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

CONTENTS

Enquiries concerning this publication should be addressed to: The Director, Research Department, Central Bank of Kenya, P. O. Box 60000-00200, Nairobi.

OVERVIEW

Introduction

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

GDP Growth

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

Inflation

Overall 12-month inflation increased to 29.4 percent in November 2008 from 28.4 percent in October 2008 on account of food supply constraints, while average annual inflation increased to 25.0 percent in November 2008 from 23.6 percent in October 2008.

Government Fiscal Operations

The Central Government budgetary operations for the first four months of the fiscal year 2008/09 resulted in an increase of the budget deficit on commitment basis to Ksh 29.1 billion or 1.3 percent of GDP from Ksh 8.2 billion or 0.4 percent of GDP a year earlier. The deficit on commitment basis overshot the target by Ksh 0.5 billion.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by 2.1 percent to Ksh 889.2 billion in October 2008 from Ksh 870.6 billion in June 2008. In relation to GDP, the total public debt fell marginally to 42.7 percent in October 2008 from 42.8 percent of GDP in June 2008. Specifically, the external debt to GDP ratio dropped to 20.7 percent in October 2008 from 21.6 percent in June 2008, while the domestic debt to GDP ratio increased to 22.0 percent from 21.1 percent during the period.

Monetary Expansion

Money supply, M3, grew by 17.1 percent in the year to November 2008 compared with a 16.7 percent increase in a similar period in 2007. M3 expansion in November 2008 mainly resulted from increased net domestic assets (NDA) of the banking system comprising of domestic credit to the private sector.

Interest Rates

Short term interest rates rose in the month of November. The average 91-day Treasury bill rate rose from 7.75 percent in October 2008 to 8.39 percent in November 2008 and the 182-day Treasury bill rate also increased from 8.32 percent in October 2008 to 8.86 percent in November 2008. Both the interbank and repo rates declined in December to 6.47 percent and 5.98 percent as at December 23, 2008 from 7.02 percent and 6.64 percent, respectively, as at the first week of December 2008. This decline reflect the reduction of the cash ratio and the Central Bank Rate on December 1, 2008 to ease liquidity conditions in the economy.

Balance of Payments

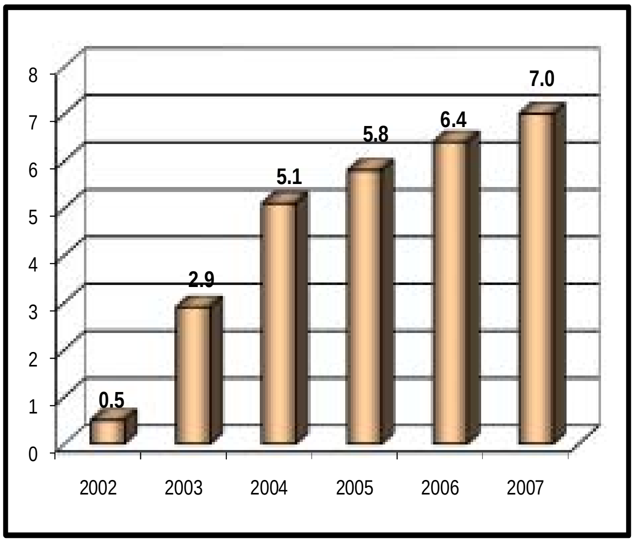
The surplus in the balance of payments shrank to US$ 74 million in the year to October 2008 from US$ 455 million in the year to October 2007 due to a larger widening in the current account deficit that outweighed increase in inflows in the capital and financial account.

Exchange Rates

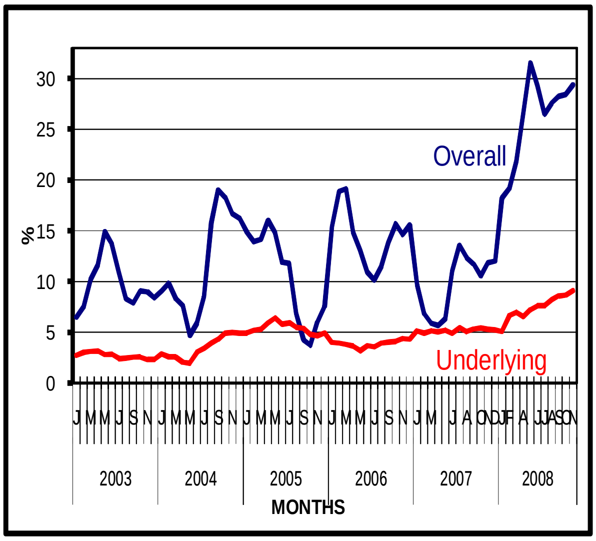
The Kenya Shilling depicted mixed performance against major world currencies in November 2008; weakening against the US dollar and the Japanese Yen but strengthening against the Sterling Pound and the Euro. Against the US dollar, the Shilling weakened to trade at an average of Ksh 78.18 per US dollar in November 2008 compared with Ksh 76.50 per US dollar in October 2008.

SELECTED ECONOMIC PERFORMANCE INDICATORS

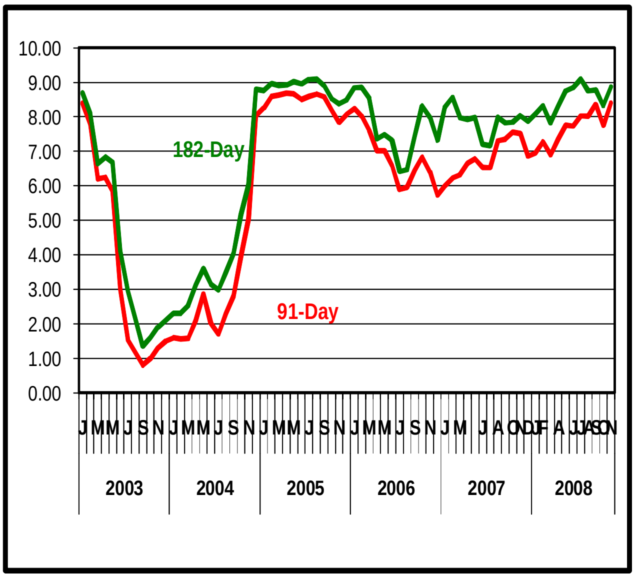
Real GDP Growth



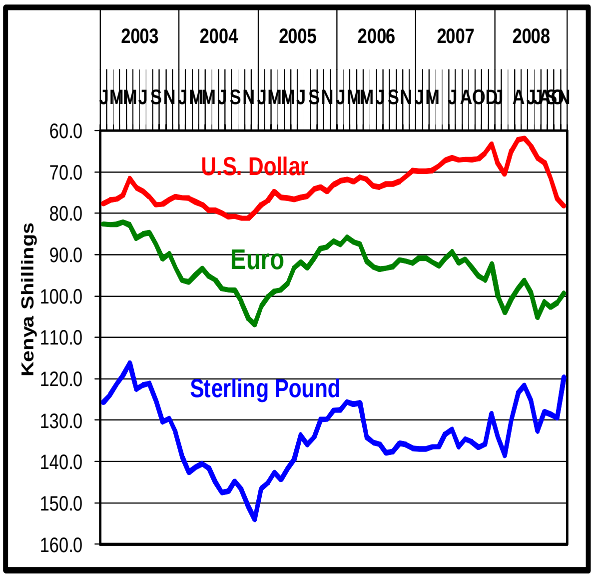
Inflation



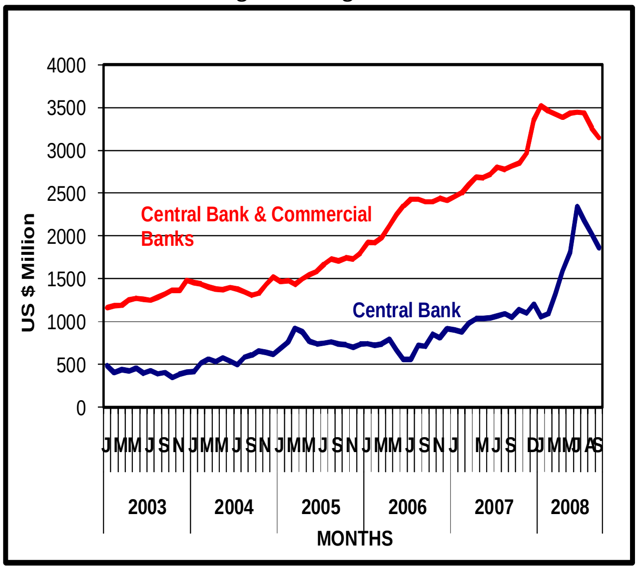
Treasury Bill Rates



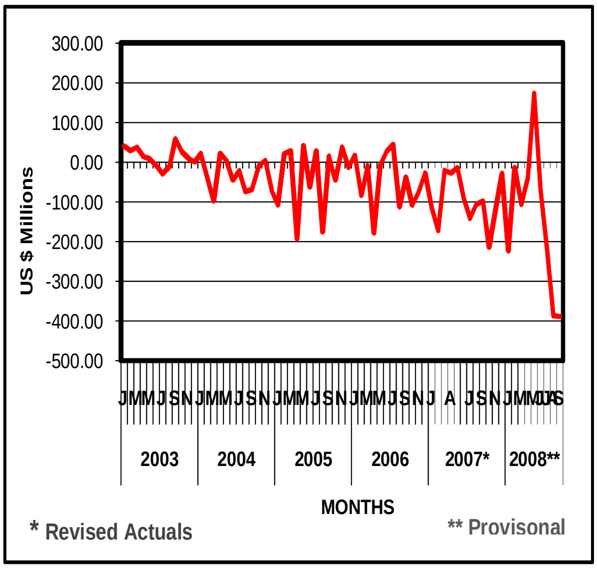
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS, 2000 - 2007

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007*
1.	POPULATION*								
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05
2.	NATIONAL ACCOUNTS**								
	GDP at Basic Prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,497	1,261,183	1,440,460	1,603,176
	GDP at Market Prices (Ksh m):								
	At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,273,975	1,418,071	1,620,732	1,814,243
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,373	1,173,727	1,248,833	1,335,763
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.80	6.40	7.00
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,457	33,402	34,556	35,939
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]	12.9	10.0	8.1	10.1	12.2	13.6	16.0	13.6
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]	6.7	4.4	4.0	4.8	6.6	7.4	8.3	6.5
5.	GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	20.2
6.	CONSUMER PRICE INFLATION (URBAN) 1997 BASE								
	Average Annual Inflation	10.01	5.87	1.96	9.82	11.62	10.31	14.45	9.76
	Twelve-month Inflation (Dec-Dec) * Revised	11.89	1.78	4.10	8.35	16.25	7.56	15.59	12.03
7.	STOCK MARKET								
	Nairobi Stock Exchange Price Index (1966=100)	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83
	Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29
8.	GOVERNMENT BUDGET (Ksh bn) ***								
	Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20
	Budget Deficit (-) / Surplus (+)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)
	Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(1.54)	0.42	(2.39)	(1.18)
9.	MONEY AND CREDIT (Ksh bn)(end period)								
	Liquidity (L)[1]	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62
	Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49
10.	BALANCE OF PAYMENTS (US$ m)**								
	Overall Balance	108.20	166.38	3.26	413.33	38.85	280.12	616.44	939.60
	Current Account	(237.50)	(383.39)	(117.69)	146.20	-131.76	-252.32	-478.83	-1,101.77
	Capital and Financial Account	416.22	348.20	(31.67)	537.82	239.52	765.90	884.59	2,364.12
11.	FOREIGN EXCHANGE RESERVES (US$ m) END PERIOD	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97
	Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85
	*Months of imports**** *	*(2.8)*	*(3.2)*	*(3.3)*	*(4.2)*	*(3.4)*	*(3.2)*	*(3.5)*	*(4.0)*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12
12.	PUBLIC DEBT (US$ bn) END PERIOD***	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09
13.	EXCHANGE RATE (Ksh/US$) (ANNUAL AVERAGE)	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32

* Provisional.

** Revised to reflect data in Economic Survey 2007.

*** Fiscal year to June 30th.

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

[1] Previously M3XT

[2] Previously M3X

[3] Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2007 Sep	2007 Oct	2007 Nov	2007 Dec	2008 Jul	2008 Aug	2008 Sep	2008 Oct	2008 Nov	2008 Dec
1. INFLATION (%)										
CPI	228.15	229.99	233.28	239.81	286.62	288.06	292.57	295.38	**301.79**	
Overall Inflation										
12-month overall inflation	11.72	10.55	11.83	12.03	26.5	27.58	28.23	28.43	29.37	
Average annual overall inflation	10.57	10.19	10.00	9.76	19.55	20.79	22.12	23.57	24.98	
Underlying Inflation*										
12-month underlying inflation	5.34	5.41	5.30	5.25	7.62	8.23	8.59	8.67	9.1	
Average annual underlying inflation	4.92	5.03	5.82	5.18	6.18	6.45	6.72	7.00	7.31	
2. INTEREST RATES (%)										
91-day Treasury bill interest rate	7.3	7.55	7.82	6.87	8.03	8.02	7.69	7.75	8.39	
Overdraft interest rate	13.26	13.29	13.43	12.96	13.49	13.11	13.43	13.91		
3. STOCK MARKET										
Nairobi Stock Exchange Price Index	5,146.46	4,971.04	5,215.36	5,444.83	4,868.27	4,648.78	4,180.40	3386.7	3341.0	
Turnover (%)	2.09	1.39	1.33	0.97	1.78	0.89	0.88	0.71	0.52	
4. GOVERNMENT BUDGET** (Ksh bn.)										
Revenue	97.96	135.14	168.95	211.95	33.20	68.03	111.7	150.1		
Expenses	94.06	143.49	188.63	239.64	29.24	74.36	123.6	179.2		
Budget Deficit (-) / Surplus (+)	3.896	-8.353	-19.682	-27.692	3.954	**-6.326**	**-11.955**	**-29.118**		
5. MONEY AND CREDIT (Ksh bn.)										
Liquidity (L)[1]	927.11	932.77	949.20	989.42	1,041.72	1,045.56	1,051.22	1,075.18	1,081.91	
Money Supply (M3)[2]	743.99	750.14	760.41	797.54	850.41	854.95	859.33	883.50	890.23	
Reserve Money	131.33	133.95	140.54	155.62	152.37	151.91	152.63	157.22	160.65	
Total Domestic Credit	638.06	646.43	666.63	671.93	724.50	742.34	776.00	800.89	807.45	
Government	160.41	166.51	165.55	140.44	138.68	145.29	149.93	160.80	157.93	
Private sector and other public sector	477.65	479.92	501.08	531.49	585.81	597.06	626.08	640.09	649.52	
6. MONEY AND CREDIT (Annual % Change)										
Liquidity (L)[1]	16.45	15.93	16.60	19.65	15.47	13.58	13.39	15.27	13.98	
Money Supply (M3)[2]	17.72	16.70	16.68	20.91	17.57	15.36	15.50	17.78	17.07	
Reserve Money	16.96	17.58	19.84	25.34	18.65	14.76	16.22	17.37	14.31	
Total Domestic Credit	17.98	16.04	16.54	17.58	**17.54**	**17.29**	**21.62**	**23.89**	**21.13**	
Government	23.32	19.20	13.05	1.91	-11.11	-10.98	-6.54	-2.12	-4.60	
Private and other public sector	16.29	14.98	17.75	22.56	29.55	28.39	32.00	34.08	30.74	
7. BALANCE OF PAYMENTS (US$ m)										
Overall Balance	44.97	40.08	62.49	387.78	(2.06)	(169.29)	(108.44)	(215.58)		
Current Account	(93.96)	(214.17)	(111.77)	(39.78)	(219.03)	(386.83)	(389.36)	(278.58)		
Trade Balance	(402.02)	(510.00)	(478.87)	(307.56)	(599.08)	(633.75)	(648.18)	(552.01)		
Capital and Financial Account	138.93	254.25	174.26	427.56	216.97	217.54	280.91	63.00		
8. FOREIGN EXCHANGE RESERVES (US$ m)	3,869.69	3,991.21	4,069.23	4,556.97	5,616.06	5,286.92	5,012.09	4,735.27	4,523.85	
Official***	2,820.04	2,852.97	2,971.08	3,354.85	3,438.90	3,263.47	3,151.03	2,928.46	2,869.33	
Months of imports cover	*(3.52)*	*(3.46)*	*(3.53)*	*(4.00)*	*(3.65)*	*(3.37)*	*(3.16)*	*(2.93)*	*(2.87)*	
Commercial banks	1,049.66	1,138.24	1,098.14	1,202.12	2,177.16	2,023.45	1,861.07	1,806.81	1,654.53	
9. PUBLIC DEBT (US$ bn)	12.48	12.49	13.20	13.48	**12.79**	**12.62**	**12.05**	**11.16**		
Domestic	6.37	6.24	6.61	6.99	6.36	6.31	6.14	5.71		
As % of GDP	23.75	22.95	23.03	23.34	20.43	20.99	21.75	22.01		
External	6.10	6.25	6.59	6.49	6.43	6.31	5.91	5.45		
As % of GDP	22.74	23.02	22.93	21.68	20.95	20.70	20.66	20.73		
10. GROSS DOMESTIC DEBT (Ksh bn)****	426.82	418.49	426.02	438.06	**428.22**	**433.56**	**449.25**	**454.7**		
11. AVERAGE EXCHANGE RATE[3]										
Ksh/US$	67.02	66.85	65.49	63.30	66.70	67.68	71.41	76.50	78.18	78.22
Ksh/Pound Sterling	135.19	136.52	135.79	128.45	132.62	127.97	128.58	129.38	119.59	117.42
Ksh/ 100 Yen	58.25	57.76	58.92	56.52	62.43	61.92	67.00	76.77	80.71	85.37
Ksh/Euro	93.06	95.09	96.13	92.24	105.18	101.40	102.73	101.67	99.33	104.07

* Underlying inflation excluding food, energy and transport and communications

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

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

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

1 Previously M3XT

2 Previously M3X

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

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

TRENDS IN VARIOUS MEASURES OF INFLATION

Overall Inflation

Overall 12-month inflation increased to 29.4 percent in November 2008 from 28.4 percent in October 2008. The increase in overall inflation was reflected in the prices of food items, mainly the prices of maize flour and maize grain. Average annual inflation increased to 25.0 percent in November 2008 from 23.6 percent in October 2008.

Underlying Inflation

The 12-month underlying inflation increased to 9.1 percent in November 2008 from 8.7 percent in October 2008. Pressure on underlying inflation was mainly from higher cost of housing and household goods and services during the period. Average underlying inflation rose to 7.3 percent in November 2008 from 7.0 percent in October 2008.

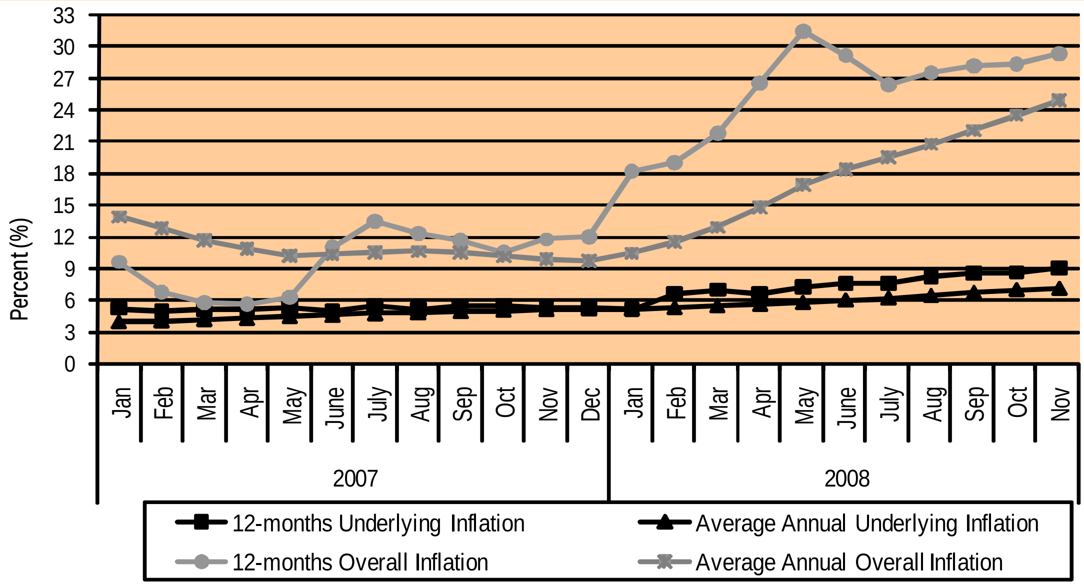
Table 1.1 and Chart 1A depict trends in overall and underlying inflation between January 2007 and November 2008.

