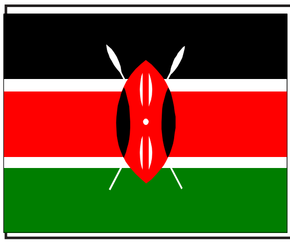

MONTHLY ECONOMIC REVIEW

SEPTEMBER 2013

The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at:

http://www.centralbank.go.ke

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Overview

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

Inflation Overall 12-month inflation increased from 6.7 percent in August 2013 to 8.3 percent in September 2013 reflecting an increase in food and non-food, non-fuel inflation. Food inflation and non-food, non-fuel inflation increased by 264 and 115 basis points, respectively, in September 2013 while fuel inflation increased by 46 basis points. Annual average inflation also increased from 4.5 percent in August 2013 to 4.7 percent in September 2013.

Money Supply Growth in broad money, M3, decreased marginally to 11.4 percent in the year to September 2013 from 12.6 percent in the year to September 2012 and was below the 14.2 percent target for September 2013.

Interest Rates The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 8.50 percent on September 3, 2013 in order to provide time for its previous decisions to work through the economy. The weighted average interbank interest rate decreased from 8.88 percent in August 2013 to 7.93 percent in September 2013 due to improved liquidity in the money market.

Real GDP Growth The economy grew at 4.6 percent in 2012 compared to 4.4 percent in 2011. Economic growth remained resilient in 2013, with real GDP accelerating to 5.2 percent in the first quarter of 2013 and decelerating to 4.3 percent in the second quarter. This compares favorably with increase of 4.0 percent and 4.4 percent in the first two quarters of 2012, respectively. The growth momentum in the first quarter of 2013 is attributed to favorable weather conditions that supported agriculture and the slowdown in the next quarter through hotels and restaurants owing to uncertainty prior to the March 2013 general elections.

Balance of Payments Kenya's overall balance of payments surplus position declined to USD 606 million in the year to September 2013 from USD 1,259 million in the year to September 2012 reflecting a reduction in the Capital and Financial account surplus. The cumulative current account deficit as a proportion of 2012 GDP reduced to 8.75 percent in the year to September 2013 from 10.49 percent in the year to September 2012.

Exchange Rates

The Kenya shilling portrayed mixed performance against major International currencies as well as EAC currencies in September 2013. Against the US Dollar, the Shilling appreciated to trade an average of Ksh 87.41 per US Dollar in September 2013 compared to an average of Ksh 87.49 per US Dollar in August 2013. The appreciation is attributed to a combination of demand for the Kenya shilling from Foreign Investors for stake in the 12 year Infrastructure bond and tight money market liquidity.

Banking Sector Developments

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

Government Budgetary Performance

The Central Government budgetary operations in the period July to September 2013 resulted in a deficit of Ksh 21.2 billion on commitment basis compared with a deficit of Ksh 59.0 billion in comparable period of 2012.

Public Debt

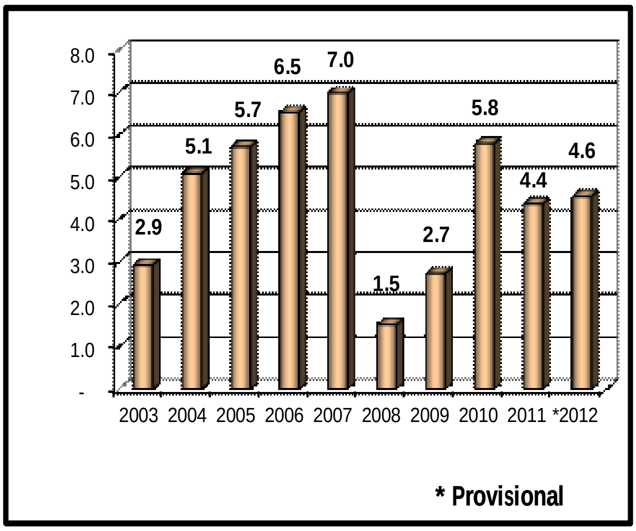
Kenya's public and publicly guaranteed debt grew by 8.6 percent or Ksh 163.4 billion during the first quarter of fiscal year 2013/14 to reach Ksh 2,057.5 billion in September, 2013, from Ksh 1,894.1 billion at the end of June 2013. As a percent of total debt, external debt declined from 44.5 percent in June 2013 to 43.2 percent in September, 2013, while domestic debt increased from 55.5 percent to 56.8 percent, during the same period. The total debt-to-GDP ratio increased from 51.7 percent in June 2013 to 53.1 percent in September 2013.

Stock Market

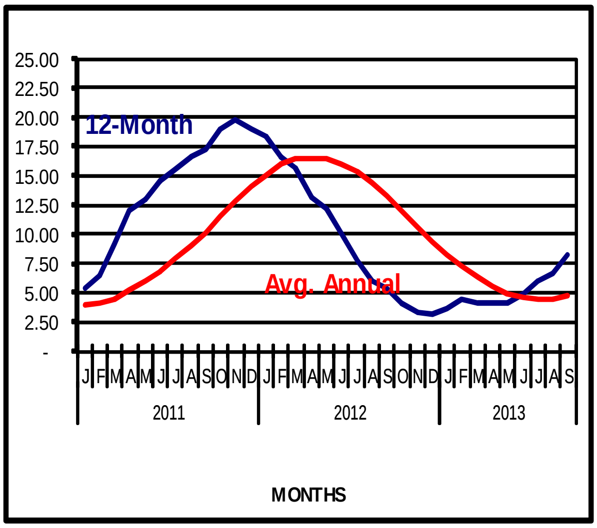
Capital markets performance improved in September 2013, in the equities and bond segments. In addition foreign investor participation increased.

SELECTED ECONOMIC PERFORMANCE INDICATORS

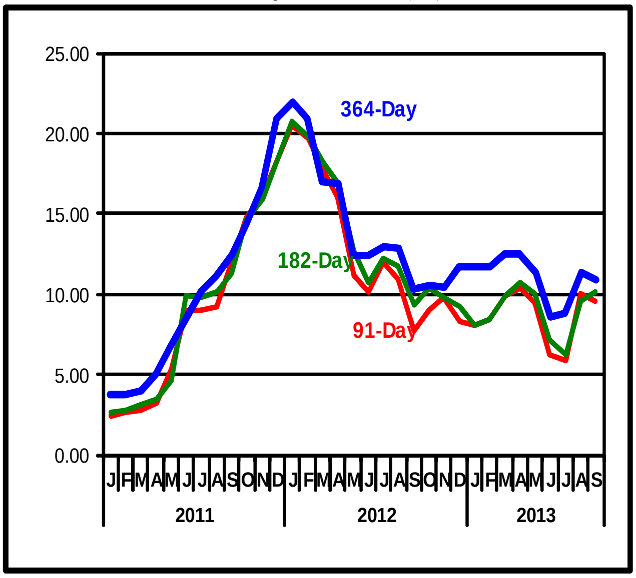
Real GDP Growth (%)



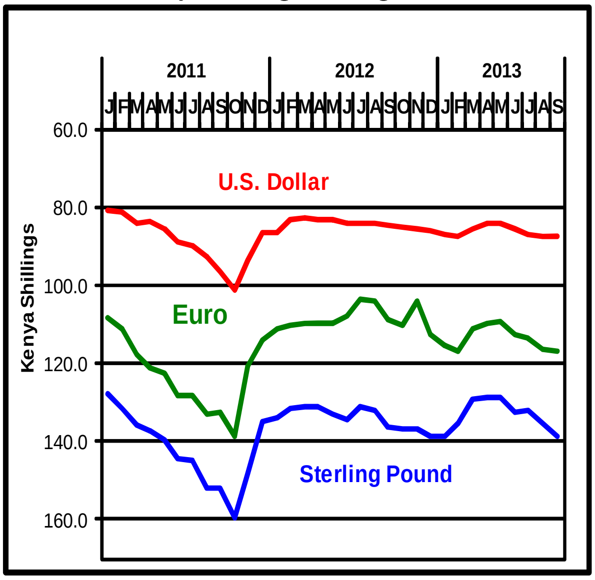
Inflation (%)



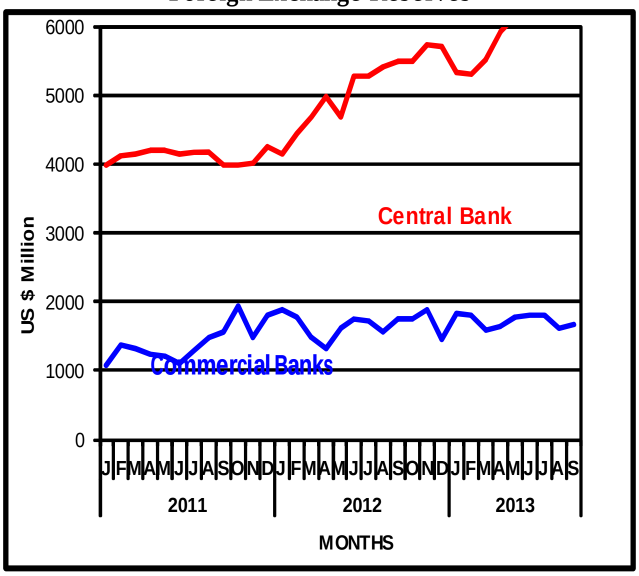
Treasury Bill Rates (%)



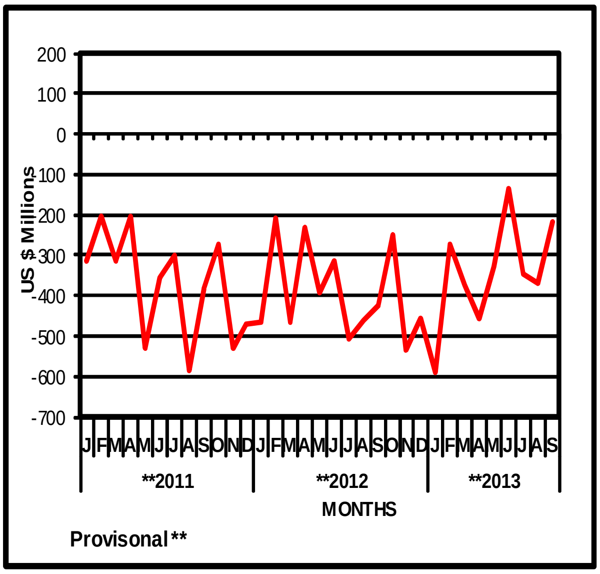
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012*
1. POPULATION*															
People in Millions	28.88	29.54	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	38.60	39.80	NA	NA
Growth (%)	2.31	2.29	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	0.78	3.11	NA	NA
2. NATIONAL ACCOUNTS**															
Gross value added at basic prices (Ksh m)	755,827.00	804,994.00	858,919	906,874	918,914	1,006,062	1,132,850	1,261,625	1,444,113	1,616,010	1,858,371	2,090,948	2,241,570	2,694,791	3,041,610
GDP at Market Prices (Ksh m):															
At Current Prices	850,808.00	906,928.00	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,565	1,833,511	2,107,589	2,366,984	2,553,733	3,048,867	3,440,115
At Constant 2001 Market Prices	955,179.00	976,996.00	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,133	1,249,470	1,336,846	1,357,263	1,394,387	1,475,302	1,539,912	1,610,084
Real GDP Growth (%)	3.30	2.30	0.60	4.50	0.60	2.90	5.10	5.91	6.3	7.0	1.5	2.7	5.8	4.4	4.6
Per Capita Income Real 2001 prices (Ksh)	33,165.94	33,118.50	33,283	33,767	31,828	31,825	32,443	33,480	34,574	37,316	36,933	36,962	38,346	38,941	39,607
3. GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]	8.90	9.70	12.9	10.0	8.1	10.1	12.2	13.4	14.8	13.9	15.9	12.9	11.8	14.0	12.2
4. GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]	6.06	5.67	6.7	4.4	4.0	4.8	6.6	5.7	6.8	6.1	8.2	5.5	4.7	6.3	5.0
5. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices	17.30	16.20	17.4	18.8	14.9	16.4	17.1	16.9	17.9	19.0	19.2	19.9	19.8	20.5	20.1
6. OVERALL INFLATION BASE PERIOD= FEB 2009															
Annual Average Inflation	6.70	5.60	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27	9.24	3.96	14.02	9.38
12-Month Inflation	0.67	10.43	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32	4.51	18.93	3.20
7. STOCK MARKET															
Nairobi Stock Exchange Price Index (1966=100)	2,963.10	2,303.20	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44	4,432.60	3,205.02	4,133.02
Trade Turnover Ratio (%)	0.40	0.23	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64	0.99	0.46	0.58
8. GOVERNMENT BUDGET (Ksh bn) ***															
Revenue and Grants	184.87	201.18	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67	511.36	614.53	679.53	734.43
Expenditure	194.97	197.34	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91	791.79	817.09	915.89
Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis)	(10.10)	3.84	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)	(177.26)	(137.56)	(181.46)
Budget Deficit (% of GDP)	(1.25)	0.44	0.81	(1.66)	(2.19)	(2.51)	(0.97)	0.08	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)	(5.51)
9. MONEY AND CREDIT (Ksh bn)(end period)															
Liquidity (L)[1]	381.35	414.43	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,091.93	1,280.44	1,558.16	1,854.93	2,129.49
Money Supply (M3)[2]	328.32	345.73	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.05	1,045.66	1,271.64	1,514.15	1,727.32
Reserve Money	74.99	78.99	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96	222.63	255.01	293.62
Total Domestic Credit	350.60	358.48	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	815.52	955.82	1,188.40	1,505.13	3,036.21
Government	91.10	84.13	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	155.32	205.07	277.78	311.58	368.83
Private sector and other public sector	260.60	274.35	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	660.20	750.75	910.62	1,193.55	1,333.69
10. BALANCE OF PAYMENTS (US$ m)															
Overall Balance	(4.80)	5.80	217.00	372.00	59.00	365.00	117.00	306.00	675.00	854.00	(469.00)	780.53	163.40	(42.88)	1,261.00
Current Account	(475.10)	(89.60)	(240.00)	(385.00)	(117.69)	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,609.28	-2,511.91	-3,330.50	-4,252.54
Capital and Financial Account	617.50	263.80	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00	2,389.81	2,675.30	3,287.61	5,513.54
11. FOREIGN EXCHANGE RESERVES (US$ m) End Period	1,100.00	1,104.00	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78	5,064.03	5,122.52	6,044.78	7,160.07
Official	782.00	789.00	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46	3,847.39	4,001.68	4,247.66	5,701.85
	(2.5)	*(2.9)*	*2.8*	*3.2*	*3.3*	*4.4*	*4.1*	*4.0*	*3.9*	*4.8*	*3.4*	*4.1*	*3.9*	*3.7*	*4.3*
Commercial Banks	328.00	315.00	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63	1,120.84	1,797.12	1,458.22
12. PUBLIC DEBT (US$ bn) End Period***	8.45	8.00	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	13.46	13.66	14.96	16.60	19.27
Domestic	3.00	2.60	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72	8.06	8.51	10.20
As % of GDP	*22.01*	*21.84*	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15	21.67	25.90	27.78	26.06
External	5.45	*5.40*	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94	6.90	8.09	9.08
As % of GDP	*39.99*	*45.36*	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61	22.36	22.20	26.43	23.53
13. EXCHANGE RATE (Ksh/US$) (Annual Average)	60.40	70.30	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18	77.35	79.23	88.87	84.52

NA Not Available

* Provisional.

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

*** Fiscal year to June 30th.

\[1] Previously M3XT

\[2] Previously M3X

\[3] Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2012				2013								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep
1. INFLATION (%)													
CPI	131.89	132.46	133.33	134.25	135.62	136.59	137.96023	139.28	139.52	139.59	139.87	140.29	142.82
Overall Inflation													
12-month overall inflation	5.32	4.14	3.25	3.20	3.67	4.45	4.11	4.14	4.05	4.91	6.02	6.67	8.29
Average annual overall inflation	13.29	12.04	10.67	9.38	8.20	7.24	6.33	5.61	4.96	4.56	4.44	4.50	4.75
2. INTEREST RATES (%)													
91-day Treasury bill interest rate	7.8	9.0	9.8	8.3	8.1	8.4	9.9	10.4	9.5	6.2	5.9	10.0	9.6
Overdraft interest rate	19.8	19.1	18.8	17.8	18.0	17.7	17.5	17.7	17.6	16.9	17.0	16.9	16.4
3. STOCK MARKET													
Nairobi Stock Exchange 20 Share Price Index	3,972.03	4,147.28	4,083.52	4,133.02	4,416.60	4,518.59	4,860.83	4,765.23	5,006.96	4,598.16	4,787.56	4,697.75	4,793.20
Turnover Ratio (%)	0.60	0.59	1.07	0.58	0.65	0.86	0.71	0.74	1.08	0.90	0.76	0.99	0.61
4. GOVERNMENT BUDGET* (Ksh bn.)													
Revenue $ Grants	173.32	233.02	304.41	387.89	454.06	514.26	577.34	675.72	758.31	851.19	58.60	128.4	210.2
Expenses	232.29	308.46	405.53	506.41	589.55	664.32	776.08	882.08	995.21	1,100.83	49.70	150.6	269.9
Budget Deficit (-) / Surplus (+)	(59.0)	(75.4)	(101.1)	(118.52)	(135.5)	(150.1)	(198.7)	(206.4)	(236.9)	(249.6)	8.9	(22.2)	(59.6)
5. MONEY AND CREDIT (Ksh bn.)													
Liquidity (L)¹	2,060.59	2,097.75	2,137.72	2,130.55	2,132.66	2,151.14	2,180.65	2,239.92	2,273.12	2,278.29	2,310.39	2,341.66	2,376.14
Money Supply (M3)²	1,670.86	1,703.00	1,740.66	1,727.69	1,729.90	1,747.89	1,755.74	1,802.28	1,823.40	1,820.88	1,835.80	1,849.97	1,861.96
Reserve Money	259.02	250.45	279.65	293.62	274.02	287.10	287.58	267.85	281.85	287.44	283.98	309.81	290.35
Total Domestic Credit	1,620.14	1,657.24	1,686.97	1,702.51	1,744.37	1,747.08	1,752.20	1,824.02	1,778.27	1,782.95	1,774.49	1,807.46	1,851.62
Government	332.68	351.06	370.62	368.82	396.00	393.61	391.02	458.11	392.82	379.51	346.63	336.28	358.95
Private sector and other public sector	1,287.47	1,306.18	1,316.34	1,333.69	1,348.37	1,353.47	1,361.19	1,365.92	1,385.45	1,403.44	1,427.86	1,471.18	1,492.68
6. MONEY AND CREDIT (Annual % Change)													
Liquidity (L)¹	**13.94**	**12.55**	**16.33**	**14.86**	**14.39**	**13.82**	**14.38**	**16.64**	**16.92**	**15.58**	**15.97**	**15.77**	**15.25**
Money Supply (M3)²	12.58	12.51	16.84	14.10	14.89	16.16	15.73	17.31	16.77	14.16	13.81	12.89	11.41
Reserve Money	9.69	6.75	13.97	15.14	12.24	23.93	11.50	9.54	18.93	11.72	10.31	23.81	12.09
Total Domestic Credit	9.32	11.21	11.22	13.11	16.63	15.54	14.45	17.13	13.05	14.86	**10.73**	**13.05**	**14.29**
Government	10.71	21.57	13.34	18.37	31.68	28.62	24.09	43.68	25.68	27.39	4.64	4.82	7.90
Private and other public sector	8.97	8.72	10.64	11.74	12.84	12.22	11.95	10.29	9.92	11.88	12.32	15.12	15.94
7. BALANCE OF PAYMENTS (US$ m)													
Overall Balance	77.32	7.80	154.45	(36.77)	(366.30)	(37.77)	233.20	290.10	194.92	(42.86)	14.32	23.89	171.07
Current Account	(431.18)	(233.99)	(279.05)	(454.24)	(497.69)	(173.02)	(285.99)	(352.43)	(202.78)	(135.28)	(347.26)	(387.31)	(215.82)
Trade Balance	(812.23)	(762.45)	(1,012.61)	(919.36)	(962.58)	(797.25)	(823.38)	(903.64)	(833.08)	(683.33)	(951.89)	(901.02)	(812.43)
Capital and Financial Account	508.50	241.78	433.50	417.47	131.39	135.25	519.19	642.53	397.70	92.42	361.59	411.21	386.89
8. FOREIGN EXCHANGE RESERVES (US$ m)	7,213.96	7,249.80	7,634.33	7,160.07	7,155.81	7,079.54	7,113.72	7,563.46	7,886.58	7,888.94	7,906.76	7,739.68	7,958.83
Official**	5,475.61	5,477.63	5,742.46	5,701.85	5,327.85	5,290.07	5,523.28	5,927.56	6,128.10	6,089.00	6,095.76	6,119.65	6,290.71
Months of imports cover	4.25	4.22	4.36	4.29	3.97	3.90	4.05	4.31	4.43	4.39	4.36	4.34	4.45
Commercial banks	1,738.35	1,772.16	1,891.86	1,458.22	1,827.96	1,789.47	1,590.44	1,635.89	1,758.48	1,799.94	1,811.01	1,620.03	1,668.11
9. PUBLIC DEBT (US$ bn)	20.25	20.46	20.77	20.84	20.68	20.53	21.03	22.46	22.40	22.02	22.39	22.88	23.54
Domestic	10.83	10.92	11.16	11.29	11.16	10.94	11.47	12.71	*12.6*	12.2	12.4	12.7	13.4
As % of GDP	23.85	24.03	24.79	25.90	*25.3*	*25.0*	*26.0*	*28.2*	*28.5*	*28.7*	*29.1*	29.5	30.1
External	9.42	9.54	9.60	9.55	9.51	9.58	9.56	9.74	*9.8*	*9.8*	*10.0*	*10.1*	*10.2*
As % of GDP	20.75	21.01	21.33	21.26	*22.1*	*21.9*	*21.7*	*21.6*	*23.2*	23.0	*23.6*	*24.0*	*22.9*
10. GROSS DOMESTIC DEBT (Ksh bn)***	922.20	929.32	958.44	971.27	977.93	943.75	981.91	1,065.61	1,074.80	1,050.56	1,078.60	1,116.68	1,168.23
11. AVERAGE EXCHANGE RATE													
Ksh/US$	84.61	85.11	85.63	85.99	86.90	87.45	85.82	84.19	84.15	85.49	86.86	87.49	87.41
Ksh/Pound Sterling	136.26	136.81	136.77	138.78	138.80	135.54	129.42	128.81	128.72	132.42	132.00	135.47	138.54
Ksh/ 100 Yen	108.25	107.84	105.81	102.79	97.67	93.96	90.49	86.12	83.37	87.77	87.28	89.39	88.14
Ksh/Euro	108.80	110.35	109.91	112.77	115.47	116.86	111.31	109.65	109.18	112.81	113.74	116.51	116.67

