MONTHLY ECONOMIC REVIEW

**FEBRUARY 2014**

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

# CONTENTS



*Information in the Monthly Economic Review is provided for public information and may be reproduced with due acknowledgment. Enquiries concerning this publication should be addressed to: The Director, Research and Policy Analysis Department, Central Bank of Kenya, P. O. Box 60000-00200, Nairobi.*

**email: Researchstat@centralbank.go.ke**

# Overview

**Introduction**

This Monthly Economic Review highlights recent economic developments through February 2014. 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 declined from 7.2 percent in January 2014 to 6.8 percent in February 2014. This was reflected in fuel inflation, which rose by 9 basis points to 5.6 percent, and also in non-food non fuel inflation, which rose by 10 basis points to 4.9 percent. Food inflation, however, declined by 95 basis points to 8.9 percent in February 2014. Annual average inflation rose from 6.0 percent in January 2014 to 6.2 percent in February 2014. The overall 12 month inflation remained within the target range prescribed by the National Treasury i.e. ± 250 basis points from the 5 percent medium term target.

**Money Supply**

Growth in broad money, M3, slowed down to 13.7 percent in the year to February 2014 from 16.2 percent over a similar period in 2013 and was within the respective target of 14.6 percent for February 2014.

**Interest Rates**

The Central Bank maintained the Central Bank Rate (CBR) at 8.50 percent in February 2014 in order to consolidate the monetary policy gains, as reflected in low and stable inflation rate and sustained exchange rate stability. The weighted average interbank rate declined from 10.43 percent in January 2014 to 8.83 percent in February 2014.

**Real GDP Growth**

Real GDP in 2013 grew by 4.7 percent and amounted to Ksh 1.69 trillion compared with 4.6 percent growth in 2012 (Table 3.1). GDP growth in 2013 was broad based and driven largely by growth in output from agriculture and forestry, transport and communication, wholesale and retail trade, and manufacturing, which constituted 20.6 percent; 12.6 percent, 11.5 percent and 9.5 percent, respectively of the overall GDP.

**Balance of Payments**

Kenya's overall balance of payments surplus registered an 84.7 percent improvement in the 12 months to February 2014 with the improvement reflecting narrowing of the current account deficit, and an increase in the capital and financial account surplus.

**Exchange Rates**

The Kenya shilling exchange rate in relation to internationally traded currencies and the EAC currencies stabilised in February 2014.

**Banking Sector Developments**

The Kenyan Banking sector registered improved growth in assets in the year to February 2014 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 2013.

**Government Budgetary Performance**

The Government budgetary operations for the period July 2013 to February 2014 of the FY 2013/14 resulted in a deficit of Ksh158.7 billion (3.8 percent of GDP) on commitment basis compared with a deficit of Ksh 150.0 billion incurred in the same period of the FY 2012/13. This was lower than the Ksh 301.2 billion (4.0 percent of GDP) target for the period.

**Public Debt**

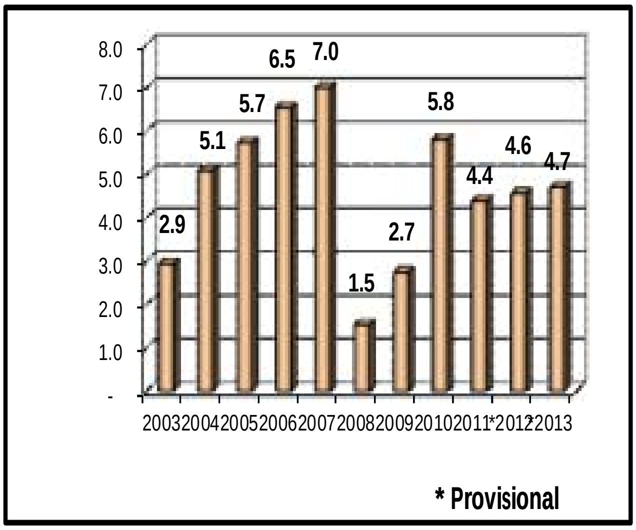
Kenya's public and publicly guaranteed debt increased by 12.0 percent to reach Ksh 2,121.6 billion in February 2014, from Ksh 1,894.1 billion in June 2013. The total debt stock at the end of February 2014 was equivalent to 56.2 percent of GDP, compared with 51.7 percent of GDP in June 2013. The debt to GDP ratios for both domestic and external debts increased from 28.7 percent and 23.0 percent, respectively, in June 2013 to 32.6percent and 23.2 percent in February 2014.

**Stock Market**

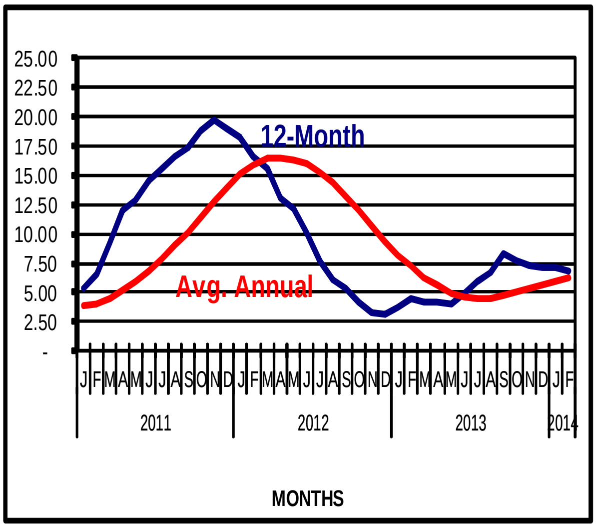
Capital markets recorded mixed performance in February 2014 in both the equity and bond markets segments. On average, equities prices recovered after a two month decline since November 2013. Overall net foreign investor interest at NSE improved, but with a bias on sales than purchases.