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2007		2008							
	Oct	Dec	Apr	May	June	July	Aug	Sep	Oct	Nov
Underlying Inflation										
12-month	5.41	5.25	6.54	7.24	7.60	7.62	8.23	8.59	8.67	9.10
Average annual	5.03	5.18	5.60	5.78	6.00	6.18	6.45	6.72	7.00	7.31
Growth over one month	0.29	0.43	-0.18	0.85	1.13	0.67	0.72	0.94	0.36	0.58
Growth over 3 months	1.04	0.91	2.06	1.36	1.80	2.66	2.53	2.34	2.03	1.89
Overall Inflation										
12-month	10.55	12.03	26.63	31.54	29.26	26.50	27.58	28.23	28.43	29.37
Average annual	10.19	9.76	14.79	16.93	18.47	19.55	20.79	22.12	23.57	24.98
Growth over one month	0.80	2.80	2.70	3.50	-0.40	-1.40	0.50	1.60	1.00	2.20
Growth over 3 months	1.50	5.10	8.00	9.50	5.90	1.70	-1.30	0.60	3.10	4.80

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

CHART 1A: UNDERLYING AND OVERALL INFLATION (%)



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

Inflation by Income Groups

All income groups experienced higher 12-month inflation in November 2008 compared with the year to October 2008. Inflation for the Nairobi lower income group was the highest among all income groups at 32.3 percent compared with 31.4 percent in October 2008. This can be explained by the group's higher income expenditure share on food and drinks, the component with the highest inflation. Inflation for the ''Rest of Kenya'' income group was 30.0 percent in November 2008 compared with 28.3 percent in October 2008 while inflation for the ''Combined Nairobi'' income group increased from 28.7 percent in October 2008 to 28.8 percent in November 2008. Inflation for the Nairobi middle/upper income group was the lowest in November 2008 at 15.5 percent.

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

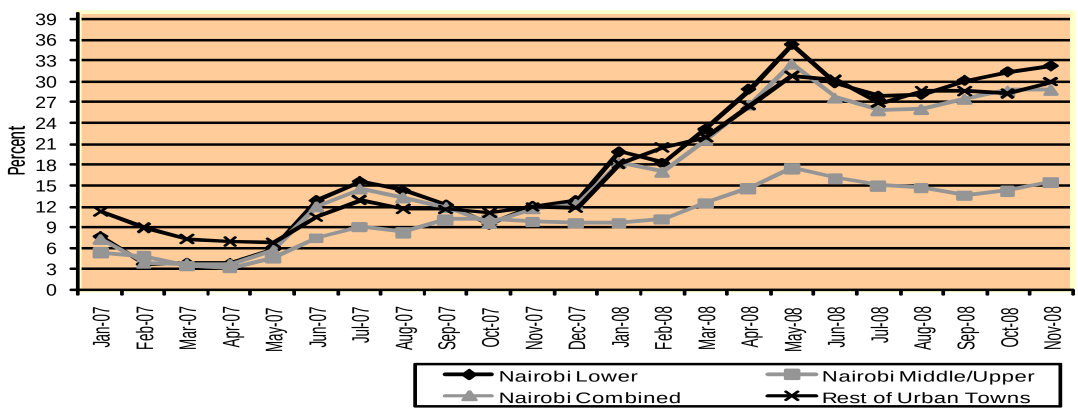
TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)

	2007			2008							
	Aug	Sep	Dec	Apr	May	June	July	Aug	Sep	Oct	Nov
Nairobi Lower	14.34	12.27	12.90	28.91	35.35	29.82	27.91	28.18	30.18	31.43	32.27
Nairobi Middle/Upper	8.27	10.10	9.61	14.59	17.53	16.01	14.95	14.68	13.57	14.27	15.48
Nairobi Income \[1]	13.34	11.92	12.38	26.67	32.54	27.65	25.88	26.05	27.49	28.68	28.80
Rest of Urban Towns	11.72	11.59	11.80	26.60	30.87	30.33	26.92	28.61	28.72	28.27	30.02

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

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

CHART 1B: 12-MONTH INFLATION BY INCOME GROUPS



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

Inflation Across Goods and Services Categories

Inflation rose for seven of the ten components of goods and services in the CPI basket in November 2008. Inflation for the food and drink category increased to 39.4 percent from 37.6 percent in October 2008, reflecting higher prices of food items, in particular, maize flour and maize grain. This was occasioned by maize shortages in many parts of the country following low production during the year. Inflation for the medical goods and services increased to 14.6 percent in November 2008 from 13.6 percent in October 2008, while inflation for the housing category increased to 7.4 percent from 6.5 percent during the period. Similarly, inflation for the household goods and services category, and the personal goods and services category increased to 12.7 percent and 10.3 percent, respectively, in November

2008 from 12.0 percent and 9.8 percent in October 2008. Inflation for the clothing and footwear, and recreation and education categories of goods and services increased by 0.1 percent in November 2008 to 6.0 percent and 7.1 percent, respectively.

On the other hand, inflation for the fuel and power category declined to 26.9 percent in November 2008 from 28.8 percent in October 2008, mainly due to decreases in the cost of diesel and petrol. This was as a result of lower international crude oil price that declined to US$ 51.4 per barrel in November 2008 from US$ 63 per barrel in October 2008. Inflation for the transport and communication category also declined to 13.4 percent in November 2008 from 18.9 percent in October 2008, while inflation for the alcohol and tobacco category declined by 0.9 percent, to 15.1 percent from 16.0 percent during the period.

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

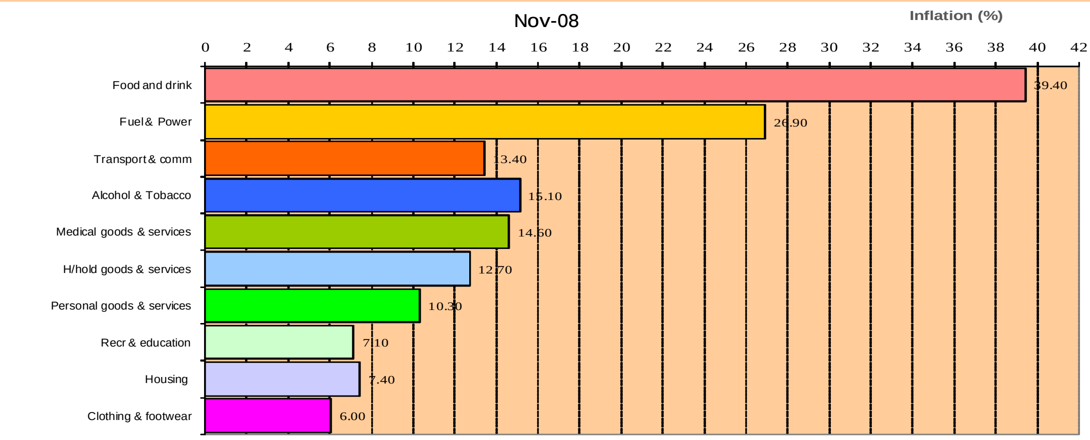
TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES - SEPTEMBER 2007 TO NOVEMBER 2008

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

* Numbers in parentheses are income group weights

Source: Kenya National Bureau of Statistics

CHART 1C: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES IN NOVEMBER 2008



Source: Kenya National Bureau of Statistics

Inflation Outlook

The inflation outlook in the following months will largely depend on the developments in the food prices, following the Government's decision to supply maize flour at lower costs and to increase the food supply by importing more food into the country.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

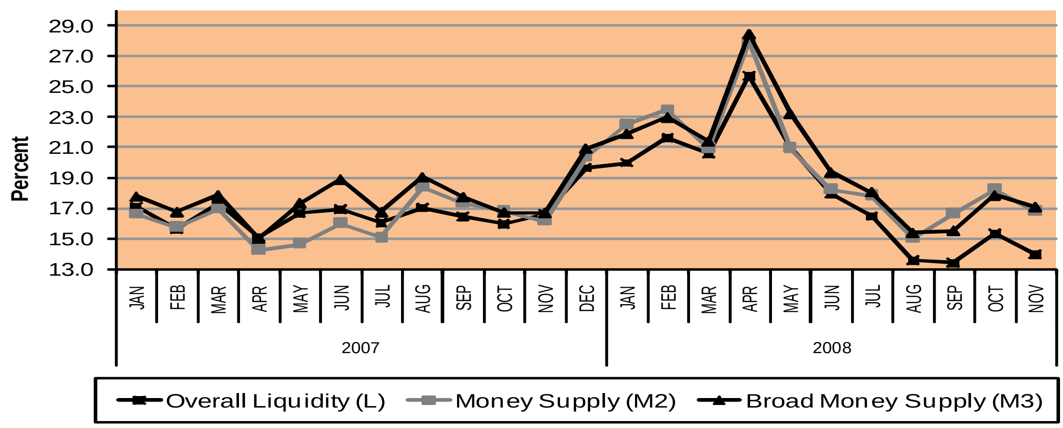
Money supply, M3, grew by 17.1 percent in the year to November 2008 compared with 16.7 percent in the year to November 2007 as shown in Table 2.1 and Chart 2A. M3[1] expansion was within the 17 percent target growth for the fourth quarter of 2008. The expansion reflected mainly lending by commercial banks to the private sector (Table 2.2). Money supply, M2, which excludes foreign currency deposits, grew by 16.8 percent in the year to November 2008 compared with 16.2 percent in November 2007.

TABLE 2.1: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

Monetary Aggregates	2007			2008						
	Oct	Nov	Dec	Jan	May	Jun	Aug	Sep	Oct	Nov
Currency outside banks	16.0	20.2	25.6	23.8	5.8	7.0	5.4	6.7	9.8	4.7
M2	16.8	16.2	20.4	22.5	21.0	18.2	15.0	16.7	18.2	16.8
M3	16.7	16.7	20.9	21.9	23.2	19.3	15.4	15.5	17.8	17.1
L*	15.9	16.6	19.7	20.0	21.0	17.9	13.6	13.4	15.3	14.0

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

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

Growth in net foreign assets (NFA)[2] of the banking system slowed down to 8 percent in the year to November 2008 from 14.7 percent in the year to November 2007 (Table 2.3). This reflected a slower build up in commercial banks foreign assets which partly offset revaluation gains on the banking sectors' foreign asset portfolio due to exchange rate movements. Net domestic assets (NDA) of the banking system grew by 21.2 percent in November 2008 compared with 17.6 percent in November 2007. Expansion in NDA of the banking system was mainly on account of increased credit to the private sector.

[1] Foreign currency deposits – part of M3 - valued at current exchange rate from July 2008 onwards.
[2] Net Foreign Assets of the banking system valued at current exchange rates from July 2008onwards. Valuation previously based on a constant exchange rate.

TABLE 2.2: CONTRIBUTION TO M3 GROWTH (%)

	2007				2008						
	Aug	Sep	Oct	Nov	Jan	Jun	Jul	Aug	Sep	Oct	Nov
Annual growth in M3	**19.0**	**17.7**	**16.7**	**16.7**	**21.9**	**19.3**	**18.1**	**15.4**	**15.5**	**17.8**	**17.1**
Net Foreign Assets	**5.6**	**5.6**	**4.1**	**4.7**	**9.4**	**10.5**	**6.9**	**4.6**	**3.0**	**4.4**	**2.5**
Net Domestic Assets	**13.4**	**12.1**	**12.6**	**12.0**	**12.5**	**8.7**	**11.1**	**10.9**	**12.5**	**13.3**	**14.5**
Domestic Credit	**15.3**	**15.4**	**13.9**	**14.5**	**16.7**	**14.7**	**14.8**	**14.9**	**18.5**	**20.6**	**18.5**
Government (net)	5.1	4.8	3.8	2.9	2.4	-3.3	-2.5	-2.4	-1.4	-0.5	-1.0
Rest of Economy	10.2	10.6	10.1	11.6	14.3	18.0	17.3	17.3	20.0	21.1	19.5
Other public sector	-0.5	-0.4	-0.7	-1.3	-0.9	-0.5	-0.9	-0.2	-0.1	-0.3	-0.3
Private Sector	10.7	11.0	10.8	12.9	15.3	18.5	18.3	17.5	20.0	21.4	19.9
Other items (net)	**-1.9**	**-3.2**	**-1.3**	**-2.5**	**-4.2**	**-6.0**	**-3.7**	**-4.0**	**-6.1**	**-7.3**	**-4.0**

Source: Central Bank of Kenya

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

	2006 November	2007 November	2008 November	Nov-07 12 months %age change	Nov-08 12 months %age change
1. Money supply, M3 (2+3) 2/	**651.7**	**760.4**	**890.2**	**16.7**	**17.1**
1.1 Money supply, M2 3/	553.4	643.1	751.2	16.2	16.8
1.2 Money supply, M1	285.2	360.4	393.4	26.3	9.2
1.3 Currency outside banks	72.6	87.3	91.4	20.2	4.7
2. Net foreign assets 4/	**208.7**	**239.3**	**258.6**	**14.7**	**8.0**
Central Bank	160.9	183.2	200.6	13.9	9.5
Banking Institutions	47.8	56.1	58.0	17.4	3.2
3. Net domestic assets (3.1+3.2)	**443.0**	**521.1**	**631.7**	**17.6**	**21.2**
3.1 Domestic credit (3.1.1+3.1.2)	**572.0**	**666.6**	**807.5**	**16.5**	**21.1**
3.1.1 Government (net)	146.4	165.5	157.9	13.1	-4.6
3.1.2 Private sector and other public sector	425.6	501.1	649.5	17.7	29.6
3.2 Other assets net (3-3.1)	-129.0	-145.5	-175.8	12.9	20.8
Memorandum items					
1. Overall liquidity, L 1/	**814.1**	**949.2**	**1081.9**	**16.6**	**14.0**
2. Reserve money	**117.3**	**140.5**	**160.7**	**19.8**	**14.3**
Currency outside banks	72.6	87.3	91.4	20.2	4.7
Bank reserves	44.6	53.3	69.3	19.3	30.1

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

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

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

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

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

Source: Central Bank of Kenya

Credit Developments

Banking system credit to the domestic economy grew by 21.1 percent in the year to November 2008 compared with 16.5 percent in the year to November 2007. Credit to private sector grew by 30.7 percent in the year to November 2008 compared with 20.7 percent in a similar period in 2007. This pick up is in line with economic prospects. Credit to Government declined by 4.6 percent compared with an increase of 13.1 percent in the year to November 2007 (Table 2.4). The net repayment by Government reflect an increase in its deposits in the banking system compared with a similar period in 2007.

TABLE 2.4: BANKING SYSTEM NET DOMESTIC CREDIT

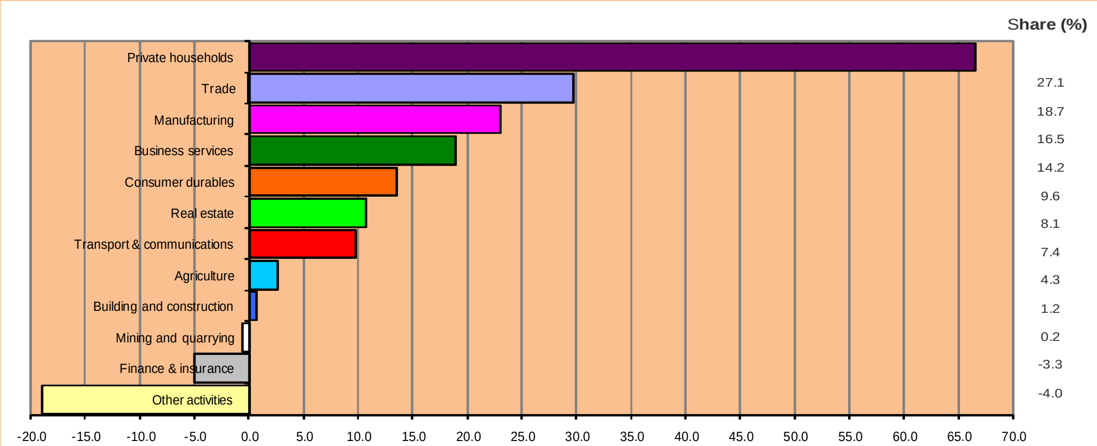
	2007 November		2008 November		Annual % Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2006/07	2007/08
1. Credit to Government	**165.5**	**24.8**	**157.9**	**19.6**	**13.1**	**-4.6**
Central Bank	-0.6	-0.1	-1.2	-0.2	-27.4	111.6
Commercial Banks & NBFIs	166.1	24.9	159.2	19.7	12.8	-4.2
2. Credit to other public sector	**10.0**	**1.5**	**7.5**	**0.9**	**-46.3**	**-25.0**
Local government	-2.2	-0.3	-3.3	-0.4	20.6	50.4
Parastatals	12.2	1.8	10.8	1.3	-40.5	-11.6
3. Credit to private sector	**491.0**	**73.7**	**642.0**	**79.5**	**20.7**	**30.7**
Agriculture	26.4	4.0	29.0	3.6	-17.7	10.0
Manufacturing	63.2	9.5	86.2	10.7	-11.3	36.4
Trade	56.4	8.5	86.1	10.7	5.7	52.8
Building and construction	37.2	5.6	37.9	4.7	12.5	1.8
Transport & communications	44.3	6.7	54.1	6.7	13.2	22.1
Finance & insurance	25.7	3.9	20.7	2.6	1.8	-19.5
Real estate	23.5	3.5	34.2	4.2	-2.5	45.6
Mining and quarrying	5.1	0.8	4.5	0.6	67.9	-12.7
Private households	80.3	12.0	146.8	18.2	57.5	82.8
Consumer durables	22.6	3.4	36.2	4.5	64.6	60.0
Business services	46.6	7.0	65.5	8.1	7.2	40.6
Other activities	59.8	9.0	40.8	5.1	242.2	-31.7
4. TOTAL (1+2+3) *	**666.6**	**100.0**	**807.5**	**100.0**	**16.5**	**21.1**

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

Source: Central Bank of Kenya

Credit to the private sector between November 2007 and November 2008 was Ksh 151 billion. The credit was allocated to the following sectors; private households (Ksh 66.5 billion), trade (Ksh 29.8 billion), manufacturing (Ksh 23billion), business services (Ksh 18.9 billion), and consumer durables (Ksh 13.6 billion) as shown in Chart 2B. Credit to private households accounted for about 44 percent of the credit expansion between November 2007 and November 2008, while that to trade and manufacturing was 20 percent and 15 percent, respectively.

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



Source: Central Bank of Kenya

Reserve Money

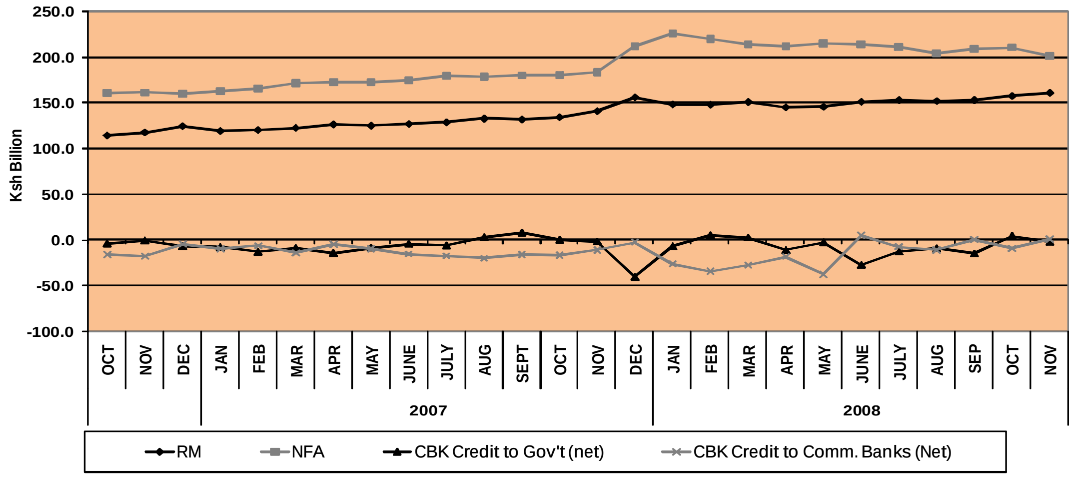
Reserve money increased by 14.3 percent to Ksh 160.7 billion in November 2008 from Ksh 140.5 billion in November 2007 as shown in Table 2.5. All components of reserve money increased, with bank reserves and currency outside banks accounting for 65.8 and 34.2 percent of the total expansion, respectively. At Ksh 160.7 billion in November 2008, reserve money was Ksh 0.5 billion below the Ksh 161.2 billion target.

