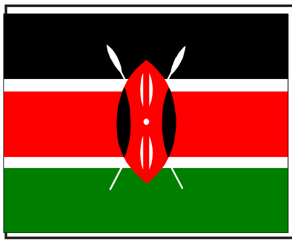

MONTHLY ECONOMIC REVIEW

JULY 2013

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

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OVERVIEW

Introduction

This Monthly Economic Review highlights recent economic developments through July 2013. This includes developments in inflation, money, credit and interest rates, the real sector, balance of payments and exchange rates. It also highlights developments in the banking sector, Government budgetary operations, public debt and the stock market.

Inflation

Overall 12-month inflation increased from 4.9 percent in June 2013 to 6.0 percent in July 2013 largely attributed to a fall (base effects) in the food and energy price indices in June and July 2012 and concomitant increase in respective inflation in June and July 2013. Non-food, non-fuel inflation also rose slightly from 3.9 percent in June 2013 to 4.0 percent in July 2013 while annual average inflation declined from 4.6 percent in June 2013 to 4.4 percent in July 2013.

Money Supply

Growth in broad money supply, M3, decreased to 13.8 percent in the year to July 2013 from 14.2 percent in the year to July 2012 and was within the 15.7 percent target for July 2013.

Interest Rates

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 8.50 percent on July 9, 2013 in order to provide time for its previous decisions to work through the economy. The weighted average interbank interest rate increased from 7.14 percent in June 2013 to 7.93 percent in July 2013.

Real GDP Growth

The economy grew at 4.6 percent in 2012 compared to 4.4 percent in 2011. Real GDP growth in the first quarter of 2013 expanded by 5.2 percent compared with a growth of 4.0 percent in the first quarter of 2012. In the second quarter of 2013 real GDP growth stabilized at 4.3 percent, compared with 4.4 percent growth achieved in a similar period of 2012. Both the recovery in the first quarter and the resilience of the second quarter 2013 partly reflects in the agriculture sector performance, and more importantly the stability of the macroeconomic indicators in the second quarter of 2013.

Balance of Payments

Kenya's overall balance of payments position declined to a surplus of US$625 million in the year to July 2013 from a surplus of US$ 873 million in the year to July 2012 reflecting a reduction in the Capital and Financial account surplus.

Exchange Rates

The Kenya shilling exhibited mixed performance against major international currencies, and depreciated against EAC currencies in July 2013. Against the US Dollar, the Shilling weakened to exchange at an average of 86.86 in July 2013 compared to an average of 85.49 in June 2013.The depreciation reflects increased demand by importers for the Dollar during this period.

Banking Sector Developments

The Kenyan Banking sector registered improved growth in assets in the year to July 2013 driven by growth in deposits, injection of capital and retention of profits. The sector registered improved performance in earnings and capital and the level of non-performing loans reduced compared with a similar period in 2012.

Government Budgetary Performance

The central Government budgetary operations for July 2013 in the fiscal year 2013/14 resulted in a surplus of Ksh 8.9 billion on commitment basis compared with a deficit of Ksh 3.8 billion on commitment basis in July 2012.

Public Debt

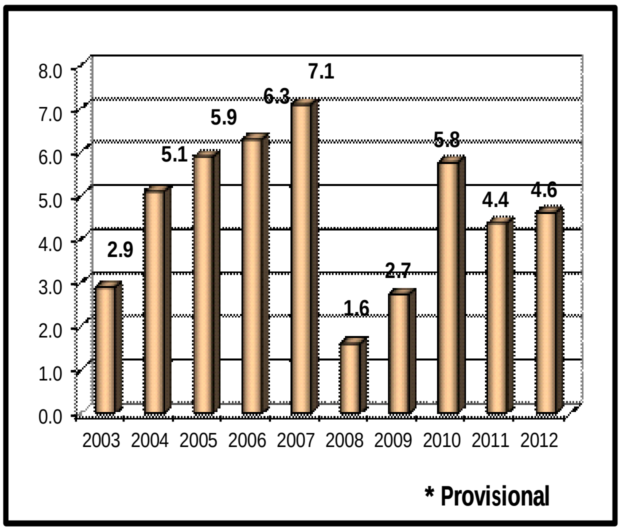
Kenya's public and publicly guaranteed debt increased by Ksh 59.7 billion to reach Ksh 1,953.8 billion in July, 2013, from Ksh 1,894.1 billion at the end of June 2013. As a percent of total debt, external debt increased from 44.5 percent in June to 44.8 percent in July, 2013, while domestic debt declined from 55.5 percent to 55.2 percent, during the same period. Total debt-to-GDP ratio increased from 51.7 percent in June 2013 to 52.7 percent in July 2013.

Stock Market

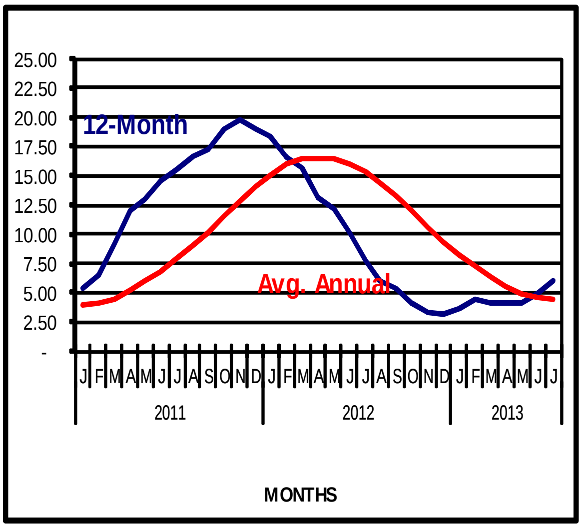
Capital markets performance recovered in July 2013, with all equities indices; NASI, FTSE NSE Kenya 15 and FTSE NSE Kenya 25 and NSE 20 Share, recording gains. Market capitalization and foreign investor participation increased. Equities turnover, shares traded, and bonds turnover however declined. FTSE NSE Kenyan Shilling Government Bond Index added 0.969 points as yields declined further.

SELECTED ECONOMIC PERFORMANCE INDICATORS

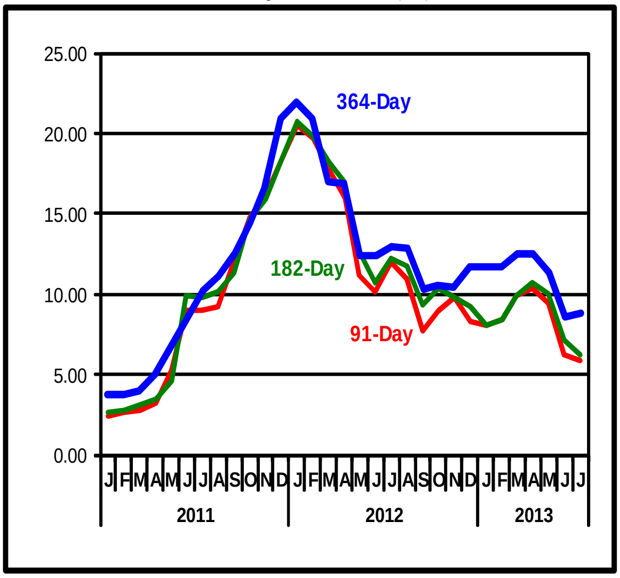
Real GDP Growth (%)



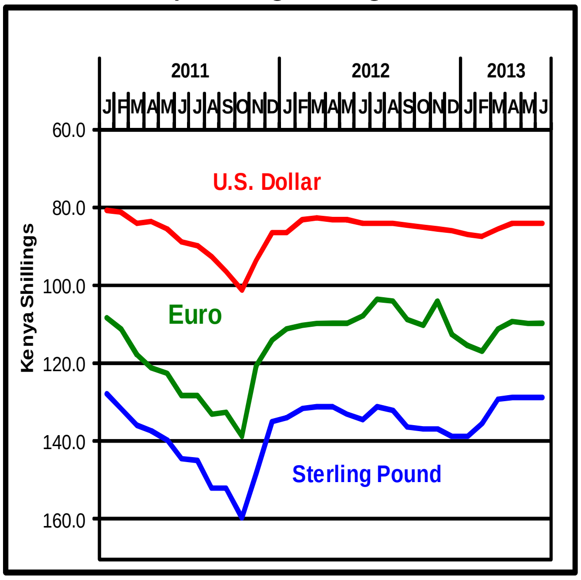
Inflation (%)



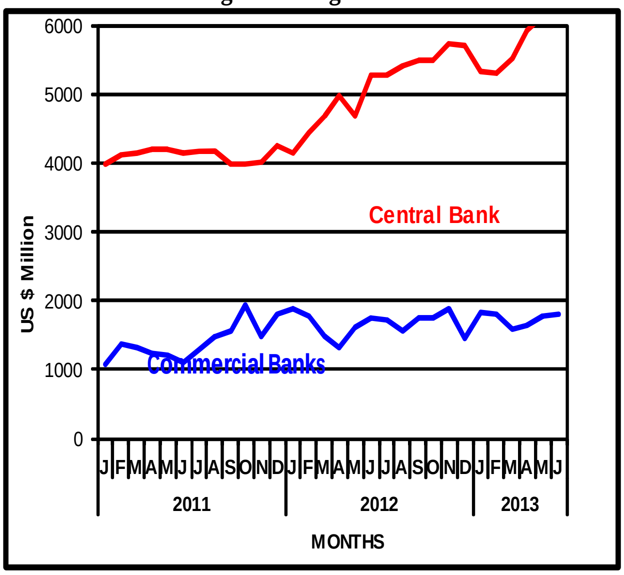
Treasury Bill Rates (%)



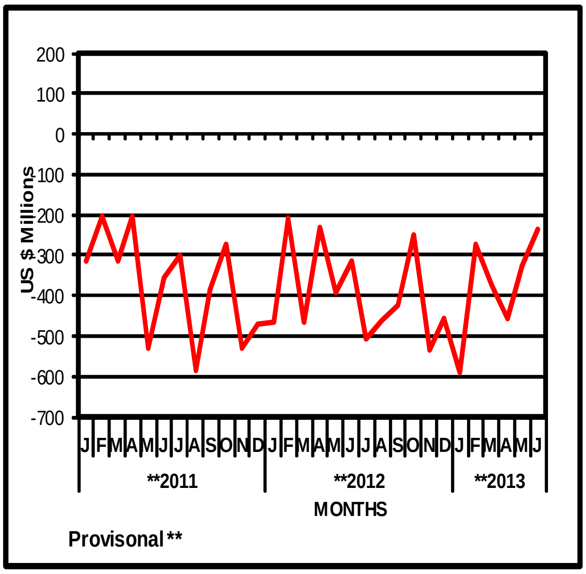
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012*
1.	POPULATION*															
	People in Millions	28.88	29.54	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	38.60	39.80	NA	
	Growth (%)	2.31	2.29	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	0.78	3.11	NA	
2.	NATIONAL ACCOUNTS**															
	Gross value added at basic prices (Ksh m)	755,827.00	804,994.00	858,919	906,874	918,914	1,006,062	1,132,850	1,261,625	1,444,113	1,616,010	1,858,371	2,090,948	2,241,570	2,694,791	3,041,610
	GDP at Market Prices (Ksh m):															
	At Current Prices	850,808.00	906,928.00	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,565	1,833,511	2,107,589	2,366,984	2,553,733	3,048,867	3,440,115
	At Constant 2001 Market Prices	955,179.00	976,996.00	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,133	1,249,470	1,336,846	1,357,263	1,394,387	1,475,302	1,539,912	1,610,084
	Real GDP Growth (%)	3.30	2.30	0.60	4.50	0.60	2.90	5.10	5.91	6.3	7.0	1.5	2.7	5.8	4.4	4.6
	Per Capita Income Real 2001 prices (Ksh)	33,165.94	33,118.50	33,283	33,767	31,828	31,825	32,443	33,480	34,574	37,316	36,933	36,962	38,346	38,941	39,607
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]	8.90	9.70	12.9	10.0	8.1	10.1	12.2	13.4	14.8	13.9	15.9	12.9	11.8	14.0	12.2
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]	6.06	5.67	6.7	4.4	4.0	4.8	6.6	5.7	6.8	6.1	8.2	5.5	4.7	6.3	5.0
5.	GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.30	16.20	17.4	18.8	14.9	16.4	17.1	16.9	17.9	19.0	19.2	19.9	19.8	20.5	20.1
6.	OVERALL INFLATION BASE PERIOD= FEB 2009															
	Annual Average Inflation	6.70	5.60	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27	9.24	3.96	14.02	9.38
	12-Month Inflation	0.67	10.43	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32	4.51	18.93	3.20
7.	STOCK MARKET															
	Nairobi Stock Exchange Price Index (1966=100)	2,963.10	2,303.20	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44	4,432.60	3,205.02	4,133.02
	Trade Turnover Ratio (%)	0.40	0.23	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64	0.99	0.46	0.58
8.	GOVERNMENT BUDGET (Ksh bn) ***															
	Revenue and Grants	184.87	201.18	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67	511.36	614.53	679.53	734.43
	Expenditure	194.97	197.34	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91	791.79	817.09	915.89
	Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis)	(10.10)	3.84	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)	(177.26)	(137.56)	(181.46)
	Budget Deficit (% of GDP)	(1.25)	0.44	0.81	(1.66)	(2.19)	(2.51)	(0.97)	0.08	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)	(5.51)
9.	MONEY AND CREDIT (Ksh bn)(end period)															
	Liquidity (L)¹	381.35	414.43	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,091.93	1,280.44	1,558.16	1,854.93	2,129.49
	Money Supply (M3)²	328.32	345.73	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.05	1,045.66	1,271.64	1,514.15	1,727.32
	Reserve Money	74.99	78.99	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96	222.63	255.01	293.62
	Total Domestic Credit	350.60	358.48	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	815.52	955.82	1,188.40	1,505.13	3,036.21
	Government	91.10	84.13	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	155.32	205.07	277.78	311.58	368.83
	Private sector and other public sector	260.60	274.35	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	660.20	750.75	910.62	1,193.55	1,333.69
10.	BALANCE OF PAYMENTS (US$ m)															
	Overall Balance	(4.80)	5.80	217.00	372.00	59.00	365.00	117.00	306.00	675.00	854.00	(469.00)	780.53	163.40	(42.88)	1,261.00
	Current Account	(475.10)	(89.60)	(240.00)	(385.00)	(117.69)	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,609.28	-2,511.91	-3,330.50	-4,252.54
	Capital and Financial Account	617.50	263.80	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00	2,389.81	2,675.30	3,287.61	5,513.54
11.	FOREIGN EXCHANGE RESERVES (US$ m) End Period	1,100.00	1,104.00	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78	5,064.03	5,122.52	6,044.78	7,160.07
	Official	782.00	789.00	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	4,001.68	4,247.66	5,701.85
	Months of imports	*(2.5)*	*(2.9)*	*2.8*	*3.2*	*3.3*	*4.4*	*4.1*	*4.0*	*3.9*	*4.8*	*3.4*	*4.1*	*3.9*	*3.7*	*4.3*
	Commercial Banks	328.00	315.00	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63	1,120.84	1,797.12	1,458.22
12.	PUBLIC DEBT (US$ bn) End Period***	8.45	8.00	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	13.46	13.66	14.96	16.60	19.27
	Domestic	3.00	2.60	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72	8.06	8.51	10.20
	As % of GDP	*22.01*	*21.84*	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	*23.56*	*21.15*	*21.67*	*25.90*	*27.78*	*26.06*
	External	5.45	5.40	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94	6.90	8.09	9.08
	As % of GDP	*39.99*	*45.36*	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	*23.09*	*21.61*	*22.36*	*22.20*	*26.43*	*23.53*
13.	EXCHANGE RATE (Ksh/US$) (Annual Average)	60.40	70.30	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18	77.35	79.23	88.87	84.52

NA Not Available

* Provisional.

** Revised to reflect data reported in Economic Survey 2011.

*** Fiscal year to June 30th.

\¹ Previously M3XT

\² Previously M3X

\³ Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2012 Jul	Aug	Sep	Oct	Nov	Dec	2013 Jan	Feb	Mar	Apr	May	June	July
1. INFLATION (%)													
CPI	131.92	131.51	131.89	132.46	133.33	134.25	135.62	136.59	137.96023	139.28	139.52	139.59	139.87
Overall Inflation													
12-month overall inflation	7.74	6.09	5.32	4.14	3.25	3.20	3.67	4.45	4.11	4.14	4.05	4.91	6.02
Average annual overall inflation	15.27	14.33	13.29	12.04	10.67	9.38	8.20	7.24	6.33	5.61	4.96	4.56	4.44
2. INTEREST RATES (%)													
91-day Treasury bill interest rate	11.95	10.9	7.8	9.0	9.8	8.3	8.1	8.4	9.9	10.4	9.5	6.2	5.9
Overdraft interest rate	19.96	20.3	19.8	19.1	18.8	17.8	18.0	17.7	17.5	17.7	17.6	16.9	17.0
3. STOCK MARKET													
Nairobi Stock Exchange 20 Share Price Index	3,832.42	3,865.76	3,972.03	4,147.28	4,083.52	4,133.02	4,416.60	4,518.59	4,860.83	4,765.23	5,006.96	4,598.16	4,787.56
Turnover Ratio (%)	0.51	0.44	0.60	0.59	1.07	0.58	0.65	0.86	0.71	0.74	1.08	0.90	0.76
4. GOVERNMENT BUDGET* (Ksh bn.)													
Revenue $ Grants	46.27	103.88	173.32	233.02	304.41	387.89	454.06	514.26	577.34	675.72	758.31	851.19	58.60
Expenses	50.03	146.19	232.29	308.46	405.53	506.41	589.55	664.32	776.08	882.08	995.21	1,100.83	49.70
Budget Deficit (-) / Surplus (+)	(3.8)	(42.3)	(59.0)	(75.4)	(101.1)	(118.52)	(135.5)	(150.1)	(198.7)	(206.4)	(236.9)	(249.6)	8.9
5. MONEY AND CREDIT (Ksh bn.)													
Liquidity (L)[1]	1,991.13	2,021.56	2,060.59	2,096.61	2,136.55	2,129.49	2,132.66	2,151.14	2,180.65	2,239.92	2,273.12	2,278.29	2,312.96
Money Supply (M3)[2]	1,612.64	1,638.21	1,670.86	1,702.55	1,740.18	1,727.32	1,729.90	1,747.89	1,755.74	1,802.28	1,823.40	1,820.88	1,835.45
Reserve Money	257.45	250.23	259.02	250.45	279.65	293.62	274.02	287.10	287.58	267.85	281.85	287.44	283.98
Total Domestic Credit	1,602.49	1,598.77	1,620.14	1,654.80	1,686.98	1,702.52	1,744.37	1,747.08	1,752.20	1,824.02	1,778.27	1,782.95	1,774.83
Government	331.26	320.82	332.68	351.08	370.64	368.83	396.00	393.61	391.02	458.11	392.82	379.51	346.63
Private sector and other public sector	1,271.23	1,277.95	1,287.47	1,303.73	1,316.34	1,333.69	1,348.37	1,353.47	1,361.19	1,365.92	1,385.45	1,403.44	1,428.20
6. MONEY AND CREDIT (Annual % Change)													
Liquidity (L)[1]	**15.30**	**15.27**	**13.94**	**12.49**	**16.26**	**14.80**	**14.39**	**13.82**	**14.38**	**16.64**	**16.92**	**15.58**	**16.10**
Money Supply (M3)[2]	14.18	14.03	12.58	12.48	16.81	14.08	14.89	16.16	15.73	17.31	16.77	14.16	13.79
Reserve Money	17.08	9.25	9.69	6.75	13.97	15.14	12.24	23.93	11.50	9.54	18.93	11.72	10.31
Total Domestic Credit	15.36	11.51	9.32	11.05	11.22	13.11	16.63	15.54	14.45	17.13	13.05	14.86	**10.76**
Government	14.50	3.45	10.71	21.58	13.35	18.37	31.68	28.62	24.09	43.68	25.68	27.39	4.64
Private and other public sector	15.59	13.61	8.97	8.51	10.64	11.74	12.84	12.22	11.95	10.29	9.92	11.88	12.35
7. BALANCE OF PAYMENTS (US$ m)													
Overall Balance	(12.98)	136.23	77.32	7.80	154.45	(36.77)	(366.30)	(37.77)	233.20	290.10	194.92	(42.86)	14.32
Current Account	(507.28)	(455.53)	(431.18)	(233.99)	(279.05)	(454.24)	(497.69)	(173.02)	(285.99)	(352.43)	(202.78)	(135.28)	(347.26)
Trade Balance	(988.40)	(892.00)	(812.23)	(762.45)	(1,012.61)	(919.36)	(962.58)	(797.25)	(823.38)	(903.64)	(833.08)	(683.33)	(951.89)
Capital and Financial Account	494.30	591.77	508.50	241.78	433.50	417.47	131.39	135.25	519.19	642.53	397.70	92.42	361.59
8. FOREIGN EXCHANGE RESERVES (US$ m)	6,995.31	6,967.14	7,213.96	7,249.80	7,634.33	7,160.07	7,155.80	7,080.45	7,113.87	7,563.70	7,907.17	7,899.98	7,906.88
Official**	5,262.06	5,398.30	5,475.61	5,477.63	5,742.46	5,701.85	5,327.85	5,290.07	5,523.28	5,927.56	6,128.10	6,089.00	6,095.76
Months of imports cover	4.18	4.22	4.25	4.22	4.36	4.29	3.97	3.90	4.05	4.31	4.43	4.39	4.36
Commercial banks	1,733.24	1,568.85	1,738.35	1,772.16	1,891.86	1,458.22	1,827.96	1,790.37	1,590.59	1,636.13	1,779.07	1,810.98	1,811.12
9. PUBLIC DEBT (US$ bn)	19.47	19.85	20.25	20.46	20.77	20.84	20.68	20.53	21.03	22.46	22.40	22.02	22.39
Domestic	10.36	10.70	10.83	10.92	11.16	11.29	11.16	10.94	11.47	12.71	*12.6*	12.2	12.4
As % of GDP	22.56	23.32	23.85	24.03	24.79	25.90	*25.3*	*25.0*	*26.0*	*28.2*	*28.5*	*28.7*	*29.1*
External	9.11	9.15	9.42	9.54	9.60	9.55	9.51	9.58	9.56	9.74	*9.8*	*9.8*	*10.0*
As % of GDP	19.85	19.96	20.75	21.01	21.33	21.26	*22.1*	*21.9*	*21.7*	*21.6*	*23.2*	23.0	*23.6*
10. GROSS DOMESTIC DEBT (Ksh bn)***	872.16	901.85	922.20	929.32	958.44	971.27	977.93	943.75	981.91	1,065.61	1,074.80	1,050.56	1,078.60
11. AVERAGE EXCHANGE RATE													
Ksh/US$	84.14	84.08	84.61	85.11	85.63	85.99	86.90	87.45	85.82	84.19	84.15	85.49	86.86
Ksh/Pound Sterling	131.27	132.05	136.26	136.81	136.77	138.78	138.80	135.54	129.42	128.81	128.72	132.42	132.00
Ksh/ 100 Yen	106.50	106.93	108.25	107.84	105.81	102.79	97.67	93.96	90.49	86.12	83.37	87.77	87.28
Ksh/Euro	103.60	104.20	108.80	110.35	109.91	112.77	115.47	116.86	111.31	109.65	109.18	112.81	113.74

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

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

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

[1] Previously M3XT

[2] Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

Overall 12-month inflation increased from 4.9 percent in June 2013 to 6.0 percent in July 2013 largely attributed to a fall (base effects) in the food and energy price indices in June and July 2012 and concomitant increase in respective inflation in June and July 2013. Non-food, non-fuel inflation rose from 3.9 percent in June 2013 to 4.0 percent in July 2013. The three months annualized rate of inflation declined from 4.8 percent in June 2013 to 1.7 percent in July 2013 (Table 1.1 and Chart 1A).

