MONTHLY ECONOMIC REVIEW

OCTOBER 2012

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Overview

Introduction

This Monthly Economic Review highlights recent economic developments through October 2012. 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 eased further from 5.3 percent in September 2012 to 4.1 percent in October 2012 reflecting further easing in food and fuel inflation. Non-food, non-fuel inflation also declined from 7.2 percent in September 2012 to 6.2 percent in October 2012 while annual average inflation declined from 13.3 percent in September 2012 to 12.0 percent in October 2012.

Money Supply

Growth in broad money supply, M3, decelerated to 12.5 percent in the year to September 2012 from 19.3 percent in the year to September 2011 and was within the 15.0 percent target for September 2012. This reflected slowdown in the growth of Net Domestic Assets (NDA) of the banking sector.

Interest Rates

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 13.0 percent in the month of October 2012. The weighted average interbank rate increased to 9.14 percent in October 2012 from 7.02 percent in September 2012 on account of enhanced open market sales to commercial banks.

Real GDP Growth

The economy grew at 4.4 percent in 2011 compared with growths of 5.8 percent in 2010 and 2.7 percent in 2009. The growth momentum further declined in the first and second quarters of 2012 following estimated GDP growth of 3.4 percent and 3.3 percent, respectively. The slowdown is attributed to unfavourable weather conditions which led to subdued performance in agriculture, and reduced credit growth to the private sector consistent with tight monetary policy in place from January to June 2012.

Balance of Payments

Kenya's overall Balance of Payments position improved from a deficit of US$ 217 million in the year to October 2011 to a surplus of US$ 1,242 million in the year to October 2012. The improvement in the balance of payments was attributed to performance of the capital and financial account which more than offset the deterioration in the current account.

Exchange Rates

The Kenya Shilling depreciated against all major world currencies except the Japanese Yen in October 2012.

Banking Sector Developments

During the period ended October 2012, the Kenyan Banking sector registered improved growth in assets 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 2011.

Government Budgetary Performance

The central Government budgetary operations for the period July 2012 – October 2012 in the FY 2012/13 resulted in a deficit of Ksh 75.4 billion on commitment basis compared with a deficit of Ksh 37.7 billion incurred in the same period of the FY 2011/12. This was higher than the Ksh 69.8 billion (1.8 percent of GDP) programmed target for the period.

Public Debt

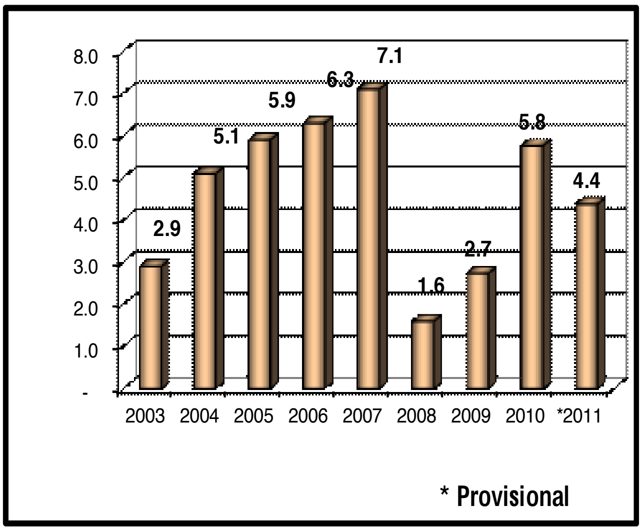
Kenya's public and publicly guaranteed debt increased by Ksh 118.3 billion, or 7.2 percent, at the end of October 2012 from Ksh 1,623.4 billion at the end of June 2012. The total debt-to-GDP ratio declined to 45.0 percent in October 2012 from 49.3 percent in June 2012. Similarly, domestic debt to GDP and external debt to GDP ratios declined from 26.1 percent and 23.2 percent in June 2012 to 24.0 percent and 21 percent, respectively, in October 2012. Domestic debt amounted to Ksh 929.3 billion, and accounted for 53.4 percent of total debt in October 2012.

Stock Market

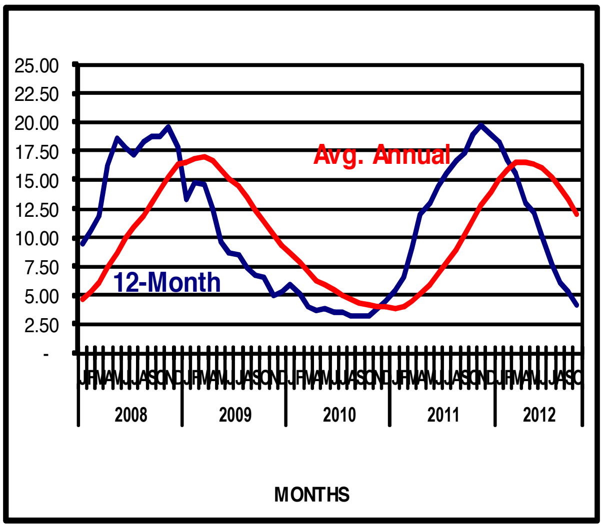
Stock market performance remained strong in October 2012, with gains in all four equity indices; NSE 20 Share, NASI, FTSE NSE Kenya 15 and FTSE NSE Kenya 25. Market capitalization rose by Ksh 73.16 billion in October 2012, while equity turnover rose on account of rising prices. However, the bond market turnover fell by 24.27 percent, but its index remained stable.

SELECTED ECONOMIC PERFORMANCE INDICATORS

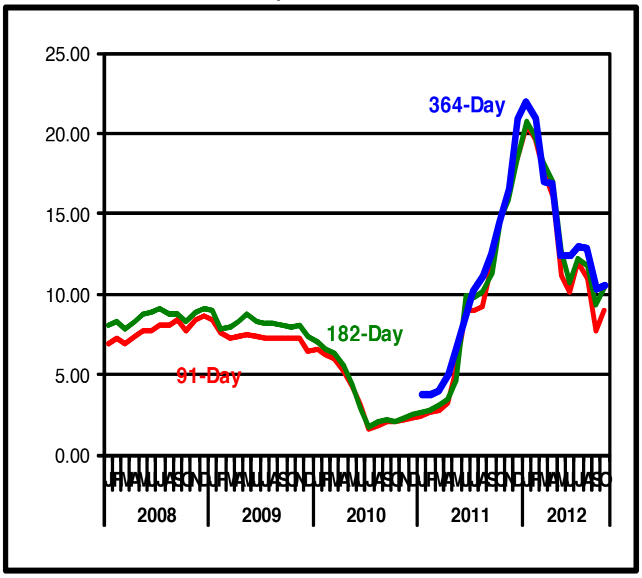
Real GDP Growth (%)



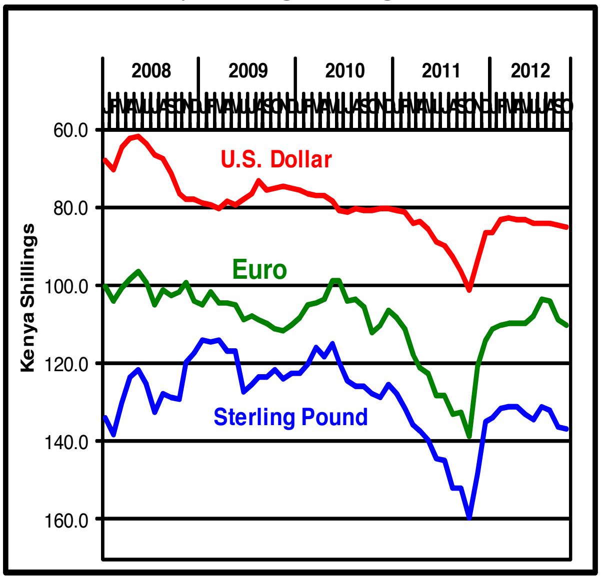
Inflation (%)



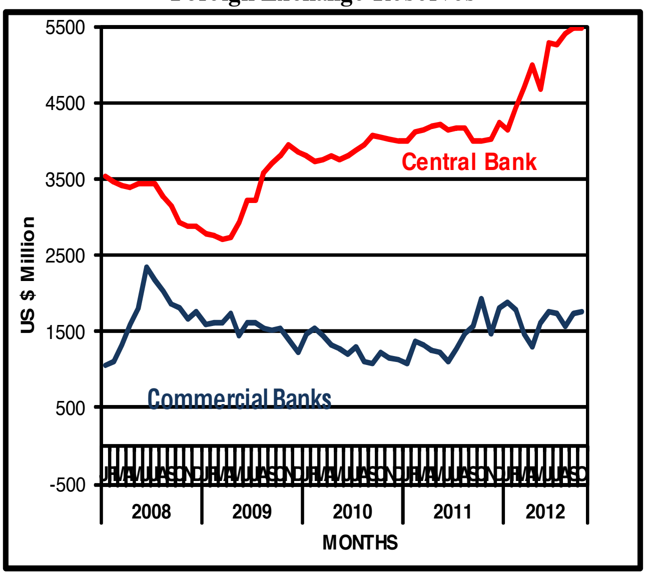
Treasury Bill Rates (%)



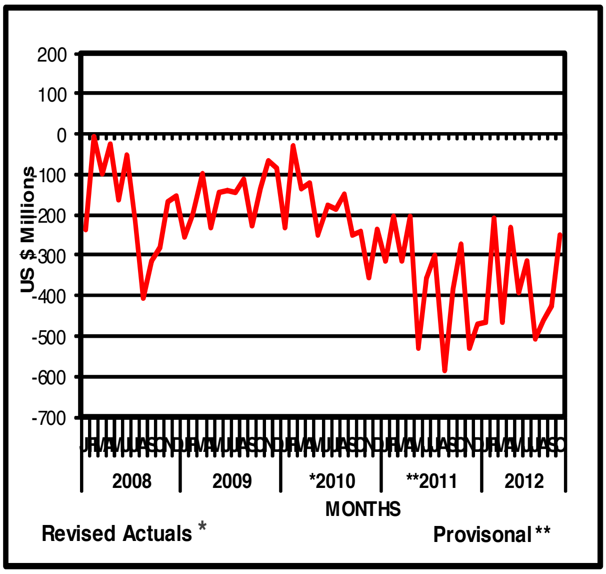
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
1.	**POPULATION***												
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	38.60	39.80	NA
	Growth (%)	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)	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	2,238,630	2,671,285
	GDP at Market Prices (Ksh m):												
	At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,565	1,833,511	2,107,589	2,366,984	2,549,825	3,024,782
	At Constant 2001 Market Prices	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	1,474,763	1,539,306
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.3	7.0	1.5	2.7	5.8	4.4
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,480	34,574	37,316	36,933	36,962	38,332	38,925
3.	**GROSS NATIONAL SAVINGS (% of GDP at mkt prices)[3]**	**12.9**	**10.0**	**8.1**	**10.1**	**12.2**	**13.4**	**14.8**	**13.9**	**15.9**	**12.9**	**11.3**	**13.2**
4.	**GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)[3]**	**6.7**	**4.4**	**4.0**	**4.8**	**6.6**	**5.7**	**6.8**	**6.1**	**8.2**	**5.5**	**4.1**	**4.2**
5.	**GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)**	**17.4**	**18.8**	**14.9**	**16.4**	**17.1**	**16.9**	**17.9**	**19.0**	**19.2**	**19.9**	**19.8**	**20.9**
6.	**OVERALL INFLATION BASE PERIOD= FEB 2009**												
	Annual Average Inflation	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27	9.24	3.96	14.02
	12-Month Inflation	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32	4.51	18.93
7.	**STOCK MARKET**												
	Nairobi Stock Exchange Price Index (1966=100)	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44	4,432.60	3,205.02
	Trade Turnover Ratio (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64	0.99	0.46
8.	**GOVERNMENT BUDGET (Ksh bn) *****												
	Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67	511.36	614.53	679.533
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91	791.79	817.09
	Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)	(177.26)	(137.56)
	Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(0.97)	0.08	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)
9.	**MONEY AND CREDIT (Ksh bn)(end period)**												
	Liquidity (L)[1]	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,091.93	1,280.44	1,558.16	1,854.93
	Money Supply (M3)[2]	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
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96	222.63	255.01
	Total Domestic Credit	**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**
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	155.32	205.07	277.78	311.58
	Private sector and other public sector	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
10.	**BALANCE OF PAYMENTS (US$ m)****												
	Overall Balance	**217.00**	**372.00**	**59.00**	**365.00**	**117.00**	**306.00**	**675.00**	**854.00**	**(469.00)**	**780.53**	**163.40**	**(42.88)**
	Current Account	(240.00)	(385.00)	(117.69)	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,609.28	-2,511.91	-3,330.41
	Capital and Financial Account	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00	2,389.81	2,675.30	3,287.53
11.	**FOREIGN EXCHANGE RESERVES (US$ m) End Period**	**1,398.72**	**1,459.35**	**1,612.69**	**1,888.04**	**2,078.40**	**2,534.16**	**3,331.30**	**4,556.97**	**4,640.78**	**5,064.03**	**5,122.52**	**6,044.78**
	Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46	3,847.39	4,001.68	4,247.60
	*Months of imports*****	*2.8*	*3.2*	*3.3*	*4.4*	*4.1*	*4.0*	*3.9*	*4.8*	*3.4*	*4.1*	*3.9*	*3.7*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63	1,120.84	1,797.12
12.	**PUBLIC DEBT (US$ bn) End Period*****	**7.58**	**7.85**	**8.09**	**9.39**	**9.14**	**9.84**	**10.68**	**12.04**	**13.46**	**13.66**	**14.96**	**16.60**
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72	8.06	8.51
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	*23.56*	21.15	21.67	25.90	27.78
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94	6.90	8.09
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	*23.09*	21.61	22.36	22.20	26.43
13.	**EXCHANGE RATE (Ksh/US$) (Annual Average)**	**76.20**	**78.60**	**78.70**	**75.93**	**79.28**	**75.55**	**72.10**	**67.32**	**69.18**	**77.35**	**79.23**	**88.81**

* Provisional.
** Revised to reflect data in Economic Survey 2010.
*** Fiscal year to June 30th.
**** Figures in parentheses refer to official reserves in terms of average of current year of imports of goods and non-factor services.
[1] Previously M3XT
[2] Previously M3X
[3] Revised
NA Not available

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2011			2012									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
INFLATION (%)													
CPI	**127.20**	**129.13**	**130.09**	**130.82**	**130.76**	**132.51**	**133.74**	**134.09**	**133.06**	**131.92**	**131.51**	**131.89**	**132.46**
Overall Inflation													
12-month overall inflation	18.91	19.72	18.93	18.31	16.69	15.61	13.06	12.22	10.05	7.74	6.09	5.32	4.14
Average annual overall inflation	11.49	12.82	14.02	15.10	15.93	16.45	16.50	16.40	15.97	15.27	14.33	13.29	12.04
INTEREST RATES (%)													
91-day Treasury bill interest rate	14.80	16.14	18.30	20.56	19.70	17.80	16.01	11.18	10.09	11.95	10.9	7.8	9.0
Overdraft interest rate	14.87	18.67	20.20	20.38	20.53	20.53	20.27	20.41	20.36	19.96	20.3	19.8	19.1
STOCK MARKET													
Nairobi Stock Exchange 20 Share Price Index	3,507.34	3,155.46	3,205.02	3,224.00	3,303.75	3,366.89	3,546.66	3,650.85	3,703.94	3,832.42	3,865.76	3,972.03	4,147.28
Turnover Ratio (%)	0.78	0.54	0.46	0.48	0.47	0.50	0.71	0.74	0.52	0.51	0.44	0.60	0.59
GOVERNMENT BUDGET* (Ksh bn.)													
Revenue $ Grants	210.31	265.47	345.66	398.16	450.53	510.89	585.16	656.32	734.43	46.27	103.88	173.32	230.07
Expenses	248.30	320.58	430.93	512.65	586.55	663.82	740.82	817.43	915.89	50.03	146.19	232.29	308.46
Budget Deficit (-) / Surplus (+)	**(37.99)**	**(55.11)**	**(85.26)**	**(114.49)**	**(136.0)**	**(152.9)**	**(155.7)**	**(161.1)**	**(181.5)**	**(3.8)**	**(42.3)**	**(59.0)**	**(78.4)**
MONEY AND CREDIT (Ksh bn.)													
Liquidity (L)[1]	1,863.89	1,837.68	1,854.93	1,864.44	1,889.87	1,906.47	1,920.42	1,944.24	1,970.12	1,991.13	2,021.56	2,060.59	2,096.61
Money Supply (M3)[2]	1,513.66	1,489.75	1,514.15	1,505.76	1,504.78	1,517.13	1,536.29	1,561.57	1,594.66	1,612.64	1,638.21	1,670.86	1,702.55
Reserve Money	234.62	245.37	255.01	244.14	231.67	257.91	244.52	236.99	257.28	257.45	250.23	259.02	250.8
Total Domestic Credit	1,490.21	1,516.78	1,505.13	1,495.66	1,512.09	1,530.95	1,557.31	1,572.98	1,552.36	1,602.49	1,598.77	1,620.14	1,654.80
Government	288.77	327.00	311.58	300.73	306.03	315.10	318.84	312.56	297.93	331.26	320.82	332.68	351.08
Private sector and other public sector	1,201.44	1,189.78	1,193.55	1,194.93	1,206.06	1,215.85	1,238.47	1,260.43	1,254.43	1,271.23	1,277.95	1,287.47	1,303.7
MONEY AND CREDIT (Annual % Change)													
Liquidity (L)[1]	**22.11**	**19.16**	**19.05**	**18.16**	**18.09**	**17.25**	**17.23**	**17.11**	**15.29**	**15.30**	**15.27**	**13.94**	**12.49**
Money Supply (M3)[2]	20.66	18.35	19.07	17.14	15.19	14.53	15.09	15.55	15.52	14.18	14.03	12.58	12.48
Reserve Money	8.12	9.52	14.54	17.21	10.42	23.17	14.74	13.15	17.61	17.08	9.25	9.69	6.88
Total Domestic Credit	**28.16**	**29.11**	**26.65**	**23.87**	**22.14**	**21.39**	**23.16**	**20.41**	**15.35**	**15.36**	**11.51**	**9.32**	**11.05**
Government	3.21	16.81	12.17	7.95	7.15	8.76	19.42	10.78	5.29	14.50	3.45	9.32	11.05
Private and other public sector	36.07	32.96	31.07	28.64	26.64	25.15	24.17	23.06	17.97	15.59	13.61	8.97	8.51
BALANCE OF PAYMENTS (US$ m)													
Overall Balance	**(1.74)**	**26.00**	**99.22**	**(95.81)**	**290.48**	**253.03**	**181.09**	**(302.88)**	**609.04**	**(28.07)**	**136.23**	**77.32**	**(3.78)**
Current Account	(174.98)	(441.73)	(370.14)	(293.21)	(208.14)	(463.88)	(230.30)	(394.14)	(315.25)	(505.97)	(461.67)	(422.36)	(250.28)
Trade Balance	(694.45)	(871.86)	(864.60)	(686.72)	(697.09)	(968.19)	(754.03)	(1,023.99)	(834.96)	(956.88)	(858.97)	(775.78)	(732.93)
Capital and Financial Account	173.24	467.73	469.36	197.41	498.63	716.91	411.39	91.25	924.29	477.90	597.90	499.67	246.51
FOREIGN EXCHANGE RESERVES (US$ m)	5,915.35	5,482.72	6,044.78	6,019.39	6,215.52	6,165.00	6,289.28	6,282.30	7,029.88	6,995.29	6,967.13	7,213.95	7,227.05
Official**	3,984.60	4,010.60	4,247.66	4,144.10	4,434.58	4,687.62	4,980.22	4,677.34	5,282.58	5,262.05	5,398.28	5,475.60	5,477.60
Months of imports cover	3.57	3.55	3.71	3.59	3.80	3.94	4.15	3.82	4.27	4.19	4.24	4.26	4.23
Commercial banks	1,930.75	1,472.12	1,797.12	1,875.30	1,780.94	1,477.38	1,309.05	1,604.96	1,747.30	1,733.24	1,568.85	1,738.35	1,749.45
PUBLIC DEBT (US$ bn)	**16.09**	**17.08**	**17.47**	**17.90**	**18.56**	**18.84**	**19.19**	**18.54**	**19.39**	**19.47**	**19.85**	**20.25**	**20.46**
Domestic	7.97	8.96	9.41	9.57	10.57	10.69	10.77	10.24	10.20	10.36	10.70	10.83	10.92
As % of GDP	28.80	24.42	24.32	24.58	26.65	26.97	27.22	27.00	26.09	22.56	23.32	23.85	24.03
External	8.12	8.12	8.06	8.34	7.99	8.15	8.42	8.30	9.20	9.11	9.15	9.42	9.54
As % of GDP	29.34	22.13	20.82	21.42	20.13	20.55	21.29	21.90	23.53	19.85	19.96	20.75	21.01
GROSS DOMESTIC DEBT (Ksh bn)***	795.21	803.89	800.68	809.28	877.29	887.87	896.04	889.06	858.83	872.16	901.85	922.20	929.32
AVERAGE EXCHANGE RATE													
Ksh/US$	101.27	93.68	86.66	86.34	83.18	82.90	83.19	84.38	84.79	84.14	84.08	84.61	85.11
Ksh/Pound Sterling	159.41	148.17	135.10	133.94	131.42	131.18	133.19	134.34	131.95	131.27	132.05	136.26	136.81
Ksh/ 100 Yen	131.97	120.85	111.33	112.23	106.10	100.60	102.26	105.83	106.91	106.50	106.93	108.25	107.84
Ksh/Euro	138.74	127.13	114.15	111.42	110.06	109.55	109.57	107.99	106.51	103.60	104.20	108.80	110.35