# SELECTED ECONOMIC PERFORMANCE INDICATORS

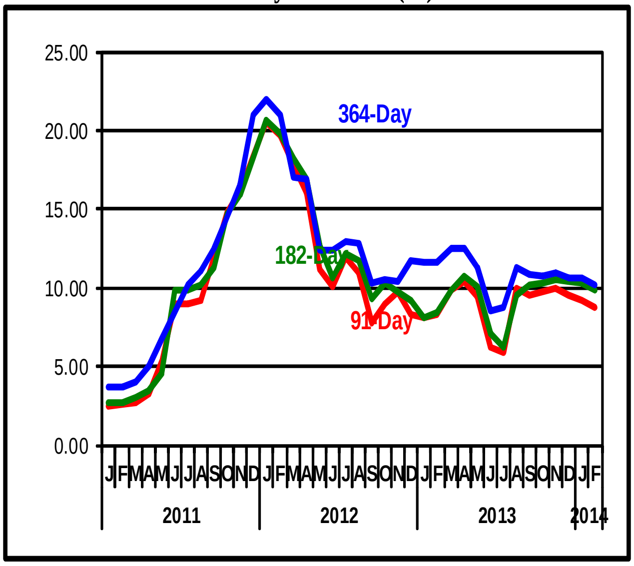
## Real GDP Growth (%)



