MONTHLY ECONOMIC REVIEW
FEBRUARY 2011
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Overview

Introduction

This Monthly Economic Review highlights recent economic developments through February 2011. This includes developments in money, credit and banking, inflation, interest rates and the exchange rates. It also highlights developments in the real sector, Government budgetary operations, public debt and balance of payments.

Money Supply

Money supply, M3, increased by 20.5 percent in the year to February 2011 compared with a similar increase of 20.5 percent in a corresponding period in 2010. The expansion in money supply in February 2011 was supported by increased NFA and NDA of the banking system.

Interest Rates

The Monetary Policy Committee in their meeting of 27th January, 2010 lowered the Central Bank Rate (CBR) by 25 basis points to 5.75 percent. The average interbank rate declined to 1.13 percent in February 2011 from 1.24 percent in January 2011 while lending rates declined to 13.92 percent in February 2011 from 14.03 percent in January 2011.

Real GDP Growth

Real gross domestic product grew by 2.6 percent in 2009 compared with growth of 1.6 percent in 2008. The improvement in economic performance was sustained in the first nine months of 2010. Total output increased by 4.7 percent in the first quarter of 2010, by 5.3 percent growth in the second quarter of 2010 and by 6.1 percent in the third quarter of 2010. Expansion in output was recorded for the larger sectors of the economy and also across the smaller sectors, notably Construction and Financial Intermediation.

Inflation

Overall 12-month inflation rose from 5.4 percent in January 2011 to 6.5 percent in February 2011 reflecting higher food and fuel prices. The 'Food and Non-Alcoholic Beverages' rose by 9.8 percent in February 2011, while the 'Transport' index, which rose by 13.4 percent in February 2011. Annual average inflation rose from 3.9 percent in January 2011 to 4.0 percent in February 2011.

Government Fiscal Operations

The central Government budgetary operations during the period July 2009 to February 2011in the fiscal year 2010/11 resulted in a deficit of Ksh 80.6 billion on commitment basis compared with a deficit of Ksh 89.4 billion in a similar period of 2009/10.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by Ksh 123.5 billion from July 2010 to February 2011 in the fiscal year 2010/11 to Ksh 1,349.2 billion from Ksh 1,225.7 billion. In terms of share of GDP, the public guaranteed debt rose to 54.2 percent from 45.5 percent over the same period in 2009/2010 fiscal year. The external debt to GDP ratio increased from 22.2 percent in June 2010 to 24.2 percent in February 2011, while the domestic debt to GDP ratio increased from 25.9 percent to 30.0 percent during the period. The domestic debt of Ksh 746.9 billion, in February 2011 accounted for 55.4 percent of the public guaranteed debt and the balance was contributed by external debt.

Balance of Payments

Kenya's overall balance of payments surplus narrowed to US$ 199 million in the year to January 2011 compared with US$ 849 million in the year to January 2010. The movement reflects a wider current account deficit following increased imports and reduced financial flows.

Exchange Rates

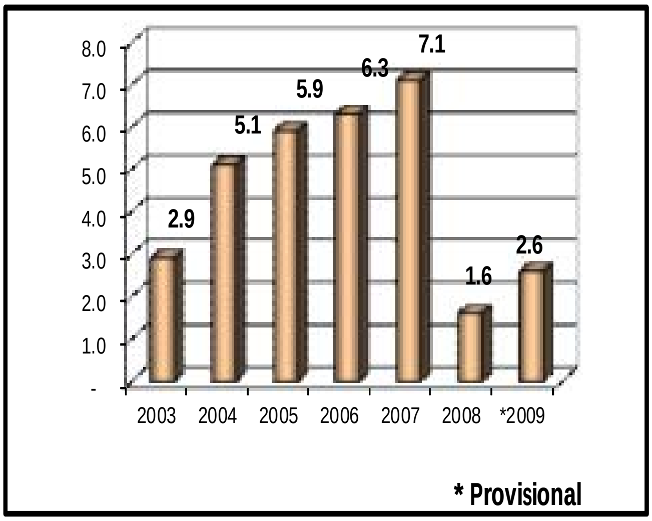
The Kenya Shilling depreciated in February 2011 against major world currencies. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.47 per US dollar in February 2011 compared with Ksh 81.03 per US dollar in January 2011. Against the regional currencies, the Kenya shilling depicted mixed performance in February 2011 compared with January 2011.

Banking Sector Developments

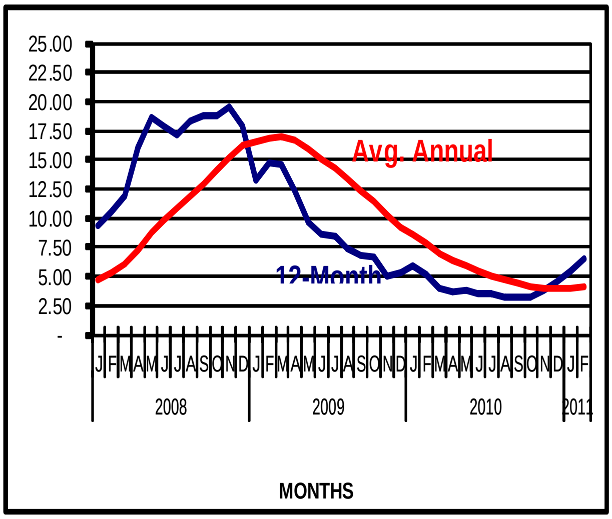
During the period ended February 28, 2011, the Kenyan Banking sector recorded significant growth in assets driven by growth in deposits, injection of capital and retention of profits. On the other hand, the level of non-performing loans declined compared to a similar period in 2010.

SELECTED ECONOMIC PERFORMANCE INDICATORS

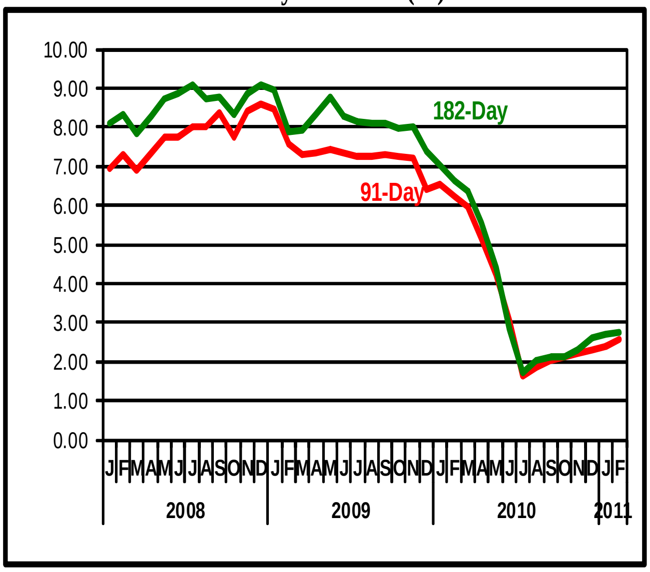
Real GDP Growth (%)



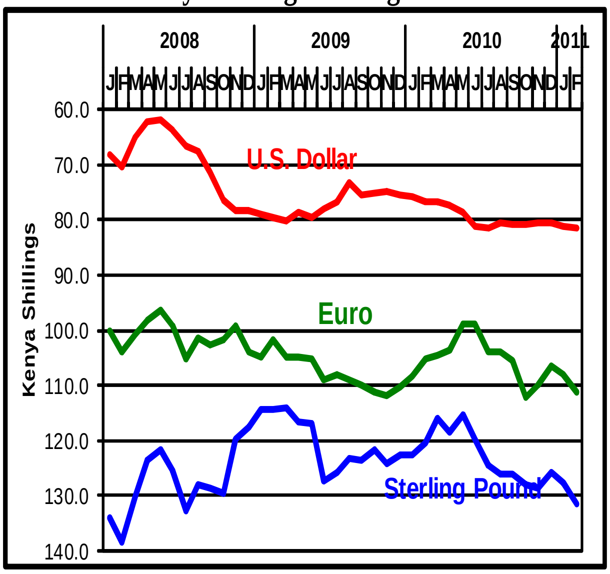
Inflation (%)



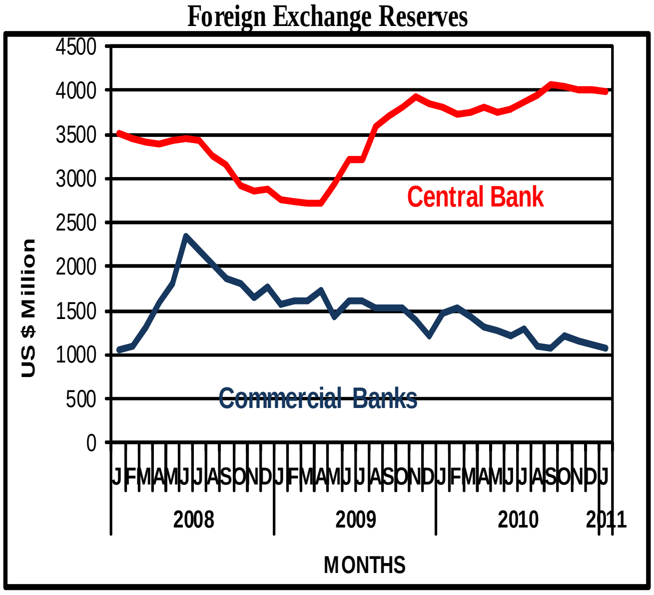
Treasury Bill Rates (%)



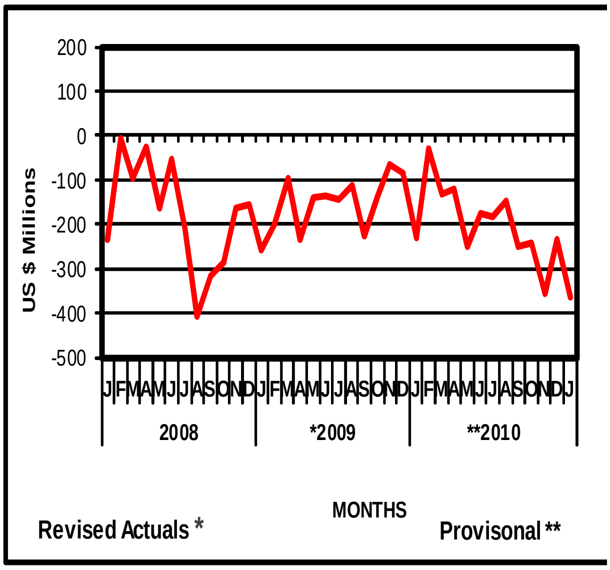
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
1.	POPULATION*										
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	39.40
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	2.87
2.	NATIONAL ACCOUNTS**										
	Gross value added at basic prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,625	1,444,139	1,615,214	1,833,646	2,048,485
	GDP at Market Prices (Ksh m):										
	At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,591	1,828,788	2,077,433	2,273,685
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,133	1,249,459	1,336,874	1,357,640	1,392,832
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.32	7.00	1.55	2.59
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,480	34,611	35,937	35,448	35,351
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)[3]	12.9	10.0	8.1	10.1	12.2	13.4	14.9	13.7	15.5	11.1
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)[3]	6.7	4.4	4.0	4.8	6.6	5.7	8.9	8.5	12.6	6.1
5.	GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	19.1	19.2	23.4
6.	OVERALL INFLATION BASE PERIOD= FEB 2009										
	Annual Average Inflation	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27	9.24
	12-Month Inflation	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32
7.	STOCK MARKET										
	Nairobi Stock Exchange Price Index (1966=100)	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44
	Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64
8.	GOVERNMENT BUDGET (Ksh bn) ***										
	Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67	511.36
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91
	Budget Deficit (-) / Surplus (+)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)
	Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(1.54)	0.42	(2.39)	(1.18)	(3.68)	(4.79)
9.	MONEY AND CREDIT (Ksh bn)(end period)										
	Liquidity (L)[1]	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,091.93	1,280.47
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.06	1,045.66
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96
	Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	827.41	978.32
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	162.78	218.53
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	664.64	759.79
10.	BALANCE OF PAYMENTS (US$ m)**										
	Overall Balance	217.00	372.00	59.00	365.00	117.00	306.00	675.00	854.00	(469.00)	780.53
	Current Account	(240.00)	(385.00)	(117.69)	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,609.28
	Capital and Financial Account	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00	2,389.81
11.	FOREIGN EXCHANGE RESERVES (US$ m) End Period	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78	5,064.03
	Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46	3,847.39
	*Months of imports*** **	*2.8*	*3.2*	*3.3*	*4.4*	*4.1*	*4.0*	*3.9*	*4.8*	*3.4*	*4.1*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63
12.	PUBLIC DEBT (US$ bn) End Period***	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	13.46	13.66
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15	21.67
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61	22.36
13.	EXCHANGE RATE (Ksh/US$) (Annual Average)	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18	77.35

* Provisional. ** Revised to

** Reflect data in Economic Survey 2010.

*** Fiscal year to June 30th.

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

1 Previously M3XT

2 Previously M3X

3 Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2010 Jan	2010 Jun	2010 Sept	2010 Oct	2010 Nov	2010 Dec	2011 Jan	2011 Feb
1. INFLATION (%)								
CPI	104.89	105.61	106.74	106.97	107.86	109.38	110.57	112.05
Overall Inflation								
12-month overall inflation	5.95	3.49	3.21	3.18	3.84	4.51	5.42	6.54
Average annual overall inflation	8.64	5.43	4.40	4.12	4.02	3.96	3.93	4.05
2. INTEREST RATES (%)								
91-day Treasury bill interest rate	6.56	3.06	2.04	2.12	2.21	2.28	2.41	2.57
Overdraft interest rate	14.48	14.23	13.81	13.64	13.77	13.69	13.93	13.65
3. STOCK MARKET								
Nairobi Stock Exchange Price Index	3,565.28	4,339.28	4,629.80	4,659.56	4,395.17	4,432.60	4,464.92	4,240.18
Turnover (%)	0.96	0.57	1.24	0.77	0.76	0.55	1.10	0.51
4. GOVERNMENT BUDGET* (Ksh bn.)								
Revenue	311.97	560.79	142.43	193.09	243.16	309.23	362.57	408.80
Expenses	372.03	718.65	178.61	243.14	303.78	368.99	432.16	489.40
Budget Deficit (-) / Surplus (+)	(60.06)	(157.86)	(36.19)	(50.05)	(60.62)	(59.76)	(70.18)	(80.60)
5. MONEY AND CREDIT (Ksh bn.)								
Liquidity (L)[1]	1,297.90	1,442.85	1,527.38	1,531.80	1,553.61	1,570.08	1,590.35	1,615.91
Money Supply (M3)[2]	1,067.27	1,198.93	1,243.60	1,248.50	1,258.81	1,272.59	1,290.53	1,310.25
Reserve Money	179.45	210.25	209.89	211.00	224.05	221.11	210.62	213.41
Total Domestic Credit	984.70	1,086.75	1,139.10	1,162.80	1,174.82	1,195.72	1,203.53	1,239.10
Government	220.69	277.69	278.21	279.80	279.94	285.09	274.70	286.84
Private sector and other public sector	737.70	809.06	860.89	883.00	894.87	910.62	928.83	952.25
6. MONEY AND CREDIT (Annual % Change)								
Liquidity (L)[1]	19.16	23.65	25.38	23.20	24.93	22.62	22.53	23.23
Money Supply (M3)[2]	19.20	20.50	26.01	24.10	23.12	21.70	20.92	20.50
Reserve Money	17.68	31.46	28.39	29.10	25.75	21.52	17.37	21.77
Total Domestic Credit	21.97	25.75	27.90	27.10	24.69	25.10	22.23	22.80
Government	40.80	59.71	48.69	45.50	29.36	39.02	24.48	17.87
Private and other public sector	15.20	17.20	22.37	22.20	23.29	21.30	21.59	24.37
7. BALANCE OF PAYMENTS (US$ m)								
Overall Balance	(37.81)	43.22	120.49	(5.68)	(47.08)	(1.34)	(1.97)	24.54
Current Account	(244.39)	(191.67)	(283.05)	(239.69)	(358.20)	(232.30)	(359.05)	(205.79)
Trade Balance	(559.95)	(584.94)	(688.67)	(640.70)	(812.17)	(677.35)	(679.63)	(574.10)
Capital and Financial Account	206.58	234.88	403.54	234.01	311.13	230.96	357.08	230.33
8. FOREIGN EXCHANGE RESERVES (US$ m)	5,279.39	5,009.27	5,140.85	5,269.66	5,155.87	5,122.52	5,062.44	5,481.38
Official**	3,809.58	3,798.58	4,062.77	4,053.95	4,006.87	4,001.68	3,991.90	4,117.83
Months of imports cover	4.02	3.89	4.08	4.06	3.97	3.85	3.82	3.92
Commercial banks	1,469.84	1,210.69	1,078.08	1,215.72	1,149.00	1,120.84	1,070.54	1,363.55
9. PUBLIC DEBT (US$ bn)	14.57	14.66	15.52	16.04	16.29	16.38		
Domestic	7.65	8.05	8.60	8.63	8.84	8.94		
As % of GDP	23.39	25.90	28.22	27.54	27.82	27.84		
External	6.91	6.90	6.92	7.41	7.45	7.44		
As % of GDP	21.13	22.20	22.69	23.67	23.44	23.16		
10. GROSS DOMESTIC DEBT (Ksh bn)***	580.7	659.6	704.7	696.1	711.4	720.3	726.3	746.9
11. AVERAGE EXCHANGE RATE								
Ksh/US$	75.79	81.02	80.91	80.71	80.46	80.57	81.03	81.47
Ksh/Pound Sterling	122.53	119.62	125.94	127.98	128.52	125.65	127.70	131.45
Ksh/ 100 Yen	83.11	89.18	95.88	98.60	97.65	96.78	98.13	98.65
Ksh/Euro	108.27	98.99	105.61	112.20	110.07	106.54	108.16	111.29