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

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

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

1 Previously M3XT

2 Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

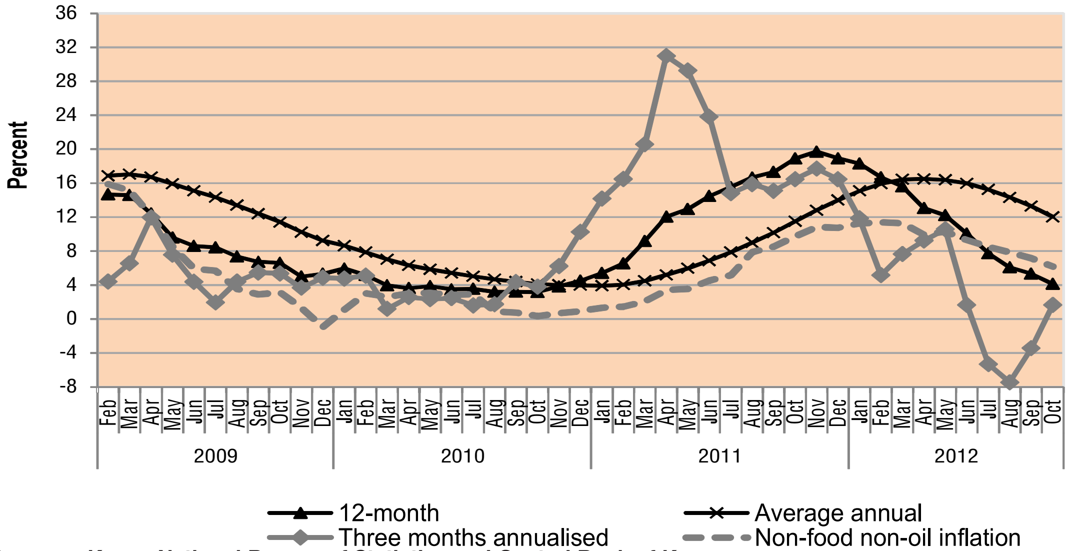
Overall 12-month inflation eased further from 5.3 percent in September 2012 to 4.1 percent in October 2012 reflecting further easing in food and fuel inflation. Reflecting the sustained slowdown in inflation, the annual average inflation declined from 13.3 percent in September 2012 to 12.0 percent in October 2012. The three months annualized rate of inflation rose from -3.5 percent in September 2012 to 1.65 percent in October 2012 (Table 1.1and Chart 1A).

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

Overall Inflation	2011			2012						
	Oct	Nov	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
12-month	18.91	19.72	18.93	13.06	12.22	10.05	7.74	6.09	5.32	4.14
Average annual	11.49	12.82	14.02	16.50	16.40	15.97	15.27	14.33	13.29	12.04
Three months annualised	16.47	17.71	16.45	9.24	10.57	1.65	-5.32	-7.46	-3.46	1.65
Non-food non-oil inflation	9.75	10.82	10.76	9.95	10.28	9.31	8.49	7.84	7.17	6.17

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

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



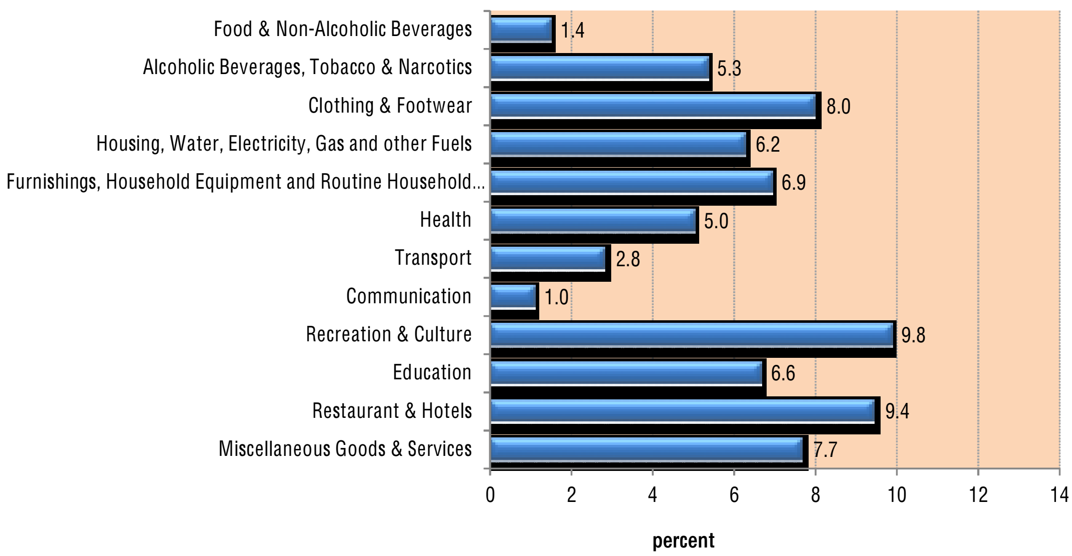
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

Inflation Across Categories of Goods & Services

The 12-month inflation in the 'Food and Non-Alcoholic Beverages' category declined from 2.9 percent in September 2012 to 1.4 percent in October 2012 and fuel inflation as indicated in the categories of 'Transport', 'Housing, Water, Electricity, Gas and other Fuels' from 3.0 percent and 7.7 percent in September 2012 to 2.8 percent and 6.2 percent, respectively in October 2012. Non-food, non-fuel inflation also declined from 7.2 percent in September 2012 to 6.2 percent in October 2012. The decline in "non-food, non-fuel inflation" is reflected in the easing of 12-month inflation in all component baskets. In this respect, inflation in 'communications', 'Furnishings, Household Equipment and Routine Maintenance', 'Clothing and Footwear', 'Miscellaneous Goods and Services', 'Alcoholic Beverages, Tobacco and Narcotics', 'Health', 'Education', and Recreation and Culture' consumption baskets declined to 1.0 percent,6.9 percent, 8.0 percent, 7.7 percent,5.3 percent, 5.0 percent, 6.6 percent and 9.8 percent respectively in October 2012, compared with 7.4 percent, 9.1 percent, 8.7 percent, 8.3 percent,5.6 percent, 5.1 percent,6.9 percent and 10.0 percent, respectively, in September 2012.

Developments of inflation 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 12.7 percent of overall 12-month inflation in October 2012 was attributed to Food and Non-Alcoholic Beverages while inflation in Transport and Housing, Water, Electricity, Gas and Other Fuels categories contributed 6.1 percent and 26.0 percent, respectively.

CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES IN OCTOBER 2012 (%)



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

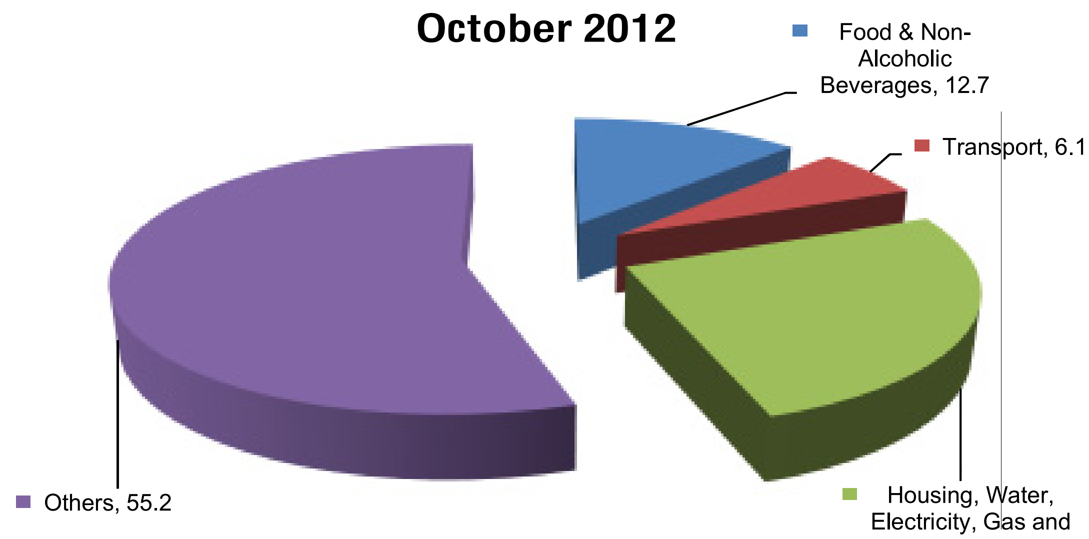
TABLE 1.2: OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (OCTOBER 2012)

OCTOBER 2012	Weight-CPI Kenya	NAIROBI Lower Income	Middle Income	Upper Income	Nairobi Combined	REST OF URBAN Rest of Kenya Combined	TOTAL KENYA
Food & Non-alcoholic beverages	**36.0**	-1.0	4.1	1.1	0.2	2.3	**1.4**
Alcoholic beverages, Tobacco & narcotics	**2.1**	4.8	3.4	3.2	4.4	5.9	**5.3**
Clothing & Footwear	**7.4**	9.0	5.8	8.0	8.2	7.8	**8.0**
Housing, Water,Electricity,Gas and other fuels	**18.3**	9.1	0.2	0.2	6.7	5.9	**6.2**
Furnishings, Household equipment and Routine household maintenance	**6.2**	8.0	4.9	2.2	7.0	6.8	**6.9**
Health	**3.1**	2.9	8.6	4.4	4.3	5.4	**5.0**
Transport	**8.7**	3.7	3.3	-0.7	3.4	2.4	**2.8**
Communication	**3.8**	-0.3	0.4	0.0	-0.1	1.8	**1.0**
Recreation & culture	**2.3**	10.1	9.8	5.6	9.8	9.8	**9.8**
Education	**3.1**	3.5	4.1	6.8	3.8	8.6	**6.6**
Restaurants & hotels	**4.5**	10.6	7.6	5.7	9.8	9.1	**9.4**
Miscellaneous goods & services	**4.5**	8.3	5.8	2.9	7.5	7.7	**7.7**
ALL GROUPS	**100.0**	**3.5**	**3.6**	**1.8**	**3.5**	**4.6**	**4.1**

Source: Kenya National Bureau of Statistics

Inflationary pressures eased for all the income groups in October 2012 but was higher in urban centers outside Nairobi (Table 1.3). On average, the prices of goods and services in urban centers' outside Nairobi rose by 4.6 percent in October compared with an average of 3.5 percent recorded in Nairobi. The slowdown of inflation in Nairobi largely reflected reduced food prices and communication prices. The indices for the 'Nairobi Lower Income' group, the 'Nairobi Middle Income' and the 'Nairobi Upper Income groups rose at slower rates of 3.5 percent, 3.6 percent and 1.8 percent respectively in October 2012 compared with increases of 4.2 percent, 5.0 percent and 2.5 percent respectively, in September 2012.

CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION IN OCT 2012



Sources: Kenya National Bureau of Statistics

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

	Oct-11	Nov-11	Dec-11	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12
Combined Nairobi	18.16	19.18	19.23	9.73	7.41	5.30	4.29	3.45
Lower Income	19.58	20.62	20.63	10.11	7.69	5.17	4.16	3.50
Middle Income	14.33	15.57	15.75	9.17	7.15	6.07	5.00	3.58
Upper Income	14.48	13.99	13.69	5.54	3.39	3.18	2.50	1.79
Other provinces- excluding Nairobi	19.45	20.10	18.73	10.27	7.97	6.64	6.04	4.61
TOTAL KENYA	**18.91**	**19.72**	**18.93**	**10.05**	**7.74**	**6.09**	**5.32**	**4.14**

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

Inflation Outlook

Inflationary pressures are expected to ease in the coming months on account of the stable exchange rate and favourable weather in the food basket regions, and prudent stance of monetary policy.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Growth in broad money supply, M3, decelerated to 12.5 percent in the year to October 2012 from 20.7 percent in the year to October 2011 and was within the 11.6 percent target for October 2012. Expansion in Money supply, M2, that is, M3 excluding foreign currency deposits, rose to 15.8 percent in the year to October 2012 from 14.0 in a corresponding period in 2011 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits, in M3, decreased by Ksh 6.5 billion (2.4 percent) compared with an increase of Ksh 106.8 billion (63.6 percent) the previous year due to exchange rate revaluations.

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

	2010 October	2011 October	2012 October	Absolute Change 2010/11 October	Absolute Change 2011/12 October	%age change 12 months Oct-11	%age change 12 months Oct-12
1. Money supply, M3 (2+3) 2/	**1254.5**	**1513.7**	**1702.5**	**259.2**	**188.9**	**20.7**	**12.5**
1.1 Money supply, M2 3/	1086.5	1238.8	1434.2	152.4	195.4	14.0	15.8
1.2 Money supply, M1	553.4	661.7	699.0	108.4	37.3	19.6	5.6
1.3 Currency outside banks	111.8	129.9	135.0	18.1	5.1	16.2	3.9
2. Net foreign assets 4/	**274.4**	**330.5**	**359.4**	**56.1**	**28.8**	**20.4**	**8.7**
Central Bank	256.4	289.5	351.3	33.2	61.8	12.9	21.3
Banking Institutions	18.1	41.0	8.1	22.9	-32.9	126.8	-80.2
3. Net domestic assets (3.1+3.2)	**980.0**	**1183.1**	**1343.2**	**203.1**	**160.0**	**20.7**	**13.5**
3.1 Domestic credit (3.1.1+3.1.2)	**1162.8**	**1490.2**	**1654.8**	**327.4**	**164.6**	**28.2**	**11.0**
3.1.1 Government (net)	279.8	288.8	351.1	9.0	62.3	3.2	21.6
3.1.2 Private sector and other public sector	883.0	1201.4	1303.7	318.5	102.3	36.1	8.5
3.2 Other assets net (3-3.1)	**-182.7**	**-307.1**	**-311.7**	**-124.4**	**-4.6**	**68.1**	**1.5**
Memorandum items							
1. Overall liquidity, L 1/	**1526.4**	**1863.9**	**2096.6**	**337.5**	**232.7**	**22.1**	**12.5**
2. Reserve money	**217.0**	**234.6**	**245.1**	**17.6**	**10.5**	**8.1**	**4.5**
Currency outside banks	111.8	129.9	135.0	18.1	5.1	16.2	3.9
Bank reserves	105.2	104.7	110.2	-0.5	5.4	-0.4	5.2

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

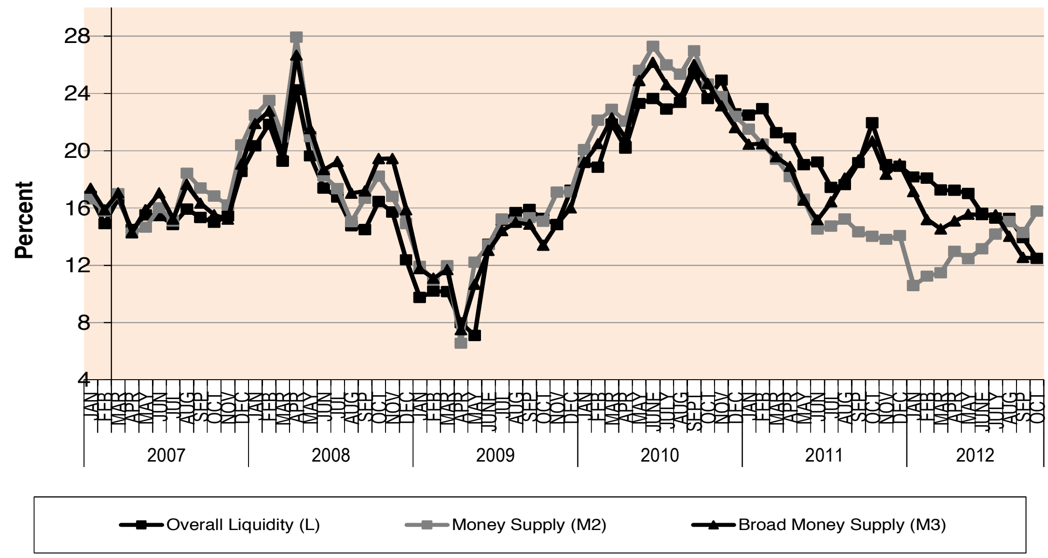
1/ Overall liquidity, L, comprises M3 and non banking public holding of Government securities. It is comparable to M3XT in the past publications.

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.

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The deceleration in the growth of broad money supply, M3, in the year to October 2012 was reflected by slower growth of Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking sector (Table 2.1). Growth in the NDA of the banking sector slowed to 13.5 percent (Ksh 160.0 billion) in the year to October 2012 from 20.7 percent (Ksh 203.1 billion) recorded in the previous year on account of deceleration in private sector credit growth (Table 2.2). The NFA of the banking sector increased by Ksh 28.8 billion (8.7 percent) in the twelve months to October 2012 compared with an increase of Ksh 56.1 billion (20.4 percent) in a corresponding period in 2011. The increase in the NFA of the banking sector was mainly in holdings by the Central Bank following interbank market purchases to build the stock of foreign exchange reserves and receipt of the proceeds of syndicated loan for bridging shortfall in net domestic financing by Government in June 2012. The NFA of the Central Bank grew 21.3 percent (Ksh 61.8 billion) to Ksh 351.3 billion in the year to October 2012 from Ksh 289.5 billion in October 2011 while NFA of commercial banks declined by Ksh 32.9 billion (80.2 percent) to Ksh 8.1 billion from Ksh 41.0 billion in October 2011.

Domestic credit from the banking sector expanded by Ksh 164.6 billion (11.0 percent) in the twelve months to October 2012 compared with Ksh 327.4 billion (28.2 percent) in a similar period in 2011 (Table 2.2).