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

	2006	2007	2008	Change (%)		2008	
	Nov	Nov	Nov	2006/07	2007/08	Nov Target	Deviation
1. Net Foreign Assets	160.9	183.2	200.5	13.9	9.4	229.6	-29.1
2. Net Domestic Assets	-43.6	-42.6	-39.8	-2.2	-6.7	-68.4	28.6
2.1 Government Borrowing (net)	-0.8	-1.8	-2.5	127.3	36.3	-7.5	5.0
2.2 Advances & Discounts	-18.0	-11.3	0.7	-37.3	-106.3	-23.7	24.4
2.3 Other Domestic Assets (net)	-24.8	-29.5	-38.0	19.0	28.8	-37.2	-0.8
3. Reserve Money	117.3	140.5	160.7	19.8	14.3	161.2	-0.5
3.1 Currency outside banks	74.2	88.9	95.8	19.9	7.7	97.8	-2.0
3.2 Bank reserves	43.1	51.6	64.9	19.8	25.6	63.4	1.5

Source: Central Bank of Kenya

CHART 2C: TRENDS IN RESERVE MONEY



Source: Central Bank of Kenya

Net foreign assets (NFA) of the Central Bank increased by Ksh 17.3 billion to Ksh 200.5 billion in November 2008 from Ksh 183.2 billion in November 2007. The increase in NFA of the Central Bank reflected interbank purchases of foreign exchange by the Bank and valuation changes.

Net domestic assets (NDA) of the Central Bank increased by Ksh 2.8 billion to Ksh –39.8 billion in November 2008 from Ksh -42.6 billion a year earlier. The increase in the NDA comprised largely of repayment of debt due to commercial banks and build up of other domestic liabilities. Specifically, the net indebtedness of Central Bank to commercial banks declined by Ksh 12.0 billion following Ksh 11.5 billion net redemption of repurchase agreement securities previously held by commercial banks under open market operations (OMO). Meanwhile, Government position at the Central Bank recorded Kshs 0.7 billion build up of net deposits.

Central Bank rate

The Central Bank Rate (CBR) was reduced from 9.00 percent to 8.50 percent effective December 01, 2008, to ease the liquidity conditions in the market.

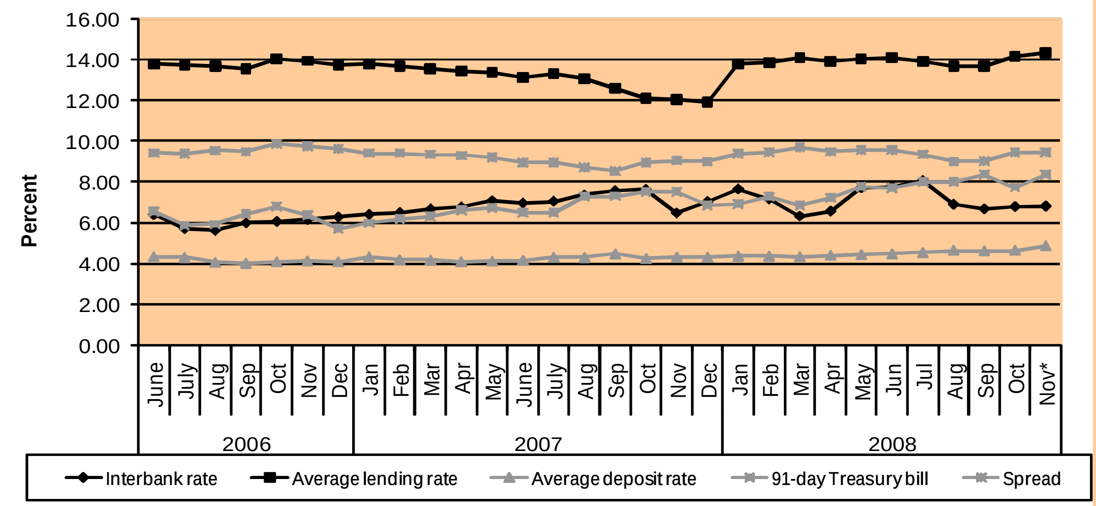
TABLE 2.6: INTEREST RATES (%)

	2007				2008					
	Sep	Oct	Nov	Dec	Jun	Jul	Aug	Sep	Oct	Nov*
91-day Treasury bill rate	7.32	7.55	7.52	6.87	7.73	8.031	8.017	8.36	7.75	8.39
Overdraft rate	13.26	13.29	13.43	12.96	13.30	13.49	13.11	13.43	13.91	13.85
Interbank rate	7.59	7.65	6.50	7.05	7.79	8.07	6.92	6.70	6.81	6.83
Repo rate	7.70	6.95	6.01	6.64	7.61	7.41	6.35	6.06	6.03	6.27
Average lending rate (1)	12.87	13.24	13.39	13.32	14.06	13.91	13.66	13.66	14.12	14.33
Average deposit rate (2)	4.48	4.27	4.33	4.32	4.48	4.54	4.65	4.62	4.65	4.86
0 to 3 - month deposit	5.28	5.05	5.10	5.18	5.18	5.25	5.39	5.19	5.39	5.86
Savings deposits	1.67	1.64	1.65	1.67	1.70	1.67	1.68	1.73	1.74	1.61
Spread (1-2)	**8.53**	**8.97**	**9.06**	**9.00**	**9.58**	**9.37**	**9.01**	**9.04**	**9.47**	**9.47**

* Provisional

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya * Provisional

Short-term Interest Rates

The average 91-day Treasury bill rate rose to 8.39 percent in November 2008 from 7.75 percent in October 2008 (Table 2.6) and the 182-day Treasury bill rate also increased to 8.86 percent in November 2008 from 8.32 percent in October 2008. The average interbank rate rose to 6.83 percent in November 2008 from 6.81 percent in October 2008. In December 2008 the interbank rate declined steadily to 6.47 percent as at December 23, 2008 from 7.02 percent during the first week. The repo rate rose to 6.27 percent in November 2008 from 6.03 percent in October 2008. In December repo rates declined steadily to 5.98 percent as at December 23, 2008 from 6.64 percent in the first week. The decline in both interbank and the repo rates is attributed to increased liquidity in the market, resulting from a decision by the Monetary Policy Committee (MPC) to reduce CBR to 8.50 percent from 9.00 percent and the cash reserve requirement for commercial banks down to 5.00 percent from 6.00 percent effective December 01, 2008.

Lending and Deposit Rates

Commercial banks average lending increased to 14.33 percent in November 2008 from 14.12 percent in October 2008. The overall deposit rate also rose to 4.86 percent in November 2008 from 4.65 percent in October 2008. Consequently, the interest rate spread remained at 9.47 percent in November 2008.

PERFORMANCE OF THE REAL SECTOR

Overview

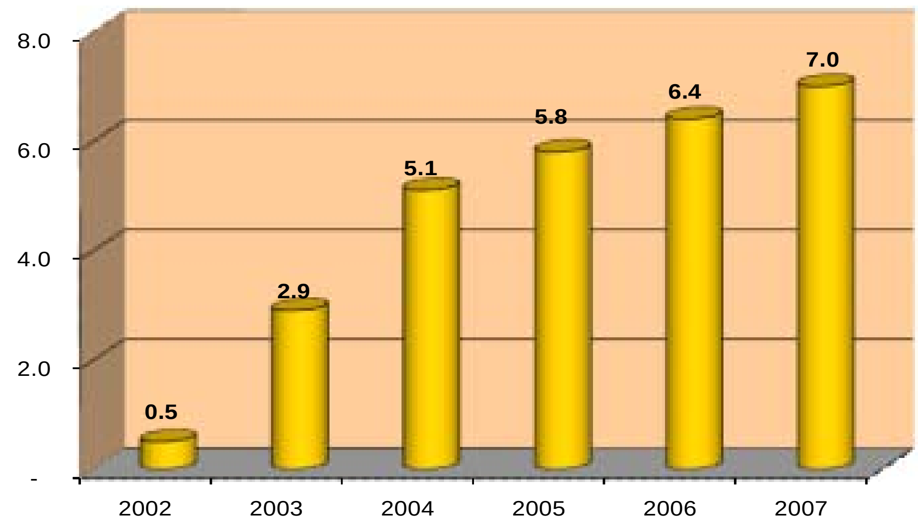
Real Gross Domestic Product (GDP) in 2007 was 7.0 percent compared with 6.4 percent in 2006 (Chart 3A). Tourism, transport and communication, mining and quarrying, and electricity and water sectors were the main sources of this growth. During the third quarter of 2008, the economy expanded by 2.1 per cent compared to 6.3 per cent in the corresponding quarter of 2007 (Chart 3B). This performance was the lowest for the third quarter in the last five years. Among the main sectors only wholesale and retail trade recorded meaningful growth of 8.6 percent. Other sectors output declined: agriculture (4.7 percent), manufacturing (0.7 percent) and hotel and restuarants (34.7 percent). Transport and communication grew by 0.1 percent compared with 13.4 percent growth in the third quarter of 2007.

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

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

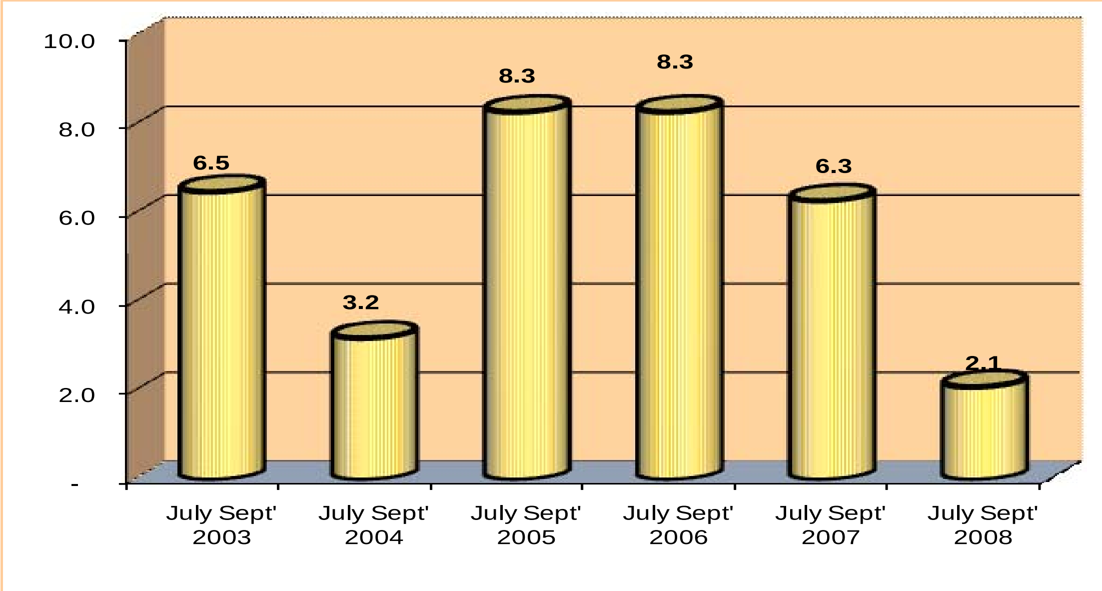
Source: Kenya National Bureau of Statistics (Economic Survey 2008)

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



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

CHART 3B: REAL GDP GROWTH IN THE SECOND QUARTERS APR TO JUN 2003-2008



Agriculture

Table 3.2 gives the mixed performance of the selected crops in the agricultural sector during the first nine and ten months of 2008.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE					
	2006	2007	Jan-Sept 2007	Jan-Sept 2008	Jan-Oct 2007	Jan-Oct 2008
Tea						
Output (Metric tonnes)	310,578.33	369,606.18	273,228.74	238,182.00	308,438.39	273,492.00
Growth (%)	*-5.5%*	*19.01%*	*30.3%*	*-12.83%*	*26.1%*	*-11.33%*
Horticulture						
Output (Metric tonnes)	166,736.82	192,147.45	138,290.47	148,770.84	157,017.45	164,350.08
Growth (%)	*2.2%*	*17.71%*	*12.9%*	*7.58%*	*14.8%*	*4.67%*
Coffee						
Output (Metric tonnes)	50,527.91	52,268.00	43,825.00	30,921.00	48,077.00	
Growth (%)	*6.0%*	*3.44%*	*7.1%*	*-29.44%*	*7.3%*	
Sugar Cane						
Output (Metric tonnes)	4,933,805.00	5,208,026.00	3,890,848.00	3,615,808.00	4,331,147.00	4,103,767.00
Growth (%)	*5.1%*	*5.56%*	*2.71%*	*-7.07%*	*4.08%*	*-5.25%*

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

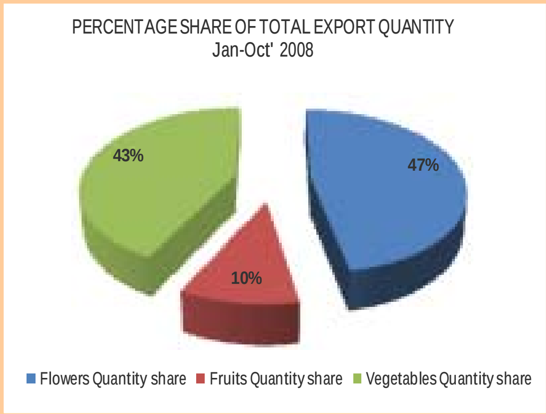
Tea

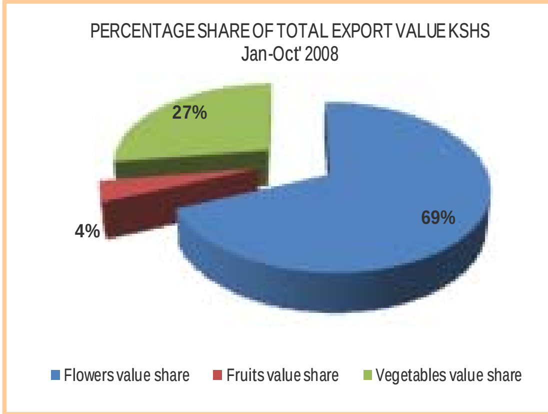
Tea output declined by 11.3 percent in the January to October 2008 period to 273,492 metric tonnes in January to October 2008 from 308,438.4 metric tonnes in January to October 2007. This follows drier conditions in tea growing areas leading to decreased productivity. The tea export prices increased to an average of US $ 2.81 per kilogram over the first nine months of 2008 compared with an average of US $ 1.87 per kilogram in the first nine months of 2007.

Horticulture

Horticultural export volumes in the first ten months of 2008 increased by 4.7 percent, to 164,350.1 metric tonnes from 157,017.5 metric tonnes in the first ten months of 2007. The increase in horticultural produce exports was in cut flowers and vegetables. Details on the performance of the horticulture sub-sector are provided in Chart 3C.

CHART 3C: HORTICULTURE EXPORTS JANUARY - OCTOBER 2008





Coffee

Coffee production declined by 29.4 percent, to 30,921 metric tonnes in the first nine months of 2008 from 43,825 metric tonnes in the first nine months of 2007. This follows high cost of production occasioned by increasing prices of fertiliser, chemicals, labour and farm inputs. The average coffee price increased to US$ 2,370 per tonne in September 2008 from US$ 2,360 per tonne in September 2007.

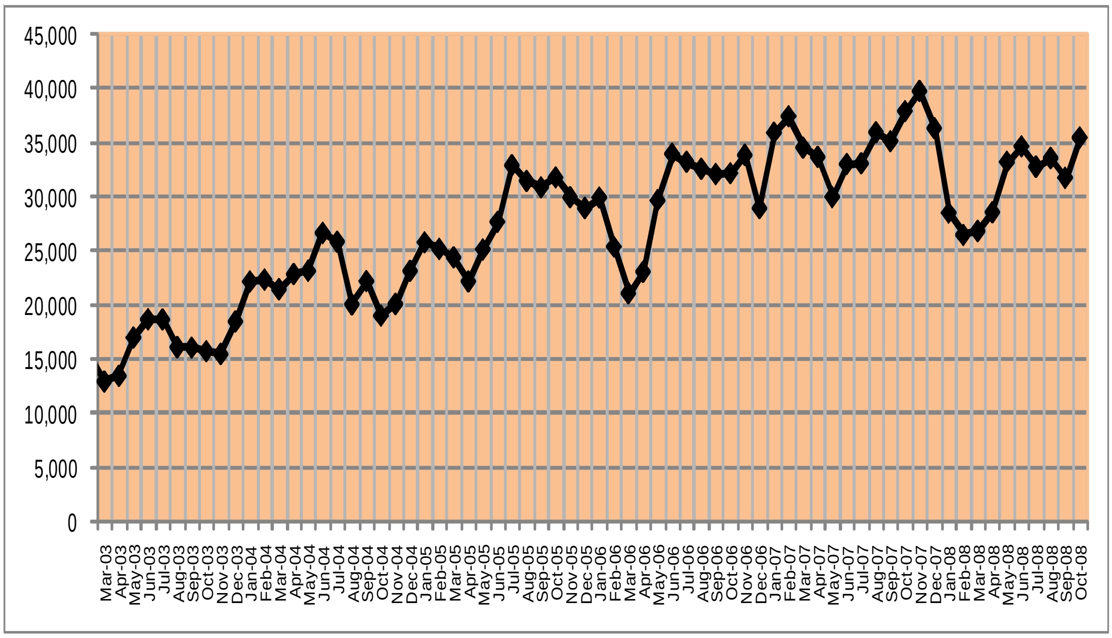
Sugarcane

In the first ten months of 2008, cumulative sugarcane production declined by 5.3 percent, to 4,103,767 metric tonnes in Jauary to October 2008 from 4,331,147 metric tonnes in the January to October period of 2007. Similarly, processed sugar declined by 3.7 percent, to 418,544 metric tonnes from 434,558 metric tonnes during the same period.

Dairy

Milk deliveries declined by 9.9 percent, to 312,454 metric tonnes in January to October 2008 from 346,877 metric tonnes in January to October 2007 as shown in Chart 3D. The production of milk has been affected by the delayed effects of the post election violence hence leading to low productivity in the country.

CHART 3D: PROCESSED MILK PRDUCTION IN KENYA



Manufacturing

Manufacturing production in the first ten months of 2008 continued to register mixed performances as shown by the selected indicators in the sector (Table 3.3). Cement production increased by 9.8 percent, to 2,097,111 metric tonnes in January - September 2008 from 1,909,232 metric tonnes in January - September 2007. Similarly, soda ash and beer production increased by 39.5 percent and 13.4 percent, respectively, between January and October 2008. However, milk output declined by 9.9 percent and cigarette production declined by 3.8 percent in the January - October 2008 period.

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE					
	2006	2007	Jan-Sept 2007	Jan-Sept 2008	Jan-Oct'2007	Jan-Oct' 2008
Processed sugar						
Output (MT)	475,660	520,100	385,709	369,417	434,558	418,544
Growth %	*-3.1%*	*9.3%*	*3.5%*	*-4.2%*	*6.5%*	*-3.7%*
Cement production						
Output (MT)	2,174,090	2,314,236	1,909,232	2,097,111	2,115,521	
Output Growth %	2.39	6.5%	22.0%	9.8%	19.1%	
Soda ash						
Output (MT)	374,010	386,598	270,789	373,560	304,175	424,317
Growth %	*2.7%*	*3.4%*	*-1.3%*	*38.0%*	*-1.3%*	*39.5%*
Milk						
Output ('000 litres)	356,758	423,542	308,888	278,661	346,877	312,454
Growth %	*5.9%*	*18.7%*	*18.4%*	*-9.8%*	*18.4%*	*-9.9%*
Beer						
Output ('000 litres)	280,500	379,485	274,026	313,051	311,539	353,280
Growth %	*5.3%*	*35.3%*	*35.7%*	*14.2%*	*44.3%*	*13.4%*
Cigarettes						
Output (Milles)	12,303,278	15,475,310	11,336,425	11,009,771	12,491,414	12,012,045
Growth %	*12.2%*	*25.8%*	*20.1%*	*-2.9%*	*26.7%*	*-3.8%*

MT = Metric tonnes

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

Energy Sector

Electricity generation declined by 9.1 percent in the January - October period of 2008 (Table 3.4). Consumption of electricity increased by 3.8 percent, to 4,413.8 million KWH from 4,253.3 million KWH, reflecting increased demand during the January to October 2008 period. Electricity generation by source was as follows: Hydro-power generation declined by 8.5 percent to 2,726.06 million KWH in the first ten months of 2008 from 2,977.76 million KWH in the first ten months of 2007. This followed inadequate rainfall in areas hosting hydro electricity generation plants. Thermal generation declined by 17.2 percent to 1,189.01 million KWH from 1,435.72 million KWH in the same period. Geo-thermal generation, however, increased by 2.9 percent, to 846.63 million KWH, from 823.12 million KWH during the same period.