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

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

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

[1] Previously M3XT

[2] Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

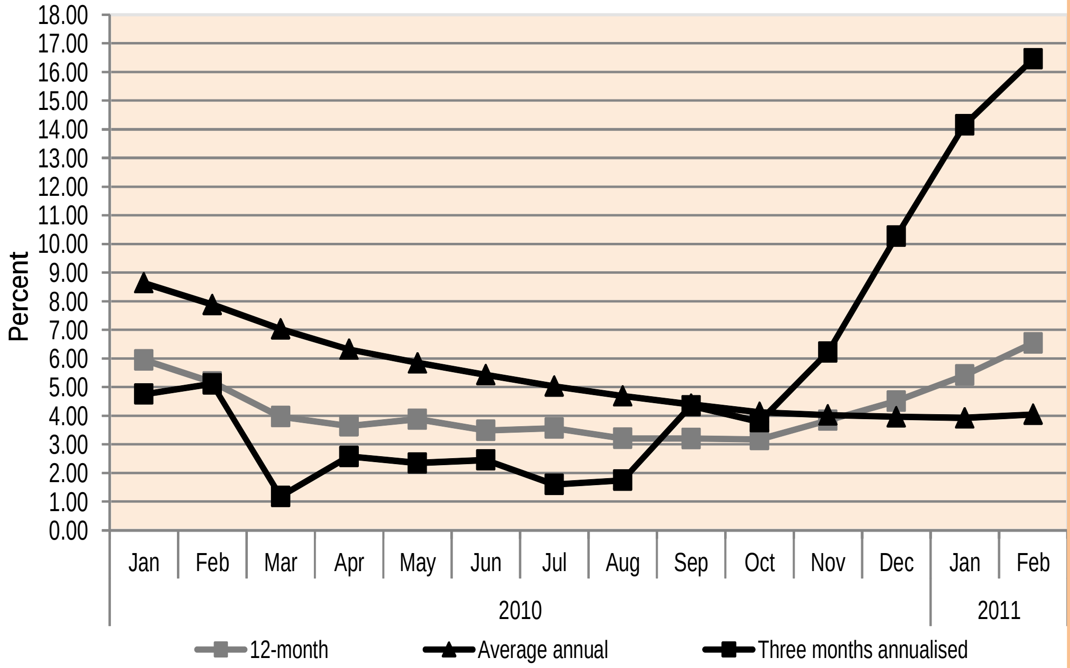
Overall 12-month inflation increased from 5.4 percent in January 2011 to 6.5 percent in February 2011 (Table 1.1 and Chart 1A). The increase in the overall CPI reflected increased prices for food and fuel. The rise in food prices was largely attributed to the 'Food and Non-Alcoholic Beverages' and 'Restaurants and Hotels' indices, which rose by 9.8 percent and 7.9 percent respectively in February 2011, compared with increases of 8.6 percent and 7.0 percent in the previous month. Domestic retail prices for fuels increased during the month of February 2011 following a rise in international oil prices. This was reflected in the 'Transport' index, which rose by 13.4 percent in February 2011 compared with an increase of 8.4 percent recorded in the previous month.

TABLE 1.1: 12-MONTHS OVERALL, AVERAGE ANNUAL & THREE MONTHS ANNUALISED INFLATION (%)

Overall Inflation	2010												2011	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb
12-month	5.95	5.18	3.97	3.65	3.88	3.49	3.57	3.22	3.21	3.18	3.84	4.51	5.42	6.54
Average annual	8.64	7.88	7.03	6.32	5.85	5.43	5.03	4.69	4.40	4.12	4.02	3.96	3.93	4.05
Three months annualised	4.76	5.11	1.19	2.58	2.35	2.46	1.60	1.75	4.35	3.79	6.22	10.27	14.16	16.46

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

CHART 1A: 12-MONTHS OVERALL, AVERAGE ANNUAL & THREE MONTHS ANNUALISED INFLATION (%)



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

Inflation Across Categories of Goods & Services

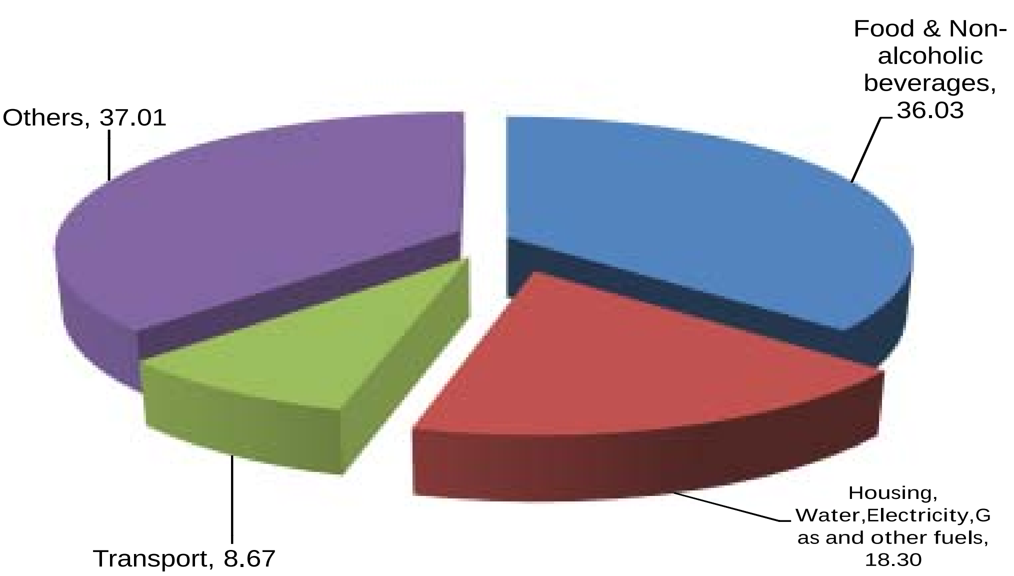
Inflation in the 'Housing, Water, Electricity, Gas and Other Fuels' basket rose from 4.4 percent in January 2011 to 5.4 percent in February 2011 following an increase in the cost of electricity due to rising fuel prices. The rise in prices in the other consumption baskets during the period under review was as follows: inflation in the 'Alcoholic Beverages, Tobacco and Narcotics', 'Clothing and Footwear' and 'Furnishings, Household Equipment and Routine Household Maintenance' baskets was 3.4 percent, 3.7 percent and 4.6 percent, respectively, in February 2011, while inflation in 'Health' and 'Education' baskets was 6.4 percent and 4.2 percent, respectively. Developments across all categories of goods and services, and the distribution of weights for the various baskets in the CPI are summarized in Table 1.2.

TABLE 1.2: OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (FEBRUARY 2011)

FEBRUARY 2011	Weight-CPI Kenya	NAIROBI				REST OF URBAN	TOTAL KENYA
		Lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya Combined	
Food & Non-alcoholic beverages	36.03	11.6	6.8	5.3	10.2	9.6	9.8
Alcoholic beverages, Tobacco & narcotics	2.06	0.3	2.4	2.5	0.9	5.1	3.4
Clothing & Footwear	7.43	3.6	3.2	6.1	3.6	3.8	3.7
Housing, Water,Electricity,Gas and other fuels	18.30	4.8	2.2	1.7	4.1	6.4	5.4
Furnishings, Household equipment and Routine household maintenance	6.16	5.9	1.8	1.8	4.8	4.6	4.6
Health	3.13	6.3	1.0	0.8	4.8	7.5	6.4
Transport	8.67	16.8	10.5	14.5	15.3	12.0	13.4
Communication	3.82	-33.9	-9.2	-20.4	-27.5	-24.9	-25.9
Recreation & culture	2.25	5.6	1.4	5.9	4.6	6.5	5.7
Education	3.14	4.8	10.7	4.4	6.2	2.8	4.2
Restaurants & hotels	4.49	9.5	2.7	4.0	7.7	8.1	7.9
Miscellaneous goods & services	4.52	1.1	4.4	1.8	1.9	4.9	3.7
ALL GROUPS	100.00	7.5	4.2	5.4	6.6	6.5	6.5

Source: Kenya National Bureau of Statistics

CHART 1B: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION IN FEBRUARY 2011



Source: Kenya National Bureau of Statistics

Inflation by Income Groups

On average, inflation in Nairobi was 6.6 percent while inflation in other urban centres of the country was 6.5 percent as shown in Table 1.3. In Nairobi, inflation for the 'Lower Income' group was 7.5 percent in February 2011, compared with inflation of

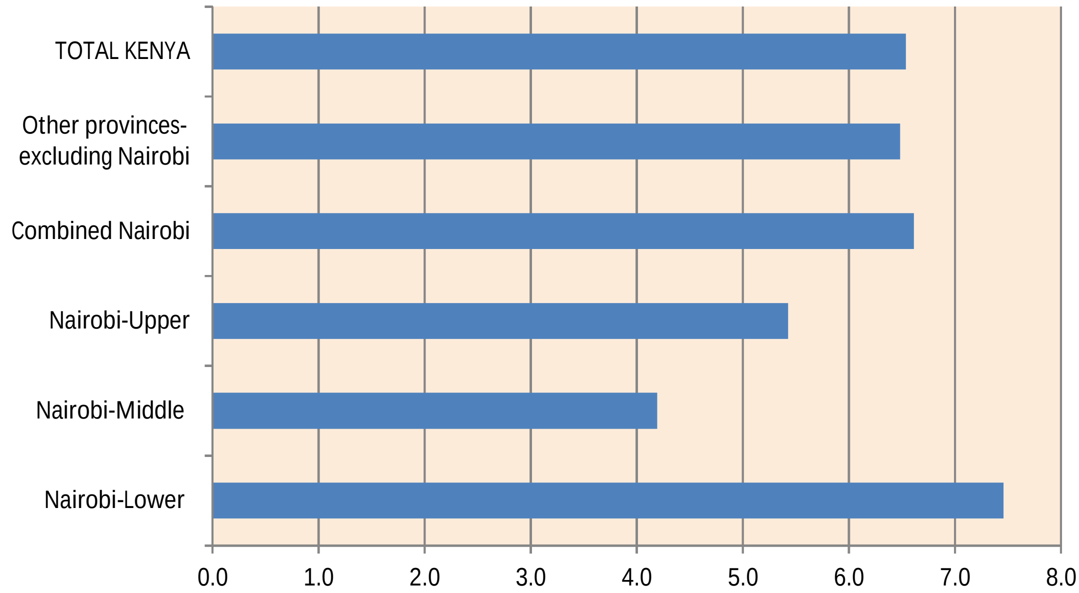
5.7 percent recorded in January 2011. Inflation for the 'Middle Income' and 'Upper Income' groups rose to 4.2 percent and 5.4 percent, respectively, in February 2011 compared with 3.6 percent and 5.1 percent recorded in January 2011.

TABLE 1.3: OVERALL INFLATION BY INCOME GROUPS (%)

	Feb-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11
Combined Nairobi	5.36	3.54	4.03	3.67	3.69	3.20	3.61	4.16	5.16	6.61
Lower Income	6.16	3.92	4.64	4.39	4.32	3.63	4.02	4.70	5.67	7.46
Middle Income	2.95	1.92	1.87	1.30	1.65	1.63	2.10	2.40	3.60	4.19
Upper Income	5.56	6.56	5.93	4.71	4.20	4.71	5.19	4.63	5.11	5.43
Other provinces- excluding Nairobi	5.05	3.45	3.24	2.90	2.87	3.16	4.00	4.76	5.60	6.48
TOTAL KENYA	5.18	3.49	3.57	3.22	3.21	3.18	3.84	4.51	5.42	6.54

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

CHART 1C: OVERALL INFLATION BY INCOME GROUPS FEBRUARY 2011 (%)



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

Inflation Outlook

Inflationary pressures due to food supply constraints are expected to persist prior to the onset of the March-May 'long rains'. The other factor expected to add upward pressure on domestic prices is the sustained increase in international crude oil prices.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

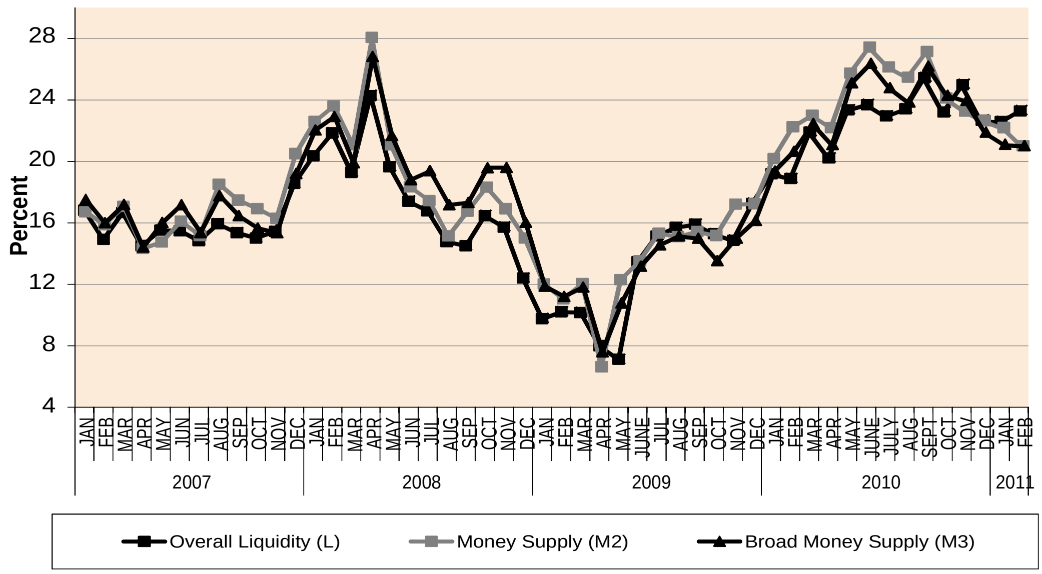
Money supply, M3[1], increased by 20.5 percent in the year to February 2011 a similar increase as in the corresponding period in 2010. Money supply, M2, that is, M3 excluding foreign currency deposits, also grew by 20.5 percent in February 2011 compared with 22.1 percent in February 2010 (Table 2.1 and Chart 2A).

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

	2009 Feb	2010 Feb	2011 Feb	Feb-10 12 months %age change	Feb-11 12 months %age change
1. Money supply, M3 (2+3) 2/	**900.0**	**1084.3**	**1310.2**	**20.5**	**20.8**
1.1 Money supply, M2 3/	768.2	938.1	1133.8	22.1	20.9
1.2 Money supply, M1	380.5	457.9	589.9	20.3	28.8
1.3 Currency outside banks	89.7	95.7	115.0	6.7	20.2
2. Net foreign assets 4/	**247.9**	**263.6**	**287.7**	**6.3**	**9.2**
Central Bank	195.1	216.8	263.5	11.1	21.5
Banking Institutions	52.8	46.8	24.3	-11.4	-48.1
3. Net domestic assets (3.1+3.2)	**652.1**	**820.8**	**1022.5**	**25.9**	**24.6**
3.1 Domestic credit (3.1.1+3.1.2)	**823.9**	**1009.0**	**1239.1**	**22.5**	**22.8**
3.1.1 Government (net)	153.9	243.4	286.8	58.1	17.9
3.1.2 Private sector and other public sector	670.0	765.7	952.3	14.3	24.4
3.2 Other assets net (3-3.1)	**-171.8**	**-188.3**	**-216.6**	**9.6**	**15.1**
Memorandum items					
1. Overall liquidity, L 1/	**1103.4**	**1311.3**	**1615.9**	**18.8**	**23.2**
2. Reserve money	**151.8**	**175.3**	**213.4**	**15.4**	**21.8**
Currency outside banks	89.7	95.7	115.0	6.7	20.2
Bank reserves	62.1	79.5	98.4	28.0	23.7

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY JAN '07 - FEB'11



Source: Central Bank of Kenya

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

The increase in money supply in the year to February 2011 was supported by increased NFA and NDA of the banking system (Table 2.1). NFA of the banking system increased by 9.2 percent in the twelve months to February 2011 compared with a growth of 6.3 percent in a corresponding period in 2010. The improvement in the current period reflected a build up in the NFA of the Central Bank since the NFA of banking institutions declined. Growth in NDA decelerated to 24.6 percent in the year to February 2011 compared with 25.9 percent a year earlier due to a lower growth in credit to government.