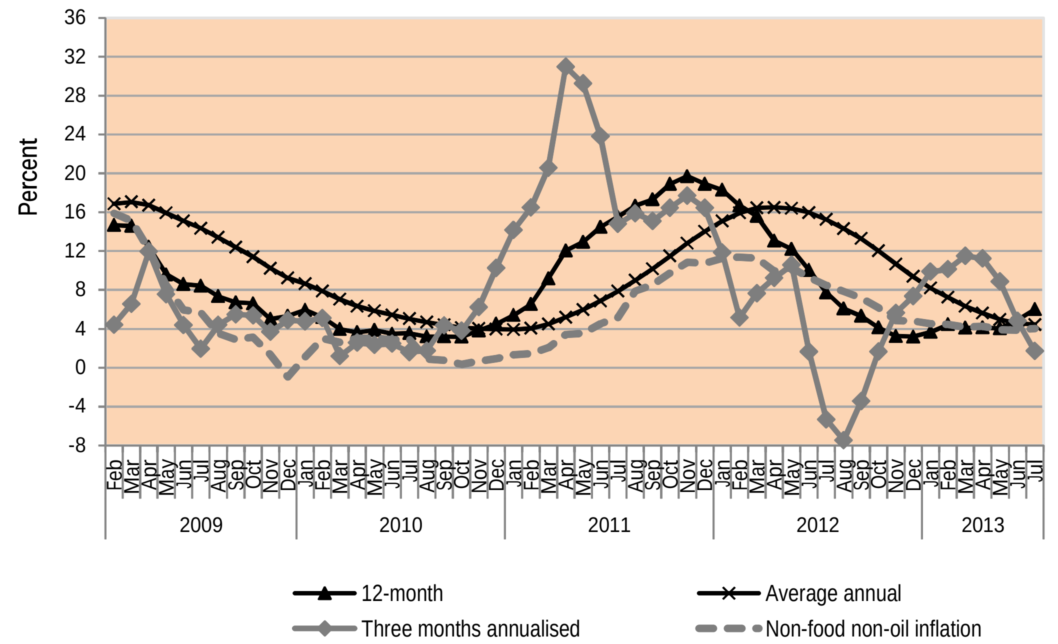
TABLE 1.1: 12-MONTHS OVERALL, AVERAGE ANNUAL & THREE MONTHS ANNUALISED INFLATION (%)

Overall Inflation	2012						2013						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
12-month	7.74	6.09	5.32	4.14	3.25	3.20	3.67	4.45	4.11	4.14	4.05	4.91	6.02
Average annual	15.27	14.33	13.29	12.04	10.67	9.38	8.20	7.24	6.33	5.61	4.96	4.56	4.44
Three months annualised	-5.32	-7.46	-3.46	1.65	5.63	7.36	9.88	10.14	11.51	11.23	8.87	4.81	1.71
Non-food non-oil inflation	8.49	7.84	7.17	6.17	4.83	4.81	4.53	4.45	4.17	4.28	3.91	3.86	4.04

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

Non-food, non-fuel inflation increased marginally as was reflected across all consumption baskets, except 'clothing and footwear'. 12-month inflation in 'health', 'alcoholic beverages, tobacco and narcotics', 'furnishings, household equipment and routine maintenance', 'restaurants and hotels', 'miscellaneous goods and services', 'recreation and culture' and 'communication' consumption baskets.

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

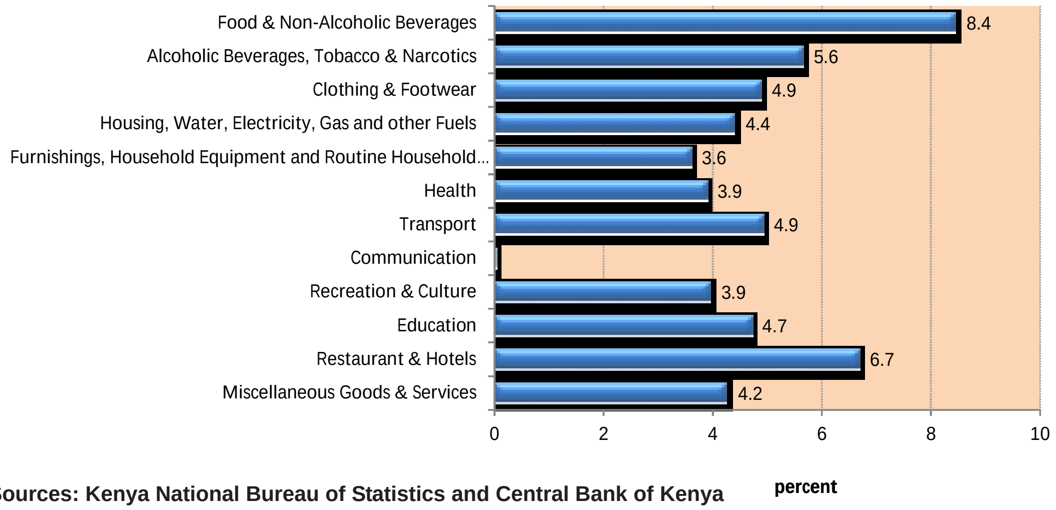


Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

Inflation Across Categories of Goods & Services

Fuel inflation increased in July 2013 as indicated by an increase in the 12-month inflation in the 'housing, water, electricity, gas and other fuels' category from 4.0 percent in June 2013 to 4.4 percent July 2013; and the 'transport' category from 2.5 percent in June 2013 to 4.9 percent in July 2013. The volatility in fuel inflation in July 2013 partly reflected the instability in the international oil prices.

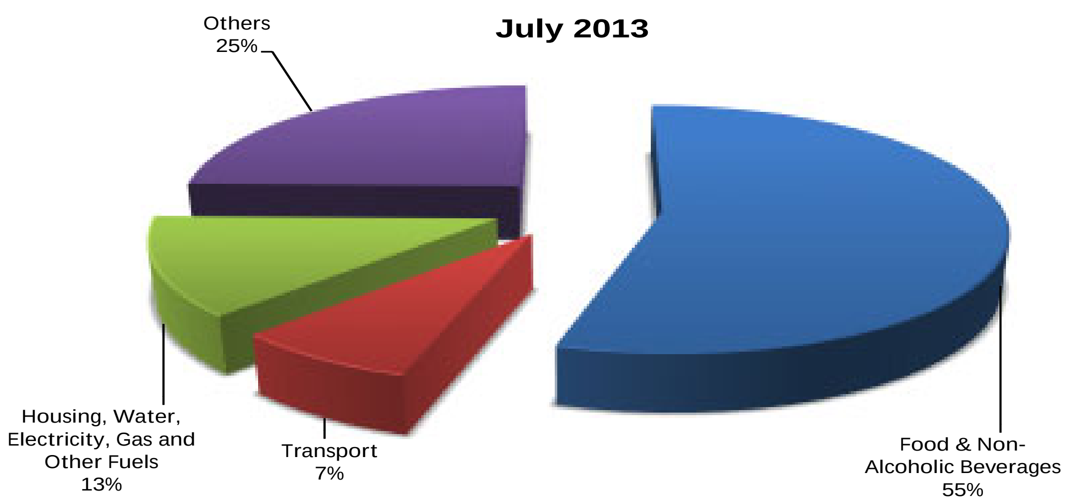
CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (JULY 2013 (%))



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

Developments across all categories of goods and services, and the distribution of weights in the Kenya consumer price index (CPI) are summarized in Table 1.2 and Chart 1B. Chart 1C shows that 54.9 percent of overall 12-month inflation in July 2013 was attributed to 'food and non-alcoholic beverages' category of goods, while inflation in 'transport' and 'housing, water, electricity, gas and other fuels' categories contributed 7.5 percent and 12.9 percent, respectively.

CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION (JULY 2013)



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

Inflationary pressures increased for all the income groups in Nairobi in July 2013. On average, the prices of goods and services in urban centers outside Nairobi rose by 6.2 percent in July 2013 compared with 5.8 percent recorded in Nairobi (Table 1.3). The indices for the 'Nairobi Lower Income', 'Nairobi Middle Income' and 'Nairobi Upper Income' groups increased by 6.3 percent, 4.6 percent and 2.3 percent respectively in July 2013 from 4.8 percent, 2.8 percent in and 1.7 percent, respectively in June 2013.

TABLE 1.2: OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (JULY 2013)

JULY 2013	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	36.0	8.13	9.9	4.1	8.4	8.5	8.4
Alcoholic beverages, Tobacco & narcotics	2.1	1.9	1.5	4.7	1.9	8.1	5.6
Clothing & Footwear	7.4	4.5	1.7	1.5	3.8	5.6	4.9
Housing, Water,Electricity,Gas and other fuels	18.3	4.8	1.5	2.4	4.0	4.7	4.4
Furnishings, Household equipment and Routine household maintenance	6.2	2.6	1.6	1.0	2.3	4.4	3.6
Health	3.1	5.0	5.2	0.8	4.9	3.2	3.9
Transport	8.7	8.8	3.8	1.0	7.4	3.1	4.9
Communication	3.8	-1.2	0.0	-1.2	-0.9	0.4	-0.1
Recreation & culture	2.3	2.5	4.1	5.3	3.0	4.6	3.9
Education	3.1	8.2	7.3	12.0	8.1	2.4	4.7
Restaurants & hotels	4.5	5.3	4.5	0.3	5.0	7.9	6.7
Miscellaneous goods & services	4.5	4.2	3.7	2.7	4.0	4.4	4.2
ALL GROUPS	100.0	6.3	4.6	2.3	5.8	6.2	6.0

Source: Kenya National Bureau of Statistics

TABLE 1.3: 12-MONTH INFLATION BY INCOME GROUPS (%)

	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13
Combined Nairobi	18.49	16.48	15.39	12.75	12.44	7.41	5.30	4.29	3.45	2.68	2.26	3.12	3.85	3.24	3.67	3.28	4.21	5.79
Lower Income	20.27	17.80	16.50	13.43	13.33	7.69	5.17	4.16	3.50	2.98	2.56	3.23	3.97	3.16	3.85	3.51	4.75	6.33
Middle Income	14.07	13.15	12.56	10.90	10.00	7.15	6.07	5.00	3.58	1.99	1.46	2.86	3.64	3.56	3.31	2.77	2.83	4.59
Upper Income	11.56	11.09	10.87	10.41	9.70	3.39	3.18	2.50	1.79	0.79	1.16	2.37	2.65	2.94	2.39	1.82	1.68	2.28
Other provinces- excluding Nairobi	18.18	16.84	15.77	13.28	12.07	7.97	6.64	6.04	4.61	3.65	3.86	4.06	4.88	4.72	4.47	4.59	5.40	6.18
TOTAL KENYA	18.31	16.69	15.61	13.06	12.22	7.74	6.09	5.32	4.14	3.25	3.20	3.67	4.45	4.11	4.14	4.05	4.91	6.02

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

Inflation Outlook

Inflationary pressures could escalate in the coming months on account of rising instability in international oil prices and implementation of the revised tax rates on consumer goods. The base effect is expected to wear off by September 2013.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Growth of broad money, M3, decreased to 13.8 percent in the year to July 2013 from 14.2 percent in the year to July 2012 and was within the 15.7 percent target for July 2013. However, growth in narrow money supply, M2, that is, M3 excluding foreign currency deposits, remained unchanged at 13.9 percent (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits, in M3, increased by Ksh 33.0 billion (13.3 percent) compared with an increase of Ksh 33.9 billion (15.8 percent) in the previous year.

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

	2011 July	2012 July	2013 July	Absolute Change 2011/12 July	Absolute Change 2012/13 July	%age change 12 months Jul-12	%age change 12 months Jul-13
1. Money supply, M3 (2+3) 2/	**1,412.7**	**1,612.6**	**1,835.5**	**199.9**	**222.9**	**14.2**	**13.8**
1.1 Money supply, M2 3/	1,197.8	1,363.8	1,553.7	166.0	189.9	13.9	13.9
1.2 Money supply, M1	624.5	638.2	757.3	13.7	119.1	2.2	18.7
1.3 Currency outside banks	124.3	128.5	148.4	4.2	19.9	3.4	15.5
2. Net foreign assets 4/	**293.0**	**311.3**	**383.3**	**18.4**	**72.0**	**6.3**	**23.1**
Central Bank	281.9	322.8	411.0	40.8	88.2	14.5	27.3
Banking Institutions	11.0	-11.5	-27.7	-22.5	-16.3	-204.3	141.7
3. Net domestic assets (3.1+3.2)	**1,119.8**	**1,301.3**	**1,452.2**	**181.6**	**150.9**	**16.2**	**11.6**
3.1 Domestic credit (3.1.1+3.1.2)	**1,392.1**	**1,602.5**	**1,774.5**	**210.3**	**172.0**	**15.1**	**10.7**
3.1.1 Government (net)	289.2	331.3	346.6	42.1	15.4	14.5	4.6
3.1.2 Private sector and other public sector	1,102.9	1,271.2	1,427.9	168.3	156.6	15.3	12.3
3.2 Other assets net (3-3.1)	**-272.4**	**-301.2**	**-322.2**	**-28.8**	**-21.1**	**10.6**	**7.0**
Memorandum items							
1. Overall liquidity, L 1/	**1,721.1**	**1,991.1**	**2,312.4**	**270.1**	**321.2**	**15.7**	**16.1**
2. Reserve money	**222.7**	**257.4**	**284.0**	**34.7**	**26.5**	**15.6**	**10.3**
Currency outside banks	124.3	128.5	148.4	4.2	19.9	3.4	15.5
Bank reserves	98.4	128.9	135.6	30.5	6.6	31.0	5.2

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

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

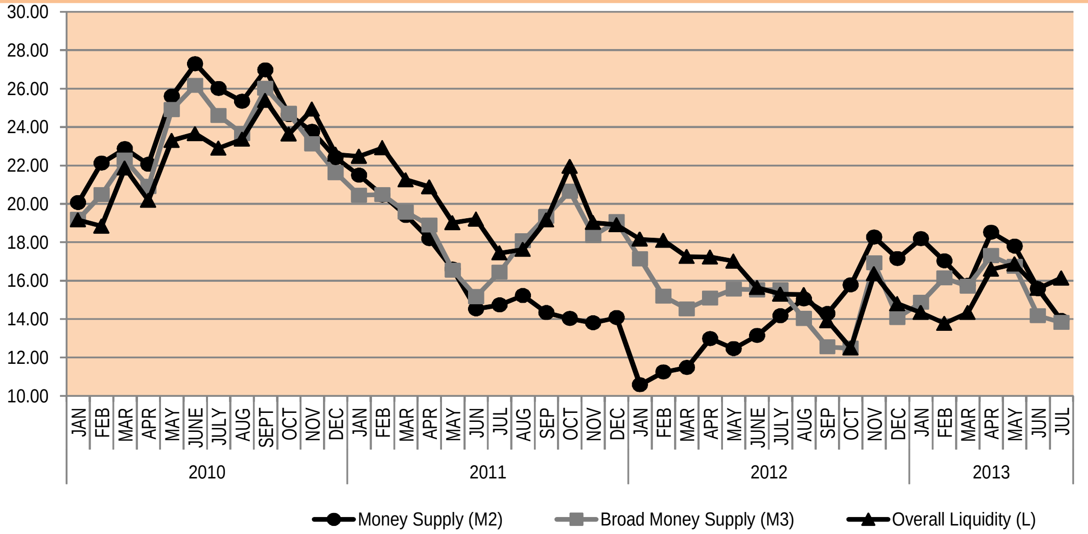
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

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.

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The slowdown in the growth of broad money supply reflected in the Net domestic Assets (NDA) of the banking system (Table 2.1),which decelerated to 11.6 percent in the year to July 2013 from 16.2 percent over a similar period in 2012 due to contraction in domestic credit growth to the public sector and deceleration in credit to Government. Over a similar period, growth in Net Foreign Assets (NFA) of the banking system accelerated to 23.1 percent in the twelve months to July 2013 from 6.3 percent in a corresponding period in 2012. The NFA accumulation reflected holdings of the Central Bank following purchases from commercial banks to build stock of foreign exchange reserves. Consequently, the NFA of the Central Bank grew by 27.3 percent from Ksh 322.8 billion in July 2012 to Ksh 411.0 billion in July 2013, while NFA of banks declined by Ksh 16.3 billion from a net liability of Ksh 11.5 billion in July 2012 to Ksh 27.7 billion in July 2013 on account of increased deposits and loans from non-residents (Table 2.1).