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

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

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

¹ Previously M3XT

² Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

Overall 12-month inflation increased from 6.7 percent in August 2013 to 8.3 percent in September 2013 reflecting an increase in food and non-food, non-fuel inflation. Non-food, non-fuel inflation increased from 3.9 percent in August 2013 to 5.0 percent in September 2013. The three months annualized rate of inflation increased from 2.2 percent in August 2013 to 9.6 percent in September 2013 pointing to a likely build-up in domestic inflationary pressures (Table 1.1 and Chart 1A).

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

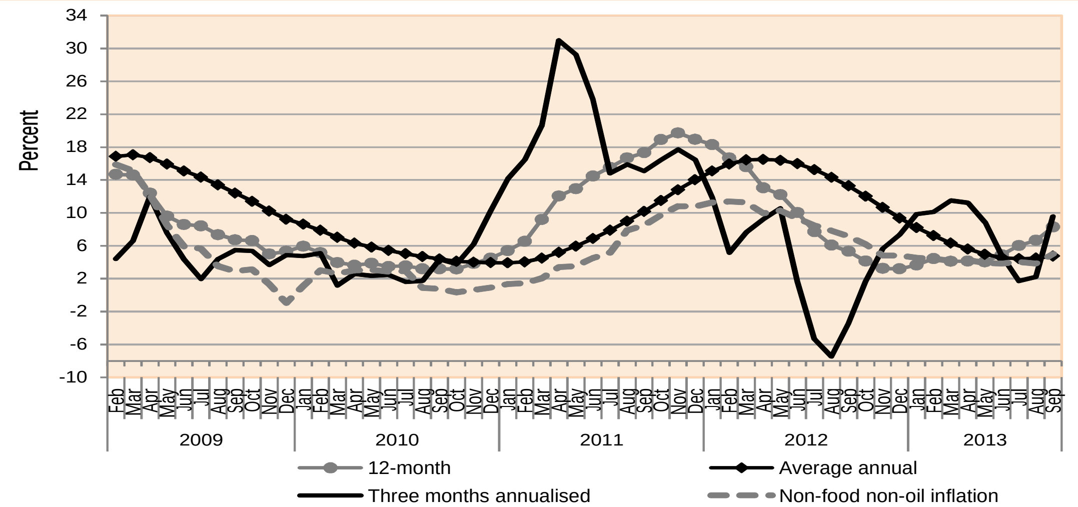
Overall Inflation	2012				2013								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
12-month	5.32	4.14	3.25	3.20	3.67	4.45	4.11	4.14	4.05	4.91	6.02	6.67	8.29
Average annual	13.29	12.04	10.67	9.38	8.20	7.24	6.33	5.61	4.96	4.56	4.44	4.50	4.75
Three months annualised	-3.46	1.65	5.63	7.36	9.88	10.14	11.51	11.23	8.87	4.81	1.71	2.23	9.58
Non-food non-oil inflation	7.17	6.17	4.83	4.81	4.53	4.45	4.17	4.28	3.91	3.86	4.04	3.86	5.02

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

Food inflation increased from 9.4 percent in August 2013 to 12.1 percent in September 2013, reflecting an increase in 12-month inflation in the 'food and non-alcoholic beverages' and 'restaurants and hotels' categories. The 12-month change in the 'food and non-alcoholic beverages' index edged up from 9.7 percent in August 2013 to 12.6 percent in September 2013 mainly on account of increases in the retail prices of milk products and cabbages.

The increase in non-food, non-fuel inflation was reflected in 'recreation and culture', 'alcoholic beverages, tobacco and narcotics', 'furnishings, household equipment and routine household maintenance' and 'health' consumption baskets which recorded inflation rates of 10.5 percent, 8.1 percent, 4.8 percent and 5.3 percent, respectively in September 2013, compared with 3.9 percent, 6.1 percent, 3.6 percent and 4.3 percent, respectively in August 2013.

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



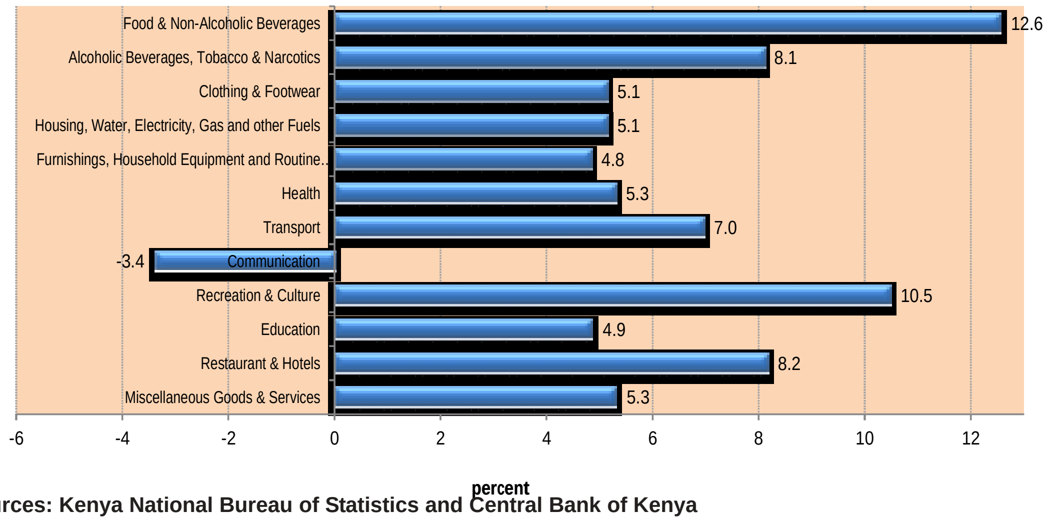
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

Inflation Across Categories of Goods & Services

Fuel inflation increased from 5.3 percent in August 2013 to 5.7 percent in September 2013. This reflects an increase in the 12-month inflation in the 'housing, water, electricity, gas and other fuels' category from 4.6 percent August 2013 to 5.1 percent in September and the 'transport' category from 6.7 percent in August 2013 to 7.0 percent in September 2013. The continued rise in fuel inflation in September 2013 reflected the instability in the international oil prices.

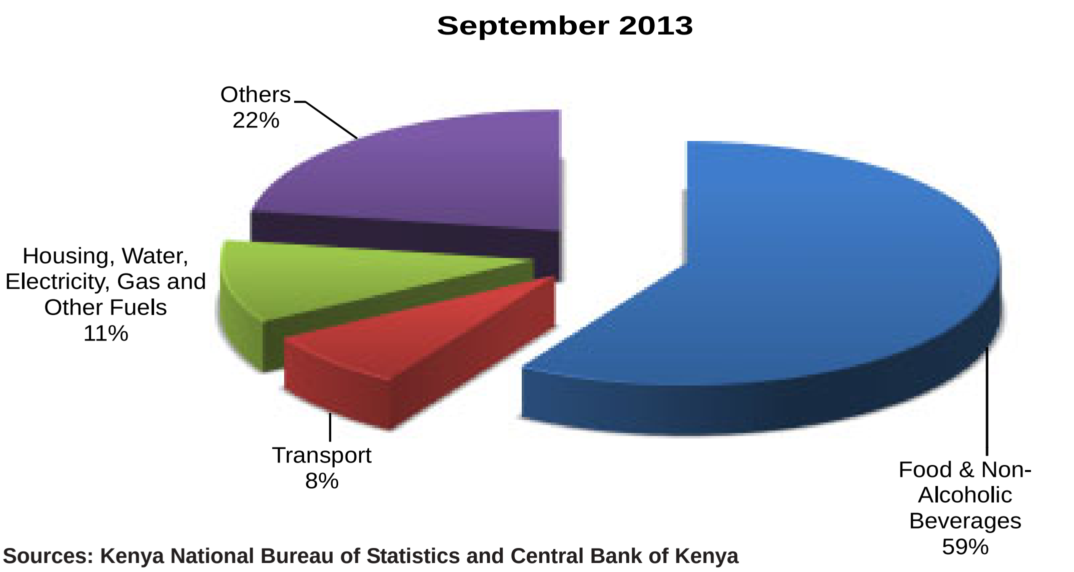
Developments across all categories of goods and services, and the distribution of weights in the Kenya consumer price index (CPI) are summarized in Table 1.2 and Chart 1B. Chart 1C shows that 58.8 percent of overall 12-month inflation in September 2013 was attributed to 'food and non-alcoholic beverages' category of goods while inflation in 'transport' and 'housing, water, electricity, gas and other fuels' categories contributed 7.7 percent and 11.1 percent, respectively.

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



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

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



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

Inflationary pressures increased for all income groups in Nairobi. On average, the prices of goods and services in urban centers outside Nairobi rose by 7.8 percent in September 2013 compared with 9.0 percent recorded in Nairobi (Table 1.3). The indices for the 'Nairobi Lower Income', 'Nairobi middle income' and 'Nairobi Upper Income' groups increased to 9.7 percent, 7.1 percent and 6.2 percent, respectively, in September 2013 from 7.2 percent, 4.6 percent and 2.4 percent, respectively in August 2013.

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

SEPTEMBER 2013	Weight-CPI Kenya	NAIROBI				REST OF URBAN	TOTAL KENYA
		Lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya Combined	
Food & Non-alcoholic beverages	36.0	13.71	15.5	10.9	14.0	11.6	12.6
Alcoholic beverages, Tobacco & narcotics	2.1	6.3	5.0	5.7	5.9	9.5	8.1
Clothing & Footwear	7.4	4.9	1.8	8.0	4.3	5.7	5.1
Housing, Water,Electricity,Gas and other fuels	18.3	7.0	3.8	1.6	6.1	4.5	5.1
Furnishings, Household equipment and Routine household maintenance	6.2	3.2	8.4	2.3	4.4	5.1	4.8
Health	3.1	7.0	8.6	1.7	7.2	4.1	5.3
Transport	8.7	12.5	6.6	8.8	11.0	4.0	7.0
Communication	3.8	-9.7	-9.1	-1.2	-9.2	0.5	-3.4
Recreation & culture	2.3	8.4	13.5	11.2	9.7	11.0	10.5
Education	3.1	8.2	7.3	12.0	8.1	2.6	4.9
Restaurants & hotels	4.5	5.9	3.5	3.2	5.3	10.3	8.2
Miscellaneous goods & services	4.5	5.3	4.0	2.5	4.9	5.6	5.3
ALL GROUPS	100.0	9.7	7.1	6.2	9.0	7.8	8.3

Source: Kenya National Bureau of Statistics

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

	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
Combined Nairobi	4.29	3.45	2.68	2.26	3.12	3.85	3.24	3.67	3.28	4.21	5.79	6.46	8.97
Lower Income	4.16	3.50	2.98	2.56	3.23	3.97	3.16	3.85	3.51	4.75	6.33	7.23	9.67
Middle Income	5.00	3.58	1.99	1.46	2.86	3.64	3.56	3.31	2.77	2.83	4.59	4.57	7.11
Upper Income	2.50	1.79	0.79	1.16	2.37	2.65	2.94	2.39	1.82	1.68	2.28	2.38	6.16
Other provinces- excluding Nairobi	6.04	4.61	3.65	3.86	4.06	4.88	4.72	4.47	4.59	5.40	6.18	6.83	7.82
TOTAL KENYA	5.32	4.14	3.25	3.20	3.67	4.45	4.11	4.14	4.05	4.91	6.02	6.67	8.29

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

Inflation Outlook

The Monetary Policy Committee noted that temporary inflationary pressures experienced on account of the implementation of the revised tax did not alter inflationary expectations. However, some seasonal demand pressures are expected from end of year festivities and expenditure on education related items when schools re-open in January 2014.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Growth in broad money, M3, decreased marginally to 11.4 percent in the year to September 2013 from 12.6 percent in the year to September 2012 and was below the 14.2 percent target for September 2013. Expansion in money supply narrowly defined, M2, that is, M3 excluding foreign currency deposits, decreased to 13.0 percent in the year to September 2013 from 14.4 percent in a corresponding period in 2012 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits, in M3, increased by KSh 7.1 billion (2.7 percent) compared with an increase of KSh 10.1 billion (4.0 percent) in the previous year. Money supply M3 growth has remained below targets since November 2011 thereby signaling minimal demand side inflationary pressure.

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

				Absolute Change		%age change	
	2011 September	2012 September	2013 September	2011/12 September	2012/13 September	12 months Sep-12	12 months Sep-13
1. Money supply, M3 (2+3) 2/	**1484.2**	**1671.3**	**1862.0**	**187.1**	**190.6**	**12.6**	**11.4**
1.1 Money supply, M2 3/	1232.8	1409.8	1593.4	177.0	183.6	14.4	13.0
1.2 Money supply, M1	627.7	667.5	778.5	39.8	111.0	6.3	16.6
1.3 Currency outside banks	123.7	130.6	146.3	6.8	15.7	5.5	12.0
2. Net foreign assets 4/	**310.1**	**352.0**	**372.8**	**41.9**	**20.8**	**13.5**	**5.9**
Central Bank	292.0	349.5	417.3	57.5	67.7	19.7	19.4
Banking Institutions	18.1	2.4	-44.5	-15.6	-46.9	-86.5	-1921.2
3. Net domestic assets (3.1+3.2)	**1174.1**	**1319.3**	**1489.2**	**145.2**	**169.8**	**12.4**	**12.9**
3.1 Domestic credit (3.1.1+3.1.2)	**1482.0**	**1620.1**	**1851.6**	**138.1**	**231.5**	**9.3**	**14.3**
3.1.1 Government (net)	300.5	332.7	358.9	32.2	26.3	10.7	7.9
3.1.2 Private sector and other public sector	1181.5	1287.5	1492.7	106.0	205.2	9.0	15.9
3.2 Other assets net (3-3.1)	**-307.9**	**-300.8**	**-362.5**	**7.1**	**-61.7**	**-2.3**	**20.5**
Memorandum items							
1. Overall liquidity, L 1/	**1808.5**	**2061.6**	**2376.1**	**253.1**	**314.5**	**14.0**	**15.3**
2. Reserve money	**236.2**	**259.0**	**290.3**	**22.9**	**31.3**	**9.7**	**12.1**
Currency outside banks	123.7	130.6	146.3	6.8	15.7	5.5	12.0
Bank reserves	112.4	128.5	144.0	16.0	15.6	14.3	12.1

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. It is comparable to M3XT in the past publications.

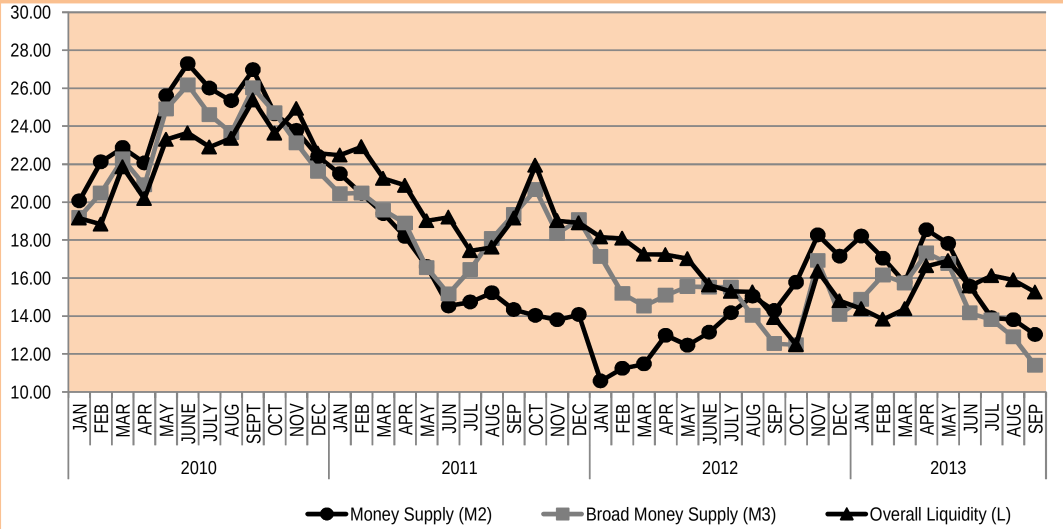
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

3/ Broad money, M2, comprises currency outside banking institutions, and all private and other public sector holdings of demand savings and time deposits. It excludes central and local Government deposits with banking institutions.

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The slowdown in the growth of broad money supply was reflected in the Net Foreign Assets (NFA) of the banking system (Table 2.1). Growth in NFA of the banking system decelerated to 5.9 percent in twelve months to September 2013 from 13.5 percent in a corresponding period in 2012 largely due to an increase in liabilities of commercial banks. The NFA of banking institutions therefore declined by KSh 46.9 billion to KSh 2.4 billion on account of increased deposits and loans from non-residents. Meanwhile, NFA of the Central Bank grew by 19.4 percent from KSh 349.5 billion in September 2012 to KSh 417.3 billion in September 2013 reflecting an accumulation of foreign exchange reserves. Over a similar period, annual growth of the Net domestic Assets (NDA) of the banking system increased to 12.9 percent in the year to September 2013 from 12.4 percent over a similar period 2012 with pick up largely in accelerated growth in credit to the private sector (Table 2.2).