Domestic Credit Developments

Total domestic credit grew by 22.7 percent in the year to February 2011 compared with 22.5 percent in a similar period in 2010. Growth in credit to Government decelerated to 17.4 percent in the year to February 2011 compared with a growth of 58.1 percent in a corresponding period in 2010. Commercial banks opted to increase credit to the private sector. Credit extended to the private sector increased by 14.0 percent in the year to February 2010 compared with a growth of 23.3 percent in the year to February 2011.

Increased bank credit to private sector was channeled to real estate (27.9 percent), trade (20.0 percent), manufacturing (14.4 percent), private households (13.5 percent), other activities (8.6 percent), business services (6.9 percent), consumer durables (5.4 percent), and agriculture (3.6 percent) (Chart 2B).

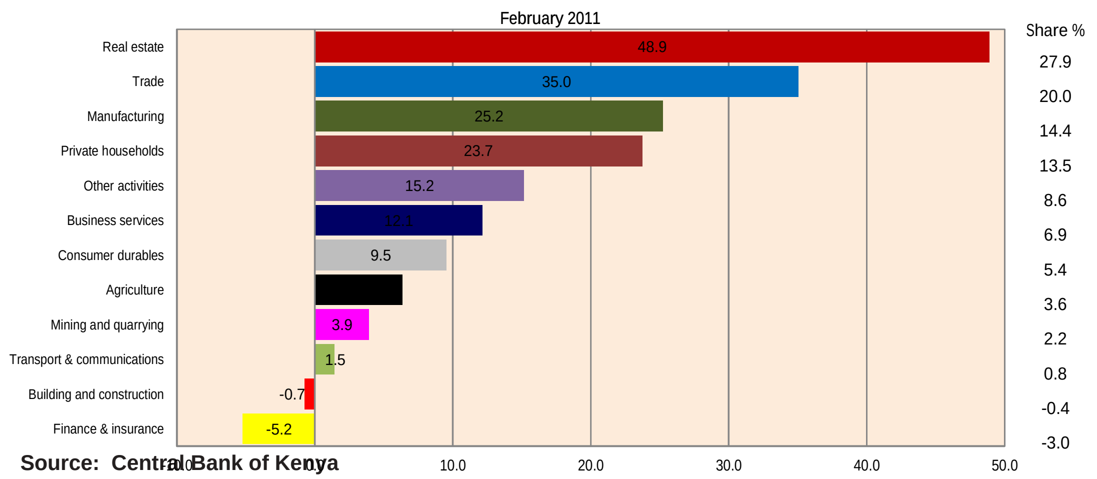
TABLE 2.2: BANKING SYSTEM NET DOMESTIC CREDIT (KSH BILLION)

	2010 February		2011 February		Annual %age Change February	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2000/10	2010/11
1. Credit to Government	243.4	24.1	285.6	23.1	58.1	17.4
Central Bank	-13.2	-1.3	-8.9	-0.7	26.19	-32.9
Commercial Banks & NBFIs	256.6	25.4	294.5	23.8	56.1	14.8
2. Credit to other public sector	11.7	1.2	22.7	1.8	38.4	94.7
Local government	-4.6	-0.5	-0.3	0.0	19.5	-93.4
Parastatals	16.2	1.6	23.0	1.9	32.5	41.9
3. Credit to private sector	754.0	74.7	929.6	75.1	14.0	23.3
Agriculture	36.6	3.6	43.0	3.5	10.9	17.4
Manufacturing	92.1	9.1	117.3	9.5	6.1	27.4
Trade	119.0	11.8	154.0	12.4	28.9	29.5
Building and construction	34.1	3.4	33.4	2.7	-2.5	-2.2
Transport & communications	63.8	6.3	65.3	5.3	10.3	2.3
Finance & insurance	27.3	2.7	22.1	1.8	60.9	-19.1
Real estate	52.3	5.2	101.2	8.2	38.3	93.6
Mining and quarrying	16.9	1.7	20.8	1.7	7.3	23.2
Private households	110.4	10.9	134.2	10.8	24.9	21.6
Consumer durables	53.6	5.3	63.1	5.1	46.6	17.8
Business services	67.1	6.6	79.2	6.4	-8.8	18.1
Other activities	80.8	8.0	96.0	7.8	-7.8	18.8
4. TOTAL (1+2+3) *	1009.0	100.0	1238.0	100.0	22.5	22.7

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

Source: Central Bank of Kenya

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO FEBRUARY 2011 (Ksh billion)



Source: Central Bank of Kenya

Reserve Money

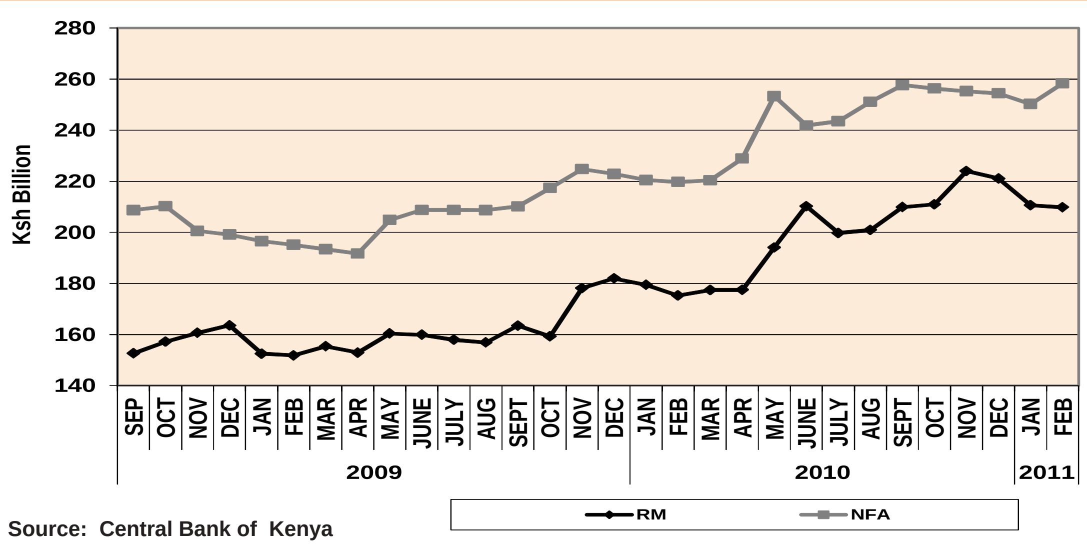
Reserve money increased by 19.7 percent to Ksh 209.8 billion in February 2011 from Ksh 175.3 billion in February 2010 (Table 2.3). The increase in reserve money reflected 22.4 percent growth in bank reserves and 17.5 percent increase in currency outside banks. At Ksh 209.8 billion in February 2011, reserve money was Ksh 1.3 billion below target.

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

	2009 Feb	2010 Feb	2011 Feb	Change (%) 2009/10	Change (%) 2010/11	2011 Feb Target	Deviation
1. Net Foreign Assets	195.1	216.8	258.4	11.1	19.2	261.1	-2.7
2. Net Domestic Assets	-43.3	-41.6	-48.6	-4.0	16.9	-50.1	1.5
2.1 Government Borrowing (net)	-10.5	-13.2	-8.9	26.2	-32.9	-2.4	-6.4
2.2 Advances & Discounts	2.0	5.2	14.3	156.6	177.7	-1.2	15.5
2.3 Other Domestic Assets (net)	-34.8	-33.5	-54.1	-3.8	61.3	-46.4	-7.7
3. Reserve Money	151.8	175.3	209.8	15.4	19.7	211.1	-1.3
3.1 Currency outside banks	89.7	95.7	112.5	6.7	17.5	112.6	-0.1
3.2 Bank reserves	62.1	79.5	97.3	28.0	22.4	98.5	-1.2

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The increase in reserve money in the year to February 2011 was supported by increased NFA of the Central Bank. NFA of the Central Bank rose by 19.2 percent to Ksh 258.4 billion in the year to February 2011, reflecting interbank purchases of foreign exchange to boost the level of gross reserves by the Bank.

NDA of the Central Bank declined to Ksh -48.6 billion in the year to February 2011, from Ksh -41.6 billion in the previous year.

Government borrowing net of deposits at the Central Bank improved to Ksh -8.9 billion from Ksh -13.2 billion in February 2010, while advances and discounts to commercial banks increased to Ksh 14.3 billion in February 2011. Other domestic assets net of other liabilities declined by 61.3 percent from Ksh -33.5 billion in February 2010 to Ksh -54.1 billion in February 2011.

The Central Bank Rate

The Monetary Policy Committee in their meeting of January 27, 2011 lowered the Central Bank Rate (CBR) by 25 basis points to 5.75 percent. In lowering the CBR to 5.75 percent, the Committee noted that private sector investment needed to be supported by affordable credit and though banks have gradually lowered their lending rates there was still scope for lending rates to decline further.

Interbank Interest Rate

The average interbank rate declined to 1.13 percent in February 2011 from 1.24 percent in January 2011 (Table 2.4. and Chart 2D). The 91-day Treasury bill rate increased to 2.57 percent in February 2011 from 2.41 percent in January 2011.

Lending and Deposit Rates

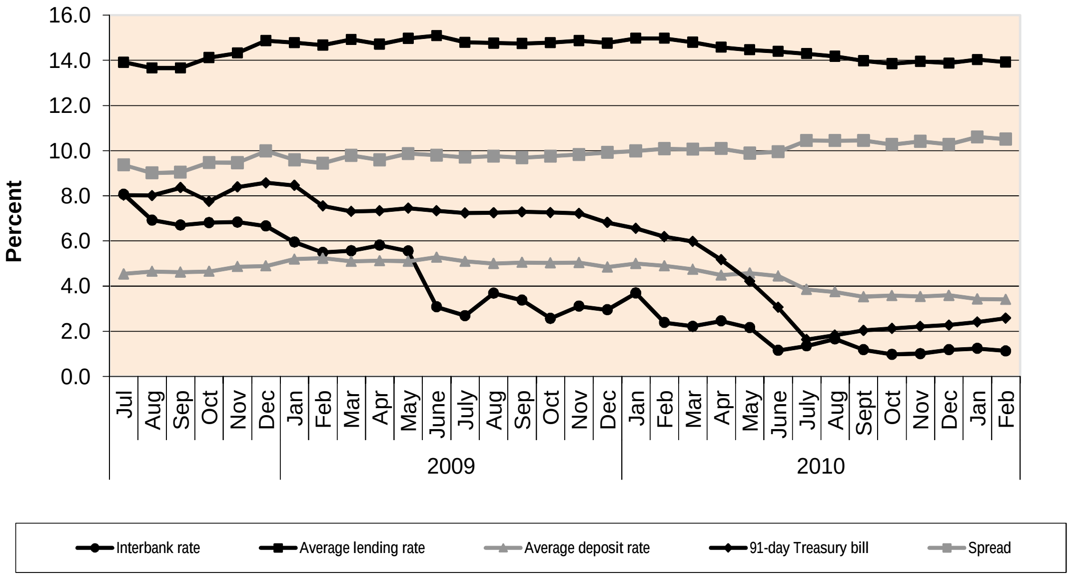
Commercial banks average lending rates declined to 13.92 percent in February 2011 from 14.03 percent in January 2011. The average deposit rate declined from 3.43 percent in January 2011 to 3.41 percent in February 2011. The interest rate spread narrowed to 10.51 percent in February 2011.

TABLE 2.4: INTEREST RATES (%)

	2009			2010					2011	
	Oct	Nov	Dec	Jan	Sept	Oct	Nov	Dec	Jan	Feb
91-day Treasury bill rate	7.26	7.22	6.82	6.56	2.04	2.12	2.21	2.28	2.41	2.57
Overdraft rate	14.03	14.24	14.13	14.48	13.81	13.64	13.77	13.69	13.93	13.65
Interbank rate	2.57	3.11	2.95	3.69	1.18	0.98	1.01	1.18	1.24	1.13
Repo rate	6.18	6.18	-	-	-	-	-	-		
Reverse Repo rate	3.17	4.36	3.62	3.91	-	-	1.53	1.41	1.19	1.18
Average lending rate (1)	14.78	14.85	14.76	14.98	13.98	13.85	13.95	13.87	14.03	13.92
Average deposit rate (2)	5.03	5.06	4.84	5.00	3.53	3.58	3.54	3.59	3.43	3.41
0 to 3 - month deposit	5.83	5.98	5.90	5.81	3.59	3.65	3.61	3.86	3.67	3.67
Savings deposits	1.85	1.71	1.73	1.75	1.47	1.46	1.40	1.45	1.25	1.41
Spread (1-2)	**9.75**	**9.79**	**9.92**	**9.98**	**10.45**	**10.27**	**10.41**	**10.28**	**10.60**	**10.51**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

PERFORMANCE OF THE REAL SECTOR

Overview

Real gross domestic product (GDP) grew by 2.6 percent from Ksh 1.35 trillion in 2008 to Ksh 1.39 trillion in 2009. Performance across key sectors of the economy was mixed with tourism, transport and communication and the building and construction recording comparably larger growth rates of 42.8 percent, 6.4 percent and 14.1 percent, respectively. The contraction in Agriculture and Forestry, which contributed 24.4 percent to GDP in 2009, reduced from 4.1 percent in 2008 to 2.6 percent in 2009.

The improvement in economic performance was sustained in the first nine months of 2010. Total output increased by 4.7 percent in the first quarter of 2010, by 5.3 percent growth in the second quarter of 2010 and by 6.1 percent in the third quarter of 2010 (Table 3.1). The increase in total output was attributed to sound macroeconomic policies and favourable weather conditions. Output estimates for Agriculture and Forestry show growth rates of 5.6 percent, 4.6 percent and 6.8 percent, respectively, for the first, second and third quarters of 2010, compared with -1.4 percent, -4.2 percent and -3.4 percent in the first three quarters of 2009. Expansion in output was also recorded for other larger sectors; namely, Manufacturing and Wholesale and Retail Trade, and also across other smaller sectors, notably Construction and Financial Intermediation.

TABLE 3.1: GROSS DOMESTIC PRODUCT BY ACTIVITY (Constant 2001 Prices, Percentage Change)

	Share in 2009	2009				2010		
	Real GDP	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture and Forestry	21.5	-1.4	-4.2	-3.4	-1.4	5.6	4.6	6.8
Fishing	0.4	15.6	8.4	3.9	2.6	1.7	3.2	4.4
Mining and Quarrying	0.4	-13.1	-5.9	-7.0	9.3	21.5	8.5	4.4
Manufacturing	9.9	5.0	-0.4	-0.5	4.1	8.2	7.4	7.8
Electricity and Water	2.2	1.3	1.5	-4.1	-11.0	1.5	11.9	24.4
Construction	3.6	24.1	11.1	2.4	22.2	4.8	18.0	14.6
Wholesale and Retail Trade	10.1	-2.6	-3.6	0.7	11.4	3.7	4.4	4.6
Hotels and Restaurants	1.4	157.6	48.3	1.7	-1.8	1.8	6.1	9.5
Transport and Communication	12.4	15.8	-2.8	10.4	2.7	4.8	2.1	2.6
Financial intermediation	3.9	2.1	1.5	7.1	7.7	11.0	16.0	20.3
Real Estate, Renting and Business Services	5.4	8.9	12.4	-6.6	-3.4	1.7	-1.8	1.7
Public Administration	3.3	1.5	0.9	1.7	2.3	0.5	0.8	0.9
Education	6.0	3.8	1.6	1.6	3.8	2.4	4.0	4.2
Other services	6.4	4.5	4.8	4.4	3.5	3.1	2.9	3.0
Financial Services Indirectly Measured	-0.9	7.1	18.0	31.7	30.7	25.6	25.1	25.9
GDP @ market prices	100	5.57	0.94	0.52	3.51	4.65	5.28	6.1

Source: Kenya National Bureau of Statistics - Third Quarter 2010 GDP Release

Agriculture

A survey of production activities gives indication of mixed economic performance in agriculture, manufacturing and services for the first month of 2011. In agriculture, export of horticultural produce increased by 17.8 percent from 23.4 thousand tonnes in January 2010 to 27.6 thousand tonnes in January 2011 as shown in Table 3.2. The increase in export volumes of horticulture was largely attributed to exports of vegetables and fruits. Deliveries of cane to sugar factories increased by 4,581 tonnes from 535.9 thousand tonnes delivered in January 2010 to 540.5 thousand tonnes in January 2011. Production of tea was however lower in January 2011 compared with production in January 2010 owing to unfavourable weather conditions. Tea production amounted to 36.0 thousand tonnes in January 2011 compared with 37.7 thousand tonnes produced in January 2010.