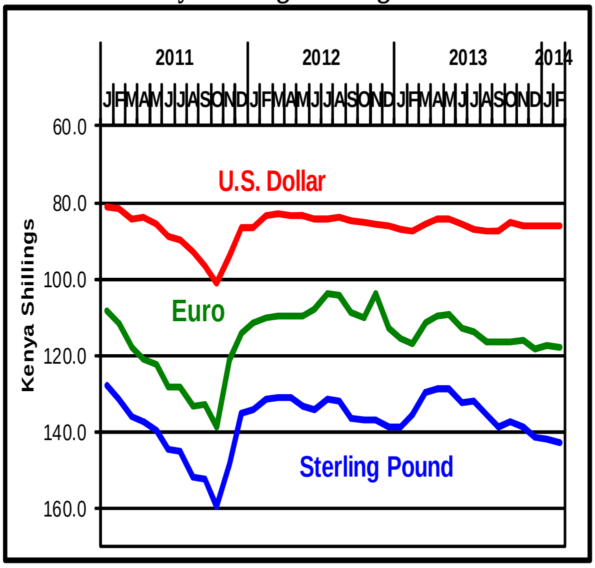

## Inflation (%)



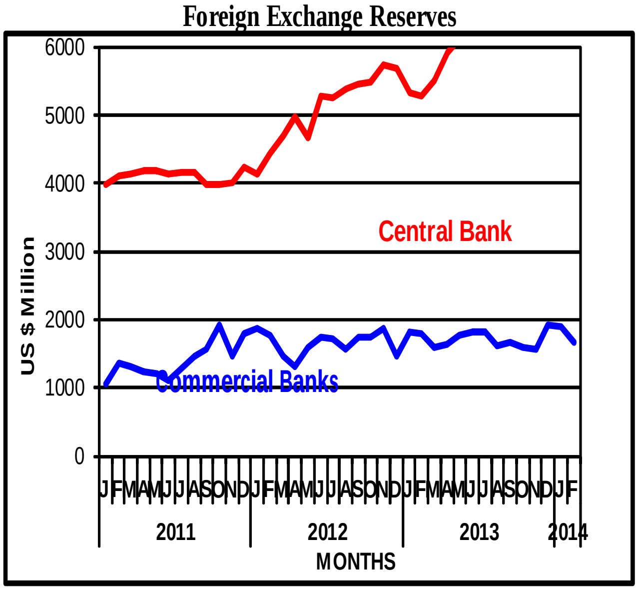

## Treasury Bill Rates (%)



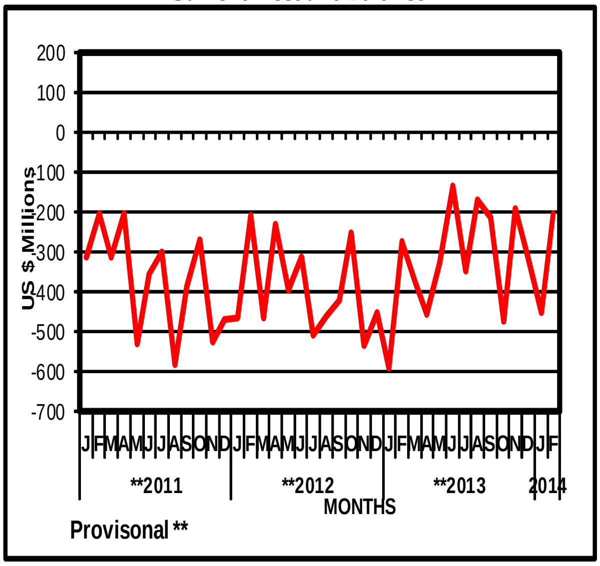

## Kenya Shilling Exchange Rate




## Foreign Exchange Reserves




## Current Account Balance



# SELECTED ANNUAL ECONOMIC INDICATORS

| | | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. | POPULATION* | | | | | | | | | | | |
| | People in Millions | 33.20 | 34.20 | 35.10 | 36.10 | 37.20 | 38.30 | 38.60 | 38.50 | 39.50 | 40.70 | 41.80 |
| | Growth (%) | 3.11 | 3.01 | 2.63 | 2.85 | 3.05 | 2.96 | 0.78 | -0.26 | 2.60 | 3.04 | 2.70 |
| 2. | NATIONAL ACCOUNTS** | | | | | | | | | | | |
| | Gross value added at basic prices (Ksh m) | 1,006,062 | 1,132,850 | 1,261,625 | 1,444,113 | 1,616,010 | 1,858,371 | 2,099,935 | 2,258,171 | 2,696,226 | 3,026,293 | 3,385,308 |
| | GDP at Market Prices (Ksh m): | | | | | | | | | | | |
| | At Current Prices | 1,131,783 | 1,274,328 | 1,415,823 | 1,622,565 | 1,833,511 | 2,107,589 | 2,375,971 | 2,570,334 | 3,047,392 | 3,403,534 | 3,797,988 |
| | At Constant 2001 Market 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 | 1,540,520 | 1,610,653 | 1,686,149 |
| | Real GDP Growth (%) | 2.93 | 5.08 | 5.72 | 6.5 | 7.0 | 1.5 | 2.7 | 5.8 | 4.4 | 4.6 | 4.7 |
| | Per Capita Income Real 2001 prices (Ksh) | 31,825 | 32,437 | 33,413 | 34,611 | 35,937 | 35,438 | 36,124 | 38,320 | 39,001 | 39,574 | 40,338 |
| 3. | GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\3 | 10.1 | 12.2 | 13.4 | 14.8 | 13.9 | 15.9 | 12.9 | 11.8 | 14.0 | 11.3 | 11.8 |
| 4. | GROSS DOMESTIC SAVINGS ( % of GDP at mkt prices)\3 | 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) | 16.4 | 17.1 | 16.9 | 17.9 | 19.0 | 19.2 | 19.9 | 19.8 | 20.5 | 20.1 | 27.3 |
| 6. | OVERALL INFLATION BASE PERIOD= FEB 2009 | | | | | | | | | | | |
| | Annual Average Inflation | 9.81 | 11.79 | 9.87 | 6.39 | 4.27 | 16.27 | 9.24 | 3.96 | 14.02 | 9.38 | 5.72 |
| | 12-Month Inflation | 8.35 | 17.08 | 4.70 | 7.98 | 5.70 | 17.83 | 5.32 | 4.51 | 18.93 | 3.20 | 7.15 |
| 7. | STOCK MARKET | | | | | | | | | | | |
| | Nairobi Stock Exchange Price Index (1966=100) | 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 | 4,926.97 |
| | Trade Turnover Ratio (%) | 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 | 228.16 | 270.92 | 303.85 | 331.21 | 383.59 | 457.67 | 511.36 | 614.53 | 679.53 | 734.43 | 989.46 |
| | Expenditure | 255.28 | 289.54 | 298.13 | 368.65 | 405.20 | 534.84 | 621.91 | 791.79 | 817.09 | 915.89 | 1,303.23 |
| | Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis) | (27.11) | (18.62) | 5.72 | (37.44) | (21.61) | (77.17) | (110.55) | (177.26) | (137.56) | (181.46) | (313.77) |
| | Budget Deficit ( % of GDP) | (2.51) | (0.97) | 0.08 | (2.74) | (1.02) | (3.93) | (4.94) | (7.21) | (4.98) | (5.51) | (8.26) |
| 9. | MONEY AND CREDIT (Ksh bn)(end period) | | | | | | | | | | | |
| | Liquidity (L)¹ | 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 | 2,527.00 |
| | Money Supply (M3)² | 453.35 | 513.16 | 565.49 | 666.84 | 797.54 | 901.05 | 1,045.66 | 1,271.64 | 1,514.15 | 1,727.32 | 2,000.02 |
| | Reserve Money | 87.52 | 101.05 | 106.23 | 124.16 | 155.62 | 163.59 | 181.96 | 222.63 | 255.01 | 293.62 | 320.76 |
| | Total Domestic Credit | 405.20 | 473.61 | 498.66 | 575.76 | 668.90 | 815.52 | 955.82 | 1,188.40 | 1,505.13 | 3,036.21 | 1,982.30 |
| | Government | 133.85 | 132.34 | 122.16 | 137.81 | 137.40 | 155.32 | 205.07 | 277.78 | 311.58 | 368.83 | 397.16 |
| | Private sector and other public sector | 271.41 | 341.27 | 376.50 | 437.94 | 531.49 | 660.20 | 750.75 | 910.62 | 1,193.55 | 1,333.69 | 1,585.13 |
| 10. | BALANCE OF PAYMENTS (US$ m) | | | | | | | | | | | |
| | Overall Balance | 365.00 | 117.00 | 306.00 | 675.00 | 854.00 | (469.00) | 780.53 | 163.40 | (42.88) | 1,261.00 | 684.72 |
| | Current Account | 145.00 | -133.00 | -253.00 | -511.00 | -1,034.00 | -1,983.00 | -1,609.28 | -2,511.91 | -3,330.50 | -4,538.37 | -3,702.19 |
| | Capital and Financial Account | 219.00 | 250.00 | 560.00 | 1,187.00 | 1,888.00 | 1,514.00 | 2,389.81 | 2,675.30 | 3,287.61 | 5,799.37 | 4,386.91 |
| 11. | FOREIGN EXCHANGE RESERVES (US$ m) End Period | 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 | 7,159.86 | 8,483.20 |
| | Official | 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 | 6,560.17 |
| | | *4.4* | *4.1* | *4.0* | *3.9* | *4.8* | *3.4* | *4.1* | *3.9* | *3.7* | *4.3* | *4.6* |
| | Commercial Banks | 408.28 | 559.67 | 735.34 | 916.03 | 1,202.12 | 1,765.32 | 1,216.63 | 1,120.84 | 1,797.12 | 1,458.01 | 1,923.02 |
| 12. | PUBLIC DEBT (US$ bn) End Period*** | 9.39 | 9.14 | 9.84 | 10.68 | 12.04 | 13.46 | 13.66 | 14.96 | 16.60 | 19.27 | 22.00 |
| | Domestic | 3.90 | 3.85 | 4.14 | 4.84 | 6.08 | 6.66 | 6.72 | 8.06 | 8.51 | 10.20 | 12.20 |
| | *As % of GDP* | *26.81* | *25.32* | *23.40* | *23.18* | 23.56 | 21.15 | 21.67 | 25.90 | 27.78 | 26.06 | 27.66 |
| | *External* | 5.49 | 5.29 | 5.70 | 5.84 | 5.96 | 6.80 | 6.94 | 6.90 | 8.09 | 9.08 | 9.80 |
| | *As % of GDP* | *37.72* | *36.64* | *32.21* | *27.93* | 23.09 | 21.61 | 22.36 | 22.20 | 26.43 | 23.53 | 22.21 |
| 13. | EXCHANGE RATE (Ksh/US$) (Annual Average) | 75.93 | 79.28 | 75.55 | 72.10 | 67.32 | 69.18 | 77.35 | 79.26 | 88.91 | 84.53 | 86.12 |