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

	2012 July		2013 July		Absolute Change July		Annual %age Change July	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2011/12	2012/13	2011/12	2012/13
1. Credit to Government	331.3	20.7	346.6	19.5	42.1	15.4	14.5	4.6
Central Bank	26.6	1.7	-48.3	-2.7	25.5	-74.9	2327.6	-281.5
Commercial Banks & NBFIs	304.7	19.0	394.9	22.3	16.5	90.3	5.7	29.6
2. Credit to other public sector	47.2	2.9	38.3	2.2	23.1	-8.9	95.4	-18.9
Local government	2.8	0.2	-1.3	-0.1	0.5	-4.1	22.5	-146.2
Parastatals	44.4	2.8	39.6	2.2	22.6	-4.8	103.1	-10.8
3. Credit to private sector	1224.0	76.4	1389.5	78.3	145.2	165.5	13.5	13.5
Agriculture	54.0	3.4	57.6	3.2	1.9	3.5	3.6	6.5
Manufacturing	161.9	10.1	172.3	9.7	25.9	10.4	19.0	6.4
Trade	204.2	12.7	226.6	12.8	19.4	22.4	10.5	11.0
Building and construction	62.3	3.9	68.3	3.8	16.7	6.0	36.7	9.6
Transport & communications	75.7	4.7	80.4	4.5	-2.3	4.8	-2.9	6.3
Finance & insurance	27.8	1.7	27.6	1.6	2.7	-0.2	10.7	-0.8
Real estate	153.8	9.6	180.8	10.2	32.2	27.0	26.4	17.5
Mining and quarrying	26.9	1.7	23.3	1.3	0.9	-3.6	3.3	-13.4
Private households	166.0	10.4	211.3	11.9	11.9	45.3	7.7	27.3
Consumer durables	76.3	4.8	86.7	4.9	9.2	10.4	13.7	13.6
Business services	83.6	5.2	113.6	6.4	-1.1	30.0	-1.3	36.0
Other activities	131.6	8.2	141.2	8.0	28.0	9.6	27.0	7.3
4. TOTAL (1+2+3) *	1602.5	100.0	1774.5	100.0	210.3	172.0	15.1	10.7

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

Source: Central Bank of Kenya

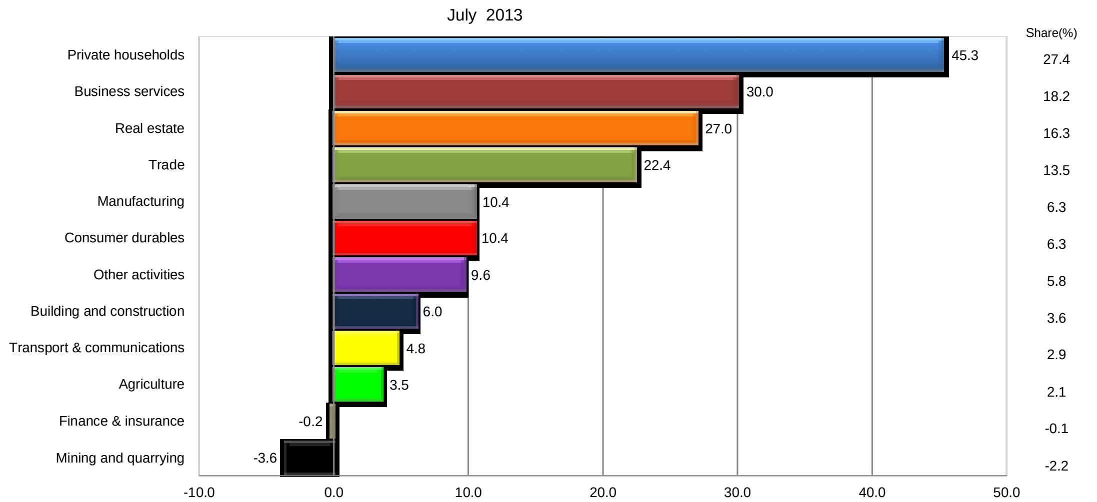
Domestic Credit Developments

Domestic credit from the banking sector expanded by Ksh 172.0 billion (10.7 percent) in the twelve months to July 2013 compared with Ksh 210.3 billion (15.1 percent) in a similar period in 2012 (Table 2.2). The slowdown reflects partial repayment of outstanding credit to the other public sector and slowdown in net credit uptake by Government attributed to build of deposits at the Central Bank.

The banking sector channeled credit largely to the private sector, which accounted for 78.3 percent of total lending in July 2013 compared with 76.4 percent in similar period in 2012. The net increase in private sector credit in the year to July 2013 was Ksh 165.5 billion (13.5 percent) compared with 16.7 percent target growth and Ksh 145.2 billion recorded in the year to July 2012.

Most activities in the private sector recorded reduced credit supply in the year to July 2013 save for private households and business services. The major recipients of private sector credit, in decreasing order of magnitude, was as follows: private households 27.4 percent (or Ksh 45.3 billion); business services 18.2 percent (or Ksh 30.0 billion); real estate sector at 16.3 percent (or Ksh 27.0 billion); trade at 13.5 percent (or Ksh 22.4 billion); manufacturing 6.3 percent (or Ksh 10.4 billion); consumer durables 6.3 percent (or Ksh 10.4 billion); building and construction at 3.6 percent (or Ksh 6.0 billion) and transport and communication 2.9 percent (or Ksh 4.8 billion). Chart 2B below presents the sectoral distribution of private sector credit. The credit flow to Government, which accounted for 19.5 percent of the total credit in July 2013, increased by 4.6 percent (or Ksh 15.1 billion) in the year to July 2013 compared with 14.5 percent (or Ksh 42.1 billion) in a corresponding period in 2012.

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO JULY 2013 (Ksh billion)



Source: Central Bank of Kenya

Reserve Money

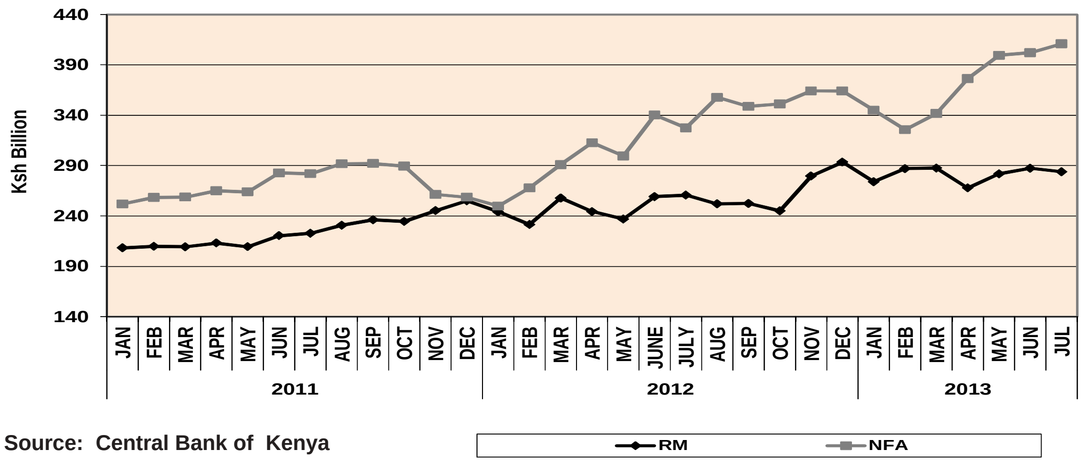
Reserve money growth decelerated to 10.3 percent in the twelve months to July 2013 from 15.6 percent in the corresponding period in 2012 (Table 2.3 and Chart 2C). At Ksh 284.0 billion in July 2013, reserve money was Ksh 2.0 billion below respective target. The growth in reserve money comprised 5.2 percent increase in bank reserves and 15.5 percent growth in currency outside banks.

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

	2012	2013	Absolute change		Change (%)		2013	
	July	July	2011/12	2012/13	2011/12	2012/13	July Target	Deviation
1. Net Foreign Assets	322.8	411.0	40.8	88.2	14.5	27.3	343.6	67.5
2. Net Domestic Assets	-65.3	-127.0	-6.1	-61.7	10.4	94.4	-57.5	-69.5
2.1 Government Borrowing (net)	26.6	-48.3	25.5	-74.9	2327.6	-281.5	-0.8	-47.5
2.2 Commercial banks (net)	-26.4	-12.8	-50.9	13.6	-207.8	-51.56	0.5	-13.3
2.3 Other Domestic Assets (net)	-67.7	-69.8	22.5	-2.1	-24.9	3.1	-57.2	-12.6
3. Reserve Money	257.4	284.0	34.7	26.5	15.6	10.3	286.0	-2.0
3.1 Currency outside banks	128.5	148.4	4.2	19.9	3.4	15.5	149.6	-1.2
3.2 Bank reserves	128.9	135.6	30.5	6.6	31.0	5.2	136.4	-0.9

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The source of reserve money growth in the year to July 2013 was largely an accumulation of net foreign assets (NFA) of the Central Bank of Kenya by 27.3 percent to Ksh 411.0 billion on account of purchases from the interbank market to sustain buffer above the statutory required level equivalent to a minimum 4 months value of imports and non- factor services.

Meanwhile, the NDA of the Central Bank decreased by Ksh 61.7 billion, to a Ksh -127.0 billion in the year to July 2013, from Ksh -65.3 billion in the previous year. This reflected reduction of Government's net borrowing from the Central Bank by Ksh 74.9 billion due to accumulation of Government deposits at the Central Bank. The net claims to commercial banks increased by Ksh 13.6 billion to a deposit of Ksh 12.8 billion following a reduction in open market sales of repo securities for liquidity management.

Central Bank Rates

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 8.50 percent on July 9, 2013. This was to consolidate the monetary policy gains, as reflected by inflation rate that had stabilized within government medium term target of 5 percent and sustained exchange rate stability. This was also expected to provide time for MPC's recent monetary easing work through the economy.

Short Term Interest Rates

Short term interest rates depicted mixed performance in the month of July 2013 (Table 2.4 and Chart 2D). The weighted average interbank interest rate increased from 7.14 percent in June 2013 to 7.93 percent in July 2013 as build-up of Government deposits dried up interbank liquidity complemented by skewed distribution of liquidity in the interbank market. However, it remained within the CBR ±2.5 percent corridor. Reflective of the previous monetary policy actions, the other rates trended downwards. The repo rate decreased from 7.93 percent to 7.48 percent. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, decreased from 6.21 percent in June 2013 to 5.92 percent in July 2013, while the 182-day Treasury bill rate fell from 7.12 percent to 6.23 percent.

Lending and Deposit Rates

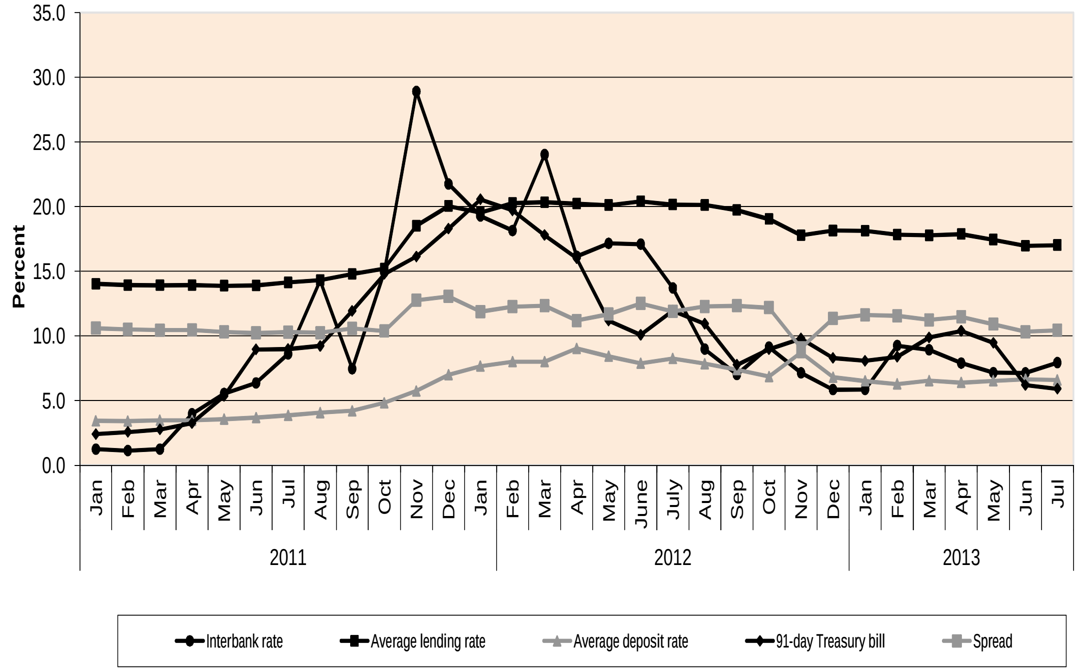
Commercial banks average lending rate increased marginally from 16.97 percent in June 2013 to 17.02 percent in July 2013, while the average deposit rate fell from 6.65 percent to 6.59 percent. Consequently, the interest rate spread widened from 10.32 percent in June 2013 to 10.43 percent in July 2013.

TABLE 2.4: INTEREST RATES (%)

	2012						2013						
	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
91-day Treasury bill rate	11.95	10.93	7.77	8.98	9.80	8.30	8.08	8.38	9.88	10.38	9.46	6.21	5.92
Overdraft rate	19.96	20.31	19.80	19.13	18.77	17.79	17.97	17.68	17.48	17.71	17.60	16.92	17.00
Interbank rate	13.71	8.97	7.02	9.14	7.14	5.84	5.86	9.25	8.93	7.90	7.16	7.14	7.93
Repo rate	14.31	9.65	8.42	9.74	8.30	6.79	6.60	9.10	9.35	9.14	7.96	7.93	7.48
Reverse Repo rate	-	-	-	-	-	-	-	-	-	-	-	-	-
Central Bank Rate (CBR)	16.50	16.50	13.00	13.00	11.00	11.00	9.50	9.50	9.50	9.50	8.50	8.50	8.50
Average lending rate (1)	20.15	20.13	19.73	19.04	18.70	18.15	18.13	17.84	17.73	17.87	17.45	16.97	17.02
Average deposit rate (2)	8.25	7.85	7.40	6.85	6.69	6.80	6.51	6.29	6.54	6.39	6.53	6.65	6.59
0 to 3 - month deposit	10.52	9.84	10.10	9.39	9.17	9.62	9.11	8.86	9.62	9.14	9.11	9.44	9.44
Savings deposits	1.66	1.58	1.55	1.60	1.58	1.60	1.65	1.61	1.42	1.45	1.53	1.73	1.64
Spread (1-2)	**11.90**	**12.28**	**12.33**	**12.19**	**12.01**	**11.34**	**11.62**	**11.55**	**11.19**	**11.48**	**10.91**	**10.32**	**10.43**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

Performance of The Real Sector

Overview

Real GDP in 2012 grew by 4.6 percent and amounted to Ksh 1.61 trillion compared to 4.4 percent growth in 2011 (Table 3.1). GDP growth in 2012 was driven largely by strong performances of the Agriculture and Forestry; Wholesale and retail; Transport and Communication which constituted 20.9 percent; 11 percent and 12.3 percent, respectively of the overall GDP. In the first quarter of 2013, Real GDP is estimated to have increased by 5.2 percent compared to 4.0 percent in the first quarter of 2012 (Chart 3A). In the second quarter of 2013 real GDP growth stabilized at 4.3 percent, compared with 4.4 percent growth achieved in a similar period of 2012.

The growth of GDP in the second quarter of 2013 was mainly supported by strong expansion in Electricity and Water, Financial intermediation, Agriculture and Forestry and Manufacturing sectors. Hotels and Restaurants recorded a significant contraction, while Wholesale and Retail trade's growth slowed albeit marginally. Compared to the first quarter of 2013, the economy expanded by 0.7 percent during the second quarter based on seasonally adjusted Gross Domestic Product. The resilience in economic performance during the second quarter occurred in the backdrop of stability across an array of key macroeconomic prices (low inflation, stronger shilling exchange

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

MAIN SECTORS	Share in 2012 Nominal GDP (%)	Share in 2012 Real GDP (%)	Kshs Million 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture and Forestry	25.94	20.86	276,089	280,518	299,749	312,926	320,423	307,354	299,431	318,586	323,465	335,785
Fishing	0.47	0.38	4,765	5,246	5,751	6,249	6,181	5,363	5,564	5,713	5,891	6,093
Mining	0.69	0.47	5,213	5,195	5,334	5,554	6,272	6,453	6,163	6,763	7,246	7,545
Manufacturing	9.21	9.49	105,822	110,544	115,699	122,953	130,673	135,291	137,060	143,263	147,989	152,735
Electricity and water supply	1.37	2.22	27,074	27,877	27,898	27,288	29,769	31,341	30,397	33,292	32,465	35,773
Construction	4.12	3.50	31,530	32,932	35,446	37,649	40,405	43,735	49,270	51,492	53,713	56,314
Wholesale and retail trade, repairs	10.18	10.99	92,604	100,481	106,009	118,361	131,754	138,044	143,460	154,942	166,205	176,874
Hotels & Restaurants	1.64	1.32	9,899	13,741	15,572	17,894	20,814	13,298	18,993	19,796	20,792	21,322
Transport, Storage & Communications	9.33	12.31	104,915	112,251	122,243	136,306	156,845	161,616	171,994	182,181	190,382	198,234
Financial intermediation	5.16	4.31	42,064	42,657	43,869	47,170	50,306	51,659	55,375	60,379	65,095	69,349
Real estate, renting and business services	4.25	5.19	61,864	63,740	65,882	68,446	70,860	73,503	75,674	78,089	80,888	83,583
Public administration and defense	5.41	3.08	46,991	47,062	46,461	45,974	45,031	45,317	46,031	47,085	48,270	49,584
Education	5.48	5.91	71,045	72,268	72,908	73,188	76,257	80,771	82,952	86,651	90,873	95,102
Health and social work	2.38	2.11	25,431	26,408	27,249	28,075	28,983	30,035	31,352	31,786	32,896	34,008
Other community, social and personal services	3.16	3.59	42,917	44,514	45,876	47,814	49,420	50,829	52,156	53,507	55,988	57,753
Private households with employed persons	0.44	0.29	3,855	3,932	4,011	4,091	4,173	4,256	4,342	4,428	4,517	4,607
Less : Financial services indirectly measured	(0.81)	-0.73	(10,315)	(10,801)	(11,261)	(11,835)	(12,174)	(10,484)	(11,945)	(11,260)	(11,843)	(11,729)
All industries at basic 2001 prices	88.42	85.27	941,763	978,565	1,028,696	1,088,103	1,155,991	1,168,395	1,198,270	1,266,694	1,314,832	1,372,932
Taxes less subsidies on products	11.58	14.73	113,895	130,772	144,088	161,367	180,855	188,882	196,117	208,607	224,474	237,153
Real GDP at 2001 market prices	100.00	100.00	1,055,658	1,109,338	1,172,784	1,249,470	1,336,846	1,357,263	1,394,387	1,475,302	1,539,306	1,610,084
GDP at Mkt Prices			1,055,658	1,109,338	1,172,784	1,249,470	1,336,846	1,357,263	1,394,387	1,475,302	1,539,306	1,610,084
Overall GDP Deflator			107	115	121	130	137	155	170	173	198	214

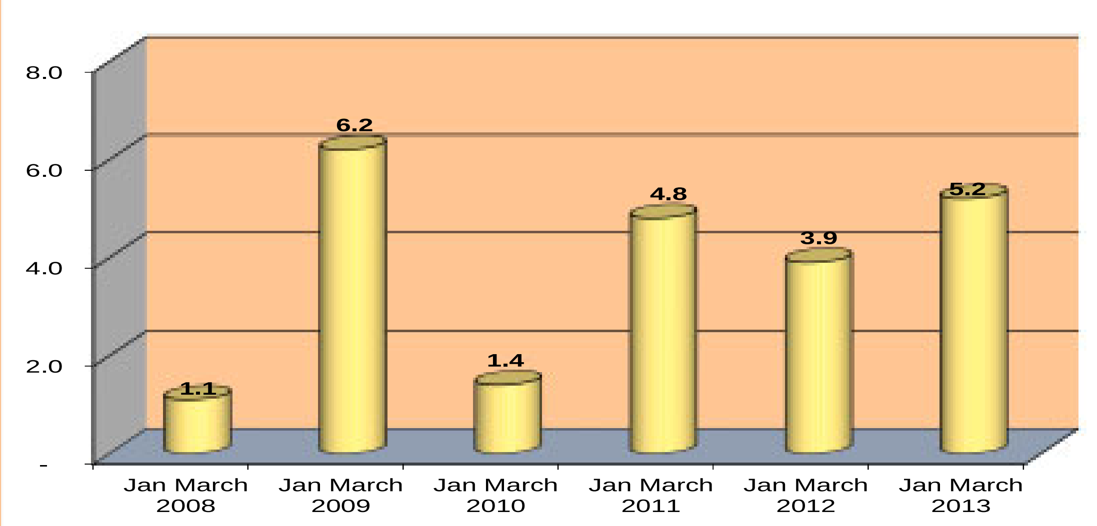
Annual Growth Rates in Percent

	Share in 2012 Nominal GDP (%)	Share in 2012 Real GDP (%)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Agriculture and Forestry	25.94	20.86	2.6	1.6	6.9	2.4	-4.1	(2.6)	6.4	1.5	1.5	3.8
Fishing	0.47	0.38	-6.9	10.1	9.6	-1.1	-13.2	3.8	2.7	3.1	3.1	3.4
Mining	0.69	0.47	3.5	-0.3	2.7	12.9	2.9	(4.5)	9.7	7.1	7.1	4.1
Manufacturing	9.21	9.49	6.0	4.5	4.7	6.3	3.5	1.3	4.5	3.3	3.4	3.1
Electricity and water supply	1.37	2.22	14.0	3.0	0.1	9.1	5.3	(3.0)	9.5	(2.6)	(2.6)	10.3
Construction	4.12	3.50	1.0	4.4	7.6	7.3	8.2	12.7	4.5	4.3	4.3	4.8
Wholesale and retail trade, repairs	10.18	10.99	1.5	8.5	5.5	11.3	4.8	3.9	8.0	7.3	7.3	6.4
Hotels & Restaurants	1.64	1.32	-20.3	38.8	13.3	16.3	-36.1	42.8	4.2	5.0	4.9	2.6
Transport, Storage & Communications	9.33	12.31	3.5	7.0	8.9	15.1	3.0	6.4	5.9	4.5	4.7	4.0
Financial intermediation	5.16	4.31	1.5	1.4	2.8	6.6	2.7	7.2	9.0	7.8	7.8	6.5
Real estate, renting and business services	4.25	5.19	2.3	3.0	3.4	3.5	3.7	3.0	3.2	3.6	3.6	3.3
Public administration and defense	5.41	3.08	0.6	0.2	-1.3	-2.1	0.6	1.6	2.3	2.5	2.5	2.7
Education	5.48	5.91	9.7	1.7	0.9	4.2	5.9	2.7	4.5	4.9	4.8	4.7
Health and social work	2.38	2.11	2.8	3.8	3.2	3.2	3.6	4.4	1.4	3.5	3.5	3.4
Other community, social and personal services	3.16	3.59	-0.0	3.7	3.1	3.4	2.9	2.6	2.6	4.5	4.6	3.2
Private households with employed persons	0.44	0.29	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Less : Financial services indirectly measured	-0.81	-0.73	-3.3	4.7	4.3	2.9	-13.9	13.9	(5.7)	5.2	5.2	(1.0)
Total GDP at basic 2001 prices	88.42	85.27	3.1	3.9	5.1	6.2	1.1	2.6	5.7	3.8	3.8	4.4
Taxes less subsidies on products	11.58	14.73	1.3	14.8	10.2	12.1	4.4	3.8	6.4	7.9	7.8	5.5
Real GDP at 2001 market prices	100.00	100.00	2.9	5.1	5.7	7.0	1.5	2.7	5.8	4.4	4.4	4.6

*Provisional

Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics rate, declining commercial banks interest rates and declining, albeit high, international oil prices and vibrancy of the Nairobi Stock Exchange.