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

	2011 October		2012 October		Absolute Change October		Annual %age Change October	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2010/11	2011/12	2010/11	2011/12
1. Credit to Government	**288.8**	**19.4**	**351.1**	**21.2**	**9.0**	**62.3**	**3.2**	**21.6**
Central Bank	31.0	2.1	18.2	1.1	21.3	-12.8	218.8	-41.3
Commercial Banks & NBFIs	257.7	17.3	332.9	20.1	-12.3	75.1	-4.6	29.1
2. Credit to other public sector	**32.4**	**2.2**	**51.4**	**3.1**	**14.0**	**19.0**	**76.4**	**58.9**
Local government	3.5	0.2	5.6	0.3	4.1	2.0	-716.2	57.5
Parastatals	28.8	1.9	45.8	2.8	9.9	17.0	52.4	59.0
3. Credit to private sector	**1169.1**	**78.5**	**1252.3**	**75.7**	**304.5**	**83.2**	**35.2**	**7.1**
Agriculture	53.3	3.6	55.3	3.3	11.9	1.9	28.8	3.7
Manufacturing	157.4	10.6	163.0	9.9	44.7	5.6	39.6	3.6
Trade	198.1	13.3	203.6	12.3	54.3	5.5	37.8	2.8
Building and construction	48.3	3.2	63.9	3.9	16.8	15.7	53.4	32.5
Transport & communications	78.2	5.2	76.2	4.6	19.2	-2.0	32.6	-2.6
Finance & insurance	28.1	1.9	34.2	2.1	5.5	6.2	24.5	21.9
Real estate	130.2	8.7	159.7	9.7	34.3	29.5	35.7	22.7
Mining and quarrying	27.3	1.8	20.8	1.3	8.5	-6.5	45.6	-24.0
Private households	166.1	11.1	175.0	10.6	47.4	9.0	39.9	5.4
Consumer durables	75.1	5.0	78.5	4.7	19.8	3.4	35.8	4.5
Business services	88.0	5.9	90.0	5.4	2.9	2.0	3.4	2.2
Other activities	119.0	8.0	132.1	8.0	39.1	13.0	48.8	11.0
4. TOTAL (1+2+3) *	**1490.2**	**100.0**	**1654.8**	**100.0**	**327.4**	**164.6**	**23.7**	**11.0**

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

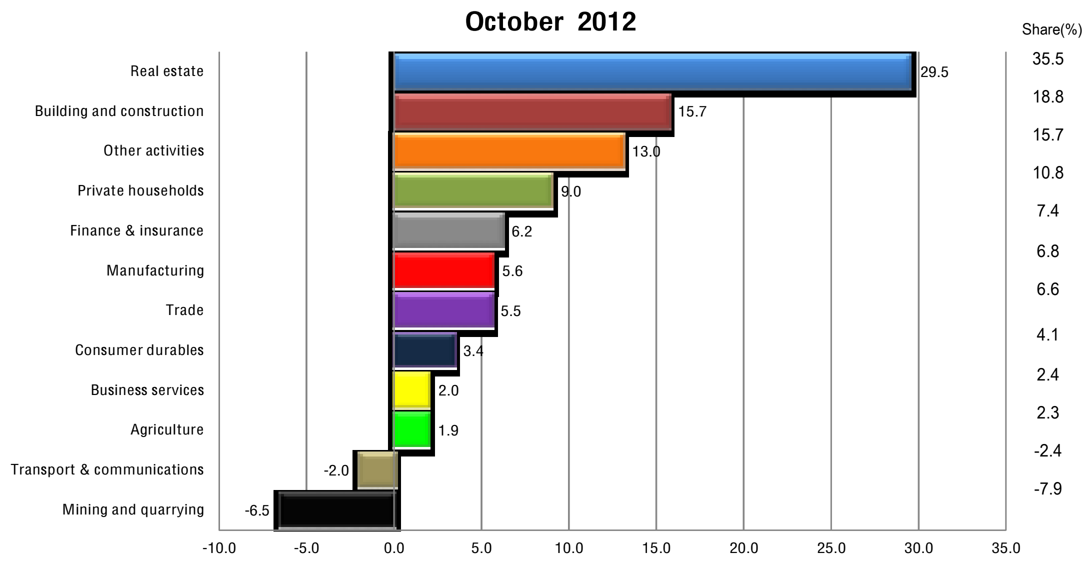
Source: Central Bank of Kenya

Domestic Credit Developments

The banking sector channeled its credit largely to the private sector which accounted for 75.7 percent of total lending in October 2012 compared with 78.5 percent in similar period in 2011. The increase in private sector credit in the year to October 2012 was Ksh 83.2 billion compared with Ksh 304.5 billion recorded in the year to October 2011. This translated into an annual growth rate of 7.1 percent compared with 35.2 percent in the year to October 2011 and corresponding target of 11.4 percent in October 2012.

Most activities of the private sector of the economy recorded reduced credit supply in the year to October 2012 compared with a corresponding period in 2011 save for finance and insurance. In terms of shares to total credit flow in the month of October 2012, real estate accounted for 35.5 percent (or Ksh 29.5 billion), building and construction accounted for 18.8 percent (or Ksh 15.7 billion); private households accounted for 10.8 percent (or Ksh 9.0 billion); finance and insurance accounted for 7.4 percent (or Ksh 6.2 billion); manufacturing accounted for 6.8 percent (or Ksh 5.6 billion); and trade accounted for 6.6 percent (or Ksh 5.5 billion).

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO OCTOBER 2012 (Ksh billion)



Source: Central Bank of Kenya

Net credit to the government, which accounted for 21.2 percent of total bank credit in October 2012, increased by 21.6 percent to Ksh 351.1 billion in the year to October 2012 from Ksh 288.8 billion in October 2011.

Reserve Money

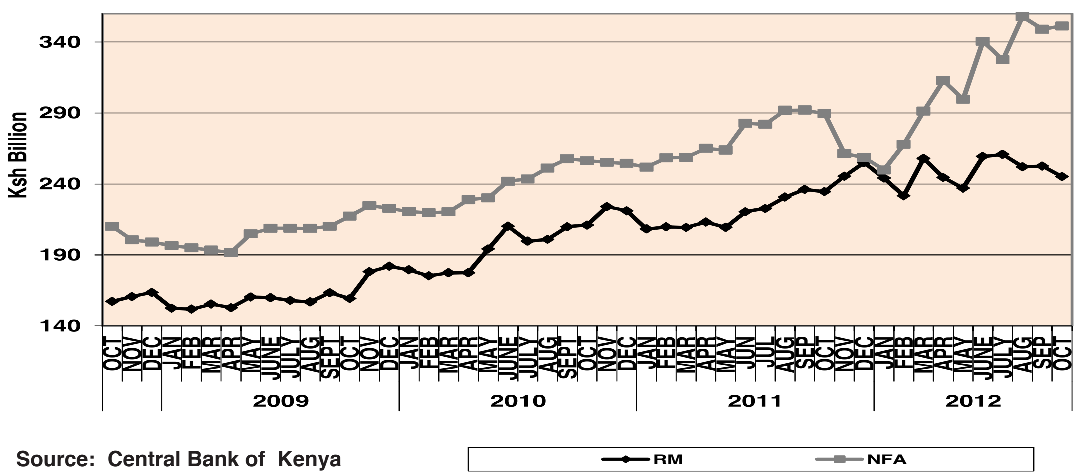
Reserve money increased by 4.5 percent in the twelve months to October 2012 compared with 8.1 percent growth in the corresponding period (Table 2.3 and Chart 2C). At Ksh 245.1 billion in October 2012, reserve money was Ksh 15.1 billion below respective target. The growth in reserve money comprised 5.2 percent increase in bank reserves and 3.9 percent growth in currency outside banks.

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

	2011	2012	Absolute change		Change (%)		2012	
	October	October	2010/11	2011/12	2010/11	2011/12	October Target	Deviation
1. Net Foreign Assets	289.5	351.3	33.2	61.8	12.9	21.3	351.7	-0.5
2. Net Domestic Assets	-54.9	-106.1	-15.5	-51.2	39.4	93.3	-91.5	-14.6
2.1 Government Borrowing (net)	31.0	18.2	21.3	-12.8	218.8	-41.3	4.2	14.0
2.2 Commercial banks (net)	18.3	-63.4	18.3	-81.7	0.0	-446.4	-33.2	-30.2
2.3 Other Domestic Assets (net)	-109.7	-63.2	-57.7	46.6	110.9	-42.4	-62.5	-0.7
3. Reserve Money	234.6	245.1	17.6	10.5	8.1	4.5	260.2	-15.1
3.1 Currency outside banks	129.9	135.0	18.1	5.1	16.2	3.9	135.8	-0.9
3.2 Bank reserves	104.7	110.2	-0.5	5.4	-0.4	5.2	124.4	-14.2

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 twelve months to October 2012 was largely an increase in the net foreign assets (NFA) of the Central Bank of Kenya. Net foreign assets of the Central Bank of Kenya rose by 21.3 percent to Ksh 351.3 billion in the year to October 2012 on account of receipt of USD 600 million, the proceeds of syndicated loan to bridge a shortfall in net domestic financing in June 2012, and purchases from the interbank market to build the stock of foreign exchange reserves.

The NDA of the Central Bank of Kenya decreased by Ksh 51.2 billion to a Ksh -106.1 billion in the year to October 2012, from Ksh -54.9 billion in the previous year. This was reflected in reduction of net claims to commercial banks and the Government. Net claims to commercial banks decreased by Ksh 81.7 billion to a deposit of Ksh 63.4 billion in the year to October 2012 on account of open market sales for liquidity management. Net credit to the Government decreased by Ksh 12.8 billion to Ksh 18.2 billion. Meanwhile, other domestic assets (net) of the Central Bank increased by Ksh 46.6 billion to Ksh -63.2 billion in the year to October 2012 from Ksh -109.7 billion in October 2011.

Central Bank Rates

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 13.0 percent in the month of October 2012. This reflects a continued decline in inflationary pressure, and stability in the exchange rate and in the short term money market rates.

Short Term Interest Rates

Short term interest rates trended upward in the month of October 2012 (Table 2.4 and Chart 2D). The weighted average interbank rate increased to 9.14 percent in October 2012 from 7.02 percent in September 2012. The repo rate increased to 9.74 percent in October 2012 from 8.42 percent in September 2012. In addition, the 91-day Treasury bill rate increased to 8.98 percent in October 2012 from 7.77 percent in September 2012 while the 182-day Treasury bill rate rose to 10.33 percent from 9.36 percent. The upward trend in short term rates reflected enhanced open market operations by the Central Bank to sterilize excess liquidity in the money market.

Lending and Deposit Rates

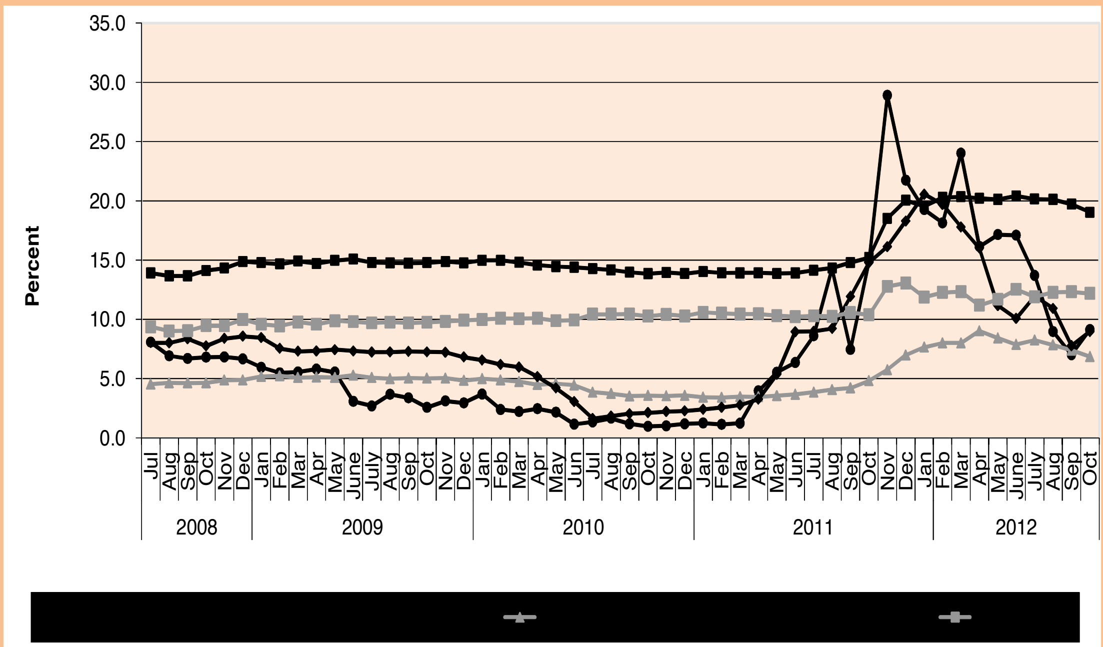
Commercial banks average lending rates declined marginally by 69 basis points to 19.04 percent in October 2012 from 19.73 percent in September 2012, while the average deposit rate decreased to 6.85 percent from 7.40 percent in September 2012. Consequently, the interest rate spread declined to 12.19 percent in October 2012 from 12.33 percent in September 2012.

TABLE 2.4: INTEREST RATES (%)

	2011						2012						
	June	Aug	Sep	Oct	Nov	Dec	Apr	May	June	July	Aug	Sep	Oct
91-day Treasury bill rate	8.95	9.23	11.93	14.80	16.14	18.30	16.01	11.18	10.09	11.95	10.93	7.77	8.98
Overdraft rate	13.59	14.28	14.64	14.87	18.67	20.20	20.27	20.41	20.30	19.96	20.31	19.80	19.13
Interbank rate	6.36	14.29	7.46	14.95	28.90	21.75	16.15	17.16	17.09	13.71	8.97	7.02	9.14
Repo rate	-	0.00	0.00	18.89	0.00	17.75	15.47	16.97	17.60	14.31	9.65	8.42	9.74
Reverse Repo rate	-	6.25	5.75	-	-	-	-	-	-	-	-	-	
Average lending rate (1)	13.91	14.32	14.79	15.21	18.51	20.04	20.22	20.12	20.41	20.15	20.13	19.73	19.04
Average deposit rate (2)	3.68	4.07	4.21	4.83	5.75	6.99	9.04	8.42	7.88	8.25	7.85	7.40	6.85
0 to 3 - month deposit	4.38	5.37	5.55	6.14	6.95	8.51	11.82	10.85	10.07	10.52	9.84	10.10	9.39
Savings deposits	1.37	1.37	1.35	1.33	1.41	1.59	1.58	1.59	1.46	1.66	1.58	1.55	1.60
Spread (1-2)	**10.23**	**10.25**	**10.58**	**10.39**	**12.77**	**13.06**	**11.19**	**11.69**	**12.52**	**11.90**	**12.28**	**12.33**	**12.19**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

Performance of The Real Sector

Overview

Real GDP for the year 2011 amounted to Ksh 1.54 trillion and was equivalent to 4.4 percent growth compared with output of Ksh 1.47 trillion (5.8 percent growth) in 2010 (Table 3.1). The slowdown in real GDP growth continued in the first 8 months of 2012. Estimates for the January - March and April - June of 2012 indicate growths of 3.4 percent and 3.3 percent, respectively (Chart 3A). The deceleration in economic activity in the first half of 2012 is attributed to unfavourable weather conditions that subdued performance in agriculture, and deceleration of credit extension to most sectors. Although slowed, the increase in total production in the first two quarters of 2012 was largely attributed to improved performance in the Transport and Communication, Wholesale and Retail Trade, and Electricity and Water sectors.

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

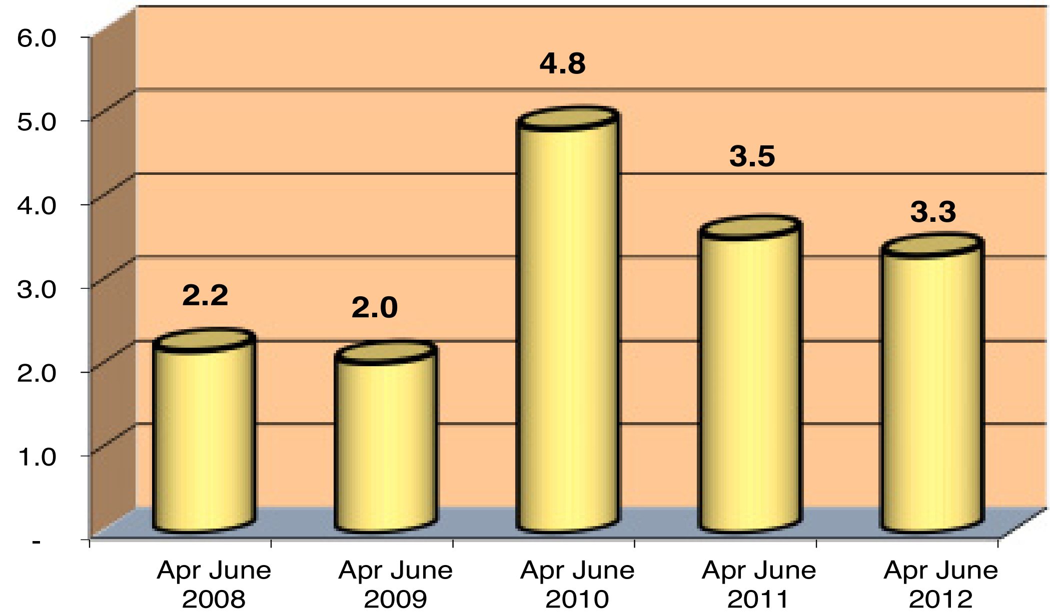
MAIN SECTORS	Share in 2011 Nominal GDP (%)	Share in 2011 Real GDP (%)	Kshs Million								
			2003	2004	2005	2006	2007	2008	2009	2010	*2011
Agriculture and Forestry	***24.01***	***21.01***	276,089	280,518	299,749	312,926	320,423	307,354	299,431	318,586	323,465
Fishing	***0.50***	***0.38***	4,765	5,246	5,751	6,249	6,181	5,363	5,564	5,713	5,891
Mining	***0.68***	***0.47***	5,213	5,195	5,334	5,554	6,272	6,453	6,163	6,763	7,246
Manufacturing	***9.45***	***9.61***	105,822	110,544	115,699	122,953	130,673	135,291	137,060	143,263	147,989
Electricity and water supply	***0.86***	***2.11***	27,074	27,877	27,898	27,288	29,769	31,341	30,397	33,335	32,465
Construction	***4.13***	***3.49***	31,530	32,932	35,446	37,649	40,405	43,735	49,270	51,486	53,713
Wholesale and retail trade, repairs	***10.61***	***10.80***	92,604	100,481	106,009	118,361	131,754	138,044	143,460	154,942	166,205
Hotels & Restaurants	***1.67***	***1.35***	9,899	13,741	15,572	17,894	20,814	13,298	18,993	19,796	20,792
Transport, Storage & Communications	***9.67***	***12.37***	104,915	112,251	122,243	136,306	156,845	161,615	171,994	182,181	190,382
Financial intermediation	***6.38***	***4.23***	42,064	42,657	43,869	47,170	50,306	51,659	55,375	60,379	65,095
Real estate, renting and business services	***4.45***	***5.25***	61,864	63,740	65,882	68,446	70,860	73,503	75,674	78,089	80,888
Public administration and defense	***5.00***	***3.14***	46,991	47,062	46,461	45,974	45,031	45,317	46,031	47,085	48,270
Education	***5.84***	***5.90***	71,045	72,268	72,908	73,188	76,257	80,771	82,952	86,651	90,873
Health and social work	***2.48***	***2.14***	25,431	26,408	27,249	28,075	28,983	30,035	31,352	31,786	32,896
Other community, social and personal services	***3.19***	***3.64***	42,917	44,514	45,876	47,814	49,420	50,829	52,156	53,557	55,988
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
Less : Financial services indirectly measured	***(1.05)***	***-0.77***	(10,315)	(10,801)	(11,261)	(11,835)	(12,174)	(10,484)	(11,945)	(11,260)	(11,843)
All industries at basic 2001 prices	***88.31***	***85.42***	**941,763**	**978,565**	**1,028,696**	**1,088,103**	**1,155,991**	**1,168,382**	**1,198,270**	**1,266,782**	**1,314,832**
Taxes less subsidies on products	***11.69***	***14.58***	113,895	130,772	144,088	161,367	180,855	188,882	196,117	207,981	224,474
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**	**1,474,763**	**1,539,306**
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	1,474,763	1,539,306
Overall GDP Deflator			107	115	121	130	137	155	170	173	197

Annual Growth Rates in Percent

	Share in 2011 Nominal GDP (%)	Share in 2011 Real GDP (%)	2003	2004	2005	2006	2007	2008	2009	2010	*2011
Agriculture and Forestry	24.01	21.01	2.6	1.6	6.9	4.4	2.4	(4.1)	(2.6)	6.4	1.5
Fishing	0.50	0.38	-6.9	10.1	9.6	8.7	-1.1	(13.2)	3.7	2.7	3.1
Mining	0.68	0.47	3.5	-0.3	2.7	4.1	12.9	2.9	(4.5)	9.7	7.1
Manufacturing	9.45	9.61	6.0	4.5	4.7	6.3	6.3	3.5	1.3	4.5	3.3
Electricity and water supply	0.86	2.11	14.0	3.0	0.1	-2.2	9.1	5.3	(3.0)	9.7	(2.6)
Construction	4.13	3.49	1.0	4.4	7.6	6.2	7.3	8.2	12.7	4.5	4.3
Wholesale and retail trade, repairs	10.61	10.80	1.5	8.5	5.5	11.7	11.3	4.8	3.9	8.0	7.3
Hotels & Restaurants	1.67	1.35	-20.3	38.8	13.3	14.9	16.3	(36.1)	42.8	4.2	5.0
Transport, Storage & Communications	9.67	12.37	3.5	7.0	8.9	11.5	15.1	3.0	6.4	5.9	4.5
Financial intermediation	6.38	4.23	1.5	1.4	2.8	7.5	6.6	2.7	7.2	9.0	7.8
Real estate, renting and business services	4.45	5.25	2.3	3.0	3.4	3.9	3.5	3.7	3.0	3.2	3.6
Public administration and defense	5.00	3.14	0.6	0.2	-1.3	-1.0	-2.1	0.6	1.6	2.3	2.5
Education	5.84	5.90	9.7	1.7	0.9	0.4	4.2	5.9	2.7	4.5	4.9
Health and social work	2.48	2.14	2.8	3.8	3.2	3.0	3.2	3.6	4.4	1.4	3.5
Other community, social and personal services	3.19	3.64	-0.0	3.7	3.1	4.2	3.4	2.9	2.6	2.7	4.5
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
Less : Financial services indirectly measured	-1.05	-0.77	-3.3	4.7	4.3	5.1	2.9	(13.9)	13.9	(5.7)	5.2
Total GDP at basic 2001 prices	**88.31**	**85.42**	**3.1**	**3.9**	**5.1**	**5.8**	**6.2**	**1.1**	**2.6**	**5.7**	**3.8**
Taxes less subsidies on products	11.69	14.58	1.3	14.8	10.2	12.0	12.1	4.4	3.8	6.0	7.9
Real GDP at 2001 market prices	**100.00**	**100.00**	**2.9**	**5.1**	**5.7**	**6.5**	**7.0**	**1.5**	**2.7**	**5.8**	**4.4**