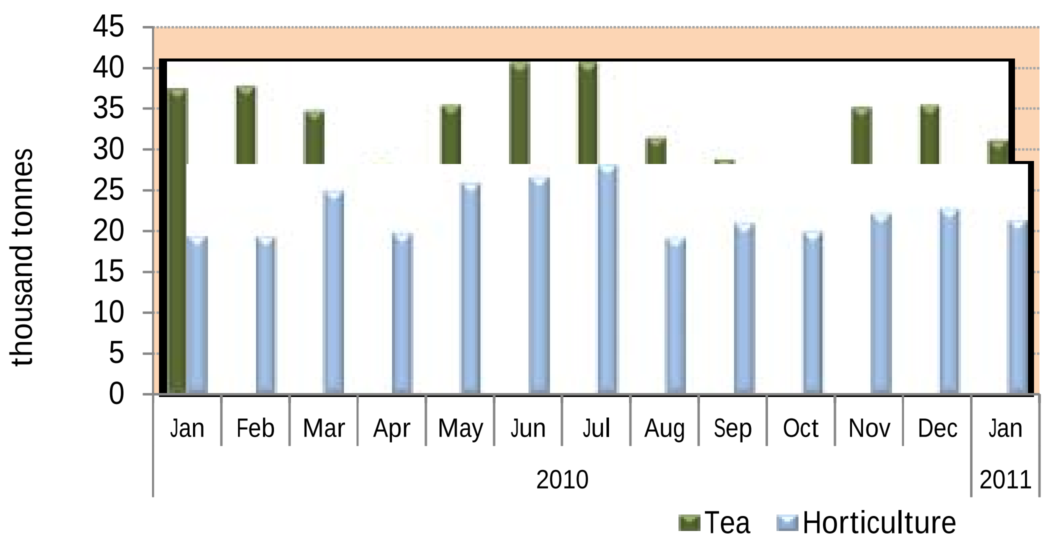
TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE			
	2009	2010*	Jan 2010*	Jan 2011*
Tea				
Output (Metric tonnes)	304,198.00	399,006.35	37,713.00	35,999.00
Growth (%)	*(0.12)*	*0.27*	*0.48*	*(0.05)*
Horticulture				
Output (Metric tonnes)	309,864.77	342,851.21	23,411.79	27,581.24
Growth (%)	*(0.17)*	*0.11*	*(0.19)*	*0.18*
Sugar Cane				
Output (Metric tonnes)	5,610,702.00	5,709,586.00	535,947.00	540,528.00
Growth (%)	*0.13*	*0.02*	*(0.06)*	*0.01*

* Provisional

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

CHART 3A: EXPORT VOLUMES FOR TEA AND HORTICULTURE



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

Manufacturing Statistics on output from manufacturing indicate expansion across a range of products. The amount of cement produced increased by 12.5 percent from 290.8 thousand tonnes in January 2010 to 327.2 thousand tonnes in January 2011, while the number of vehicles assembled locally increased by 24.4 percent to 372 in January 2011 (Table 3.3). Production of galvanized sheets, soda ash, processed sugar and soft drinks also increased during the period under review. Output of galvanized sheets increased by 46.0 percent from 14.2 thousand tonnes in January 2010 to 20.8 thousand tonnes in January 2011, while production of soda ash increased from

38.5 thousand tonnes in January 2010 to 42.3 thousand tonnes in in January 2011. Output of processed sugar and soft drinks increased to 55.97 thousand tonnes and 32.2 thousand litres, respectively, in January 2011, while the amount of milk processed declined marginally to 47.1 million litres.

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE			
	2009	2010*	Jan 2010*	Jan 2011*
Cement production				
Output (MT)	3,320,282	3,709,807	290,805	327,225
Output Growth %	17.4%	11.7%	17.3%	*12.5%*
Assembled vehicles				
Output (No.)	5,060	5,721	299	372
Growth %	-12.0%	13.1%	*-21.1%*	*24.4%*
Galvanised sheets				
Output (MT)	182,151	201,410	14,254	20,813
Growth %	-3.8%	10.6%	*(0.11)*	*0.46*
Soda ash				
Output (MT)	404,904	473,689	38,514	42,306
Growth %	(0.21)	0.17	*(0.10)*	*0.10*
Processed sugar				
Output (MT)	547,999	523,470	48,100	55,974
Growth %	7.1%	-4.5%	*(0.11)*	*0.16*
Milk				
Output ('000 litres)	407	511	49	47
Growth %	2.0%	25.7%	*0.38*	*(0.04)*
Soft drinks				
Output ('000 litres)	361,273	361,333	29,405	32,172
Growth %	5.8%	0.0%	*(0.06)*	*0.09*

MT = Metric tonnes
* Provisional

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

Energy Sector

In the energy sector, the supply of electricity increased from 451 million kilowatt hours in January 2010 to 603 million kilowatt hours in January 2011 (Table 3.4). Increased supply of electricity reflects increased generation of hydropower. On the demand side, the amount of electricity consumed also increased by 7.6 percent to 525 million kilowatt hours in January 2011 compared with 488 million kilowatt hours consumed in January 2010. Domestic consumption of fuels increased from 247 thousand tonnes in January 2010 to 272 thousand tonnes in January 2011. The average price for electricity and fuels however increased during the period under review following a rise in the import price of crude oil by 23.3 percent to US $ 95.6 per barrel.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE			
	2009	2010*	Jan 2010*	Jan 2010*
Electricity Supply (Generation)				
Output (million KWH)	5,331.54	6,407.00	450.51	603.26
Growth %	*-6.4%*	*20.2%*	*-5.3%*	*33.9%*
Of which:				
Hydro-power Generation (million KWH)	2,105.38	3,194.88	173.48	296.20
Growth (%)	-35.0%	51.7%	-25.1%	*70.7%*
Geo-Thermal Generation (million KWH)	1,478.12	1,442.16	110.77	119.15
Growth (%)	42.3%	-2.4%	-5.0%	*7.6%*
Thermal (million KWH)	1,746.96	1,769.49	166.26	187.91
Growth (%)	*23.5%*	*1.3%*	30.4%	*13.0%*
Consumption of electricity (million KWH)	5,320.90	5,918.10	487.60	524.80
Growth %	*0.7%*	*11.2%*	*7.7%*	*7.6%*
Consumption of Fuels ('000 tonnes)	3,190.00	3,177.00	246.80	272.00
Growth %	*11.5%*	*-0.4%*	*-1.5%*	*10.2%*
Murban crude oil average price (US $ per barrel)	62.6	79.2	77.5	95.6
Growth %	-36.0%	26.4%	*58.6%*	*23.3%*

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

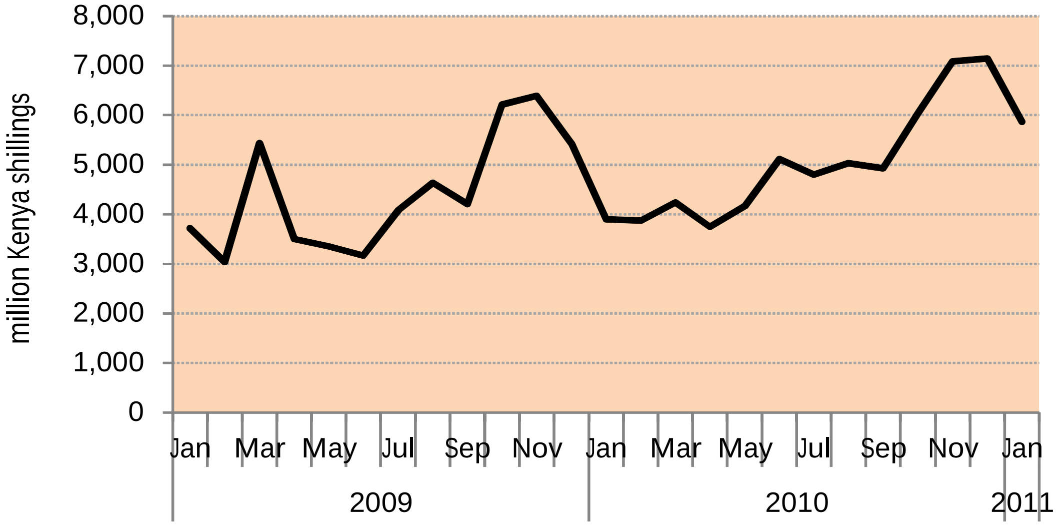
Indicators on the services sector point to increased activity at the Jomo Kenyatta International Airport (JKIA) but a decline in the volume of goods handled at the Port of Mombasa (Table 3.5). The total number of passengers (both local and foreign) served at JKIA increased from 241.4 thousand in January 2010 to 290.3 thousand in January 2011. Trade statistics however indicate that earnings from tourism increased from Ksh 3.9 billion for the January 2010 to Ksh 5.9 billion for the January 2011 (Chart 3B). The amount of oil put through the pipeline increased from 354 thousand litres in January 2010 to 356 thousand litres in January 2011, while the volume of cargo handled at the Port of Mombasa decline by 11.9 percent from 1.8 million tonnes in January 2010 to 1.6 million tonnes in January 2011.

TABLE 3.5: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

REGION	**Jan-December 2008**	Jan-December 2009	Jan-December 2010	**Jan - December 2010 % Share**	**Jan- December 2010 % Growth**
Africa	207,770	228,827	257,132	23.5%	12.4%
America	97,771	128,658	142,087	13.0%	10.4%
Asia	94,496	108,524	137,657	12.6%	26.8%
Europe	308,123	456,427	536,422	49.0%	17.5%
Oceanic	13,963	17,949	21,985	2.0%	22.5%
Cruise	6,877	12,096	-	0.0%	-100.0%
Total	**729,000**	**952,481**	**1,095,284**	100.0%	**15.0%**

Source: Kenya Ports Authority and Kenya Pipeline Company Ltd.

CHART 3B: EARNINGS FROM TOURISM



Source: Kenya Tourist Board

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya's overall balance of payments surplus narrowed to US$ 199 million in the year to January 2011 compared with US$ 849 million in the year to January 2010 (Table 4.1 and 4.2). The movement reflects a wider current account deficit following increased imports and reduced financial flows (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Jan 2010*	Year to January 2011* Q1 Feb-Apr	Q2 May-Jul	Q3 Aug-Oct	Q4 Nov-Jan	Year to Jan 2011*	Absolute Change
1. OVERALL BALANCE	849	-2	63	189	-50	199	*-650*
2. CURRENT ACCOUNT	-1653	-364	-682	-713	-972	-2731	*-1078*
2.1 Goods	-5830	-1390	-1714	-1799	-2111	-7014	*-1184*
Exports (fob)	4562	1307	1276	1229	1442	5254	*692*
Imports (cif)	10392	2697	2990	3028	3553	12268	*1876*
2.2 Services	4178	1026	1032	1086	1140	4284	*106*
Non-factor services (net)	1970	538	541	591	631	2302	*332*
Income (net)	-69	11	-5	0	-31	-25	*45*
Current Transfers	2277	477	497	494	539	2007	*-270*
3. CAPITAL & FINANCIAL ACCOUNT	2502	362	745	902	921	2930	*428*
3.1 Capital Tranfers (net)	291	29	9	64	82	185	*-106*
3.2 Financial Account	2211	333	735	838	839	2745	*534*
memo:							
Gross Reserves	5279	5124	5155	5270	5062	5062	*-217*
Official	3810	3805	3868	4054	3992	3992	*182*
*imports cover***	*4.0*	*3.9*	*3.7*	*3.8*	*3.5*	*3.5*	*-0.5*
*imports cover****	*4.0*	*3.9*	*3.9*	*4.0*	*3.8*	*3.8*	*-0.2*
Commercial Banks	1470	1319	1287	1216	1071	1071	*-399*

* Provisional.

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

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

Source: Central Bank of Kenya

Current Account

The current account deficit widened from US$ 1,653 million in year to January 2010 to US$ 2,731 million in year to January 2011. This reflects a 20.3 percent or US$ 1,184 million widening of the merchandise account deficit which offset the 2.5 percent improvement in the services account (Table 4.2).

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

ITEM	Year to Jan 2010*	Year to January 2011* Q1 Feb-Apr	Q2 May-Jul	Q3 Aug-Oct	Q4 Nov-Jan	Year to Jan 2011*	Absolute Change
2. CURRENT ACCOUNT	-1653	-364	-682	-713	-972	-2731	*-1078*
2.1 Goods	-5830	-1390	-1714	-1799	-2111	-7014	*-1184*
Exports (fob)	4562	1307	1276	1229	1442	5254	*692*
Coffee	198	58	63	52	43	216	*18*
Tea	927	313	301	231	297	1143	*216*
Horticulture	693	181	177	170	198	726	*33*
Oil products	93	19	37	16	26	98	*5*
Manufactured Goods	523	157	155	147	163	622	*99*
Raw Materials	222	68	39	46	63	216	*-7*
Re-exports	291	82	61	79	83	305	*14*
Other	802	223	233	266	311	1034	*232*
Imports (cif)	10392	2697	2990	3028	3553	12268	*1876*
Oil	2234	634	743	629	829	2835	*601*
Chemicals	1333	385	392	397	473	1648	*315*
Manufactured Goods	1418	419	428	454	500	1802	*384*
Machinery & Transport Equipment	3040	752	941	942	1130	3764	*724*
Other	2367	507	486	606	621	2219	*-148*
2.2 Services	4178	1026	1032	1086	1140	4284	*106*
Non-factor services (net)	1970	538	541	591	631	2302	*332*
of which tourism	698	163	185	210	260	818	*120*
Income (net)	-69	11	-5	0	-31	-25	*45*
of which official interest	-87	-17	-15	-22	-23	-77	*10*
Current Transfers	2277	477	497	494	539	2007	*-270*
Private (net)	1989	482	501	499	544	2026	*37*
Public (net)	288	-5	-5	-5	-5	-19	*-307*

* Provisional.

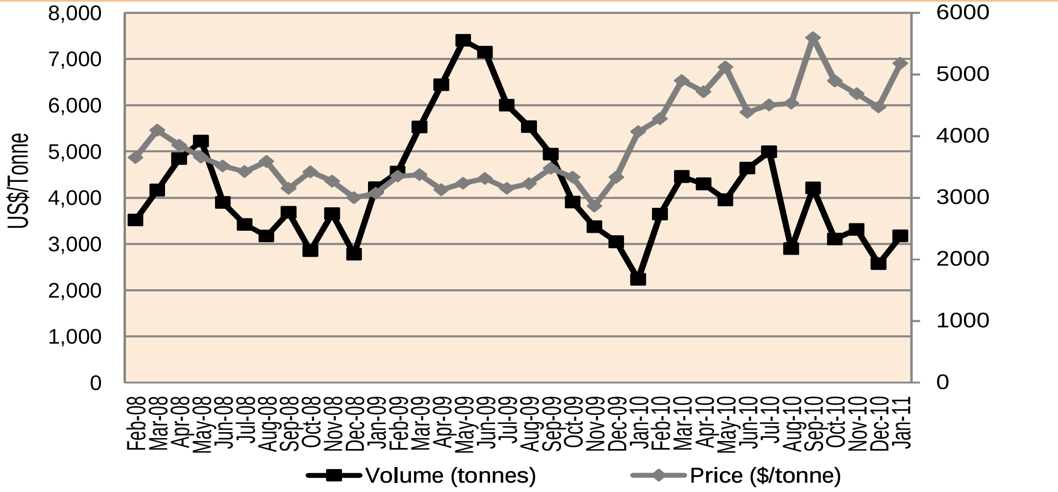
Source: Central Bank of Kenya

The merchandise account deficit worsened from US$ 5,830 million in the year to January 2010 to US$ 7,014 million in the year to January 2011 due to increased imports.

