remaining 45.8 percent.

Maturity Profile of Treasury Bills and Bonds

The cumulative redemptions of Government securities from December 2008 to February 2009 will comprise Ksh 59.5 billion in Treasury bills and Ksh 20.4 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 20.1 billion and Ksh 39.4 billion in 91-days and 182-days Treasury bills, respectively. Treasury bonds maturities in the period will consist of Ksh 10.0 billion, Ksh 3.29 billion, Ksh 5.73 billion and Ksh 1.42 billion in 1-year, 2-year, 3-year and 6-year bonds, respectively.

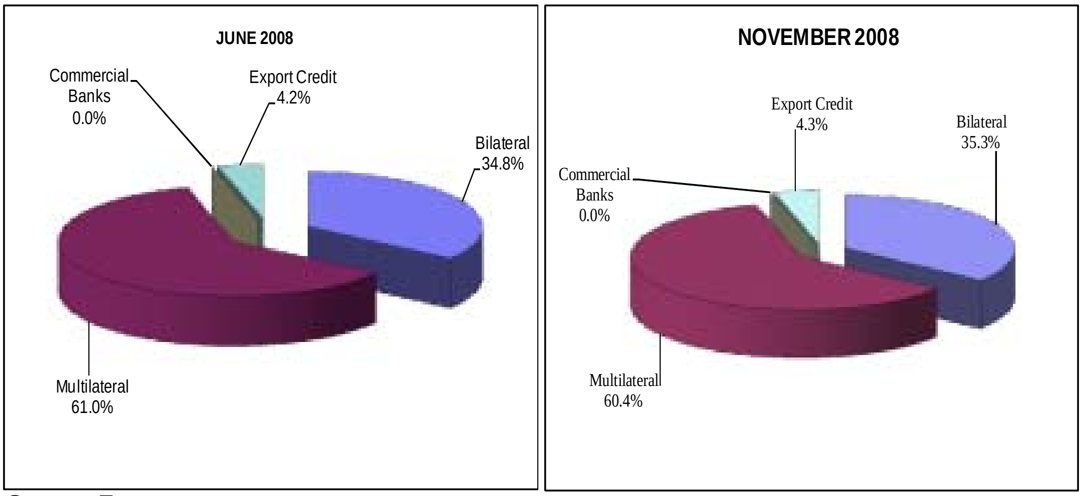
External Debt

Kenya's external debt decreased by Ksh 4.3 billion from Ksh 440.0 billion (21.6 percent of GDP) in June 2008 to Ksh 435.6 billion (19.9 percent of GDP) in November 2008 (Table 7.1). The decrease in external debt during the period was attributed to external loans repayments (excluding interest) of Ksh 6.3 billion and revaluation gains of Ksh 6.2 billion which more than offset disbursements of Ksh 8.2 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to bilateral creditors increased from 34.8 percent in June 2008 to 35.3 percent in November 2008. However, multilateral loans (including IMF) decreased from 61.0 percent of total external debt to 60.4 percent during the period while external debt contracted through export credit increased from 4.2 percent in June 2008 to 4.3 percent in November 2008 (Chart 7E).

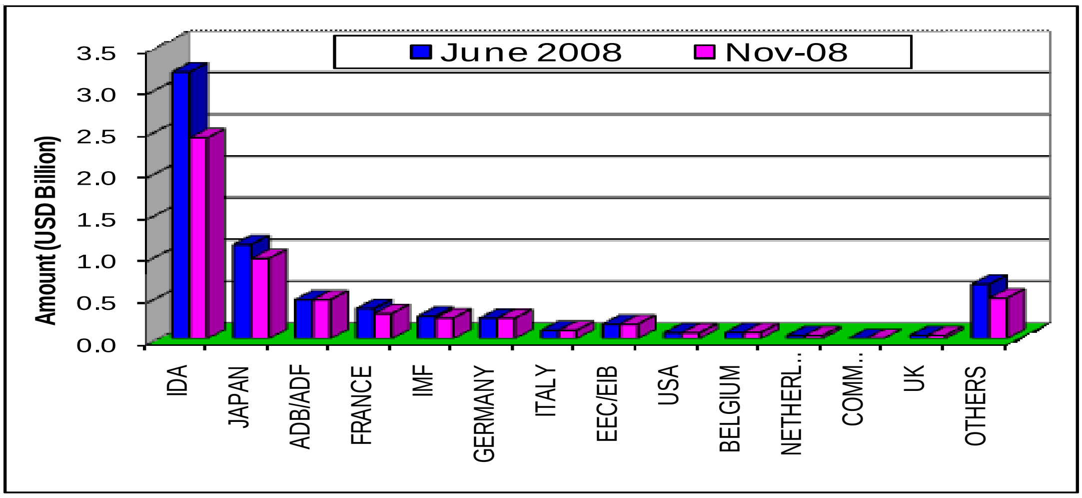
CHART 7E: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