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

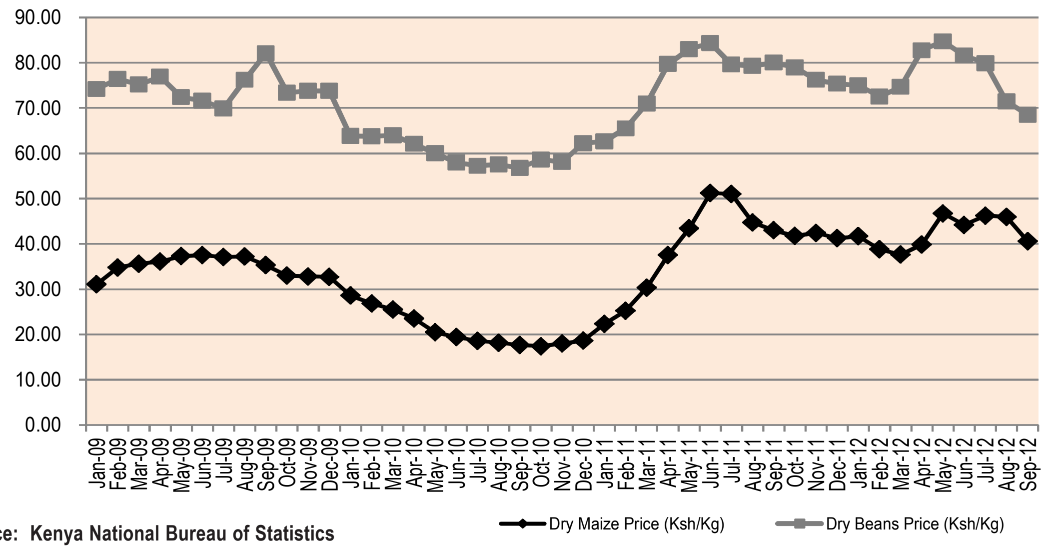
CHART 3A: REAL GDP GROWTH IN THE SECOND QUARTERS



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

Agriculture Agriculture contributed 21.0 percent of GDP in 2011. Growth in this activity slowed from 6.4 percent in 2010 to 1.5 percent in 2011 largely due to adverse weather conditions that prevailed during 2011. Agriculture contributed 19.0 percent of GDP in the second quarter of 2012. Although delayed, better performance of the long rains during the second quarter of 2012 supported food production. The prices of food items such as maize and beans subsequently eased in the second and third quarters of 2012 (Chart 3B).

CHART 3B: MOVEMENT IN AVERAGE RETAIL PRICES FOR MAIZE AND BEANS



Source: Kenya National Bureau of Statistics

Major Indicators in Agriculture

Selected indicators of agriculture for the year to September 2012 registered mixed performance (Table 3.2). Production of tea and milk declined in the year to September 2012 compared with production in a comparable period in 2011, while production of horticulture, coffee, and sugar cane increased during the same period.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK

	2010	2011*	Year to Sep 11*	Year to Sep 12*
Tea				
Output (Metric tonnes)	399,006	377,913	369,302	366,093
Growth (%)	*31.2%*	*-5.3%*	*-3.9%*	*-0.9%*
Horticulture				
Exports (Metric tonnes)	268,533	238,562	243,496	247,847
Growth (%)	*8.2%*	*-11.2%*	*-7.0%*	*1.8%*
Coffee				
Sales (Metric tonnes)	38,938	29,984	33,631	44,776
Growth (%)	*-21.3%*	*-23.0%*	*-7.1%*	*33.1%*
Milk				
Output (million litres)	511	549	533	495
Growth %	*25.7%*	*7.5%*	*5.0%*	*-7.0%*
Sugar Cane				
Output (Metric tonnes)	5,709,586	5,338,571	5,682,003	5,708,628
Growth (%)	*1.8%*	*-6.5%*	*1.7%*	*0.5%*

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

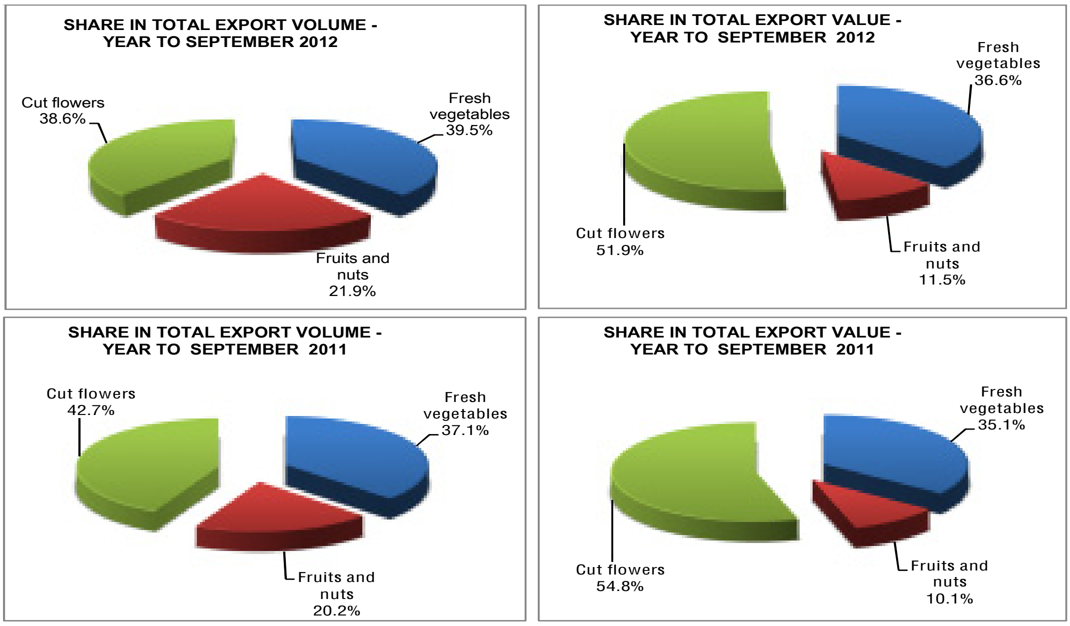
Tea

Production of tea declined by 0.9 percent from 369,302 metric tonnes in the year to September 2011 to 366,093 metric tonnes in the year to September 2012 (Table 3.2).The average auction price for tea rose from Ksh 254 per kilogram in the year to September 2011 period to Ksh268 per kilogram in the year to September 2012. The decline in production of tea is on account of delayed rains and frost from January to April 2012.

Horticulture

Exports of fresh horticultural products increased by 1.8 percent from 243,496 metric tonnes in the year to September 2011 to 247,847 metric tonnes in the year to September 2012 (Table 3.2 and Chart 3C). The improvement was largely in exports of vegetables and fruits.

CHART 3C: HORTICULTURAL EXPORTS



Source: Kenya Revenue Authority

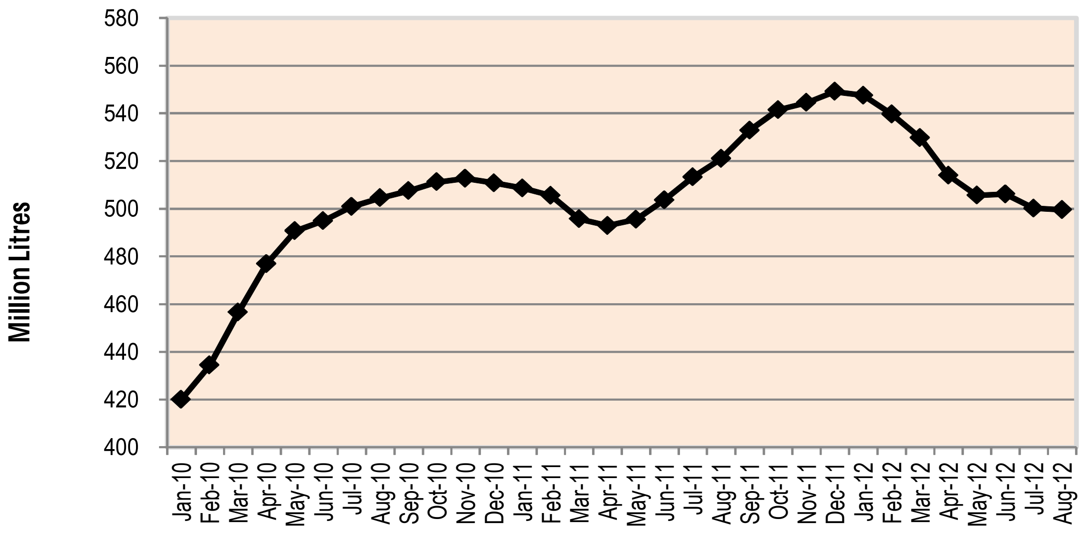
Coffee

Performance of the coffee sub-sector also improved with sales increasing from 33,631metric tonnes in the year to September 2011 to 44,776 metric tonnes in the year to September 2012. The average auction price for coffee however declined from Ksh 510 per kilogram in the year to September 2011 to Ksh 394 per kilogram in the year to September 2012.

Milk

Production of milk declined by 7.0 percent from 533 million litres in the year to September 2011 to 495 million litres in the year to September 2012 (Table 3.2 and Chart 3D). The delayed onset of rainfall in the first quarter suppressed production in the dairy sector.

CHART 3D: PROCESSED MILK ('000 LITRES)



Source: Kenya National Bureau of Statistics

Sugar Cane

Cane delivery to the factories stabilised, following a 0.5 percent increase in the year to September 2012. Output increased from 5.68 million metric tonnes in the year to September 2011 to 5.71 million metric tonnes in the year to September 2012.

Manufacturing

Activities within manufacturing sector registered largely improved performance in the year to September 2012 as indicated by increased production of cement, assembled vehicles and galvanized sheets, while production of soft drinks and processed sugar declined (Table 3.3). The amount of cement produced increased by 1.8 percent from 4,010,468 tonnes in the year to September 2011 to 4,084,059 tonnes in the year to September 2012 (Chart 3E). The number of vehicles assembled locally also increased from 5,898 in the year to September 2011 to 6,472 in the year to September 2012. Production of galvanized sheets increased from 255,377 tonnes in the year to September 2011 to 263,722 tonnes in the year to September 2012. Production of soft drinks however declined by 3.5 percent from 367,416 thousand litres in the year to September 2011 to 354,520 thousand litres in the year to

September 2012. Sugar production also declined by 5.9 percent from 526,558 metric tonnes to 495,685 metric tonnes.

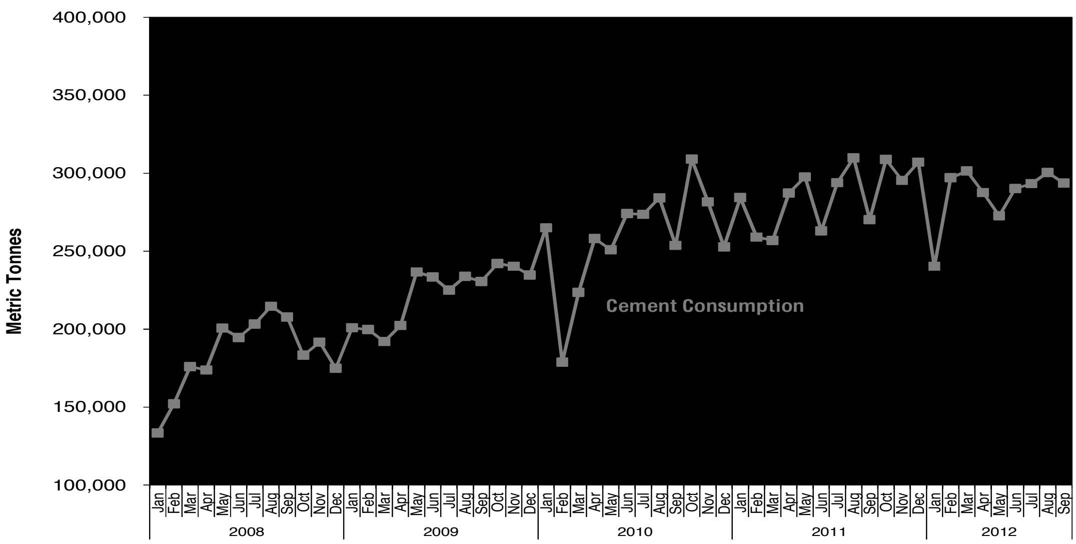
TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	Annual Totals		Year to Sep 11*	Year to Sep 12*
	2010	2011*		
Cement production				
Output (MT)	3,709,806	3,969,003	4,010,468	4,084,059
Growth %	*11.7%*	*7.0%*	*10.6%*	*1.8%*
Assembled vehicles				
Output (No.)	5,721	6,049	5,898	6,472
Growth %	*13.1%*	*5.7%*	*7.8%*	*9.7%*
Galvanized sheets				
Output (MT)	201,410	268,095	255,377	263,722
Growth %	*10.6%*	*33.1%*	*31.5%*	*3.3%*
Processed sugar				
Output (MT)	523,470	475,061	526,558	495,685
Growth %	*-4.5%*	*-9.2%*	*2.1%*	*-5.9%*
Soft drinks				
Output ('000 litres)	361,333	371,353	367,416	354,520
Growth %	*0.0%*	*2.8%*	*0.0%*	*-3.5%*

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 4.1 percent from 7,113 million kilowatt hours in the year to September 2011 to 7,404 million kilowatt hours in the year to September 2012 (Table 3.4). Of the total electricity produced in the year to September 2012, 55.5 percent was hydro-power, 26.0 percent thermal power and 18.5 percent geo-thermal power. Production of hydro-electricity increased by 17.6 percent to 3,803 million kilowatt hours in the year to September 2012. Geothermal power generation increased by 3.2 percent to 1,496 million kilowatt hours in the year to September 2012 while thermal power production declined by 13.3 percent to 2,105 million kilowatt hours in the same period. Estimated consumption of electricity increased by 2.6 percent to 6,257 million kilowatt hours in the year to September 2012 compared with consumption of 6,101 million kilowatt hours over the same period in 2011 while consumption of fuels also increased by 3.3 percent to 3,636 thousand tonnes in the year to September 2012.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	Annual Totals		Year to Sep 11*	Year to Sep 12*
	2010	2011*		
Electricity Supply (Generation)				
Output (million KWH)	6,407	7,161	7,113	7,404
Growth %	*20.2%*	*11.8%*	*19.4%*	*4.1%*
Of which:				
Hydro-power Generation (million KWH)	3,195	3,183	3,235	3,803
Growth (%)	*51.7%*	*-0.4%*	*20.5%*	*17.6%*
Geo-Thermal Generation (million KWH)	1,442	1,444	1,450	1,496
Growth (%)	*-2.4%*	*0.1%*	*5.2%*	*3.2%*
Thermal (million KWH)	1,769	2,533	2,428	2,105
Growth (%)	*1.3%*	*43.2%*	*28.3%*	*-13.3%*
Consumption of electricity (million KWH)	5,870	6,152	6,101	6,257
Growth %	*10.8%*	*4.8%*	*6.8%*	*2.6%*
Consumption of Fuels ('000 tonnes)	3,177	3,545	3,519	3,636
Growth %	*-0.4%*	*11.6%*	*11.8%*	*3.3%*
Murban crude oil average price (US $ per barrel)	79.2	110.6	104.3	112.9
Growth %	*26.4%*	*39.7%*	*36.7%*	*8.3%*

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

The number of tourists arriving in Kenya rose by 1.1 percent from 1,230,713 in the year to September 2011 to 1,244,145 in the year to September 2012 (Table 3.5). Of the total tourist arrivals, 84.3 percent arrived via Jomo Kenyatta International Airport, Nairobi and 15.7 percent via Moi International Airport, Mombasa.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2010	2011	Year to Sep 11	Year to Sep 12	Year to Sep 12 % Share	Year to Sep 12 % Growth
CRUISE	-	856	586	270	*0.02%*	*-53.9%*
MIAM	232,698	233,844	245,725	194,790	*15.7%*	*-20.7%*
JKIA	862,586	1,030,436	984,402	1,049,086	*84.3%*	*6.6%*
TOTAL	**1,095,284**	**1,265,136**	**1,230,713**	**1,244,145**	***100.0%***	***1.1%***

Source: Kenya Tourist Board

In terms of region of origin, Europe and Africa dominated accounting for 44.7 percent and 23.9 percent of total tourist arrivals, respectively, in the year to September 2012. As source regions, America and Oceania countries recorded the highest growth rates of 6.2 percent, respectively. Tourist from Europe declined by 5.3 percent in the year to September 2012 compared with growth of 14.0 percent in the year to September 2011.

TABLE 3.6: TOURIST ARRIVALS BY CONTINENT

REGION	2010	2011	Year to Sep 11	Year to Sep 12	Year to Sep 12 % Share	Year to Sep 12 % Growth
Africa	257,132	303,886	291,448	296,755	23.9%	1.8%
Middle East	N/A	38,880	28,751	55,265	4.4%	N/A
America	142,087	158,268	154,206	163,738	13.2%	6.2%
Asia	137,657	137,707	141,287	143,208	11.5%	1.4%
Europe	536,422	597,443	587,123	555,905	44.7%	-5.3%
Oceanic	21,985	28,952	27,311	29,004	2.3%	6.2%
Cruise	0	856	586	270	0.0%	-53.9%
Total	**1,095,284**	**1,265,136**	**1,230,713**	**1,244,145**	**100.0%**	**1.1%**

Source: Kenya Tourist Board

Transport

The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) increased from 3,887,367 in the year to September 2011 to 4,322,079 in the year to September 2012. The number of incoming passengers increased by 9.5 percent to 2,160,816 in the year to September 2012, while the number of outgoing passengers increased by 13.0 percent to 2,161,263 in the same period. The volume of oil handled through the Kenya pipeline increased by 10.6 percent to 4,668 million litres in the year to September 2012 (Table 3.7).

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2010	2011*	Year to Sep 11*	Year to Sep 12*
Number of Passengers thro' JKIA				
Total passenger flows	3,029,419	4,135,126	3,887,367	4,322,079
Growth (%)	*15.4%*	*36.5%*	*40.4%*	*11.2%*
o.w. Incoming	1,508,841	2,088,798	1,974,207	2,160,816
Growth (%)	*13.1%*	*38.4%*	*44.2%*	*9.5%*
Outgoing	1,520,578	2,046,328	1,913,160	2,161,263
Growth %	*17.8%*	*34.6%*	*36.7%*	*13.0%*
Kenya Pipeline Oil Throughput				
Output ('000 litres)	4,203,718	4,257,426	4,222,310	4,668,498
Growth %	*-2.8%*	*1.3%*	*-1.1%*	*10.6%*

* Provisional

Source: Kenya National Bureau of Statistics

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya's overall Balance of Payments position improved from a deficit of US$ 217 million in the year to October 2011 to a surplus of US$ 1,242 million in the year to October 2012. The improvement in the balance of payments was attributed to performance of the capital and financial account which more than offset the deterioration in the current account.