In the international market, crude oil prices increased by 57.3 percent to an average of US $ 108.11 per barrel in January to October 2008, from an average of US $ 68.72 per barrel in January to October 2007. The higher oil price raised the cost of thermal power generation.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE					
	2006	2007	Jan-Sept' 2007	Jan-Sept' 2008	Jan-Oct' 2007	Jan-Oct' 2008
Electricity Supply (Generation) Output (KWH Millions)	5,823.03	6,287.68	4,694.68	4,285.95	5,236.60	4,761.70
Growth %	*5.5%*	*8.0%*	*9.4%*	*-8.7%*	*8.9%*	*-9.1%*
Of which:						
Hydro-power Generation (KWH Millions)	3,013.96	3,584.76	2,672.56	2,457.74	2,977.76	2,726.06
Growth (%)	*0.2%*	*18.9%*	*20.2%*	*-8.0%*	*21.2%*	*-8.5%*
Geo-Thermal Generation (KWH Millions)	1,045.69	991.12	740.82	761.37	823.12	846.63
Growth (%)	*4.4%*	*-5.2%*	*-5.1%*	*2.8%*	*-5.0%*	*2.9%*
Thermal (KWH Millions)	1,762.59	1,711.92	1,281.42	1,066.86	1,435.72	1,189.01
Growth (%)	*16.9%*	*-2.9%*	*-0.5%*	*-16.7%*	*-3.3%*	*-17.2%*
Consumption of electricity (KWH Millions)	4,743.10	5,125.80	3,822.60	3,968.90	4,253.30	4,413.80
Growth %	*5.3%*	*8.1%*	*9.1%*	*3.8%*	*8.5%*	*3.8%*
Consumption of Fuels (Metric Tonnes)	2,866,700	3,121,700	2,370,300	2,135,300	2,630	
Growth %	*5.8%*	*11.6%*	*14.6%*	*-9.9%*	*13.0%*	
Murban crude oil average price (US $ per barrel)	64.57	72.46	67.27	112.39	68.72	108.11
Growth %	*20.3%*	*11.6%*	*1.3%*	*67.1%*	*4.6%*	*57.3%*

Source: Kenya National Bureau of Statistics

Tourism

Tourist arrivals between January and October 2008 declined by 35.2 percent, to 565,748 visitors, from 873,311 visitors in the same period of 2007 as shown in Table 3.5, due to the delayed effects of the post election violence and global financial crisis. Arrivals through the Jomo Kenyatta International Airport (JKIA), that constitute 86.1 percent of total arrivals, declined by 24.7 percent, to 486,815 visitors, from 646,770 visitors in the first ten months of 2007. The Moi International Airport Mombasa (MIAM) registered a decline of 66.3 percent in the tourist arrivals to 75,339 visitors in January - October 2008, from 223,878 visitors during the same period last year.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	CUMULATIVE									
	2006	2007	Jan-Sept' 2007	Jan-Sept' 2008	Jan-Sept' 2008 % share	Jan-Sept' 2008 % Growth	Jan-Oct' 2007	Jan-Oct' 2008	Jan-Oct' 2008 % share	Jan-Oct' 2008 % share
CRUISE	6,161	2,837	2,663	3,168	*0.64%*	*19.0%*	2,663	3,594	*0.64%*	*35.0%*
MIAM	263,699	276,298	199,751	64,577	*13.02%*	*-67.7%*	223,878	75,339	*13.32%*	*-66.3%*
JKIA	684,475	769,597	579,816	428,311	*86.34%*	*-26.1%*	646,770	486,815	*86.05%*	*-24.7%*
TOTAL	954,335	1,048,732	782,230	496,056	*100.00%*	*-36.6%*	873,311	565,748	***100.00%***	***-35.2%***

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

Source: Kenya Tourism Board

Although Europe continues to register the highest share of tourist arrivals, the flow declined by 50.9 percent between January and October 2008, to 233,647 visitors from 475,716 visitors over the same period of 2007 (Table 3.6). Arrivals from Africa declined by 5.6 percent to 166,985 visitors from 176,891 visitors, while those from America declined by 30.6 percent, to 79,190 visitors in the first ten months of 2008 from 114,028 visitors in the same period of 2007. The tourism industry is, however, expected to pick up as a result of aggressive marketing and economic recovery in tourist sources affected by the global financial crisis.

TABLE 3.6: TOTAL ARRIVALS BY CONTINENT

	CUMULATIVE									
REGION	2006	2007	Jan-Sept' 2007	Jan-Sept' 2008	Jan-Sept' 2008 % Share	Jan-Sept' 2008 % Growth	Jan-Oct' 2007	Jan-Oct' 2008	Jan-Oct' 2008 % Share	Jan-Oct' 2008 % Growth
Africa	188,872	212,501	159,435	146,518	*29.7%*	*-8.1%*	176,891	166,985	*29.5%*	*-5.6%*
America	110,967	132,651	104,079	70,527	*14.3%*	*-32.2%*	114,028	79,190	*14.0%*	*-30.6%*
Asia	93,518	103,443	79,590	63,959	*13.0%*	*-19.6%*	88,405	71,054	*12.6%*	*-19.6%*
Europe	537,195	578,312	422,587	199,509	*40.5%*	*-52.8%*	475,716	233,647	*41.3%*	*-50.9%*
Oceanic	15,529	18,975	13,866	9,847	*2.0%*	*-29.0%*	15,595	11,164	*2.0%*	*-28.4%*
Others	2,093	13	10	2,528	*0.5%*	*25180.0%*	13	114	*0.0%*	*776.9%*
Sub-Total	***948,174***	***1,045,895***	779,567	492,888	*100.0%*	*-36.8%*	870,648	562,154	***99.4%***	***-35.4%***
Cruise	6,161	2,837	2,663	3,168	*0.6%*	*19.0%*	2,663	3,594	*0.6%*	*35.0%*
Total	954,335	1,048,732	782,230	496,056	*100.6%*	*-36.6%*	873,311	565,748	***100.0%***	***-35.2%***

Source: Kenya Tourism Board

Transport and Tele-communications

The volume of cargo throughput handled by Kenya Ports Authority (KPA) increased by 0.7 percent to 10,565,688 metric tonnes in the first eight months of 2008 from 10,492,802 metric tonnes in the first eight months of 2007 as shown in Table 3.7. Cargo transported by the Kenya Pipeline Company (KPC) declined by 3.7 percent in the January – October period of 2008 to 3,219,156 metric tonnes, from 3,343,284 metric tonnes.

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	CUMULATIVE							
	2006	2007	Jan-Aug 2007	Jan-Aug 2008	Jan-Sept' 2007	Jan-Sept' 2008	Jan-Oct' 2007	Jan-Oct' 2008
Mombasa Port Cargo Throughput								
Output (MT) Equivalent	14,418,901	15,960,465	10,492,802	10,565,688	11,804,104		13,179,083	
Output Growth %	*8.6%*	*10.7%*	*11.4%*	*0.7%*	*9.5%*		*10.0%*	
Number of passengers Thro' JKIA								
Incoming	1,489,615	1,478,849	967,923	945,158	1,097,391		1,227,078	
Growth (%)	*10.3%*	*-0.7%*	*0.7%*	*-2.4%*	*-0.4%*		*-0.5%*	
Outgoing	1,499,876	1,480,620	976,171	954,609	1,109,924		1,236,406	
Growth %	*10.2%*	*-1.3%*	*0.5%*	*-2.2%*	*-0.7%*		*-1.3%*	
Kenya Pipeline oil Throughput								
Output ('000 litres)	3,826,154	3,962,279	2,675,241	2,559,360	2,987,957	2,883,931	3,343,284	3,219,156
Output Growth %	*8.5%*	*3.6%*	*6.4%*	*-4.3%*	*5.2%*	*-3.5%*	*5.1%*	*-3.7%*
Kenya Revenue Authority (Excise tax on airtime)								
Kshs million	4,635	5,962	3,850	4,356	4,376	4,976	4,873	5,589
Output Growth %	*35.8%*	*28.6%*	*33.0%*	*13.1%*	*30.1%*	*13.7%*	*29.9%*	*14.7%*

MT = Metric tonnes

Sources: Port of Mombasa and Kenya Pipeline

The number of new motor vehicles registration grew by 37.7 percent in the in the first ten months of 2008, with 97,218 new motor vehicle units registered compared with 70,610 units registered in a similar period of 2007 as shown in Table 3.8.

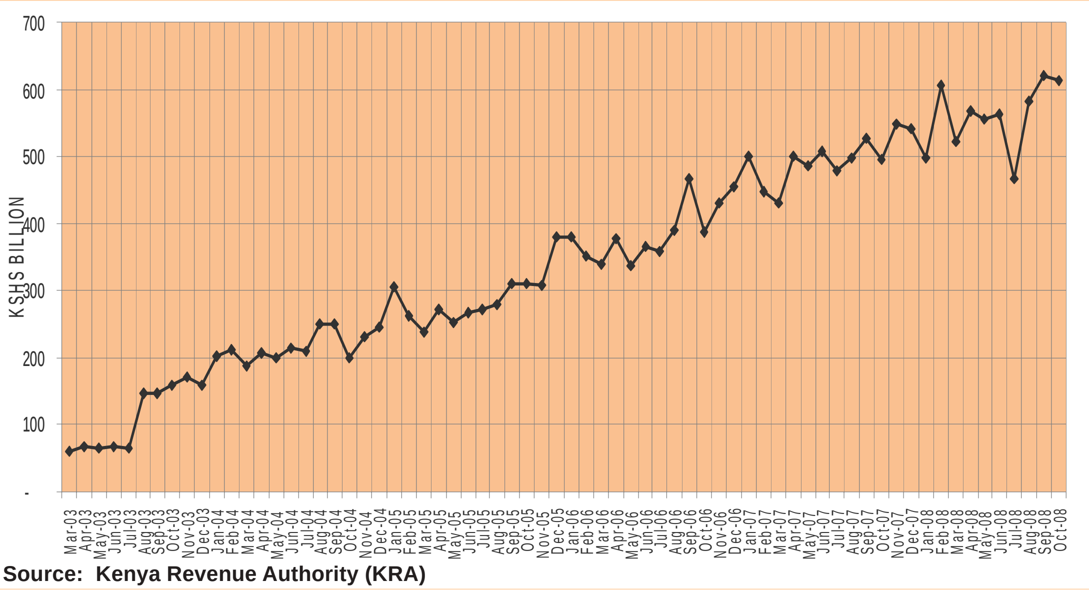
TABLE 3.8: NEW VEHICLES REGISTRATION

CUMULATIVE													
	2003	2004	2005	2,006	2007	Jan-Sept' 2007	Jan-Sept' 2008	Jan-Sept' 2008 Share	Jan-Sept'2008 Growth	Jan-Oct' 2007	Jan-Oct' 2008	Jan-Oct' 2008 Share	Jan-Oct '2008 Growth
Type													
Saloons	9,709	12,628	14,214	14,829	17,893	13,019.00	13,723.00	16.2%	5.4%	15,076.00	15,326.00	15.8%	1.7%
St,Wagons	8,032	8,863	10,158	12,631	24,115	17,155.00	19,499.00	23.1%	13.7%	20,060.00	21,731.00	22.4%	8.3%
Vans, P/ups	6,819	7,042	6,308	6,661	9,470	7,014.00	5,010.00	5.9%	-28.6%	7,897.00	5,690.00	5.9%	-27.9%
M/Buses	2,854	4,405	4,076	3,714	4,252	3,067.00	4,076.00	4.8%	32.9%	3,665.00	4,649.00	4.8%	26.8%
Buses	667	872	885	856	2,006	990.00	883.00	1.0%	-10.8%	1,122.00	991.00	1.0%	-11.7%
Lorries	2,069	2,461	3,113	3,610	6,329	4,600.00	5,157.00	6.1%	12.1%	5,225.00	5,699.00	5.9%	9.1%
Trailers	861	1,112	1,351	1,706	2,193	1,635.00	1,466.00	1.7%	-10.3%	1,871.00	1,632.00	1.7%	-12.8%
Motor cycles	2,084	4,136	3,759	6,250	16,293	11,949.00	32,814.00	38.8%	174.6%	13,302.00	39,464.00	40.6%	196.7%
3 Wheelers	10	134	735	1,075	1,072	833.00	520.00	0.6%	-37.6%	945.00	600.00	0.6%	-36.5%
Wheeled tractors	663	829	856	920	1,213	902.00	915.00	1.1%	1.4%	1,004.00	928.00	1.0%	-7.6%
Others	147	152	198	505	488	400.00	443.00	0.5%	10.8%	443.00	508.00	0.5%	14.7%
Total	33,915	42,634	45,653	52,757	85,324	61,564.00	84,506.00	100.0%	37.3%	70,610.00	97,218.00	100.0%	37.7%

Source: Kenya National Bureau of Statistics

The telecommunications sector registered improved performance in the January to October period of 2008, with excise on airtime (Kenya Revenue Authority) increasing by 14.7 percent to Ksh 5,589 million from Ksh 4,873 million in the previous period of 2007 as shown in Chart 3C.

CHART 3D: EXCISE TAX ON AIRTIME



Source: Kenya Revenue Authority (KRA)

Building & Construction Industry

Cumulative cement consumption in the first nine months of 2008 increased by 37.0 percent, to 2,036,515 metric tonnes in October 2008 from 1,486,771 metric tonnes in the same period of 2007 . This reflects increased activity in the building and construction sector.

DEVELOPMENTS IN BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya's balance of payments declined to a surplus of US$ 74 million in the year to October 2008 from a surplus of US$ 455 million in the year to October 2007 following a larger widening in the current account deficit relative to the improvement in the capital and financial account (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Oct 2007*	Year to October 2008* Q1 Nov-Jan	Q2 Feb-Apr	Q3 May-Jul	Q4 Aug-Oct	Year to Oct 2008*	Absolute change Oct 08 - Oct 07
1. OVERALL BALANCE	455	622	(115)	61	(493)	74	***(381)***
2. CURRENT ACCOUNT	(1041)	(391)	(159)	(462)	(1055)	(2067)	***(1026)***
2.1 Goods	(4802)	(1383)	(1178)	(1489)	(1834)	(5884)	***(1081)***
Exports (fob)	4050	1040	1345	1267	1263	4916	***866***
Coffee	161	31	49	45	33	157	***(4)***
Tea	705	159	229	250	239	877	***173***
Horticulture	596	183	226	188	165	762	***166***
Oil products	173	21	46	24	21	113	***(60)***
Manufactured Goods	501	135	162	165	164	626	***125***
Raw Materials	242	73	102	80	71	326	***83***
Re-exports	188	49	58	69	99	275	***87***
Other	1484	390	473	447	471	1781	***297***
Imports (cif)	8852	2424	2523	2756	3097	10800	***1947***
Oil	1861	598	657	876	925	3056	***1196***
Chemicals	1148	330	361	356	393	1441	***293***
Manufactured Goods	1362	401	337	390	439	1567	***205***
Machinery & Transport Equipment	2853	662	704	713	837	2917	***64***
Other	1628	432	464	420	502	1818	***190***
2.2 Services	3761	992	1019	1026	779	3816	***55***
Non-factor services (net)	1832	471	405	439	357	1671	***(161)***
of which tourism	886	187	184	222	164	757	***(129)***
Income (net)	(166)	(16)	51	45	11	91	***257***
of which official interest	(144)	(33)	(27)	(24)	(16)	(100)	***44***
Current Transfers	2095	537	564	543	411	2055	***(41)***
Private (net)	1936	449	564	543	411	1967	***31***
Public (net)	160	88	0	0	0	88	***(72)***
3. CAPITAL & FINANCIAL ACCOUNT	1497	1013	44	523	561	2142	***645***
3.1 Capital Tranfers (net)	244	60	59	150	49	317	***74***
3.2 Financial Account	1253	954	(15)	374	513	1825	***572***
Official, medium & long-term	(36)	33	7	62	10	112	***148***
Inflows	190	94	81	124	78	377	***187***
Outflows	(225)	(60)	(75)	(62)	(68)	(265)	***(39)***
Private, medium & long-term (net)	16	652	(422)	(70)	397	556	***541***
Commercial Banks (net)	(85)	53	(404)	(49)	409	8	***94***
Other private medium & long-term (net)	101	599	(18)	(20)	(12)	548	***447***
Short-term (net) incl. errors & omissions	1273	269	401	381	106	1156	***(117)***
memo:							
Gross Reserves	3991	4577	4977	5616	4735	4735	***744***
Official	2853	3522	3390	3439	2928	2928	***75***
imports cover**	***3.5***	***4.1***	***3.8***	***3.6***	***2.9***	***2.9***	***(0.5)***
imports cover***	***4.2***	***5.0***	***4.6***	***4.4***	***3.5***	***3.5***	***(0.7)***
Commercial Banks	1138	1055	1587	2177	1807	1807	***669***

* Provisional

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

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

Source: Central Bank of Kenya

Current Account

The current account deficit widened to US$ 2,067 million in the year to October 2008 from US$ 1041 million in the year to October 2007. This deterioration reflected growth in merchandise imports that surpassed the growth in exports of both goods and services.

Merchandise Account

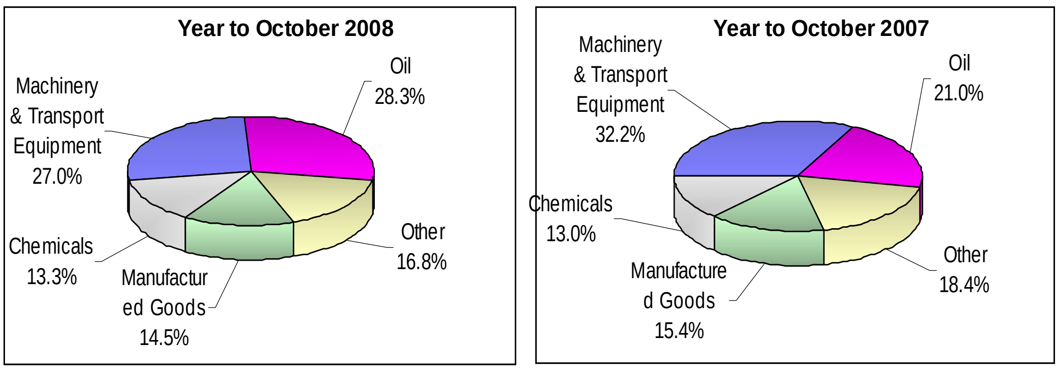
The trade deficit deteriorated by 22.5 percent to US$ 5,884 million in the year to October 2008 compared with US$ 4,802 million in the year to October 2007. This was attributed to sustained demand for merchandise imports, which rose by US$ 1,947 million to US$ 10,800 million in the year to October 2008. Merchandise exports also improved during the period in review but by a lesser margin of US$ 866 million to US$ 4,916 million.

Imports

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

The share of oil and chemicals in the total imports bill increased, respectively, to 28.3 percent and 13.3 percent in the year to October 2008 from 21.0 percent and 13.0 percent in the year to October 2007 (Chart 4A). However, the contribution of manufactured goods and machinery and transport equipment in the total value of imports declined to 14.5 percent and 27.0 percent in the year to October 2008, from 15.4 percent and 32.2 percent in the year to October 2007.

CHART 4A: COMPOSITION OF KENYA'S IMPORTS



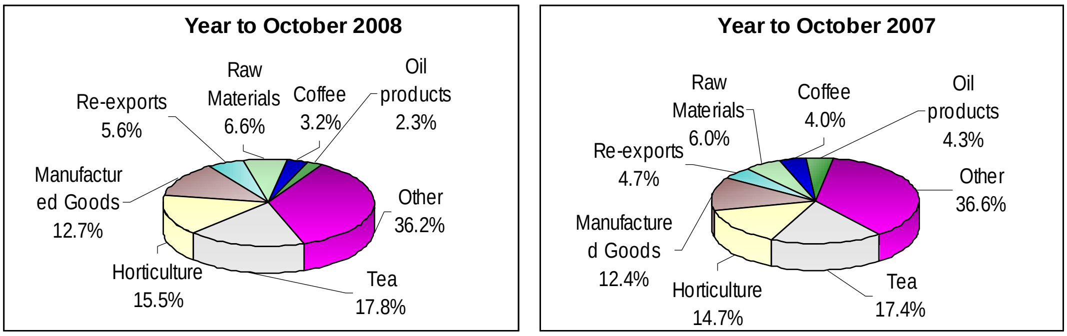
Source: Customs and Excise Department.

Exports

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

Coffee, tea and horticulture made up 36.5 percent of the total value of exports in the year to October 2008 compared with 36.1 percent a year earlier, while manufactured goods and oil, respectively, contributed 12.7 percent and 2.3 percent of the total value of exports (Chart 4B).

CHART 4B: COMPOSITION OF KENYA'S EXPORTS



Source: Customs and Excise Department, KRA

Direction of Trade

In terms of bilateral trade in goods, the main destination countries for Kenya's merchandise exports in the period under review were Uganda (12.3 percent), United Kingdom (11.2 percent), Tanzania (8.3 percent), the Netherlands (7.7 percent), United States of America (6.0 percent), Sudan (4.2 percent), Egypt (4.1 percent), Somalia (3.9 percent) and Pakistan (3.9 percent) as shown in Table 4.2. Overall, African countries absorbed 46.8 percent of Kenya's merchandise exports. In terms of regional trade, Kenya's exports to EAC countries increased to US$ 1,180 million (24.0 percent of total exports) in the year to October 2008, from US$ 925 million in the year to October 2007. Exports to the COMESA region also rose to US$ 1,578 million (32.2 percent of total exports) in the year to October 2008 from US$ 1,229 million in the year to October 2007, with the increase largely attributed to exports to Uganda, Sudan and Rwanda.