IDA and Japan remained the two largest creditors in both June and November 2008. However, the amount of debt owed to IDA and Japan decreased from USD 3.2 billion and USD 1.1 billion in June 2008 to USD 2.4 billion and USD 1.0 billion respectively in November 2008. The levels of credit advanced by the rest of the creditors remained largely unchanged from their respective positions in June 2008 (Chart 7F).

CHART 7F: EXTERNAL DEBT BY CREDITOR

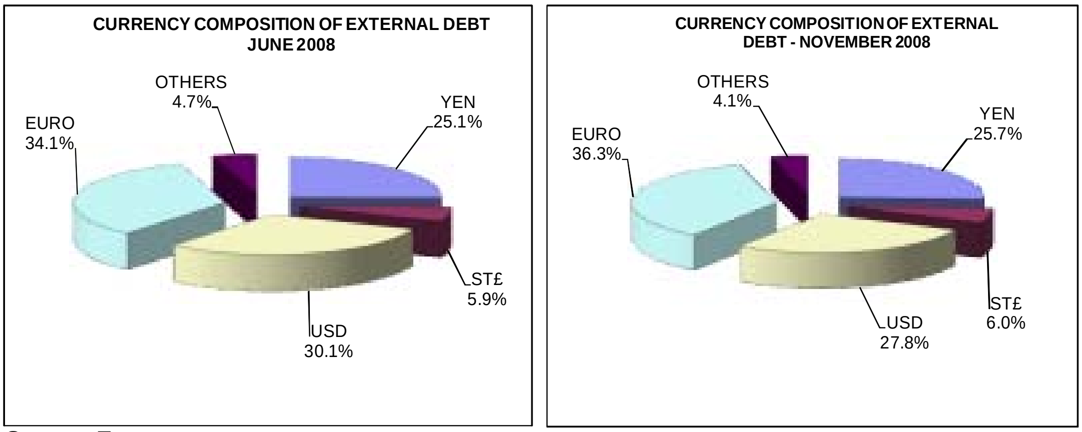


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in US dollars and other currencies decreased from 30.1 percent and 4.7 percent in June 2008 to 27.8 percent and 4.1 percent respectively in November 2008 (Chart 7G). On the other hand, the percentage of external debt held in Euros, sterling pounds and yen increased from 34.1 percent, 5.9 percent and 25.1 percent to 36.3 percent, 6.0 percent and 25.7 percent respectively during the period.

CHART 7G: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

The Cumulative Government expenditure on interest and other charges on domestic debt for the first five months of the fiscal year 2008/09 stood at 18.7 billion. On the other hand, the cumulative external debt service stood Ksh 8.1 billion of which Ksh 6.3 billion was in principal repayments and Ksh 1.8 billion was in interest payments.

Outlook for the Fiscal Year 2008/09

Government domestic and external borrowings during the fiscal year 2008/09 are projected at Ksh 25.2 billion and Ksh 54.5 billion respectively. However, as indicated in the Budget Strategy Paper for 2008/09 to 2010/11, gross domestic debt-to-GDP ratio is projected to fall from 22.0 percent in June 2008 to 21.0 percent in June 2009 as GDP is expected to grow at a faster rate compared with domestic debt. However, the Government plans to issue a sovereign bond in the international market totalling Ksh 33.6 billion in addition to the expected external borrowing. Consequently, external debt-to-GDP ratio is expected to increase from 19.5 percent to 21.9 percent during the period, which will however be lower than the 23.1 percent in June 2008.

ACTIVITY IN THE STOCK MARKET

Equity Market Year 2008 Review

There was mixed performance at the equities market in the month of December 2008 (Table 6) as reflected by key market indicators. The number of shares traded declined from 290.9 million in November 2008 to 170.9 million in December 2008. Equity turnover rose by Ksh 893.4 million, from Ksh 3723.7 million in November 2008 to Ksh 4617.1 million in December 2008. The market capitalization rose by Ksh 62.3 billion, from Ksh 791.6 billion in November 2008 to Ksh 853.9 billion in December 2008. The NSE 20 Share Index rose by 179.7 points to close at 3,521.18 points in December 2008. Market liquidity ratio dropped to 0.29 percent in December 2008 from 0.52 percent in November 2008 following a decline in the number of shares traded.