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Oct 2011*	Year to October 2012* Q1 Nov-Jan	Q2 Feb- Apr	Q3 May- Jul	Q4 Aug- Oct	Year to Oct 2012*	Absolute Change	% Change
1. OVERALL BALANCE	**-217**	**29**	**725**	**278**	**210**	**1242**	**1458**	**-673.6**
2. CURRENT ACCOUNT	**-3107**	**-1105**	**-902**	**-1215**	**-1134**	**-4357**	**-1250**	**40.2**
2.1 Goods	**-8760**	**-2423**	**-2419**	**-2816**	**-2368**	**-10026**	**-1266**	**14.5**
Exports (fob)	**5844**	1458	1546	1499	1587	**6090**	246	**4.2**
Imports (cif)	**14604**	3881	3966	4314	3954	**16116**	1512	**10.4**
2.2 Services	**5653**	**1318**	**1517**	**1600**	**1233**	**5669**	**16**	**0.3**
Non-factor services (net)	**2646**	658	888	965	692	**3203**	556	**21.0**
Income (net)	**7**	-56	-24	-49	-22	**-151**	-158	**-2290.5**
Current Transfers	**3000**	716	653	685	563	**2617**	-383	**-12.8**
3. CAPITAL & FINANCIAL ACCOUNT	**2890**	**1134**	**1627**	**1493**	**1344**	**5599**	**2709**	**93.7**
3.1 Capital Tranfers (net)	**223**	**67**	**47**	**45**	**90**	**249**	**26**	**11.5**
3.2 Financial Account	**2667**	**1068**	**1580**	**1448**	**1254**	**5350**	**2683**	**100.6**
memo:								
Gross Reserves	**5915**	**6019**	**6289**	**6995**	**7227**	**7227**	**1312**	**22.2**
Official	**3985**	4144	4980	5262	5478	**5478**	**1493**	**37.5**
*imports cover***	*3.0*	*3.0*	*3.5*	*3.6*	*3.7*	**3.7**	**1**	**25.7**
*imports cover****	*3.6*	*3.6*	*4.1*	*4.2*	*4.2*	**4.2**	**1**	**18.7**
Commercial Banks	**1931**	1875	1309	1733	1749	**1749**	**-181**	**-9.4**

* Provisional.
** Based on current year's imports of goods and non-factor services
*** Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

Current Account

The current account deficit widened by 40.2 percent to US$ 4,357 million in the year to October 2012 from US$ 3,107 million in the year to October 2011. This reflected a 14.5 percent or US $ 1,266 million deterioration in the merchandise account deficit. However, there was a marginal improvement in the services account of 0.3 percent or US$ 16 million (Table 4.2).

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

ITEM	Year to Oct 2011*	Year to October 2012* Q1 Nov-Jan	Q2 Feb- Apr	Q3 May- Jul	Q4 Aug- Oct	Year to Oct 2012*	Absolute Change	% Change
2. CURRENT ACCOUNT	**-3107**	**-1105**	**-902**	**-1215**	**-1134**	**-4357**	**-1250**	**40.2**
2.1 Goods	**-8760**	**-2423**	**-2419**	**-2816**	**-2368**	**-10026**	**-1266**	**14.5**
Exports (fob)	**5844**	1458	1546	1499	1587	**6090**	**246**	**4.2**
Coffee	**224**	42	83	82	61	**268**	**44**	**19.6**
Tea	**1148**	311	289	261	319	**1180**	**31**	**2.7**
Horticulture	**712**	153	180	173	177	**683**	**-30**	**-4.2**
Oil products	**116**	22	22	14	26	**83**	**-33**	**-28.5**
Manufactured Goods	**722**	181	180	185	170	**716**	**-6**	**-0.8**
Raw Materials	**336**	126	111	100	90	**426**	**90**	**26.9**
Chemicals and Related Products (n.e.s)	**557**	145	146	148	135	**574**	**17**	**3.1**
Miscelleneous Man. Articles	**522**	131	139	143	145	**558**	**36**	**7.0**
Re-exports	**328**	74	113	94	132	**412**	**84**	**25.8**
Other	**1180**	275	284	299	332	**1191**	**11**	**0.9**
Imports (cif)	**14604**	3881	3966	4314	3954	**16116**	**1512**	**10.4**
Oil	**3809**	1071	1100	1083	788	**4041**	**233**	**6.1**
Chemicals	**1889**	535	550	518	516	**2120**	**231**	**12.2**
Manufactured Goods	**2209**	554	565	634	558	**2311**	**102**	**4.6**
Machinery & Transport Equipment	**3947**	883	974	1298	1321	**4476**	**528**	**13.4**
Other	**2750**	839	777	781	771	**3168**	**418**	**15.2**
2.2 Services	**5653**	**1318**	**1517**	**1600**	**1233**	**5669**	**16**	**0.3**
Non-factor services (net)	**2646**	658	888	965	692	**3203**	**556**	**21.0**
Non-factor services credit	**4081**	1031	1223	1320	1052	**4626**	**545**	**13.4**
transportation	**1695**	447	530	561	421	**1959**	**264**	**15.6**
travel	**962**	220	223	253	218	**913**	**-49**	**-5.1**
Other services account: gov't	**773**	229	250	246	236	**961**	**188**	**24.3**
Other services account: private	**651**	136	221	260	178	**794**	**142**	**21.9**
Income (net)	**7**	-56	-24	-49	-22	**-151**	**-158**	**-2290.5**
of which official interest	**-54**	-22	-19	-46	-35	**-123**	**-69**	**126.4**
Current Transfers (net)	**3000**	716	653	685	563	**2617**	**-383**	**-12.8**
Private (net)	**2814**	688	658	689	568	**2603**	**-210**	**-7.5**
of which remittances	**847**	256	306	292	279	**1133**	**286**	**33.8**
Public (net)	**186**	28	-5	-5	-5	**14**	**-172**	**-92.6**

* Provisional.

Source: Central Bank of Kenya

Merchandise Account

The merchandise account deficit widened from US$8,760 million in the year to October 2011 to US$ 10,026 million in the year to October 2012. The increase in receipts from exports of goods was marginal compared with the increase in the value of goods imported.

Exports

The total value of exports increased marginally by 4.2 percent or US$ 246 million to US$ 6,090 million in the year to October 2012 as a result of mixed performance in Kenya's tradition exports. Value of coffee exports increased by 19.6 percent to US$ 268 million due to increase in quantity of coffee exports, while the value of tea exports increased by 2.7 percent to US$ 1,180 million due to increased export quantities and prices. However, the value of horticulture exports declined by 4.2 percent to US$ 683 million due to a decrease in export prices over the review period.

Other categories of exports also exhibited mixed performance. Export values of raw materials, chemicals and related products, miscellaneous manufactured articles exports and re-exports increased, while exports of oil products and manufactured goods exports declined. These categories of exports are increasingly becoming important to allow for more export diversification and improved export performance.

Imports

The total value of imports increased by 10.4 percent or US$ 1,512 million to US$ 16,116 million in the year to October 2012, on account of increased payments for both public and private imports. Oil imports accounted for 25 percent of the total import bill and increased by 6.1 percent or US$233 million to US$ 4,041 million in the year to October 2012. This increase may be attributed to high prices of mineral fuels in the international market. Imports of manufactured items accounted for 14 percent of the total import bill and increased by 4.6 percent from US$ 2,209 million in the year to October 2011 to US$ 2,311 million in the year to October 2012. Machinery and transport equipment accounted for 28 percent of the total import bill and increased by 13.4 percent or US$ 528 million from US$ 3,947 million in the year to October 2011 to US$ 4,476 million in the year to October 2012. Payments were larger for power generating machinery and equipment; machinery specialized for particular industries; metal working machinery; general industrial machinery and equipment; office machines; electrical machinery; apparatus and appliances and; road vehicles.

Direction of Trade

The share of exports to African countries increased to 48.2 percent in the year to October 2012 from 47.5 per cent in the year to October 2011. Exports to the East African Community (EAC) accounted for 26.2 percent of total exports, having increased in value from US$ 1,530 million in the year to October 2011 to US$1,594 million in the year to October 2012.The share of exports to the COMESA region declined from 34.9 percent of total exports in the year to October 2011 to 31.3 percent of total exports in the year to October 2012. The decline to COMESA region was mainly occasioned by a substantial decline of exports to Sudan. Over the same period, exports to EU also declined from US$ 1,314 million to US$ 1,295 million. At country destination level, Kenya's exports were mainly to Uganda (13.3 percent), Tanzania (8.8 percent), the United Kingdom (8.1 percent), the Netherlands (5.9 percent) and the USA (5.1 percent).

In the year to October 2012, the share of imports from African countries accounted for 10.8 percent of total imports compared to 11.3 percent in the year to October 2011. Imports from the EAC region accounted for 2.2 percent of total imports and increased in value from US$ 297 million in the year to October 2011 to US$ 352 million in the year to October 2012. Imports from the COMESA region accounted for 4.7 percent of total imports in the year to October 2012. The share of imports from the EU region declined from 16.0 percent to 14.9 percent over the same period. Kenya's imports were mainly from India (13.1 percent), China (12.2 percent), the United Arab Emirates (12 percent), Saudi Arabia (5.9 percent) and the USA (4.8 percent) (Table 4.3).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to Oct			Year to Oct		
Country	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Africa	**1,429**	**1,644**	**1,734**	**12.3**	**11.3**	**10.8**
Of which						
South Africa	764	815	739	6.6	5.6	4.6
Egypt	217	207	349	1.9	1.4	2.2
Others	448	622	646	3.9	4.3	4.0
EAC	**252**	**297**	**352**	**2.2**	**2.0**	**2.2**
COMESA	**486**	**577**	**759**	**4.2**	**4.0**	**4.7**
Rest of the	**10,189**	**12,876**	**14,376**	**87.7**	**88.7**	**89.2**
Of which						
India	1,254	1,678	2,103	10.8	11.6	13.1
United Arab	1,595	1,977	1,939	13.7	13.6	12.0
China	1,413	1,626	1,970	12.2	11.2	12.2
Japan	668	724	712	5.8	5.0	4.4
USA	514	515	778	4.4	3.5	4.8
United King	418	678	511	3.6	4.7	3.2
Singapore	360	438	133	3.1	3.0	0.8
Germany	336	346	479	2.9	2.4	3.0
Saudi Arabi	409	458	953	3.5	3.2	5.9
Indonesia	317	472	663	2.7	3.3	4.1
Netherlands	217	258	209	1.9	1.8	1.3
France	206	244	292	1.8	1.7	1.8
Bahrain	67	204	216	0.6	1.4	1.3
Italy	153	144	250	1.3	1.0	1.6
Others	2,263	3,115	3,167	19.5	21.5	19.7
Total	**11,617**	**14,521**	**16,110**	**100**	**100**	**100**

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to Oct			Year to Oct		
Country	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Africa	**2,308**	**2,747**	**2,933**	**46.5**	**47.5**	**48.2**
Of which						
Uganda	638	845	809	12.8	14.6	13.3
Tanzania	407	464	533	8.2	8.0	8.8
Egypt	224	257	258	4.5	4.4	4.2
Sudan	225	246	111	4.5	4.3	1.8
Somalia	154	176	232	3.1	3.0	3.8
DRC	155	193	208	3.1	3.3	3.4
Rwanda	134	151	189	2.7	2.6	3.1
Others	372	416	593	7.5	7.2	9.7
EAC	**1,242**	**1,530**	**1,594**	**25.0**	**26.5**	**26.2**
COMESA	**1,662**	**2,018**	**1,902**	**33.5**	**34.9**	**31.3**
Rest of th	**2,656**	**3,037**	**3,148**	**53.3**	**53.2**	**53.7**
Of which						
United Kin	511	528	495	10.3	9.1	8.1
Netherland	338	381	362	6.8	6.6	5.9
USA	235	321	308	4.7	5.6	5.1
Pakistan	217	243	239	4.4	4.2	3.9
United Ara	224	227	306	4.5	3.9	5.0
Germany	94	90	109	1.9	1.6	1.8
India	100	107	98	2.0	1.8	1.6
Afghanista	158	149	135	3.2	2.6	2.2
Others	779	991	1,096	15.7	17.1	18.0
Total	**4,964**	**5,784**	**6,081**	**100**	**100**	**100**

Source: Kenya Revenue Authority

Services Account

The surplus in the services account increased by 0.3 percent or US$ 16 million to US$ 5,669 million in the year to October 2012. The marginal increase was mainly as a result of a 21 percent or US$ 556 million increase in net non-factor services. Under the non- factor services, there was increased flows from transportation account and other government services of US$ 173.4 million and US$ 191 million, respectively. However, flows from private sector declined by US$ 19 million while tourism receipts declined by US$ 49 million from US$ 962 million in the year to October 2011 to US$913 million in the year to October 2012. Income account recorded a deficit of US$ 151 million from a surplus of US$7 in the year to October 2011 reflecting a decline in foreign investment earnings during the period. Net current transfers declined by 12.8 percent on account of a decline in both net public and private transfers. Remittances which are part of private transfer inflows, however, increased from US$ 847 million in the year to October 2011 to US$1,133 million in the year to October 2012 with average remittances inflows amounting to US$ 94 million in the year to October 2012 up from US$ 71 million recorded in the year to

October 2011. In the month of October 2012, remittances to Kenya amounted to US$92 million compared to US$ 81 million in October 2011.

Capital and Financial Account

The capital and financial account surplus increased by US $ 2,709 million or 93.7 percent, from US$ 2,890 million in the year to October 2011 to US$ 5,599 million in the year to October 2012. The surplus was largely in the financial account which increased by US $ 2,683 million (or 100.6 percent) from US$ 2,667 million in the year to October 2011 to US$5,350 million in the year to October 2012. Within the financial account components, official medium and long-term flows increased by US$ 1,041 million from US$ 266 million in the year to October 2011 to US$ 1,308 million in the year to October 2012. Net short term flows including portfolio flows, also increased to US$ 3,785 million in the year to October 2012 from US$2,376 million in the year to October 2011. However, other net private medium and long term flows declined from a surplus of US$ 212 million in the year to October 2011 to a deficit of US$60 million in the year to October 2012 mainly resulting from reduced inflows of private sector loans (Table 4.4).

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

ITEM	Year to Sep 2011*	Year to September 2012*				Year to Sep 2012*	Absolute Change	% Change
		Q1 Oct-Dec	Q2 Jan-Mar	Q3 Apr-Jun	Q4 Jul-Sep			
3. CAPITAL & FINANCIAL ACCOUNT	**2951**	**1110**	**1413**	**1427**	**1584**	**5534**	**2582.8**	**87.5**
3.1 Capital Tranfers (net)	**268**	**53**	**47**	**51**	**65**	**216**	**-51.8**	**-19.3**
3.2 Financial Account	**2683**	**1057**	**1366**	**1376**	**1519**	**5318**	**2634.6**	**98.2**
Official, medium & long-term	**329**	133	139	833	116	**1221**	**891.4**	**270.7**
Inflows	**586**	191	224	896	211	**1521**	**935.7**	**159.8**
Outflows	**-256**	-58	-85	-62	-95	**-301**	**-44.4**	**17.3**
Private, medium & long-term (net)	**270**	-220	589	-119	-154	**96**	**-174.6**	**-64.5**
Commercial Banks (net)	**60**	-236	609	-77	-132	**164**	**104.9**	**176.1**
Other private medium & long-term (net)	**211**	16	-20	-42	-22	**-68**	**-279.4**	**-132.5**
Short-term (net) incl. errors & omissions	**2084**	1145	639	661	1557	**4001**	**1917.8**	**92.0**

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from US$ 5,915 million in October 2011 to US$ 7,227 million in October 2012. Gross official foreign exchange reserves held by the Central Bank were US$ 5,478 million or 4.2 months of import cover in October 2012 compared with US$ 3,985 million (3.6 months of import cover) in October 2011. The accumulation of official reserves during the period comprised of US$ 600 million syndicated loan, IMF disbursements under the Extended Credit Facility financing and interbank purchases. However, gross reserves held in commercial banks declined from US$ 1,931 million to US$ 1,749 million during the period under review while the residents' foreign currency deposits increased from US$2,945 million in October 2011 to US$ 3,302 million in October 2012 (Table 4.5).

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

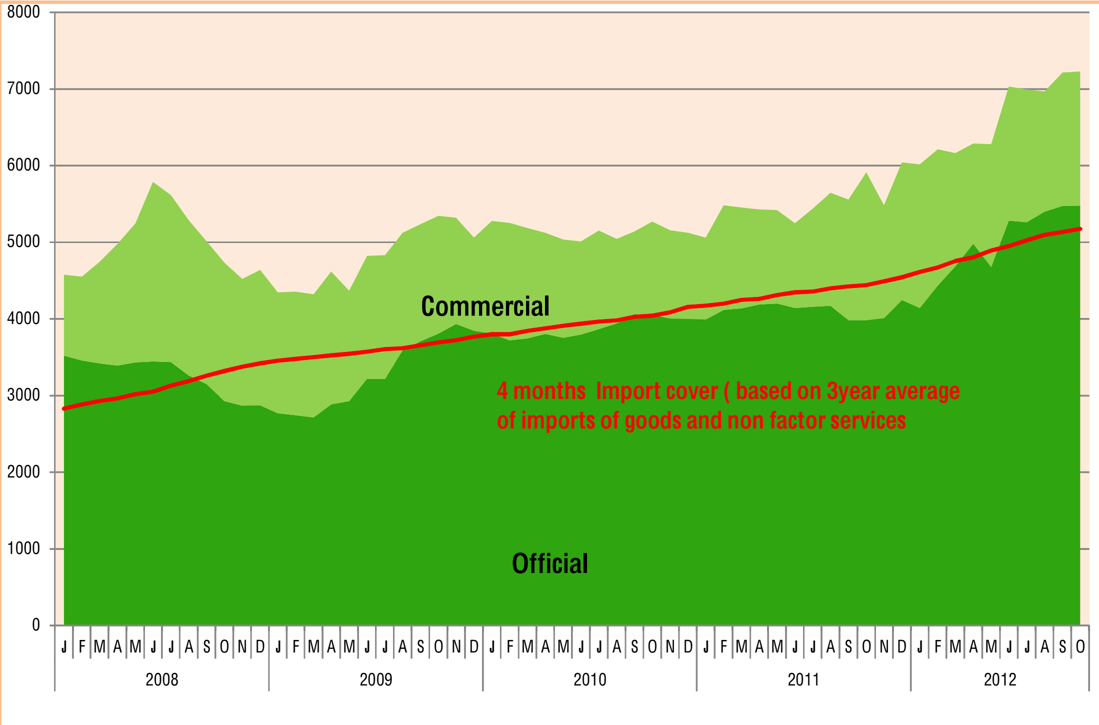
	Oct 11	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12
1. Gross Foreign Exchange Reserves	**5,915**	**5,483**	**6,045**	**6,019**	**6,216**	**6,165**	**6,289**	**6,282**	**7,030**	**6,995**	**6,967**	**7,214**	**7,227**
of which:													
Official	3,985	4,011	4,248	4,144	4,435	4,688	4,980	4,677	5,283	5,262	5,398	5,476	5,478
*imports cover**													
*imports cover**	*3.6*	*3.5*	*3.7*	*3.6*	*3.8*	*3.9*	*4.1*	*3.8*	*4.3*	*4.2*	*4.2*	*4.3*	*4.2*
Commercial Banks	1,931	1,472	1,797	1,875	1,781	1,477	1,309	1,605	1,747	1,733	1,569	1,738	1,749
2. Residents' foreign currency deposits	**2,945**	**2,950**	**3,226**	**3,386**	**3,174**	**3,089**	**3,108**	**3,106**	**3,236**	**3,145**	**3,184**	**3,259**	**3,302**

*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

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



Exchange Rates

The Kenya Shilling depreciated against all major world currencies except for the Japanese Yen in October 2012. The shilling depreciated by 0.59 percent to trade at an average Ksh 85.11 against the US dollar, 0.40 percent against the Sterling pound to trade at an average of Ksh 136.81 and 1.42 percent against the Euro to trade at an average of Ksh 110.35. The shilling, however, appreciated by 0.37 percent against the Japanese Yen to trade at an average of Ksh 107.84.

In the EAC region, the Kenya Shilling appreciated against the Uganda shilling, the Rwanda Franc and Burundi Franc by 1.91 percent, 1.12 percent and 1.13 percent respectively but depreciated against the Tanzania shilling by 0.31 percent in October 2012. On average, the Kenya shilling traded at Ush30.29, Tsh18.55, RWF 7.27 and BIF 17.30 in October, 2012 compared to Ush 29.73, Tsh 18.61, RWF 7.19 and BIF 17.11 in September 2012. (Table 4.6 and Chart 4D).