Bilaterally, imports of goods to Kenya during the year in review were mainly from the United Arab Emirates (16.2 percent), India (11.5 percent), China (7.8 percent), Japan (6.1 percent), South Africa (5.9 percent), United States of America (3.8 percent), United Kingdom (3.6 percent), Germany (3.4 percent), Saudi Arabia (3.2 percent), Indonesia (3.2 percent) and France (2.0 percent). Regionally, Kenya's imports from the EAC increased to US$ 190 million (1.8 percent of total imports) in the year to October 2008 from US$ 172 million in the year to October 2007. Imports from the COMESA region also increased to US$ 441 million (4.1 percent of total imports) in the year to October 2008, from US$ 371 million in the year to October 2007 with the increase attributed to imports from Uganda, Djibouti and Mauritius.

TABLE 4.2: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)	Year to October			Share of Imports (%) Year to October		
Country	2006	2007	2008	2006	2007	2008
Africa	855	973	1,243	12.2	11.0	11.5
Of which						
South Africa	471	486	634	6.7	5.5	5.9
Egypt	102	161	152	1.5	1.8	1.4
Others	282	325	457	4.0	3.7	4.2
EAC	76	172	190	1.1	1.9	1.8
COMESA	224	371	441	3.2	4.2	4.1
Rest of the World	6,157	7,876	9,566	87.8	89.0	88.5
Of which						
United Arab Emirates	1,036	1,323	1,754	14.8	14.9	16.2
India	495	821	1,241	7.1	9.3	11.5
China	339	671	848	4.8	7.6	7.8
Japan	382	579	661	5.5	6.5	6.1
United Kingdom	554	461	387	7.9	5.2	3.6
USA	284	684	409	4.1	7.7	3.8
Germany	256	336	369	3.6	3.8	3.4
Indonesia	185	259	345	2.6	2.9	3.2
Saudi Arabia	365	252	351	5.2	2.8	3.2
France	173	240	211	2.5	2.7	2.0
Singapore	295	208	312	4.2	2.3	2.9
Italy	163	196	169	2.3	2.2	1.6
Netherlands	124	139	172	1.8	1.6	1.6
Korea (South)	117	106	132	1.7	1.2	1.2
Others	1,389	1,602	2,207	19.8	18.1	20.4
Total	7,012	8,849	10,810	100	100	100

EXPORTS (in millions of US dollars)	Year to October			Share of Exports (%) Year to October		
Country	2006	2007	2008	2006	2007	2008
Africa	1,463	1,797	2,298	44.0	44.9	46.8
Of which						
Uganda	380	488	604	11.4	12.2	12.3
Tanzania	257	319	406	7.7	8.0	8.3
Sudan	129	171	205	3.9	4.3	4.2
Somalia	99	113	192	3.0	2.8	3.9
Egypt	138	131	203	4.1	3.3	4.1
DRC	101	121	140	3.0	3.0	2.9
Others	358	455	548	10.8	11.4	11.2
EAC	734	925	1,180	22.1	23.1	24.0
COMESA	**1,022**	**1,229**	**1,578**	30.7	30.7	32.2
Rest of the World	1,863	2,202	2,610	56.0	55.1	53.2
Of which						
United Kingdom	363	418	549	10.9	10.5	11.2
Netherlands	263	323	378	7.9	8.1	7.7
USA	208	281	297	6.3	7.0	6.0
Pakistan	200	214	191	6.0	5.3	3.9
United Arab Emirates	59	119	129	1.8	3.0	2.6
India	55	79	98	1.6	2.0	2.0
Germany	66	80	93	2.0	2.0	1.9
France	52	57	73	1.6	1.4	1.5
Others	596	631	801	17.9	15.8	16.3
Total	3,325	3,999	4,908	100	100	100

Source: Customs and Excise Department, KRA

Services

The services account improved by 1.5 percent to a surplus of US$ 3,816 million in the year to October 2008 mainly due to increased current transfers and net income (Table 4.1).

Net non-factor service receipts declined by US$ 161 million to US$ 1,671 million in the year to October 2008 from US$ 1832 in the year to October 2007 reflecting increased payments for transportation services, royalties and licence fees and decreased income from foreign travel. Gross receipts from services increased during the period under review and this was mainly due to other government and private sector services. Gross receipts from foreign travel declined to US$ 757 million in the year to October 2008. In the income account, gross interest earnings on official foreign exchange reserves rose by US$ 25 million to US$ 157 million in the year to October 2008, while income earned by the private sector improved by US$ 89 million to US$ 117 million. On the other hand, private sector payments of interest on foreign debt, dividends and distributed profits declined by US$ 36 million to US$ 92 million in the year to October 2008, while interest payments on official foreign debt increased by US$ 17 million to US$ 93 million. Net inflows from grants during the year to October 2008 amounted to US$ 2,097 million, out of which the value of remittances received from Kenyans abroad through the banking system was estimated at US$ 628 million.

Capital and Financial Account

The capital and financial account improved to a surplus of US$ 2,142 million in the year to October 2008 compared with a surplus of US$ 1,497 million in the year to October 2007 (Table 4.1).

Net private medium and long-term financial inflows improved to US$ 556 million in the year to October 2008 from US$ 16 million in the year to October 2007 reflecting increased foreign direct investment inflows and other private medium and long-term financial flows. Other changes in the year to October 2008 included increased net foreign loan repayments, capital repatriation and commercial banks' holding of net foreign assets. Net short term financial inflows, including errors and omissions in recorded transactions, decreased by US$ 117 million to US$ 1,156 million in the year to October 2008.

Foreign Exchange Reserves

Following the overall improvement in Kenya's balance of payments, total foreign exchange holdings by the banking system increased to US$ 4,735 million at end of October 2008 from US$ 3,991 million at the end of October 2007. Besides these holdings, foreign currency deposits held locally by residents increased by US$ 195 million to US$ 1,714 million at the end of October 2008.

Gross official foreign exchange reserves held by the Central Bank increased by US$ 75 million to US$ 2,928 million (3.6 months of import cover) at end of October 2008 from US$ 2,853 million (4.2 months of import cover) at end of October 2007 (Table 4.3 and Chart 4C). The build up in official reserves during the year to October 2008 was achieved through interest earned on official foreign exchange reserves, foreign aid to the Government, and privatisation proceeds through the Safaricon IPO. However, the level of reserves in October 2008, in terms of months of import cover was below the 4 months statutory minimum stipulated in the CBK act. The coverage is a reflection of growth in the import bill on account of increased costs of oil import and other capital goods. The stock of official reserves is also subject to exchange rate variations given that reserves are reported in US dollar while a significant portion of reserves are also held in Sterling Pound and Euros. Thus, changes in these currencies' rate of exchange vis-à-vis the US dollar resulted in reserves revaluation losses, which was more pronounced particularly in October 2008 on account of the strengthening of the US dollar vis-à-vis the Euro and the Sterling Pound.

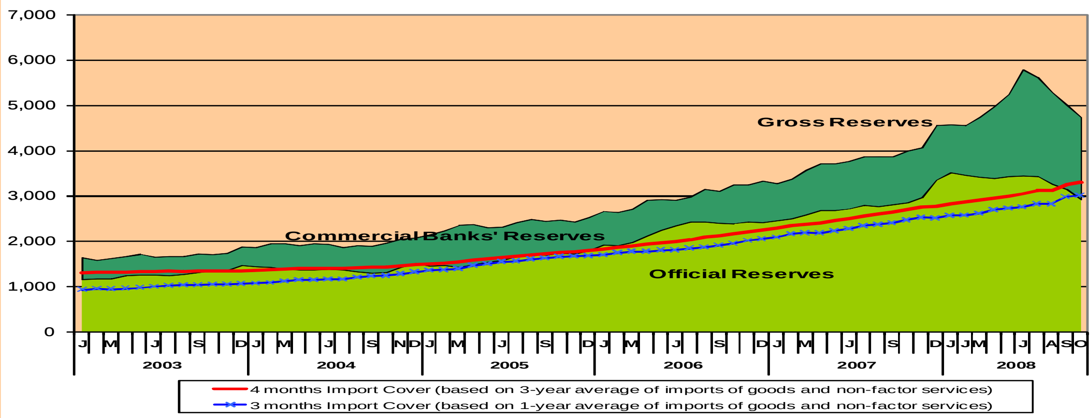
Foreign exchange holdings of commercial banks rose by US$ 699 million to US$ 1,807 million at end of October 2008, with most of the assets held as balances with banks abroad in the amount of US$ 1,508 million. Other foreign assets of commercial banks included cash, foreign loans and foreign bills discounted.

TABLE 4.3: FOREIGN EXCHANGE RESERVES (END OF PERIOD, US$ MILLION)

	Aug 07	Sep 07	Oct 07	Dec 07	Jul 08	Aug 08	Sep 08	Oct 08
Gross Foreign Exchange Reserves	**3,871**	**3,870**	**3,991**	**4,557**	**5,616**	**5,287**	**5,012**	**4,735**
of which:								
Official	2,779	2,820	2,853	3,355	3,439	3,263	3,151	2,928
*imports cover**	*3.5*	*3.5*	*3.5*	*4.0*	*3.6*	*3.5*	3.16	2.94
*imports cover***	*4.3*	*4.3*	*4.2*	*4.9*	*4.4*	*4.2*	3.88	3.61
Commercial Banks	1,092	1,050	1,138	1,202	2,177	2,023	1,861	1,807

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

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling depicted mixed performance against major world currencies in December 2008. Against the US dollar, the shilling remained fairly stable to trade at an average of Ksh 78.22 in December 2008 compared with Ksh 78.18 per US dollar in November 2008. However, the shilling weakened against the Euro and the Japanese Yen to exchange, respectively, at an average of Ksh 104.07 and Ksh 85.37 per 100 Japanese Yen in December 2008 compared with Ksh 99.33 and Ksh 80.71 per 100 Japanese Yen in November 2008. Against the Sterling Pound, the shilling strengthened to exchange at an average of Ksh 117.42 in December 2008 compared with Ksh 119.59 per Sterling Pound in November 2008 (Table 4.4 and Chart 4D).

Against the regional currencies, the Shilling strengthened against the Uganda Shilling and the Tanzania Shilling in December 2008. Against the Uganda Shilling, it exchanged at an average of Ush 25.07 in December 2008 compared with Ush 24.49 in November 2008, while against the Tanzania Shilling, it exchanged at Tsh 16.57 in December 2008 compared with Tsh 16.05 in November 2008.

TABLE 4.4: KENYA SHILLING EXCHANGE RATE

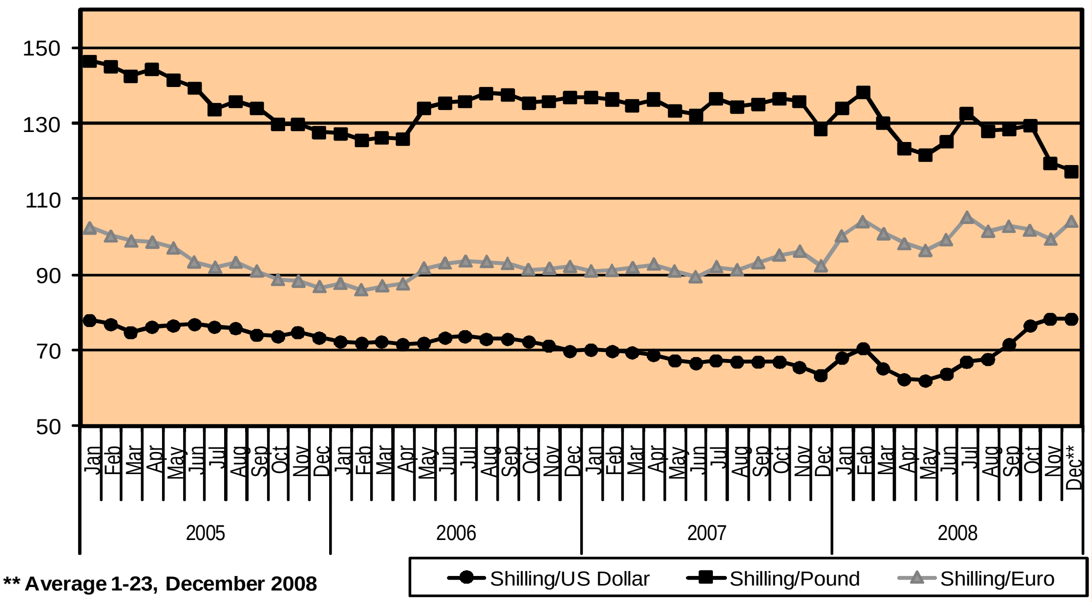
	2007			2008									% change Dec 08 - Nov 08
	Oct	Nov	Dec	Jan	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec**	
US Dollar	66.85	65.49	63.30	68.08	61.90	63.78	66.70	67.68	71.41	76.50	78.18	78.22	**0.05**
Pound Sterling	136.52	135.79	128.45	134.01	121.62	125.27	132.62	127.97	128.58	129.38	119.59	117.42	**-1.82**
100 Japanese Yen	57.76	58.92	56.52	63.16	59.38	59.60	62.43	61.92	67.00	76.77	80.71	85.37	**5.77**
Uganda Shilling*	26.13	26.11	27.11	25.16	26.65	25.14	24.36	24.00	23.07	23.89	24.49	25.07	**2.37**
Tanzania Shilling*	17.60	17.53	18.36	17.10	19.49	18.64	17.65	18.00	16.27	16.12	16.05	16.57	**3.21**
Euro	95.09	96.13	92.24	100.16	96.32	99.21	105.18	101.40	102.73	101.67	99.33	104.07	**4.77**
Euro per US dollar	0.703	0.681	0.686	0.680	0.643	0.643	0.634	0.667	0.695	0.752	0.787	0.752	**-4.50**

* Units of currency per Kenya shilling

** Average December 1 -23, 2008 (Provisional)

Source: Central Bank of Kenya

CHART 4D: KENYA SHILLING EXCHANGE RATE



**** Average 1-23, December 2008**

Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

The banking sector remained stable with all institutions being adequately capitalised during the period ending October 2008. Total assets increased by 32.4 percent, deposits expanded by 27.9 percent while pre tax profits increased by 27.1 percent compared with similar period in 2007. Similarly, the level of gross non-performing loans declined by 3.0 percent. However, return on assets declined to 2.9 percent in October 2008 from 4.0 percent in October 2007 mainly due to increase in assets.

Structure of the Banking Sector

As at 31st October 2008, the Kenyan banking sector comprised of 43 commercial banks, two mortgage finance companies and 122 foreign exchange bureaus.

Structure of the Balance Sheet

The aggregate balance sheet of the banking sector registered significant growth in October 2008 compared with similar period in 2007. Deposits were the major source of funding accounting for the increase in the aggregate balance sheet. As a result, the banking sector's assets increased by 32.4 percent to Ksh 1,183.2 billion in October 2008 from Ksh 893.6 billion in October 2007. Major components of total banking assets were loans and advances, which accounted for 53.0 percent of total assets followed by Government securities and placements at 18.0 percent and 13.0 percent of total assets, respectively.

Loans & Advances

Gross loans and advances, as at the end of October 2008, stood at Ksh 679.0 billion compared with Ksh 504.7 billion recorded in October 2007, representing an increase of 34.5 percent. The banking industry extended credits to various sectors of the economy including private households, manufacturing, trade, business services and other sectors. Total Loans and advances, net of provisions stood at Ksh 637.1 billion in October 2008 compared with Ksh 461.6 billion in October 2007. The increase in gross advances was attributed to borrowing by existing customers and new customers to meet business growth.

Deposit Liabilites

During the period under review, the banking sectors' deposits remained the primary source of funding for the banking sector, and represented 77.0 percent of total liabilities and capital at the end of October 2008 compared with 80.0 percent in October 2007. Total deposit liabilities increased by 27.9 percent to Ksh 918.7 billion in October 2008 from Ksh 722.5 billion in October 2007. Foreign currency deposits rose by 63.4 percent to Ksh 193.3 billion from Ksh 118.3 billion over the same period. This increase in deposit base was attributed to external donor inflows, remittances by Kenyans in the diaspora and receipts from exports.

Capital & Reserves

The capital adequacy for the banking sector which is measured by the ratio of total capital to risk-weighted assets remained fairly stable during the period to October 2008. The ratio increased to 18.4 percent in October 2008 from 16.4 percent in October 2007. This ratio was well above the minimum regulatory requirement of 12 percent. In the twelve months to October 2008, total capital of the banking sector rose by 46.9 percent to Ksh 143.6 billion from Ksh 97.8 billion. Similarly, the total shareholders' funds of the banking system increased by 40.2 percent to Ksh 159.0 billion in October 2008 from Ksh 113.4 billion in October 2007. The increase in capital and reserves in the sector was attributed to retention of profits and fresh capital injection by some institutions.

Non-performing Loans

The stock of gross non-performing loans (NPLs) declined by 3.0 percent to Ksh 57.4 billion as at October 2008 from Ksh 59.1 billion in October 2007. The ratio of gross non-performing loans to gross loans and advances was 8.4 percent in October 2008 compared with 11.7 percent as at the end of October 2007. Consequently, the quality of assets, measured by the ratio of net non-performing loans to gross advances improved to 3.0 percent from 4.1 percent over the period as shown in Table 5.1. The reduction was attributed to the growing prudence in risk management, write offs and recoveries of NPLs.

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

		Oct-07	Oct-08
1	Gross loans and advances	504.7	679.0
2	Loans and Advances (net of interest suspended)	489.1	665.4
3	Gross non-performing loans	59.1	57.4
4	Specific Provisions	22.9	23.1
5	General Provisions	4.6	5.2
6	Total Provisions (4+5)	27.5	28.3
7	Net Advances (2-6)	461.6	637.1
8	Total Non-Performing Loans and Advances	43.5	43.8
9	Net Non-Performing Loans and advances (8-4)	20.6	20.7
10	Total NPLs as % of total advances (8/2)	8.9	6.6
11	Net NPLs as % of gross advances (9/1)	4.1	3.0
12	Specific Provisions as % of Total NPLs (4/8)	52.6	52.7

Source: Central Bank of Kenya

Profitability

The banking sector's profitability for the ten months to October 2008 improved compared to a similar period in 2007. Profit before tax increased by 27.3 percent to Ksh 38.0 billion in 2008 from Ksh 29.8 billion in October 2007. The major sources of income were intermediation function and fees and commissions. Interest income on advances rose by 34.5 percent to Ksh 60.6 billion in October 2008 from Ksh 45.0 billion in October 2007. Similarly, foreign exchange gains rose by 74.6 percent to Ksh 10.3 billion from Ksh 5.9 billion over the same period. Total expenses rose by 33.3 percent to Ksh 84.1 billion in October 2008 from Ksh 63.0 billion in October 2007. Loan loss provision for the period increased to Ksh 4.5 billion in October 2008 from Ksh 4.0 billion in October 2007. Similarly, Salaries and wages expenses increased to Ksh 27.8 billion in October 2008 from Ksh 20.4 billion in October 2007 as institutions continued to recruit staff to match the expansion in their branch network and roll-out new products. However, despite the increase in profitability, annualized return on assets declined to 2.9 percent in 2008 from 4.0 percent due to increase in assets.

Liquidity Ratio Reqirement

Liquidity ratio,that is the proportion of liquid assets to deposit liabilities of the banking sector was above the minimum requirement of 20 percent in November 2008 with commercial banks maintaining an average ratio of 37.6 percent.