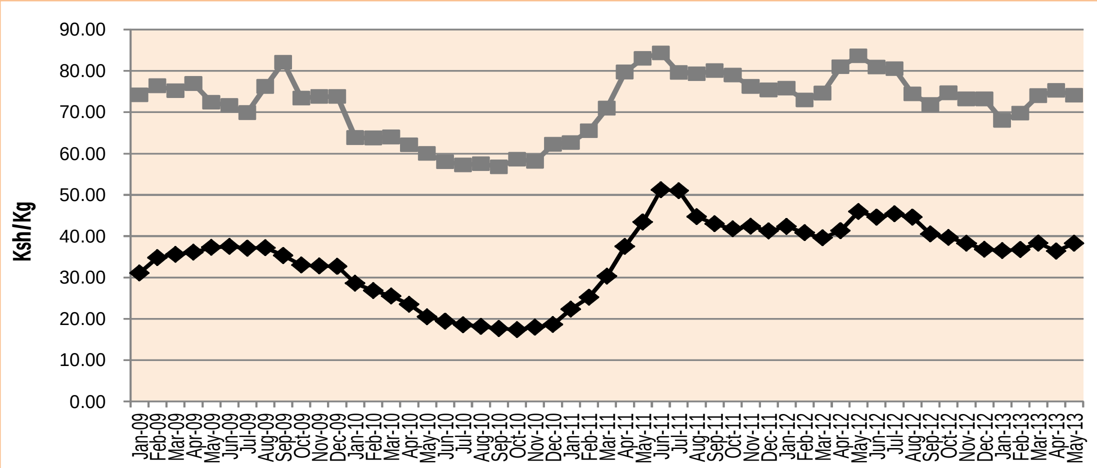
CHART 3A: REAL GDP GROWTH IN THE FIRST QUARTERS



Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

Agriculture Agriculture continued to dominate other sectors in terms of contribution to GDP through 2012, and accounted for 20.9 percent of GDP in 2012. The sector's output increased by 3.8 percent compared with 1.5 percent growth in 2011. The sector's impressive performance continued in the first and second quarters of 2013, recording increases of 8.3 percent growth and 5.0 percent respectively, compared with increases of 2.1 percent and 2.0 percent in similar periods in 2012in the first quarter of 2012. The improved outturn is attributed to favorable weather conditions which resulted to better production and lower prices of food items such as beans (Chart 3B). During the second quarter of 2013, most of the agricultural crops recorded improved production. Tea and horticulture dominated growth in agriculture. In particular tea production increased by 31.1 percent compared to 8.1 percent growth during the same quarter in 2012. Meanwhile, coffee and sugar cane production recorded marginal increases of 1.6 percent and 1.1 percent during the quarter.

CHART 3B: MOVEMENTS IN AVERAGE RETAIL PRICES FOR MAIZE & BEANS



Source: Kenya National Bureau of Statistics

Major Indicators in Agriculture

Selected indicators of performance in agriculture in the year to June 2013 show mixed performance (Table 3.2). Production of tea, horticulture and milk increased in the year to June 2013 while production of coffee and sugar cane declined.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK

	2011*	2012*	Year to Jun 12*	Year to Jun 13*
Tea				
Output (Metric tonnes)	377,913	369,562	357,625	437,009
Growth (%)	*-5.3%*	*-2.2%*	*-1.9%*	*22.2%*
Horticulture				
Exports (Metric tonnes)	238,562	250,814	234,764	285,592
Growth (%)	*-11.2%*	*5.1%*	*-9.1%*	*21.7%*
Coffee				
Sales (Metric tonnes)	29,984	46,051	44,035	43,530
Growth (%)	*-23.0%*	*53.6%*	*44.0%*	*-1.1%*
Milk				
Output (million litres)	549	495	506	548
Growth %	*7.5%*	*-9.8%*	*0.5%*	*8.2%*
Sugar Cane				
Output (Metric tonnes)	5,338,571	5,716,300	5,376,060	5,334,700
Growth (%)	*-6.5%*	*7.1%*	*-11.0%*	*-0.8%*

* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

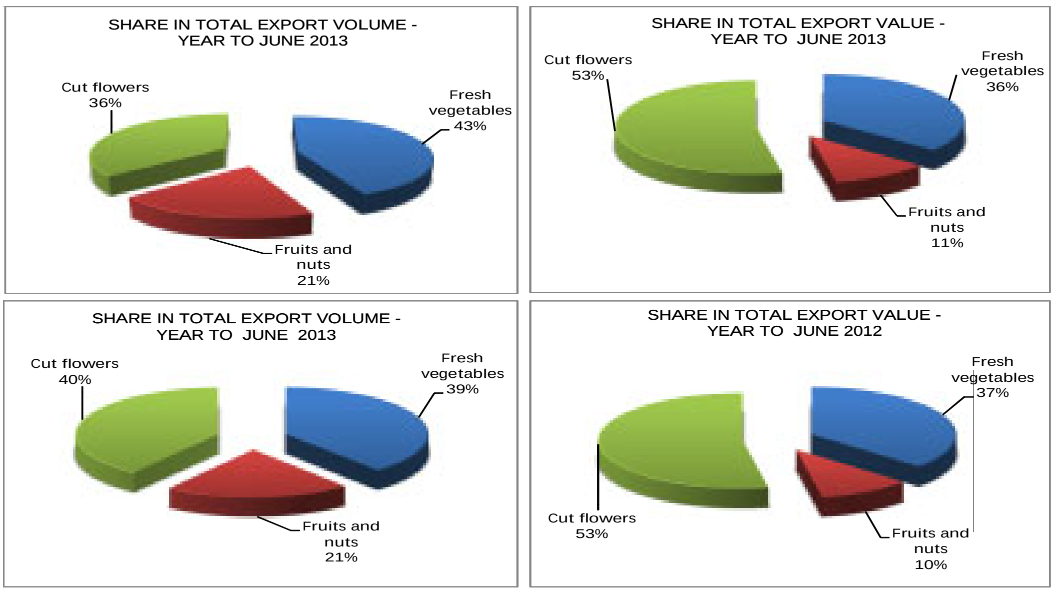
Tea

Production of tea increased by 22.2 percent from 357,625 metric tonnes in the year to June 2012 to 437,009 metric tonnes in the year to June 2013 (Table 3.2). The average auction price for tea declined from Ksh 269 per kilogram in the year to June 2012 period to Ksh 260 per kilogram in the year to June 2013.

Horticulture

Export of fresh horticultural products increased by 21.7 percent from 234,764 metric tonnes in the year to June 2012 to 285,592 metric tonnes in the year to June 2013. Exports of fresh vegetables dominated in terms of volume while cut flowers brought in the largest contribution to total export value in the year to June 2013 (Table 3.2 and Chart 3C).

CHART 3C: HORTICULTURAL EXPORTS



Source: Kenya Revenue Authority

Coffee

Coffee sales decreased by 1.1 percent from 44,035 metric tonnes in the year to June 2012 to 43,530 metric tonnes in the year to June 2013. The average auction price for coffee also declined from Ksh 471 per kilogram in the year to June 2012 to Ksh 283 per kilogram in the year to June 2013.

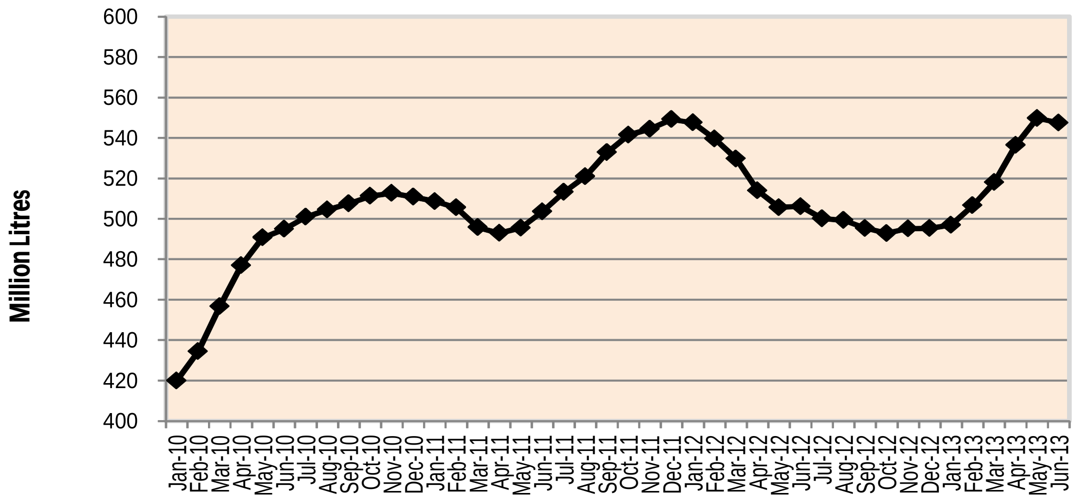
Sugar cane

Delivery of sugar cane stabilized, following a marginal (0.8 percent) decline, from 5.37 million tonnes in the year to June 2012 to 5.33 million tonnes in the year to June 2013.

Milk

The volume of milk delivered to factories increased by 8.2 percent, to 548 million litres in the year to June 2013 from 506 million litres delivered in a comparable period in the previous year (Chart 3D).

CHART 3D: PROCESSED MILK ('000 LITRES)



Source: Kenya National Bureau of Statistics

Manufacturing

The manufacturing sector accounted for 9.5 percent of the overall GDP growth in 2012. The sector's growth stabilized at 4.3 percent in the first and second quarters of 2013, respectively compared to a contraction of 0.4 percent and growth of 2.1 percent over comparable periods in 2012. The growth in the second quarter of 2013 was mainly driven by manufacture of non-food products which recorded significant growth of 7.2 percent.

Available data on manufacturing sector output during the year to June 2013 show that production of cement, galvanized sheets and soft drinks increased while production of assembles vehicles and sugar declined. The amount of cement produced increased by 2.6 percent from 4,582,710 tonnes in the year to June 2012 to 4,703,225 tonnes in the year to June 2013. (Table 3.3 & Chart 3E). Production of galvanized sheets and soft drinks also increased by 2.3 percent and 7.4 percent, respectively, in the twelve month period to June 2013. The number of assembled vehicles produced however declined by 7.7 percent to 5,946 in the year to June 2013 while domestic sugar production declined by 7.2 percent to 426,237 metric tonnes in the year to June 2013.

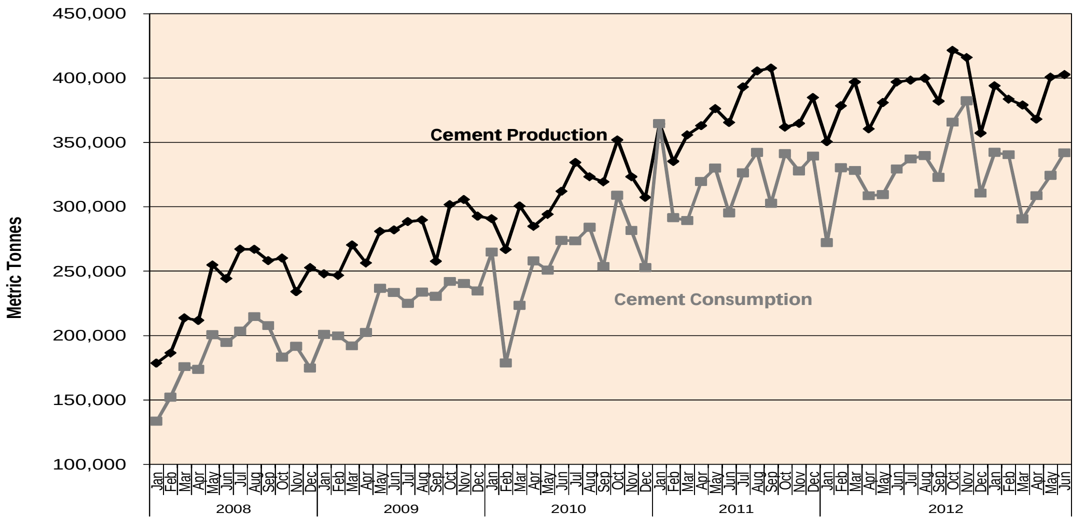
TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	Annual Totals		Year to Jun 12*	Year to Jun 13*
	2011*	2012*		
Cement production				
Output (MT)	4,478,428	4,639,723	4,582,710	4,703,225
Growth %	*20.7%*	*3.6%*	*11.2%*	*2.6%*
Assembled vehicles				
Output (No.)	6,049	6,218	6,445	5,946
Growth %	*5.7%*	*2.8%*	*15.1%*	*-7.7%*
Galvanized sheets				
Output (MT)	268,095	255,815	254,680	260,493
Growth %	*33.1%*	*-4.6%*	*7.3%*	*2.3%*
Processed sugar				
Output (MT)	475,061	493,937	459,276	426,237
Growth %	*-9.2%*	*4.0%*	*-19.8%*	*-7.2%*
Soft drinks				
Output ('000 litres)	371,353	359,518	366,370	393,333
Growth %	*2.8%*	*-3.2%*	*-0.5%*	*7.4%*

MT = Metric tonnes
* Provisional

Source: Kenya National Bureau of Statistics

CHART 3E: CEMENT PRODUCTION AND CONSUPTION



Source: Kenya National Bureau of Statistics

Energy Sector

Local generation of electricity increased by 6.8 percent from 7,287 million kilowatt hours in the year to June 2012 to 7,779 million kilowatt hours in the year to June 2013 (Table 3.4). The total electricity produced in the year to June 2013 comprised 55.3 percent from hydro-power, 24.2 percent thermal power and 20.6 percent geo-thermal power. Generation of hydro-power increased by 22.6 percent to 4,298 million kilowatt hours; geothermal power generation increased by 6.3 percent while generation of thermal power declined by 17.4 percent. Estimated consumption of electricity increased by 2.9 percent to 6,371 million kilowatt hours in the year to June 2013 from a consumption of 6,192 million kilowatt hours over the same period in 2012. Consumption of petroleum fuels declined marginally over the period under review while the average price of murban crude oil declined by 3.3 percent from US$ 113.0 per barrel in the year to June 2012 to US$109.5 per barrel in the year to June 2013.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	2011	2012*	Year to Jun 12*	Year to Jun 13*
Electricity Supply (Generation)				
Output (million KWH)	7,161	7,544	7,287	7,779
Growth %	*11.8%*	*5.4%*	*4.0%*	*6.8%*
Of which:				
Hydro-power Generation (million KWH)	3,183	4,032	3,505	4,298
Growth (%)	*-0.4%*	*26.6%*	*2.3%*	*22.6%*
Geo-Thermal Generation (million KWH)	1,444	1,522	1,504	1,599
Growth (%)	*0.1%*	*5.4%*	*3.5%*	*6.3%*
Thermal (million KWH)	2,533	1,990	2,277	1,882
Growth (%)	*43.2%*	*-21.4%*	*7.2%*	*-17.4%*
Consumption of electricity (million KWH)	6,152	6,270	6,192	6,371
Growth %	*4.8%*	*1.9%*	*2.3%*	*2.9%*
Consumption of Fuels ('000 tonnes)	3,545	3,764	3,656	3,651
Growth %	*11.6%*	*6.2%*	*8.0%*	*-0.1%*
Murban crude oil average price (US $ per barrel)	110.6	113.0	113.3	109.5
Growth %	*39.7%*	*2.1%*	*19.2%*	*-3.3%*

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

The number of tourist arrivals declined by 8.9 percent from 1,280,888 in the year to June 2012 to 1,166,366 in the year to June 2013 (Table 3.5). The Jomo Kenyatta International Airport dominated points of entry (accounting for 84.3 percent of total tourist arrivals), with Moi International Airport, Mombasa accounting for the balance (15.7 percent).

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2011	2012	Year to Jun 12	Year to Jun 13	Year to Jun 13 % Share	Year to Jun 13 % Growth
CRUISE	856	0	270	-	*0.00%*	*-100.0%*
MIAM	233,844	187,151	209,842	182,651	*15.7%*	*-13.0%*
JKIA	1,030,436	1,048,390	1,070,776	983,715	*84.3%*	*-8.1%*
TOTAL	1,265,136	1,235,541	1,280,888	1,166,366	*100.0%*	*-8.9%*

Source: Kenya Tourist Board

In terms of region of origin, Europe and Africa dominated accounting for 42.8 percent and 23.8 percent of total tourist arrivals, respectively in the year to June 2013 (Table 3.6). Asia and Oceanic countries recorded the highest growth in terms of source of tourists with increases of 4.1 percent and 2.7 percent respectively. While Europe accounted for the largest share of tourist arrivals, the numbers declined by 15.5 percent in the year to June 2013 compared to a growth of 4.6 percent in the year to June 2012 partly due to the economic recession in the Euro Zone countries.

TABLE 3.6: TOURIST ARRIVALS BY CONTINENT

REGION	2011	2012	Year to Jun 12	Year to Jun 13	Year to Jun 13 % Share	Year to Jun 13 % Growth
Africa	303,886	299,746	303,635	277,802	23.8%	-8.5%
Middle East	38,880	58,711	47,454	60,897	5.2%	N/A
America	158,268	161,669	167,926	151,263	13.0%	-9.9%
Asia	137,707	147,062	141,293	147,133	12.6%	4.1%
Europe	596,587	537,369	590,805	498,968	42.8%	-15.5%
Oceanic	28,952	30,984	29,505	30,303	2.6%	2.7%
Cruise	856	0	270	0	0.0%	-100.0%
Total	**1,265,136**	**1,235,541**	**1,280,888**	**1,166,366**	**100.0%**	**-8.9%**

Source: Kenya Tourist Board

Transport

The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) decreased by 2 percent, from 4,416,420 in the year to June 2012 to 4,330,048 in the year to June 2013. This was largely reflected in incoming passengers. The volume of oil passed through Kenya pipeline increased by 11.5 percent to 5,056 million litres in the year to June 2013 (Table 3.7).

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2011	2012*	Year to Jun 12*	Year to Jun 13*
Number of Passengers thro' JKIA				
Total passenger flows	4,135,126	4,302,244	4,416,420	4,330,048
Growth (%)	*36.5%*	*4.0%*	*23.2%*	*-2.0%*
o.w. Incoming	2,088,798	2,148,105	2,219,345	2,156,283
Growth (%)	*38.4%*	*2.8%*	*22.5%*	*-2.8%*
Outgoing	2,046,328	2,154,139	2,197,075	2,173,765
Growth %	*34.6%*	*5.3%*	*23.8%*	*-1.1%*
Kenya Pipeline Oil Throughput				
Output ('000 litres)	4,257,426	4,855,573	4,536,099	5,055,838
Growth %	*1.3%*	*14.0%*	*9.3%*	*11.5%*

* Provisional

Source: Kenya National Bureau of Statistics

Developments in the Balance of Payments and Exchange Rates

Overview

Kenya's overall balance of payments position declined to a surplus of US$625 million in the year to July 2013 from a surplus of US$ 873 million in the year to July 2012 reflecting a reduction in the Capital and Financial account surplus.