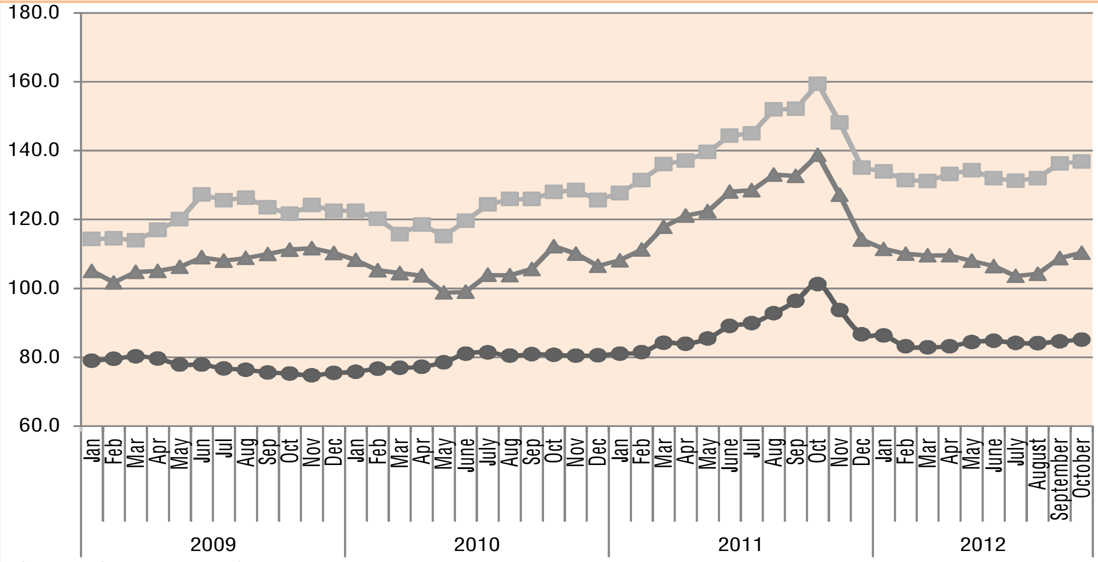
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2011				2011			2012											
	Apr	May	June	July	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	August	Sep	Oct	% change September 12-October 12
US Dollar	83.89	85.43	89.05	89.90	101.27	93.68	86.66	86.34	83.18	82.90	83.19	84.38	84.79	84.14	84.08	84.61	85.11	0.59
Pound Sterling	137.14	139.54	144.40	145.00	159.41	148.17	135.10	133.94	131.42	131.18	133.19	134.34	131.95	131.27	132.05	136.26	136.81	0.40
100 Japanese Yen	100.59	105.28	110.62	109.07	131.97	120.85	111.33	112.23	106.10	100.60	102.26	105.83	106.91	106.50	106.93	108.25	107.84	-0.37
Uganda Shilling*	28.21	27.95	27.61	28.87	27.69	27.62	28.25	27.90	27.97	29.96	30.12	29.39	29.30	29.42	29.63	29.73	30.29	1.91
Tanzania Shilling*	17.99	17.85	17.79	17.59	16.90	18.58	18.65	18.44	19.17	19.23	19.08	18.78	18.68	18.82	18.74	18.61	18.55	-0.31
Rwanda Franc*	7.15	7.02	6.74	6.68	5.93	6.43	6.96	6.98	7.25	7.29	7.26	7.16	7.12	7.20	7.23	7.19	7.27	1.12
Burundi Franc*	14.66	14.38	13.84	13.69	12.17	13.29	15.11	15.18	15.75	15.64	15.93	16.45	16.49	16.81	17.03	17.11	17.30	1.13
Euro	121.14	122.42	128.11	128.48	138.74	127.13	114.15	111.42	110.06	109.55	109.57	107.99	106.51	103.60	104.20	108.80	110.35	1.42
Euro per US dollar	0.692	0.698	0.695	0.700	0.730	0.737	0.759	0.77	0.76	0.76	0.76	0.78	0.80	0.81	0.81	0.78	0.77	-0.82

* 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 October 31, 2012, the Kenyan Banking sector registered improved performance driven by growth in deposits and retention of profits. As at October 31, 2012, the sector comprised 43 commercial banks, 1 mortgage finance company, 7 deposit taking microfinance institutions, 112 foreign exchange bureaus and 2 credit reference bureaus.

Structure of the Balance Sheet

The banking sector's aggregate balance sheet rose by 11.4 percent from Ksh. 2,080.0 billion in October 2011 to Ksh 2,316.1 billion in October 2012. The main components were loans and advances, government securities and placements, which accounted for 55.7 percent, 21.1 percent and 6.4 percent of total assets respectively.

Loans & Advances

The banking sector gross loans and advances increased from Ksh 1,213.5 billion in October 2011 to Ksh 1,340.7 billion in October 2012, which translated to a growth of 10.5 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 1,327.4 billion in October 2012, up from Ksh 1,202.3 billion registered in a similar period in 2011. The ratio of gross loans to deposits ratio stood at 77.6 percent, a decrease from 79.0 percent in October 2011.

Deposit Liabilites

Deposits from customers were the major source of funding for the banking sector, accounting for 74.6 percent of total funding liabilities. The deposit base increased by 12.6 percent from Ksh 1,535.6 billion in October 2011 to Ksh 1,728.7 billion in October 2012 mainly supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

Capital & Reserves

The banking sector registered improved capital levels in October 2012 with total capital growing by 22.5 percent from Ksh 251.0 billion in October 2011 to Ksh 307.5 billion in October 2012 while shareholders' funds increased from Ksh. 278.3 billion in October 2011 to Ksh 342.3 billion in October 2012. As a result, the ratios of core and total capital to total risk-weighted assets increased from 15.5 percent and 17.6 percent to 17.8 percent and 20.6 percent, respectively.

Non-performing Loans

The stock of gross non-performing loans (NPLs) increased by 3.0 percent from Ksh 60.7 billion in October 2011 to Ksh 62.5 billion in October 2012 attributed mainly to the high interest rates experienced over the last one year. However, the ratio of gross NPLs to gross loans improved from 5.0 percent to 4.7 percent over the same period. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined marginally from 55.2 percent to 54.9 percent in October 2012 due to decline in provisions. The quality of assets, measured as a proportion of net non-performing loans to gross loans improved from 1.8 percent in October 2011 to 1.7 percent in October 2012 (Table 5.1).

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

		October-12	October-11
1	Gross loans and advances	1,213.5	1,340.7
2	Interest in Suspense	11.2	13.3
3	Loans and advances (net of interest suspended)	1,202.3	1,327.4
4	Gross non-performing loans	60.7	62.5
5	Specific Provisions	27.3	27.0
6	General Provisions	7.9	9.9
7	Total Provisions (5+6)	35.2	36.9
8	Net Advances (3-7)	1,167.1	1,290.5
9	Total Non-Performing Loans and advances (4-2)	49.5	49.2
10	Net Non-Performing Loans and advances (9-5)	22.2	22.2
11	Total NPLs as % of total advances (9/3)	4.10%	4.10%
12	Net NPLs as % of gross advances (10/1)	1.80%	1.70%
13	Specific Provisions as % of Total NPLs (5/9)	55.20%	54.90%

Source: Central Bank of Kenya

Profitablility

The banking sector registered a 26.8 per cent growth in pre-tax profits, from Ksh 71.0 billion in October 2011 to Ksh 90.0 billion as at end of October 2012. Similarly, the annualised return on assets increased from 3.1 percent in October 2011 to 3.7 percent in October 2012 while return on equity increased from 30.6 percent to 31.6 percent during the same period. Total income increased by 46.7 percent from Ksh 201.5 billion in October 2011 to Ksh 295.6 billion in October 2012, while total expenses increased by 57.6 percent from Ksh 130.5 billion in October 2011 to Ksh 205.6 billion in October 2012 with the increase largely attributed to interest on deposits. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 62 percent, 17 percent and 13 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 42 percent, 24 percent and 21 percent, respectively.

Liquidity Ratio Requirement

For the month ended 31st October 2012, average liquid assets amounted to Ksh 697.4 billion while total short-term liabilities stood at Ksh 1,696.3 billion, resulting to an average liquidity ratio of 41.1 percent, against 36.5 percent registered in October 2011.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.79 percent in October 2012 compared with 5.34 percent in September 2012 and 5.25 percent statutory level as shown in Table 5.3 and Chart 5A. Commercial banks maintained an average of Ksh 8.7 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in October 2012 compared with Ksh 1.47 billion in September 2012. Commercial banks are required to maintain Cash Reserve Ratio (CRR) monthly average of 5.25 percent in the 30 day maintenance cycle from 15th through 14th of every month but subject to a daily minimum of 3.0 percent.

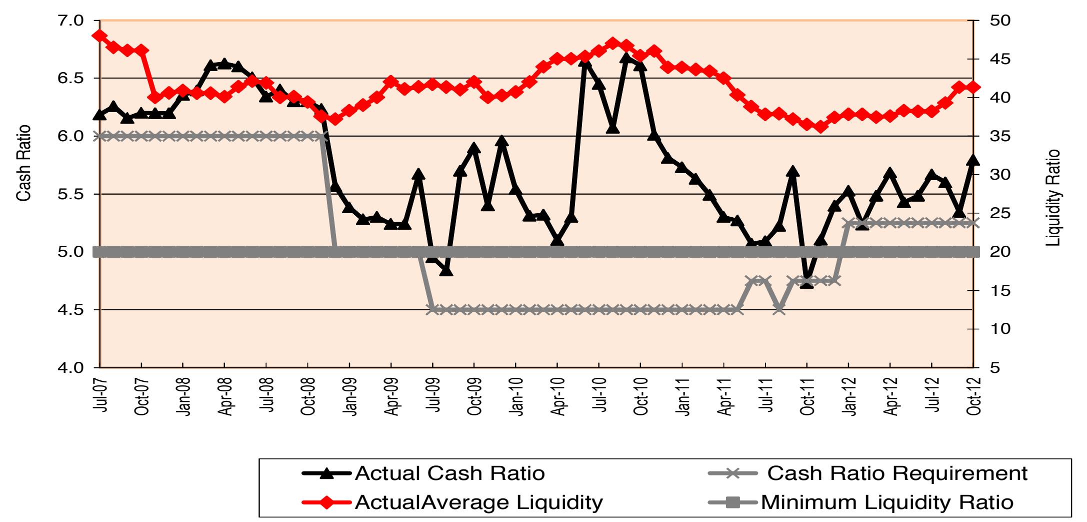
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

				2012									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Commercial Banks													
Actual Average Liquidity	36.50	36.20	37.40	37.80	37.80	37.45	37.60	38.30	38.20	38.20	39.30	41.30	41.30
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	4.73	5.10	5.40	5.53	5.23	5.48	5.68	5.43	5.48	5.67	5.60	5.34	5.79
Minimum Cash Ratio Requirement	4.75	4.75	4.75	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	35.10	31.10	29.10	28.30	26.85	25.11	24.20	26.70	32.00	33.20	31.20	31.00	29.60
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

* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 157,020 transaction messages worth Ksh 1,900 billion in October 2012 compared with a volume of 130,874 transaction messages valued at Ksh 1,739 billion moved in September 2012, representing 19.98 percent and 9.25 percent increase in value and volume, respectively. Compared with October 2011, the volume increased by 38.15 percent from 113,658 transaction messages to 157,020 transaction messages in October 2012 while value decreased by 5.21 percent from 2,004 billion to 1,900 billion, indicating increased usage of KEPSS by the public during the period under review but for low value per transaction.

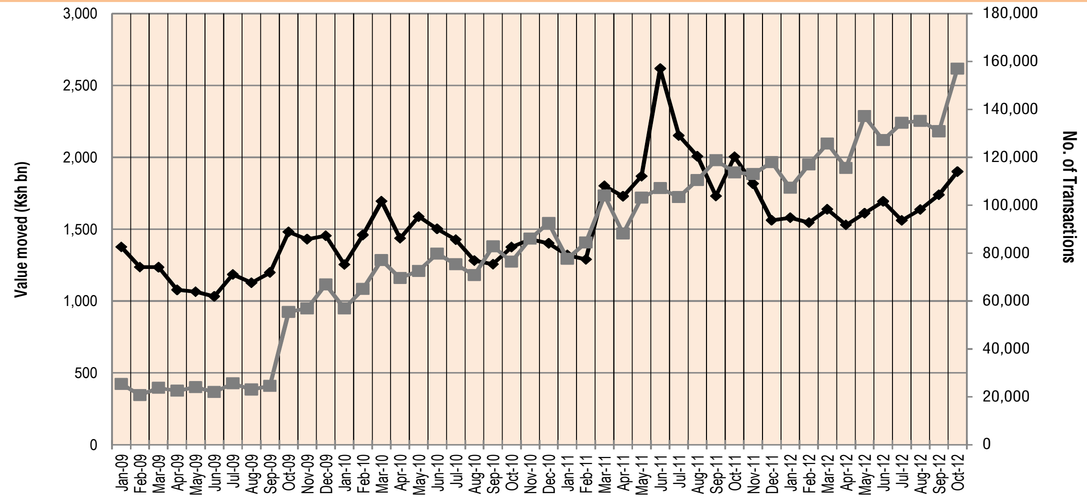
During the twelve months period to October 31, 2012 the value moved averaged Ksh 13 million per transaction. On average, 5,954 transaction messages with an average value of approximately Ksh 78 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted for 98.0 percent of the total settlements while payments processed through ACH and settled in KEPSS averaged 2.0 percent. This is in line with policy expectations.

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

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third Party Messages

Multiple third party Message Type (MT 102) increased by 7.50 percent from 14,527 transaction messages in September 2012 to 15,616 transaction messages in October 2012 while single third party Message Type (MT 103) increased by 16.45 percent from 137,268 transaction messages to 159,847 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 15.59 percent from 151,795 transaction messages in September 2012 to 175,463 transaction messages in October 2012.

Multiple third party messages (MT 102) increased by 34.01 percent from 11,653 transaction messages in October 2011 to 15,616 transaction messages in October 2012, while single third party messages (MT 103) increased by 49.71 percent from 106,768 transaction messages to 159,847 transaction messages (Table 5.4 and Chart 5C) over the same period.

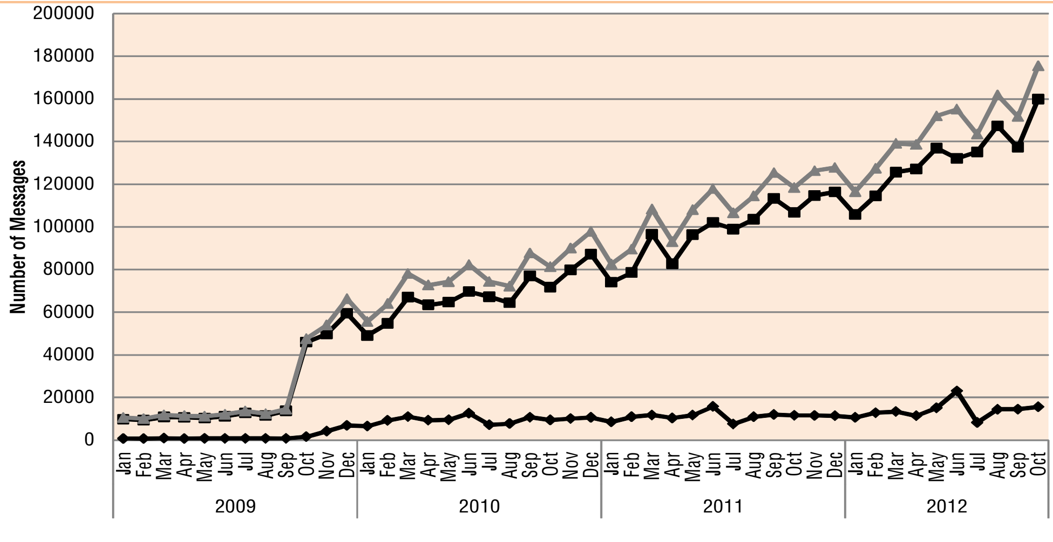
Inter-bank transfers (MT 202) accounted for 25.03 percent of the total value moved through KEPSS as at end of October 2012 while third party (MT 102 and MT 103) messages accounted for 74.97 percent. The total number of third party messages grew by 48.17 percent from 118,421 messages in October 2011 to 175,463 messages in October 2012. This signifies a 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
2011	Jan	8,580	74,004	82,584
	Feb	10,955	78,589	89,544
	Mar	11,778	96,550	108,328
	Apr	10,392	82,691	93,083
	May	11,739	96,324	108,063
	Jun	15,794	102,098	117,892
	Jul	7,584	98,977	106,561
	Aug	10,929	103,561	114,490
	Sep	12,028	113,333	125,415
	Oct	11,653	106,768	118,421
	Nov	11,602	114,741	126,343
	Dec	11,424	116,384	127,808
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

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

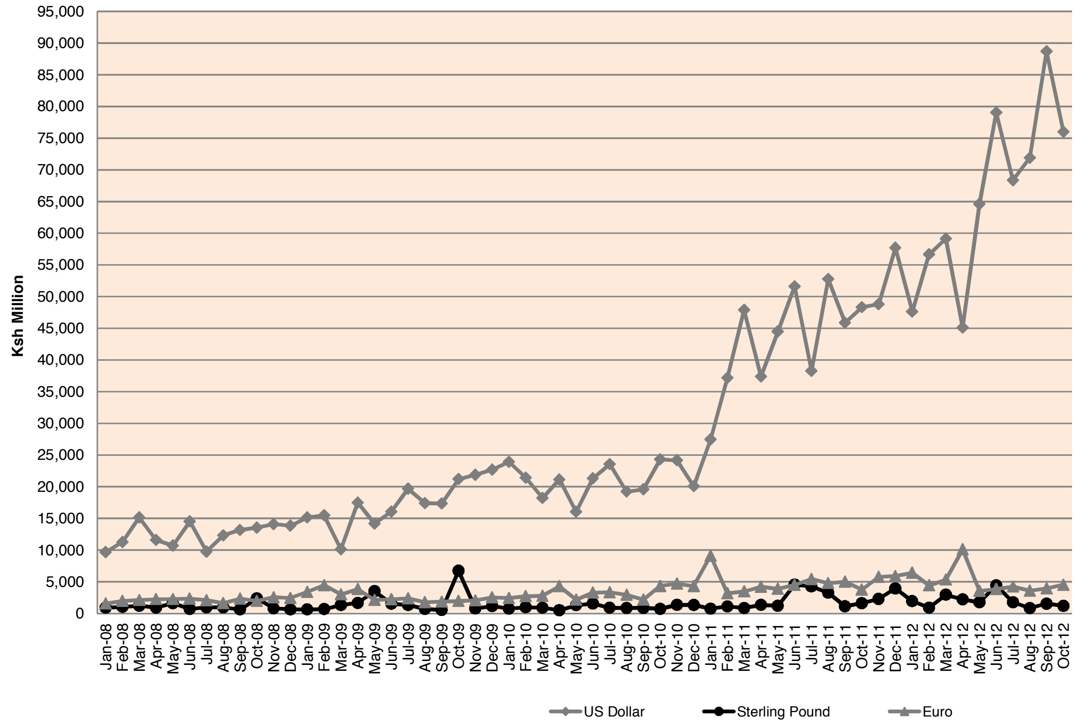


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 15.67 percent from 12,100 transaction messages in September 2012 to 13,995 transaction messages in October 2012. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period increased by 26.11 percent from Ksh 122.8 billion to Ksh 154.9 billion. The US dollar denominated transactions accounted for 95.15 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.03 percent and 3.82 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 the period July 2012 – October 2012 in the fiscal year 2012/13 resulted in a deficit of Ksh 75.4 billion on commitment basis compared with a deficit of Ksh 37.7 billion in the same period of fiscal year 2011/12 (Table 6.1). The deficit-to-GDP ratio stood at 1.95 percent on commitment basis and on cash basis during this period. The budget deficit for the period was above the programmed target of 1.8 percent of GDP.