* 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 | 2013 | | | | | | | | | | | | 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | Mar | Apr | May | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb |
| 1. INFLATION (%) | | | | | | | | | | | | | | |
| CPI | 135.62 | 136.59 | 137.96 | 139.28 | 139.52 | 139.59 | 139.87 | 140.29 | 142.82 | 142.75 | 143.14 | 143.85 | 145.40 | 145.95 |
| Overall Inflation | | | | | | | | | | | | | | |
| 12-month overall inflation | 3.67 | 4.45 | 4.11 | 4.14 | 4.05 | 4.91 | 6.02 | 6.67 | 8.29 | 7.76 | 7.36 | 7.15 | 7.21 | 6.86 |
| Average annual overall inflation | 8.20 | 7.24 | 6.33 | 5.61 | 4.96 | 4.56 | 4.44 | 4.50 | 4.75 | 5.05 | 5.39 | 5.72 | 6.01 | 6.21 |
| 2. INTEREST RATES (%) | | | | | | | | | | | | | | |
| 91-day Treasury bill interest rate | 8.1 | 8.4 | 9.9 | 10.4 | 9.5 | 6.2 | 5.9 | 10.0 | 9.6 | 9.7 | 9.9 | 9.5 | 9.3 | 9.2 |
| Overdraft interest rate | 18.0 | 17.7 | 17.5 | 17.7 | 17.6 | 16.9 | 17.0 | 16.9 | 16.4 | 17.0 | 16.5 | 16.5 | 16.8 | 16.9 |
| 3. STOCK MARKET | | | | | | | | | | | | | | |
| Nairobi Stock Exchange 20 Share Price Index | 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 | 4,992.88 | 5,100.88 | 4927.0 | 4,856.15 | 4,933.41 |
| Turnover Ratio (%) | 0.65 | 0.86 | 0.71 | 0.74 | 1.08 | 0.90 | 0.76 | 0.99 | 0.61 | 1.00 | 0.80 | 0.6 | 0.79 | 0.68 |
| 4. GOVERNMENT BUDGET* (Ksh bn.) | | | | | | | | | | | | | | |
| Revenue $ Grants | 454.06 | 514.26 | 577.34 | 675.72 | 758.31 | 851.19 | 58.60 | 128.42 | 210.23 | 286.22 | 363.59 | 469.0 | 548.10 | 611.90 |
| Expenses | 589.55 | 664.32 | 776.08 | 882.08 | 995.21 | 1,100.83 | 49.70 | 150.58 | 269.87 | 357.20 | 473.98 | 574.2 | 691.60 | 770.60 |
| Budget Deficit (-) / Surplus (+) | (135.48) | (150.06) | (198.73) | (206.37) | (236.90) | (249.64) | 8.90 | (22.16) | (59.63) | (70.94) | (110.39) | -105.2 | (143.50) | (158.70) |
| 5. MONEY AND CREDIT (Ksh bn.) | | | | | | | | | | | | | | |
| Liquidity (L)¹ | 2,132.66 | 2,151.14 | 2,180.65 | 2,239.92 | 2,273.12 | 2278.286 | 2310.734 | 2341.82 | 2381.994 | 2407.697 | 2,446.03 | 2484.5 | 2,514.58 | 2,522.71 |
| Money Supply (M3)² | 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 | 1,879.11 | 1,919.52 | 1957.5 | 1,982.60 | 1,988.09 |
| Reserve Money | 274.02 | 287.10 | 287.58 | 267.85 | 281.85 | 287.44 | 283.98 | 309.81 | 290.35 | 307.25 | 316.78 | 320.8 | 302.32 | 315.49 |
| Total Domestic Credit | 1,744.37 | 1,747.08 | 1,752.20 | 1,824.02 | 1,778.27 | 1,782.95 | 1,774.49 | 1,807.29 | 1,851.46 | 1,868.23 | 1,933.09 | 1939.8 | 1,966.75 | 2,015.11 |
| Government | 396.00 | 393.61 | 391.02 | 458.11 | 392.82 | 379.51 | 346.63 | 336.11 | 358.78 | 347.63 | 374.71 | 358.4 | 369.35 | 396.40 |
| Private sector and other public sector | 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 | 1,520.60 | 1,558.38 | 1581.4 | 1,597.40 | 1,618.71 |
| 6. MONEY AND CREDIT (Annual % Change) | | | | | | | | | | | | | | |
| Liquidity (L)¹ | **14.39** | **13.82** | **14.38** | **16.64** | **16.92** | **15.58** | **11.13** | **10.45** | **9.20** | **8.40** | **8.37** | **10.79** | **17.91** | **17.27** |
| Money Supply (M3)² | 14.89 | 16.16 | 15.73 | 17.31 | 16.77 | 14.16 | 13.81 | 12.89 | 11.41 | 10.34 | 10.28 | 13.30 | 14.61 | 13.74 |
| Reserve Money | 12.24 | 23.93 | 11.50 | 9.54 | 18.93 | 11.72 | 10.31 | 23.81 | 12.09 | 22.68 | 13.27 | 9.24 | 10.33 | 9.89 |
| Total Domestic Credit | 16.63 | 15.54 | 14.45 | 17.13 | 13.05 | 14.86 | 10.73 | 13.04 | 14.28 | 12.73 | 14.59 | 13.94 | 12.75 | 15.34 |
| Government | 31.68 | 28.62 | 24.09 | 43.68 | 25.68 | 27.39 | 4.64 | 4.77 | 7.85 | (0.98) | 1.10 | (2.82) | (6.73) | 0.71 |
| Private and other public sector | 12.84 | 12.22 | 11.95 | 10.29 | 9.92 | 11.88 | 12.32 | 15.12 | 15.94 | 16.42 | 18.39 | 18.57 | 18.47 | 19.60 |
| 7. BALANCE OF PAYMENTS (US$ m) | | | | | | | | | | | | | | |
| Overall Balance | (366.30) | (37.77) | 233.20 | 301.41 | 206.16 | (35.34) | 14.32 | 23.89 | 171.07 | (21.69) | 75.64 | 120.13 | 59.41 | 75.21 |
| Current Account | (592.89) | (277.49) | (358.72) | (432.73) | (296.19) | (221.80) | (450.62) | (508.15) | (325.00) | (612.83) | (316.15) | (395.60) | (450.68) | (203.79) |
| Trade Balance | (1,031.38) | (853.10) | (870.10) | (964.07) | (891.74) | (741.62) | (1,010.81) | (963.20) | (874.81) | (1,161.02) | (898.68) | (971.02) | (1,009.74) | (746.71) |
| Capital and Financial Account | 226.59 | 239.72 | 591.92 | 734.14 | 502.35 | 186.46 | 464.94 | 532.04 | 496.07 | 591.14 | 391.79 | 515.73 | 510.09 | 279.00 |
| 8. FOREIGN EXCHANGE RESERVES (US$ m) | 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 | 7,859.49 | 7,893.00 | 8,483.20 | 8,518.60 | 8,352.39 |
| Official** | 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 | 6,263.25 | 6,333.14 | 6,560.17 | 6,611.91 | 6,679.39 |
| *Months of imports cover* | 3.96 | 3.89 | 4.04 | 4.29 | 4.40 | 4.35 | 4.32 | 4.29 | 4.39 | 4.32 | 4.36 | 4.49 | 4.50 | 4.53 |
| Commercial banks | 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 | 1,596.24 | 1,559.86 | 1,923.02 | 1,906.68 | 1,673.00 |
| 9. PUBLIC DEBT (US$ bn) | 20.68 | 20.53 | 21.03 | 22.46 | 22.40 | 22.02 | 22.39 | 22.88 | 23.54 | 23.55 | 24.18 | 24.46 | 24.61 | 24.59 |
| Domestic | 11.16 | 10.94 | 11.47 | 12.71 | 12.63 | 12.21 | 12.36 | 12.75 | 13.36 | 13.41 | 13.59 | 13.78 | 13.93 | 14.25 |
| *As % of GDP* | 25.29 | 25.00 | 26.01 | 28.23 | 28.47 | 28.68 | 29.12 | 29.53 | 30.13 | 30.30 | 30.18 | 30.67 | 30.98 | 31.92 |
| *External* | 9.51 | 9.58 | 9.56 | 9.74 | 9.78 | 9.81 | 10.03 | 10.13 | 10.17 | 10.14 | 10.59 | 10.69 | 10.68 | 10.34 |
| *As % of GDP* | 22.08 | 21.89 | 21.69 | 21.63 | 23.22 | 23.00 | 23.63 | 23.96 | 22.94 | 30.30 | 23.53 | 23.79 | 23.74 | 23.18 |
| 10. GROSS DOMESTIC DEBT (Ksh bn)*** | 977.93 | 943.75 | 981.91 | 1,065.61 | 1,074.80 | 1,050.56 | 1,078.60 | 1,116.68 | 1,168.23 | 1,174.78 | 1,170.05 | 1,189.18 | 1,200.90 | 1,229.30 |
| 11. AVERAGE EXCHANGE RATE | | | | | | | | | | | | | | |
| Ksh/US$ | 86.90 | 87.45 | 85.82 | 84.19 | 84.15 | 85.49 | 86.86 | 87.49 | 87.41 | 85.31 | 86.10 | 86.31 | 86.21 | 86.28 |
| Ksh/Pound Sterling | 138.80 | 135.54 | 129.42 | 128.81 | 128.72 | 132.42 | 132.00 | 135.47 | 138.54 | 137.31 | 138.64 | 141.37 | 141.99 | 142.81 |
| Ksh/ 100 Yen | 97.67 | 93.96 | 90.49 | 86.12 | 83.37 | 87.77 | 87.28 | 89.39 | 88.14 | 87.24 | 86.21 | 83.51 | 82.92 | 84.52 |
| Ksh/Euro | 115.47 | 116.86 | 111.31 | 109.65 | 109.18 | 112.81 | 113.74 | 116.51 | 116.67 | 116.33 | 116.22 | 118.18 | 117.50 | 117.81 |