Cash Ratio Reqirement

The proportion of cash to deposit liabilities held by commercial banks at the CBK for reserve requirements averaged 6.2 percent in November 2008 compared with 6.3 percent in October 2008 and 6.0 percent statutory level as shown in Table 5.3 and Chart 5a. Commercial banks held excess reserves at the Central Bank averaging Ksh 1.9 billion in November 2008 compared with Ksh 2.0 billion in October 2008.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2007					2008							
	June	Sept	Oct	Nov	Dec	Apr	May	June	July	Aug	Sep	Oct	Nov
Commercial Banks													
Actual Average Liquidity	46.7	46.9	46.1	40.0	40.6	40.1	41.4	42.1	41.9	40.4	40.1	39.4	37.6
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio - All Banks	6.3	6.2	6.2	6.2	6.2	6.6	6.6	6.5	6.3	6.4	6.3	6.3	6.2
Minimum Cash Ratio Requirement**	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
NBFIs													
Actual Average Liquidity Ratio	26.2	28.2	27.6	23.6	31.48	21.2	20.0	22.0	35.2	30.69	29.72	26.6	27.1
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Minimum Cash Ratio Requirement***	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

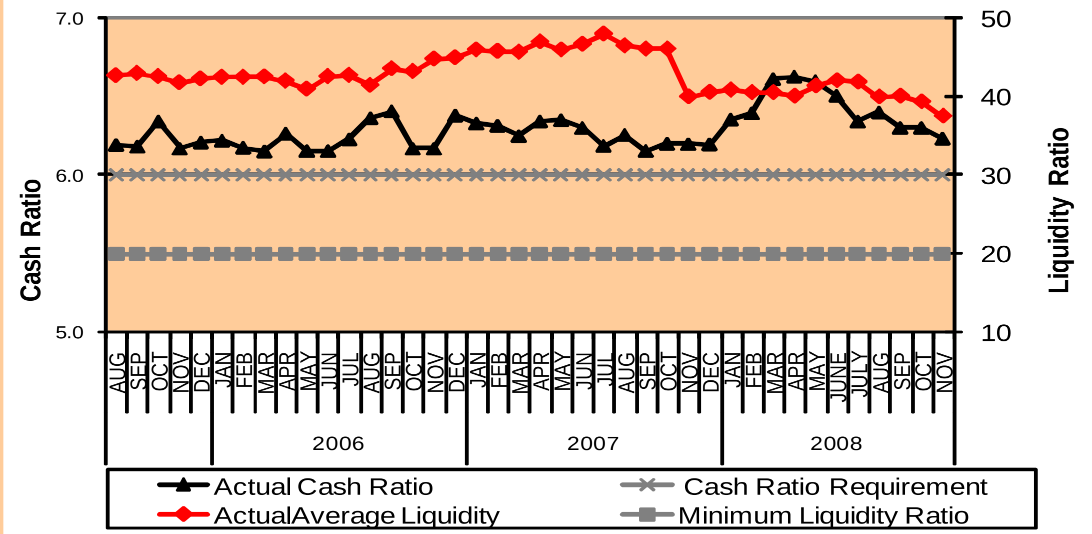
* Monthly average liquidity and cash ratios

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

*** Ratio includes NBFIs and Mortgage companies

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 22,718 transactions messages worth Ksh 1,225 billion in November 2008 compared with a volume of 23,635 transaction messages valued at Ksh 1,344 billion moved in October 2008 representing 8.64 percent decrease in value and 3.88 percent decrease in volume. The amount moved represents 5.51 percent increase compared with Ksh 1,161 billion moved in November 2007. Unlike the past IPO's, the Co-operative Bank of Kenya Initial Public Offer (IPO) did not produce much impact to the KEPSS system as was expected.

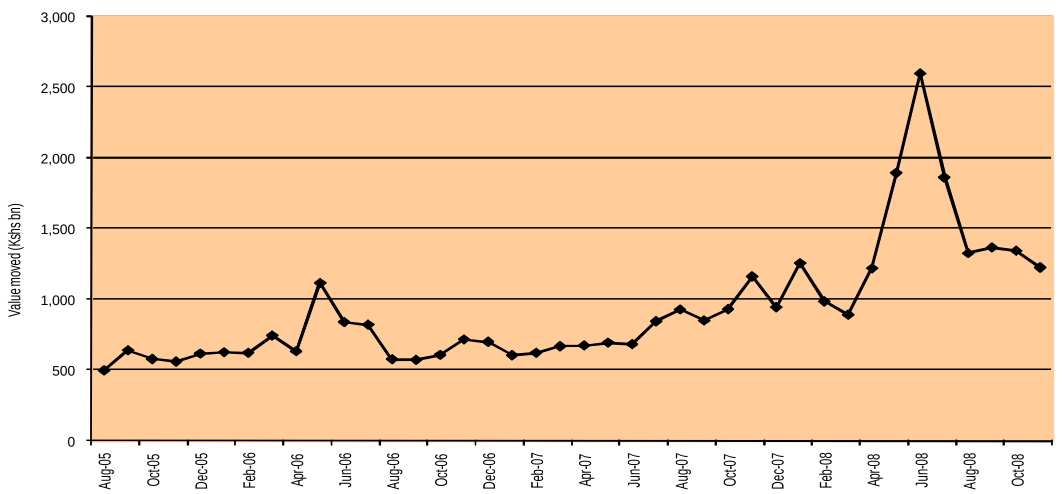
The value moved through the system for the twelve months to November 30, 2008 averaged Ksh 64.46 million per transaction message, while the average amount moved per day was approximately Ksh 69.57 billion in this period (Table 5.3 and Chart 5B). Direct settlements through KEPSS in October 2008 averaged 95.3 percent of the total settlements, while indirect payments (ACH Net settlement) averaged 4.7 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jun-07	682	61	13,924	0.05	20	34	696
Jul-07	844	59	14,633	0.06	22	38	665
Aug-07	928	68	17,527	0.05	23	40	762
Sep-07	851	73	14,770	0.06	20	43	739
Oct-07	930	62	16,638	0.06	22	42	756
Nov-07	1,161	74	19,613	0.06	22	53	892
Dec-07	945	48	14,563	0.06	14	67	1,040
Jan-08	1,256	78	23,773	0.05	22	57	1,081
Feb-08	985	62	23,278	0.04	21	47	1,108
Mar-08	891	60	20,920	0.04	18	49	1,162
Apr-08	1,220	107	24,684	0.05	22	55	1,122
May-08	1,895	94	19,730	0.10	21	90	940
Jun-08	2,601	115	22,387	0.12	20	130	1,119
Jul-08	1,864	75	24,599	0.08	23	81	1,070
Aug-08	1,327	59	20,593	0.06	21	63	981
Sep-08	1,367	76	23,494	0.06	22	62	1,068
Oct-08	1,344	85	23,635	0.06	20	67	1,182
Nov-08	1,225	57	22,718	0.05	21	58	1,082

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 decreased by 5.33 percent to 711 transaction messages in November 2008 from 751 transaction messages in October 2008, while single third party Message Type (MT) 103 increased by 0.01 percent to 8,804 transaction messages from 8,803 transaction messages in the same period. Overall, total third party messages through KEPSS decreased by 0.41 percent to 9,515 transaction messages in November 2008 from 9,554 transaction messages in October 2008.

Compared with November 2007, multiple third party messages (MT102) decreased by 4.44 percent to 711 transaction messages in November 2008 from 744 transaction messages, while single third party message (MT103) increased by 41.86 percent to 8,804 transaction messages from 6,206 transaction messages in the same period (Table 5.4 and Chart 5C).

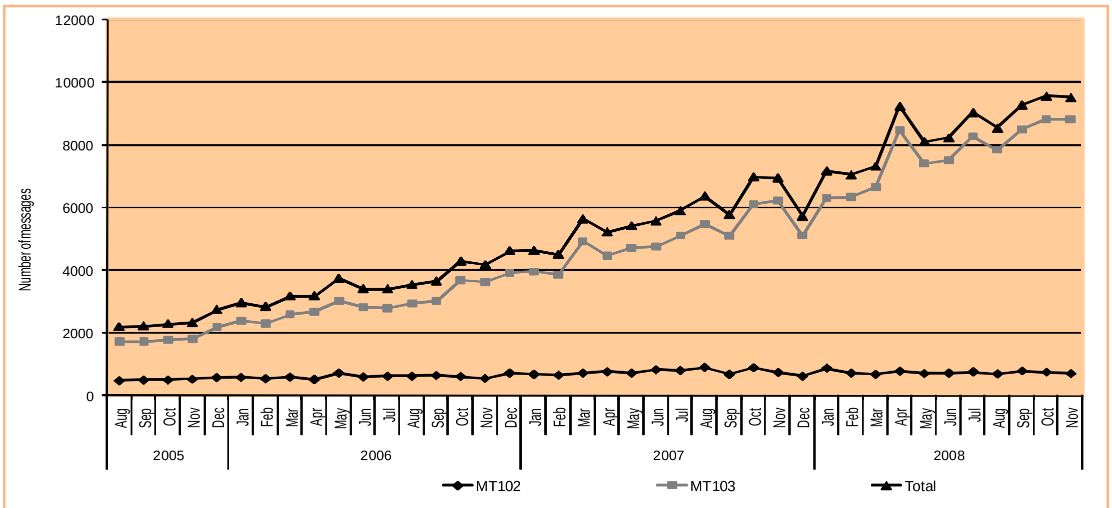
Inter-bank transfers (MT202) accounted for 74.02 percent on average of the total value moved through KEPSS in November 2008, while third party messages including those processed by CBK accounted for 25.98 percent.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

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

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

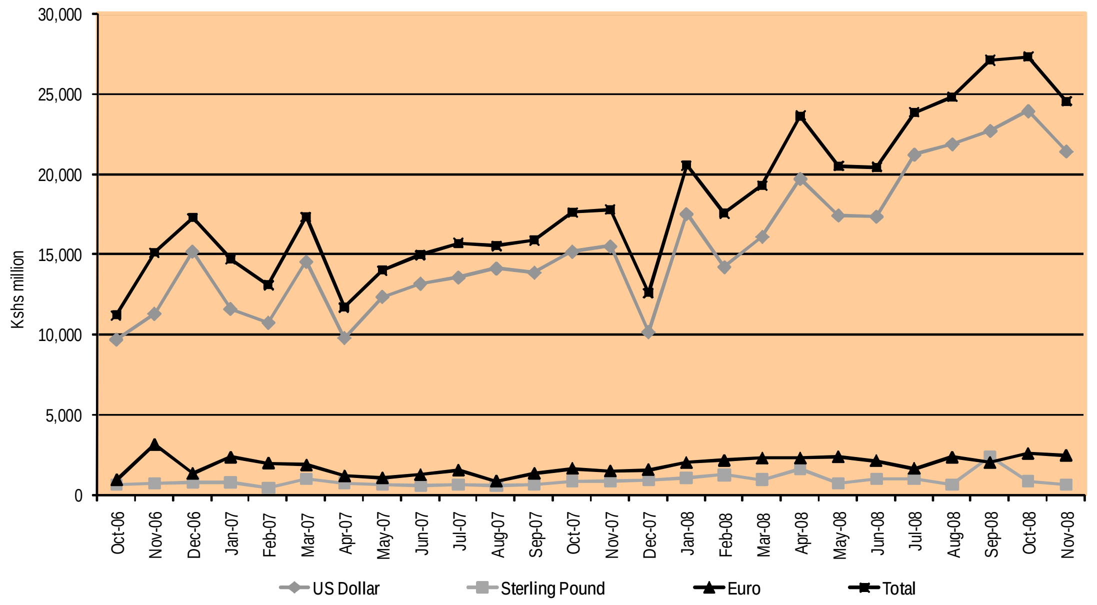


Source: Central Bank of Kenya

Domestic Foreign Currency Flows

Domestic Foreign Currency messages through KEPSS decreased by 8.09 percent to 1,835 transaction messages in November 2008 from 1,997 transaction messages in October 2008. The corresponding value in Kenya Shilling equivalent moved in this period also decreased by 10.24 percent to Ksh 24.52 billion from Ksh 27.31 billion. The US dollar accounted for 87.35 percent of the value moved (Chart 5D).

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



Source: Central Bank of Kenya

GOVERNMENT BUDGET PERFORMANCE

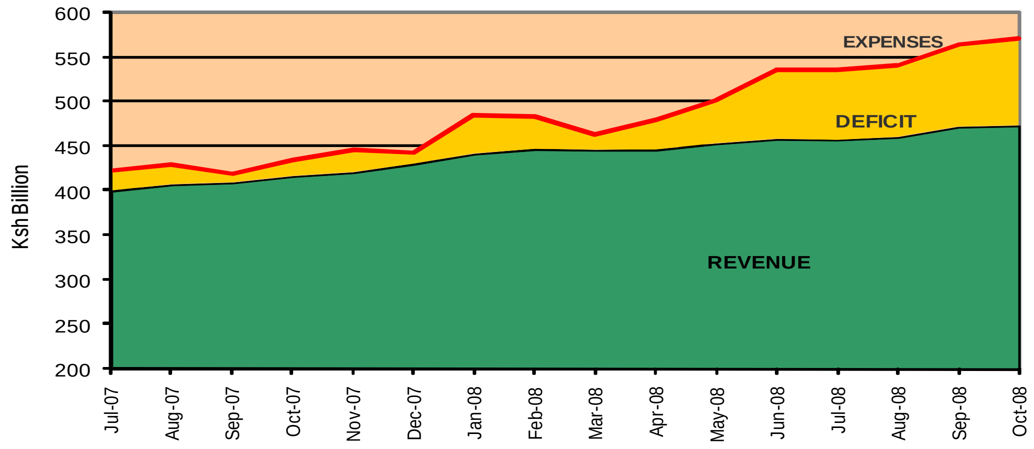
The central Government budgetary operations for the first four months of the fiscal year 2008/09 resulted in an increase of the budget deficit on a commitment basis by Ksh 20.9 billion to Ksh 29.1 billion (1.3 percent of GDP) from Ksh 8.2 billion or 0.4 percent of GDP in a similar period of fiscal year 2007/08. Similarly, the budget deficit on cash basis increased to Ksh 35.6 billion (1.6 percent) during the period from Ksh 15.8 billion or 0.9 percent of GDP (Table 6.1). As a result, the deficit on commitment basis and deficit on cash basis overshot the respective targets by Ksh 0.5 billion and Ksh 7.0 billion.

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

	FY 2007/08	FY 2008/09		
	Oct Actual	Oct Provisional	Target	Over (+) / Below (-) Target
1. TOTAL REVENUE	135.1	150.1	158.6	-8.4
Revenue	130.4	146.6	152.7	-6.1
Tax Revenue	122.1	134.0	137.3	-3.3
Non Tax Revenue	3.7	2.6	4.0	-1.4
Appropriations-in-Aid	4.6	10.0	11.5	-1.4
External Grants	4.7	3.5	5.8	-2.3
2. TOTAL EXPENSES	143.3	179.2	187.1	-7.9
Recurrent Expenses	112.1	134.8	146.8	-12.0
Development Expenses	31.2	44.5	40.4	4.1
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-8.2	-29.1	-28.6	0.5
As % of GDP	-0.4	-1.3	-1.3	
4. ADJUSTMENT TO CASH BASIS	-7.6	-6.4	0.0	-6.4
5. DEFICIT ON A CASH BASIS	-15.8	-35.6	-28.6	7.0
As % of GDP	-0.9	-1.6	-1.3	
6. DISCREPANCY:Exp. (+) / Rev. (-)	-1.6	6.5	0.0	
7. FINANCING	14.2	41.7	28.6	13.2
Domestic (Net)	14.7	41.2	27.8	13.4
External (Net)	-2.3	0.6	0.8	-0.2
Capital Receipts (privatisation)	1.8	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Sources: Treasury

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



Sources: Treasury and Central Bank of Kenya

Revenue

During the first four months of the fiscal year 2008/09, Government revenue and grants increased by 11.1 percent to Ksh 150.1 billion from Ksh 135.1 billion in a similar period of the fiscal year 2007/08 (Table 6.2). The increase in government revenue was in all revenue items, except, import duty, other revenue and external grants. The growth in revenue during the period was attributed to economic recovery and recruitment of new tax payers by the Kenya Revenue Authority.

Tax revenue increased to Ksh 134.0 billion in the the first four months of the fiscal year 2008/09 from Ksh 122.1 billion in a similar period of the fiscal year 2007/08. This represents a growth of Ksh 11.9 billion or 9.7 percent in the tax proceeds during the period. Similarly, A-I-A increased by Ksh 5.4 billion while external grants and non-tax revenue decreased by Ksh 1.2 billion and Ksh 1.1 billion, respectively during the period.

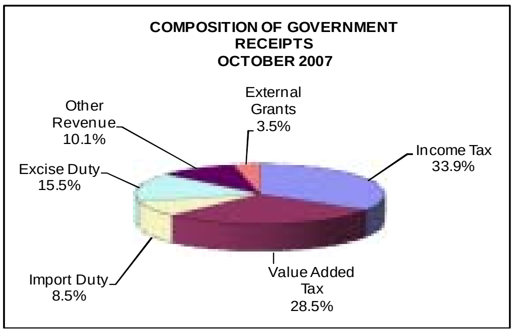
The proportion of tax revenue in total government receipts remained high during the period. The shares of income tax and other revenue increased to 34.7 percent and 13.2 percent, respectively in October 2008 from 33.9 percent and 10.1 percent in October 2007. However, the shares of value added tax, import duty and excise duty decreased to 28.0 percent, 7.3 percent and 14.5 percent from 28.5 percent, 8.5 percent and 15.5 percent, respectively during the period. Similarly, the share of external debt decreased to 2.3 percent from 3.5 percent (Chart 6B).

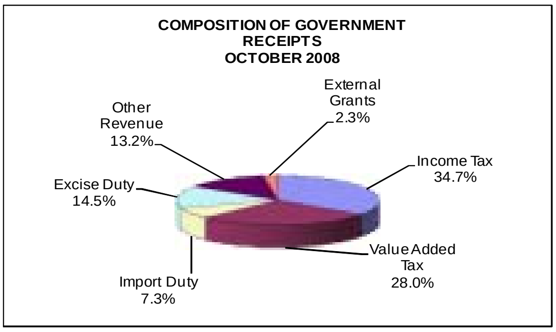
TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Oct-07 Ksh bn	Oct-08 Ksh bn	Change
1. Revenue (2+3+4)	**130.4**	**146.6**	**16.2**
2. Tax Revenue	122.1	134.0	11.9
Income Tax	45.8	52.0	6.2
Value Added Tax	38.5	42.0	3.5
Import Duty	11.6	11.0	-0.6
Excise Duty	21.0	21.8	0.9
Others	5.3	7.2	1.9
3. Appropriations-in-Aid	4.6	10.0	5.4
4. Other Revenue	3.7	2.6	-1.1
5. External Grants	**4.7**	**3.5**	**-1.2**
TOTAL RECEIPTS (1+5)	**135.1**	**150.1**	**15.0**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT RECEIPTS





Source: Treasury

Expenditure and Net Lending

During the first four months of the fiscal year 2008/09, Government expenditure and net lending increased by Ksh 35.9 billion or 25.1 percent to Ksh 179.2 billion from the Ksh 143.3 billion in a similar period a year earlier (Table 6.3). The rise in the overall expenditure during the period is as a result of increases of recurrent expenditure and development expenditure of Ksh 22.7 billion and Ksh 13.3 billion, respectively.

The recurrent expenditure increased by 20.2 percent to Ksh 134.8 billion from Ksh 112.1 billion during the period. The increase in recurrent expenditure during the period is attributed to increases of wages and salaries of Ksh 9.8 billion, other expenses of Ksh 13.0 billion and foreign interest of Ksh 0.1 billion. However, expenditures on domestic interest decreased by Ksh 0.3 billion. In addition, development expenditure increased by Ksh 13.3 billion to Ksh 44.5 billion in October 2008 from Ksh 31.2 billion in October 2007.

As a result, the percentage of development expenditure in total expenditure increased to 24.8 percent in the fiscal year 2008/09 from 21.8 percent in October of the fiscal year 2007/08, while the proportion of recurrent expenditure dropped to 75.2 percent from 78.2 percent (Chart 6C). This development is in line with the Government Vision 2030 development strategy which seeks to allocate more resources towards flagship projects such as infrastructure development in order to promote investment which is a prerequisite for achieving and sustaining higher economic growth rates.

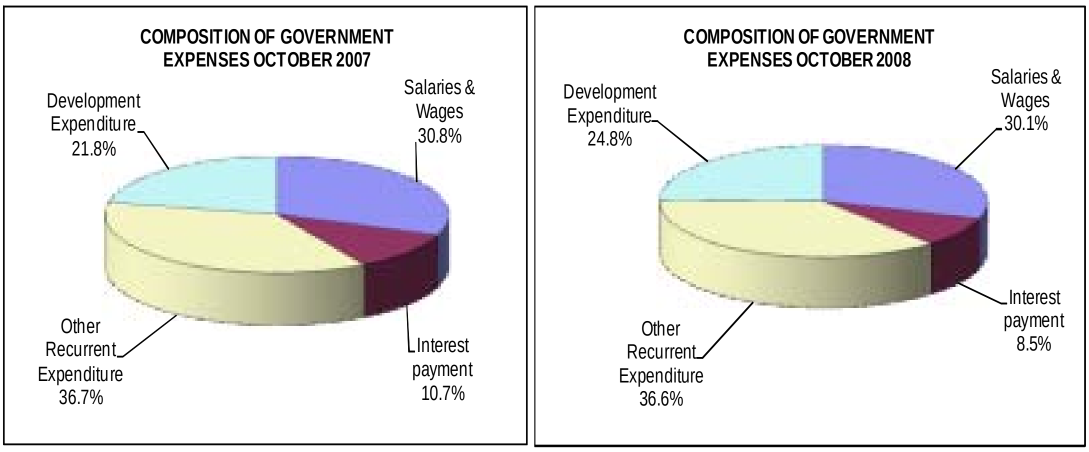
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Oct-07 Ksh bn	Oct-08 Ksh bn	Movement
1.Recurrent	**112.1**	**134.8**	**22.7**
Salaries & Wages	44.2	54.0	**9.8**
Total Interest	15.4	15.2	**-0.2**
of which			
Domestic*	13.9	13.6	**-0.3**
Foreign interest due	1.4	1.5	**0.1**
Others	52.5	65.6	**13.0**
2. Development	**31.2**	**44.5**	**13.3**
TOTAL EXPENSES	**143.3**	**179.2**	**35.9**

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

Source: Treasury

CHART 6C: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

The budgetary operations of the central Government in the first four months of the fiscal year 2008/09 resulted in a financing requirement of Ksh 41.7 billion compared with Ksh 18.7 billion in a similar period in the fiscal year 2007/08 (Table 6.4). The financing requirement was needed to finance the budget deficit of Ksh 41.7 billion. The financing requirement was sourced through net domestic borrowing of Ksh 20.7 billion of which Ksh 13.8 billion was sourced from the commercial banks. A further Ksh 20.5 billion and Ksh 0.6 billion was obtained through reduction in

Government deposits at the Central Bank and an increase of external debt, respectively.