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to July 2012	Year to July 2013* Q1 Aug-Oct	Q2 Nov- Jan	Q3 Feb- Apr	Q4 May- Jul	Year to July 2013*	Absolute Change	% Change
1. OVERALL BALANCE	873	221	-249	486	166	625	-248	-28.4
2. CURRENT ACCOUNT	-4168	-1121	-1231	-811	-685	-3848	320	-7.7
2.1 Goods	-10342	-2467	-2895	-2524	-2468	-10354	-12	0.1
Exports (fob)	5972	1601	1556	1485	1448	6090	118	2.0
Imports (cif)	16314	4068	4451	4009	3917	16444	130	0.8
2.2 Services	6174	1346	1664	1713	1783	6505	331	5.4
Non-factor services (net)	3286	739	1046	1032	1113	3931	644	19.6
Income (net)	-110	-33	-55	-37	-9	-135	-25	22.4
Current Transfers (net)	2998	640	673	718	679	2710	-288	-9.6
3. CAPITAL & FINANCIAL ACCOUNT	5041	1342	982	1297	852	4473	-568	-11.3
3.1 Capital Tranfers (net)	228	53	52	26	59	190	-38	-16.7
3.2 Financial Account	4813	1289	930	1271	793	4283	-530	-11.0
memo:								
Gross Reserves	6995	7250	7156	7564	7907	7907	912	13.0
Official	5262	5478	5328	5928	6096	6096	834	15.8
*import cover***	*3.6*	*3.7*	*3.5*	*3.9*	*4.2*	4.2	1	16.4
*import cover****	*4.2*	*4.2*	*4.0*	*4.3*	*4.4*	4.4	0	4.4
Commercial Banks	1733	1772	1828	1636	1811	1811	78	4.5

* 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 improved from a deficit of US$ 4,168 million in the year to July 2012 to a deficit of US$ 3,848 million in the year to July 2013. The reduction in deficit was largely attributed to an increase in the Services account surplus.

The merchandise account deficit widened by US$ 12 million or 0.1 percent to US$ 10,354 million in the year to July 2013 from US$ 10,342 million in the year to July 2012, reflecting high spending on merchandise imports in comparison to receipts from merchandise exports.

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

ITEM	Year to July 2012	Year to July 2013* Q1 Aug-Oct	Q2 Nov- Jan	Q3 Feb- Apr	Q4 May- Jul	Year to July 2013*	Absolute Change	% Change
2. CURRENT ACCOUNT	-4168	-1121	-1231	-811	-685	-3848	320	-7.7
2.1 Goods	-10342	-2467	-2895	-2524	-2468	-10354	-12	0.1
Exports (fob)	5972	1601	1556	1485	1448	6090	118	2.0
Coffee	272	61	38	47	61	207	-66	-24.1
Tea	1128	319	356	311	326	1312	184	16.3
Horticulture	662	177	173	200	177	727	66	9.9
Oil products	81	26	17	16	13	72	-9	-11.6
Manufactured Goods	740	170	158	184	178	690	-50	-6.8
Raw Materials	436	90	89	96	81	355	-80	-18.4
Chemicals and Related Products (n.e.s)	577	135	119	123	117	494	-83	-14.4
Miscelleneous Man. Articles	549	145	137	138	146	567	18	3.3
Re-exports	353	132	138	113	101	485	131	37.2
Other	1174	347	330	256	248	1181	7	0.6
Imports (cif)	16314	4068	4451	4009	3917	16444	130	0.8
Oil	4311	788	1154	1061	857	3860	-451	-10.5
Chemicals	2019	516	530	531	575	2152	133	6.6
Manufactured Goods	2344	558	628	642	606	2433	89	3.8
Machinery & Transport Equipment	4196	1321	1310	1110	1172	4913	717	17.1
Other	3444	885	829	666	707	3087	-358	-10.4
2.2 Services	6174	1346	1664	1713	1783	6505	331	5.4
Non-factor services (net)	3286	739	1046	1032	1113	3931	644	19.6
of which transport	799	167	256	247	284	955	156	19.6
of which tourism (Travel)	798	178	147	158	184	667	-131	-16.4
Other services account: gov't	780	204	179	185	210	777	-3	-0.4
Other services account: private	-40	-46	201	227	224	607	647	-1628.7
Income (net)	-110	-33	-55	-37	-9	-135	-25	22.4
of which official interest	-104	-35	-37	-31	-28	-130	-27	25.9
Current Transfers (net)	2998	640	673	718	679	2710	-288	-9.6
Private (net)	2795	585	638	723	684	2629	-165	-5.9
of which Remittances	1101	279	306	311	323	1219	118	10.7
Public (net)	203	55	35	-5	-5	81	-123	-60.4

* Provisional.

Source: Central Bank of Kenya

Merchandise Account

The value of merchandise exports increased by US$ 118 million or 2 percent to US$ 6,090 million in the year to July 2013. The increase is attributed to increases in export values of Tea, Horticulture, miscellaneous manufactured articles, re-exports and other non-categorised exports. Tea exports accounted for 22 percent of total exports and increased by US$ 184 million to US$ 1,312 million in the year to July 2013. Horticulture exports accounted for 12 percent of total exports and increased by US$ 66 million to US$ 727 million in the year to July 2013. The increase in export values of tea and horticulture largely reflected increased exports quantities. The value of coffee exports declined by US$66 million to US$ 207 million reflecting a decline in world coffee prices. Export values of oil products, manufactured goods, raw materials, chemicals and related products also declined.

Exports

In the year to July 2013, the share of Kenya's exports to Africa declined to 46.8 percent from 48.8 percent in the year to July 2012. Kenya's exports to the EAC and COMESA region also declined by 1.2 percent and 6.2 percent, respectively (Table 4.3). The value of exports to Uganda, Tanzania, Egypt, Sudan and Somalia declined by 2.5 percent, 1.4 percent, 11.1 percent, 54 percent and 12.5 percent respectively. The share of exports to the EU region also declined from 21.8 percent to 20.2 percent. Over the same period, exports to the Middle East increased with the main destinations being Pakistan, United Arab Emirates and Afghanistan.

The total value of imports increased by 0.8 percent or US$ 130 million to US$16,444million in the year to July 2013, largely reflecting increased imports of chemicals, manufactured goods, machinery and transport equipment (Table 4.2). During this period, the share of machinery and transport equipment to total imports increased from 25.7 percent to 29.9 percent, while import values increased by US$ 717 million to US$4,913 million, accounting for more than 100 percent of the increment in total imports. The increase in imports of machinery and transport equipment is mainly attributed to increased imports of power generating machines, machines for industrial parts, road vehicles and other transport equipment. The share of oil to total imports declined from 26.4 percent in the year to July 2012 to 23.5 percent in the year to July 2013 mainly due to reduced importation of crude oil and this resulted in a decline of US$ 451 million in the value of oil imports to US$ 3,860 million. Other categories of imports reflected marginal growth, with importation of chemicals and manufactured goods increasing by 6.6 percent and 3.8 percent respectively.

Imports

Imports from Africa accounted for 9.8 percent of total imports and declined from US$ 1,780 million in the year to July 2012 to US$ 1,592 million in the year to July 2013. The decline was reflected in reduced imports from the COMESA region amounting to US$ 139 million and other African countries including South Africa (US$ 23 million). Imports from the EU region accounted for 15 percent of total imports and increased by US$ 141 million to US$ 2,438 million in the year to July 2013. Analysis at country level reveals that most of Kenya's imports were from India (15.5 percent), China (12 percent), the UAE (9.8 percent) and Japan (5.3 percent).

The services account surplus increased by US$331 million or 5.4 percent to US$6,505 million in the year to July 2013.The increase was largely in flows from net non-factor services which increased by US$ 644 million or 19.6 percent reflecting increases in transportation flows and flows from other private services. The deficit in the income account worsened by US$25 million or 22.4 percent to US$ 135 million in the year to July 2013, reflecting a decline in Investment income.

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to July			Year to July		
Country	2011	2012	2013	2011	2012	2013
Africa	1,608	1,780	1,592	11.8	11.1	9.8
Of which						
South Africa	818	755	732	6.0	4.7	4.5
Egypt	228	329	291	1.7	2.1	1.8
Others	562	695	568	4.1	4.3	3.5
EAC	308	318	329	2.3	2.0	2.0
COMESA	539	791	652	3.9	4.9	4.0
Rest of the World	12,047	14,269	14,671	88.2	88.9	90.2
Of which						
India	1,601	1,950	2,518	11.7	12.2	15.5
United Arab Emirates	1,796	2,174	1,595	13.2	13.5	9.8
China	1,663	1,870	1,952	12.2	11.7	12.0
Japan	703	715	868	5.1	4.5	5.3
USA	500	715	707	3.7	4.5	4.3
United Kingdom	627	514	573	4.6	3.2	3.5
Singapore	543	102	241	4.0	0.6	1.5
Germany	348	428	466	2.5	2.7	2.9
Saudi Arabia	351	913	530	2.6	5.7	3.3
Indonesia	403	684	510	3.0	4.3	3.1
Netherlands	239	232	234	1.8	1.4	1.4
France	240	263	284	1.8	1.6	1.7
Bahrain	137	171	502	1.0	1.1	3.1
Italy	143	203	235	1.0	1.3	1.4
Others	2,754	3,337	3,456	20.2	20.8	21.3
Total	13,655	16,049	16,263	100	100	100
EU	2,252	2,297	2,438	16.5	14.3	15.0
China	1,663	1,870	1,952	12.2	11.7	12.0

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to July			Year to July		
Country	2011	2012	2013	2011	2012	2013
Africa	2,629	2,887	2,841	47.2	48.8	46.8
Of which						
Uganda	821	809	788	14.7	13.7	13.0
Tanzania	450	515	508	8.1	8.7	8.4
Egypt	238	257	228	4.3	4.3	3.8
Sudan	246	155	71	4.4	2.6	1.2
Somalia	150	239	209	2.7	4.0	3.4
DRC	184	209	229	3.3	3.5	3.8
Rwanda	143	169	181	2.6	2.9	3.0
Others	397	535	627	7.1	9.0	10.3
EAC	1,484	1,558	1,539	26.7	26.3	25.4
COMESA	1,941	1,931	1,812	34.9	32.6	29.9
Rest of the World	2,939	3,033	3,225	52.8	51.2	53.2
Of which						
United Kingdom	511	495	464	9.2	8.4	7.6
Netherlands	368	358	381	6.6	6.1	6.3
USA	315	303	331	5.7	5.1	5.5
Pakistan	235	242	300	4.2	4.1	5.0
United Arab Emirates	233	236	350	4.2	4.0	5.8
Germany	89	105	105	1.6	1.8	1.7
India	104	101	98	1.9	1.7	1.6
Afghanistan	151	129	188	2.7	2.2	3.1
Others	932	1,064	1,008	16.7	18.0	16.6
Total	5,568	5,921	6,066	100	100	100
EU	1,277	1,289	1,226	22.9	21.8	20.2
China	30	74	43	0.5	1.2	0.7

Source: Kenya Revenue Authority

Services Account

Flows from current transfer services declined by US$ 288 million or 9.6 percent to US$2,710 million attributed to a decline in public and private transfers. However, remittances which are part of private current transfers increased by US$118 million to US$ 1,219 million during the year to July 2013 from US$ 1,101 million during the year to July 2012. Similarly, the 12 month cumulative average inflows increased to US$101.6 million from US$93 million over the same period. The pick-up in the 12 month cumulative average flows reflected resilience in the monthly remittance inflows.

Capital and Financial Account

The surplus in the capital and financial account declined to US$ 4,473 million in the year to July 2013 from US$ 5,041 million in the year to July 2012 (Table 4.4), largely attributed to a decline in the financial account surplus from US$ 4,813 million in the year to July 2012 to US$4,283 million in the year to July 2013. The decline in the financial account surplus is attributed to a reduction in Official, medium and long term financial flows, short term flows and accumulation of commercial banks foreign assets.

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

ITEM	Year to July 2012	Year to July 2013* Q1 Aug-Oct	Q2 Nov- Jan	Q3 Feb- Apr	Q4 May- Jul	Year to July 2013*	Absolute Change	% Change
3. CAPITAL & FINANCIAL ACCOUNT	5041	1342	982	1297	852	4473	-568	-11.3
3.1 Capital Tranfers (net)	228	53	52	26	59	190	-38	-16.7
3.2 Financial Account	4813	1289	930	1271	793	4283	-530	-11.0
Official, medium & long-term	1106	63	215	169	219	667	-440	-39.8
Inflows	1395	154	275	262	290	981	-413	-29.6
Outflows	-288	-91	-60	-92	-71	-315	-27	9.2
Private, medium & long-term (net)	175	-221	27	291	32	130	-46	-26.1
Commercial Banks (net)	257	-232	66	313	34	182	-76	-29.4
Other private medium & long-term (net)	-82	11	-39	-22	-2	-52	30	-36.5
Short-term (net) incl. errors & omissions	3531	1448	688	810	542	3487	-44	-1.2

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by 13 percent from US$ 6,995 million in July 2012 to US$ 7,907 million in July 2013. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased by 15.8 percent to US$ 6,096 million or 4.4 months of import cover in July 2013.The accumulation of official reserves during the period consisted of IMF disbursements under the Extended Credit Facility and buildup of reserves from the Foreign Exchange market. Foreign exchange reserves held by commercial banks increased marginally by US$ 78 million or 4.5 percent to US$ 1,811 million in July 2013. Residents' Foreign Currency Deposits increased from US$ 3,145 million in July 2012 to US$ 3,462 million in July 2013 (Table 4.5).

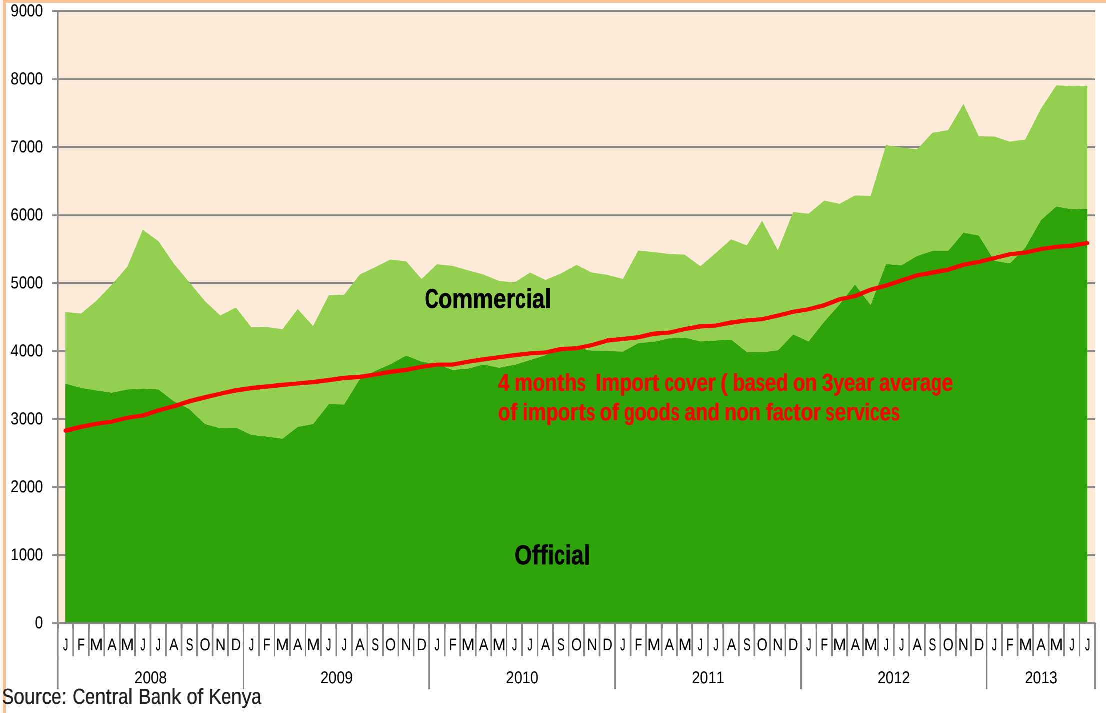
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13	Jun 13	Jul 13
1. Gross Foreign Exchange Reserves	**6,967**	**7,214**	**7,250**	**7,634**	**7,160**	**7,156**	**7,080**	**7,114**	**7,564**	**7,907**	**7,900**	**7,907**
of which:												
Official	5,398	5,476	5,478	5,742	5,702	5,328	5,290	5,523	5,928	6,128	6,089	6,096
*imports cover***	*4.2*	*4.2*	*4.2*	*4.4*	*4.3*	*4.0*	*3.9*	*4.1*	*4.3*	*4.4*	*4.4*	*4.4*
Commercial Banks	1,569	1,738	1,772	1,892	1,458	1,828	1,790	1,591	1,636	1,779	1,811	1,811
2. Residents' foreign currency deposits	**3,184**	**3,259**	**3,345**	**3,399**	**3,203**	**3,357**	**3,387**	**3,441**	**3,444**	**3,520**	**3,392**	**3,462**

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya shilling displayed mixed results against major international currencies in the month of July 2013 compared to the month of June 2013. During this period, the Shilling depreciated against the US$ and the Euro but appreciated against the Pound Sterling and the Japanese Yen to trade at an average of 86.86 per US$, 132.00 per Sterling Pound, 113.74 per Euro and 87.28 per 100 Japanese Yen. The depreciation of the Kenya shilling against the US dollar during this period was attributed to increased demand for US dollars by importers.

In the EAC region, the Kenya Shilling depreciated against all EAC currencies in July 2013 compared to June 2013 to trade at an average of Ush 29.79, Tsh 18.69, RWF 7.46 and BIF 17.83 compared to Ush 30.34, Tsh 19.13, RWF 7.56 and BIF 18.22 in June 2013 (Table 4.6 and Chart 4D).

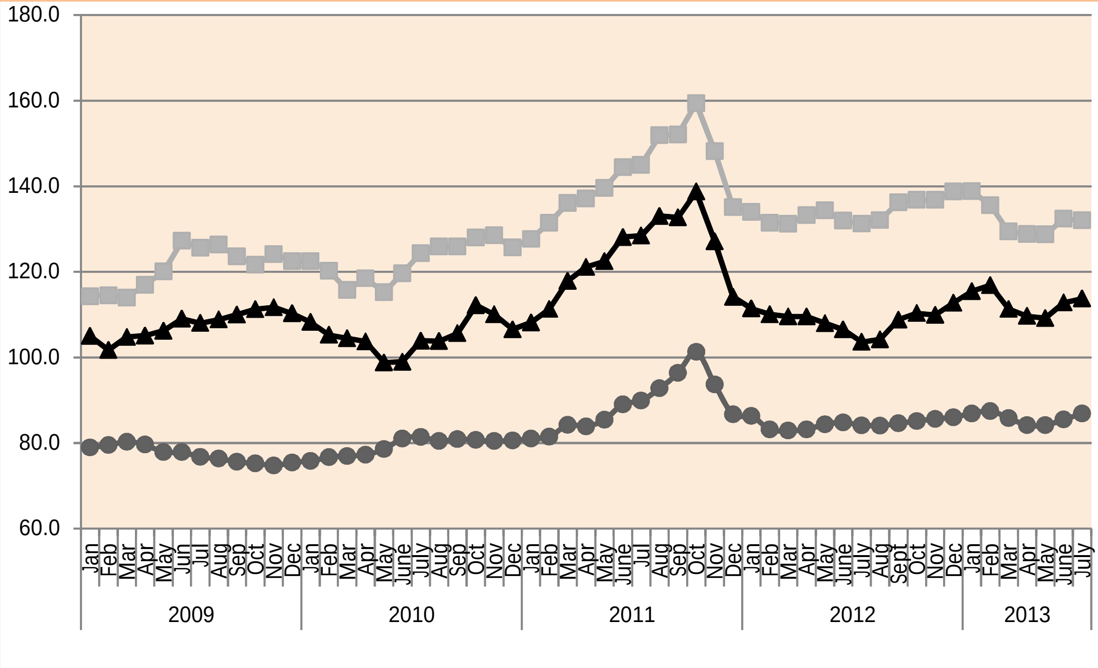
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2012		2013							
	July	Dec	Jan	Feb	Mar	Apr	May	June	July	% change June-July 2013
US Dollar	84.14	85.99	86.90	87.45	85.82	84.19	84.15	85.49	86.86	1.60
Pound Sterling	131.27	138.78	138.80	135.54	129.42	128.81	128.72	132.42	132.00	-0.31
100 Japanese Yen	106.50	102.79	97.67	93.96	90.49	86.12	83.37	87.77	87.28	-0.56
Uganda Shilling*	29.42	31.09	30.89	30.40	30.74	30.64	30.74	30.34	29.79	-1.81
Tanzania Shilling*	18.82	18.55	18.43	18.54	18.90	19.28	19.36	19.13	18.69	-2.30
Rwanda Franc*	7.20	7.19	7.12	7.11	7.39	7.53	7.67	7.56	7.46	-1.31
Burundi Franc*	16.81	17.57	17.39	17.81	18.15	18.70	18.69	18.22	17.83	-2.19
Euro	103.60	112.77	115.47	116.86	111.31	109.65	109.18	112.81	113.74	0.82
Euro per US dollar	0.81	0.76	0.75	0.75	0.77	0.77	0.77	0.76	0.76	0.78

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

During the period ended July 31, 2013, the Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 9 deposit taking microfinance institutions, 7 representative offices of foreign banks, 105 foreign exchange bureaus and 2 credit reference bureaus.