* 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 declined from 7.2 percent in January 2014 to 6.8 percent in February 2014 largely reflecting a rise in fuel inflation and non-food non-fuel inflation. Food inflation, however, declined to 8.9 percent in February 2014. The three months annualized rate of inflation rose by 5 basis points from 7.6 percent in January 2014 to 8.1 percent in February 2014 (Table 1.1 and Chart 1A).

**TABLE 1.1: INFLATION (%)**

| Overall Inflation | 2013 | | | | | | | | | | | | 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb |
| 12-month | 3.67 | 4.45 | 4.11 | 4.14 | 4.05 | 4.91 | 6.02 | 6.67 | 8.29 | 7.76 | 7.36 | 7.15 | 7.21 | 6.86 |
| Average annual | 8.20 | 7.24 | 6.33 | 5.61 | 4.96 | 4.56 | 4.44 | 4.50 | 4.75 | 5.05 | 5.39 | 5.72 | 6.01 | 6.21 |
| Three months annualised | 9.88 | 10.14 | 11.51 | 11.23 | 8.87 | 4.81 | 1.71 | 2.23 | 9.58 | 8.49 | 8.37 | 2.91 | 7.64 | 8.09 |
| Non-food non-oil inflation | 4.53 | 4.45 | 4.17 | 4.28 | 3.91 | 3.86 | 4.04 | 3.86 | 5.02 | 4.94 | 5.01 | 4.71 | 4.83 | 4.93 |