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

	2012 September		2013 September		Absolute Change September		Annual %age Change September	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2011/12	2012/13	2011/12	2012/13
1. Credit to Government	332.7	20.5	358.9	19.4	32.2	26.3	10.7	7.9
Central Bank	12.4	0.8	-36.2	-2.0	-37.2	-48.5	-75.1	-393.0
Commercial Banks & NBFIs	320.3	19.8	395.1	21.3	69.4	74.8	27.7	23.4
2. Credit to other public sector	49.2	3.0	43.3	2.3	19.1	-5.9	63.3	-11.9
Local government	4.0	0.2	0.1	0.0	0.8	-3.8	23.7	-96.8
Parastatals	45.2	2.8	43.2	2.3	18.3	-2.0	68.0	-4.5
3. Credit to private sector	1237.3	76.4	1452.6	78.3	88.7	215.3	7.7	17.4
Agriculture	56.3	3.5	56.1	3.0	0.4	-0.3	0.7	-0.5
Manufacturing	162.8	10.1	173.9	9.4	10.9	11.0	7.1	6.8
Trade	202.3	12.5	243.4	13.1	6.2	41.1	3.2	20.3
Building and construction	62.1	3.8	70.5	3.8	12.8	8.4	25.9	13.5
Transport & communications	73.9	4.6	83.6	4.5	-3.3	9.7	-4.3	13.1
Finance & insurance	31.7	2.0	27.8	1.5	5.3	-3.9	20.3	-12.4
Real estate	158.4	9.8	181.8	9.8	30.3	23.4	23.7	14.7
Mining and quarrying	20.4	1.3	24.2	1.3	-3.2	3.8	-13.7	18.8
Private households	173.7	10.7	230.8	12.4	9.8	57.1	5.9	32.9
Consumer durables	78.6	4.9	93.0	5.0	5.8	14.4	8.0	18.3
Business services	87.8	5.4	119.0	6.4	0.7	31.2	0.8	35.5
Other activities	129.3	8.0	148.6	8.0	13.0	19.3	11.2	15.0
4. TOTAL (1+2+3) *	1619.2	100.0	1854.9	100.0	139.9	235.7	9.5	14.6

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

Source: Central Bank of Kenya

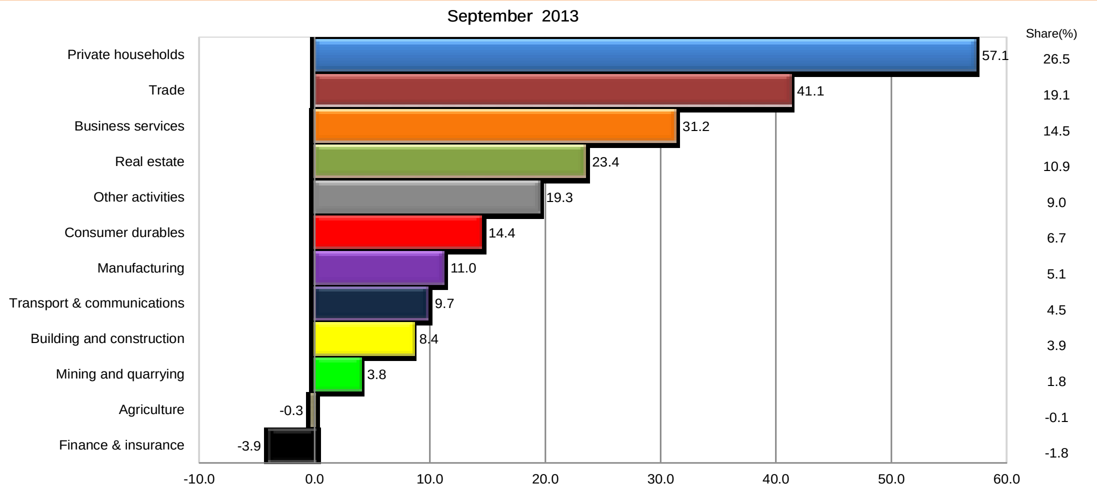
Domestic Credit Developments

Domestic credit from the banking sector increased by KSh 231.5 billion (14.3 percent) in the twelve months to September 2013 compared with KSh 138.1 billion (12.5 percent) in a similar period in 2012 (Table 2.2). The increase was reflected in credit to the private sector which accelerated to 17.4 percent growth in September 2013 from 7.7 percent in the year to September 2012. The private sector continued to dominate banking system lending; accounting for 78.3 percent of total lending in September 2013 compared with 19.4 percent share of government.

The allocation of the additional credit to the private sector, in order of magnitude, included the following activities: private households 26.5 percent (or KSh 57.1 billion); trade at 19.1 percent (or KSh 41.1 billion); business services 14.5 percent (or KSh 31.2 billion); real estate sector at 10.9 percent (or KSh 23.4 billion); consumer durables at 6.7 percent (or KSh 14.4 billion); manufacturing 5.1 percent (or KSh 11.0 billion); transport and communication 4.5 percent (or KSh 9.7 billion) and building and construction at 3.63.9 percent (or KSh 8.4 billion) . Chart 2B presents the credit distribution across private sector activities.

Net credit to Government increased by 7.9 percent (or KSh 26.3 billion) in the year to September 2013 compared with 10.7 percent (or KSh 32.2 billion) in a corresponding period in 2012, while the 'other public sector' repaid by KSh 5.9 billion.

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



Source: Central Bank of Kenya

Reserve Money

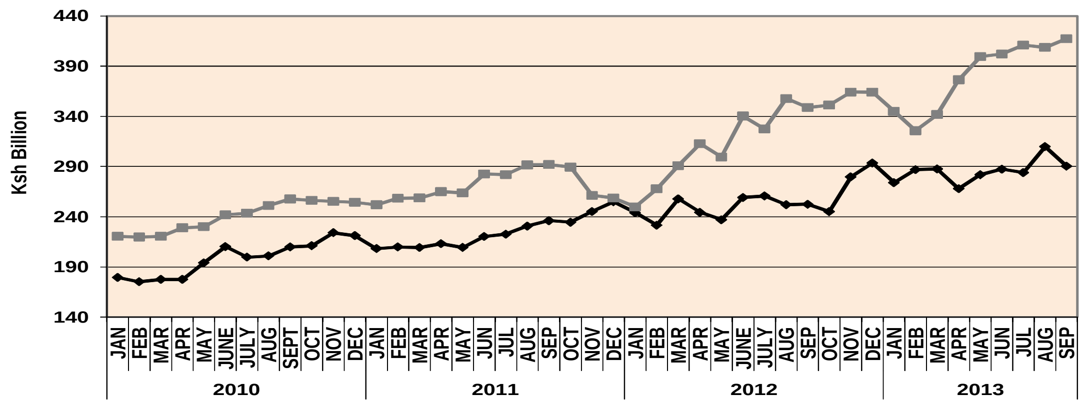
Reserve money (RM) comprises currency held by the non-bank public and commercial banks deposits at the Central Bank. It increased by 12.1 percent in the twelve months to September 2013 compared with 9.7 percent growth in the corresponding period in 2012 (Table 2.3 and Chart 2C). At KSh 290.3 billion in September 2013, reserve money was KSh 1.8 billion above respective target. The growth in reserve money reflect 12.1 percent increase in bank reserves and 12.0 percent growth in currency outside banks.

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

	2012	2013	Absolute change		Change (%)		2013	
	September	September	2011/12	2012/13	2011/12	2012/13	SeptemberTarget	Deviation
1. Net Foreign Assets	349.5	417.3	57.5	67.7	19.7	19.4	353.3	64.0
2. Net Domestic Assets	-90.5	-126.9	-34.7	-36.4	62.0	40.2	-64.8	-62.1
2.1 Government Borrowing (net)	12.4	-36.2	-37.2	-48.5	-75.1	-393.0	10.9	-47.1
2.2 Commercial banks (net)	-48.1	-2.0	-48.5	46.1	-11612.1	-95.84	-18.0	16.0
2.3 Other Domestic Assets (net)	-56.9	-92.6	54.4	-35.7	-48.9	62.7	-57.7	-34.9
3. Reserve Money	259.0	290.3	22.9	31.3	9.7	12.1	288.5	1.8
3.1 Currency outside banks	130.6	146.3	6.8	15.7	5.5	12.0	149.1	-2.8
3.2 Bank reserves	128.5	144.0	16.0	15.6	14.3	12.1	139.4	4.6

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The source of reserve money growth in the 12 months to September 2013 was largely an accumulation of net foreign assets (NFA) of the Central Bank. The NFA of Central Bank rose by 19.4 percent to KSh 417.3 billion in the year to September 2013 on account of purchases from the interbank market to accumulate foreign exchange reserves in line with the statutory required minimum 4 months value of imports and non- factor services.

The NFA accumulation fully compensated for the decline in the NDA which decreased by KSh 36.4 billion to a KSh 126.9 billion net liability in the year to September 2013, from KSh 90.5 billion net liability in the previous year. This was reflected in reduction of net Government indebtedness at the Central Bank by KSh 48.5 billion to KSh 36.2 billion net deposit following accumulation of deposits at the Central Bank with proceeds from tax revenues and issuance of securities in the primary market. Meanwhile net claims to commercial banks declined by KSh 46.1 billion following a net redemptions of outstanding open market sales of repo securities.

Central Bank Rates

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 8.50 percent on September 3, 2013 in order to provide time for its previous decisions to work through the economy. This was to consolidate the monetary policy gains, as reflected in low and stable inflation rate and sustained exchange rate stability, and to provide time for MPC previous decisions to work through the economy.

Short Term Interest Rates

Reflecting the improved liquidity in the interbank market, short term interest rates trended downwards in the month of September 2013 (Table 2.4 and Chart 2D). The weighted average interbank interest rate decreased from 8.88 percent in August 2013 to 7.52 percent in July 2013. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, decreased from 10.0 percent in August 2013 to 9.6 percent in September 2013, while the 182-day Treasury bill rate increased from 9.57 percent to 10.15 percent.

Lending and Deposit Rates

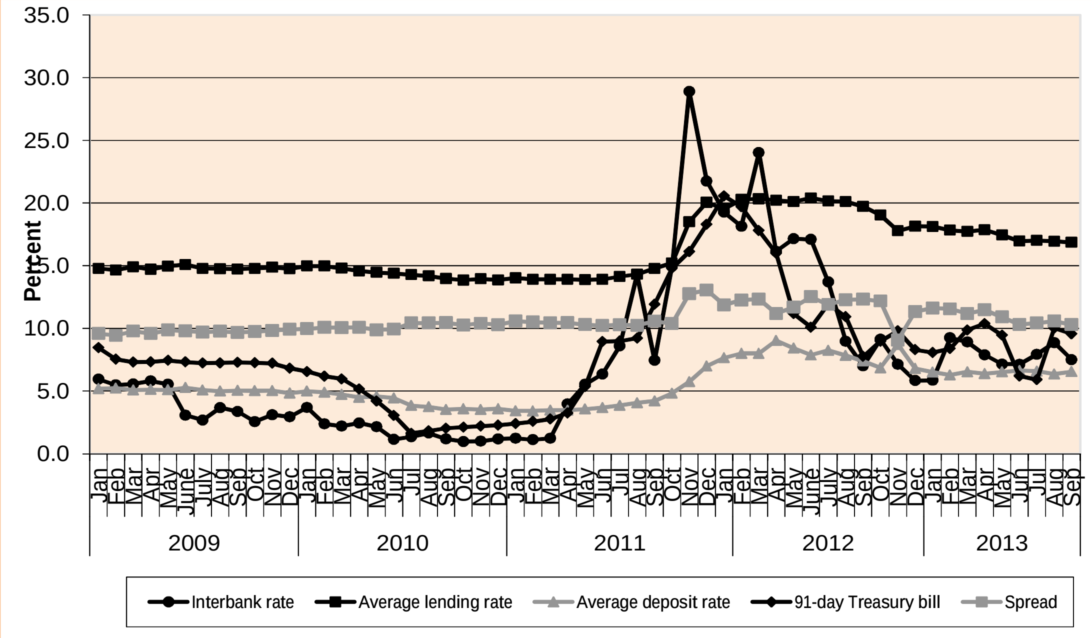
Commercial banks average lending rate decreased marginally from 16.96 percent in August 2013 to16.86 percent in September 2013, while the average deposit rate increased from 6.36 percent to 6.55 percent. Consequently, the interest rate spread narrowed from 10.60 percent in August 2013 to 10.32 percent in September 2013 (Table 2.4).

TABLE 2.4: INTEREST RATES (%)

	2012				2013								
	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
91-day Treasury bill rate	7.77	8.98	9.80	8.30	8.08	8.38	9.88	10.38	9.46	6.21	5.92	10.03	9.58
Overdraft rate	19.80	19.13	18.77	17.79	17.97	17.68	17.54	17.71	17.60	16.92	17.00	16.89	16.42
Interbank rate	7.02	9.14	7.14	5.84	5.86	9.25	8.93	7.90	7.16	7.14	7.93	8.88	7.52
Repo rate	8.42	9.74	8.30	6.79	6.60	9.10	9.35	9.14	7.96	7.93	7.48		7.11
Reverse Repo rate	-	-	-	-	-	-	-	-	-	-	-	8.77	-
Central Bank Rate (CBR)	13.00	13.00	11.00	11.00	9.50	9.50	9.50	9.50	8.50	8.50	8.50	8.50	
Average lending rate (1)	19.73	19.04	18.70	18.15	18.13	17.84	17.73	17.87	17.45	16.97	17.02	16.96	16.86
Average deposit rate (2)	7.40	6.85	6.69	6.80	6.51	6.29	6.54	6.39	6.53	6.65	6.59	6.36	6.55
0 to 3 - month deposit	10.10	9.39	9.17	9.62	9.11	8.86	9.62	9.14	9.11	9.44	9.44	9.03	9.56
Savings deposits	1.55	1.60	1.58	1.60	1.65	1.61	1.42	1.45	1.53	1.73	1.64	1.67	1.64
Spread (1-2)	**12.33**	**12.19**	**12.01**	**11.34**	**11.62**	**11.55**	**11.19**	**11.48**	**10.91**	**10.32**	**10.43**	**10.60**	**10.32**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

PERFORMANCE OF THE REAL SECTOR

Overview

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

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

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

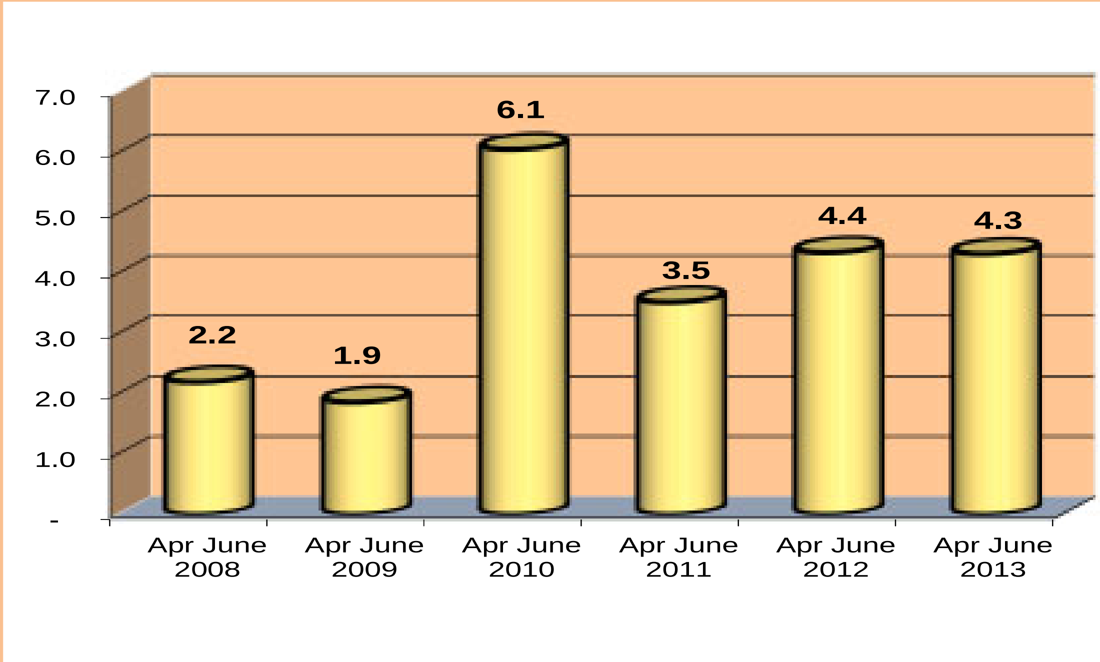
Annual Growth Rates in Percent

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

*Provisional

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

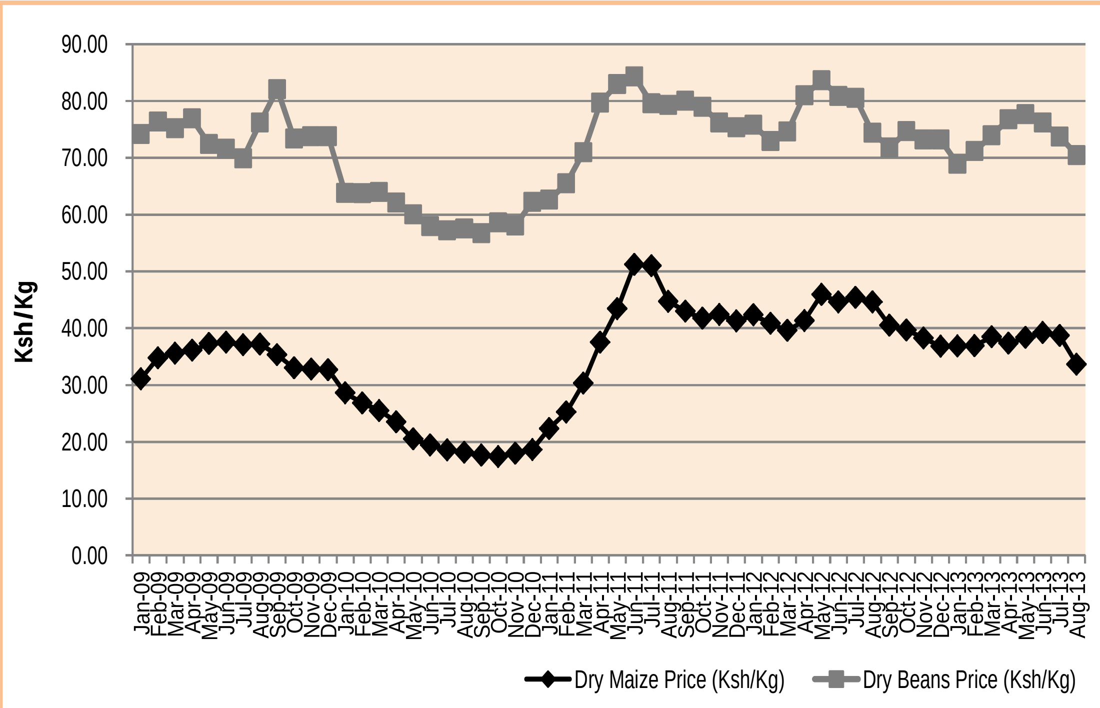
CHART 3A: REAL GDP GROWTH IN THE FIRST QUARTERS



Agriculture

Agriculture contributed 20.9 percent of GDP in 2012 and recorded 3.8 percent growth over the same period compared with 1.5 percent increase in 2011. The sector's performance improved through the first half of 2013 after recording 8.1 percent and 5.0 percent growth in output in the first and second quarters of 2013, respectively, compared with growths of 2.1 percent and 2.0 percent in the first and second quarters of 2012, respectively. The improved outturn is attributed to favorable weather conditions which resulted in better production and dampened the prices of critical food items such as maize and beans (Chart 3B).