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

	FY 2011/12	FY 2012/13		
	October Actual	October Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	**210.3**	**233.0**	**292.9**	**-59.9**
Revenue	207.1	230.1	284.2	-54.1
Tax Revenue	190.0	211.0	249.6	-38.5
Non Tax Revenue	3.7	5.2	11.8	-6.5
Appropriations-in-Aid	13.3	13.8	22.9	-9.1
External Grants	2953.1	3.0	8.7	-5.8
2. TOTAL EXPENSES & NET LENDING	**248.0**	**308.5**	**364.0**	**-55.5**
Recurrent Expenses	188.3	227.8	253.6	-25.8
Development Expenses	59.7	80.7	110.4	-29.7
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-37.7	-75.4	**-71.1**	**4.4**
As percent of GDP	**-1.37**	**-1.95**	**-1.84**	
4. ADJUSTMENT TO CASH BASIS	**0.0**	**0.0**	1.3	**-1.3**
5. DEFICIT ON A CASH BASIS	-37.7	-75.4	**-69.8**	**5.7**
As percent of GDP	**-1.37**	**-1.95**	**-1.8**	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**-7.8**	**7.8**	**0.0**	
7. FINANCING	**30.0**	**83.3**	**69.8**	**13.5**
Domestic (Net)	24.6	79.1	51.6	27.4
External (Net)	5.3	4.2	18.1	-13.9
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: Treasury

Revenue

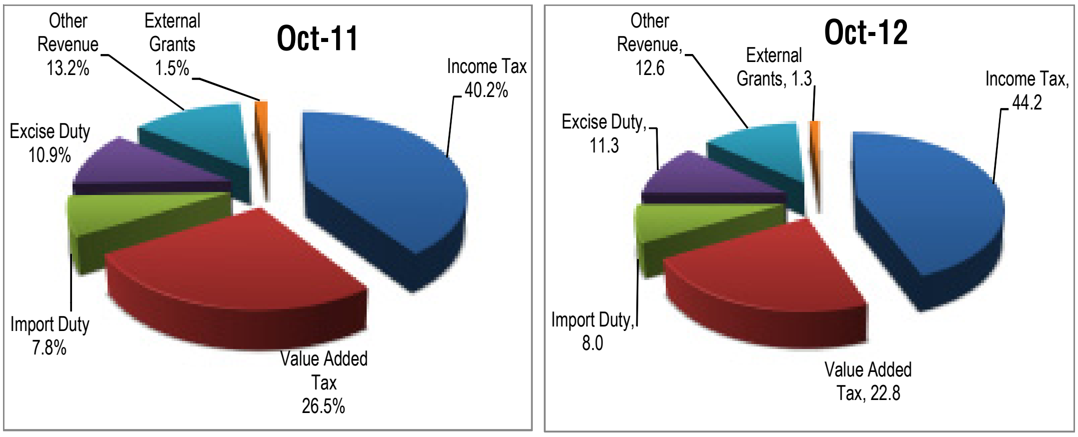
Total government revenues and grants amounted to Ksh 233.0 billion in the period July 2012 – October 2012, representing an increase of Ksh 22.7 billion from Ksh 210.3 billion collected in a similar period of the fiscal year 2011/2012 (Table 6.2). However, total government revenue and external grants underperformed by Ksh 54.1 billion and Ksh 5.8 billion, respectively, with respect to the targeted amounts of Ksh 284.2 billion and Ksh 8.7 billion during the period (Table 6.1). The underperformance was attributed to slowdown in economic activity.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Oct-11 Ksh bn	Oct-12 Ksh bn	Change
1. Revenue (2+3+4)	**207.1**	**230.1**	**23.0**
2. Tax Revenue	190.0	211.0	21.0
Income Tax	84.5	103.1	18.6
Value Added Tax	55.7	53.1	-2.6
Import Duty	16.4	18.5	2.2
Excise Duty	22.9	26.3	3.5
Others	10.6	10.1	-0.6
3. Appropriations-in-Aid	13.34	13.80	0.5
4. Other Revenue	3.7	5.2	1.5
5. External Grants	**3.2**	**3.0**	**-0.3**
TOTAL RECEIPTS (1+5)	**210.3**	**233.0**	**22.7**

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue grew by Ksh 21.0 billion, equivalent to 11.1 percent, from Ksh 190.0 billion collected in the first four months of 2011/12 to Ksh 211.0 billion for a similar period of fiscal year 2012/13 (Table 6.2). The increase was largely on account of income tax, which grew by Ksh 18.6 billion (22.0 percent) during the period. Excise and import duty increased by Ksh 3.5 billion and Ksh 2.2 billion, respectively. Value added tax and other tax revenue declined by Ksh 2.6 billion (4.7 percent) and 0.6 billion (5.2 percent) respectively, during the period under review. All taxes underperformed with respect to the programmed targets in October 2012.

Expenditure and Net Lending

Government expenditure and net lending increased by Ksh 60.4 billion in the period July 2012 – October 2012 from Ksh 248.0 billion expended during the same period in the fiscal year 2011/12. Total expenditure for the first four months of fiscal year 2012/13 amounted to Ksh 308.5 billion, comprising Ksh 227.8 billion and Ksh 80.7 billion in recurrent and development expenditure, respectively.

The main recurrent expenditure items included salaries and wages and interest on domestic debt, which increased by Ksh 18.1 billion and Ksh 12.7 billion, respectively. Other recurrent expenditures amounted to Ksh 101.5 billion in the period July 2012 – October 2012, an increase of Ksh 7.1 billion. Expenditure and net lending targets were missed by Ksh 55.5 billion of which Ksh 25.8 billion was on account of recurrent expenditure (Table 6.1) and Ksh 29.7 billion in the development budget.

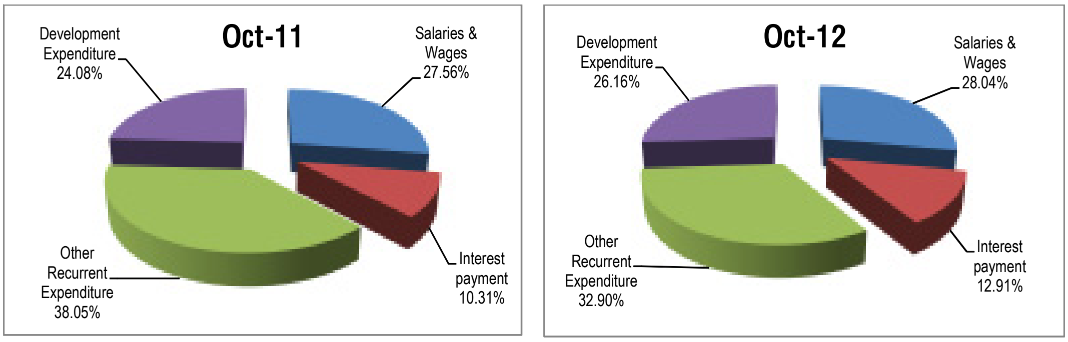
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Oct-11 Ksh bn	Oct-12 Ksh bn	Movement
1.Recurrent	**188.3**	**227.8**	**39.5**
Salaries & Wages	68.3	86.5	**18.1**
Total Interest	25.6	39.8	**14.2**
of which			
Domestic*	23.5	36.1	12.7
Foreign interest due	2.1	3.7	1.6
Others	94.4	101.5	7.1
2. Development	**59.7**	**80.7**	**21.0**
TOTAL EXPENSES	**248.0**	**308.5**	**60.4**

*Includes commission and other charges paid to CBK

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

Budgetary operations of the Government resulted in a financing requirement of Ksh 77.2 billion in the period July 2012 – October 2012 compared with Ksh 44.1 billion in the same period in 2011/12. The Government sourced the funds through domestic borrowing amounting to Ksh 70.5 billion and net external debt borrowing of Ksh 4.2 billion. In addition, Government reduced own deposits at the Central Bank by Ksh 2.5 billion (Table 6.4).

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

I. FINANCING REQUIREMENTS	Oct-11	Oct-12
1. Budget deficit	30.0	83.3
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	14.1	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	14.1	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0
5. Adjustment to cash basis	0.0	-6.1
TOTAL	44.1	77.2
II. FINANCING SOURCES	**Oct-11**	**Oct-12**
1. Budget surplus	0.0	0.0
2. External debt increase	5.3	4.2
3. Increase in domestic debt	22.0	70.5
3.1 Central Bank	21.4	9.8
3.2 Commercial banks	0.0	40.6
3.3 Non-bank sources	0.7	20.1
4. Reduction in GoK deposits at CBK	16.7	2.5
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	44.1	77.2

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank amounted to Ksh 57.2 billion in the period July 2012 – October 2012, which was Ksh 3.9 billion lower than the Ksh 61.1 billion in the same period of the previous fiscal year. The decrease in Government's liability to the Central Bank was attributed to a regular amortization of the pre 1997 overdraft at the Central Bank and maturities amounting to Ksh 2.1 billion of rediscounted securities during the period. The holdings of rediscounted securities declined following the maturities of securities acquired during the tight phase of monetary policy between November 2011 and June 2012. Rediscounted Treasury bills and bonds amounted to Ksh 1.7 billion and Ksh 1.0 billion, respectively, at the end of October 2012. Amortization of the pre-1997 overdraft reduced Government indebtedness at the Central Bank by Ksh 1.1 billion, while Government overdraft at the Central Bank was maintained within the statutory limit of Ksh 25.4 billion.

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

	2011	2012	Movement
	October	October	
Total Credit	**61.1**	**57.2**	**-3.9**
1. Overdraft	26.0	25.4	-0.6
2. Rediscounted securities	3.9	1.7	-2.1
Treasury bills	3.8	1.0	-2.8
Treasury bonds	0.0	0.8	0.7
3. Pre-1997 Government Overdraft at CBK	31.1	30.0	-1.1
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.1	0.1	0.0
Memorandum			
Authorised overdraft limit	**25.4**	**25.4**	0.0
Amount utilised to date	26.0	25.4	-0.6
Amount available	-0.6	0.0	0.6

Source: Central Bank of Kenya

Outlook for FY 2012/13

In the budget estimates for the fiscal year 2012/13, total domestic revenue is estimated at Ksh 955.0 billion, equivalent to 24.7 percent of GDP. External grants are estimated at Ksh 56.2 billion or 1.5 percent of GDP. Government expenditure is estimated at Ksh 1263.3 billion (or 32.7 percent of GDP), of which Ksh 802.7 billion (20.8 percent of GDP) will be in recurrent expenses and the rest in development expenses (Table 6.6).

TABLE 6.6: BUDGET ESTIMATES FOR THE FISCAL YEAR 2012/13 (Ksh Billion)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE	**1011.20**	**26.15**
Revenue	955.03	**24.70**
Tax Revenue	816.47	**21.12**
Non Tax Revenue	53.71	**1.39**
Appropriations-in-Aid	84.84	**2.19**
External Grants	56.18	**1.45**
2. TOTAL EXPENSES & NET LENDING	**1,263.32**	**32.67**
Recurrent Expenses	802.65	**20.76**
Development Expenses	455.68	**11.78**
Civil Contigency Fund	5.00	**0.13**
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-252.12**	**-6.52**
4. ADJUSTMENT TO CASH BASIS	**1.32**	**0.03**
5. DEFICIT ON A CASH BASIS	**-250.80**	**-6.49**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.00**	**0.00**
7. FINANCING	**-250.80**	**-6.49**
Domestic (Net)	106.74	**2.76**
External (Net)	144.06	**3.73**

Source: Central Bank of Kenya

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 252.1 billion (or 6.5 percent of GDP) in 2012/13. The deficit is expected to be financed through net external borrowing of Ksh 144.1 billion and net domestic borrowing of Ksh 106.7 billion.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt

Kenya's public and publicly guaranteed debt increased from Ksh 1,623.4 billion in June 2012 to Ksh 1,741.6 billion at the end of October 2012, representing an increase of Ksh 118.3 billion or 7.2 percent. The total debt stock by end October 2012 was equivalent to 45.0 percent of GDP, while that in June 2012 was 49.3 percent of GDP. Domestic debt to GDP ratio and external debt to GDP ratio also declined from 26.1 percent and 23.2 percent in June 2012 to 24.0 percent and 21 percent, respectively, in October 2012. Domestic debt accounted for 53.4 percent of total debt during the period. In October 2012, total domestic debt increased by Ksh 70.5 billion, largely due to additional borrowing through Government's Treasury bonds, Treasury bills and the t overdraft at the Central Bank. Total external debt increased by Ksh 47.8 billion, during this period (Table 7.1).

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

	Jun-00	Jun-11	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12 **	Change 2012/13
EXTERNAL* **								
Bilateral	138.57	257.0	246.2	243.4	258.5	269.2	270.6	24.4
Multilateral	230.74	445.3	452.9	458.9	448.0	467.0	475.4	22.5
Commercial Banks	24.91	0.0	50.5	50.5	50.6	51.1	51.1	0.6
Supplier Credits	1.47	25.0	14.8	14.6	14.7	15.1	15.1	0.3
Sub-Total	**395.69**	**727.3**	**764.53**	**767.39**	**771.76**	**802.46**	**812.31**	**47.8**
(As a % of GDP)	42.21	26.4	23.2	19.8	20.0	20.8	21.0	
(As a % of total debt)	65.75	48.8	47.1	46.8	46.1	46.5	46.6	
DOMESTIC/[1]								
Banks	**120.10**	**418.1**	**459.2**	**469.4**	**494.0**	**507.4**	**509.7**	**50.4**
Central Bank	51.00	39.7	47.4	63.5	51.9	58.7	57.2	9.8
Commercial Banks	69.10	378.4	411.9	405.8	442.1	448.7	452.5	40.6
Non-banks	**77.00**	**338.3**	**388.5**	**392.3**	**398.0**	**405.0**	**409.5**	**21.0**
Non-bank Financial Institutions	2.70	2.6	1.5	0.6	0.6	0.6	0.6	-0.9
Other Non-bank Sources	74.40	335.7	387.0	391.7	397.4	404.4	408.9	21.9
Non-residents	**9.00**	**7.9**	**11.0**	**10.3**	**9.9**	**9.8**	**10.1**	**-0.9**
Sub-Total	**206.10**	**764.2**	**858.8**	**872.0**	**901.9**	**922.2**	**929.3**	**70.5**
(As a % of GDP)	21.99	27.8	26.1	22.6	23.3	23.9	24.0	
(As a % of total debt)	34.25	51.2	52.9	53.2	53.9	53.5	53.4	
GRAND TOTAL	**601.80**	**1491.5**	**1623.4**	**1639.3**	**1673.7**	**1724.7**	**1741.6**	**118.3**
(As a % of GDP)	64.20	54.2	49.3	42.4	43.3	44.6	45.0	

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

<u>Note</u>
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 Government by CBK and which are considered as part of external debt.

Sources: Treasury and Central Bank of Kenya

Domestic Debt

Total domestic debt increased by Ksh 70.5 billion during the first four months of fiscal year 2012/13, from a stock of Ksh 858.8 billion at the end of June 2012 to Ksh929.3 billion in October 2012. This was largely attributed to increases of Ksh 30.7 billion in Treasury bonds, Ksh 21.1 billion in Treasury bills and Ksh 18.7 billion in the other Government including the overdraft at the Central Bank (Table 7.2).

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2011		2012								Change
	June	%	Jun	%	Aug	%	Sep	%	Oct	%	June-12 - Oct-12
Total Stock of Domestic Debt (A+B)	**764.2**	**100.0**	**858.8**	**100.0**	**901.9**	**100.0**	**922.2**	**100.0**	**929.3**	**100.0**	**70.5**
A. Government Securities	**753.9**	**98.7**	**849.0**	**98.9**	**881.0**	**97.7**	**893.6**	**96.9**	**900.8**	**96.9**	**51.8**
1. Treasury Bills (excluding Repo Bills)	**126.6**	**16.6**	**132.05**	**15.4**	**146.30**	**16.2**	**159.74**	**17.3**	**153.13**	**16.5**	**21.1**
Banking institutions	87.7	11.5	75.50	8.8	90.61	10.0	103.68	11.2	98.11	10.6	**22.6**
Others	38.9	5.1	56.55	6.6	55.69	6.2	56.06	6.1	55.02	5.9	**-1.5**
2. Treasury Bonds	**595.7**	**77.9**	**686.95**	**80.0**	**704.72**	**78.1**	**703.88**	**76.3**	**717.65**	**77.2**	**30.7**
Banking institutions	288.4	37.7	334.11	38.9	348.49	38.6	342.03	37.1	351.36	37.8	**17.2**
Others	307.3	40.2	352.84	41.1	356.23	39.5	361.85	39.2	366.29	39.4	**13.5**
4. Non-Interest Bearing Debt	**31.7**	**4.1**	**30.00**	**3.5**	**30.00**	**3.3**	**30.00**	**3.3**	**30.00**	**3.2**	**0.0**
Of which: Repo T/Bills	30.8	4.0	29.78	3.5	29.78	3.3	29.78	3.2	29.78	3.2	**0.0**
B. Others:	**10.29**	**1.3**	**9.83**	**1.1**	**20.91**	**2.3**	**28.57**	**3.1**	**28.54**	**3.1**	**18.7**
Of which CBK overdraft to Government	7.6	1.0	7.26	0.8	17.72	2.0	25.37	2.8	25.37	2.7	**18.1**

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, increased from Ksh 132.0 billion in June 2012 to Ksh 153.1 billion in October 2012. As a result, the proportion of Treasury bills in total domestic debt increased from 15.4 percent in June 2012 to 16.5 percent in October 2012 (Table 7.2). Commercial banks held 64.1 percent of total Treasury bills (Table 7.3) at the end of October 2012.

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

	2011		2012											
Holders	Jun	%	Mar	%	Jun	%	Jul	%	Aug	%	Sep	%	Oct	%
Banking Institutions	87.7	69.3	80.8	56	75.5	57.2	66.8	54.8	90.6	61.9	103.7	64.9	98.1	64.1
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	87.7	69.3	80.8	55.6	75.5	57.2	66.8	54.8	90.6	61.9	103.7	64.9	98.1	64.1
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	4.7	3.7	7.4	5.1	7.2	5.5	7.3	6.0	9.7	6.6	9.9	6.2	10.1	6.6
Parastatals	3.2	2.6	3.3	2.2	1.2	0.9	1.0	0.8	3.0	2.0	3.2	2.0	3.7	2.4
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	4.8	3.8	26.7	18.4	28.7	21.7	28.7	23.5	25.2	17.2	26.1	16.3	26.8	17.5
Others	26.1	20.6	27.2	18.7	19.5	14.7	18.0	14.8	17.8	12.2	16.9	10.6	14.4	9.4
Total*	**126.6**	**100.0**	**145.5**	**100.0**	**132.0**	**100.0**	**121.9**	**100.0**	**146.3**	**100.0**	**159.7**	**100.0**	**153.1**	**100.0**

*** Excludes repurchase order bills**

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds increased by Ksh 30.7 billion, from Ksh 687.0 billion in June 2012 to Ksh 717.7 billion at the end of October 2012. This increase was small to sustain the share of Treasury bonds in total domestic debt, which therefore declined from 80.0 percent in June 2012 to 77.2 percent in October 2012 (Table 7.2). Treasury bonds held by pension funds, insurance companies and parastatals declined from 24.0 percent, 12.4 percent and 6.7 percent in June 2012 to 23.2 percent, 12.0 percent and 6.2 percent, respectively in October 2012. Holdings by commercial banks and others increased from 48.6 percent and 8.0 percent to 49.0 percent and 9.5 percent of total bonds, respectively.

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

	2011		2012											
Holders	June	%	Mar	%	Jun	%	Jul	%	Aug	%	Sep	%	Oct	%
Banking Institutions	290.9	48.8	331.9	48.6	335.6	48.9	337.8	48.8	349.1	49.5	342.6	48.7	351.9	49.0
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	288.4	48.4	330.4	48.3	334.1	48.6	337.2	48.7	348.5	49.5	342.0	48.6	351.4	49.0
NBFIs	2.5	0.4	1.5	0.2	1.5	0.2	0.6	0.1	0.6	0.1	0.6	0.1	0.6	0.1
Insurance Companies	77.1	12.9	84.9	12.4	85.1	12.4	85.6	12.3	85.2	12.1	85.2	12.1	85.9	12.0
Parastatals	46.6	7.8	47.6	7.0	46.1	6.7	45.3	6.5	44.5	6.3	44.4	6.3	44.4	6.2
Of which: NSSF	23.6	4.0	24.7	3.6	24.5	3.6	24.5	3.5	23.8	3.4	23.8	3.4	20.6	2.9
Building Societies	0.3	0.0	0.6	0.1	0.6	0.1	0.6	0.1	0.6	0.1	0.6	0.1	0.6	0.1
Pension Funds	118.5	19.9	172.5	25.2	164.5	24.0	170.8	24.7	172.8	24.5	175.2	24.9	166.7	23.2
Others	62.2	10.4	46.0	6.7	54.9	8.0	52.9	7.6	52.5	7.5	55.8	7.9	68.1	9.5
Total	**595.7**	**100.0**	**683.6**	**100.0**	**687.0**	**100.0**	**693.0**	**100.0**	**704.7**	**100.0**	**703.9**	**100.0**	**717.6**	**100.0**

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Total domestic debt at the end of October 2012 amounted to Ksh 929.3 billion. The debt comprised Ksh 717.7 billion, Ksh 153.1 billion, Ksh 25.4 billion, Ksh 29.8 billion and Ksh 3.2 billion in Treasury bonds, Treasury bills, Government overdraft at the Central Bank, Repo Treasury bills and other domestic debt, respectively. The redemption profile of this debt include Government securities worth Ksh 112.8 billion between November 2012 and January 2013 apportioned in Ksh 63.3 billion and Ksh 49.5 billion of Treasury bills and bonds, respectively. Furthermore the Treasury bill maturities will comprise Ksh 42.1 billion, Ksh 17.2 billion and Ksh 3.90 billion in 91-day, 182-day and 364-day Treasury bills, respectively, while Treasury bonds will comprise Ksh 26.0 billion, Ksh 8.9 billion, Ksh 5.5 billion, Ksh 5.8 billion and Ksh 3.2 billion in 1-year, 2-year 5-year, 6-year and 7-year discounted fixed rate Treasury bonds, respectively.