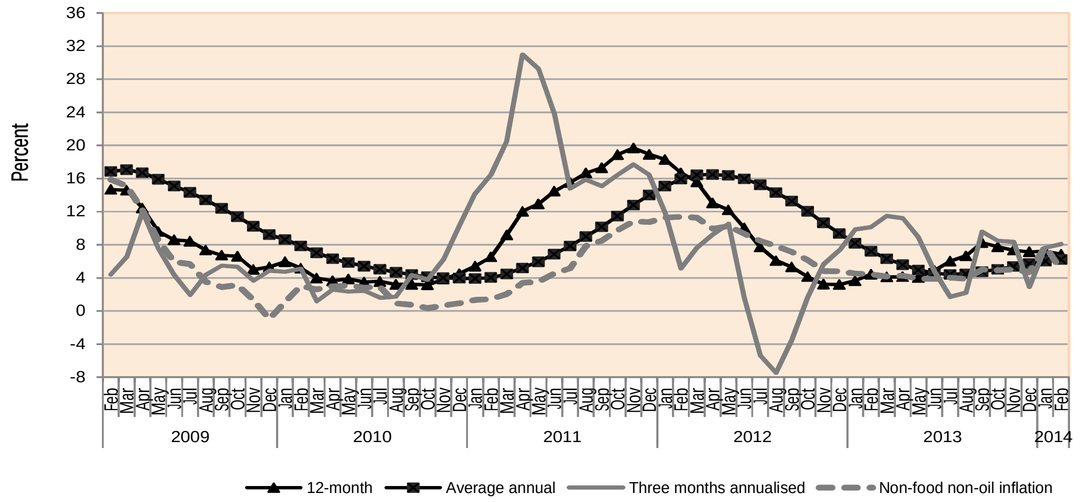
**Sources: Kenya National Bureau of Statistics and Central Bank of Kenya**

The rise in non-food non-fuel inflation in February 2014 was reflected in ‘recreation and culture’, ‘health’, ‘communication’ ‘household equipment, and routine household maintenance’ and ‘education’ consumption baskets.

Food inflation declined from 9.8 percent in January 2014 to 8.9 percent in February 2014. This reflected a decline in 12-month inflation in the ‘food and non-alcoholic beverages’ index from 10.1 percent in January 2014 to 9.1 percent in February 2014.

Fuel inflation rose from 5.5 percent in January 2014 to 5.6 percent in February 2014. This reflected a rise in the 12-month inflation in the ‘housing, water, electricity, gas and other fuels’ category from 4.8 percent in January 2014 to 5.2 percent in February 2014 owing to a rise in the price cooking gas.

**CHART 1A: INFLATION (%)**

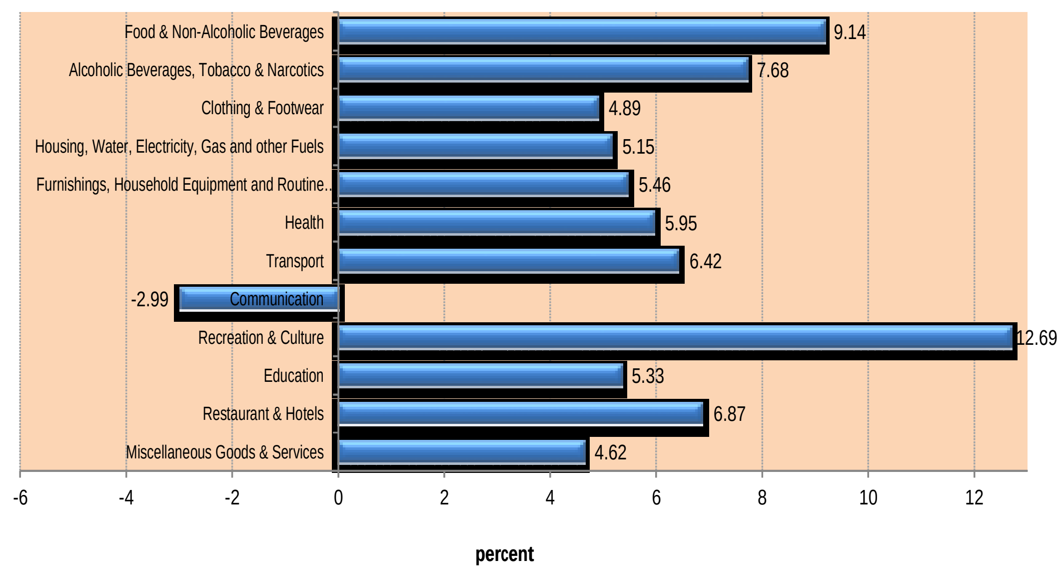



**Sources: Kenya National Bureau of Statistics and Central Bank of Kenya**

## Inflation Across Categories of Goods & Services

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 52 percent of overall 12-month inflation in February 2014 was attributed to 'food and non-alcoholic beverages' category of goods while inflation in 'housing, water, electricity, gas and other fuels' and 'transport' categories contributed 13 percent and 8.5 percent, respectively.

**CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (FEBRUARY 2014 (%)**




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

On average, the rise in prices of goods and services in urban centers outside Nairobi and in Nairobi decelerated to 7.4 percent and 6.1 percent, respectively in February 2014 (Table 1.3). Inflationary pressures decreased for all income groups in February 2014 largely due to easing inflation related to 'food and Nonalcoholic beverages' and 'miscellaneous goods and services'. The consumer price index for the 'Nairobi Lower Income', 'Nairobi Middle Income' and 'Nairobi upper income' groups declined to 6.5 percent, 4.9 percent and 5.8 percent, in February 2014.

**CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION (FEBRUARY 2014)**

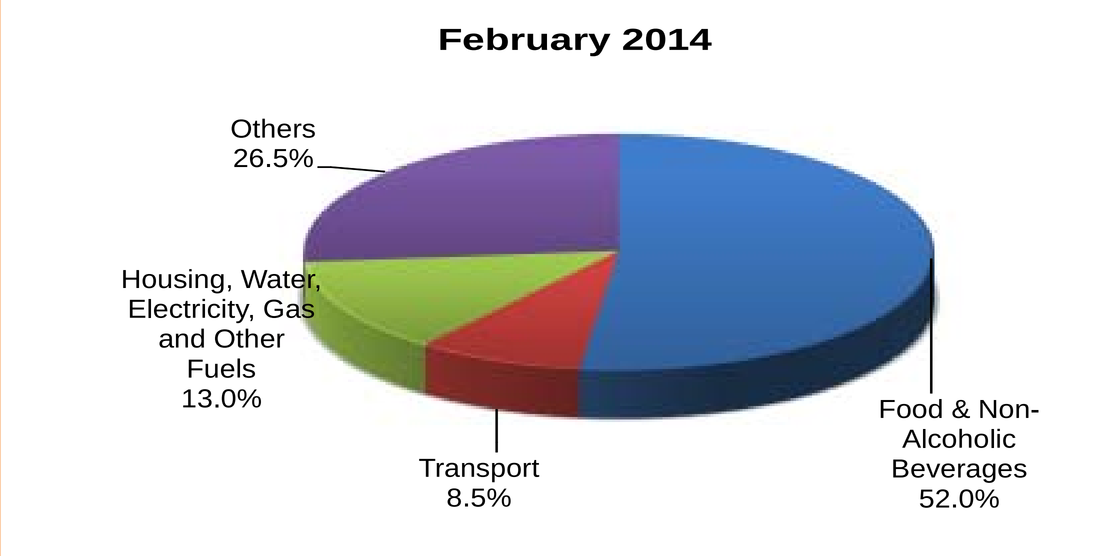



**TABLE 1.2: 12 MONTHS OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (FEBRUARY 2014)**

| FEBRUARY 2014 | Weight-CPI Kenya | NAIROBI Lower Income | Middle Income | Upper Income | Nairobi Combined | REST OF URBAN Rest of Kenya Combined | TOTAL KENYA |
|---|---|---|---|---|---|---|---|
| Food & Non-alcoholic beverages | 36.0 | 7.64 | 10.2 | 10.7 | 8.3 | 9.7 | 9.1 |
| Alcoholic beverages, Tobacco & narcotics | 2.1 | 6.4 | 5.7 | 5.6 | 6.2 | 8.6 | 7.7 |
| Clothing & Footwear | 7.4 | 4.2 | 2.8 | 9.7 | 4.1 | 5.4 | 4.9 |
| Housing, Water,Electricity,Gas and other fuels | 18.3 | 5.7 | 1.5 | 0.2 | 4.6 | 5.5 | 5.1 |
| Furnishings, Household equipment and Routine household maintenance | 6.2 | 3.1 | 7.9 | 2.9 | 4.2 | 6.3 | 5.5 |
| Health | 3.1 | 6.5 | 6.1 | 1.0 | 6.2 | 5.8 | 6.0 |
| Transport | 8.7 | 10.6 | 4.6 | 8.4 | 9.2 | 4.3 | 6.4 |
| Communication | 3.8 | -8.6 | -9.1 | 0.0 | -8.4 | 0.6 | -3.0 |
| Recreation & culture | 2.3 | 12.1 | 13.5 | 11.0 | 12.4 | 12.9 | 12.7 |
| Education | 3.1 | 5.2 | 4.1 | 9.6 | 5.1 | 5.5 | 5.3 |
| Restaurants & hotels | 4.5 | 4.1 | 4.3 | 3.4 | 4.1 | 8.9 | 6.9 |
| Miscellaneous goods & services | 4.5 | 4.5 | 3.5 | 1.6 | 4.2 | 4.9 | 4.6 |
| ALL GROUPS | 100.0 | 6.5 | 4.9 | 5.8 | 6.1 | 7.4 | 6.9 |

**Source: Kenya National Bureau of Statistics**

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

| | Jan-13 | Feb-13 | Mar-13 | Jun-13 | Jul-13 | Aug-13 | Sep-13 | Oct-13 | Nov-13 | Dec-13 | Jan-14 | Feb-14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Combined Nairobi | 3.12 | 3.85 | 3.24 | 4.21 | 5.79 | 6.46 | 8.97 | 8.25 | 7.63 | 7.20 | 6.73 | 6.10 |
| Lower Income | 3.23 | 3.97 | 3.16 | 4.75 | 6.33 | 7.23 | 9.67 | 8.99 | 8.25 | 7.65 | 7.16 | 6.46 |
| Middle Income | 2.86 | 3.64 | 3.56 | 2.83 | 4.59 | 4.57 | 7.11 | 6.32 | 5.92 | 5.97 | 5.44 | 4.93 |
| Upper Income | 2.37 | 2.65 | 2.94 | 1.68 | 2.28 | 2.38 | 6.16 | 5.37 | 5.50 | 5.62 | 5.89 | 5.83 |
| Other provinces- excluding Nairobi | 4.06 | 4.88 | 4.72 | 5.40 | 6.18 | 6.83 | 7.82 | 7.43 | 7.17 | 7.11 | 7.54 | 7.38 |
| TOTAL KENYA | 3.67 | 4.45 | 4.11 | 4.91 | 6.02 | 6.67 | 8.29 | 7.76 | 7.36 | 7.15 | 7.21 | 6.86 |

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

**Inflation Outlook**

Inflation expected to stabilize within the upper bound of government allowable target as demand pressures ease out.

# Developments in Money, Credit and Interest Rates

**Monetary Aggregates**

Growth in broad money, M3, slowed down to 13.7 percent in the year to February 2014 from 16.2 percent over a similar period in 2013 and was within the respective target of 14.6 percent for February 2014. The expansion in money supply, M2 defined as, M3 excluding foreign currency deposits, decreased to 15.0 percent in the year to February 2014 from 17.0 percent in a corresponding period in 2013 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits in M3, increased by Ksh 20.0 billion (7.2 percent) compared with an increase of Ksh 28.9 billion (11.7 percent) in the previous year. Money supply M3 growth has remained below targets since December 2011 thereby signaling minimal demand side inflationary pressure.