Structure of the Balance Sheet

The banking sector balance sheet expanded by 14.8 percent from Ksh 2,202.2 billion in July 2012 to Ksh 2,528.6 billion in July 2013. The key components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 55.9 percent, 22.3 percent and 6.5 percent of total assets respectively.

Loans & Advances

The banking sector gross loans and advances increased from Ksh 1,311.4 billion in July 2012 to Ksh 1,470.0 billion in July 2013, which translated to an increase of 12.1 percent. The growth was attributed to increase in lending to households, trade, manufacturing and real estate sectors. Loans and advances net of provisions stood at Ksh 1,414.2 billion in July 2013, up from Ksh 1,263.6 billion registered in a similar period in 2012.

Deposit Liabilites

Deposits from customers which form the major source of funding for the banking sector, accounted for 73.4 percent of total funding liabilities. The deposit base grew by 12.7 percent from Ksh 1,648.1 billion in July 2012 to Ksh 1,856.9 billion in July 2013 mainly supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

Capital & Reserves

The banking sector registered enhanced capital levels in July 2013 with total shareholders' funds increasing by 24.2 percent from Ksh 319.4 billion in July 2012 to Ksh 396.8 billion in July 2013. As a result, the ratios of core and total capital to total risk-weighted assets increased from 17.6 percent and 20.2 percent in July 2012 to 20.1 percent and 23.5 percent respectively.

Non-performing Loans

The stock of gross non-performing loans (NPLs) increased by 34.2 percent from Ksh 58.7 billion in July 2012 to Ksh 78.8 billion in July 2013 attributed mainly to high interest rates and the reduced economic activities during the period towards and after the March 2013 general elections. Similarly, the ratio of gross NPLs to gross loans increased from 4.5 percent in July 2012 to 5.4 percent in July 2013. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 56.8 percent to 46.6 percent in July 2013 due to a higher growth in NPLs than the increase in provisions.

The quality of assets, measured as a proportion of net non-performing loans to gross loans declined from 1.5 percent in July 2012 to 2.3 percent in July 2013 (Table 5.1)

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

		Jul-12	Jul-13
1	Gross loans and advances	1,311.40	1,470.00
2	Interest in Suspense	12.20	14.80
3	Loans and advances (net of interest suspended)	1,299.20	1,455.20
4	Specific Provisions	58.70	78.80
5	General Provisions	26.40	29.80
6	Total Provisions (5+6)	9.20	11.20
7	Net Advances (3-7)	35.60	41.00
8	Total Non-Performing Loans and advances (4-2)	1,263.60	1,414.20
9	Gross Non-Performing Loans and advances	46.50	64.00
10	Net Non-Performing Loans and advances (9-5)	20.10	34.20
11	Total NPLs as % of total advances (9/3)	3.60%	4.40%
12	Net NPLs as % of gross advances (11/1)	1.50%	2.30%
13	Provisions coverage ratio (2+5)/10	56.80%	46.60%

Source: Central Bank of Kenya

Profitablility

The banking sector recorded an increase of 15.5 per cent growth in pre-tax profits, from Ksh 61.8 billion in July 2012 to Ksh 71.4 billion as at end of July 2013. The annualised return on assets remained at 3.8 percent in July 2013. However, return on equity declined from 33.2 percent to 30.9 percent over the same period. Total income decreased marginally by 0.3 percent from Ksh 205.9 billion in July 2012 to Ksh 205.2 billion in July 2013, while total expenses declined by 7.1 percent from Ksh 144.1 billion in July 2012 to Ksh 133.8 billion in July 2013 with the decline largely attributed to interest expenses. Interest on loans and advances, fees and commissions and government securities were the main sources of income accounting for 58.7 percent, 19.0 percent and 15.3 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 31.1 percent, 29.5 percent and 24.6 percent respectively.

Liquidity Ratio Requirement

For the month ended July 31, 2013, average liquid assets amounted to Ksh 761.6 billion while total short-term liabilities stood at Ksh 1,836.2 billion, resulting to an average liquidity ratio of 41.5 percent, against 38.1 percent registered in July 2012.

Cash Ratio Requirement

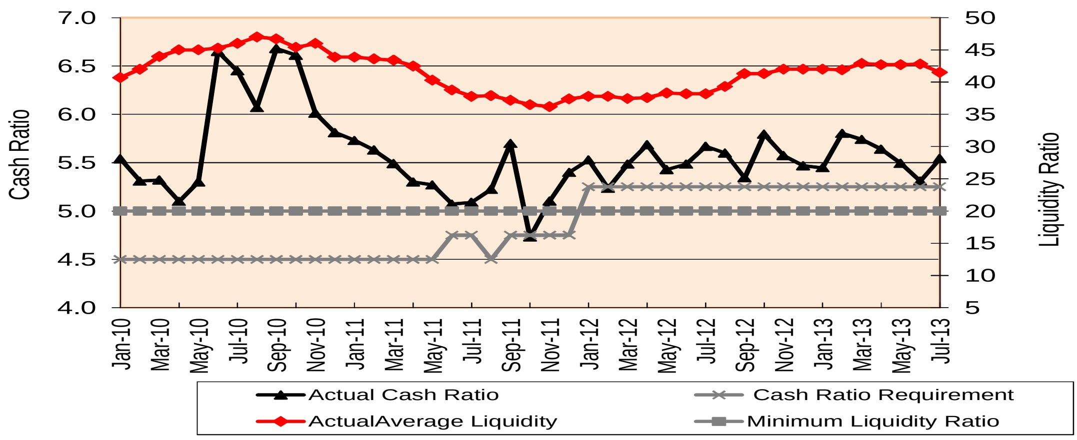
The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.54 percent in July 2013 compared with 5.31 percent in June 2013, and 5.25 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of Ksh 5.17 billion above the 5.25 percent monthly average cash reserve requirement in June 2013 compared with Ksh 1.04 billion in June 2013. Commercial banks are required to maintain Cash Reserve Ratio (CRR) above a monthly average of 5.25 percent in the 30 day maintenance cycle that runs from 15th of the current month through - 14th of every month but subject to a daily minimum of 3.0 percent.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2012						2013						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Commercial Banks													
Actual Average Liquidity	38.20	39.30	41.30	41.30	42.00	42.00	42.00	41.90	42.90	42.70	42.70	42.80	41.50
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.67	5.60	5.34	5.79	5.57	5.47	5.45	5.80	5.74	5.64	5.49	5.31	5.54
Minimum Cash Ratio Requirement	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
NBFIs													
Actual Average Liquidity Ratio	33.20	31.20	31.00	29.60	34.70	35.60	32.80	31.40	32.90	34.20	34.40	33.10	39.50
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00

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 185,773 transaction messages worth Ksh 2,109 billion in July 2013 compared with a volume of 152,310 transaction messages valued at Ksh 1,712 billion moved in June 2013, representing a increase of 21.97 percent and 23.23 percent in volume and value moved respectively. Compared to July 2012, the volume increased by 38.23 percent from 134,391 transaction messages to 185,773 transaction messages in July 2013 while value increased by 35.14 percent from 1,561 billion to 2,109 billion, indicating increased usage of KEPSS by the public.

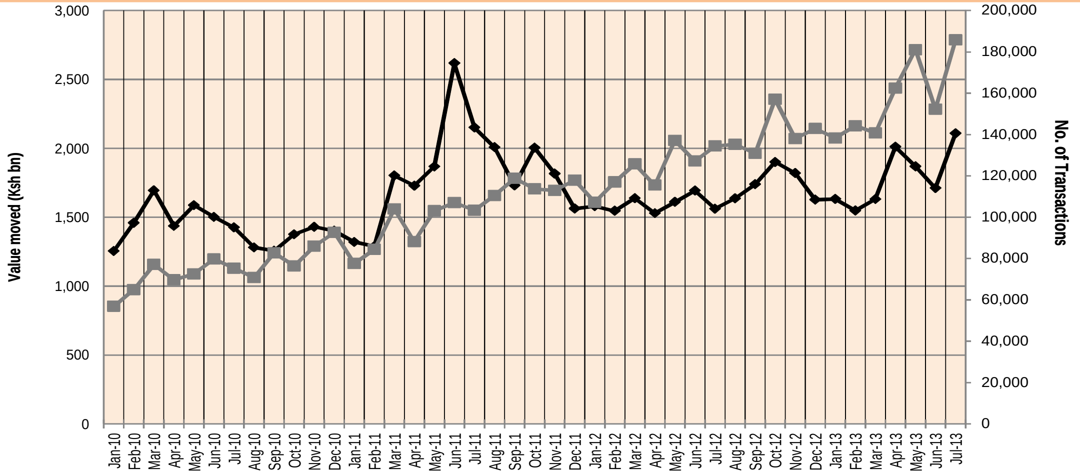
During the twelve months period to July 31, 2013 the value moved averaged Ksh 12 million per transaction. On average, 7,170 transaction messages with an average value of approximately Ksh 84 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted for 98.0 percent of the total settlements while payments processed through ACH and settled in KEPSS 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-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
Mar-11	1,802	26	103,986	0.02	22	82	4,727
Apr-11	1,728	21	88,168	0.02	19	91	4,640
May-11	1,868	26	103,112	0.02	21	89	4,910
May-11	1,868	26	103,112	0.02	21	89	4,910
Jun-11	2,617	24	107,063	0.02	21	125	5,098
Jul-11	2,151	24	103,338	0.02	21	102	4,921
Aug-11	2,007	25	110,498	0.02	22	91	5,023
Sep-11	1,730	27	118,798	0.01	22	79	5,400
Oct-11	2,004	25	113,658	0.02	20	100	5,683
Nov-11	1,816	28	112,923	0.02	22	83	5,133
Dec-11	1,562	30	117,916	0.01	20	78	5,896
Jan-12	1,579	28	107,230	0.01	21	75	5,106
Feb-12	1,546	27	116,990	0.01	21	74	5,571
Mar-12	1,638	26	125,739	0.01	22	74	5,715
Apr-12	1,529	26	115,514	0.01	19	80	6,080
May-12	1,610	26	137,135	0.01	22	73	6,233
Jun-12	1,693	26	127,147	0.01	20	85	6,357
Jul-12	1,561	26	134,391	0.01	23	71	6,109
Aug-12	1,637	26	135,243	0.01	23	71	5,880
Sep-12	1,739	26	130,874	0.01	20	87	6,544
Oct-12	1,900	26	157,020	0.01	23	83	6,827
Nov-12	1,820	26	137,975	0.01	22	83	6,272
Dec-12	1,627	30	142,867	0.01	18	90	7,937
Jan-13	1,632	25	138,297	0.01	22	74	6,286
Feb-13	1,548	25	144,248	0.01	20	77	7,212
Mar-13	1,631	28	140,781	0.01	20	82	7,039
Apr-13	2,011	32	162,432	0.01	20	101	8,122
May-13	1,869	31	181,045	0.01	22	85	8,229
Jun-13	1,712	28	152,310	0.01	20	86	7,616
Jul-13	2,109	35	185,773	0.01	23	92	8,077

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) used for multiple credit transfers decreased by 25.01 percent from 16,254 transaction messages in June 2013 to 12,189 transaction messages in July 2013 while single third party Message Type (MT 103) used for single credit transfers increased by 16.69 percent from 164,422 transaction messages to 191,864 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 12.94 percent from 180,676 transaction messages in June 2013 to 204,053 transaction messages in July 2013.

Compared with July 2012, multiple third party messages (MT 102) increased by 47.42 percent from 8,268 transaction messages to 12,189 transaction messages in July 2013 while, single third party messages (MT 103) increased by 41.94 percent from 135,173 transaction messages to 191,864 transaction messages (Table 5.4 and Chart 5C).

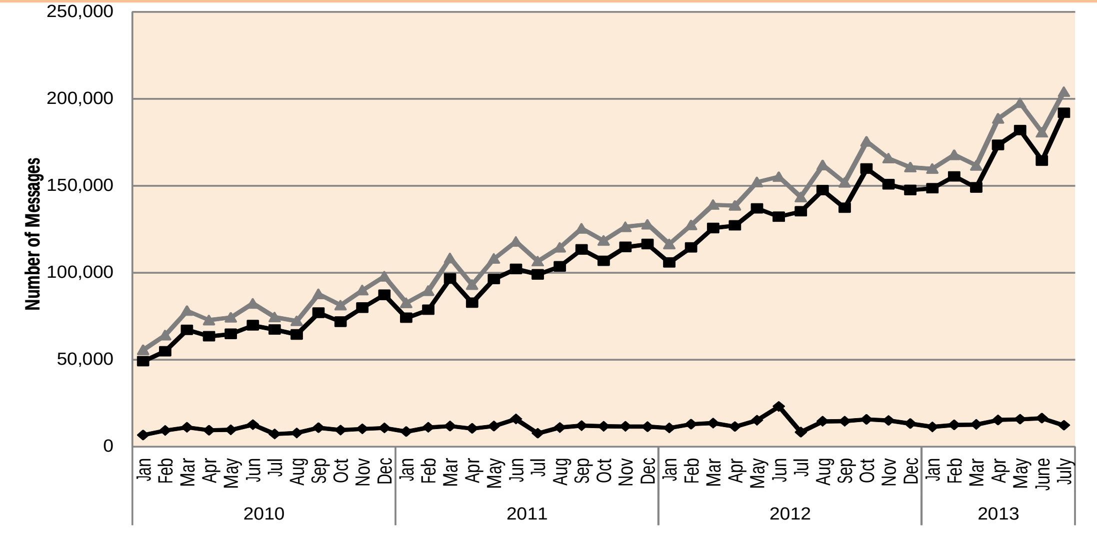
Inter-bank transfers (MT 202) accounted for 54.57 percent of the total value moved through KEPSS as at end of July 2013 while third party (MT 102 and MT 103) messages accounted for 45.43 percent. The total number of third party messages grew by 42.26 percent from 143,441 messages in July 2012 to 204,053 messages in July 2013. This signifies continued growth in KEPSS usage by individuals and non-bank corporate bodies.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2012	Jan	10,661	105,817	116,478
	Feb	12,871	114,522	127,393
	Mar	13,428	125,628	139,056
	Apr	11,439	127,126	138,565
	May	15,093	136,942	152,035
	Jun	23,048	132,103	155,151
	Jul	8,268	135,173	143,441
	Aug	14,459	147,373	161,832
	Sep	14,527	137,268	151,795
	Oct	15,616	159,847	175,463
	Nov	15,008	150,800	165,808
	Dec	13,123	147,510	160,633
2013	Jan	11,267	148,497	159,764
	Feb	12,405	155,349	167,754
	Mar	12,681	148,954	161,635
	Apr	15,247	173,453	188,700
	May	15,690	181,934	197,624
	Jun	16,254	164,422	180,676
	Jul	12,189	191,864	204,053

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

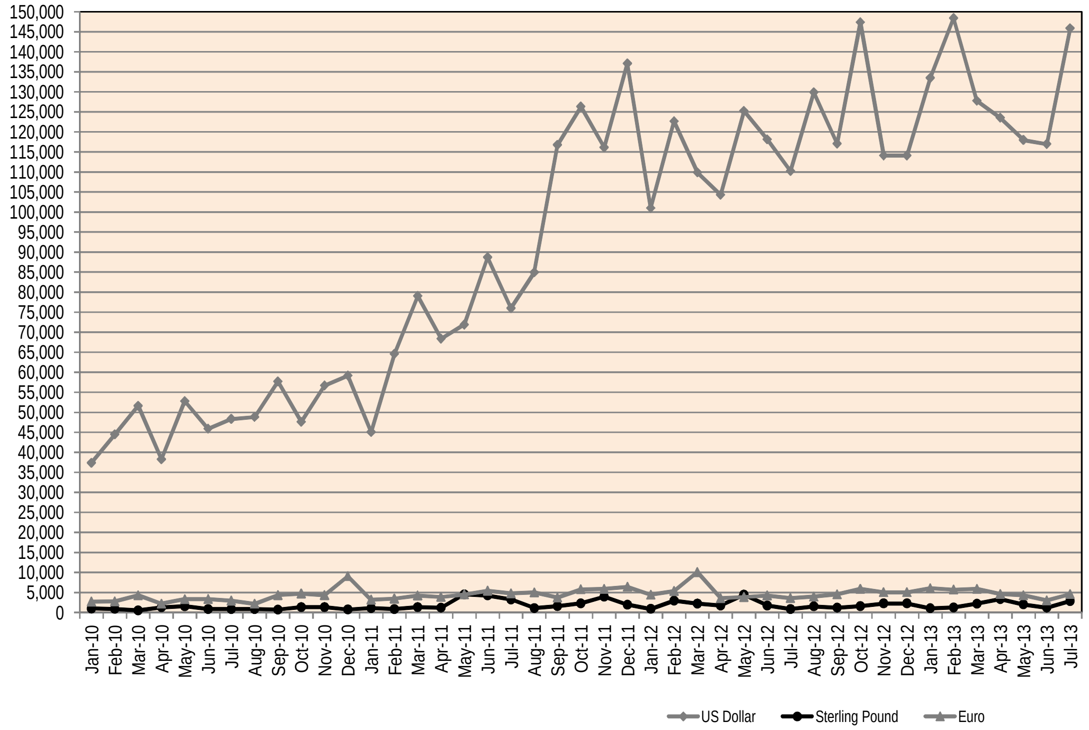


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 15.75 percent from 13,591 transaction messages in June 2013 to 15,732 transaction messages in July 2013. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period increased by 26.54 percent from Ksh 121.2 billion to Ksh 153.3 billion. The increase can be attributed to improved macro and micro environment favouring international trade. The US dollar denominated transactions accounted for 95.12 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.89 percent and 3.00 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 for July 2013 in the fiscal year 2013/14 resulted in a surplus of Ksh 8.9 billion on commitment basis compared with a deficit of Ksh 3.8 billion in the same period of fiscal year 2012/13 (Table 6.1). The surplus-to-GDP ratio stood at 0.2 percent on commitment basis and on cash basis during this period. The government had a programmed target of a budget deficit of 1.1 percent of GDP for the period.

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

	FY 2012/13	FY 2013/14		
	July Actual	July Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	**46.3**	**58.6**	**80.4**	**-21.8**
Revenue	46.3	58.6	75.9	-17.3
Tax Revenue	42.5	56.1	68.9	-12.8
Non Tax Revenue	0.7	0.2	2.1	-1.8
Appropriations-in-Aid	3.1	2.3	5.0	-2.7
External Grants	0.0	0.0	4.5	-4.5
2. TOTAL EXPENSES & NET LENDING	**50.0**	**49.7**	**119.7**	**-69.9**
Recurrent Expenses	40.1	49.6	54.7	-5.2
Development Expenses	9.9	0.2	26.6	-26.5
County Transfer	-	0.0	38.3	-38.3
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-3.8	8.9	-39.2	-48.1
As percent of GDP	**-0.1**	**0.2**	**-1.1**	
4. ADJUSTMENT TO CASH BASIS	**0.0**	**0.0**	**0.0**	**0.0**
5. DEFICIT ON A CASH BASIS	-3.8	8.9	-39.2	-48.1
As percent of GDP	**-0.1**	**0.2**	**-1.1**	
6. DISCREPANCY: Expenditure (+) / Revenue	**25.0**	**-6.9**	**0.0**	
7. FINANCING	**28.7**	**-15.8**	**39.2**	**-55.0**
Domestic (Net)	30.5	-12.5	30.0	-42.5
External (Net)	-1.8	-3.3	9.2	-12.5
Capital Receipts (privatisation)	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: National Treasury

Revenue

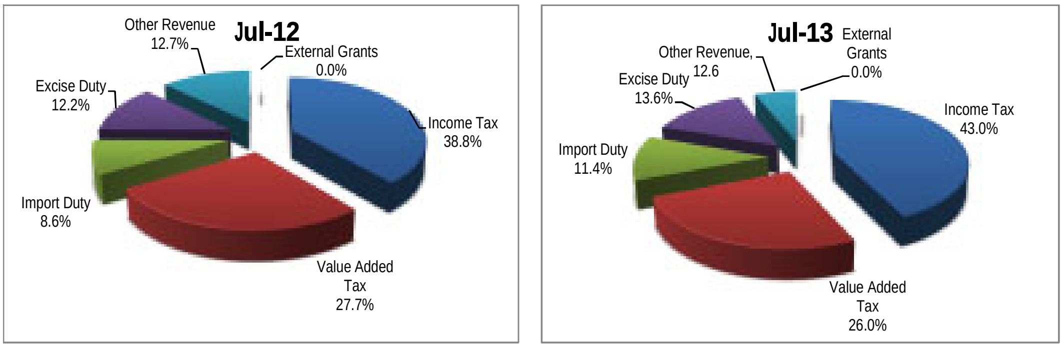
In July 2013, total government revenues and grants increased by Ksh 12.3 billion to Ksh 58.6 billion, from Ksh 46.3 billion collected in a similar period of the fiscal year 2012/2013. Despite this increase, total government revenue and external grants underperformed by Ksh 17.3 billion and Ksh 4.5 billion respectively, with respect to the targeted amounts of Ksh 75.9 billion and Ksh 4.5 billion during the period (Table 6.1).