Exports

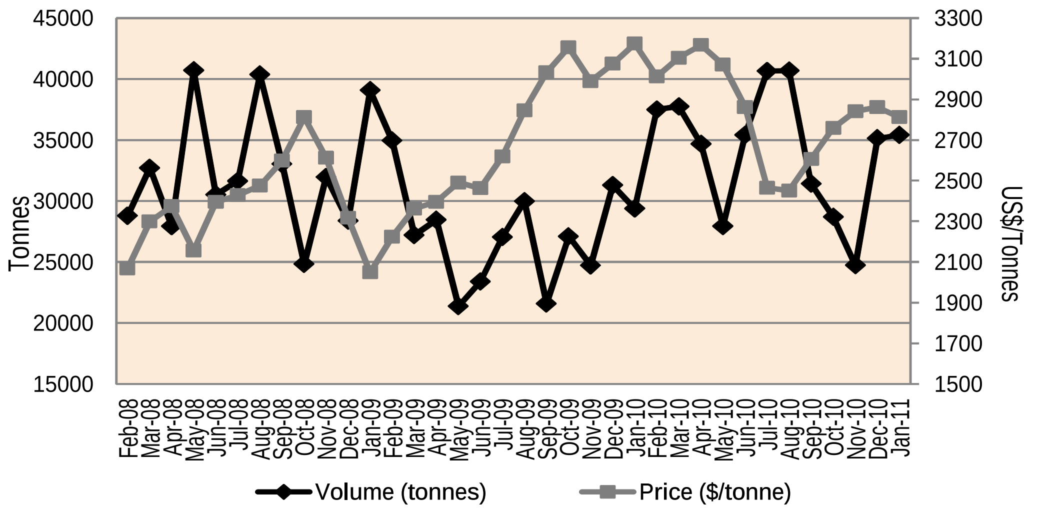
Export earnings increased by 15.2 percent from US$ 4,562 million in January 2010 to US$ 5,254 million in January 2011. The improvement in export performance was in exports of tea which increased by 23.3 percent reflecting favorable commodity prices. Earnings from exports of manufactured goods also increased by 19.0 percent reflecting trade expansion particularly in the regional markets. Receipts from horticultural exports improved from US$ 693 million to US$ 726 million, an increase of 4.7 percent.

CHART 4A: COFFEE EXPORTS: UNIT PRICE AND QUANTITY



Source: Central Bank of Kenya

CHART 4B: TEA EXPORTS: UNIT PRICE AND QUANTITY



Imports

The value of imports increased to US$ 12,268 million over the same period, mainly on account of increased value of imports of manufactured goods, oil, machinery and transport equipment and chemicals. Imports of manufactured items mainly intermediate goods accounted for 27.1 percent of the import bill and increased from US$ 1,418 million to US$ 1,802 million. Oil imports increased by 26.9 percent from US$ 2,234 million to US$ 2,835 million in the period. Imports of machinery and transport equipment account for increased by 23.8 percent from US$ 3,040 million to US$ 3,764 million reflecting ongoing infrastructure development.

Services Account

The surplus on the services improved from US$ 4,178 million to US$ 4,284 million in the year to January 2011. Earnings from services which mainly include tourism transport and financial services increased from US$ 1,970 million to US$ 2,302 million in the year to January 2011. This reflected improved inflows from foreigners travelling to Kenya which increased by 17.2 percent from US$ 698 million in the year to January 2010 to US$ 818 million in the year to January 2011. Similarly, receipts from transportation services increased from US$ 1,071 million to US$ 1,537 million.

Receipts on the current transfer account decreased from US$ 2,277 million to US$ 2,007 million in the year to January 2011, a decrease of 11.9 percent. Remittance transfers which proved resilient to adverse global shocks also rose by 7.5 percent.

Direction of Trade

Kenya's exports were mainly to Uganda (13.4 percent), United Kingdom (9.9 percent), Tanzania (8.1 percent) and Netherlands (6.5 percent). The share of exports to African countries accounted for 47 percent. The share of exports to the East African Community (EAC) region were 25.4 percent, while those to COMESA region were at 33.7 percent in the year to January 2011.

During the period under review, Kenya's imports were mainly from United Arab Emirates (12.2 percent), China (12.2 percent), India (11.2 percent), South Africa (6.0 percent), Japan (5.9 percent), United Kingdom (5.0 percent) and United States of America (3.9 percent). The share of imports from African countries accounted for 11.7 percent. Imports from the EAC region increased from US$ 175 million to US$ 254 million (2.1 percent of total imports). Imports from the COMESA region increased from US$ 332 million to US$ 524 million (4.3 percent of total imports) in the year to January 2011 (Table 4.3).

Kenya's imports are increasingly from Developing Asia (includes among others China and India as per IMF classification) and less from the Advanced Economies (includes among others Japan, UK, USA).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to January			Year to January		
Country	2009	2010	2011	2009	2010	2011
Africa	1,215	1,407	1,434	10.7	13.5	11.7
Of which						
South Africa	662	951	731	5.8	9.1	6.0
Egypt	154	122	242	1.4	1.2	2.0
Others	400	335	461	3.5	3.2	3.8
EAC	183	175	254	1.6	1.7	2.1
COMESA	384	332	524	3.4	3.2	4.3
Rest of the World	10,148	8,985	10,834	89.3	86.5	88.3
Of which						
India	1,298	1,101	1,378	11.4	10.6	11.2
United Arab Emirates	1,517	1,247	1,500	13.3	12.0	12.2
China	892	1,013	1,502	7.9	9.7	12.2
Japan	648	620	728	5.7	6.0	5.9
USA	489	586	482	4.3	5.6	3.9
United Kingdom	398	492	609	3.5	4.7	5.0
Singapore	355	349	458	3.1	3.4	3.7
Germany	390	292	330	3.4	2.8	2.7
Saudi Arabia	383	362	403	3.4	3.5	3.3
Indonesia	325	246	344	2.9	2.4	2.8
Netherlands	203	210	250	1.8	2.0	2.0
France	224	197	243	2.0	1.9	2.0
Bahrain	213	73	74	1.9	0.7	0.6
Italy	170	180	145	1.5	1.7	1.2
Others	2,642	2,016	2,388	23.2	19.4	19.5
Total	11,363	10,392	12,268	100	100	100

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to January			Year to January		
Country	2009	2010	2011	2009	2010	2011
Africa	2,361	2,112	2,417	47	46	47
Of which						
Uganda	618	589	693	12.3	12.9	13.4
Tanzania	427	386	422	8.5	8.5	8.1
Egypt	227	163	219	4.5	3.6	4.2
Sudan	204	168	237	4.1	3.7	4.6
Somalia	176	154	162	3.5	3.4	3.1
DRC	146	147	163	2.9	3.2	3.1
Rwanda	132	124	134	2.6	2.7	2.6
Others	431	381	386	8.6	8.4	7.5
EAC	1,230	1,157	1,319	24.4	25.4	25.4
COMESA	1,624	1,464	1,747	**32.3**	**32.1**	**33.7**
Rest of the World	2,675	2,445	2,768	53.3	53.2	53.7
Of which						
United Kingdom	538	507	511	10.7	11.1	9.9
Netherlands	371	341	337	7.4	7.5	6.5
USA	293	223	283	5.8	4.9	5.5
Pakistan	217	193	230	4.3	4.2	4.4
United Arab Emirates	109	158	231	2.2	3.5	4.5
Germany	90	92	96	1.8	2.0	1.8
India	99	71	103	2.0	1.6	2.0
Afghanistan	65	112	143	1.3	2.5	2.8
Others	893	747	834	17.7	16.4	16.1
Total	5,036	4,557	5,184	100	100	100

Source: Kenya Revenue Authority

Capital and Financial Account

The capital and financial account surplus increased from US$ 2,502 million in the year to January 2010 to US$ 2,930 million in the year to January 2011. Financial inflows increased to US$ 2,745 million compared with US$ 2,211million in the year to January 2010. (Table 4.4).

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

ITEM	Year to Jan 2010*	Year to January 2011* Q1 Feb-Apr	Q2 May-Jul	Q3 Aug-Oct	Q4 Nov-Jan	Year to Jan 2011*	Absolute Change
3. CAPITAL & FINANCIAL ACCOUNT	2502	362	745	902	921	2930	***428***
3.1 Capital Tranfers (net)	291	29	9	64	82	185	*-106*
3.2 Financial Account	2211	333	735	838	839	2745	*534*
Official, medium & long-term	495	115	29	128	45	317	*-178*
Inflows	736	189	62	197	96	545	*-192*
Outflows	-242	-74	-33	-69	-51	-228	*14*
Private, medium & long-term (net)	116	118	180	201	125	625	*509*
Commercial Banks (net)	76	104	163	235	-62	441	*364*
Other private medium & long-term (net)	40	14	17	-34	187	185	*144*
Short-term (net) incl. errors & omissions	1600	99	526	509	669	1802	*203*

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from US$ 5,254 million in February 2010 to US$ 5,481 million in February 2011. Gross official foreign exchange reserves held by the Central Bank were US$ 3,723 million or 3.9 months of import cover in February 2010 compared with US$ 4,118 million (4.0 months of import cover) in February 2011 (Table 4.5). The accumulation of official reserves during the period comprised of interbank purchases. However, gross reserves held in commercial banks declined from US$ 1,532 million to US$ 1,364 million during the period under review.

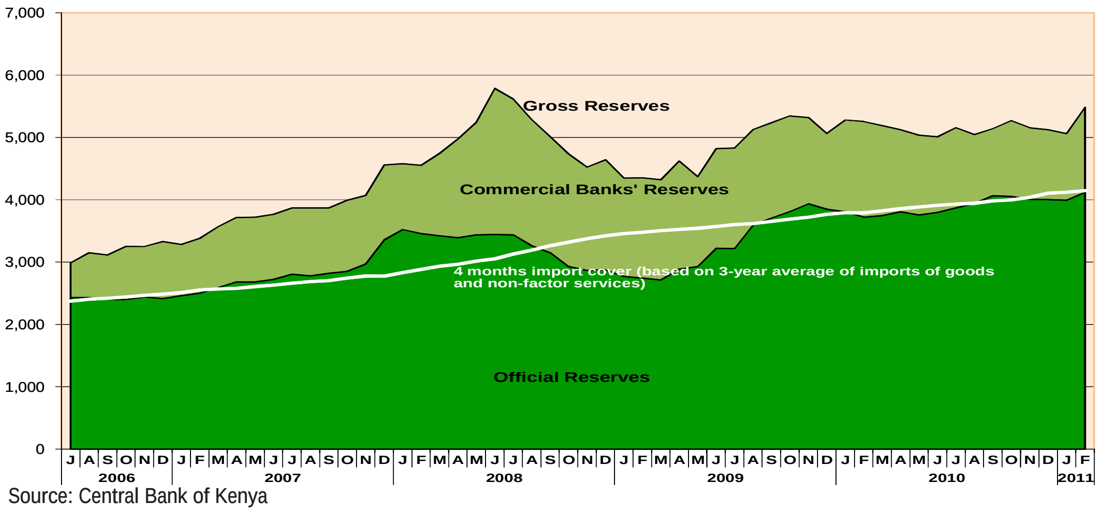
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Jan 10	Feb 10	Jun 10	Nov 10	Dec 10	Jan 11	Feb 11
1. Gross Foreign Exchange Reserves	**5,279**	**5,254**	**5,009**	**5,156**	**5,123**	**5,062**	**5,481**
of which:							
Official	3,810	3,723	3,799	4,007	4,002	3,992	4,118
*imports cover**	*4.0*	*3.9*	*3.9*	*4.0*	*3.9*	*3.9*	*4.0*
Commercial Banks	1,470	1,532	1,211	1,149	1,121	1,071	1,364
2. Residents' foreign currency deposits	**2,065**	**2,013**	**2,140**	**2,247**	**2,275**	**2,257**	**2,302**

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling depreciated in February 2011 against major world currencies. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.47 per US dollar in February 2011 compared with Ksh 81.03 per US dollar in January 2011. The shilling also depreciated against the Sterling Pound, the Euro and the Japanese yen to trade at an average of Ksh 131.45 per Sterling Pound, Ksh 111.29 per Euro and Ksh 98.65 per 100 Japanese Yen in February 2011 compared with Ksh 127.70 per Sterling Pound, Ksh 108.16 per Euro and Ksh 98.13 per 100 Japanese Yen in January 2011 (Table 4.6 and Chart 4D).

Against the regional currencies, the Kenya shilling weakened against the Uganda Shilling and Burundi Franc to trade at Ush 28.79 per Kenya shilling and BIF 15.11 per Kenya Shilling in February 2011 compared with Ush 28.81 per Kenya shilling and BIF 15.15 per Kenya Shilling in January 2011. The Kenya shilling strengthened against the Tanzania Shilling and the Rwanda Franc to trade at Tsh 18.51 per Kenya shilling and RWF 7.36 per Kenya Shilling in February 2011 compared with Tsh 18.40 per Kenya shilling and RWF 7.34 per Kenya Shilling in January 2011.

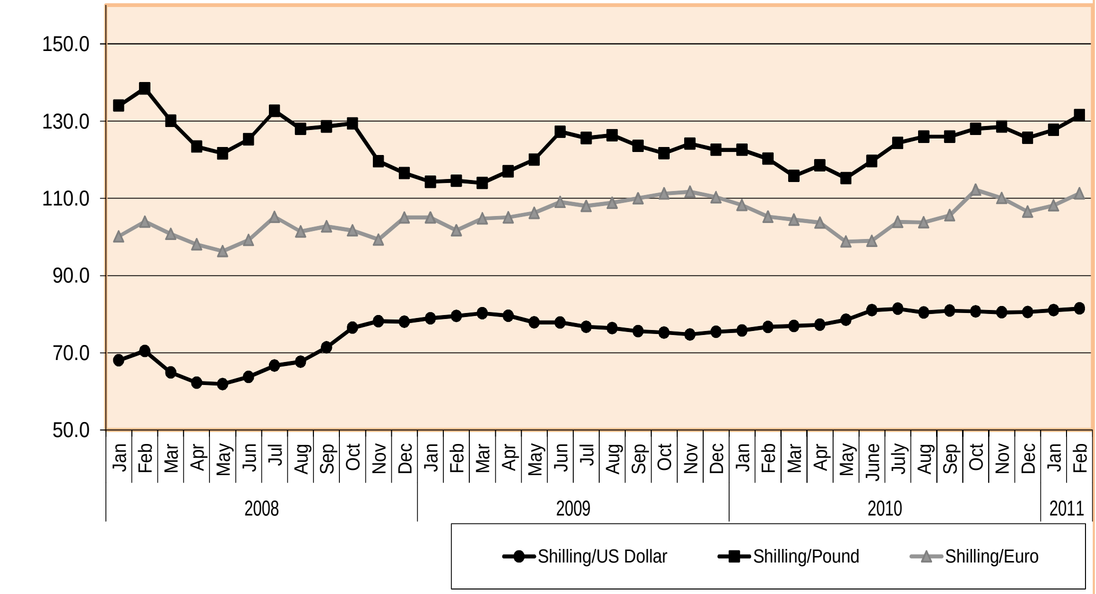
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2009		2010				2011		% change February 11 - January 11
	Aug	Dec	Jan	Feb	Jun	Dec	Jan	Feb	
US Dollar	76.37	75.43	75.79	76.69	81.02	80.57	81.03	81.47	**0.55**
Pound Sterling	126.34	122.54	122.53	120.21	119.62	125.65	127.70	131.45	**2.94**
100 Japanese Yen	80.49	84.12	83.11	84.99	89.18	96.78	98.13	98.65	**0.53**
Uganda Shilling*	27.14	25.20	25.53	25.97	27.91	28.59	28.81	28.79	**-0.05**
Tanzania Shilling*	17.28	17.65	17.71	17.58	17.99	18.17	18.40	18.51	**0.60**
Rwanda Franc*							7.34	7.36	**0.29**
Burundi Franc*							15.15	15.11	**-0.24**
Euro	108.83	110.27	108.27	105.25	98.99	106.54	108.16	111.29	**2.89**
Euro per US dollar	0.702	0.684	0.700	0.729	0.818	0.756	0.749	0.732	**-2.28**

* 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

During the period ended February 28, 2011, the Kenyan Banking sector recorded significant growth in assets driven by growth in deposits, injection of capital and retention of profits. On the other hand, the level of non-performing loans declined compared to a similar period in 2010. As at February 28, 2011, the sector comprised 43 commercial banks, 1 mortgage finance company, 5 deposit taking microfinance institutions and 126 foreign exchange bureaus.

Structure of the Balance Sheet

The banking sector's aggregate balance sheet expanded by 25.4 percent from Ksh 1,422.3 billion in February 2010 to Ksh 1,783.6 billion in February 2011. The major components of the balance sheet were loans and advances, government securities and placements, which accounted for 51 percent, 25 percent and 7 percent of total assets respectively.

Loans & Advances

The banking sector gross loans and advances increased from Ksh 783.9 billion in February 2010 to Ksh 969.9 billion in February 2011 translating to a growth of 23.7 percent. The growth was attributed to increased lending to households, trade and manufacturing sectors. Loans and advances net of provisions stood at Ksh 959.1 billion in February 2011, up from Ksh 773.9 billion registered in a similar period in 2010.