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



Major Indicators in Agriculture

Most indicators of performance in agriculture in the year to August 2013 point to favorable outcome (Table 3.2). Among selected crops, production of tea, horticulture, milk and sugar cane increased in the year to August 2013, while production of coffee declined.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK

	2011	2012*	Year to Aug 12*	Year to Aug 13*
Tea				
Output (Metric tonnes)	377,913	369,562	363,037	433,350
Growth (%)	*-5.3%*	*-2.2%*	*-1.3%*	*19.4%*
Horticulture				
Exports (Metric tonnes)	238,562	250,814	245,272	291,997
Growth (%)	*-11.2%*	*5.1%*	*-0.9%*	*19.1%*
Coffee				
Sales (Metric tonnes)	29,984	46,051	43,206	40,737
Growth (%)	*-23.0%*	*53.6%*	*29.8%*	*-5.7%*
Milk				
Output (million litres)	549	495	499	543
Growth %	*7.5%*	*-9.8%*	*-4.2%*	*8.8%*
Sugar Cane				
Output (Metric tonnes)	5,338,571	5,716,300	5,664,830	5,705,200
Growth (%)	*-6.5%*	*7.1%*	*-2.5%*	*0.7%*

* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

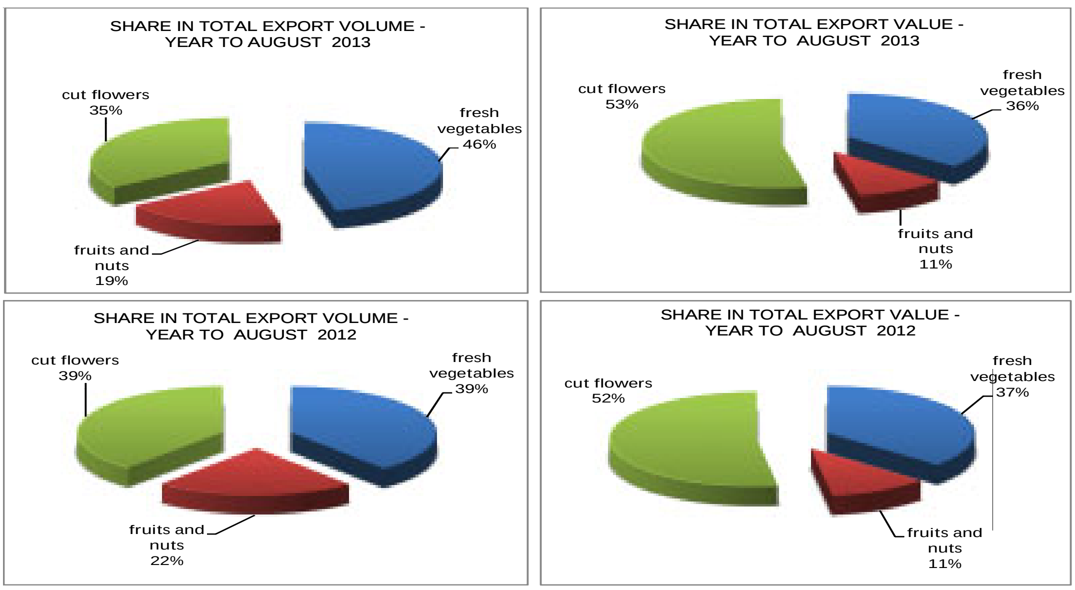
Tea

Production of tea increased by 19.4 percent in the year to August 2013 compared with 363,037 metric tonnes produced in the year to August 2012 (Table 3.2). The improvement is attributed to relatively favorable weather conditions. But the average auction price for tea declined from Ksh 269 per kilogram in the year to August 2012 period to Ksh 247 per kilogram in the year to August 2013.

Horticulture

Export of fresh horticultural products increased by 19.1 percent from 245,272 metric tonnes in the year to August 2012 to 291,997 metric tonnes in the year to August 2013. Exports of fresh vegetables dominated in terms of volume, while cut flowers brought in the largest contribution to total export value in the year to August 2013 (Table 3.2 and Chart 3C).

CHART 3C: HORTICULTURAL EXPORTS



Source: Kenya Revenue Authority

Coffee

Coffee sales declined by 5.7 percent from 43,206 metric tonnes in the year to August 2012 to 40,737 metric tonnes in the year to August 2013. The average auction price for coffee also declined from Ksh 422 per kilogram in the year to August 2012 to Ksh 280 per kilogram in the year to August 2013.

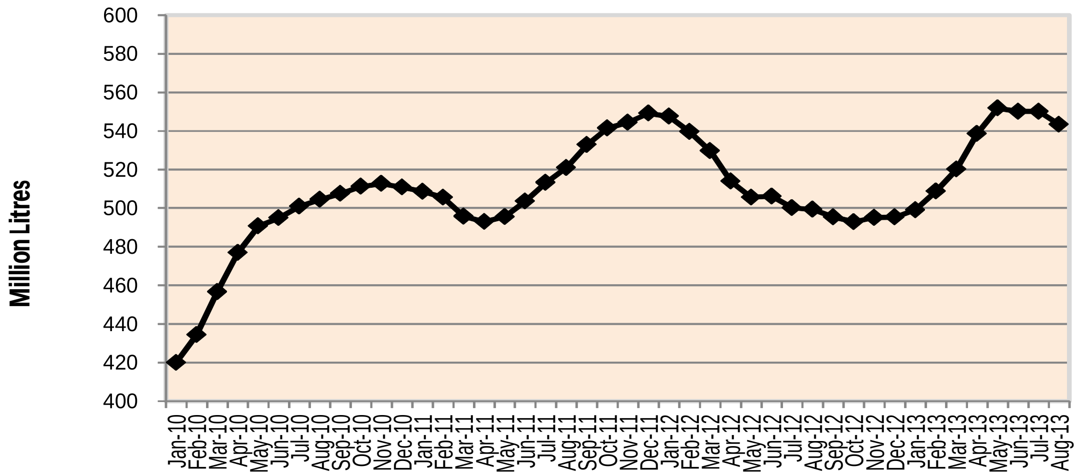
Sugar cane

Cane deliveries increased marginally by 0.7 percent in the year to August 2013 from 5.66 million tonnes in the year to August 2012.

Milk

The volume of milk delivered to factories increased by 8.8 percent in the year to August 2013 from 499 million litres delivered in a comparable period in the previous year (Chart 3D).

CHART 3D: PROCESSED MILK ('000 LITRES)



Source: Kenya National Bureau of Statistics

Manufacturing

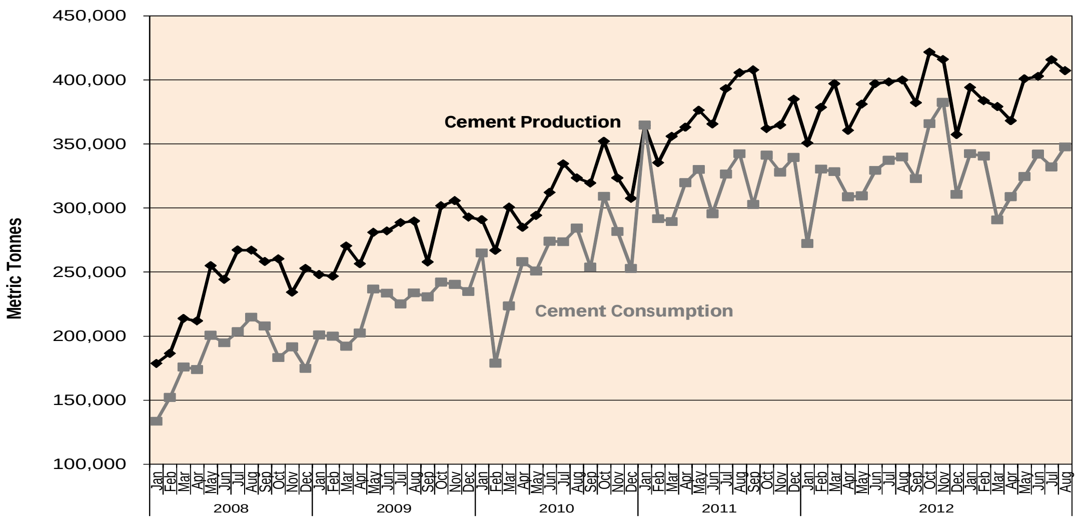
The manufacturing sector accounted for 9.5 percent of the overall GDP growth in 2012. The activity grew by 4.2 percent in the first quarter of 2013 and by 4.3 percent in the second quarter of 2013 compared with growths of 1.4 percent and 2.1 percent in the first two quarters of 2012, respectively. Indicators of the performance of manufacturing activity are mixed for the 12 month to August 2013. The amount of sugar processed increased by 6.5 percent and the volume of soft drinks produced increased by 12.3 percent. However, cement production slowed to 3.2 percent compared 7.5 percent growth recorded in the year to August 2012. The number of vehicles assembled locally declined by 7.6 percent from 6,491 in the year to July 2012 (Table 3.3 and Chart 3E).

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	Annual Totals 2011	Annual Totals 2012*	Year to Aug 12*	Year to Aug 13*
Cement production				
Output (MT)	4,478,428	4,639,723	4,582,346	4,727,604
Growth %	*20.7%*	*3.6%*	*7.5%*	*3.2%*
Assembled vehicles**				
Output (No.)	6,049	6,218	6,491	5,995
Growth %	*5.7%*	*2.8%*	*15.6%*	*-7.6%*
Processed sugar				
Output (MT)	475,061	493,937	485,997	517,573
Growth %	*-9.2%*	*4.0%*	*-11.5%*	*6.5%*
Soft drinks**				
Output ('000 litres)	371,353	359,518	359,965	404,351
Growth %	*2.8%*	*-3.2%*	*-2.0%*	*12.3%*

MT = Metric tonnes
* Provisional
** Data in the 'Year to August' columns reflects data for the year to July
Source: Kenya National Bureau of Statistics

CHART 3E: CEMENT PRODUCTION AND CONSUPTION



Energy Sector

Annual growth in local generation of electricity increased from 3.7 percent in the year to August 2012 to 7.5 percent in the year to August 2013 (Table 3.4). The total amount of electricity generated thus increased from 7,353 million kilowatt hours to 7,906 million kilowatt hours. This supply in the current period comprised 55.1 percent of hydro-electricity, 23.7 percent of thermal power and 21.2 percent of geo-thermal power. The increase in the amount of electricity produced reflects accelerated generation of hydro-electricity and geo-thermal power (green energy). Generation of hydro-electricity increased by 17.9 percent to 4,355 million kilowatt hours in the year to August 2013, while generation of geo-thermal power increased by 11.7 percent to 1,673 million kilowatt hours in the year to August 2013. The generation of thermal power declined by 13.1 percent from 2,161 million kilowatt hours in the year to August 2012. Consumption of electricity is estimated to have also increased by 3.3 percent from 6,224 million kilowatt hours in the year to August 2012 to

6,427 million kilowatt hours in the year to August 2013. Consumption of fuels was, however, marginally lower at 3,655 thousand tonnes in the year to August 2013. The average price of murban crude oil declined from US$ 112.5 per barrel in the year to August 2012 to US$ 110.0 per barrel in the year to August 2013.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	2011	2012*	Year to Aug 12*	Year to Aug 13*
Electricity Supply (Generation)				
Output (million KWH)	7,161	7,544	7,353	7,906
Growth %	*11.8%*	*5.4%*	*3.7%*	*7.5%*
Of which:				
Hydro-power Generation (million KWH)	3,183	4,032	3,694	4,355
Growth (%)	*-0.4%*	*26.6%*	*11.9%*	*17.9%*
Geo-Thermal Generation (million KWH)	1,444	1,522	1,498	1,673
Growth (%)	*0.1%*	*5.4%*	*3.1%*	*11.7%*
Thermal (million KWH)	2,533	1,990	2,161	1,877
Growth (%)	*43.2%*	*-21.4%*	*-7.5%*	*-13.1%*
Consumption of electricity (million KWH)	6,152	6,270	6,224	6,427
Growth %	*4.8%*	*1.9%*	*2.2%*	*3.3%*
Consumption of Fuels ('000 tonnes)	3,545	3,764	3,685	3,655
Growth %	*11.6%*	*6.2%*	*6.0%*	*-0.8%*
Murban crude oil average price (US $ per barrel)	110.6	113.0	112.5	110.0
Growth %	*39.7%*	*2.1%*	*11.0%*	*-2.3%*

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

The number of tourist arrivals declined by 7.0 percent from 1,257,869 in the year to July 2012 (Table 3.5). Of the total tourist arrivals, 84.5 percent was though the Jomo Kenyatta International Airport, Nairobi and 15.5 percent was through the Moi International Airport, Mombasa.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2011	2012	Year to Jul 12	Year to Jul 13	Year to Jul 13 % Share	Year to Jul 13 % Growth
CRUISE	856	0	0	0	*0.00%*	*N/A*
MIAM	233,844	187,151	204,426	181,440	*15.5%*	*-11.2%*
JKIA	1,030,436	1,048,390	1,053,443	987,910	*84.5%*	*-6.2%*
TOTAL	1,265,136	1,235,541	1,257,869	1,169,350	*100.0%*	*-7.0%*

Source: Kenya Tourist Board

In terms of region of origin, Europe and Africa dominated accounting for 41.9 percent and 24.5 percent of total tourist arrivals, respectively in the year to July 2013 (Table 3.6). Middle East (mainly, United Arab Emirates) and Oceanic countries (mainly, Australia) recorded the highest growth in terms of source of tourists with increases of 26.6 percent and 7.4 percent, respectively. Tourist arrivals from Europe however, declined by 15.3 percent in the year to July 2013 compared with a growth of 1.2 percent in the year to July 2012 partly due to the economic recession in the Euro Zone countries.

TABLE 3.6: TOURIST ARRIVALS BY CONTINENT

REGION	2011	2012	Year to Jul 12	Year to Jul 13	Year to Jul 13 % Share	Year to Jul 13 % Growth
Africa	303,886	299,746	295,867	286,776	24.5%	-3.1%
Middle East	38,880	58,711	49,425	62,590	5.4%	26.6%
America	158,268	161,669	165,772	153,898	13.2%	-7.2%
Asia	137,707	147,062	140,081	145,587	12.5%	3.9%
Europe	596,587	537,369	577,797	489,429	41.9%	-15.3%
Oceania	28,952	30,984	28,927	31,070	2.7%	7.4%
Cruise	856	0	0	0	0.0%	N/A
Total	**1,265,136**	**1,235,541**	**1,257,869**	**1,169,350**	**100.0%**	**-7.0%**

Source: Kenya Tourist Board

Transport

The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) declined marginally (by 1.4 percent) from 4,371,325 in the year to August 2012. The decline was relatively larger for incoming passengers. The volume of oil passed through Kenya pipeline however, increased by 11.4 percent compared with 4, 611 million litres in the year to August 2012 (Table 3.7).

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2011	2012*	Year to Aug 12*	Year to Aug 13*
Number of Passengers thro' JKIA				
Total passenger flows	4,135,126	4,302,244	4,371,325	4,309,740
Growth (%)	*36.5%*	*4.0%*	*15.9%*	*-1.4%*
o.w. Incoming	2,088,798	2,148,105	2,194,045	2,146,129
Growth (%)	*38.4%*	*2.8%*	*14.6%*	*-2.2%*
Outgoing	2,046,328	2,154,139	2,177,280	2,163,611
Growth %	*34.6%*	*5.3%*	*17.1%*	*-0.6%*
Kenya Pipeline Oil Throughput				
Output ('000 litres)	4,257,426	4,855,573	4,611,233	5,136,377
Growth %	*1.3%*	*14.0%*	*9.7%*	*11.4%*

* Provisional

Source: Kenya National Bureau of Statistics

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya's overall balance of payments surplus position declined to USD 606 million in the year to September 2013 from a surplus of USD 1,259 million in the year to September 2012 reflecting a reduction in the Capital and Financial account surplus (Table 4.1**).**

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Sep 2012	Year to September 2013* Q1 Oct-Dec	Q2 Jan- Mar	Q3 Apr- Jun	Q4 Jul- Sep	Year to Sep 2013*	Absolute Change	% Change
1. OVERALL BALANCE	1259	125	-171	442	209	606	-653.0	-51.9
2. CURRENT ACCOUNT	-4270	-962	-957	-690	-950	-3560	710.0	-16.6
2.1 Goods	-10277	-2694	-2583	-2420	-2665	-10363	-86.0	0.8
Exports (fob)	6010	1590	1521	1476	1417	6004	-6.3	-0.1
Imports (cif)	16287	4284	4104	3896	4082	16367	79.6	0.5
2.2 Services	6007	1732	1627	1730	1715	6803	796.0	13.2
Non-factor services (net)	3261	1041	971	1099	993	4104	842.3	25.8
Income (net)	-145	-26	-43	-16	-14	-99	46.3	-31.9
Current Transfers (net)	2891	717	699	646	736	2798	-92.7	-3.2
3. CAPITAL & FINANCIAL ACCOUNT	5529	1088	786	1133	1160	4166	-1363.0	-24.7
3.1 Capital Tranfers (net)	225	64	39	64	19	185	-39.5	-17.5
3.2 Financial Account	5304	1024	746	1069	1141	3980	-1323.5	-25.0
memo:								
Gross Reserves	7213	7160	7114	7889	7959	7959	745.4	10.3
Official	5476	5702	5523	6089	6291	6291	815.1	14.9
*import cover***	*3.7*	*3.8*	*3.7*	*4.1*	*4.3*	4.3	0.6	15.6
*import cover****	*4.2*	*4.3*	*4.1*	*4.4*	*4.5*	4.5	0.2	4.7
Commercial Banks	1738	1458	1590	1800	1668	1668	-69.7	-4.0

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

Source: Central Bank of Kenya

Current Account

The Current account improved from a deficit of USD 4,270 million in the year to September 2012 to a deficit USD 3,560 million in the year to September 2013. The improvement is mainly in the services account surplus (Table 4.2**).**

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

ITEM	Year to Sep 2012	Year to September 2013* Q1 Oct-Dec	Q2 Jan- Mar	Q3 Apr- Jun	Q4 Jul- Sep	Year to Sep 2013*	Absolute Change	% Change
2. CURRENT ACCOUNT	-4270	-962	-957	-690	-950	-3560	710.0	-16.6
2.1 Goods	-10277	-2694	-2583	-2420	-2665	-10363	-86.0	0.8
Exports (fob)	6010	1590	1521	1476	1417	6004	-6.3	-0.1
Coffee	269	46	43	59	51	198	-70.5	-26.2
Tea	1156	336	347	307	296	1285	129.4	11.2
Horticulture	672	181	196	180	164	721	48.5	7.2
Oil products	77	21	17	12	12	62	-15.2	-19.7
Manufactured Goods	712	160	159	192	184	695	-17.5	-2.5
Raw Materials	431	86	106	77	72	341	-90.4	-21.0
Chemicals and Related Products (n.e.s)	571	124	126	117	120	487	-84.3	-14.8
Miscelleneous Man. Articles	548	140	135	146	155	577	28.7	5.2
Re-exports	371	152	116	123	137	527	156.2	42.1
Other	1201	343	275	265	227	1110	-91.3	-7.6
Imports (cif)	16287	4284	4104	3896	4082	16367	79.6	0.5
Oil	4055	1099	1071	918	838	3926	-128.5	-3.2
Chemicals	2056	498	550	562	570	2180	124.5	6.1
Manufactured Goods	2295	570	693	570	701	2534	238.6	10.4
Machinery & Transport Equipment	4389	1296	1092	1133	1201	4721	331.9	7.6
Other	3493	821	698	714	773	3006	-486.9	-13.9
2.2 Services	6007	1732	1627	1730	1715	6803	796.0	13.2
Non-factor services (net)	3261	1041	971	1099	993	4104	842.3	25.8
of which transport	763	258	217	296	200	970	207.0	27.1
of which tourism (Travel)	786	166	158	166	169	659	-127.0	-16.2
Other services account: gov't	810	202	171	199	213	785	-25.6	-3.2
Other services account: private	-89	146	205	230	185	767	855.2	-966.2
Income (net)	-145	-26	-43	-16	-14	-99	46.3	-31.9
of which official interest	-120	-30	-37	-31	-33	-132	-11.9	10.0
Current Transfers (net)	2891	717	699	646	736	2798	-92.7	-3.2
Private (net)	2681	662	704	651	741	2758	76.9	2.9
of which Remittances	1123	295	309	315	327	1246	122.3	10.9
Public (net)	210	55	-5	-5	-5	41	-169.5	-80.7

* Provisional.