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Jul-12 Ksh bn	Jul-13 Ksh bn	Change
1. Revenue (2+3+4)	**46.3**	**58.6**	**12.3**
2. Tax Revenue	42.5	56.1	13.6
Income Tax	18.0	25.2	7.2
Value Added Tax	12.8	15.3	2.4
Import Duty	4.0	6.7	2.7
Excise Duty	5.6	7.9	2.3
Others	2.1	1.0	-1.1
3. Appropriations-in-Aid	3.1	2.3	-0.82
4. Other Revenue	0.7	0.2	-0.4
5. External Grants	**0.0**	0.0	**0.0**
TOTAL RECEIPTS (1+5)	**46.3**	**58.6**	**12.3**

Source: National Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: National Treasury

Tax revenue expanded by Ksh 13.6 billion, equivalent to 31.9 percent, from Ksh 42.5 billion collected in July 2012 to Ksh 56.1 billion in July 2013 (Table 6.2). The increase was largely on account of income tax, which expanded by Ksh 7.2 billion (40.3 percent) during the period, but fell short of its programmed target by Ksh 4.3 billion. Import duty and excise duty increased from Ksh 4.0 billion and Ksh 5.6 billion in July 2012 to Ksh 6.7 billion and Ksh 7.9 billion, respectively, in July 2013. All taxes underperformed with respect to their programmed targets in July 2013.

Expenditure and Net Lending

Government expenditure and net lending declined by Ksh 0.3 billion in July 2013 from Ksh 50.0 billion expended during the same period in the fiscal year 2012/13. This was as a result of delay in the release of the county allocations by the central government. Total expenditure for July 2013 comprised of Ksh 49.6 billion and Ksh 0.2 billion in recurrent and development expenditure, respectively.

Total recurrent expenditure increased by Ksh 9.4 billion, during the period under review. The largest recurrent expenditure item was salaries and wages, which amounted to Ksh 22.8 billion in July 2013, equivalent to 46.0 percent of total recurrent expenditure. Expenditure related to the Defense and NSIS department amounted to Ksh 4.0 billion (8.0 percent of recurrent expenditure), while interest on domestic debt declined by Ksh 3.5 billion to Ksh 3.3 billion (6.7 percent of recurrent expenditure), in July 2013. Development expenditure declined by Ksh 9.7 billion in July 2013 from Ksh 9.9 billion expended in July 2012. Overall, expenditure and net lending targets were missed by Ksh 69.9 billion of which Ksh 38.3 billion was on account of transfer to county government (Table 6.1).

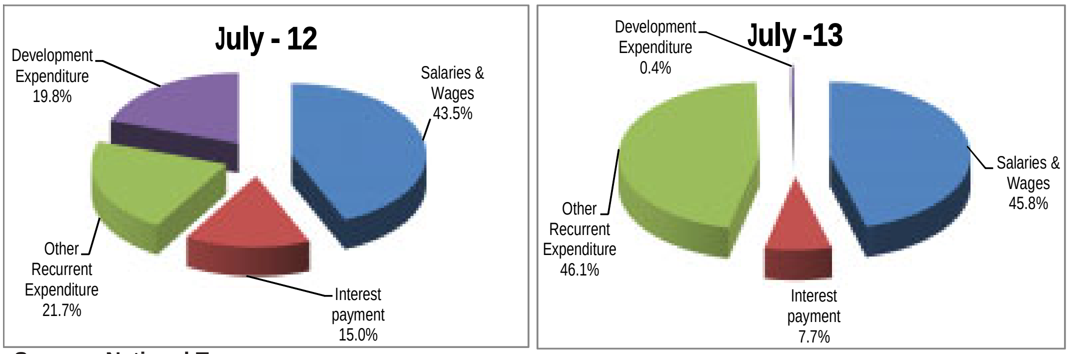
TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)

	Jul-12 Ksh bn	Jul-13 Ksh bn	Movement
1.Recurrent	**40.2**	**49.55**	**9.4**
Salaries & Wages	21.8	22.8	**1.0**
Total Interest	7.5	3.8	**-3.7**
of which			
Domestic*	6.8	3.3	-3.5
Foreign interest	0.7	0.5	-0.2
Others	10.8	22.9	12.1
2. Development	**9.9**	0.2	**-9.7**
TOTAL EXPENSES	**50.0**	**49.7**	**-0.3**

*Includes commission and other charges paid to CBK

Source: National Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: National Treasury

Financing

Budgetary operations of the Government resulted in a financing requirement of Ksh 44.6 billion in July 2013 compared with Ksh 35.9 billion in July 2012. The funds were allocated to retire domestic debt and external debt by Ksh 2.5 billion and Ksh 3.3 billion respectively and build up government deposits by Ksh 38.8 billion. The Government accessed Ksh 28.8 billion through additional domestic borrowing and running a budget surplus of Ksh 15.8 billion (Table 6.4).

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

I. FINANCING REQUIREMENTS	**Jul-12**	**Jul-13** *
1. Budget deficit	28.7	0.0
2. External debt reduction	1.8	3.3
3. Domestic debt reduction	6.0	2.5
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	6.0	2.5
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	38.8
TOTAL	**35.9**	**44.6**
II. FINANCING SOURCES	**Jul-11**	**Jul-13**
1. Budget surplus	0.0	15.8
2. External debt increase	0.0	0.0
3. Increase in domestic debt	19.4	28.8
3.1 Central Bank	16.2	8.4
3.2 Commercial banks	0.0	0.0
3.3 Non-bank sources	3.2	20.4
4. Reduction in GoK deposits at CBK	16.5	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	**35.9**	**44.6**

Sources: National Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank declined by Ksh 18.8 billion to Ksh 44.8 billion in July 2013, compared with Ksh 63.6 billion in July 2012. The decrease in indebtedness was largely on account of the Government overdraft and rediscounted Treasury bills. Government overdraft at the Central Bank decreased by Ksh 9.9 billion at the end of July 2013, from Ksh 25.4 billion in July 2012, despite an upward revision of the statutory limit to Ksh 34.2 billion. Rediscounted Treasury bonds declined during the period while amortization of the pre-1997 overdraft reduced Government indebtedness at the Central Bank by Ksh 1.1 billion, during the period under review.

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

	2012 July	2013 July	Movement
Total Credit	**63.6**	**44.8**	**-18.8**
1. Overdraft	25.4	15.5	-9.9
2. Rediscounted securities	8.1	0.4	-7.7
Treasury bills	5.7	0.0	-5.7
Treasury bonds	2.4	0.3	-2.1
3. Pre-1997 Government Overdraft at CBK	30.0	28.9	-1.1
4. Cleared items in transit	0.1	0.0	-0.1
Memorandum			
Authorised overdraft limit	**25.4**	**34.2**	**8.8**
Amount utilised to date	25.4	15.5	-9.9
Amount available	0.0	18.7	18.7

Source: Central Bank of Kenya

In the budget estimates for the fiscal year 2013/14, ordinary revenue is estimated at Ksh 961.3 billion, equivalent to 24.9 percent of GDP. External grants are estimated at Ksh 78.2 billion or 2.0percent of GDP. Government expenditure is estimated at Ksh 1,439.7 billion (or 37.2 percent of GDP), of which, Ksh 780.6 billion (20.2 percent of GDP) will be in recurrent expenses, transfer to the county government of Ksh 210 billion and the rest in development expenses (Table 6.6).

TABLE 6.6: BUDGET ESTIMATES FOR THE FISCAL YEAR 2013/14 (Ksh Billion)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE	**1,106.80**	**28.62**
Ordinary Revenue	961.27	**24.86**
Appropriations-in-Aid	67.31	**1.74**
External Grants	78.23	**2.02**
2. TOTAL EXPENSES & NET LENDING	**1,439.74**	**37.24**
Recurrent Expenses	780.64	**20.19**
Development Expenses	444.10	**11.49**
Civil Contigency Fund	5.00	**0.13**
County Transfer	210.00	**5.43**
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-332.94**	**-8.61**
4. ADJUSTMENT TO CASH BASIS	**0.00**	**0.00**
5. DEFICIT ON A CASH BASIS	**-332.94**	**-8.61**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.00**	**0.00**
7. FINANCING	**-332.94**	**-8.61**
Domestic (Net)	106.70	**2.76**
External (Net)	226.24	**5.85**

Source: Central Bank of Kenya

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 332.9 billion (or 8.6 percent of GDP) in 2013/14. The deficit is expected to be financed through net external borrowing of Ksh 226.2 billion and net domestic borrowing of Ksh 106.7 billion.

Developments in Public Debt

Overall Debt

Kenya's public and publicly guaranteed debt increased by Ksh 59.7 billion to reach Ksh 1,953.8 billion at the end of July, 2013 from Ksh 1,894.1 billion in June, 2013. The total debt stock at the end of July, 2013 was equivalent to 52.7 percent of GDP, compared with 51.7 percent of GDP in June, 2013. Domestic debt to GDP ratio increased from 28.7 percent in June 2013 to 29.1 percent in July 2013, while external debt to GDP ratio increased to 23.6 percent in July, 2013 (Table 7.1).

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

	Jul-12	Dec-12 **	Mar-13 **	Jun-13	Jul-13 **	Change 2012/13
EXTERNAL* **						
Bilateral	243.4	265.4	255.3	257.6	270.6	13.0
Multilateral	458.9	482.7	490.6	511.8	529.1	17.35
Commercial Banks	50.5	58.4	57.9	58.9	59.9	0.98
Supplier Credits	14.6	15.5	15.0	15.2	15.6	0.36
Sub-Total	**767.4**	**822.0**	**818.76**	**843.56**	**875.23**	**31.67**
(As a % of GDP)	19.8	21.3	21.7	23.0	23.6	
(As a % of total debt)	46.8	45.8	45.5	44.5	44.8	
DOMESTIC						
Banks	**469.6**	**542.9**	**530.7**	**563.5**	**573.7**	**10.19**
Central Bank	63.8	56.8	55.3	36.4	47.7	11.31
Commercial Banks	405.8	486.1	475.4	527.1	526.0	-1.12
Non-banks	**392.3**	**418.5**	**442.2**	**477.5**	**496.1**	**18.55**
Pension Funds	199.5	195.7	214.6	263.1	272.4	9.32
Insurance Companies	92.9	98.9	105.8	108.6	111.9	3.26
Other Non-bank Sources	99.9	123.9	121.9	105.9	111.8	5.97
Non-residents	**10.3**	**10.1**	**8.9**	**9.6**	**8.9**	-0.70
Sub-Total	**872.2**	**971.4**	**981.9**	**1050.6**	**1078.6**	**28.05**
(As a % of GDP)	22.6	25.1	26.0	28.7	29.1	
(As a % of total debt)	53.2	54.2	54.5	55.5	55.2	
GRAND TOTAL	**1639.6**	**1793.4**	**1800.7**	**1894.1**	**1953.8**	**59.71**
(As a % of GDP)	42.4	46.4	47.7	51.7	52.7	

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

Sources: National Treasury and Central Bank of Kenya

Domestic Debt

Total domestic debt increased by Ksh 28.1 billion to Ksh 1,078.6 billion in July 2013, from a stock of Ksh 1,050.6 billion at the end of June 2013. This followed increases of Ksh 32.5 billion in Treasury bonds and Ksh 8.4 billion in other domestic debt, which were partially offset by a decline in Treasury bills amounting to Ksh 12.9 billion, in July, 2013 (Table 7.2). The percentage of Treasury Bonds in total domestic debt increased to 72.0 percent in July 2013, from 70.8 percent in June 2013, while that of Treasury bills declined to 23.6 percent in July 2013 from 25.5 percent in June 2013. Commercial banks constituted 48.5 percent of total domestic debt at the end of July, 2013.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2012				2013						Change
	Jun	%	Dec	%	May	%	June	%	July	%	June-13 -July-13
Total Stock of Domestic Debt (A+B)	858.8	100.0	971.4	100.0	1074.80	100.0	1050.56	100.0	1078.60	100.0	28.05
A. Government Securities	849.0	98.9	942.3	97.0	1037.6	96.5	1040.8	99.1	1060.4	98.3	19.61
1. Treasury Bills (excluding Repo Bills)	132.05	15.4	196.26	20.2	261.25	24.3	267.69	25.5	254.79	23.6	-12.90
Banking institutions	75.50	8.8	139.16	14.3	187.15	17.4	183.45	17.5	179.07	16.6	-4.39
Others	56.55	6.6	57.10	5.9	74.10	6.9	84.24	8.0	75.72	7.0	-8.52
2. Treasury Bonds	686.95	80.0	716.07	73.7	746.88	69.5	744.17	70.8	776.69	72.0	32.52
Banking institutions	334.11	38.9	343.52	35.4	341.78	31.8	341.05	32.5	344.26	31.9	3.21
Pension Funds	164.53	19.2	171.47	17.7	221.11	20.6	220.14	21.0	229.81	21.3	9.68
Others	188.31	21.9	201.08	20.7	183.99	17.1	182.99	17.4	202.62	18.8	19.63
4. Non-Interest Bearing Debt	30.00	3.5	30.00	3.1	29.44	2.7	28.89	2.7	28.89	2.7	0.00
Of which: Repo T/Bills	29.78	3.5	29.78	3.1	29.38	2.7	28.90	2.8	28.83	2.7	-0.07
B. Others:	9.83	1.1	29.08	3.0	37.23	3.5	9.80	0.9	18.23	1.7	8.43
Of which CBK overdraft to Governme	7.26	0.8	25.37	2.6	34.19	3.2	7.00	0.7	20.48	1.9	13.48

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

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings excluding repos decreased by Ksh 12.9 billion to reach Ksh 254.8 billion in July 2013 (Table 7.2). The bulk of this, Ksh 179.1 billion, equivalent to 70.3 percent, was held by commercial banks. Holdings by commercial banks, Pension funds and other holders declined from Ksh 183.6 billion, Ksh 42.9 billion and Ksh 20.8 billion in June 2013 to Ksh 179.1 billion, Ksh 42.6 billion and Ksh 12.1 billion, respectively, in July 2013. Treasury bills held by Insurance companies increased from Ksh 14.9 billion in June 2013 to Ksh 15.5 billion in July, 2013, while those held by parastatals remained unchanged at Ksh 5.6 billion, during the period (Table 7.3).

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

	2012				2013							
Holders	Jun	%	Dec	%	Mar	%	May	%	June	%	July	%
Banking Institutions	75.5	57.2	139.2	70.9	126.3	67.7	187.2	71.6	183.5	68.5	179.1	70.3
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	75.5	57.2	139.2	70.9	126.3	67.7	187.1	71.6	183.5	68.5	179.1	70.3
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	7.2	5.5	11.9	6.1	12.6	6.7	15.3	5.8	14.9	5.6	15.5	6.1
Parastatals	1.2	0.9	2.8	1.4	1.6	0.9	1.5	0.6	5.6	2.1	5.6	2.2
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	28.7	21.7	24.2	12.3	25.7	13.8	35.4	13.6	42.9	16.0	42.6	16.7
Others	19.5	14.7	18.2	9.3	20.5	11.0	21.9	8.4	20.8	7.8	12.1	4.7
Total*	132.0	100.0	196.3	100.0	186.6	100.0	261.2	100.0	267.7	100.0	254.8	100.0

* Excludes repurchase order bills

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds increased by Ksh 32.5 billion, from Ksh 744.2 billion in June 2013 to Ksh 776.7 billion at the end of July 2013. Of this, Ksh 3.21 billion, Ksh 9.68 billion, Ksh 2.68 billion and Ksh 16.95 billion was absorbed by commercial banks, pension funds, insurance companies and other holders, respectively. Parastatal and non-bank financial institutions' holdings remained unchanged during the period. The proportion of bonds in total domestic debt increased from 70.8 percent in June 2013 to 72.0 percent in July 2013 (Table 7.2). Treasury bond holdings held by commercial banks, parastatals and insurance companies declined from 45.8 percent, 5.7 percent and 12.6 percent in June, 2013 to 44.3 percent, 5.5 percent and 12.4 percent, respectively in July 2013, while those held by other holders increased from

6.2 percent in June 2013 to 8.1 percent in July 2013. Pension funds and building societies' holdings remained unchanged at 29.6 percent and 0.1 percent, respectively (Table 7.4).

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

Holders	2012				2013							
	Jun	%	Dec	%	Apr	%	May	%	June	%	July	%
Banking Institutions	335.6	48.9	344.1	48.1	344.0	46.4	342.2	45.8	341.2	45.9	344.4	44.3
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	334.1	48.6	343.5	48.0	343.6	46.4	341.8	45.8	341.0	45.8	344.3	44.3
NBFIs	1.5	0.2	0.6	0.1	0.4	0.1	0.4	0.1	0.2	0.0	0.2	0.0
Insurance Companies	85.1	12.4	87.0	12.2	93.6	12.6	94.0	12.6	93.7	12.6	96.4	12.4
Parastatals	46.1	6.7	44.4	6.2	42.7	5.8	42.7	5.7	42.7	5.7	42.7	5.5
Of which: NSSF	24.5	3.6	23.8	3.3	22.7	3.1	22.7	3.0	22.7	3.1	22.7	2.9
Building Societies	0.6	0.1	0.6	0.1	0.6	0.1	0.7	0.1	0.6	0.1	0.6	0.1
Pension Funds	164.5	24.0	171.5	23.9	205.7	27.8	221.1	29.6	220.1	29.6	229.8	29.6
Others	54.9	8.0	68.4	9.6	54.4	7.3	46.2	6.2	45.8	6.2	62.8	8.1
Total	**687.0**	**100.0**	**716.1**	**100.0**	**741.0**	**100.0**	**746.9**	**100.0**	**744.2**	**100.0**	**776.7**	**100.0**

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Total domestic debt at the end of July 2013 amounted to Ksh 1,078.6 billion, and comprised Ksh 776.7 billion, Ksh 254.8 billion, Ksh 15.5 billion, Ksh 28.8 billion and Ksh 2.8 billion in Treasury bonds, Treasury bills, Government overdraft at the Central Bank, Repo Treasury bills and other domestic debt, respectively. Of these, Government securities worth Ksh 99.5 billion will fall due between August 2013 and October 2013, and will comprise Ksh 67.87 billion and Ksh 31.66 billion in Treasury bills and Treasury bonds, respectively. Treasury bill maturities in the period will comprise Ksh 28.76 billion, Ksh 25.06 billion and Ksh 14.04 billion in 91-day, 182-day and 364-day Treasury bills, respectively, while Treasury bonds maturing during this period will comprise Ksh 0.91 billion, Ksh 24.82 billion and Ksh 5.93 billion in 2–year, 5-year and 10–year fixed rate Treasury bonds.