Deposit Liabilites

Deposits from customers were the main source of funding for the banking sector, accounting for 75 percent of total funding liabilities. The deposit base increased by 21.2 percent from Ksh 1,103.0 billion in February 2010 to Ksh 1,336.6 billion in February 2011 mainly due to branch expansion, remittances and receipts from exports.

Capital & Reserves

The banking sector registered strong capital levels in February 2011 with total capital growing by 30.2 percent from Ksh 187.6 billion in February 2010 to Ksh 244.2 billion in February 2011, whereas shareholders' funds increased by 33.3 percent from Ksh 203.7 billion in February 2010 to Ksh 271.6 billion. Similarly, the ratios of total and core capital to total risk-weighted assets increased from 20.3 percent and 18.2 percent to 21.6 percent and 19.5 percent respectively mainly due to a more than proportionate increase in core and total capital than the increase in total risk weighted assets.

Non-performing Loans

The stock of gross non-performing loans (NPLs) declined by 6.5 percent from Ksh 63.2 billion in February 2010 to 59.1 Ksh billion in February 2011. Over the same period, the coverage ratio which is measured as a percentage of specific provisions to total NPLs increased to 58.0 percent from 46.6 percent in February 2010 mainly due to increase in provisions. The quality of assets, measured as a proportion of net non-performing loans to gross loans improved from 3.6 percent to 2.1 percent in February 2011 (Table 5.1). Similarly, the ratio of gross NPLs to gross loans improved from 8.1 percent in February 2010 to 6.1 percent in February 2011.

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

		Feb 2011	Feb 2010
1	Gross loans and advances	969.9	783.9
2	Interest in Suspense	10.8	10.0
3	Loans and advances (net of interest suspended)	959.1	773.9
4	Gross non-performing loans	59.1	63.2
5	Specific Provisions	28	24.8
6	General Provisions	6.4	7.8
7	Total Provisions (5+6)	34.4	32.6
8	Net Advances (3-7)	924.7	741.3
9	Total Non-Performing Loans and advances (4-2)	48.3	53.2
10	Net Non-Performing Loans and advances (9-5)	20.3	28.4
11	Total NPLs as % of total advances (9/3)	5.00%	6.90%
12	Net NPLs as % of gross advances (10/1)	2.10%	3.60%
13	Specific Provisions as % of Total NPLs (5/9)	58.00%	46.60%

Source: Central Bank of Kenya

Profitablility

For the two months ending February 28, 2011, the sector registered a 33.9 percent growth in pre-tax profits, from Ksh 9.2 billion in February 2010 to Ksh 12.3 billion. As a result, the annualised return on assets improved from 3.1 percent to 3.3 percent in February 2011 while return on equity increased from 27.0 percent to 27.1 percent. Total income went up by 13.5 percent from Ksh 30.4 billion in February 2010 to Ksh 34.5 billion in February 2011, while total expenses increased by 4.7 percent from Ksh 21.2 billion in February 2010 to Ksh 22.2 billion in February 2011. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 54 percent, 30 percent and 14 percent of total income respectively. On the other hand, staff costs, other expenses and interest on deposits were the key components of expenses, accounting for 36 percent, 28 percent and 19 percent respectively.

Liquidity Ratio Requirement

For the month ended February 28, 2011, average liquid assets amounted to Ksh 561.2 billion while total average liquid liabilities stood at Ksh 1,266.5.0 billion, resulting to an average liquidity ratio of 44.3 percent, against 38.0 percent registered in February 2010. The ratio of gross loans to deposits ratio stood at 72.6 percent, an increase from 71.1 percent in February 2010.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.63 percent in February 2011 compared with 5.73 percent in January 2011 and 4.5 percent statutory level (Table 5.3 and Chart 5A). Commercial banks held excess reserves at the Central Bank averaging Ksh 13.82 billion in February 2011 compared with Ksh 14.96 billion in January 2011.

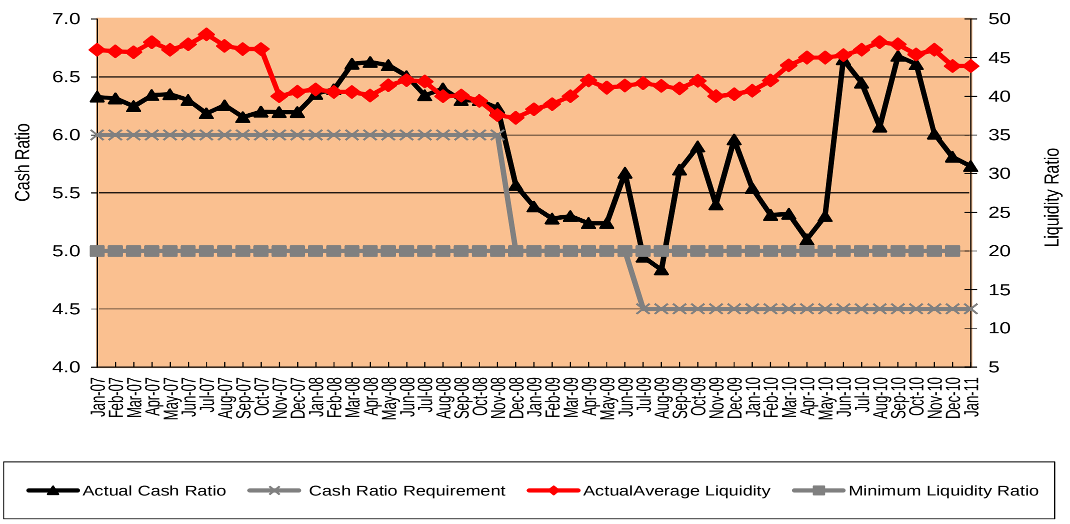
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2010								2011
	Jan	June	July	Aug	Sept	Oct	Nov	Dec	Jan
Commercial Banks									
Actual Average Liquidity	40.71	45.30	45.8	46.7	46.70	45.4	46.0	43.90	43.90
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.54	6.65	6.45	6.07	6.68	6.61	6.01	5.81	5.73
Minimum Cash Ratio Requirement	4.50	4.50	4.50	4.50	4.50	4.51	4.51	4.51	4.51
NBFIs									
Actual Average Liquidity Ratio	26.24	35.30	33.8	30.5	30.70	64.8	58.9	56.00	57.70
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Minimum Cash Ratio Requirement	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50

* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS (%)



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 84,448 transaction messages worth Ksh 1,289 billion in February 2011 compared with a volume of 77,625 transaction messages valued at Ksh 1,320 billion moved in January 2011 representing 2.39 percent decrease in value and 8.79 percent increase in volume.

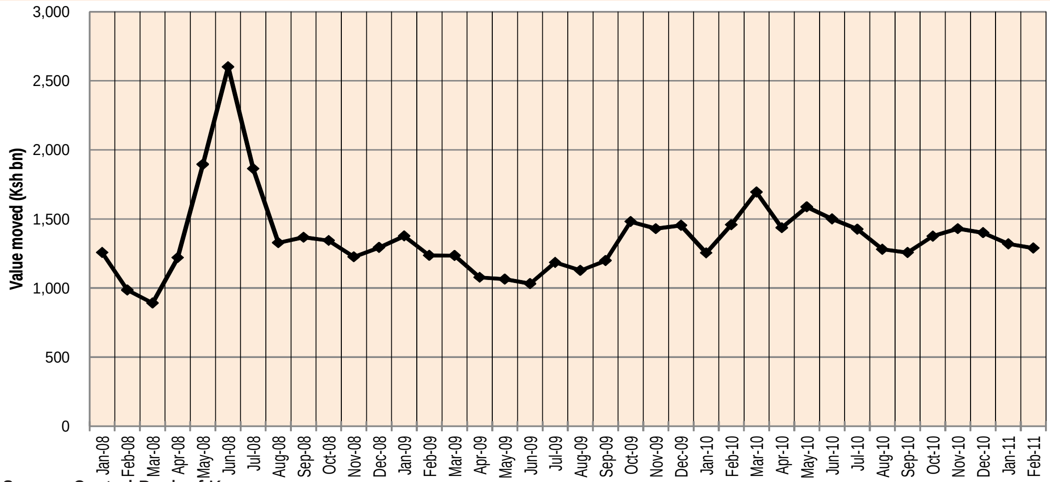
During the twelve months period to February 28, 2011 the value moved averaged Ksh 18 million per transaction. On average 3,686 transaction messages valued at approximately Ksh 67.4 billion per message were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS accounted for 98.0 percent of the total settlements, while indirect payments (ACH Net settlement) averaged 2.0 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-09	1,376	68	25,330	0.05	21	66	1,206
Feb-09	1,236	64	20,710	0.06	19	65	1,090
Mar-09	1,235	82	23,752	0.05	22	56	1,080
Apr-09	1,077	80	22,485	0.05	20	54	1,124
May-09	1,064	70	24,024	0.04	20	53	1,201
Jun-09	1,032	80	21,977	0.05	21	49	1,047
Jul-09	1,185	75	25,650	0.05	23	52	1,115
Aug-09	1,127	69	23,001	0.05	21	54	1,095
Sep-09	1,198	90	24,552	0.05	21	57	1,169
Oct-09	1,481	27	55,440	0.03	21	71	2,640
Nov-09	1,430	21	56,900	0.03	21	68	2,710
Dec-09	1,454	29	66,916	0.02	22	66	3,042
Jan-10	1,254	18	56,862	0.02	20	63	2,843
Feb-10	1,458	22	65,010	0.02	20	73	3,251
Mar-10	1,694	26	77,058	0.02	23	74	3,350
Apr-10	1,436	23	69,634	0.02	20	72	3,482
May-10	1,587	22	72,588	0.02	21	76	3,457
Jun-10	1,501	23	79,760	0.02	21	71	3,798
Jul-10	1,426	21	75,289	0.02	22	65	3,422
Aug-10	1,280	23	70,771	0.02	20	64	3,539
Sep-10	1,256	25	82,770	0.02	22	57	3,762
Oct-10	1,376	29	76,415	0.02	23	60	3,322
Nov-10	1,430	26	85,968	0.02	22	65	3,908
Dec-10	1,401	29	92,592	0.02	23	61	4,026
Jan-11	1,320	21	77,625	0.02	21	63	3,696
Feb-11	1,289	23	84,448	0.02	20	64	4,222

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third party Messages

Multiple third parties Message Type (MT 102) increased by 27.68 percent from 8,580 transaction messages in January 2011 to 10,955 transaction messages in February 2011 while single third party Message Type (MT 103) increased by 6.2 percent from 74,004 transaction messages to 78,589 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 8.43 percent from 82,584 transaction messages in January 2011 to 89,544 transaction messages in February 2011.

Compared with February 2010, multiple third parties messages (MT 102) increased by 18.59 percent from 9,238 transaction messages to 10,955 transaction messages in February 2011, while single third party messages (MT 103) increased by 43.55 percent from 54,747 transaction messages to 78,589 transaction messages (Table 5.4 and Chart 5C).

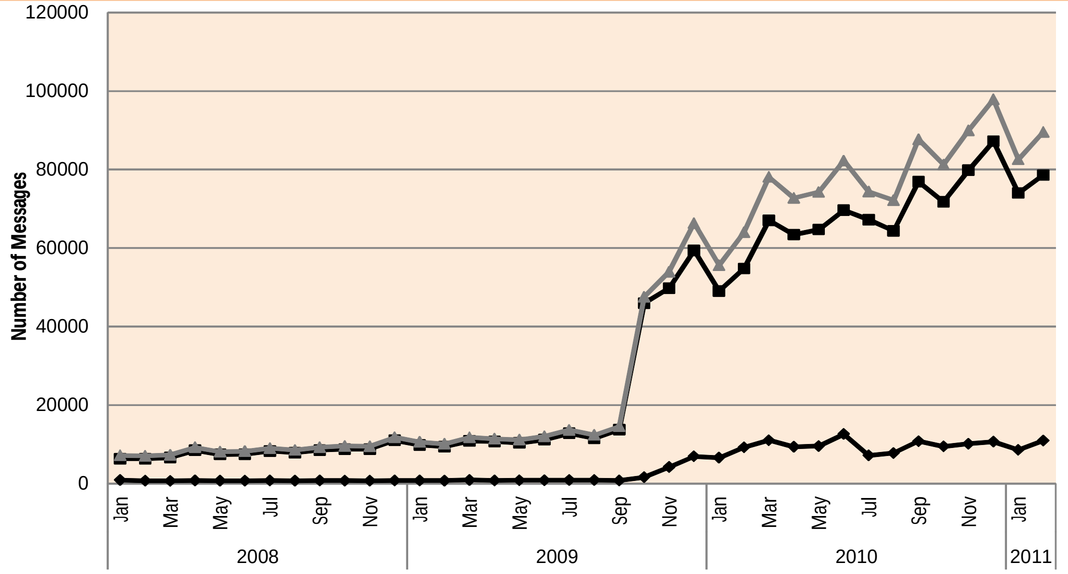
Inter-bank transfers (MT 202) accounted for 39.00 percent of the total value moved through KEPSS as at end of February 2011, while third party messages accounted for 61 percent. The total number of third party messages (MT 102 and MT 103) grew by 39.95 percent from 63,985 messages in February 2010 to 89,544 messages in February 2011.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2009	Jun	866	11,194	12,060
	Jul	879	12,778	13,657
	Aug	875	11,511	12,386
	Sep	813	13,740	14,553
	Oct	1639	45,940	47,579
	Nov	4214	49,759	53,973
	Dec	6928	59,418	66,346
2010	Jan	6570	49,061	55,631
	Feb	9238	54,747	63,985
	Mar	11038	67,052	78,090
	Apr	9345	63,396	72,741
	May	9564	64,707	74,271
	Jun	12601	69,659	82,260
	Jul	7165	67,216	74,381
	Aug	7787	64,385	72,172
	Sep	10806	76,910	87,716
	Oct	9470	71,779	81,249
	Nov	10150	79,819	89,969
	Dec	10646	87,204	97,850
2011	Jan	8580	74,004	82,584
	Feb	10955	78,589	89,544

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

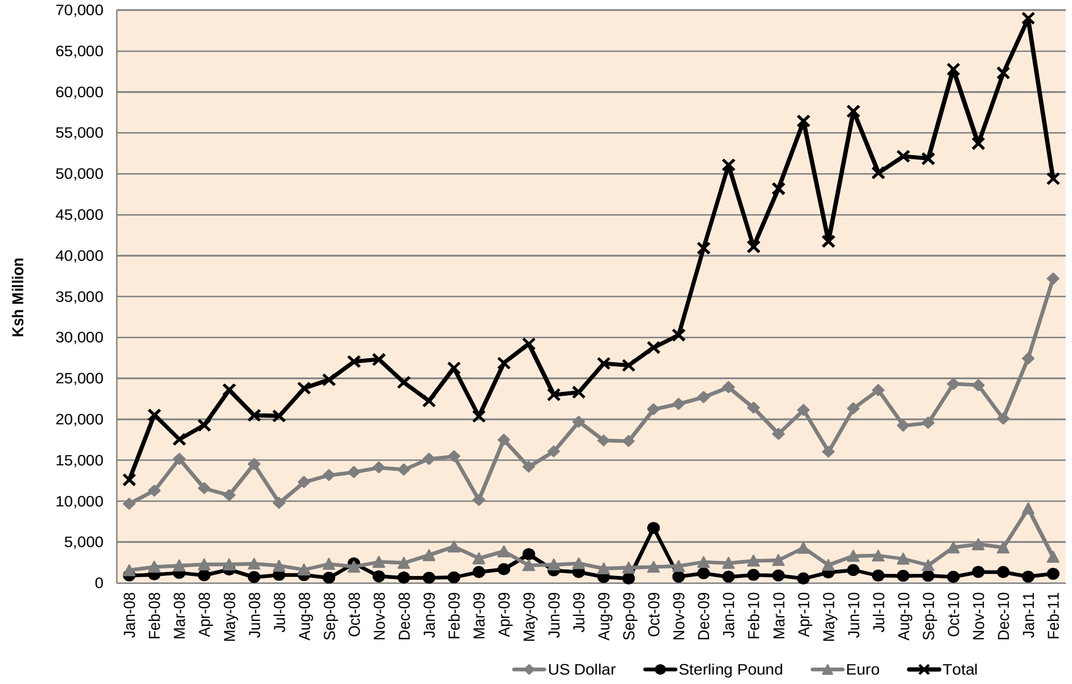


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 10.08 percent from 5,939 transaction messages in January 2011 to 6,537 transaction messages in February 2011. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period increased by 39.41 percent from Ksh 49.41 billion to Ksh 68.93 billion. The US dollar accounted for 93.72 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.23 percent and 5.05 percent, respectively.