Source: Central Bank of Kenya

Merchandise Account

The merchandise account deficit widened by USD 86 million or 0.8 percent to USD 10,363 million in the year to September 2013 from USD 10,277 million in the year to September 2012, reflecting high spending on merchandise imports (Table 4.2).

Exports

Receipts from merchandise exports declined by USD 6.3 million or 0.1 percent to USD 6,004 million in the year to September 2013. The decline is attributed to reduced earnings from coffee, oil products, manufactured goods, raw materials, chemicals and related products and other non-categorized exports which fully offset increases in receipts from other export commodities. Tea export receipts increased by USD 129.4 million to USD 1,285 million in the year to September 2013, from USD 1,156 million in the year to September 2012 leading to arise in the share in total exports receipts from 19 to 21 percent. Values of horticulture exports also increased by USD 48.5 million, to USD 721 million, accounting for 12 percent of total exports up from 11 percent during the 12 months to September 2012. The increase in export receipts from tea and horticulture largely reflect increased exports quantities during the period under review. Both the share and value of coffee exports declined in the year to September 2013: the share from 4 to 3 percent of total exports and values from USD 269 million to USD 198 million (following a decline in coffee export prices).

In terms of destination of exports (Table 4.3) the share to Africa declined to 46.3 percent from 48.4 percent in the year to September 2012. This reduction is reflected at the sub-regional level where exports receipts from the EAC and COMESA also declined. Similarly, the share of exports to the EU region also declined from 21.7 percent to 20 percent. The value of exports at the country level declined to Uganda, Tanzania, Egypt, Sudan and Somalia; but receipts from the Netherlands, the USA, Pakistan, the United Arab Emirates, India and Afghanistan increased.

Imports

Payments for merchandise imports increased marginally by 0.5 percent or USD 79.6 million to USD 16,367 million in the year to September 2013, largely reflecting increases in imports of chemicals, manufactured goods, machinery and transport equipment (Table 4.2). During this period, the share of machinery and transport equipment in total imports increased from 27 percent to 29 percent. The increase in imports of machinery and transport equipment largely comprised power generating machines, general industrial machines, office machines, electrical machinery and road vehicles. Meanwhile, the oil import bill declined by USD 128.5 million, which resulted into a decline in the share of oil to total import payments from 25 percent in the year to September 2012 to 24 percent in the year to September 2013 mainly due to reduced importation of crude oil. In terms of origin (Table 4.3**)** Africa accounted for 10.2 percent of total imports (marginally lower than 10.9 percent in the previous period). The decline was reflected in all sub regions other than South Africa. Imports from the EU region accounted for 15 percent of total imports and was marginally higher than in the previous year); while the share of imports from China declined marginally. Analysis at country level reveals that most of Kenya’s imports were from India (16.7 percent), China (12 percent), the UAE (9.2 percent) and Japan (5.6 percent).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to Sept			Year to Sept		
Country	2011	2012	2013	2011	2012	2013
Africa	1,629	1,736	1,659	11.3	10.9	10.2
Of which						
South Africa	816	740	790	5.7	4.6	4.9
Egypt	216	338	290	1.5	2.1	1.8
Others	597	658	579	4.1	4.1	3.6
EAC	292	346	308	2.0	2.2	1.9
COMESA	563	761	648	3.9	4.8	4.0
Rest of the World	12,773	14,214	14,605	88.7	89.1	89.8
Of which						
India	1,705	1,980	2,717	11.8	12.4	16.7
United Arab Emirates	1,938	2,049	1,499	13.5	12.8	9.2
China	1,672	1,942	1,948	11.6	12.2	12.0
Japan	723	708	909	5.0	4.4	5.6
USA	509	769	672	3.5	4.8	4.1
United Kingdom	670	492	579	4.7	3.1	3.6
Singapore	463	138	172	3.2	0.9	1.1
Germany	349	457	451	2.4	2.9	2.8
Saudi Arabia	395	978	498	2.7	6.1	3.1
Indonesia	466	669	484	3.2	4.2	3.0
Netherlands	259	203	277	1.8	1.3	1.7
France	244	279	259	1.7	1.7	1.6
Bahrain	178	173	456	1.2	1.1	2.8
Italy	144	246	225	1.0	1.5	1.4
Others	3,059	3,130	3,458	21.2	19.6	21.3
Total	14,402	15,949	16,264	100	100	100
EU	2,311	2,324	2,443	16.0	14.6	15.0

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to Sept			Year to Sept		
Country	2011	2012	2013	2011	2012	2013
Africa	2,729	2,885	2,771	47.6	48.4	46.3
Of which						
Uganda	850	800	767	14.8	13.4	12.8
Tanzania	459	521	499	8.0	8.7	8.3
Egypt	251	250	215	4.4	4.2	3.6
Sudan	250	123	71	4.4	2.1	1.2
Somalia	168	231	213	2.9	3.9	3.6
DRC	186	211	229	3.2	3.5	3.8
Rwanda	149	184	166	2.6	3.1	2.8
Others	415	566	612	7.2	9.5	10.2
EAC	1,528	1,567	1,495	26.6	26.3	25.0
COMESA	2,013	1,891	1,754	35.1	31.7	29.3
Rest of the World	3,007	3,073	3,218	52.4	51.6	53.7
Of which						
United Kingdom	520	496	444	9.1	8.3	7.4
Netherlands	382	350	377	6.7	5.9	6.3
USA	321	302	336	5.6	5.1	5.6
Pakistan	240	230	306	4.2	3.9	5.1
United Arab Emirates	233	264	357	4.1	4.4	6.0
Germany	90	109	97	1.6	1.8	1.6
India	107	98	100	1.9	1.6	1.7
Afghanistan	146	125	203	2.6	2.1	3.4
Others	967	1,100	997	16.9	18.5	16.6
Total	5,737	5,958	5,989	100	100	100
EU	1,299	1,291	1,198	22.6	21.7	20.0
China	36	69	44	0.6	1.2	0.7

Source: Kenya Revenue Authority

Services Account

The surplus in the services account increased by USD 796 million or 13.2 percent to USD 6,803 million in the year to September 2013. The increase is attributed to net non-factor services, which rose by USD 842.3 million or 25.8 percent and more specifically in transportation flows and other private services. The deficit in the income account improved by USD 46.3 million or 31.9 percent to USD 99 million in the year to September 2013 attributed to an increase in Investment income and reduced private interest payments.

Flows from current transfer services declined by USD 92.7 million or 3.2 percent to USD 2,798 million reflecting declines in public transfers. However, remittance inflows increased by USD 122.3 million to USD 1,246 million during the year to September 2013 from USD 1,123 million during the year to September 2012. Remittance inflows remained resilient with the 12 month cumulative average increasing to USD 103.9 million from USD 93.6 million during the period (Table 4.2).

Capital and Financial Account

The surplus in the capital and financial account declined to USD 4,166 million in the year to September 2013 from USD 5,529 million in the year to September 2012 (Table 4.4). The decline is largely attributed to a decline in the financial account surplus, from USD 5,304 million in the year to September 2012 to USD 3,980 million in the year to September 2013 (Table 4.4).

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

ITEM	Year to Sep 2012	Year to September 2013* Q1 Oct-Dec	Q2 Jan- Mar	Q3 Apr- Jun	Q4 Jul- Sep	Year to Sep 2013*	Absolute Change	% Change
3. CAPITAL & FINANCIAL ACCOUNT	5529	1088	786	1133	1160	4166	-1363.0	-24.7
3.1 Capital Tranfers (net)	225	64	39	64	19	185	-39.5	-17.5
3.2 Financial Account	5304	1024	746	1069	1141	3980	-1323.5	-25.0
Official, medium & long-term	1097	183	237	271	13	704	-392.6	-35.8
Inflows	1397	242	328	333	113	1016	-381.4	-27.3
Outflows	-301	-60	-91	-62	-99	-312	-11.2	3.7
Private, medium & long-term (net)	88	461	-223	220	-14	444	355.2	401.5
Commercial Banks (net)	153	465	-184	217	10	508	355.0	231.8
Other private medium & long-term (net)	-65	-3	-39	3	-24	-64	0.2	-0.4
Short-term (net) incl. errors & omissions	4119	380	732	578	1142	2832	-1286.1	-31.2

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from USD 7,213 million in September 2012 to USD 7,959 million in September 2013. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased to USD 6,291 million or 4.5 months of import cover in September 2013 from USD 5,476 million or 4.2 months of import cover in September 2012. The accumulation of official reserves during the period consisted of IMF disbursements through economic program under the Extended Credit Facility (January 2011-january 2014) and purchases from the Foreign Exchange market. Foreign Exchange Reserves held by Commercial Banks declined to USD 1,668 million in September 2013 from USD 1,738 million in September 2012. Residents' Foreign Currency Deposits increased from USD 3,259 million in September 2012 to USD 3,318 million in September 2013 (Table 4.5).

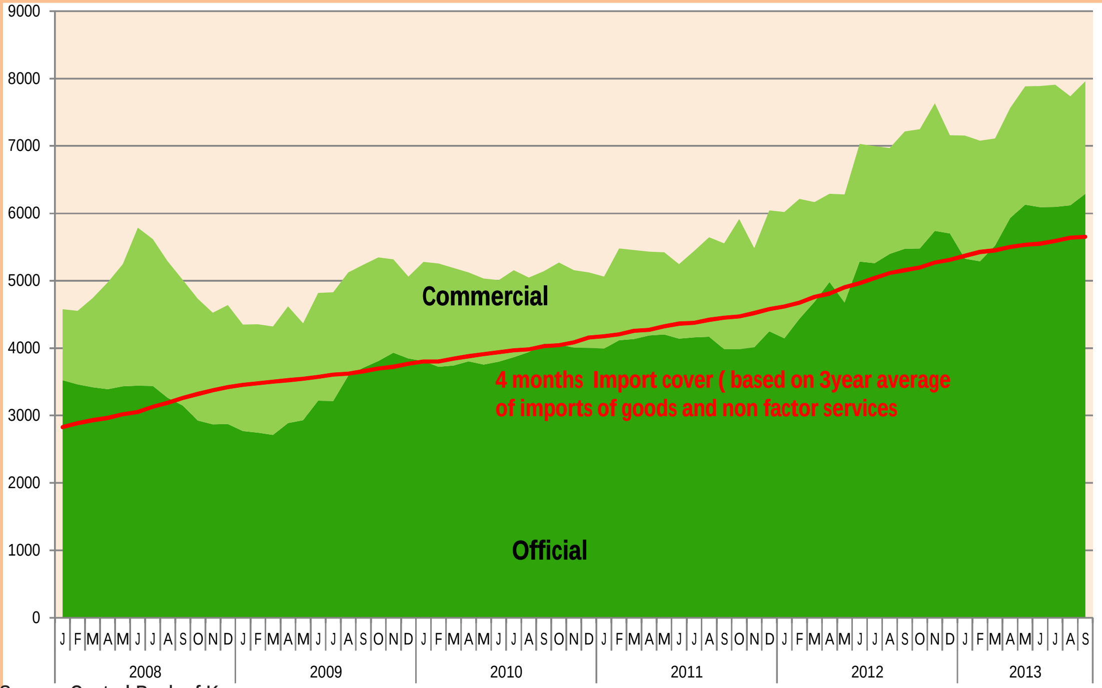
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13	Jun 13	Jul 13	Aug 13	Sep 13
1. Gross Foreign Exchange Reserves	**6,967**	**7,213**	**7,249**	**7,634**	**7,160**	**7,156**	**7,080**	**7,114**	**7,563**	**7,887**	**7,889**	**7,907**	**7,740**	**7,959**
of which:														
Official	5,398	5,476	5,478	5,742	5,702	5,328	5,290	5,523	5,928	6,128	6,089	6,096	6,120	6,291
*imports cover***	*4.2*	*4.2*	*4.2*	*4.4*	*4.3*	*4.0*	*3.9*	*4.1*	*4.3*	*4.4*	*4.4*	*4.4*	*4.3*	*4.5*
Commercial Banks	1,569	1,738	1,772	1,892	1,458	1,828	1,789	1,590	1,636	1,758	1,800	1,811	1,620	1,668
2. Residents' foreign currency deposits	**3,184**	**3,259**	**3,345**	**3,399**	**3,203**	**3,357**	**3,387**	**3,441**	**3,444**	**3,520**	**3,392**	**3,462**	**3,336**	**3,318**

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya shilling depicted mixed performance against major international currencies in the month of September 2013; appreciating against the US Dollar and the Japanese Yen, while depreciating against the Pound Sterling and the Euro to trade at an average of Ksh 87.41 per USD, Ksh 138.54 per Pound Sterling, Ksh 116.67 per Euro and Ksh 88.14 per 100 Japanese Yen.

In the EAC region, the Kenya Shilling strengthened against the Uganda and Tanzania shillings but weakened against Rwanda and Burundi Francs to trade at an average of Ush 29.41, Tsh 18.48, RWF 7.50 and BIF 17.59 compared to Ush 29.48, Tsh 18.50, RWF 7.40 and BIF 17.58 in August 2013 (Table 4.6 and Chart 4D).

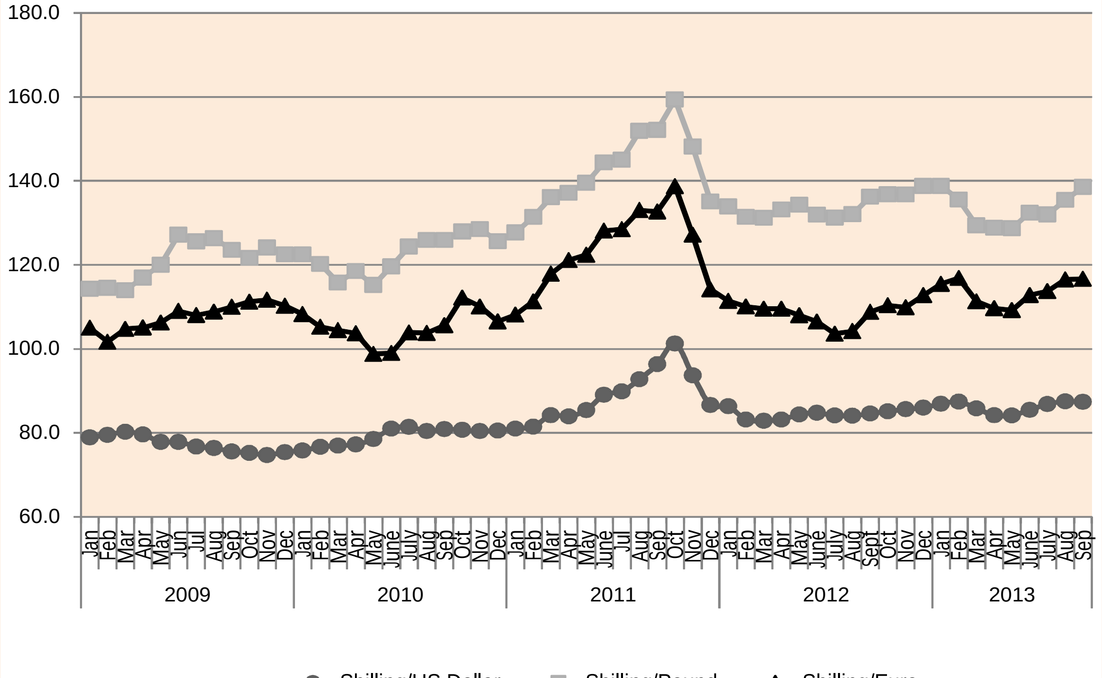
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

					2013									
	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	% change Aug-Sept 2013
US Dollar	84.61	85.11	85.63	85.99	86.90	87.45	85.82	84.19	84.15	85.49	86.86	87.49	87.41	-0.09
Pound Sterling	136.26	136.81	136.77	138.78	138.80	135.54	129.42	128.81	128.72	132.42	132.00	135.47	138.54	2.27
100 Japanese Yen	108.25	107.84	105.81	102.79	97.67	93.96	90.49	86.12	83.37	87.77	87.28	89.39	88.14	-1.40
Uganda Shilling*	29.73	30.29	30.61	31.09	30.89	30.40	30.74	30.64	30.74	30.34	29.79	29.48	29.41	-0.23
Tanzania Shilling*	18.61	18.55	18.65	18.55	18.43	18.54	18.90	19.28	19.36	19.13	18.69	18.50	18.48	-0.13
Rwanda Franc*	7.19	7.27	7.22	7.19	7.12	7.11	7.39	7.53	7.67	7.56	7.46	7.40	7.50	1.38
Burundi Franc*	17.11	17.30	17.32	17.57	17.39	17.81	18.15	18.70	18.69	18.22	17.83	17.58	17.59	0.05
Euro	108.80	110.35	109.91	112.77	115.47	116.86	111.31	109.65	109.18	112.81	113.74	116.51	116.67	0.13
Euro per US dollar	0.78	0.77	0.78	0.76	0.75	0.75	0.77	0.77	0.77	0.76	0.76	0.75	0.75	-0.22

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

DEVELOPMENTS IN THE BANKING SECTOR

Overview

The Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 9 deposit taking microfinance institutions, 7 representative offices of foreign banks, 106 foreign exchange bureaus and 2 credit reference bureaus as at September 30, 2013.

Structure of the Balance Sheet

The banking sector balance sheet expanded by 13.9 percent from Ksh 2,297.0 billion in September 2012 to Ksh 2,616.2 billion in September 2013. The key components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 56.1 percent, 22.1 percent and 6.2 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances grew from Ksh 1,316.8 billion in September 2012 to Ksh 1,522.7 billion in September 2013, which translated to a growth of 15.6 percent. The growth was attributed to increase in lending to households, trade, manufacturing and real estate sectors. Loans and advances net of provisions stood at Ksh 1,466.2 billion in September 2013, up from Ksh 1,268.1 billion registered in a similar period in 2012.

Deposit Liabilites

Deposits from customers, which form the main source of funding for the banking sector, accounted for 73.0 percent of total funding liabilities. The deposit base increased by 11.3 percent from Ksh 1,716.4 billion in September 2012 to Ksh 1,909.5 billion in September 2013 largely supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

Capital & Reserves

The banking sector recorded improved capital levels in September 2013 with total shareholders' funds growing by 21.9 percent from Ksh 336.9 billion in September 2012 to Ksh 410.6 billion in September 2013. Consequently, the ratios of core and total capital to total risk-weighted assets increased from 17.6 percent and 20.5 percent in September 2012 to 19.5 percent and 22.9 percent, respectively.

Non-performing Loans

The stock of gross non-performing loans (NPLs) increased by 31.3 percent from Ksh 60.7 billion in September 2012 to Ksh 79.7 billion in September 2013 attributed mainly to high interest rates and the reduced economic activities during the period towards and after the March 2013 general elections. Similarly, the ratio of gross NPLs to gross loans increased from 4.6 percent in September 2012 to 5.2 percent in September 2013. But the coverage ratio, measured as a percentage of specific provisions to total NPLs, declined from 54.2 percent to 45.5 percent in September 2013 due to a higher growth in NPLs than the increase in provisions.

The quality of assets, measured as a proportion of net non-performing loans to gross loans declined from 1.7 percent in September 2012 to 2.3 percent in September 2013 (Table 5.1).