In terms of days remaining to maturity of the existing domestic debt stock, the average length of maturity remained at the June 2013 level of 5 years and 2 months.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2012		2013						Change Jun-13 to Jul-13
		Jun	%	Mar	%	June	%	July	%	
Treasury bills	91-Day	24.3	2.8	34.2	3.5	36.2	3.4	28.8	2.7	-7.4
	182-Day	75.7	8.8	72.4	7.4	52.2	5.0	49.7	4.6	-2.4
	364-Day	32.1	3.7	80.0	8.1	179.3	17.1	176.3	16.3	-3.0
Treasury Bonds	1-Year	51.5	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	86.5	10.1	141.8	14.4	122.0	11.6	122.0	11.3	0.0
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	0.0	0.0	0.0	0.0	19.1	1.8	19.1	1.8	0.0
	5-Year	115.3	13.4	122.2	12.4	138.4	13.2	151.2	14.0	12.9
	6-Year	57.4	6.7	51.6	5.3	40.7	3.9	40.7	3.8	0.0
	7-Year	22.5	2.6	19.3	2.0	19.3	1.8	19.3	1.8	0.0
	8-Year	17.6	2.0	17.6	1.8	31.8	3.0	31.8	2.9	0.0
	9-Year	25.4	3.0	18.2	1.9	18.2	1.7	18.2	1.7	0.0
	10-Year	95.7	11.1	112.1	11.4	109.4	10.4	121.5	11.3	12.1
	11-Year	4.0	0.5	4.0	0.4	4.0	0.4	4.0	0.4	0.0
	12-Year	63.5	7.4	63.5	6.5	30.2	2.9	30.2	2.8	0.0
	15-Year	75.4	8.8	102.4	10.4	119.8	11.4	127.3	11.8	7.5
	20-Year	29.7	3.5	38.1	3.9	49.0	4.7	49.0	4.5	0.0
	25-Year	20.2	2.4	20.2	2.1	20.2	1.9	20.2	1.9	0.0
	30-Year	22.1	2.6	22.1	2.3	22.1	2.1	22.1	2.1	0.0
Repo T bills		29.2	3.4	29.38	3.0	28.9	2.8	28.8	2.7	-0.1
Overdraft		7.3	0.8	25.37	2.6	7.0	0.7	15.5	1.4	8.5
Other Domestic debt		3.3	0.4	7.35	0.7	2.79	0.3	2.81	0.3	0.0
Total Debt		858.83	100.0	981.91	100.0	1050.56	100.0	1078.60	100.0	

Source: Central Bank of Kenya

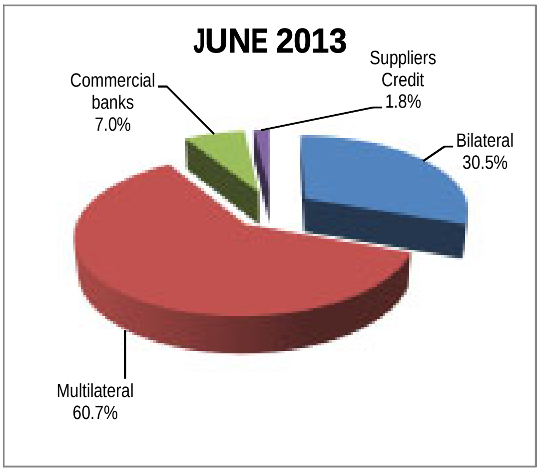
External Debt

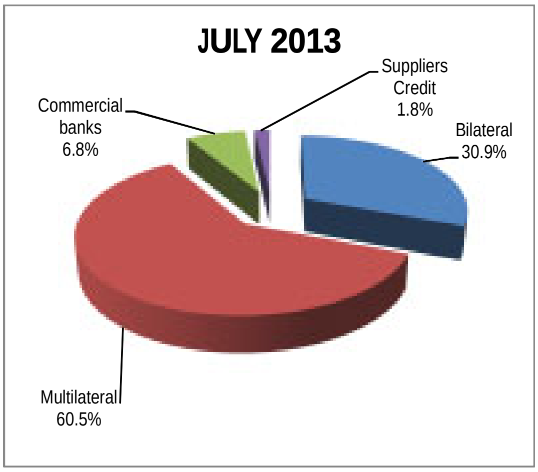
Kenya's public and publicly guaranteed external debt increased by Ksh 31.7 billion to Ksh 875.2 billion (US$ 10.0 billion), at the end of July, 2013 from Ksh 843.6 billion (US$ 9.8 billion) in June, 2013. Total external debt to the Government of Kenya amounted to Ksh 830.0 billion (US$ 9.5 billion), while the rest was external debt to Parastatals, guaranteed by the Government. Public and publicly guaranteed debt from bilateral sources, multilateral sources, commercial bank loans, and Suppliers' credits increased by Ksh 13.0 billion, Ksh 17.35 billion, Ksh 0.98 billion and Ksh 0.36 billion respectively, during the period. African Development Bank (ADB) and International Development Association (IDA) collectively accounted for Ksh 16.2 billion of the multilateral debt increase while France, China and Japan accounted for Ksh 5.9 billion, Ksh 2.8 billion and Ksh 2.9 billion, respectively, of the bilateral debt increase. These increases were due to additional disbursements and exchange rate revaluations during the period.

Composition of External Debt by Creditor

Kenya's official creditors, the multilateral and bilateral lenders, accounted for 91.4 percent of total public and publicly guaranteed external debt in July 2013. The proportion of debt owed to multilateral and commercial lenders declined from 60.7 percent and 7.0 percent in June 2013 to 60.5 percent and 6.8 percent, respectively, in July 2013, while that owed to bilateral lenders increased to 30.9 percent, during the period. The increase in debt in July 2013 was as a result of new disbursements, debt service and exchange rate revaluations (Chart 7A).

CHART 7A: COMPOSITION OF EXTERNAL DEBT

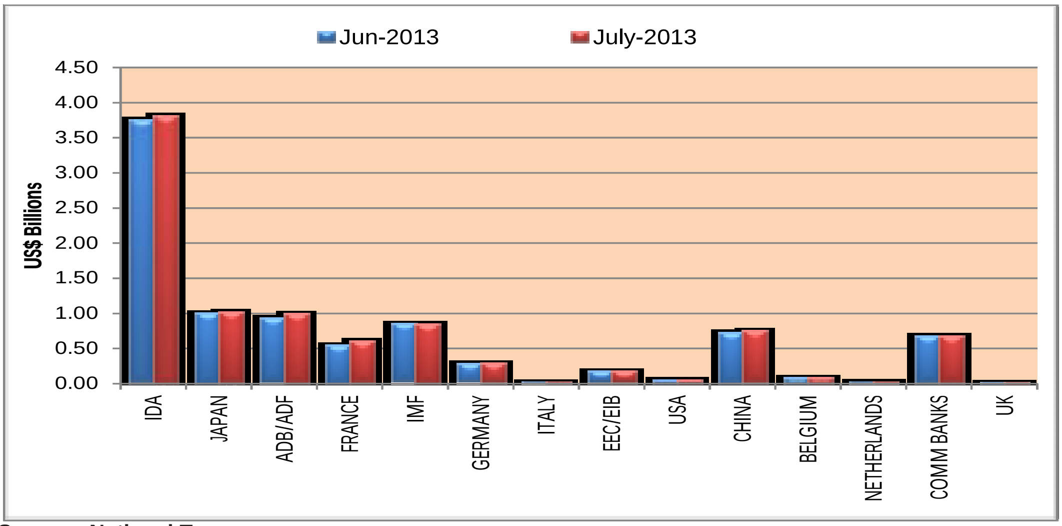




Source: National Treasury

Debt owed to IDA, Kenya's largest multilateral lender, amounted to US$ 3.8 billion or 38.1 percent of total external debt, while that owed to Japan, Kenya's largest bilateral lender amounted to US$ 1.0 billion at the end of July 2013 (Chart 7B).

CHART 7B: EXTERNAL DEBT BY CREDITOR

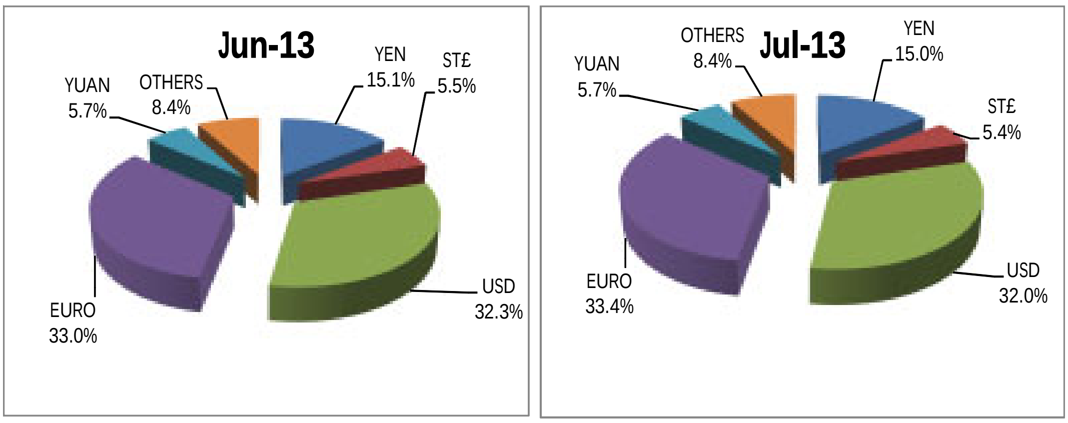


Source: National Treasury

Currency Composition of External Debt

The Euro and US dollar denominated currencies constituted 65.4 percent of total public and publicly guaranteed external debt in July, 2013. Debt held in the Euro increased from 33.0 percent in June 2013 to 33.4 percent in July, 2013, while that held in the Japanese Yen, the sterling Pound and the US dollar declined to 15.0 percent, 5.4 percent and 32.0 percent in July 2013 from 15.1 percent, 5.5 percent and 32.3 percent, respectively, in June 2013. The proportion of debt held in the Chinese Yuan and 'other currencies', which includes currencies from non-Paris club countries such as Korea, Kuwait and Saudi Arabia, remained unchanged at 5.7 percent and 8.4 percent, respectively, in July 2013 (Chart 7C). Movements in the debt stocks held in the various currencies were attributed to disbursements and exchange rate revaluations during the period.

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: National Treasury

Public Debt Service

Cumulative interest and other changes on public debt stood at Ksh 5.1 billion in July 2013, comprising Ksh 3.3 billion on domestic debt and Ksh 1.8 billion in external debt. Cumulative interest and other charges on domestic debt for July 2013 in the fiscal year 2013/14 amounted to Ksh 3.3 billion compared with Ksh 6.8 billion during a similar period of the previous fiscal year. This comprised interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 0.7 billion and Ksh 2.5 billion, respectively. In addition, Ksh 0.1billion was on interest on Government overdraft at the Central Bank. External debt service for July 2013 amounted to Ksh 1.8 billion, comprising Ksh 1.3 billion in principal repayments, and Ksh 0.5 billion in interest payments.

Performance for the FY 2012/13

In the fiscal year 2013/14, total public and publicly guaranteed external debt is estimated at Ksh 926.8 billion (22.3 percent of GDP), while gross and net domestic debt are estimated at Ksh 1,130.5 billion (27.1 percent of GDP) and Ksh 978.6 (23.5 percent of GDP), respectively.

Activity in the Stock Market

The market recovered slowly in July 2013, with gains across leading market performance indicators. Bonds market, equity turnover, and number of shares transacted however declined, reflecting mixed performance.

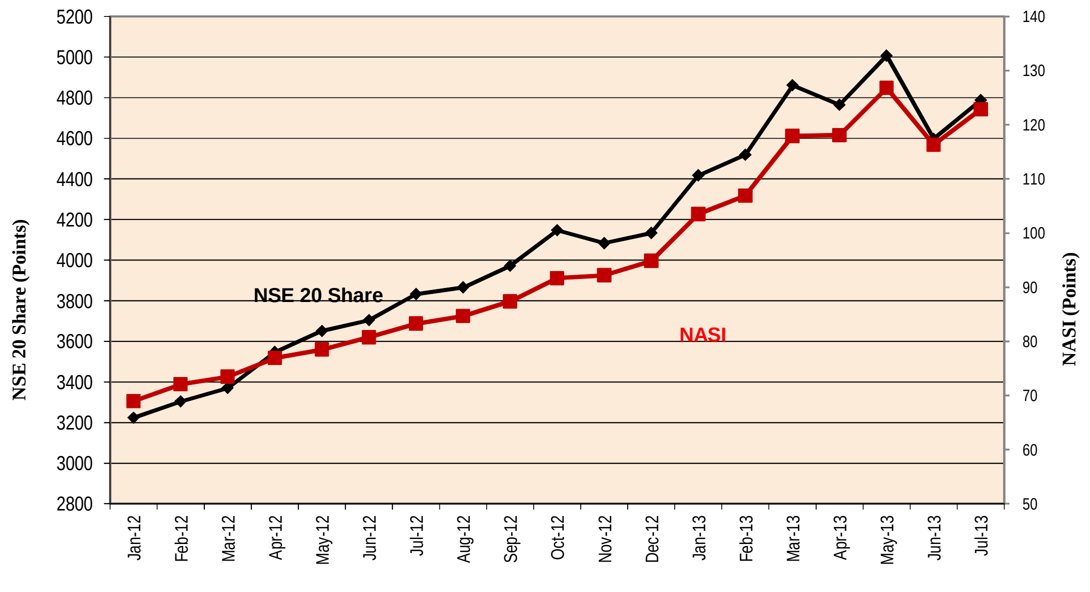
Equity Market

NSE 20 Share Index rose by 4.12 percent to close 4,787.56 points in July 2013 from 4,598.16 points in June 2013. NASI increased to 122.86 points from 116.31 points in the period under review (Table 8.1 and Chart 8A). Market Capitalization, which measures total shareholders' wealth at NSE, was Ksh 1,727.83 billion down from Ksh 1,618.27 billion.

Equity turnover declined further by 13.95 percent to reach Ksh 11,205.17 million in July 2013 from Ksh 13,021.29 million in June 2013 as share supply declined. The number of shares traded was down to 616 million from 728 million.

Overall Net Foreign Investor participation recovered to 58.63 percent in July 2013 from 56.14 percent of total equity turnover in June 2013. Foreign purchases accounted for 65.88 percent of total equity turnover in July 2013 against 51.38 percent sales, a further indication of investor confidence in the market.

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



Source: Nairobi Securities Exchange

Leading Sectors & Counters

Telecommunication and Technology sector dominated trading, with 343.27 million shares, which accounted for 55.37 percent of the entire market. Banking sector had 135.45 million shares or 21.85 percent, while Energy and Petroleum sector closed top 3 most active sectors with 54.74 million shares or 8.83 percent of the market. Safaricom, Equity Bank and KCB counters led the rest with 343.27 million, 42.68 million shares and 30.72 million shares traded respectively.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)	FP to Equity Turnover	FS to Equity Turnover	Overall net FP to Equity Turnover
Dec-10	4,432.60	97.82	357.61	5,885.41	1,166.99	23,280.00.	38.23%	18.09%	28.16%
Jul-11	3,738.46	84.32	434.00	7,132.18	1,050.00	33,414.55	62.91%	46.47%	54.69%
Aug-11	3,465.02	75.15	551.88	6,109.01	950.41	44,111.70	55.82%	45.65%	50.74%
Sep-11	3,284.06	69.68	582.39	5,453.00	885.57	36,112.40	48.52%	38.71%	43.62%
Oct-11	3,507.34	72.71	570.14	4,466.00	927.00	34,737.60	72.59%	56.49%	64.54%
Nov-11	3,155.46	66.33	398.90	3,928.00	854.68	26,691.60	71.79%	71.00%	71.40%
Dec-11	3,205.02	68.03	336.50	3,973.00	868.24	24,999.05	68.19%	44.65%	56.42%
Jan-12	3,224.00	69.00	351.00	3,544.00	880.00	24,513.50	31.55%	54.46%	43.00%
Feb-12	3,303.75	72.07	342.00	3,493.00	920.00	27,121.66	57.23%	34.47%	45.85%
Mar-12	3,366.89	73.47	366.00	6,386.00	940.00	47,811.97	60.44%	18.93%	39.69%
Apr-12	3,546.66	76.91	526.15	7,640.23	985.00	35,503.62	64.29%	41.11%	52.70%
May-12	3,650.85	78.48	543.29	8,815.35	1,005.19	47,343.28	58.32%	45.85%	52.09%
Jun-12	3,703.94	80.75	385.51	6,214.24	1,048.72	28,259.68	62.44%	36.06%	49.25%
Jul-12	3,832.42	83.26	383.61	6,037.89	1,098.90	34,170.82	51.90%	38.19%	45.05%
Aug-12	3,865.76	84.66	338.92	5,680.73	1,117.39	86,918.78	58.56%	40.12%	49.34%
Sep-12	3,972.03	87.38	470.26	9,781.50	1,155.99	95,866.77	68.67%	35.08%	51.88%
Oct-12	4,147.28	91.67	458.43	11,082.25	1,217.09	72,596.46	68.61%	41.85%	55.23%
Nov-12	4,083.52	92.20	836.90	10,537.05	1,234.47	38,895.86	67.02%	25.88%	46.45%
Dec-12	4,133.02	94.86	461.89	7,582.42	1,272.00	26,672.11	73.58%	45.50%	59.54%
Jan-13	4,416.60	103.50	518.71	8,464.46	1,387.81	20,999.59	59.06%	33.86%	46.46%
Feb-13	4,518.59	106.91	692.28	14,693.27	1,451.01	20,240.18	42.73%	69.45%	56.09%
Mar-13	4,860.83	117.91	571.29	11,182.65	1,599.80	25,690.98	55.92%	39.74%	47.83%
Apr-13	4,765.23	118.07	596.83	9,856.50	1,601.93	35,190.25	56.75%	26.73%	42.67%
May-13	5,006.96	126.80	867.77	16,070.53	1,720.43	73,523.70	53.22%	31.60%	42.41%
Jun-13	4,598.16	116.31	727.78	13,021.29	1,618.27	85,904.11	66.13%	46.15%	56.14%
Jul-13	4,787.56	122.86	615.90	11,205.17	1,727.83	34,170.82	65.88%	51.38%	58.63%

Source: Nairobi Securities Exchange

FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at NSE and FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks at the exchange, closed at 159.900 points and 163.680 points in July 2013, up from 149.675 points and 154.117 points in June 2013, respectively. FTSE NSE Kenyan Shilling Government Bond Index ended July at 94.830 points up from to 93.861 points at end June 2013, reflecting increased prices as yields declined further.

Bond Market

Bonds turnover was down 60.22 percent as corresponding deals declined to 593 in July 2013 from 912 deals in June 2013. Bonds worth Ksh 34.17 billion were traded in July 2013 down from Ksh 85.90 billion sold in June 2013. The IFB1/2011/12 dominated trading, at 32.82 percent of total turnover, with yields ranging from 12.20 percent to 17.00 percent against a coupon rate of 12.0 percent. Corporate bonds trading accounted for 0.11percent of the market with the CFC Bond dominating this segment on account of deals worth Ksh 25.87 million out the total Ksh 36.20 million.

Statement of Financial Position Of The Central Bank of Kenya
(Kenya shillings million)

	Jul-13	Jun-13 Audited	July 13/Jun 2013 Movement
ASSETS			
Balances due from Banking Institutions and Gold holdings	541,893	528,150	13,743
Funds held with International Monetary Fund	2,094	2,694	(600)
Items in the course of collection	39	154	(115)
Advances to commercial banks	3,276	351	2,925
Loans and Advances	19,441	10,892	8,549
Other Assets	2,156	3,149	(993)
Retirement Benefits Assets	2,193	2,193	0
Property and Equipment	11,581	11,608	(27)
Intangible Assets	912	930	(18)
Due from Government of Kenya	28,889	28,889	0
TOTAL ASSETS	612,474	589,010	23,464
LIABILITIES			
Currency in Circulation	186,436	183,128	3,308
Investments by Banks	9,285	10,633	(1,348)
Deposits	236,954	221,879	15,075
International Monetary Fund	120,479	118,622	1,857
Other Liabilities	1,030	1,654	(624)
Provisions	123	123	0
TOTAL LIABILITIES	554,308	536,039	18,269
EQUITIES AND RESERVES	58,166	52,971	5,195
Share capital	5,000	5,000	0
General Reserve Fund	39,812	36,857	2,955
Period Surplus	5,944	3,704	2,240
Asset Revaluation	7,410	7,410	0
Dividence Payable			0
TOTAL LIABILITIES AND EQUITY	612,474	589,010	23,464

Source: Central Bank of Kenya

Notes on the Financial Position

Assets

Balances due from Banking institutions and Gold holdings category consist of foreign reserves held in external current accounts, deposits and special/projects accounts, foreign travelers cheques, Domestic Foreign Currency Clearing Accounts, Gold, Special Drawing Rights and RAMP securities invested with World Bank. The category increased by Ksh 13,743 million to Ksh 541,893 million in July 2013 from Ksh 528,150 million in June 2013. The expansion reflected CBK purchase of foreign exchange from domestic interbank market to build official reserves.

Items in course of collection represent the value of clearing instruments which are held by the Bank, while awaiting clearing by respective commercial banks. The balances as at July 2013 were Ksh 33 million, a decrease of 115 million from Ksh 154 million as at June 2013.

Advances to commercial banks are balances of money lent by Central Bank to commercial banks through reverse Repo (injection of liquidity) for a short duration of up to 7 days only and the rediscounted Treasury bills and bonds by commercial banks. The balance outstanding increased to Ksh 3,276 million in July 2013 from Ksh 351 million in June 2013.

Loans and Advances class of asset includes mainly outstanding balances on advances to commercial bank under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF fund on-lent to Government. The balances increased by Ksh 8,549 million to Ksh 19,441 million in July 2013 from Ksh 10,892 million in June 2013.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets decreased by Ksh 993 million to Ksh 2,156 million in July 2013 from Ksh 3,149 million in June 2013.

Due from Government of Kenya liability category rose from overdrawn accounts which were converted to a long term debt with effect from 1 July 1997 after an amendment to the Central Bank of Kenya Act to limit lending to GoK to 5 percent of GoK audited revenue. The change in the balances represents partial payment of the loan.

Liabilities

Currency in circulation increased by Ksh 3,308 million to Ksh 186,436 million in July 2013 from Ksh 183,128 million in June 2013.

Deposits liability represents deposits held by Government of Kenya, local commercial bank deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances increased by Ksh 15,075 million to Ksh 236,954 million in July 2013 from Ksh 221,879 million in June 2013.

Amount due to International Monetary Fund represents the Banks obligations to the IMF. The balances increased to Ksh 120,479 million in July 2013 from Ksh 118,622 million in June 2013.

Other liabilities include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance decreased by Ksh 624 million to Ksh 1,030 million in July 2013 from Ksh 1,654 million in June 2013.

Equities and reserves increased by Ksh 5,195 million to Ksh 58,166 million in July 2013 from Ksh 52,971 million in June 2013 reflecting an increase in the period surplus of Ksh 5,944 million.