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



Source: Central Bank of Kenya

Government Budget Performance

Central Government budgetary operations between July 2010 and February 2011 in the fiscal year 2010/11 resulted in a deficit of Ksh 80.6 billion on commitment basis compared with a deficit of Ksh 89.4 billion in a similar period of 2009/10 (Table 6.1). The deficit-to-GDP ratio declined from 3.6 percent to 3.0 percent on commitment basis but on a cash basis increased from 3.5 percent to 3.6 percent during the period. The budget deficit during the period was within the programmed target of 5.5 percent of GDP on commitment basis.

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

	FY 2009/10	FY 2010/11		
	Feb Actual	Feb Prov	Target	Over (+) / below(-) Target
1. TOTAL REVENUE	**350.7**	**408.8**	**400.1**	**8.7**
Revenue	340.7	394.5	377.2	17.4
Tax Revenue	304.1	356.4	323.1	33.2
Non Tax Revenue	9.3	10.4	12.6	-2.2
Appropriations-in-Aid	27.3	27.8	41.5	-13.7
External Grants	10.0	14.3	22.9	-8.6
2. TOTAL EXPENSES & NET LENDING	**440.0**	**489.4**	**544.4**	**-55.0**
Recurrent Expenses	331.7	355.5	347.2	8.3
Development Expenses	108.3	133.9	197.2	-63.3
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-89.4**	-80.6	-144.3	**-63.8**
As percent of GDP	**-3.6**	**-3.0**	**-5.5**	
4. ADJUSTMENT TO CASH BASIS	**1.3**	**-9.2**	**0.0**	**-9.2**
5. DEFICIT ON A CASH BASIS	-88.1	-89.8	-144.3	**-54.6**
As percent of GDP	**-3.5**	**-3.6**	**-5.5**	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**-0.2**	**-2.8**	**0.0**	
7. FINANCING	90.0	86.9	144.3	**-57.4**
Domestic (Net)	89.4	71.1	97.9	-26.9
External (Net)	0.6	15.9	46.4	-30.5
Capital Receipts (privatisation)	0.0	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

Source: Treasury

Revenue

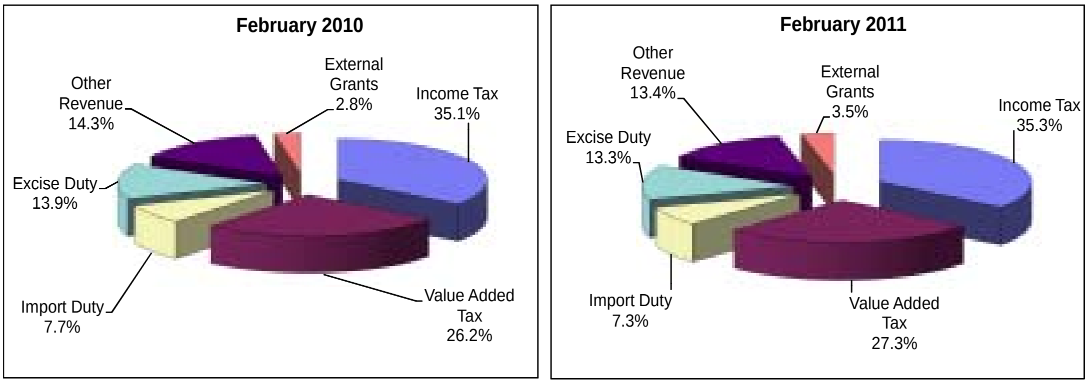
In the period July 2010 to February 2010, government revenue excluding grants increased to Ksh 394.5 billion compared with Ksh 340.7 billion in a similar period of the fiscal year 2009/10, and was above the target by Ksh 17.1 billion (or 4.6 percent). The target on government revenue and grants was surpassed by 8.7 billion (or 2.2 percent) during this period.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Feb-10 Ksh bn	Feb-11 Ksh bn	Change
1. Revenue (2+3+4)	**340.7**	**394.5**	**53.9**
2. Tax Revenue	304.1	356.4	52.2
Income Tax	123.1	144.3	21.2
Value Added Tax	91.9	111.4	19.5
Import Duty	27.0	29.9	2.9
Excise Duty	48.7	54.2	5.5
Others	13.5	16.6	3.1
3. Appropriations-in-Aid	27.3	27.8	0.5
4. Other Revenue	9.3	10.4	1.1
5. External Grants	**10.0**	**14.3**	**4.3**
TOTAL RECEIPTS (1+5)	**350.7**	**408.8**	**58.1**

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue expanded by 17.2 percent from Ksh 304.1 billion in the fiscal year 2009/10 to Ksh 356.4 billion in the fiscal year 2010/11. Performance of all taxes and appropriations in aid improved during the period under review. The main components of tax revenue, income tax and value added tax (VAT), grew by 17.2 percent and 21.0 percent respectively during the period. External grants increased by Ksh 4.3 billion to reach Ksh 14.3 billion in the fiscal year 2010/11, compared with a total of Ksh 10.0 billion realized in the fiscal year 2009/10. The shares of the various revenue components remained relatively stable during this peirod (Chart 6A)

Expenditure and Net Lending

Government expenditure and net lending from July 2010 to February 2011 of the fiscal year 2010/11 increased by Ksh 49.3 billion (or a growth of 11.2 percent) to Ksh 489.4 billion (Table 6.3). This rise was due to increases of Ksh 23.8 billion and Ksh 25.6 billion in recurrent and development expenditures, respectively.

The increase in recurrent expenditure reflects increases of Ksh 15.5 billion in salaries and wages, Ksh 4.9 billion in other expenses, and Ksh 3.3 billion in interest payments on the public debt (Table 6.3). Expenditure and net lending targets were, however, missed by Ksh 55.0 billion, with the development expenditure performance at Ksh 63.3 billion below the target (Table 6.1). The composition of Government expenditure remained relatively stable during this period (Chart 6B)

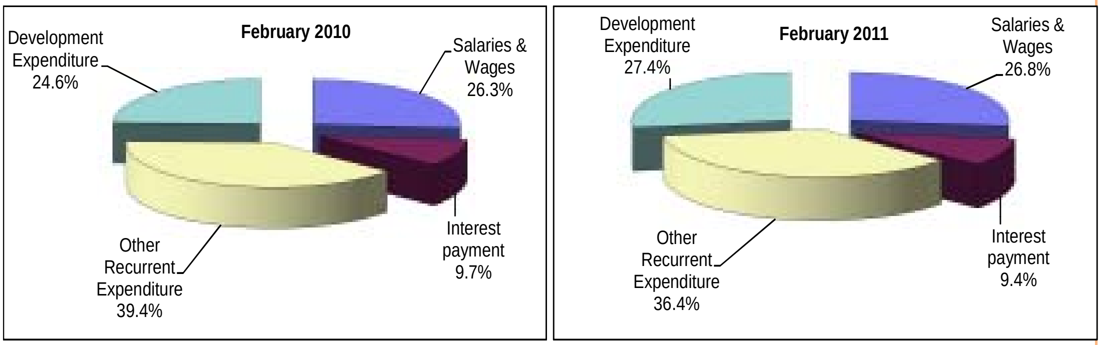
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Feb-10 Ksh bn	Feb-11 Ksh bn	Movement
1.Recurrent	331.7	355.5	23.8
Salaries & Wages	115.7	131.2	15.5
Total Interest	42.7	46.1	3.3
of which			
Domestic*	38.9	41.6	2.8
Foreign interest due	3.9	4.4	0.5
Others	173.3	178.2	4.9
2. Development	**108.3**	**133.9**	**25.6**
TOTAL EXPENSES	**440.0**	**489.4**	**49.3**

*Includes commission and other charges paid to Central Bank and other agencies

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

During the period July 2009 – February 2011 of the fiscal year 2010/11, budgetary operations of the Government resulted in a financing requirement of Ksh 105.6 billion compared with Ksh 90.0 billion in a similar period of 2009/10. To satisfy the financing requirements, the Government sourced the funds through net domestic borrowing amounting to Ksh 89.3 billion and net external debt borrowing of Ksh 15.9 billion.

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

I. FINANCING REQUIREMENTS	July-Feb 10	July-Feb 11
1. Budget deficit	90.0	0.0
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	18.2
TOTAL	**90.0**	**18.2**
II. FINANCING SOURCES	**July-Feb 10**	**July-Feb 11**
1. Budget surplus	0.0	0.0
2. External debt increase	0.6	15.9
3. Increase in domestic debt	83.1	89.3
3.1 Central Bank	4.1	4.4
3.2 Commercial banks	68.6	35.7
3.3 Non-bank sources	10.4	49.2
4. Reduction in GoK deposits at CBK	6.2	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	**90.0**	**105.2**

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank increased by Ksh 10.1 billion from Ksh 44.8 billion in February 2010 to Ksh 54.9 billion in February 2011. The increase in Government indebtedness to Central Bank resulted from a rise in the utilization of the Government overdraft by Ksh 11.5 billion which was partly offset by amortization of pre-1997 overdraft of Ksh 1.0 billion and reduction of IMF funds on-lent to Government of Ksh 0.5 billion in February 2011. The Govenrment overdraft from the Central Bank, however, remained within the legal ceiling of Kshs 22.9 billion.

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

	2010	2011	Movement
	Feb	Feb	
Total Credit	**44.8**	**54.9**	**10.1**
1. Overdraft	11.4	22.9	11.5
2. Rediscounted securities	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.0
Treasury bonds	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	32.8	31.8	-1.0
4. IMF funds onlent to Government	0.5	0.0	-0.5
5. Cleared items in transit	0.1	0.1	0.1
Memorandum			
Authorised overdraft limit	**21.0**	**22.9**	**11.3**
Amount utilised to date	11.4	22.9	11.5
Amount available	9.6	0.0	-9.6

Source: Central Bank of Kenya

Outlook for FY 2010/11

In the Budget Estimates for the fiscal year 2010/11, Government revenue excluding external grants is estimated at Ksh 689.6 billion (24.9 percent of GDP) while external grants are estimated at Ksh 40.4 billion (1.5 percent of GDP). Government expenditure is estimated at Ksh 918.0 billion or 33.2 percent of GDP. The main components of expenditure includes Ksh 592.5 billion (21.4 percent of GDP) in recurrent expenditure and Ksh 323.6 billion or 11.7 percent of GDP in development expenditure (Table 6.6).

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

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

Source: Central Bank of Kenya

The overall budget deficit including grants is therefore estimated at Ksh 188.0 billion (6.8 percent of GDP) in 2010/11. The deficit will be financed through net external borrowing of Ksh 82.7 billion (3.0 percent of GDP) and net domestic borrowing of Ksh 125.3 billion (4.5 percent of GDP).

Developments in Public Debt

Overall Debt Kenya's public and publicly guaranteed debt increased by Ksh 123.5 billion between July 2010 and February 2011 to Ksh 1,349.2 billion, equivalent to 54.2 percent of GDP from Ksh 1,225.7 billion which was equivalent to 48.1 percent of GDP in June 2010 (Table 7.1). The external debt to GDP ratio increased from 22.2 percent in June 2010 to 24.2 percent in February 2011, while the domestic debt to GDP ratio increased from 25.9 percent to 30.0 percent during the period. Domestic debt constituted 55.4 percent of total debt during the period.

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

	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Change June 2010 - Feb 2011
EXTERNAL* **										
Bilateral	196.3	195.2	196.7	211.2	212.9	213.4	214.4	214.6	215.8	19.4
Multilateral	348.6	346.3	348.4	361.4	363.6	364.3	363.5	363.6	365.3	16.6
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	20.5	20.5	20.5	21.6	21.6	21.6	21.3	21.3	21.3	0.9
Sub-Total	**565.5**	**562.0**	**565.6**	**594.2**	**598.1**	**599.3**	**599.2**	**599.5**	**602.4**	**36.9**
(As a % of GDP)	22.2	23.1	22.9	23.8	23.7	23.4	23.2	22.9	24.2	
(As a % of total debt)	46.1	45.7	44.8	45.7	46.2	45.7	45.4	45.2	44.6	
DOMESTIC/[1]										
Banks	**401.8**	**405.9**	**420.8**	**420.4**	**412.4**	**416.8**	**422.3**	**426.2**	**440.6**	**38.6**
Central Bank	51.9	49.6	57.0	54.6	53.8	56.8	56.6	51.2	57.2	5.3
Commercial Banks	350.0	356.3	363.8	365.8	358.6	360.0	365.7	375.0	383.3	33.4
Non-banks	**255.3**	**258.5**	**272.7**	**279.7**	**279.2**	**290.6**	**293.8**	**293.9**	**301.4**	**46.1**
Non-bank Financial Institutions	3.0	3.0	2.9	2.8	2.6	2.6	2.6	2.5	2.5	-0.4
Other Non-bank Sources	252.4	255.5	269.7	276.9	276.6	288.0	291.2	291.3	298.9	46.5
Non-residents	**3.1**	**3.4**	**4.6**	**4.6**	**4.5**	4.1	4.2	6.3	4.9	1.8
Sub-Total	**660.3**	**667.8**	**698.0**	**704.7**	**696.1**	**711.4**	**720.3**	**726.3**	**746.9**	**86.5**
(As a % of GDP)	25.9	27.4	28.3	28.2	27.5	27.8	27.8	27.8	30.0	
(As a % of total debt)	53.9	54.3	55.2	54.3	53.8	54.3	54.6	54.8	55.4	
GRAND TOTAL	**1225.7**	**1229.8**	**1263.7**	**1298.9**	**1294.2**	**1310.7**	**1319.5**	**1325.8**	**1349.2**	**123.5**
(As a % of GDP)	48.1	50.5	51.2	52.0	51.2	51.3	51.0	50.7	54.2	

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

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

Sources: Treasury and Central Bank of Kenya

Domestic Debt Total domestic debt increased by Ksh 86.6 billion from July 2010 to February 2011 in the fiscal year 2010/2011 to reach Ksh 746.9 billion, from Ksh 660.3 billion held in June 2010 (Table 7.2). The rise in domestic debt during the period was as a result of increases equivalent to Ksh 109.5 billion and Ksh 4.4 billion, respectively, in Treasury bonds and other domestic debt (which include Ksh 5.3 billion increase in the Central Bank overdraft to the Government). These increases were, however, partially offset by Ksh 28.5 billion decline in Treasury bill holdings (excluding Repos), and Ksh 0.8 billion decline in long term stocks.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2010				2011				Change
	Feb	%	June	%	Jan	%	Feb	%	Jun-10 - Feb-11
Total Stock of Domestic Debt (A+B)	**608.0**	**100.0**	**660.3**	**100.0**	**720.3**	**100.0**	**746.9**	**100.0**	**86.6**
A. Government Securities	**595.8**	**98.0**	**640.6**	**97.0**	**708.7**	**98.4**	**722.9**	**96.8**	**82.2**
1. Treasury Bills (excluding Repo Bills)	**154.3**	**25.4**	**159.0**	**24.1**	**136.6**	**19.0**	**130.5**	**17.5**	**-28.5**
Banking institutions	129.2	21.2	133.8	20.3	108.1	15.0	103.1	13.8	**-30.7**
Others	25.1	4.1	25.3	3.8	28.5	4.0	27.4	3.7	**2.1**
2. Treasury Bonds	**408.0**	**67.1**	**448.6**	**67.9**	**538.6**	**74.8**	**558.1**	**74.7**	**109.5**
Banking institutions	195.2	32.1	212.5	32.2	266.9	37.1	278.2	37.2	**65.7**
Others	212.8	35.0	236.1	35.8	271.7	37.7	279.9	37.5	**43.8**
3. Long Term Stocks	**0.8**	**0.1**	**0.8**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.8**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Others	0.8	0.1	0.8	0.1	0.0	0.0	0.0	0.0	**-0.8**
4. Non-Interest Bearing Debt	**32.8**	**5.4**	32.2	**4.9**	33.6	**4.7**	34.2	**4.6**	**2.0**
Of which: Repo T/Bills	32.8	5.4	32.2	4.9	30.8	4.3	30.8	4.1	**-1.4**
B. Others:	**12.14**	**2.0**	**19.63**	**3.0**	**11.64**	**1.6**	**23.99**	**3.2**	**4.4**
Of which CBK overdraft to Government	11.4	1.9	17.6	2.7	17.6	2.4	22.9	3.1	**5.3**

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

Source: Central Bank of Kenya

Treasury Bills

Uptake of Treasury bills took a downward trend from the beginning of the financial year 2010/11, recording net redemptions of Ksh 28.5 billion at the end of February 2011, from the Ksh 159.0 billion held at the end of June 2010 (Table 7.3). Consequently, the proportion of Treasury bills in total domestic debt decreased from 24.1 percent of total domestic debt in June 2010 to 17.5 percent in February 2011. At the same time, commercial banks holdings of Treasury bills went down from Ksh 133.8 billion to Ksh 103.1 billion, during the period.