The Commercial and Services sector dominated in trading during the month with Safaricom contributing the largest share of its trading with 97.4 million shares traded. The agricultural sector had 1.0 million shares traded while the Finance and Investment sector traded 56.0 million shares. The most active stock was Equity which traded

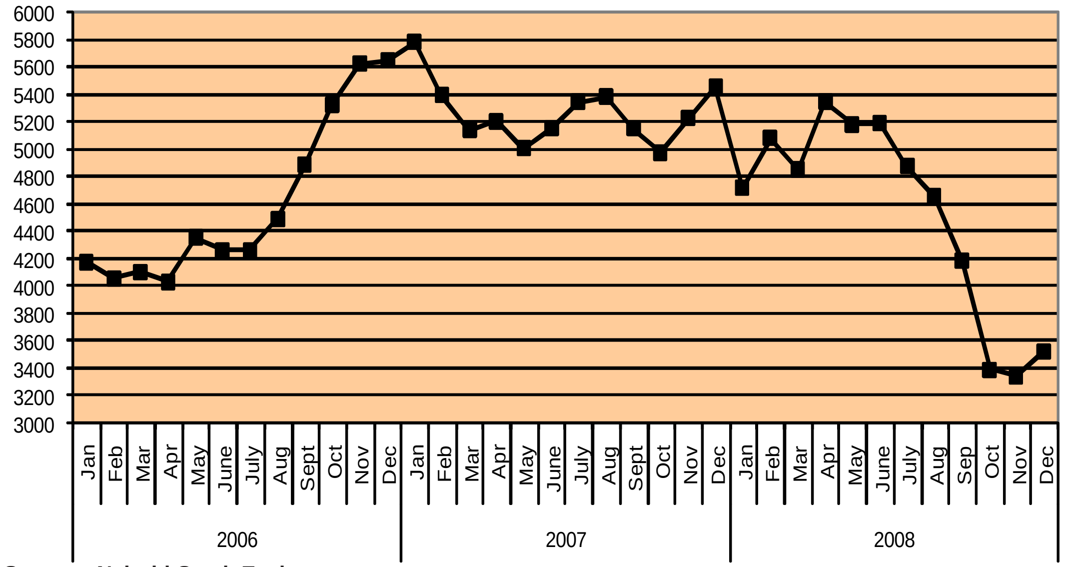
TABLE 8.1: SELECTED STOCK MARKET INDICATORS, 2006 - 2008

Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
September 06	4,879.86	177.42	12,377.72	726.78	1,497.00
October 06	5,314.36	161.25	13,089.36	771.70	1,872.06
November 06	5,615.20	169.47	13,648.68	806.23	2,847.80
December 06	5,645.65	77.42	5,770.67	791.58	1,009.50
January 07	5,774.24	136.31	10,482.89	824.29	1,601.75
February 07	5,387.28	109.08	7,763.86	723.66	6,234.20
March 07	5,133.67	114.27	6,955.35	696.92	7,789.26
April 07	5,199.44	87.45	4,342.38	701.98	6,266.30
May 07	5,001.77	123.72	6,224.92	709.69	9,555.15
Jun 07	5,146.73	151.11	6,079.43	743.91	10,077.70
July 07	5,340.08	168.57	6,442.34	780.72	8,242.80
August 07	5,371.72	248.14	9,251.20	811.23	10,829.55
September 07	5,146.46	275.7	9,902	791.7	9,523.20
October 07	4,971.04	183.60	7,214.02	745.50	3,486.95
November 07	5,215.36	177.95	7,522.12	798.15	4,695.70
December 07	5,444.83	140.80	6,017.99	851.13	7,007.20
January 08	4,712.71	197.04	7,046.14	775.20	5,937.90
February 08	5,072.41	198.83	8,011.26	830.65	3,212.55
March 08	4,843.17	180.64	7,320.55	781.66	14,345.35
April 08	5,336.03	141.76	5,635.56	907.90	2,145.10
May 08	5,175.83	168.03	6,840.00	916.74	3,040.00
June 08	5,185.56	2,154.90	22,130.01	1,230.67	4,910.00
July 08	4,868.27	983.75	14,280.00	1,120.08	2,390.00
August 08	4,648.78	490.81	7,490.20	1,081.86	8,795.30
September 08	4,180.40	485.30	6,787.80	972.30	5,215.85
October-08	3,386.65	393.50	3,642.40	764.90	4,564.60
November-08	3,341.00	290.94	3,723.72	791.60	3,225.00
December-08	3,521.18	170.86	4,617.10	853.88	3,611.35

Source: Nairobi Stock Exchange

17.8 million shares .The Industrial and Allied sector traded 18.5 million shares with Mumias Sugar trading 5.9 million shares.