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

	Sep-12	Sep-13
1 Gross loans and advances	1,316.80	1,522.70
2 Interest in Suspense	12.70	15.30
3 Loans and advances (net of interest suspended)	1,304.10	1,507.40
4 Specific Provisions	60.70	79.70
5 General Provisions	26.00	29.30
6 Total Provisions (5+6)	10.00	11.90
7 Net Advances (3-7)	36.00	41.20
8 Total Non-Performing Loans and advances (4-2)	1,268.10	1,466.20
9 Gross Non-Performing Loans and advances	48.00	64.40
10 Net Non-Performing Loans and advances (9-5)	22.00	35.10
11 Total NPLs as % of total advances (9/3)	3.70%	4.30%
12 Net NPLs as % of gross advances (11/1)	1.70%	2.30%
13 Provisions coverage ratio (2+5)/10	54.20%	45.50%

Source: Central Bank of Kenya

Profitablility

The banking sector recorded an increase of 14.5 percent growth in pre-tax profits, from Ksh 80.8 billion in September 2012 to Ksh 92.5 billion as at end of September 2013. The annualised return on assets declined from 3.7 percent in September 2012 to 3.6 percent in September 2013. Similarly, return on equity declined from 32.0 percent to 30.0 percent over the same period. Total income decreased marginally by 0.05 percent from Ksh 266.08 billion in September 2012 to Ksh 265.96 billion in September 2013, while total expenses declined by 6.4 percent from Ksh 185.3 billion in September 2012 to Ksh 173.5 billion in September 2013 with the decline largely attributed to reduction in interest expenses. Interest on loans and advances, fees and commissions and government securities were the main sources of income accounting for 58.9 percent, 19.0 percent and 15.4 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 30.8 percent, 29.7 percent and 24.9 percent, respectively.

Liquidity Ratio Requirement

For the month ended September 30, 2013, average liquid assets amounted to Ksh 750.3 billion, while total short-term liabilities stood at Ksh 1,855.4 billion, resulting to an average liquidity ratio of 40.4 percent, against 41.2 percent registered in September 2012 and the average minimum 20 percent statutory requirement

Cash Ratio Requirement

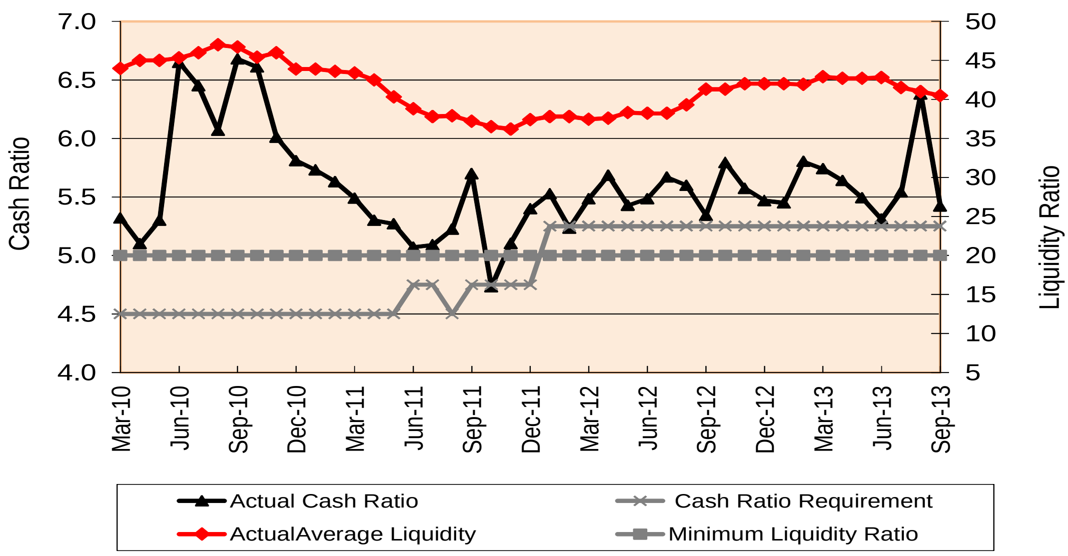
The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.42 percent in September 2013 compared with 6.38 percent in August 2013, and 5.25 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of Ksh 3.1 billion above the 5.25 percent monthly average cash reserve requirement in September 2013 compared with Ksh 20.1 billion in August 2013. Commercial banks are required to maintain cash reserve ratio (CRR) on a monthly average of 5.25 percent in the 30 day maintenance cycle from 15th through 14th of every month but subject to a daily minimum of 3.0 percent.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2012				2013								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Commercial Banks													
Actual Average Liquidity	41.30	41.30	42.00	42.00	42.00	41.90	42.90	42.70	42.70	42.80	41.50	41.00	40.50
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.34	5.79	5.57	5.47	5.45	5.80	5.74	5.64	5.49	5.31	5.54	6.38	5.42
Minimum Cash Ratio Requirement	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
NBFIs													
Actual Average Liquidity Ratio	31.00	29.60	34.70	35.60	32.80	31.40	32.90	34.20	34.40	33.10	39.50	36.50	36.80
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 165,175 transaction messages worth Ksh 1,949 billion in September 2013 compared with a volume of 164,650 transaction messages valued at Ksh 2,021 billion moved in August 2013, representing an increase of 0.32 percent in volume and a decrease of 3.54 percent in value moved. Compared with September 2012, the volume increased by 26.2 percent from 130,874 transaction messages to 165,175 transaction messages in September 2013, while value increased by 12.1 percent from 1,739 billion to 1,949 billion, indicating increased usage of KEPSS by the public.

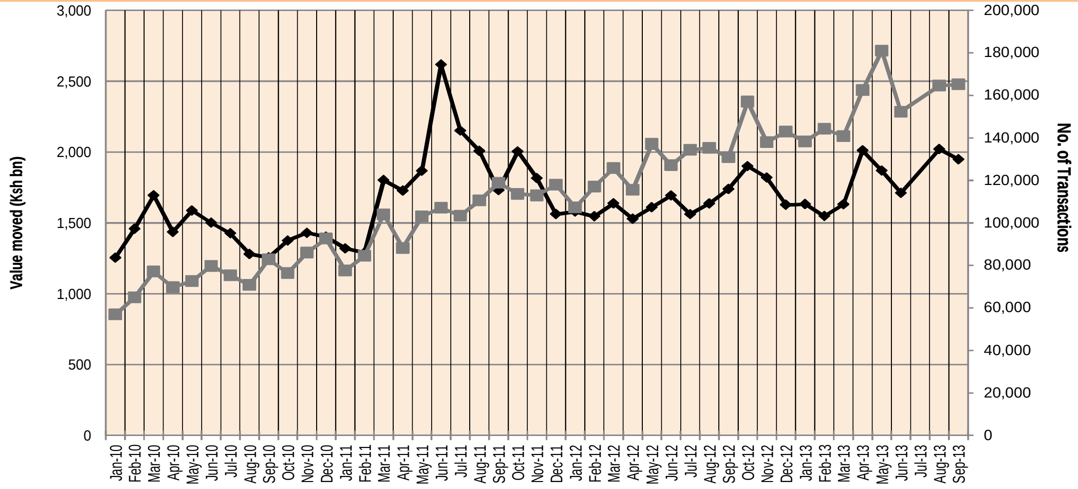
The value moved during the twelve months period to September 30, 2013 averaged Ksh 12 million per transaction. On average, 7,444 transaction messages with an average value of approximately Ksh 87 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted for 98.0 percent of the total settlements while payments processed through ACH and settled in KEPSS averaged 2.0 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-12	1,579	28	107,230	0.01	21	75	5,106
Feb-12	1,546	27	116,990	0.01	21	74	5,571
Mar-12	1,638	26	125,739	0.01	22	74	5,715
Apr-12	1,529	26	115,514	0.01	19	80	6,080
May-12	1,610	26	137,135	0.01	22	73	6,233
Jun-12	1,693	26	127,147	0.01	20	85	6,357
Jul-12	1,561	26	134,391	0.01	23	71	6,109
Aug-12	1,637	26	135,243	0.01	23	71	5,880
Sep-12	1,739	26	130,874	0.01	20	87	6,544
Oct-12	1,900	26	157,020	0.01	23	83	6,827
Nov-12	1,820	26	137,975	0.01	22	83	6,272
Dec-12	1,627	30	142,867	0.01	18	90	7,937
Jan-13	1,632	25	138,297	0.01	22	74	6,286
Feb-13	1,548	25	144,248	0.01	20	77	7,212
Mar-13	1,631	28	140,781	0.01	20	82	7,039
Apr-13	2,011	32	162,432	0.01	20	101	8,122
May-13	1,869	31	181,045	0.01	22	85	8,229
Jun-13	1,712	28	152,310	0.01	20	86	7,616
Jul-13	2,109	35	185,773	0.01	23	92	8,077
Aug-13	2,021	24	164,650	0.01	21	96	7,840
Sep-13	1,949	31	165,175	0.01	21	93	7,865

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third Party Messages

Multiple third party Message Type (MT 102) used for multiple credit transfers increased by 41.5 percent from 7,530 transaction messages in August 2013 to 10,655 transaction messages in September 2013, while single third party Message Type (MT 103) used for single credit transfers decreased by 0.64 percent from 179,629 transaction messages to 178,480 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 1.1 percent from 187,159 transaction messages in August 2013 to 189,135 transaction messages in September 2013.

Compared with September 2012, multiple third party messages (MT 102) decreased by 26.7 percent from 14,527 transaction messages to 10,655 transaction messages in September 2013, while single third party messages (MT 103) increased by 30.0 percent from 137,268 transaction messages to 178,480 transaction messages (Table 5.4 and Chart 5C).

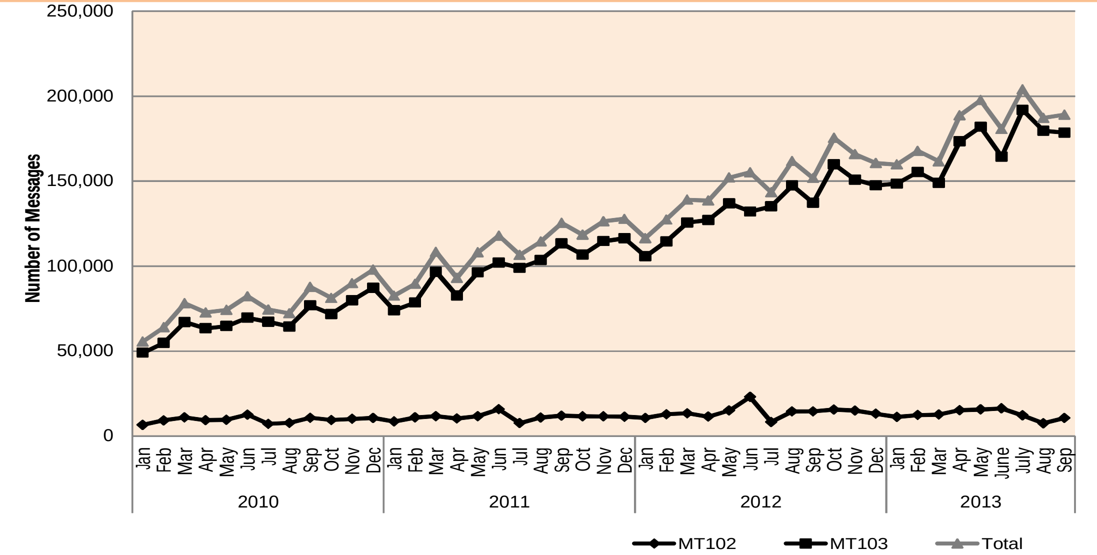
Inter-bank transfers (MT 202) accounted for 41.1 percent of the total value moved through KEPSS as at end of September 2013, while third party (MT 102 and MT 103) messages accounted for 58.9 percent. The total number of third party messages grew by 24.6 percent from 151,795 messages in September 2012 to 189,135 messages in September 2013. This signifies continued growth in KEPSS usage by individuals and non-bank corporate bodies.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2012	Jan	10,661	105,817	116,478
	Feb	12,871	114,522	127,393
	Mar	13,428	125,628	139,056
	Apr	11,439	127,126	138,565
	May	15,093	136,942	152,035
	Jun	23,048	132,103	155,151
	Jul	8,268	135,173	143,441
	Aug	14,459	147,373	161,832
	Sep	14,527	137,268	151,795
	Oct	15,616	159,847	175,463
	Nov	15,008	150,800	165,808
	Dec	13,123	147,510	160,633
2013	Jan	11,267	148,497	159,764
	Feb	12,405	155,349	167,754
	Mar	12,681	148,954	161,635
	Apr	15,247	173,453	188,700
	May	15,690	181,934	197,624
	Jun	16,254	164,422	180,676
	Jul	12,189	191,864	204,053
	Aug	7,530	179,629	187,159
	Sep	10,655	178,480	189,135

Source: Central Bank of Kenya

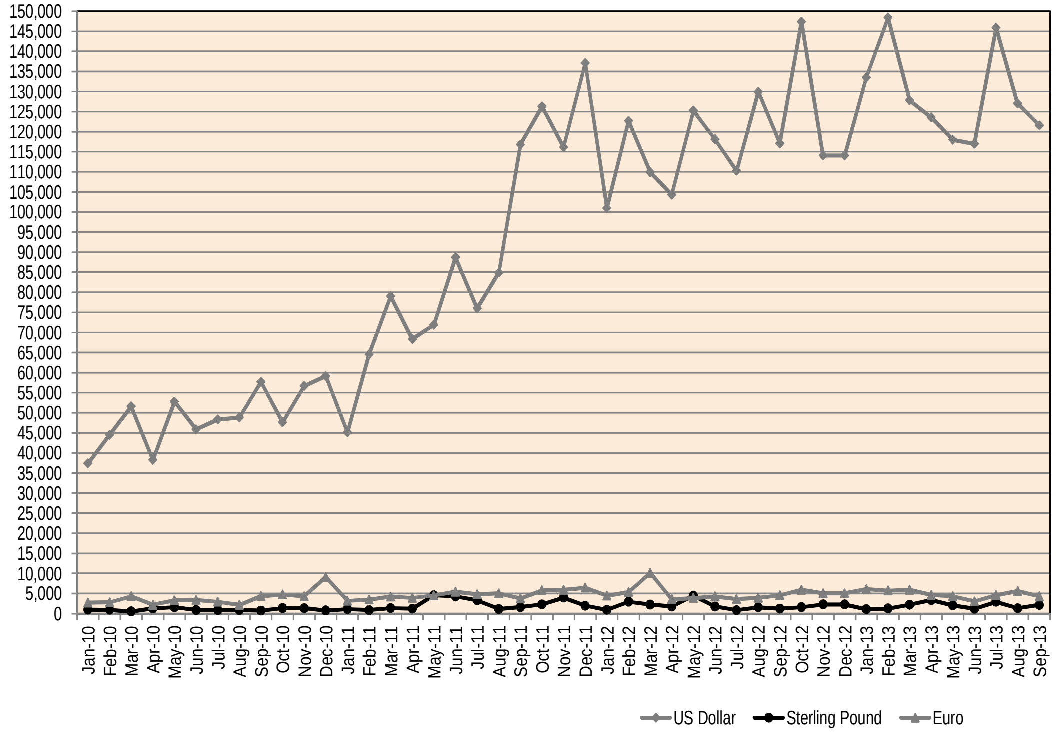
CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS



Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS decreased by 3.1 percent from 14,483 transaction messages in August 2013 to 14,033 transaction messages in September 2013. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period decreased by 4.4 percent from Ksh 133.9 billion to Ksh 128.0 billion. The US dollar denominated transactions accounted for 95.0 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.7 percent and 3.3 percent, respectively.

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



Source: Central Bank of Kenya

GOVERNMENT BUDGET PERFORMANCE

The Central Government budgetary operations in the period July to September 2013 resulted in a deficit of Ksh 21.2 billion on commitment basis compared with a deficit of Ksh 59.0 billion in the same period of fiscal year 2012/13 (Table 6.1). The deficit-to-GDP ratio at 0.6 percent on commitment basis and on cash basis was within the target budget deficit of 0.9 percent of GDP for the period.

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

	FY 2012/13	FY 2013/14		
	September Actual	September Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	173.3	210.2	241.7	-31.5
Revenue	172.0	208.6	228.2	-19.6
Tax Revenue	158.4	200.2	208.4	-8.2
Non Tax Revenue	3.6	1.2	5.5	-4.3
Appropriations-in-Aid	10.0	7.3	14.3	-7.1
External Grants	1.3	1.6	13.5	-11.9
2. TOTAL EXPENSES & NET LENDING	232.3	269.9	277.9	-8.1
Recurrent Expenses	168.1	197.7	179.2	18.5
Development Expenses	64.2	39.3	98.8	-59.4
County Transfers	0.0	32.9	36.1	-3.3
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-59.0	-59.6	-36.2	23.4
As percent of GDP	-1.8	-1.5	-0.9	
4. ADJUSTMENT TO CASH BASIS	0.0	0.0	0.0	0.0
5. DEFICIT ON A CASH BASIS	-59.0	-59.6	-36.2	23.4
As percent of GDP	-1.8	-1.5	-0.9	
6. DISCREPANCY: Expenditure (+) / Revenue	-11.0	-6.9	32.6	
7. FINANCING	48.0	52.7	68.9	-16.1
Domestic (Net)	47.7	48.6	40.5	8.2
External (Net)	0.3	4.1	28.4	-24.3
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: National Treasury

Revenue

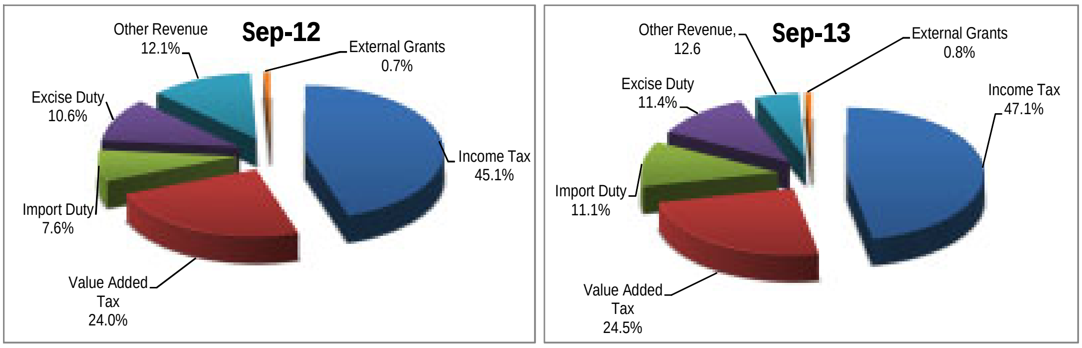
Total government revenues and grants increased by Ksh 37.6 billion to Ksh 210.9 billion, from Ksh 173.3 billion collected in a similar period of the fiscal year 2012/ 2013. However, the government revenue and external grants were Ksh 15.3 billion and Ksh 11.9 billion respectively, below respective targets (Table 6.1).

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Sep-12 Ksh bn	Sep-13 Ksh bn	Change
1. Revenue (2+3+4)	172.0	208.6	36.6
2. Tax Revenue	158.4	200.2	41.7
Income Tax	78.1	98.9	20.8
Value Added Tax	41.5	51.5	10.0
Import Duty	13.1	23.3	10.2
Excise Duty	18.3	24.0	5.7
Others	7.4	2.3	-5.0
3. Appropriations-in-Aid	10.0	7.3	-2.8
4. Other Revenue	3.6	1.2	-2.4
5. External Grants	1.3	1.6	0.3
TOTAL RECEIPTS (1+5)	173.3	210.2	36.9

Source: National Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: National Treasury

Tax revenue increased by Ksh 42.5 billion, equivalent to 26.8 percent in the July-September 2013 period, from Ksh 158.4 billion collected in the July-September 2012 period (Table 6.2). The increase reflected largely in income tax (Ksh 20.8 billion), value added tax (Ksh 10 billion), import duty (Ksh 10.9 billion) and excise duty (Ksh 5.7 billion)in However, all taxes underperformed with respect to their programmed targets through September 2013. Meanwhile, the shares in total revenue increased for all components other than income tax and external grants (Chart 6A).

Expenditure and Net Lending

Government expenditure and net lending at Ksh 269.9 billion in the period July-September 2013 was Ksh 37.6 billion above disbursement during the similar period in 2012. The increase was largely in recurrent expenditures (Ksh 29.6 billion) and transfers to county governments (Ksh 32.9 billion) as development expenditure declined by Ksh 24.9 billion. The lower disbursement for development projects is attributed to the delays in the harmonization of administrative processes in government ministries. In terms of expenditure categories, recurrent accounted for Ksh 197.7 billion (73.2percent share), and development expenditure and transfer to county governments amounted to Ksh 39.3 billion (14.6.percent share) and Ksh 32.9 billion (12.2percent share), respectively.