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

I. FINANCING REQUIREMENTS	Oct-07 Ksh bn	Oct-08 Ksh bn
1. Budget deficit	14.2	41.7
2. External debt reduction	2.3	0.0
3. Domestic debt reduction	0.0	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	2.2	0.0
TOTAL	**18.7**	**41.7**
II. FINANCING SOURCES	**Oct-07 Ksh bn**	**Oct-08 Ksh bn**
1. Budget surplus	0.0	0.0
2. External debt increase	0.0	0.6
3. Increase in domestic debt	16.9	20.7
3.1 Central Bank	5.8	3.1
3.2 Commercial banks	3.7	13.8
3.3 Non-bank sources	7.4	3.8
4. Reduction in GoK deposits at CBK	0.0	20.5
5. Privatisation proceeds	1.8	0.0
TOTAL	**18.7**	**41.7**

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank increased by Ksh 6.6 billion to Ksh 50.0 billion in October 2008 from Ksh 43.4 billion in October 2007 (Table 6.5). The indebtedness during the review period comprised an increase of Ksh 8.4 billion in Government overdraft and partially offsetting repayments of Ksh 1.1 billion, Ksh 0.1 and Ksh 0.6 billion in Pre-1997 Government overdraft at Central Bank, the IMF funds on-lent to Government and cleared items in transit, respectively.

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

	2007 Oct	2008 Oct	Movement
Total Credit	**43.4**	**50.0**	**6.6**
1. Overdraft	5.7	14.1	8.4
2. Rediscounted securities	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.0
Treasury bonds	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	35.5	34.4	-1.1
4. IMF funds onlent to Government	1.3	1.2	-0.1
5. Cleared items in transit	0.9	0.3	-0.6
Memorandum			
Authorised overdraft limit	**13.3**	**14.8**	**3.5**
Amount utilised to date	5.7	14.1	14.0
Amount available	7.6	0.7	-10.5

Source: Central Bank of Kenya

Outlook of FY 2008/09

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

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

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt

Kenya's public and publicly guaranteed debt increased by 2.1 percent to Ksh 889.2 billion in October 2008 from Ksh 870.6 billion in June 2008 (Table 7.1). In relation to GDP, the total public debt fell marginally to 42.7 percent in October 2008 from 42.8 percent of GDP in June 2008. Specifically, the external debt to GDP ratio dropped to 20.7 percent in October 2008 from 21.6 percent in June 2008, while the domestic debt to GDP ratio increased to 22.0 percent from 21.1 percent during the period. As shown in Chart 7A, the overall debt to GDP ratio has been falling in the last five years which attests to the results of recent debt sustainability studies for Kenya that the public debt is sustainable in the medium term.

The rise in the overall Government debt during the period reflect an increase in domestic debt of Ksh 24.1 billion and a partially offsetting decrease of Ksh 5.5 billion in external debt. As a result, the percentage share of external debt dropped to 48.9 percent from 50.5 percent in June, while that of domestic debt increased to 51.1 percent from 49.5 percent.

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

	July-07	Aug-07	Dec-07	May-08	Jun-08	Jul-08	Aug 08	Sept-08*	Oct**	Change 2007/08
EXTERNAL										
Bilateral	137.6	137.1	146.3	150.6	153.2	152.9	153.4	153.0	153.4	0.2
Multilateral***	254.6	253.6	242.1	260.8	268.2	261.3	261.7	261.4	262.5	-5.7
Commercial Banks	0.3	0.3	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	18.0	18.0	18.0	18.0	18.5	18.5	18.5	18.5	18.5	0.0
Sub-Total	410.5	409.1	406.9	429.6	440.0	432.8	433.7	433.0	434.5	-5.5
(As a % of GDP)	22.2	21.9	20.9	21.4	21.6	21.0	20.7	20.7	20.7	
(As a % of total debt)	50.0	49.6	48.2	49.3	50.5	50.3	50.0	49.1	48.9	
DOMESTIC\[1]										
Banks	224.7	229.7	230.2	228.4	228.8	223.0	229.0	243.2	253.5	24.7
Central Bank	40.8	44.6	40.7	42.2	46.4	36.7	37.2	40.4	48.8	2.5
Commercial Banks	183.9	185.1	189.6	186.3	182.5	186.3	191.8	202.8	204.7	22.3
Non-banks	184.6	185.3	206.8	211.6	199.2	202.0	201.3	202.8	197.9	-1.3
Non-bank Financial Inst.	1.1	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.0
Other Non-bank Sources	183.5	184.2	206.0	210.8	198.5	201.2	200.6	202.1	197.1	-1.3
Non-residents	1.0	1.0	1.0	2.7	2.6	3.3	3.2	3.2	3.3	0.7
Sub-Total	410.2	415.9	438.1	442.7	430.6	428.2	433.6	449.3	454.7	24.1
(As a % of GDP)	22.2	22.3	22.5	22.0	21.1	20.4	21.0	21.7	22.0	
(As a % of total debt)	50.0	50.4	51.8	50.7	49.5	49.7	50.0	50.9	51.1	
GRAND TOTAL	820.7	825.0	845.0	872.3	870.6	861.0	867.2	882.2	889.2	18.6
(As a % of GDP)	44.4	44.2	43.5	43.4	42.8	41.4	41.7	42.4	42.7	

* External Debt Revised

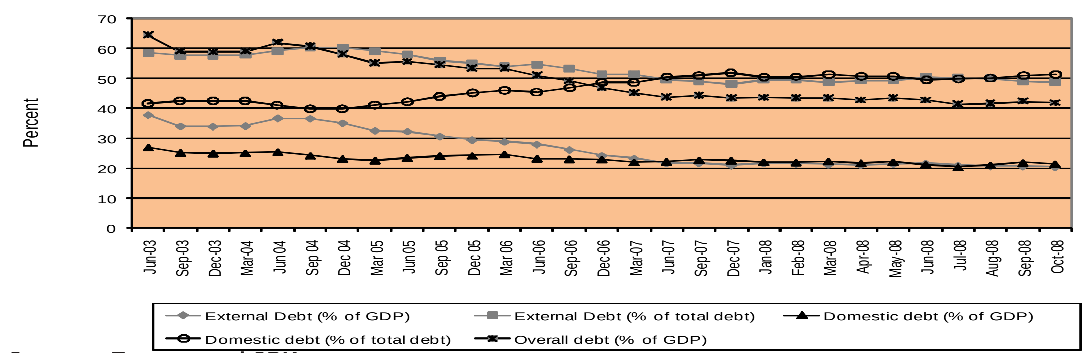
** External Debt Provisional

***Includes IMF Loans.

[1]/ Domestic Debt is reported on gross basis

Sources: Treasury and Central Bank of Kenya

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



Sources: Treasury and CBK

Domestic Debt

Public domestic debt increased by 5.6 percent during the first four months of the fiscal year 2008/09 to Ksh 454.7 billion in October 2008 from Ksh 430.6 billion in June 2008 (Table 7.2). The rise in domestic debt during the period comprise increases of Ksh 13.0 billion and Ksh 8.3 billion in Treasury bills (excluding Repos) and other debt, respectively, and a Ksh 0.2 billion decline in Treasury bonds. Government overdraft at CBK, which is the main component of other domestic debt, increased to Ksh 14.1 billion in October 2008 (the overdraft was, however, within target) from zero in June 2008. In addition, domestic debt owed to commercial banks increased to Ksh 204.7 billion in October 2008 from Ksh 182.5 billion in June 2008 (Table 7.1). Consequently, the percentage of total domestic debt owed to commercial banks rose to 45.0 percent from 42.4 percent during the period.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2007								2008										Change Jun-08- Oct-08
	Sept	%	Oct	%	Nov	%	Dec	%	Jun	%	Jul	%	Aug	%	Sept	%	Oct	%	
Total stock of Domestic Debt (A+B)	426.8	100.0	418.5	100.0	426.0	100.0	426.0	100.0	430.6	100.0	428.2	100.0	433.6	100.0	449.3	100.0	454.7	100.0	24.1
A. Government Securities	412.2	96.6	410.8	98.2	420.7	98.7	431.8	101.4	427.2	98.5	425.9	99.5	430.7	99.3	443.3	98.7	440.0	96.8	12.8
1. Treasury Bills (excluding Repo Bills)	95.0	22.3	88.6	21.2	90.6	21.3	90.8	21.3	76.8	17.7	79.4	18.5	83.0	19.1	93.4	20.8	89.8	19.8	13.0
Banking institutions	41.1	9.6	36.8	8.8	37.0	8.7	35.5	8.3	27.2	6.3	31.6	7.4	35.4	8.2	46.0	10.2	44.2	9.7	17.0
Others	53.9	12.6	51.7	12.4	53.6	12.6	55.3	13.0	49.6	11.5	47.8	11.2	47.6	11.0	47.3	10.5	45.7	10.0	-4.0
2. Treasury Bonds	280.9	65.8	285.9	68.3	293.8	69.0	304.7	71.5	315.2	72.7	311.3	72.7	312.6	72.1	314.7	70.1	315.0	69.3	-0.2
Banking institutions	145.8	34.2	150.0	35.8	153.2	36.0	153.7	36.1	156.1	36.0	154.7	36.1	156.4	36.1	155.6	34.6	160.6	35.3	4.5
Others	135.1	31.6	136.0	32.5	140.6	33.0	151.0	35.4	159.1	36.7	156.6	36.6	156.1	36.0	159.1	35.4	154.4	34.0	-4.7
3. Long term Stocks	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.0
4. Pre-1997 Government Overdraft at CBK	35.5	8.3	35.5	8.5	35.5	8.3	35.5	8.3	34.4	7.9	34.4	8.0	34.4	7.9	34.4	7.7	34.4	7.6	0.0
Of which: Repo T/Bills	35.5	8.3	35.5	8.5	35.5	8.3	35.5	8.3	34.4	8.1	34.4	8.0	33.9	7.8	34.4	7.7	34.4	7.6	0.0
B. Others:	14.6	3.4	7.7	1.8	17.5	4.1	-5.8	-1.4	6.3	1.5	2.3	0.5	2.8	0.7	6.0	1.3	14.7	3.2	8.3
Of which CBK overdraft to Government	13.3	3.1	5.7	1.4	4.1	1.0	2.0	0.5	0.0	0.0	1.3	0.3	0.0	0.0	4.4	1.0	14.1	3.1	14.1

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

Source: Central Bank of Kenya

Treasury Bills

Government domestic borrowing during the first four months of the fiscal year 2008/09 was mainly through Treasury bills. As a result, Treasury bills increased to Ksh 89.8 billion in October 2008 from Ksh 76.8 billion in June 2008 (Table 7.2). As shown in Table 7.2 and Chart 7B, the share of Treasury bills in total domestic debt increased to 19.7 percent in October 2008 from 17.7 percent in June 2008. Similarly, Treasury bills held by commercial banks rose to Ksh 44.2 billion (49.2 percent) from Ksh 26.4 billion (34.4 percent) during the period (Table 7.3). The percentage share of 91-day Treasury bills in total Government securities increased to 5.3 percent from 4.6 percent, while that of 182-day Treasury bills increased to 16.9 percent from 15.0 percent during the period (Table 7.5).

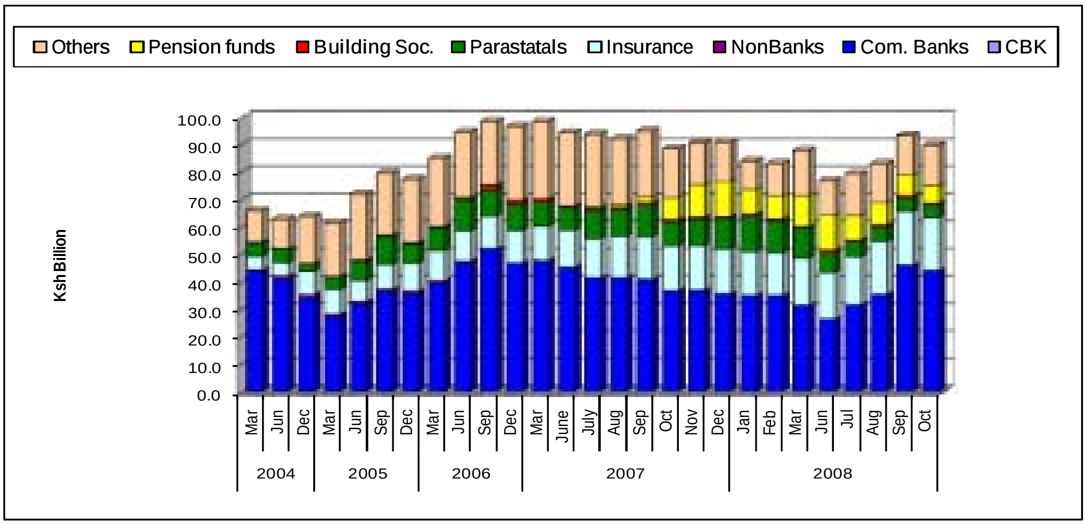
TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

	2007								2008									
Holders	Sept	%	Oct	%	Nov	%	Dec	%	Jun	%	July	%	Aug	%	Sept	%	Oct	%
Banking Institutions	41.1	43.2	36.8	41.6	37.0	40.8	35.6	39.2	26.4	34.4	31.6	39.8	35.4	42.6	46.0	49.3	44.2	49.2
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	41.0	43.1	36.7	41.4	36.9	40.6	35.5	39.1	26.4	34.4	31.6	39.8	35.4	42.6	46.0	49.3	44.2	49.2
NBFIs	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	15.4	16.2	16.3	18.4	16.2	17.9	16.4	18.1	17.0	22.1	17.5	22.0	19.3	23.2	19.7	21.1	19.1	21.3
Parastatals	11.6	12.2	8.6	9.7	9.5	10.4	11.1	12.2	7.1	9.3	5.4	6.8	5.2	6.3	4.7	5.1	4.7	5.3
Of which: NSSF	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Building Societies	1.0	1.0	0.9	1.1	0.9	1.0	0.8	0.8	1.1	1.4	0.7	0.9	0.9	1.0	1.1	1.1	0.7	0.8
Pension Funds	2.1	2.2	8.1	9.1	11.8	13.0	12.9	14.2	12.5	16.3	8.9	11.3	8.1	9.7	7.3	7.9	6.4	7.1
Others	23.9	25.2	17.8	20.1	15.4	16.9	14.2	15.6	12.7	16.5	15.3	19.3	14.2	17.1	14.5	15.6	14.7	16.4
Total*	95.0	100.0	88.6	100.0	90.6	100.0	90.8	100.0	76.8	100.0	79.4	100.0	83.0	100.0	93.4	100.0	89.8	100.0

* Excludes repurchase order bills

Source: Central Bank of Kenya

CHART 7B: OUTSTANDING TREASURY BILLS BY HOLDER



Source: Central Bank of Kenya

Treasury Bonds

Government domestic borrowing during the first four months of the fiscal year 2008/09 through Treasury bonds decreased by Ksh 0.2 billion to Ksh 315.0 billion in October 2008 from Ksh 315.2 billion in June 2008 (Table 7.4 and Chart 7C). Furthermore, the percentage share of Treasury bonds in total domestic debt decreased to 69.3 percent from 72.7 percent during the period (Table 7.2). Commercial banks holdings of Treasury bonds increased to Ksh 160.6 billion (51.0 percent) in October 2008 from Ksh 156.1 billion (49.5 percent) in June 2008 (Table 7.4).

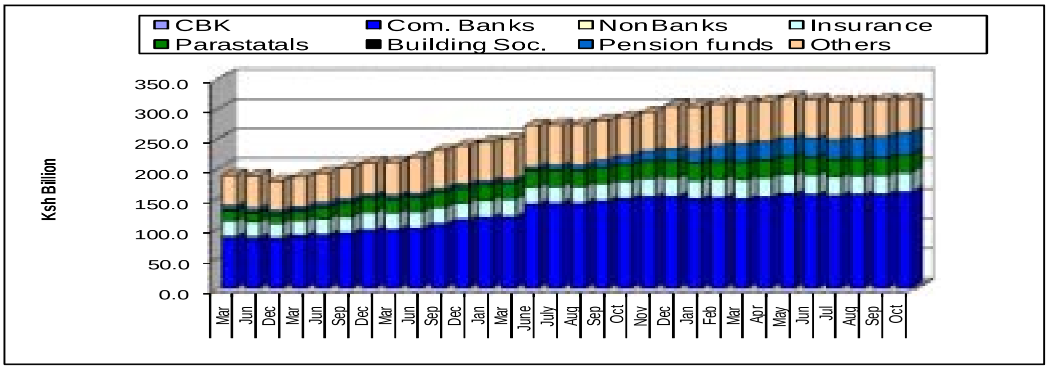
As shown in Table 7.5, the 5-year Treasury bonds and 6-year Treasury bonds accounted for the largest proportion of government securities with shares of 12.0 percent and 11.3 percent, respectively. Furthermore, the share of Treasury bonds with maturities of between 10-years and 15-years increased to 21.3 percent from 20.7 percent during the period following successful issuance of longer dated Treasury bonds. However, the average maturity profile of domestic debt (by days to maturity) decreased to 3 years and 6 months in October 2008 from 3 years and 8 months in June 2008.