In terms of days remaining to maturity of the existing domestic debt stock, the average length of maturity declined from 5 years and 4 months in June 2012 to 5 years and 1 month in October 2012.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2011		2012										Change Jun-12 to Oct-12
		June	%	Jun	%	Jul	%	Aug	%	Sep	%	Oct	%	
Treasury bills	91-Day	69.1	9.0	24.3	2.8	23.1	2.6	35.7	4.0	47.1	5.1	46.5	5.0	22.1
	182-Day	22.5	2.9	75.7	8.8	67.9	7.8	72.2	8.0	70.0	7.6	63.2	6.8	-12.5
	364-Day	34.9	4.6	32.1	3.7	30.9	3.5	38.5	4.3	42.6	4.6	43.5	4.7	11.5
Treasury Bonds	1-Year	0.0	0.0	51.5	6.0	51.5	5.9	51.5	5.7	51.5	5.6	51.5	5.5	0.0
	2-Year	73.0	9.6	86.5	10.1	86.5	9.9	102.8	11.4	90.0	9.8	103.8	11.2	17.3
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	5-Year	114.6	15.0	115.3	13.4	123.3	14.1	118.7	13.2	109.5	11.9	109.5	11.8	-5.8
	6-Year	70.8	9.3	57.4	6.7	57.4	6.6	57.4	6.4	57.4	6.2	57.4	6.2	0.0
	7-Year	24.3	3.2	22.5	2.6	22.5	2.6	22.5	2.5	22.5	2.4	22.5	2.4	0.0
	8-Year	25.7	3.4	17.6	2.0	17.6	2.0	17.6	2.0	17.6	1.9	17.6	1.9	0.0
	9-Year	27.7	3.6	25.4	3.0	18.2	2.1	18.2	2.0	18.2	2.0	18.2	2.0	-7.2
	10-Year	91.4	12.0	95.7	11.1	101.0	11.6	101.0	11.2	101.0	11.0	101.0	10.9	5.3
	11-Year	4.0	0.5	4.0	0.5	4.0	0.5	4.0	0.4	4.0	0.4	4.0	0.4	0.0
	12-Year	20.1	2.6	63.5	7.4	63.5	7.3	63.5	7.0	63.5	6.9	63.5	6.8	0.0
	15-Year	75.4	9.9	75.4	8.8	75.4	8.7	75.4	8.4	96.5	10.5	96.5	10.4	21.1
	20-Year	29.7	3.9	29.7	3.5	29.7	3.4	29.7	3.3	29.7	3.2	29.7	3.2	0.0
	25-Year	20.2	2.6	20.2	2.4	20.2	2.3	20.2	2.2	20.2	2.2	20.2	2.2	0.0
	30-Year	18.8	2.5	22.1	2.6	22.1	2.5	22.1	2.5	22.1	2.4	22.1	2.4	0.0
Repo T bills		30.78	4.0	29.2	3.4	29.8	3.4	29.8	3.3	29.8	3.2	29.8	3.2	0.6
Overdraft		7.57	1.0	7.3	0.8	25.4	2.9	17.7	2.0	17.7	1.9	25.4	2.7	18.1
Other Domestic debt		3.60	0.5	3.3	0.4	1.9	0.2	3.4	0.4	11.1	1.2	3.4	0.4	0.0
Total Debt		**764.2**	**100.0**	**858.83**	**100.0**	**871.95**	**100.0**	**901.93**	**100.0**	**922.20**	**100.0**	**929.32**	**100.0**	

Source: Central Bank of Kenya

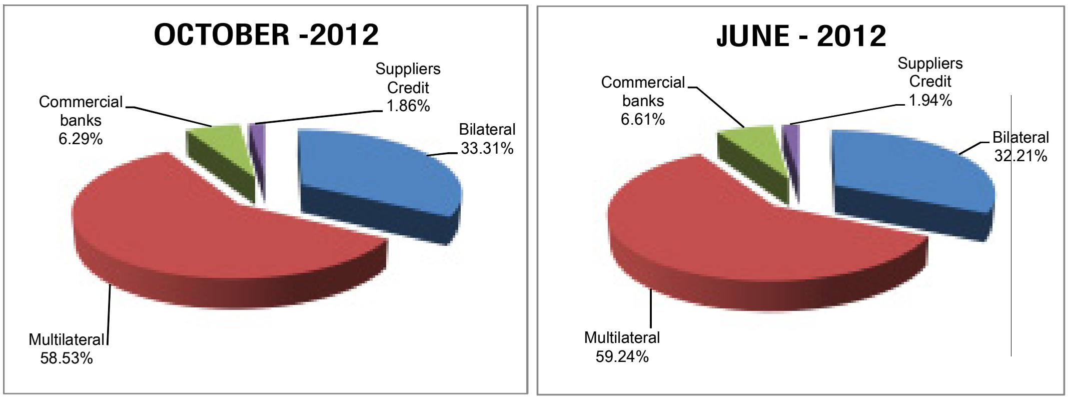
External Debt

Kenya's external debt increased by Ksh 47.8 billion from Ksh 764.5 billion (USD 9.1 billion) in June 2012 to Ksh 812.3 billion (USD 9.5 billion) at the end of October 2012 (Table 7.1). This followed increases of Ksh 24.4 billion, Ksh 22.5 billion, Ksh 0.6 billion and Ksh 0.3 billion respectively in the stocks of debt from bilateral sources, multilateral sources, commercial bank loans and suppliers' credits, during the period. The increase in bilateral debt stock was largely attributed to disbursements from China, amounting to Ksh 21.3 billion, for financing infrastructural projects, while that in multilateral debt stock was due to increases in loans from International Development Association (IDA) and Africa Development Bank (ADB). The bulk of external debt was owed to multilateral creditors, with IDA accounting for 37.4 percent of the total external debt. The increase in debt owed to commercial banks and that acquired through suppliers' credits during the period reflected exchange rate revaluations during the period.

Composition of External Debt by Creditor

Kenya's official creditors, the multilateral and bilateral lenders, accounted for 91.8 percent of total external debt in October 2012. Further disbursements by the Exim Bank of China during the period increased bilateral debt proportions from 32.2 percent of total external debt in June 2012 to 33.3 percent in October 2012. Exchange rate revaluations resulted in a reduction of the percentage holdings by multilateral creditors from 59.2 percent in June 2012 to 58.5 percent in October 2012. In addition, debt owed to commercial banks declined to 6.3 percent of external debt, while that extended through supplier's credits remained constant at 1.9 percent of total debt in October 2012 (Chart 7A).

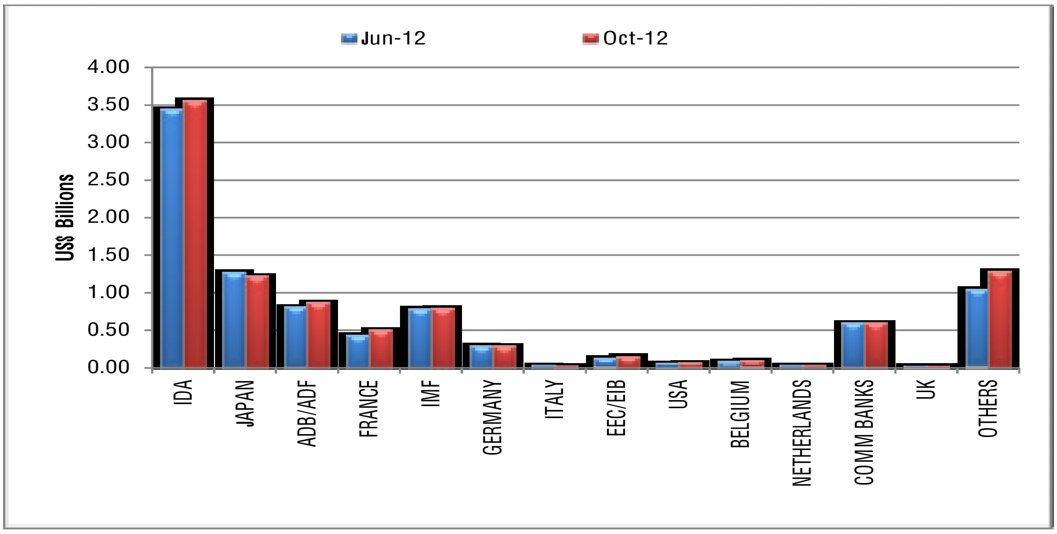
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 3.6 billion or 37.4 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender amounted to USD 1.2 billion at the end of October 2012 (Chart 7B).

CHART 7B: EXTERNAL DEBT BY CREDITOR

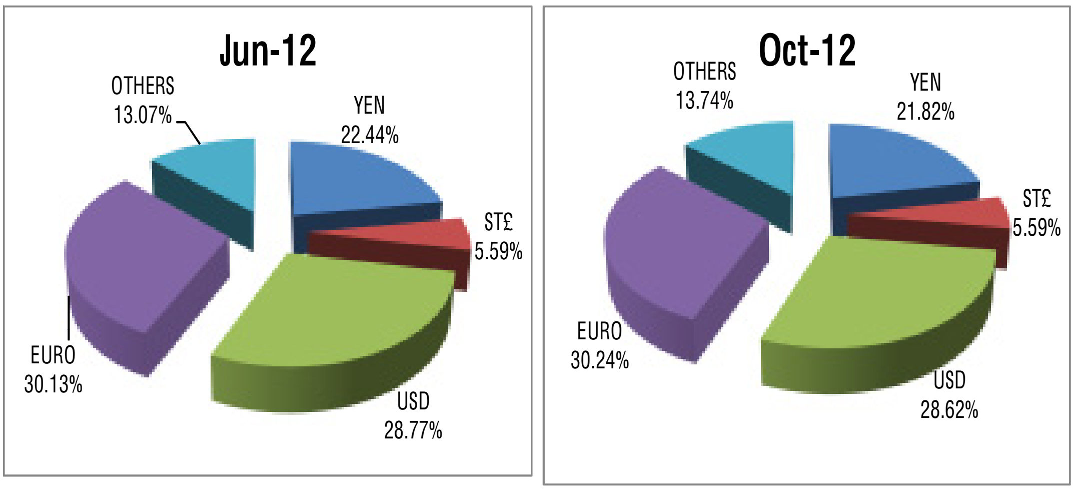


Source: Treasury

Currency Composition of External Debt

Close to 60 percent of the external debt is held in the Euro and the US dollar. Debt held in 'other currencies', which includes currencies from non-Paris club countries such as Korea, China, Kuwait and Saudi Arabia, increased from 13.1 percent of total debt in June 2012 to 13.6 percent in October 2012. Debt held in Japanese Yen declined to 21.4 percent while that held in the Euro increased to 30.7 percent of total debt in October 2012 from 30.1 percent in June 2012. Debt held in USD remained the same at 28.8 percent (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt for the 2012/13 fiscal year to October 2012 amounted to Ksh 36.1 billion, compared with Ksh 23.7 billion incurred for the same period of the previous fiscal year. This comprised Ksh 25.7 billion, Ksh 8.6 billion, Ksh 1.0 billion and Ksh 0.8 billion on interest and other charges on Treasury bonds, Treasury bills, Government overdraft at the Central Bank and the pre-1997 Government overdraft, respectively.

External debt service for the period July 2012 – October 2012 amounted to Ksh 14.2 billion comprising Ksh 10.5 billion in principal repayments and Ksh 3.7 billion in interest cost.

Outlook for the FY 2012/13

In the fiscal year 2012/13, external debt is estimated at Ksh 904.9 billion, while gross and net domestic debt are estimated at Ksh 933.1 billion (24.1 percent of GDP) and Ksh 799.3 billion (20.7 percent of GDP), respectively.

ACTIVITY IN THE STOCK MARKET

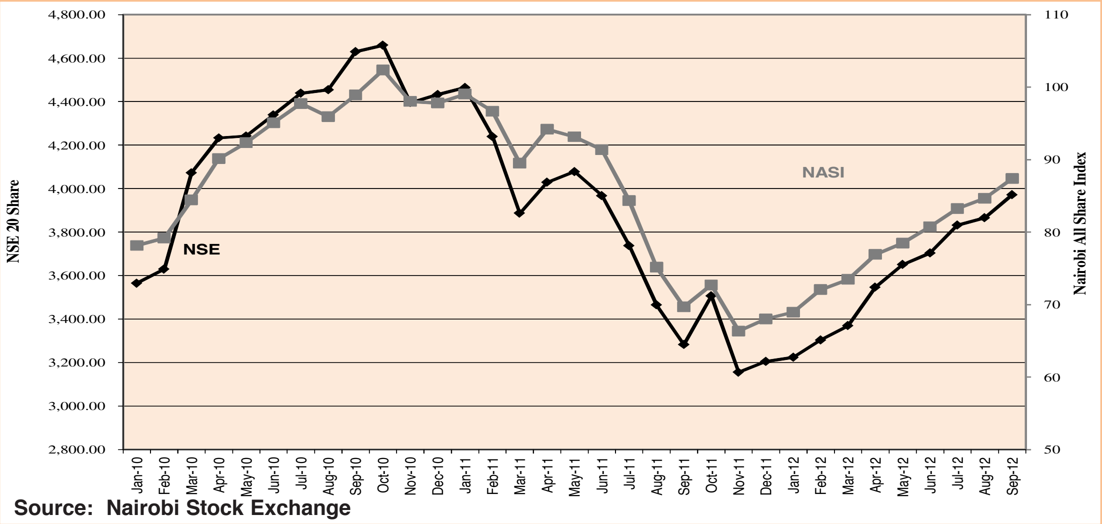
Capital markets performance was vibrant in October 2012. All key equities market indicators gained, maintaining an upward rally that began in January 2012. Equity turnover rose due to high share prices and Market capitalization was above Ksh 1.2 trillion shillings mark. Bonds market was weak in turnover, but at stable prices.

Equity Market

NSE 20 Share Index gained 441 basis points to close at 4147.28 points at end October from 3972.03 points at end September 2012. Similarly, NASI gained 491 basis points, rising to 91.67 points from 87.38 points in the same period. Market Capitalization, which measures total shareholders' wealth at NSE, increased to Ksh 1,217.09 billion from Ksh 1,155.99 billion over the period. Equity turnover increased to Ksh 11,082.25 million in October 2012 from Ksh 9,781.50 million in September 2012 on account of higher share prices. Turnover Ratio, a measure of market liquidity was relatively stable, at 0.57 percent from 0.60 percent, with the number of shares traded falling to 458 million from 470 million in the period under review.

Net foreign investor participation increased to 55.23 percent from 51.88 percent of total equity turnover, with foreign investor purchases accounting for 68.61 percent of total equity turnover against to 41.85 percent sales. This reflects concentration on the buy side of the equities market. Local investors' participation remained low compared to the foreign investors' uptake.

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



Source: Nairobi Stock Exchange

Leading Sectors & Counters

Banking sector dominated trading, with 182.72 million shares or 39.86 percent of the entire market. Telecommunication and Technology and Manufacturing and Allied sectors followed with 105.97 million shares or 23.12 percent and 53.63 million shares or 11.70 percent of the market respectively. Safaricom, Equity Bank Ltd and Kenya Commercial Bank Ltd counters led the rest with 96.25 million, 58.60 million shares and 54.50 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 Capitalizatio n (Ksh Billions)	Bond Turnover (Ksh Millions)	% of FP to Equity Turnover	% of FS to Equity Turnover	% overall net FP to Equity Turnover
Jan-11	4,464.92	99.02	725.05	9,462.18	1,192.28	19,891.30	52.29%	31.29%	41.79%
Feb-11	4,240.18	96.66	335.25	6,215.78	1,176.85	49,040.10	38.74%	28.73%	33.74%
Mar-11	3,887.07	89.50	469.03	7,984.12	1,090.23	40,116.05	40.41%	20.97%	30.69%
Apr-11	4,029.23	94.18	497.18	7,883.04	1,154.92	33,376.20	40.09%	78.45%	59.26%
May-11	4,078.10	93.15	410.00	8,405.61	1,144.00	33,646.10	34.61%	74.27%	54.44%
Jun-11	3,968.12	91.36	411.00	7,047.50	1,121.00	69,415.48	50.05%	72.71%	61.38%
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%

Source: Nairobi Stock Exchange

FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, a performance measure 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, increased to 122.57 points and 125.17 points in October from 115.97 points and 118.44 points in September 2012, respectively. The two indices hit the highest monthly level since launch in November 2011.

On October 3, 2012, the NSE launched the FTSE NSE Kenyan Shilling Government Bond Index to measure performance of Kenya's sovereign debt. The index, calculated on both a capital and total return basis, includes Kshs denominated bullet issue, (face value is redeemed once at maturity) zero coupon and strippable bonds with least notional amount (outstanding volume/size) of Ksh 5 billion. The index closed October 31, 2012 at 97.295 points compared to 97.167 points at its launch on October 3, 2012.

Bond Market

Bonds market turnover declined by 24.27 percent reflecting decline in number of deals to 874 in October from 979 deals in September 2012. Bonds worth Ksh 72.6 billion were traded compared to Ksh 95.9 billion transacted. Infrastructure Bond, IFB1/2011/012 dominated trading at 31.54 percent of total turnover, with yields range of 9.15 percent to 14.80 percent against a coupon rate of 12 percent. The fall in bonds turnover may be attributed to a shift by investors to the blue chip equities counters and rising yields on short term securities.

STATEMENT OF FINANCIAL POSITION OF THE CENTRAL BANK OF KENYA

(KENYA SHILLINGS MILLION)

	Oct-12	Jun-12 Audited	Oct 12/Jun 2012 Movement
ASSETS			
Balances due from Banking Institutions and Gold holdings	465,717	437,961	27,756
Funds held with International Monetary Fund	1,110	2,200	(1,090)
Items in the course of collection	99	333	(234)
Advances to commercial banks	1,738	9,973	(8,235)
Loans and Advances	29,387	10,817	18,570
Other Assets	2,197	2,224	(27)
Retirement Benefits Assets	2,193	2,193	0
Property and Equipment	11,105	12,083	(978)
Intangible Assets	1,107	1,412	(305)
Due from Government of Kenya	29,999	30,874	(875)
TOTAL ASSETS	**544,652**	**510,070**	**34,582**
LIABILITIES			
Currency in Circulation	170,903	159,216	11,687
Investments by Banks	27,807	35,673	(7,866)
Deposits	177,071	160,642	16,429
International Monetary Fund	103,266	101,868	1,398
Other Liabilities	8,342	1,755	6,587
Provisions	67	149	(82)
TOTAL LIABILITIES	**487,456**	**459,303**	**28,153**
EQUITIES AND RESERVES	**57,196**	**50,767**	**6,980**
Share capital	5,000	5,000	0
General Reserve Fund	36,857	36,857	0
Period Surplus	6,429	0	6,980
Asset Revaluation	7,410	7,410	0
Dividence Payable	1,500	1,500	0
TOTAL LIABILITIES AND EQUITY	**544,652**	**510,070**	**34,582**

Source: Central Bank of Kenya

Notes on the Financial Position

Assets

Balances due from Banking institutions and Gold holdings categoryconsist 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 27,756 million to Ksh 465,717 million in October 2012 from Ksh 437,961 million in June 2012.

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 October 2012 were Ksh 99 million, a decrease of 234 million from Ksh 333 million as at June 2012.

Advances to commercial banks capture 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 decreased by Ksh 8,235 million to Ksh 1,738 million in October 2012 from Ksh 9,973 million in June 2012.

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 18,570 million to Ksh 29,387 million in October 2012 from Ksh 10,817 million in June 2012.

OtherAssets largelyconsist of prepayments and sundry debtors, and deferred currency expense. Other assets decreased by Ksh 27 million to Ksh 2,197 million in October 2012 from Ksh 2,224 million in June 2012.

Due from Government of Kenya liability categoryarose 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 11,687 million to Ksh 170,903 million in October 2012 from Ksh 159,216 million in June 2012.

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 16,429 million to Ksh 177,071 million in October 2012 from Ksh 160,642 million in June 2012.

Amount due to International Monetary Fund represents the Banks obligations to the IMF. The balances increased to Ksh 103,266 million in October 2012 from Ksh 101,868 million in June 2012.

Other liabilities and provisions include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance increased by Ksh 6,587 million to Ksh 8,342 million in October 2012 from Ksh 1,755 million in June 2012.

Equities and reserves increased by Ksh 6,980 million to Ksh 57,196 million in October 2012 from Ksh 50,767 million in June 2012 reflecting an increase in the Period Surplus of Ksh 6,980 million.