Within the recurrent expenditures, salaries and wages amounted to Ksh 67.9 billion in the period July-September 2013, equivalent to 34.3 percent of total recurrent expenditure. This disbursement was, however, Ksh 2.5 billion (1.3 percent) lower in the similar period of 2012, the change is attributed to cost of teachers salary reviews offered by government. Interest on domestic debt declined by Ksh 0.2 billion to Ksh 25.0 billion (12.6 percent of recurrent expenditure) reflecting a fall in interest rates on government securities

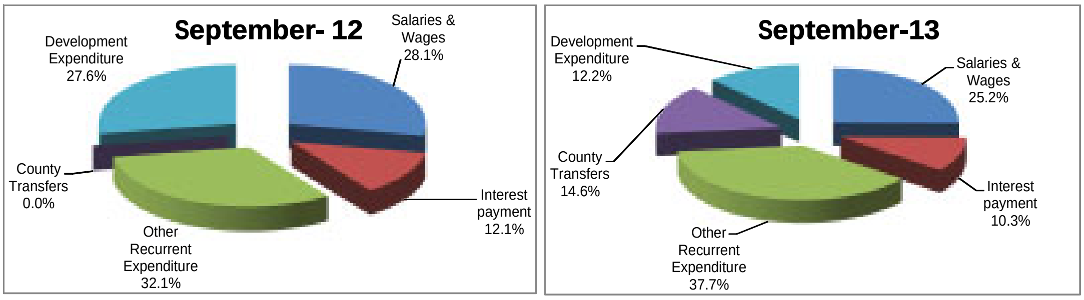
Overall, expenditure and net lending targets were missed by Ksh 41.5 billion (Table 6.1) reflecting in lower absorption on development outlay and in transfers to county governments. The latter is attributed to delays in reorganization of administrative structures and processes both national and county governments

TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)

	Sep-12 Ksh bn	Sep-13 Ksh bn	Change
1. Revenue (2+3+4)	172.0	208.6	36.6
2. Tax Revenue	158.4	200.2	41.7
Income Tax	78.1	98.9	20.8
Value Added Tax	41.5	51.5	10.0
Import Duty	13.1	23.3	10.2
Excise Duty	18.3	24.0	5.7
Others	7.4	2.3	-5.0
3. Appropriations-in-Aid	10.0	7.3	-2.8
4. Other Revenue	3.6	1.2	-2.4
5. External Grants	1.3	1.6	0.3
TOTAL RECEIPTS (1+5)	173.3	210.2	36.9

*Includes commission and other charges paid to CBK
Source: National Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: National Treasury

Financing

Budgetary operations of the Government resulted in a financing requirement of Ksh 98.2 billion in period July-September 2013 compared with Ksh 63.7 billion in similar period in 2012. The funds were allocated to bridge the Government budgetary deficit of Ksh 52.7 billion and build up government deposits by Ksh 45.7 billion. The government accessed financing through additional domestic and external borrowing of Ksh 94.1 billion and Ksh 4.1 billion, respectively (Table 6.4).

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

I. FINANCING REQUIREMENTS	Sep-12	Sep-13
1. Budget deficit	48.0	52.7
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	14.1	45.5
5. Adjustment to cash basis	1.6	0.0
Total	**63.7**	**98.2**
II. FINANCING SOURCES	**Sep-12**	**Sep-13**
1. Budget surplus	0.0	0.0
2. External debt increase	0.3	4.1
3. Increase in domestic debt	63.4	94.1
3.1 Central Bank	9.8	29.9
3.2 Commercial banks	36.9	7.1
3.3 Non-bank sources	16.7	57.1
4. Reduction in GoK deposits at CBK	0.0	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	**63.7**	**98.2**

Sources: National Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank rose by Ksh 9.1 billion to Ksh 66.3 billion in the period July-September 2013 compared with Ksh 57.2 billion in a similar period in 2012. The increase in indebtedness was largely on account of the Government overdraft by Ksh 8.8 billion. Rediscounted securities increased by Ksh 1.5 billion during the period while amortization of the pre-1997 overdraft reduced

Government indebtedness at the Central Bank by Ksh 1.1 billion, during the period under review.

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

	2012	2013	Movement
	September	September	
Total Credit	**57.2**	**66.3**	**9.1**
1. Overdraft	25.4	34.2	8.8
2. Rediscounted securities	1.7	3.2	1.5
Treasury bills	1.0	3.0	2.1
Treasury bonds	0.7	0.1	-0.6
3. Pre-1997 Government Overdraft at CBK	30.0	28.9	-1.1
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.1	0.1	0.0
Memorandum			
Authorised overdraft limit	**25.4**	**34.2**	**8.8**
Amount utilised to date	25.4	34.2	8.8
Amount available	0.0	0.0	0.0

Source: Central Bank of Kenya

Outlook for FY 2013/14

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

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

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE	**1106.80**	**28.62**
Ordinary Revenue	961.27	**24.86**
Appropriations-in-Aid	67.31	**1.74**
External Grants	78.23	**2.02**
2. TOTAL EXPENSES & NET LENDING	**1,439.74**	**37.24**
Recurrent Expenses	780.64	**20.19**
Development Expenses	444.10	**11.49**
Civil Contigency Fund	5.00	**0.13**
County Transfer	210.00	**5.43**
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-332.94**	**-8.61**
4. ADJUSTMENT TO CASH BASIS	**0.00**	**0.00**
5. DEFICIT ON A CASH BASIS	**-332.94**	**-8.61**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.00**	**0.00**
7. FINANCING	**-332.94**	**-8.61**
Domestic (Net)	106.70	**2.76**
External (Net)	226.24	**5.85**

Source: Central Bank of Kenya

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

Developments in Public Debt

Overall Debt

Kenya's public and publicly guaranteed debt increased by Ksh 163.4 billion to reach Ksh 2,057.5 billion at the end of September, 2013 from Ksh 1,894.1 billion in June, 2013. The total debt stock at the end of September, 2013 was equivalent to 53.1 percent of GDP, compared with 51.7 percent of GDP in June, 2013. Domestic debt to GDP ratio increased from 28.7 percent in June 2013 to 30.1 percent in September 2013, while external debt to GDP ratio declined to 22.9 percent in September, 2013 (Table 7.1).

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

	Jun-12	Dec-12	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Change 2013/14
EXTERNAL								
Bilateral	246.2	265.4	254.8	257.6	270.6	272.0	270.0	12.4
Multilateral	452.9	482.7	504.2	511.8	529.1	539.8	544.1	32.3
Commercial Banks	50.5	58.4	58.3	58.9	59.9	60.1	59.6	0.7
Supplier Credits	14.8	15.5	15.0	15.2	15.6	15.6	15.6	0.4
Sub-Total	**764.5**	**822.0**	**832.24**	**843.56**	**875.23**	**887.54**	**889.31**	**45.8**
(As a % of GDP)	23.56	22.7	22.7	23.0	23.6	23.5	22.9	
(As a % of total debt)	47.1	45.8	43.6	44.5	44.8	44.3	43.2	
DOMESTIC								
Banks	**459.2**	**542.9**	**595.9**	**563.5**	**573.7**	**593.7**	**618.3**	**54.81**
Central Bank	47.4	56.8	64.0	36.4	47.7	64.7	63.6	**27.19**
Commercial Banks	411.9	486.1	531.8	527.1	526.0	528.9	554.7	**27.62**
Non-banks	**388.5**	**418.5**	**469.0**	**477.5**	**496.1**	**513.8**	**540.2**	**62.70**
Pension Funds	193.2	195.7	256.6	263.1	272.4	281.7	289.5	**26.40**
Insurance Companies	92.4	98.9	109.3	108.6	111.9	115.9	117.2	**8.63**
Other Non-bank Sources	103.0	123.9	103.1	105.9	111.8	116.1	133.5	**27.67**
Non-residents	**11.0**	**10.1**	**10.0**	**9.6**	**8.9**	**9.2**	**9.7**	**0.16**
Sub-Total	**858.8**	**971.4**	**1074.8**	**1050.6**	**1078.6**	**1116.7**	**1168.2**	**117.67**
(As a % of GDP)	26.47	26.9	29.3	28.7	29.1	29.5	30.1	
(As a % of total debt)	52.9	54.2	56.4	55.5	55.2	55.7	56.8	
GRAND TOTAL	**1623.4**	**1793.4**	**1907.0**	**1894.1**	**1953.8**	**2004.2**	**2057.5**	**163.42**
(As a % of GDP)	50.0	49.6	52.1	51.7	52.7	53.0	53.1	

Sources: National Treasury and Central Bank of Kenya

Domestic Debt

Total domestic debt increased by 11.2 percent in the first quarter of fiscal year 2013/14 to Ksh 1,168.2 billion in September 2013. The increase of Ksh 117.7 billion followed increases of Ksh 50.7 billion in Treasury bonds, Ksh 39.9 billion in Treasury bills, and Ksh 27.2 billion in Government overdraft at the Central Bank (Table 7.2). The domestic debt-to-total debt ratio thereby increased from 55.5 percent in June, 2013 to 56.8 percent in September, 2013, and the domestic debt-to-GDP ratio edged up to 30.1 percent in September, 2013, from 28.7 percent in June, 2013 (Table 7.1).

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2012		2013								Change
	Jun	%	June	%	July	%	August	%	Sept.	%	Jun-13 -Sep-13
Total Stock of Domestic Debt (A+B)	**858.8**	**100.0**	**1050.56**	**100.0**	**1078.60**	**100.0**	**1116.68**	**100.0**	**1168.23**	**100.0**	**117.67**
A. Government Securities	**849.0**	**98.9**	**1040.8**	**99.1**	**1060.4**	**98.3**	**1081.3**	**96.8**	**1131.4**	**96.8**	**90.60**
1. Treasury Bills (excluding Repo Bills)	**132.05**	**15.4**	**267.69**	**25.5**	**254.79**	**23.6**	**278.01**	**24.9**	**307.63**	**26.3**	**39.93**
Banking institutions	75.50	8.8	183.45	17.5	179.07	16.6	184.73	16.5	199.29	17.1	**15.84**
Others	56.55	6.6	84.24	8.0	75.72	7.0	93.28	8.4	108.34	9.3	**24.10**
2. Treasury Bonds	**686.95**	**80.0**	**744.17**	**70.8**	**776.69**	**72.0**	**774.40**	**69.3**	**794.84**	**68.0**	**50.67**
Banking institutions	334.11	38.9	341.05	32.5	344.26	31.9	341.68	30.6	352.87	30.2	**11.82**
Pension Funds	164.53	19.2	220.14	21.0	229.81	21.3	232.27	20.8	232.03	19.9	**11.90**
Others	188.31	21.9	182.99	17.4	202.62	18.8	200.45	18.0	209.94	18.0	**26.95**
4. Non-Interest Bearing Debt	**30.00**	**3.5**	**28.89**	**2.7**	**28.89**	**2.7**	**28.89**	**2.6**	**28.89**	**2.5**	**0.00**
Of which: Repo T/Bills	29.78	3.5	28.90	2.8	28.83	2.7	28.83	2.6	28.83	2.5	**-0.07**
B. Others:	**9.83**	**1.1**	**9.80**	**0.9**	**18.23**	**1.7**	**35.37**	**3.2**	**36.87**	**3.2**	**27.07**
Of which CBK overdraft to Government	7.26	0.8	7.00	0.7	20.48	1.9	32.72	2.9	34.19	2.9	**27.19**

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding repos, increased by Ksh 39.9 billion to reach Ksh 307.6 billion in September 2013 (Table 7.2). This increased the proportion in total domestic debt to 26.3 percent in September, 2013, from 25.5 percent in June, 2013. In terms of holding by creditor, commercial banks accounted for Ksh 199.3 billion, equivalent to 64.8 percent of total Treasury bills. Holdings by commercial banks and parastatals declined from 68.5 percent and 2.1 percent of total Treasury bills in June, 2013 to 64.8 percent and 1.5 percent, respectively, in September, 2013, while those by insurance companies, pension funds and 'other' holders, which comprise Saccos, listed and private companies, self-help groups, educational institutions, religious institutions and individuals increased to 6.2 percent, 18.7 percent and 8.8 percent, respectively, during the same period (Table 7.3).

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

	2012											
Holders	Jun	%	Dec	%	Jun	%	Jul	%	Aug	%	Sept	%
Banking Institutions	75.5	57.2	139.2	70.9	183.5	68.5	179.1	70.3	184.7	66.4	199.3	64.8
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	75.5	57.2	139.2	70.9	183.5	68.5	179.1	70.3	184.7	66.4	199.3	64.8
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	7.2	5.5	11.9	6.1	14.9	5.6	15.5	6.1	18.7	6.7	19.2	6.2
Parastatals	1.2	0.9	2.8	1.4	5.6	2.1	5.6	2.2	5.9	2.1	4.7	1.5
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	28.7	21.7	24.2	12.3	42.9	16.0	42.6	16.7	49.4	17.8	57.4	18.7
Others	19.5	14.7	18.2	9.3	20.8	7.8	12.1	4.8	19.3	6.9	27.0	8.8
Total	**132.0**	**100.0**	**196.3**	**100.0**	**267.7**	**100.0**	**254.8**	**100.0**	**278.0**	**100.0**	**307.6**	**100.0**

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds increased by 6.8 percent or Ksh 50.7 billion, from Ksh 744.2 billion in June 2013 to Ksh 794.8 billion at the end of September 2013. The increase was distributed as follows: Ksh 11.8 billion, Ksh 11.9 billion, Ksh 4.3 billion and Ksh 24.5 billion with commercial banks, pension funds, insurance companies and other holders, respectively. Parastatal and building society holdings declined by Ksh 1.7 billion and Ksh 0.1 billion, respectively, while those held by non-bank financial institutions' holdings remained unchanged during the period. The proportion of bonds in total domestic debt declined from 70.8 percent in June 2013 to 68.0 percent in September 2013 following increased acquisition of Treasury bills and use of the overdraft facility by the Government (Table 7.2). Treasury bond holdings by commercial banks, insurance companies, parastatals and pension funds declined from 45.8 percent, 12.6 percent, 5.7 percent and 29.6 percent in June, 2013 to

44.4 percent, 12.3 percent, 5.2 percent and 29.2 percent, respectively in September, 2013. Those by other holders increased to 8.8 percent, while those by building societies and non-bank financial institutions' holdings remained unchanged during the period (Table 7.4).

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

Holders	2012				2013							
	Jun	%	Dec	%	June	%	Jul	%	Aug	%	Sep	%
Banking Institutions	335.6	48.9	344.1	48.1	341.2	45.9	344.4	44.3	341.9	44.1	353.1	44.4
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	334.1	48.6	343.5	48.0	341.0	45.8	344.3	44.3	341.7	44.1	352.9	44.4
NBFIs	1.5	0.2	0.6	0.1	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0
Insurance Companies	85.1	12.4	87.0	12.2	93.7	12.6	96.4	12.4	97.2	12.6	98.0	12.3
Parastatals	46.1	6.7	44.4	6.2	42.7	5.7	42.7	5.5	41.0	5.3	41.0	5.2
Of which: NSSF	24.5	3.6	23.8	3.3	22.7	3.1	22.7	2.9	22.3	2.9	22.3	2.8
Building Societies	0.6	0.1	0.6	0.1	0.6	0.1	0.6	0.1	0.5	0.1	0.5	0.1
Pension Funds	164.5	24.0	171.5	23.9	220.1	29.6	229.8	29.6	232.3	30.0	232.0	29.2
Others	54.9	8.0	68.4	9.6	45.8	6.2	62.8	8.1	61.6	8.0	70.3	8.8
Total	**687.0**	**100.0**	**716.1**	**100.0**	**744.2**	**100.0**	**776.7**	**100.0**	**774.4**	**100.0**	**794.8**	**100.0**

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Total domestic debt at the end of September 2013 amounted to Ksh 1,168.2 billion, and comprised Ksh 794.8 billion, Ksh 307.6 billion, Ksh 34.2 billion, Ksh 28.8 billion and Ksh 2.8 billion in Treasury bonds, Treasury bills, Government overdraft at the Central Bank, Repo Treasury bills and other domestic debt, respectively. Government securities worth Ksh 118.9 billion will fall due between October 2013 and December 2013, and will comprise Ksh 83.1 billion and Ksh 35.8 billion in Treasury bills and Treasury bonds, respectively. Treasury bill maturities in the period will comprise Ksh 40.34 billion, Ksh 32.43 billion and Ksh 10.35 billion in 91-day, 182-day and 364-day Treasury bills, respectively, while Treasury bonds maturing during this period will comprise Ksh 23.43 billion, Ksh 10.01 billion and Ksh 2.32 billion in 2–year, 5-year and 7–year fixed rate Treasury bonds.

In terms of days remaining to maturity of the existing domestic debt stock, the average length of maturity declined to 5 years in September, 2013, from 5 years and 2 months in June 2013.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2012		2013								Change Jun-13 to Sept-13
		Jun	%	June	%	July	%	August	%	Sept	%	
Treasury bills	91-Day	24.3	2.8	36.2	3.4	28.8	2.7	30.2	2.7	40.3	3.5	4.1
	182-Day	75.7	8.8	52.2	5.0	49.7	4.6	54.5	4.9	58.4	5.0	6.2
	364-Day	32.1	3.7	179.3	17.1	176.3	16.3	193.3	17.3	208.9	17.9	29.6
Treasury Bonds	1-Year	51.5	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	86.5	10.1	122.0	11.6	122.0	11.3	139.9	12.5	139.0	11.9	17.0
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	0.0	0.0	19.1	1.8	19.1	1.8	19.1	1.7	25.1	2.1	6.0
	5-Year	115.3	13.4	138.4	13.2	151.2	14.0	136.4	12.2	136.4	11.7	-1.9
	6-Year	57.4	6.7	40.7	3.9	40.7	3.8	40.7	3.6	40.7	3.5	0.0
	7-Year	22.5	2.6	19.3	1.8	19.3	1.8	19.3	1.7	19.3	1.7	0.0
	8-Year	17.6	2.0	31.8	3.0	31.8	2.9	31.8	2.8	38.7	3.3	6.9
	9-Year	25.4	3.0	18.2	1.7	18.2	1.7	18.2	1.6	18.2	1.6	0.0
	10-Year	95.7	11.1	109.4	10.4	121.5	11.3	116.1	10.4	116.1	9.9	6.7
	11-Year	4.0	0.5	4.0	0.4	4.0	0.4	4.0	0.4	4.0	0.3	0.0
	12-Year	63.5	7.4	30.2	2.9	30.2	2.8	30.2	2.7	38.7	3.3	8.5
	15-Year	75.4	8.8	119.8	11.4	127.3	11.8	127.3	11.4	127.3	10.9	7.5
	20-Year	29.7	3.5	49.0	4.7	49.0	4.5	49.0	4.4	49.0	4.2	0.0
	25-Year	20.2	2.4	20.2	1.9	20.2	1.9	20.2	1.8	20.2	1.7	0.0
	30-Year	22.1	2.6	22.1	2.1	22.1	2.1	22.1	2.0	22.1	1.9	0.0
Repo T bills		29.2	3.4	28.9	2.8	28.8	2.7	28.83	2.6	28.8	2.5	-0.1
Overdraft		7.3	0.8	7.0	0.7	15.5	1.4	32.72	2.9	34.2	2.9	27.2
Other Domestic debt		3.3	0.4	2.79	0.3	2.81	0.3	2.72	0.2	2.7	0.2	0.0
Total Debt		858.83	100.0	1050.56	100.0	1078.60	100.0	1116.68	100.0	1168.2	100.0	

Source: Central Bank of Kenya

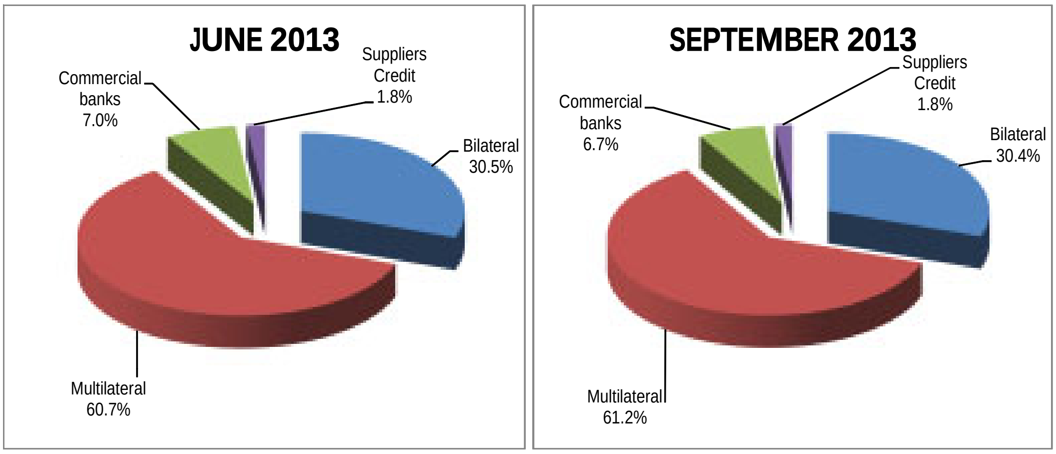
External Debt

Kenya's public and publicly guaranteed external debt increased by Ksh 45.8 billion to Ksh 889.3 billion (USD 10.3 billion), at the end of the first quarter of fiscal year 2013/14, from Ksh 843.6 billion (USD 9.8 billion) in June, 2013. Total external debt to the Government of Kenya amounted to Ksh 843.6 billion (USD 9.7 billion), while the rest was external debt to Parastatals, guaranteed by the Government. Public and publicly guaranteed debt from bilateral sources, multilateral sources, commercial bank loans, and Suppliers' credits increased by Ksh 12.4 billion, Ksh 32.3 billion, Ksh 0.7 billion and Ksh 0.4 billion respectively, during the period. In terms of holding by creditor, the African Development Bank (ADB) and International Development Association (IDA) collectively accounted for Ksh 30.0 billion of the multilateral debt increase; while France, China and Japan accounted for Ksh 6.9 billion, Ksh 2.1 billion and Ksh 1.2 billion, respectively, of the bilateral debt increase. These increases were largely due to additional disbursements and exchange rate revaluations during the period.