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

	2007								2008									
Holders	Sept	%	Oct	%	Nov	%	Dec	%	Jun	%	Jul	%	Aug	%	Sept	%	Oct	%
Banking Institutions	146.1	52.0	150.0	52.5	153.2	52.2	153.7	50.5	156.8	49.8	155.5	49.9	157.2	50.3	157.5	50.1	161.3	51.2
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	145.2	51.7	149.2	52.2	152.4	51.9	152.9	50.2	156.1	49.5	154.7	49.7	156.4	50.0	156.8	49.8	160.6	51.0
NBFIs	0.9	0.3	0.8	0.3	0.8	0.3	0.8	0.3	0.7	0.2	0.7	0.2	0.7	0.2	0.7	0.2	0.7	0.2
Insurance Companies	28.5	10.1	28.7	10.0	30.0	10.2	30.1	9.9	31.9	10.1	30.7	9.9	30.6	9.8	30.9	9.8	32.1	10.2
Parastatals	27.2	9.7	28.1	9.8	29.1	9.9	28.9	9.5	29.9	9.5	29.0	9.3	28.3	9.0	29.0	9.2	29.4	9.3
Of which: NSSF	8.1	2.9	9.0	3.2	10.0	3.4	9.7	3.2	11.7	3.7	11.6	3.7	11.3	3.6	12.0	3.8	12.4	3.9
Building Societies	1.2	0.4	1.2	0.4	1.2	0.4	1.2	0.4	0.9	0.3	0.9	0.3	0.7	0.2	0.6	0.2	0.6	0.2
Pensions Fund	12.5	4.4	14.4	5.0	16.6	5.7	18.6	6.1	31.8	10.1	32.3	10.4	33.8	10.8	35.5	11.3	37.1	11.8
Others	65.4	23.3	63.5	22.2	63.7	21.7	72.2	23.7	63.9	20.3	63.0	20.2	62.0	19.8	61.2	19.4	54.6	17.3
Total	**280.9**	**100.0**	**285.9**	**100.0**	**293.8**	**100.0**	**304.7**	**100.0**	**315.2**	**100.0**	**311.3**	**100.0**	**312.6**	**100.0**	**314.7**	**100.0**	**315.0**	**100.0**

Source: Central Bank of Kenya

CHART 7C: STOCK OF TREASURY BONDS



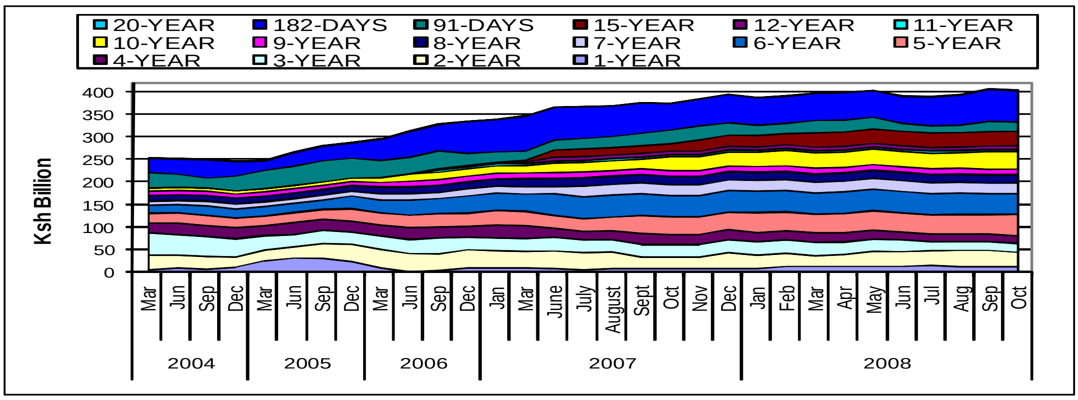
Source: Central Bank of Kenya

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

	2007								2008									
	Sept	%	Oct	%	Nov	%	Dec	%	Jun	%	Jul	%	Aug	%	Sept	%	Oct	%
91-Day	28.4	7.5	30.3	8.1	31.7	8.3	27.5	7.0	18.0	4.6	16.1	4.1	16.7	4.2	23.1	5.7	21.3	5.3
182-Day	66.6	17.7	58.3	15.6	58.8	15.3	63.3	16.0	58.9	15.0	63.3	16.2	66.3	16.8	70.3	17.2	68.6	16.9
1-Year	8.4	2.2	8.4	2.2	8.4	2.2	8.7	2.2	13.2	3.4	15.4	3.9	12.1	3.1	12.1	3.0	12.1	3.0
2-Year	24.3	6.5	24.3	6.5	24.3	6.3	33.6	8.5	31.7	8.1	31.7	8.1	35.4	9.0	35.4	8.7	31.3	7.7
3-Year	27.9	7.4	27.9	7.5	27.9	7.3	29.1	7.4	26.7	6.8	19.8	5.1	19.8	5.0	19.8	4.8	19.8	4.9
4-Year	24.9	6.6	22.5	6.0	22.5	5.8	22.5	5.7	16.5	4.2	16.5	4.2	16.5	4.2	16.5	4.1	16.5	4.1
5-Year	40.6	10.8	39.5	10.5	39.5	10.3	39.5	10.0	43.5	11.1	43.5	11.1	44.3	11.2	44.3	10.9	48.7	12.0
6-Year	48.3	12.9	47.6	12.7	47.6	12.4	47.6	12.0	47.6	12.1	47.6	12.2	47.6	12.0	45.6	11.2	45.6	11.3
7-Year	24.2	6.4	24.2	6.4	24.2	6.3	24.2	6.1	24.2	6.2	24.2	6.2	24.2	6.1	24.2	5.9	24.2	6.0
8-Year	17.9	4.8	17.9	4.8	17.9	4.7	17.9	4.5	17.9	4.6	17.9	4.6	17.9	4.5	17.9	4.4	17.9	4.4
9-Year	12.6	3.4	12.6	3.4	12.6	3.3	12.6	3.2	12.6	3.2	12.6	3.2	12.6	3.2	12.6	3.1	12.6	3.1
10-Year	22.1	5.9	31.4	8.4	31.4	8.2	31.4	7.9	34.4	8.8	35.3	9.0	35.3	8.9	39.4	9.7	39.4	9.7
11-Year	4.0	1.1	4.0	1.1	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0
12-Year	8.8	2.3	8.8	2.3	8.8	2.3	8.8	2.2	8.8	2.2	8.8	2.2	8.8	2.2	8.8	2.1	8.8	2.2
15-Year	16.9	4.5	16.9	4.5	24.7	6.4	24.7	6.3	32.1	8.2	32.1	8.2	32.1	8.1	32.1	7.9	32.1	7.9
20-Year	0.0	0.0	16.9	4.5	24.7	6.4	0.0	0.0	1.9	0.5	1.9	0.5	1.9	0.5	1.9	0.5	1.9	0.5
Total	375.9	100.0	374.5	100.0	384.4	100.0	395.5	100.0	392.0	100.0	390.7	100.0	395.5	100.0	408.1	100.0	404.8	100.0

Source: Central Bank of Kenya

CHART 7D: OUTSTANDING TREASURY BILLS AND BONDS



Source: Central Bank of Kenya

Long-term Stocks

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

Maturity Profile of Treasury Bills and Bonds

The cumulative redemptions of Government securities from November 2008 to January 2009 will comprise Ksh 57.28 billion in Treasury bills and Ksh 10.21 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 21.28 billion and Ksh 36.0 billion in 91-days and 182-days Treasury bills, respectively. Treasury bonds maturities in the period will consist of Ksh 5.5 billion, Ksh 3.29 billion and Ksh 1.42 billion in 1-year, 2-year and 6-year bonds, respectively.

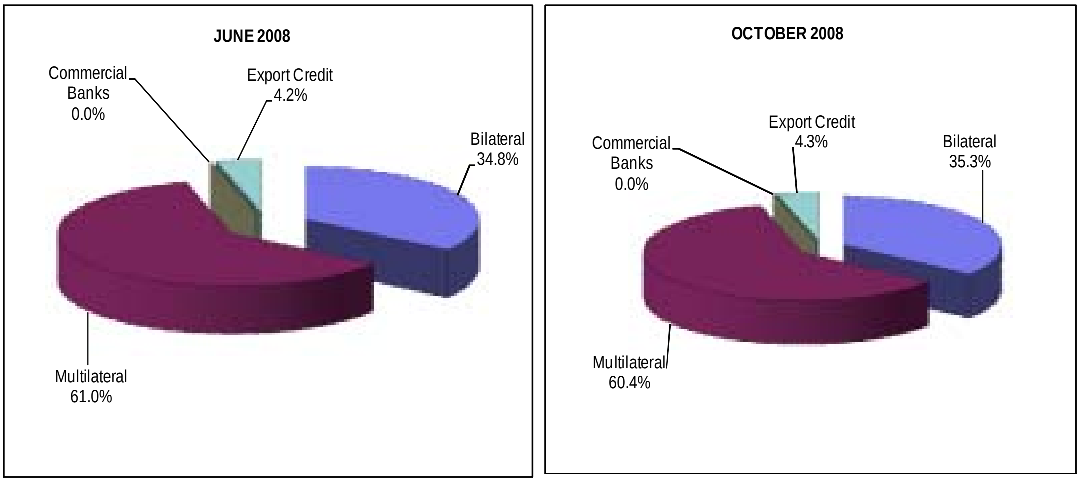
External Debt

Kenya's external debt decreased by 1.6 percent to Ksh 434.5 billion (20.7 percent of GDP) in October 2008 from Ksh 440.0 billion (21.6 percent of GDP) in June 2008 (Table 7.1). The decrease in external debt during the period was attributed to external loans repayments (including interest) of Ksh 2.2 billion and revaluation gains of Ksh 5.7 billion which more than offset disbursements totalling Ksh 2.5 billion.

Composition of External Debt by Creditor

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

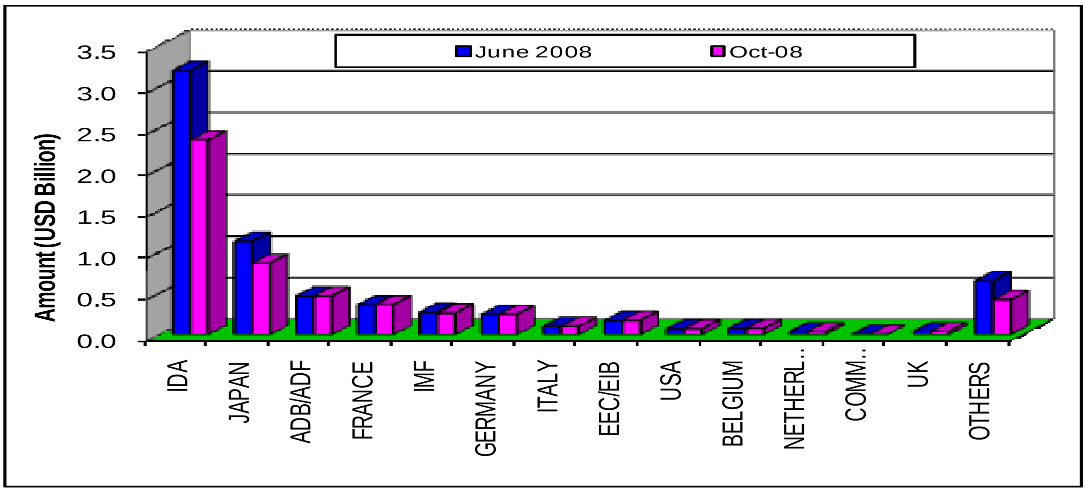
CHART 7E: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

IDA and Japan remained the two largest creditors in both June and October 2008. The amount of debt owed to these countries decreased to USD 2.4 billion and US$ 0.9 billion from US$ 3.2 billion and US$ 1.1 billion in June 2008, respectively, in October 2008. The levels of credit advanced by the rest of the creditors remained largely unchanged from their respective positions in June 2008 (Chart 7F).

CHART 7F: EXTERNAL DEBT BY CREDITOR

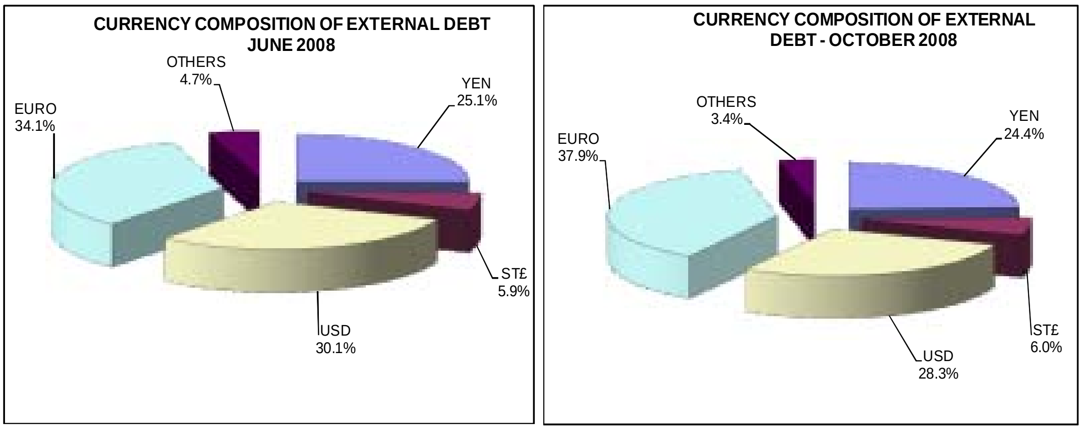


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in US dollars, Japanese Yens and other currencies decreased to 28.3 percent, 24.4 percent and 3.4 percent in October 2008 from 30.1 percent, 25.1 percent and 4.7 percent in June 2008, respectively (Chart 7G). Meanwhile, the percentage of external debt held in Euros and Sterling pounds increased to 37.9 percent and 6.0 percent from 34.1 percent and 5.9 percent, respectively, during the period.

CHART 7G: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

The cumulative Government expenditure on interest and other charges on domestic debt for the first four months of the fiscal year 2008/09 stood at 13.6 billion. On the other hand, the cumulative external debt service stood at Ksh 7.4 billion of which Ksh 5.8 billion was in principal repayments and Ksh 1.6 billion in interest payments.

Outlook for the Fiscal Year 2008/09

Government domestic and external borrowings during the fiscal year 2008/09 are projected at Ksh 25.2 billion and Ksh 54.5 billion, respectively. However, as indicated in the Budget Strategy Paper for 2008/09 to 2010/11, gross domestic debt-to-GDP ratio is projected to fall to 21.0 percent in June 2009 from 22.0 percent in June 2008 as GDP is expected to grow at a faster rate compared with domestic debt. The Government plans to issue a sovereign bond in the international market to raise

Ksh 33.6 billion in addition to the expected external borrowing. The issue date was pushed ahead to a time when market conditions shall have improved sufficiently to allow for a successful launch. Reflecting the new debt, the external debt-to-GDP ratio is expected to increase to 21.9 percent from 19.5 percent during the period, but remain lower than the 23.1 percent in June 2008.

ACTIVITY IN THE STOCK MARKET

Equity Market Year 2008 Review

There was mixed performance at the equities market in the month of November 2008 (Table 8.1) as reflected by key market indicators. The number of shares traded declined to 290.94 million in November 2008 from 393.5 million in October 2008. Equity turnover rose by Ksh 81 million, to Ksh 3723.72 million in November 2008 from Ksh 3642.4 million in October 2008. Market capitalization rose by Ksh 26.6 billion, to Ksh 791.6 billion in November 2008 from Ksh 764.9 billion in October 2008. Market capitalisation rose steadily in December 2008 to 832.74 through December 23, 2008 from 750.08 as at December 4, 2008. The NSE 20 Share Index dropped by 45.18 points to close at 3,341.00 points in November 2008 (Chart 8A). The NSE 20 share index rose to 3,381.69 as at December 23, 2008 from 3,162.43 at at December 4, 2008. The rise in the market capitalisation as well as the NSE index signals stabilization of the bourse supported by recovery in prices of major trading counters. The market liquidity ratio dropped to 0.52 percent in November from 0.71 percent in October 2008 following a decline in the number of shares traded.

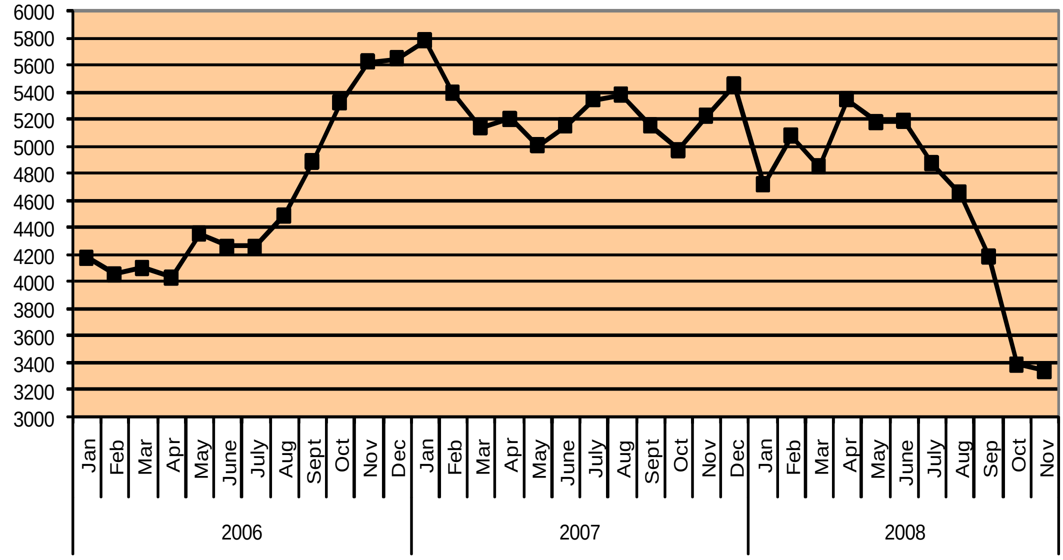
TABLE 8.1: SELECTED STOCK MARKET INDICATORS, 2006 - 2007

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

Source: Nairobi Stock Exchange

The Commercial and Services sector dominated trading in November 2008 with Safaricom contributing the largest share (94.2 percent) after trading 278 million shares. The agricultural sector had 1.6 million shares traded while the Finance and Investment sector traded 43.6 million shares. The most active stock in Finance and Investment sector was KCB which traded 19.6 million shares. The Industrial and Allied sector traded 40.5 million shares with Olympia Capital trading 21.8 million shares.

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



Source: Nairobi Stock Exchange

Bond Market The bond turnover declined by 41.54 percent, with bonds worth Ksh 3,225.00 billion traded in November 2008, down from Ksh 4,564.60 billion traded in October 2008.

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

	Oct-08	Oct-07	Oct 07/Oct 08 Movement	Nov-08	Nov-07	Nov 07/Nov 08 Movement
ASSETS	289,189	239,948	49,241	269,913	237,939	31,974
Foreign Exchange	234,167	191,265	42,902	224,019	191,310	32,709
Advances and Discounts to Banks	34	40	(6)	1,082	503	579
Discounted Government Securities	10	15	(5)	11	16	(5)
Banks in Liquidation	0	0	0	0	0	0
Government Accounts	50,005	43,366	6,639	39,503	41,032	(1,529)
Overdraft to Government	14,072	5,671	8,401	3,895	4,139	(244)
Clearing Account	298	885	(587)	240	116	124
IMF funds on-lent to Government	1,196	1,261	(65)	929	1,228	(299)
Frozen Government Accounts	34,439	35,549	(1,110)	34,439	35,549	(1,110)
Other assets	4,973	5,262	(289)	5,298	5,078	220
Debtors	3,847	4,131	(284)	3,941	3,951	(10)
Retirement Benefits	55	240	(185)	55	240	(185)
Property and Equipment	794	610	184	1,025	607	418
Prepaid Leases	277	281	(4)	277	280	(3)
LIABILITIES	289,189	239,948	49,241	269,913	237,939	31,974
Currency in Circulation	107,677	94,800	12,877	108,550	100,752	7,798
Repo Securities	9,717	17,210	(7,493)	310	11,787	(11,477)
Deposits	129,895	109,560	20,335	127,792	112,474	15,318
Commercial Banks			0			0
Kenya	49,553	39,649	9,904	52,106	39,673	12,433
External	92	23	69	90	23	67
Non-Bank Financial Institutions	0	117	(117)	0	122	(122)
Other Public Entities and Project A/Cs	9,372	8,541	831	11,532	10,164	1,368
IMF	22,209	16,077	6,132	21,339	19,482	1,857
Government	47,015	43,287	3,728	40,739	41,627	(888)
Local Banks Forex Settlement Fund	1,654	1,866	(212)	1,986	1,383	603
Other Liabilities and Provisions	3,977	894	3,083	4,197	1,277	2,920
Capital and Reserves	37,923	17,484	20,439	29,064	11,649	17,415
Capital	1,500	1,500	0	1,500	1,500	0
General Reserve Fund	7,759	7,759	0	7,759	7,759	0
Surplus b/f from June 2008	8,995	0	8,995	8,995	2,390	6,605
Period's Surplus	19,669	8,225	11,444	10,810	0	10,810
Dividend payable	0	0	0	0	0	0

Source: Central Bank of Kenya

Notes on the Balance Sheet

Assets

Foreign exchange reserves of the Bank increased by Ksh 31,974 million in November 2008, to Ksh 224,019 million from Ksh 191,310 million in November 2007, reflecting forex purchases from the interbank market.

Advances and discounts to commercial banks increased by Ksh 579 million, to Ksh 1,082 million in November 2008 from Ksh 503 million in November 2007.

Government accounts declined by Ksh 1,529 million, to Ksh 39,503 million in November 2008 from Ksh 41,032 million in November 2007. The decline reflected a reduction of Ksh 1,110 million in non-interest bearing Government debt, a decline in the IMF funds on-lent to Government of Ksh 299 million, and a decline of Ksh 244 million in the utilisation of the overdraft facility. The clearing account balances however increased by Ksh 124 million.

Other assets increased by Ksh 220 million in the year to November 2008 on account of Ksh 418 million increase in the value of property and equipment. This was however offset by a Ksh 185 million decline in the value of retirement benefits and a decline in the value of debtors by Ksh 10 million.

Liabilities

Currency in circulation increased by Ksh 7,798 million to Ksh 108,550 million in November 2008, from Ksh 100,752 million in November 2007.

The **stock of repo securities,** declined by Ksh 11,477 million, to Ksh 310 million in November 2008 from Ksh 11,787 million in November 2007.

Deposits increased by Ksh 15,318 million, to Ksh 127,792 million in November 2008 from Ksh 112,474 million in November 2007, largely reflecting increases in Commercial Banks' deposits at the Central Bank of Ksh 12,433 million, increase in IMF deposits liabilities with the Bank of Ksh 1,857 million, increase in other Public Entities and Project account deposits of Ksh 1,368 million, and increase in Local banks forex settlement funds of Ksh 603 million. They were partly offset by Government of Kenya deposits of Ksh 888 million and Non-bank financial institutions deposits of Ksh 122 million.

Other liabilities and provisions increased by Ksh 2,920 million, to Ksh 4,197 million in the year to November 2008 from Ksh 1,277 million in November 2007.

Capital and reserves increased by Ksh 17,415 million, to Ksh 29,064 million in the year to November 2008 from Ksh 11,649 million in November 2007, due to an increase in the surplus of the year to November 2008 of Ksh 10,810 million and in the surplus brought forward from June 2008 of Ksh 6,605 million.