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

	2010								2011			
Holders	Jan	%	Jun	%	Nov	%	Dec	%	Jan	%	Feb	%
Banking Institutions	111.2	78.5	134.0	84.3	109.6	80.0	106.9	79.9	108.1	79.1	103.1	79.0
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	111.2	78.4	133.8	84.1	109.6	80.0	106.9	79.9	108.1	79.1	103.1	79.0
NBFIs	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	11.7	8.2	8.8	5.5	4.6	3.4	4.2	3.1	4.1	3.0	4.1	3.2
Parastatals	2.9	2.0	1.9	1.2	2.3	1.7	2.5	1.9	2.6	1.9	3.0	2.3
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	8.3	5.8	4.6	2.9	4.6	3.3	5.2	3.8	3.2	2.3	2.9	2.2
Others	7.7	5.5	9.7	6.1	15.9	11.6	15.1	11.3	18.6	13.6	17.3	13.3
Total*	141.7	100.0	159.0	100.0	136.9	100.0	133.9	100.0	136.6	100.0	130.5	100.0

* Excludes repurchase order bills

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds outstanding increased from Ksh 448.6 billion in June 2010 to Ksh 558.1 billion in February 2011 (Table 7.4). Consequently, the share of the Treasury bonds in total domestic debt increased from 67.9 percent in June 2010 to 74.7 percent in February 2011 (Table 7.2). Following the increase in outstanding Treasury bonds during the period, the average maturity profile of domestic debt (by days to maturity) stood at 5 years and 1 month in February 2011 from 4 years 3 months in June 2010.

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

	2010						2011			
Holders	Feb	%	Jun	%	Dec	%	Jan	%	Feb	%
Banking Institutions	196.31	48.11	215.28	47.99	261.45	49.34	269.44	50.03	280.73	50.30
Central Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Comm. Banks	195.21	47.85	212.49	47.36	258.83	48.85	266.90	49.56	278.19	49.84
NBFIs	1.10	0.27	2.79	0.62	2.62	0.50	2.54	0.47	2.54	0.46
Insurance Companies	48.00	11.76	54.77	12.21	65.90	12.44	66.25	12.30	67.70	12.13
Parastatals	34.72	8.51	38.22	8.52	44.47	8.39	44.20	8.21	45.05	8.07
Of which: NSSF	17.90	4.39	20.19	4.50	26.41	4.98	21.41	3.98	22.61	4.05
Building Societies	0.37	0.09	0.35	0.08	0.31	0.06	0.31	0.06	0.31	0.06
Pensions Fund	68.62	16.82	80.06	17.85	98.92	18.67	103.03	19.13	108.81	19.50
Others	59.98	14.70	59.92	13.36	58.82	11.10	55.33	10.27	55.53	9.95
Total	408.00	100.00	448.62	100.00	529.87	100.00	538.57	100.00	558.13	100.00

Source: Central Bank of Kenya

Maturity Profile of Treasury Bills and Bonds

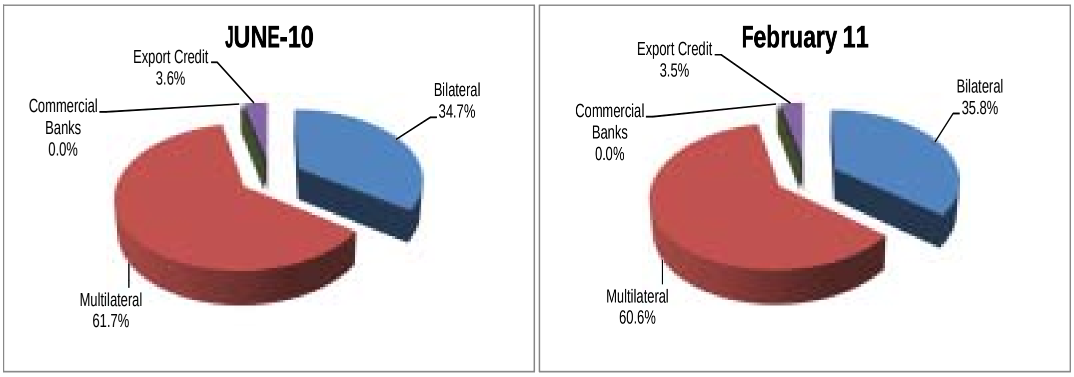
Government securities worth Ksh 112.4 billion will fall due in the next three months after February 2011, that is, by end May 2011. Of the total maturing debt, Ksh 88.2 billion, or 78.5 percent will be in Treasury bills, while the remainder (21.5 percent) will be in Treasury bonds. The high turnover of Treasury bill redemptions is due to its short-dated nature as compared with Treasury bonds longer term maturity profile. Treasury bills maturities in the period will comprise Ksh 34.8 billion, Ksh 40.6 billion and Ksh 12.8 billion in 91-days, 182-days and 364-days Treasury bills, respectively while Treasury bonds maturing during this period will comprise of Ksh 12.5 billion in 2-year fixed rate bonds, Ksh 5.4 billion in 4-year fixed rate bonds, Ksh 4.7 billion in 7-year fixed rate bonds and Ksh 1.6 billion in 3-year pending bills.

Kenya’s external debt increased by Ksh 36.9 billion from Ksh 565.5 billion (US$ 6.9 billion) in June 2010 to Ksh 602.4 billion (US$ 7.44 billion) in February 2011 (Table 7.1). The rise in external debt from July 2010 to February 2011 during the fiscal year 2010/11 reflected external loan disbursements equivalent to Ksh 18.1 billion which more than offset the revaluation losses of Ksh 1.9 billion on debts and debt repayments equivalent to Ksh 7.7 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to multilateral creditors (including IMF) declined marginally from 61.7 percent to 60.6 percent, that owed to bilateral creditors increased from 34.7 percent to 35.8 percent while that which is contracted through export credits declined marginally to 3.5 percent, in February 2011 compared to 3.6 percent in June 2010 (Chart 7A).

CHART 7A: COMPOSITION OF EXTERNAL DEBT

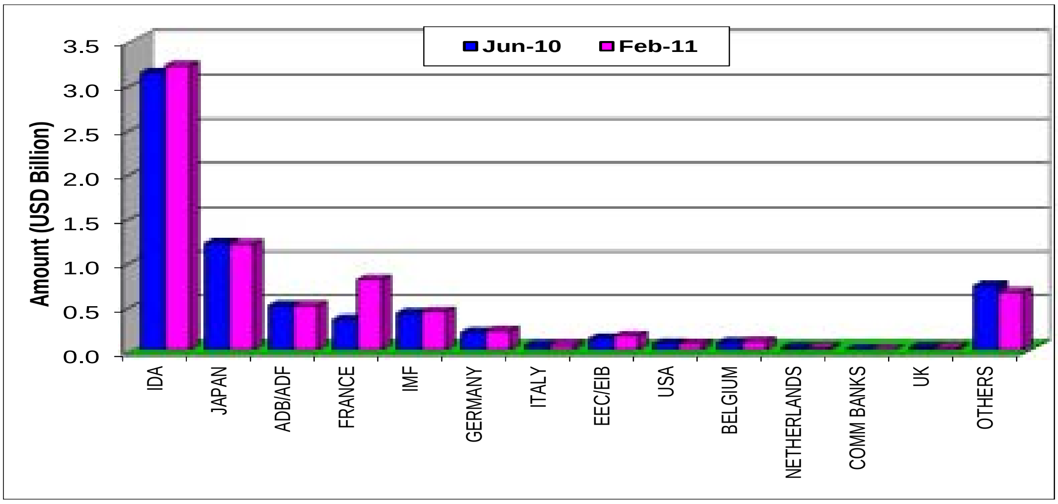


Source: Treasury

External Debt

External debt owed to International Development Association (IDA) increased to US$ 3.21 billion in February 2011 from US$ 3.13 billion in June 2010 while the debt owed to Japan declined marginally from US$ 1.21 billion in June 2010 to US$ 1.2 billion in February 201. The two remained respectively the largest multilateral and bilateral creditors to Kenya during the period (Chart 7B).

CHART 7B: EXTERNAL DEBT BY CREDITOR

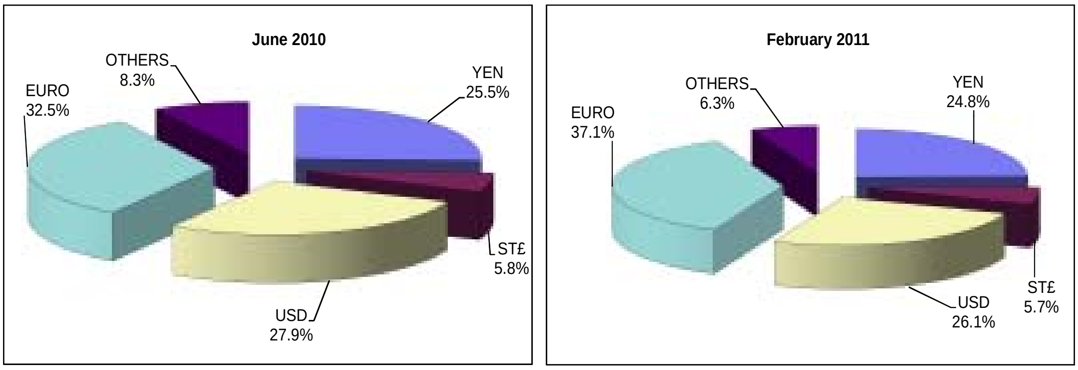


Source: Treasury

Currency Composition of External Debt

In February 2011, about 63.2 percent of total external debt was held in Euros and US dollars. During the period July 2010 - February 2011, the percentage of external debt held in US dollars, Japanese Yen, Sterling Pounds and other currencies including SDRs declined to 26.1 percent, 24.8 percent, 5.7 percent and 6.3 percent respectively, from 27.9 percent, 25.5 percent, 5.8 percent and 8.3 percent, held in June 2010. Debt held in Euros increased from 32.5 percent to 37.1 percent in February 2011 (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt increased by Ksh 3.3 billion from Ksh 42.7 billion incurred by February 2010 in the fiscal year 2009/10 to Ksh 46.1 billion in the same period of the fiscal year 2010/11. The external debt service during the period under review comprised Ksh 11.5 billion in principal repayments and Ksh 4.4 billion in interest payments.

Outlook for the FY 2010/11

The budget estimates for fiscal year 2010/11 indicate projected domestic borrowing equivalent to Ksh 125 billion or 4.5 percent of GDP, while external borrowing is estimated at Ksh 82.7 billion or 3.0 percent of GDP.

Activity in the Stock Market

Equity Market

Performance at the equities market declined in February 2011 as reflected by key market indicators (Table 8.1). The number of shares traded decreased by 53.76 percent from 725.1 million in January 2011 to 335.3 million in February 2011.

Equity turnover decreased by Ksh 3,246 million (34.3 percent), from Ksh 9,462 million in January 2011 to Ksh 6,216 million in February 2011. The market capitalization declined by Ksh 15.43 billion (1.29 percent), from Ksh 1,192.3 billion in January 2011 to Ksh 1,176.8 billion in February 2011. The NSE 20 Share Index lost by 224.7 points (5.03 percent) to close at 4,240.2 in February 2011 (Chart 8A). Market liquidity ratio decreased by 59 basis points to 0.51 percent in February 2011 from 1.1 percent in January 2011 reflecting a decrease in the number of shares traded. The decline in performance may be attributed to huge losses of prices across various counters, particularly on the Safaricom counter, which is a dominant player in the market. The performance may also be reflecting investor reallocation in favor of the bond market, where the 30-year savings and deposit bond was issued during the month.

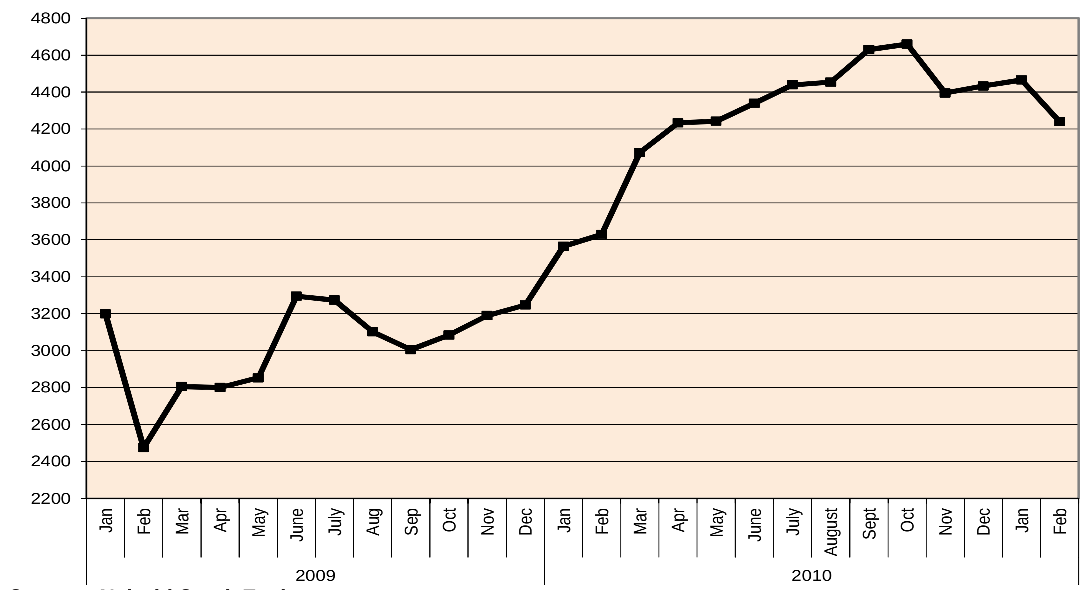
TABLE 8.1: SELECTED STOCK MARKET INDICATORS

Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
January-09	3,198.90	177.55	2,624.39	777.45	12,458.82
February-09	2,474.75	150.64	1,645.28	611.49	12,555.25
March-09	2,805.03	207.39	2,414.12	688.67	18,520.00
April-09	2,800.10	215.56	2,549.12	683.03	1,370.00
May-09	2,852.57	308.00	3,087.67	693.44	22,310.00
June-09	3,294.56	377.56	4,126.87	821.78	21,600.00
July-09	3,273.10	296.19	3,261.63	826.75	16,650.00
August-09	3,102.68	280.89	3,149.21	785.28	12,890.00
September-09	3,005.41	231.69	3,547.59	771.63	20,930.00
October-09	3,083.63	303.30	4,520.97	783.97	22,380.00
November-09	3,189.55	396.36	4,646.57	825.84	9,210.00
December-09	3,247.44	214.90	2,591.19	831.83	15,940.00
January-10	3,565.28	603.91	6,358.02	910.02	26,750.00
February-10	3,629.41	369.76	4,214.87	922.10	41,638.70
March-10	4,072.93	627.00	8,325.6	983.12	50,411.00
April-10	4,233.24	398.53	6,754.90	1,062.00	23,241.00
May-10	4,241.81	933.53	10,342.00	1,073.00	37,204.50
June-10	4,339.28	364.71	6,804.00	1,108.65	95,241.75
July-10	4,438.58	691.34	11,383.00	1,142.60	63,517.00
August-10	4,454.59	1,030.54	16,173.55	1,136.10	23,189.80
September-10	4,629.80	804.41	7,731.50	1,173.70	30,875.50
October-10	4,659.56	500.96	10,233.33	1,221.85	34,110.00
November-10	4,395.17	498.78	9,301	1,169.17	33, 691.00
December-10	4,432.60	357.61	5,885.41	1,166.99	23,280.00.
January-11	4,464.92	725.05	9,462.18	1,192.28	19,891.30
February-11	4,240.18	335.25	6,215.78	1,176.85	49,040.10

Source: Nairobi Stock Exchange

The Commercial and Services sector dominated the market, with 176.9 million shares being traded during the month. Safaricom was the most active counter, accounting for 85.8 percent of all transactions in the sector. Finance and Investment sector had 86.1 million shares changing hands, with Cooperative Bank Ltd being the most active counter with 26.2 million shares traded. The Industrial and Allied sector was third most active sector with 70.5 million shares traded in which Mumias Sugar Co. Ltd counter was most active at 19.6 million shares. In the agricultural sector 1.6 million shares were traded, being the least active sector. Foreign investors' participation was 33.74 percent in February 2011, with purchases of Ksh 2.4 billion and sales of Ksh 1.7 billion recorded.

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



Source: Nairobi Stock Exchange

Bond Market

Turnover at the Fixed Income Securities segment of NSE saw a 146.7 percent increase in bond trading during the month of February 2011. A total of 863 deals valued Ksh 49,040 million were transacted in February 2011, up from 247 deals worth Ksh 19,891 million traded in January 2011.