Composition of External Debt by Creditor

Kenya's official creditors, the multilateral and bilateral lenders, accounted for 91.6 percent of total public and publicly guaranteed external debt in September 2013. The proportion of debt owed to multilateral lenders increased to 61.2 percent in September, 2013 from 60.7 percent in June, 2013, largely due to additional disbursements made during the period. The shares of bilateral and commercial debt declined to 30.4 and 6.7 percent of total public debt in September, 2013 following revaluations during the period, while suppliers' credits remained unchanged, accounting for 1.8 percent of total external debt by September 2013 (Chart 7A).

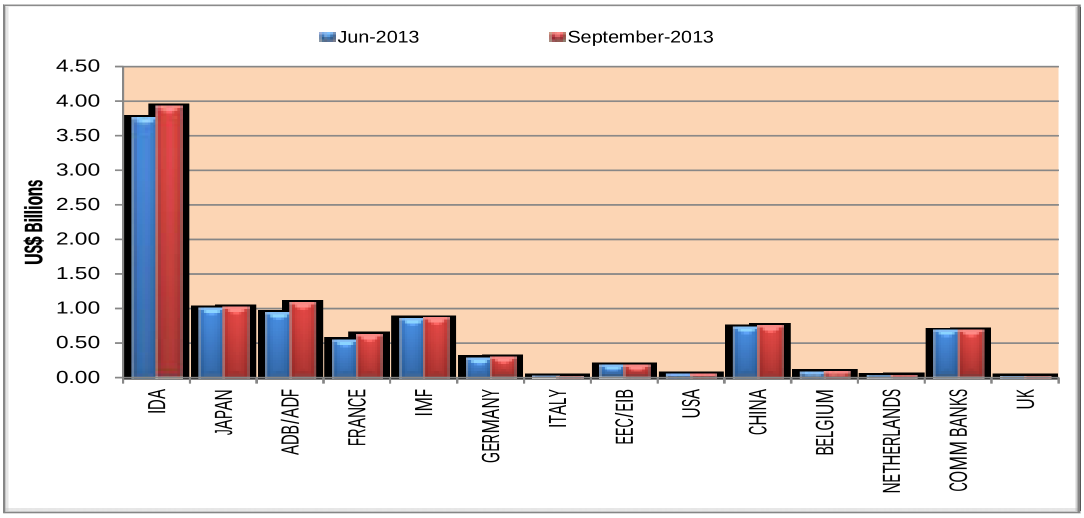
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: National Treasury

Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 3.93 billion or 38.3 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender amounted to USD 1.0 billion at the end of September 2013 (Chart 7B).

CHART 7B: EXTERNAL DEBT BY CREDITOR

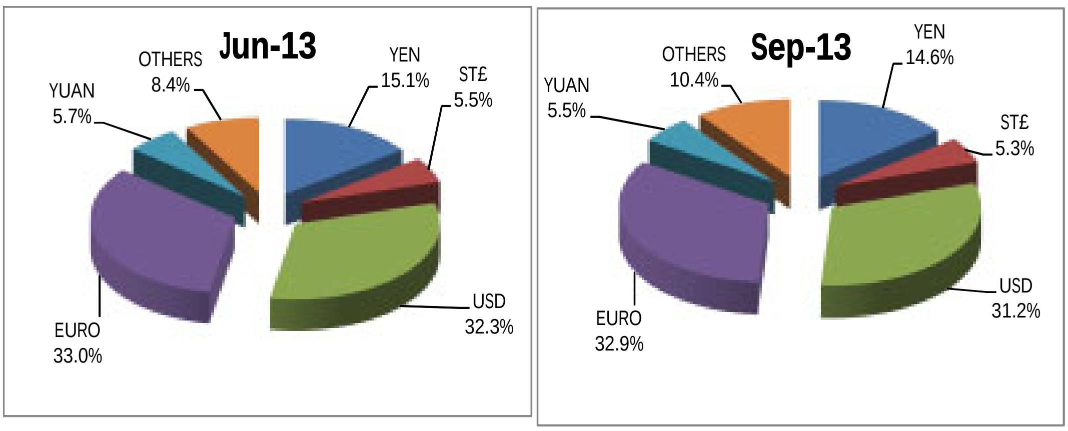


Source: National Treasury

Currency Composition of External Debt

The Euro and US dollar denominated currencies constituted 64.1 percent of total public and publicly guaranteed external debt in September, 2013. Debt held in all the major currencies declined during the period, as a result of debt service and exchange rate revaluations. Holdings in the Japanese Yen, the sterling Pound, the US dollar, the Euro and the Chinese Yuan declined from 15.1 percent, 5.5 percent, 32.3 percent, 33.0 percent and 5.7 percent, respectively in June, 2013 to 14.6 percent, 5.3 percent, 31.2 percent, 32.9 percent and 5.5 percent in September, 2013. Debt held in 'other currencies', which includes currencies from non-Paris club countries such as Korea, Kuwait and Saudi Arabia, increased to account for 10.4 percent of total debt, following disbursements and exchange rate revaluations during the period.

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: National Treasury

Public Debt Service

Cumulative interest and other charges on domestic debt for September 2013 in the fiscal year 2013/14 amounted to Ksh 25.0 billion compared with Ksh 28.3 billion during a similar period of the previous fiscal year. This comprised interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 4.6 billion and Ksh 20.0 billion, respectively, in addition to Ksh 0.4 billion in interest on Government overdraft at the Central Bank. External debt service for July 2013 - September 2013 amounted to Ksh 9.0 billion, comprising Ksh 5.7 billion in principal repayments, and Ksh 3.3 billion in interest payments.

Performance for the FY 2013/14

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

Activity in the Stock Market

The market recovered from the August 2013 slump, with all leading equity indicators closing in positive territory except for the equities turnover and number of shares traded. The bond market also mirrored equity market's performance during the month.

Equity Market

Average share prices improved with the NSE 20 Share Index and the NASI closing higher to 4,793.20 points and 127.35 points, respectively. Market Capitalization, improved by 6.5 percent over the August 2013 level of Ksh 1,681.66 billion.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

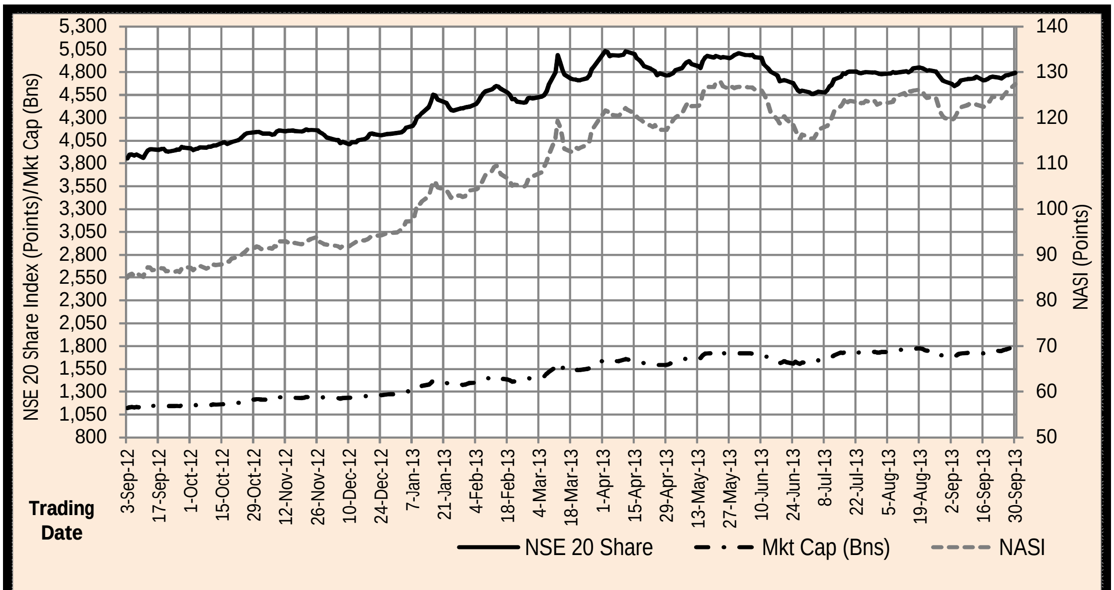
Period (Month)	NSE 20 Share Index	NASI (2008=100)	Number of Shares Traded (	Equities Turnover (Ksh Millions)	Market Capitalizatio n (Ksh	Bond Turnover (Ksh Millions)	FP to Equity Turnover	FS to Equity Turnover	Overall net FP to Equity Turnover
Dec-10	4,432.60	97.82	357.61	5,885.41	1,166.99	23,280.00.	38.23%	18.09%	28.16%
Sep-11	3,284.06	69.68	582.39	5,453.00	885.57	36,112.40	48.52%	38.71%	43.62%
Oct-11	3,507.34	72.71	570.14	4,466.00	927.00	34,737.60	72.59%	56.49%	64.54%
Nov-11	3,155.46	66.33	398.90	3,928.00	854.68	26,691.60	71.79%	71.00%	71.40%
Dec-11	3,205.02	68.03	336.50	3,973.00	868.24	24,999.05	68.19%	44.65%	56.42%
Jan-12	3,224.00	69.00	351.00	3,544.00	880.00	24,513.50	31.55%	54.46%	43.00%
Feb-12	3,303.75	72.07	342.00	3,493.00	920.00	27,121.66	57.23%	34.47%	45.85%
Mar-12	3,366.89	73.47	366.00	6,386.00	940.00	47,811.97	60.44%	18.93%	39.69%
Apr-12	3,546.66	76.91	526.15	7,640.23	985.00	35,503.62	64.29%	41.11%	52.70%
May-12	3,650.85	78.48	543.29	8,815.35	1,005.19	47,343.28	58.32%	45.85%	52.09%
Jun-12	3,703.94	80.75	385.51	6,214.24	1,048.72	28,259.68	62.44%	36.06%	49.25%
Jul-12	3,832.42	83.26	383.61	6,037.89	1,098.90	34,170.82	51.90%	38.19%	45.05%
Aug-12	3,865.76	84.66	338.92	5,680.73	1,117.39	86,918.78	58.56%	40.12%	49.34%
Sep-12	3,972.03	87.38	470.26	9,781.50	1,155.99	95,866.77	68.67%	35.08%	51.88%
Oct-12	4,147.28	91.67	458.43	11,082.25	1,217.09	72,596.46	68.61%	41.85%	55.23%
Nov-12	4,083.52	92.20	836.90	10,537.05	1,234.47	38,895.86	67.02%	25.88%	46.45%
Dec-12	4,133.02	94.86	461.89	7,582.42	1,272.00	26,672.11	73.58%	45.50%	59.54%
Jan-13	4,416.60	103.50	518.71	8,464.46	1,387.81	20,999.59	59.06%	33.86%	46.46%
Feb-13	4,518.59	106.91	692.28	14,693.27	1,451.01	20,240.18	42.73%	69.45%	56.09%
Mar-13	4,860.83	117.91	571.29	11,182.65	1,599.80	25,690.98	55.92%	39.74%	47.83%
Apr-13	4,765.23	118.07	596.83	9,856.50	1,601.93	35,190.25	56.75%	26.73%	42.67%
May-13	5,006.96	126.80	867.77	16,070.53	1,720.43	73,523.70	53.22%	31.60%	42.41%
Jun-13	4,598.16	116.31	727.78	13,021.29	1,618.27	85,904.11	66.13%	46.15%	56.14%
Jul-13	4,787.56	122.86	615.90	11,205.17	1,727.83	34,170.82	65.88%	51.38%	58.63%
Aug-13	4,697.75	119.96	670.38	20,797.41	1,681.66	24,520.25	75.75%	28.44%	52.10%
Sep-13	4,793.20	127.35	488.79	10,062.50	1,790.85	29,304.17	65.89%	45.39%	55.64%

Source: Nairobi Securities Exchange

Overall Net Foreign Investor participation rose to 55.64 percent in September 2013 from 52.10 percent of total equity turnover in August 2013. Foreign purchases accounted for 65.89 percent of total equity turnover against 45.39 percent sales, a further indication of foreign investor interest in the Kenyan market.

But equities turnover halved to reach Ksh 10,062.50 million in September 2013 from Ksh 20,797.41 million in August 2013 on the back of lower shares supply. The number of shares traded declined by 27 percent to 489 million (Table 8.1 and Chart 8A).

CHART 8A: NSE 20 SHARE INDEX, NASI AND MARKET CAPITALIZATION



Source: Nairobi Securities Exchange

The stock market remained bullish in September 2013 as reflected by trends of NASI and NSE 20 Share Index. Shareholders wealth measured by market capitalization approached a historical high of Ksh 1.8 trillion (Chart 8A).

Most Active Sectors & FTSE NSE Kenya Index Series

Telecommunication and Technology sector dominated trading, with 279.26 million shares, which accounted for 57.13 percent of the entire market. Banking sector had 111.11 million shares traded (or 22.73 percent share), while Energy and Petroleum was the third most active sector with 27.10 million shares or 5.54 percent of the market. Safaricom, Equity Bank and BBK counters were on the lead with 279.26 million, 37.56 million and 25.63 million shares traded, respectively.

FTSE NSE Kenya 15 Index, a performance measure of 15 largest stocks by market capitalization at NSE and FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks, closed the month at 168.83 points and 171.33 points in September 2013, up from 156.79 points and 158.79 points in August 2013, respectively. FTSE NSE Kenyan Shilling Government Bond Index eased down to 92.94 points down from to 94.06 points, reflecting rising yields.

Bond Market

Bonds turnover increased by 19.5 percent, and corresponding deals increased by 36.3 percent 364 in September 2013. Bonds worth Ksh 29.30 billion were traded in September 2013 up from Ksh 24.52 billion sold in August 2013 (Table 8.1). The FXD1/2013/015 dominated trading, at 18.89 percent of total turnover, with yields ranging from 10.95 percent to 11.75 percent against a coupon rate of 12.496 percent. Corporate bonds trading accounted for 0.032 percent of the market, where only KenGen Bond traded 9 deals worth Ksh 9.40 million.

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

	Sep-13	Jun-13	Sep 13/Jun 2013 Movement
ASSETS			
Balances due from Banking Institutions and Gold hold	546,820	527,944	18,876
Funds held with International Monetary Fund	2,097	2,694	(597)
Items in the course of collection	79	154	(75)
Advances to commercial banks	3,172	351	2,821
Loans and Advances	38,304	10,887	27,417
Other Assets	3,498	2,540	957
Retirement Benefits Assets	2,967	2,967	0
Property and Equipment	11,846	12,052	(207)
Intangible Assets	886	973	(87)
Due from Government of Kenya	28,889	28,889	0
TOTAL ASSETS	638,557	589,451	49,106
LIABILITIES			
Balances due to Banking Insititurions (RAMP A/Cs)			
Currency in Circulation	184,752	183,047	1,705
Investments by Banks	-	10,633	
Deposits	246,073	221,927	24,146
International Monetary Fund	120,985	118,568	2,417
Other Liabilities	25,400	2,203	23,196
Provisions	123	123	0
TOTAL LIABILITIES	577,332	536,501	51,464
EQUITIES AND RESERVES	61,225	52,950	8,275
Share capital	5,000	5,000	0
General Reserve Fund	40,540	40,540	0
Period Surplus	7,410	7,410	0
Asset Revaluation	8,275	0	8,275
Dividends Payable	0	0	0
TOTAL LIABILITIES AND EQUITY	638,557	589,451	59,739

Source: Central Bank of Kenya

Notes on the Financial Position

Assets

Balances due from Banking institutions and Gold holdings category consist of foreign reserves held in external current accounts, deposits and special/projects accounts, foreign travelers cheques, domestic foreign currency clearing accounts, gold, special drawing rights and RAMP securities invested with World Bank. The category increased by Ksh 18,876 million to Ksh 546,820 million in September 2013 from Ksh 527,944 million in June 2013. The expansion reflected largely CBK purchase of foreign exchange from domestic interbank market to build official reserves.

Items in course of collection represent the value of clearing instruments which are held by the Bank, while awaiting clearing by respective commercial banks. The balances as at September 2013 were Ksh 79 million, a representing 48.7 percent recovery from Ksh 154 million outstanding as at June 2013.

Advances to commercial banks are balances of money lent by Central Bank to commercial banks through reverse Repo (injection of liquidity) for a short duration of 7 days and rediscounted Treasury bills and bonds by commercial banks. The balance outstanding increased by Ksh 2,821 million to Ksh 3,172 million in September 2013 from Ksh 351 million in June 2013 and largely on account of tight liquidity in the money market.

Loans and Advances class of asset includes mainly outstanding balances on advances to commercial bank under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF fund on-lent to Government. The balances increased by Ksh 27,417 million to Ksh 38, 304 million in September 2013 from Ksh 10,887 million in June 2013.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets increased by Ksh 957 million to Ksh 3,498 million in September 2013 from Ksh 2,540 million in June 2013.

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

Liabilities

Currency in circulation increased by Ksh 1,705 million to Ksh 184,752 million in September 2013 from Ksh 183,047 million in June 2013.

Deposits liability represents deposits held by Government of Kenya, local commercial bank deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances increased by Ksh 24,146 million to Ksh 246,073 million in September 2013 from Ksh 221,927 million in June 2013.

Amount due to International Monetary Fund represents the Banks obligations to the IMF. The balances increased to Ksh 120,985 million in September 2013 from Ksh 118,568 million in June 2013.

Other liabilities include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance increased by Ksh 23,196 million to Ksh 25,400 million in September 2013 from Ksh 2,203 million in June 2013.

Equities and reserves increased by Ksh 8,275 million to Ksh 61,225 million in September 2013 from Ksh 52,950 million in June 2013 reflecting an increase in asset revaluation.