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



Source: Nairobi Stock Exchange

Bond Market The bond turnover increased by 11.98 percent, with bonds worth Ksh 3,611.4 million traded in December 2008, down from Ksh 3,225.0 million traded in November 2008.

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

	Dec-08	Dec-07	Dec 07/Dec 08 Movement
ASSETS	279,217	282,949	(3,732)
Foreign Exchange	223,549	228,677	(5,128)
Advances and Discounts to Banks	0	7,247	(7,247)
Discounted Government Securities	10	2	8
Banks in Liquidation	0	0	0
Government Accounts	50,082	41,877	8,205
Overdraft to Government	15,093	1,992	13,101
Clearing Account	144	3,108	(2,964)
IMF funds on-lent to Government	961	1,228	(267)
Frozen Government Accounts	33,884	35,549	(1,665)
Other assets	5,576	5,146	430
Debtors	4,108	4,026	82
Retirement Benefits	55	240	(185)
Property and Equipment	1,137	600	537
Prepaid Leases	276	280	(4)
LIABILITIES	279,217	282,949	(3,732)
Currency in Circulation	115,736	115,930	(194)
Repo Securities	3,971	10,119	(6,148)
Deposits	131,836	142,475	(10,639)
Commercial Banks			0
Kenya	47,858	40,881	6,977
External	90	23	67
Non-Bank Financial Institutions	0	124	(124)
Other Public Entities and Project A/Cs	9,469	1,826	7,643
IMF	22,063	19,519	2,544
Government	50,091	76,246	(26,155)
Local Banks Forex Settlement Fund	2,265	3,856	(1,591)
Other Liabilities and Provisions	4,548	2,990	1,558
Capital and Reserves	23,126	11,435	11,691
Capital	5,000	1,500	3,500
General Reserve Fund	9,254	7,759	1,495
Surplus b/f from June 2008	0	0	0
Period's Surplus	8,872	2,176	6,696
Dividend payable	0	0	0

Source: Central Bank of Kenya

NOTES ON THE BALANCE SHEET

Assets

Foreign exchange reserves of the Bank declined by Ksh 5,128 million in December 2008, from Ksh 228,677 million in December 2007 to Ksh 223,549 million.

Advances and discounts to commercial banks declined by Ksh 7,247 million in the year to December 2008.

Government accounts increased by Ksh 8,205 million, from Ksh 41,877 million in December 2007 to Ksh 50,082 million in December 2008. The increase reflected Ksh 13,101 million increase in utilisation of the overdraft facility. The increase was however offset by a reduction of Ksh 1,665 million in non-interest bearing Government debt, a decline of Ksh 2,964 million in the clearing account balances and a decline in the IMF funds on-lent to Government of Ksh 267 million.

Other assets increased by Ksh 430 million in the year to December 2008 on account of an increase of Ksh 537 million in the value of property and equipment and a Ksh 82 million increase in the value of debtors. This increase was, however, offset by a decline in the value of retirement benefits by Ksh 185 million.

Liabilities

Currency in circulation declined by Ksh 194 million in December 2008, from Ksh 115,930 million in December 2007 to Ksh 115,736 million.

The **stock of repo securities** declined by Ksh 6,148 million, from Ksh 10,119 million in December 2007 to Ksh 3,971 million in December 2008.

Deposits also declined by Ksh 10,639 million, from Ksh 142,475 million in December 2007 to Ksh 131,836 million in December 2008, reflecting increases in Commercial Banks' deposits at the Central Bank of Ksh 6,977 million, increase in IMF deposits liabilities with the Bank of Ksh 2,544 million and increases in other Public Entities and Project account deposits of Ksh 7,643 million. The increases were however offset by Government of Kenya deposits of Ksh 26,155 million, non-bank financial institutions deposits of Ksh 124 million and Local banks forex settlement funds of Ksh 1,591 million.

Other liabilities and provisions increased by Ksh 1,558 million, from Ksh 2,990 million in December 2007 to Ksh 4,548 million in the year to December 2008.

Capital and reserves increased by Ksh 11,691 million, from Ksh 11,435 million in December 2007 to Ksh 23,126 million in the year to December 2008, due to an increase in the surplus of the year to December 2008 of Ksh 6,696 million, an increase of Ksh 1,495 million in the general reserve fund and an increase of Ksh 3,500 in the capital reserves.