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

| | 2012 February | 2013 February | 2014 February | Absolute Change 2012/13 February | Absolute Change 2013/14 February | %age change 12 months Feb-13 | %age change 12 months Feb-14 |
|---|---|---|---|---|---|---|---|
| **1. Money supply, M3 (2+3) 2/** | **1504.8** | **1747.9** | **1988.1** | **243.1** | **240.2** | **16.2** | **13.7** |
| 1.1 Money supply, M2 3/ | 1257.0 | 1471.2 | 1691.4 | 214.2 | 220.2 | 17.0 | 15.0 |
| 1.2 Money supply, M1 | 619.4 | 715.4 | 818.4 | 96.0 | 102.9 | 15.5 | 14.4 |
| 1.3 Currency outside banks | 126.5 | 148.9 | 156.3 | 22.3 | 7.5 | 17.6 | 5.0 |
| **2. Net foreign assets 4/** | **285.0** | **328.2** | **371.0** | **43.3** | **42.8** | **15.2** | **13.0** |
| Central Bank | 267.8 | 325.7 | 435.6 | 57.9 | 109.8 | 21.6 | 33.7 |
| Banking Institutions | 17.1 | 2.5 | -64.6 | -14.6 | -67.1 | -85.3 | -2675.2 |
| **3. Net domestic assets (3.1+3.2)** | **1219.8** | **1419.7** | **1617.1** | **199.8** | **197.4** | **16.4** | **13.9** |
| **3.1 Domestic credit (3.1.1+3.1.2)** | **1512.1** | **1747.1** | **2015.1** | **235.0** | **268.0** | **15.5** | **15.3** |
| 3.1.1 Government (net) | 306.0 | 393.6 | 396.4 | 87.6 | 2.8 | 28.6 | 0.7 |
| 3.1.2 Private sector and other public sector | 1206.1 | 1353.5 | 1618.7 | 147.4 | 265.2 | 12.2 | 19.6 |
| **3.2 Other assets net (3-3.1)** | **-292.3** | **-327.4** | **-398.0** | **-35.2** | **-70.6** | **12.0** | **21.6** |
| **Memorandum items** | | | | | | | |
| 1. Overall liquidity, L 1/ | **1889.9** | **2151.1** | **2517.7** | **261.3** | **366.5** | **13.8** | **17.0** |
| 2. Reserve money | **231.7** | **287.1** | **315.5** | **55.4** | **28.4** | **23.9** | **9.9** |
| Currency outside banks | 126.5 | 148.9 | 156.3 | 22.3 | 7.5 | 17.6 | 5.0 |
| Bank reserves | 105.1 | 138.2 | 159.2 | 33.1 | 20.9 | 31.5 | 15.1 |

*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.*

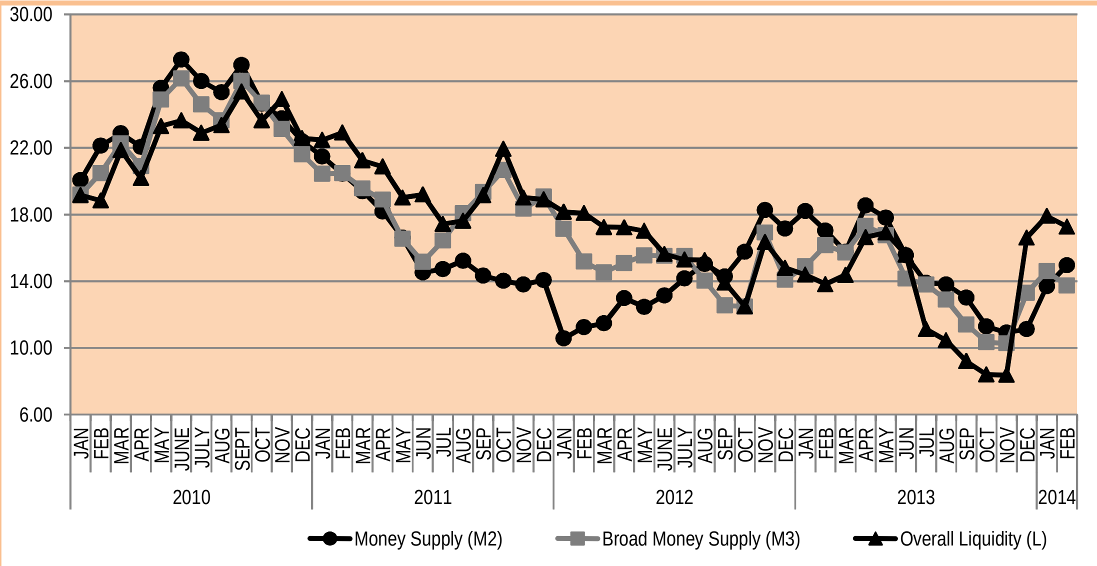
*2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.*

*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 money supply was reflected in both the Net Domestic Assets (NDA) and Net Foreign Assets (NFA) of the banking system (Table 2.1). Annual growth in NDA of the banking system declined to 13.9 percent (or Ksh 197.4 billion) in the year to February 2014 from 16.4 percent (or Ksh 199.8 billion) in a similar period in 2013 on account of reduced credit uptake by Government and net repayment by other public sector. NFA of the banking system grew by 13.0 percent in twelve months to February 2014 to Ksh 371.0 billion from Ksh 328.2 billion in February 2013 reflecting holdings of the Central Bank. Over the same period, NFA of banks decreased by Ksh 67.1 billion to Ksh -64.6 billion from Ksh 2.5 billion on account of increased loans from non-residents and accumulation of deposits (Table 2.1).

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

| | 2013 February | | 2014 February | | Absolute Change February | | Annual %age Change February | |
|---|---|---|---|---|---|---|---|---|
| | Ksh bn | Share (%) | Ksh bn | Share (%) | 2012/13 | 2013/14 | 2012/13 | 2013/14 |
| 1. Credit to Government | 393.6 | 22.5 | 396.4 | 19.7 | 87.6 | 2.8 | 28.6 | 0.7 |
| Central Bank | 58.6 | 3.4 | -45.4 | -2.3 | 39.7 | -103.9 | 210.0 | -177.4 |
| Commercial Banks & NBFIs | 335.0 | 19.2 | 441.8 | 21.9 | 47.9 | 106.7 | 16.7 | 31.8 |
| 2. Credit to other public sector | 46.3 | 2.7 | 31.0 | 1.5 | 12.0 | -15.3 | 35.1 | -33.1 |
| Local government | 1.0 | 0.1 | -4.7 | -0.2 | -2.3 | -5.7 | -70.0 | -570.8 |
| Parastatals | 45.3 | 2.6 | 35.7 | 1.8 | 14.4 | -9.6 | 46.4 | -21.2 |
| 3. Credit to private sector | 1307.1 | 74.8 | 1587.7 | 78.8 | 135.4 | 280.6 | 11.6 | 21.5 |
| Agriculture | 56.2 | 3.2 | 58.1 | 2.9 | 4.1 | 1.9 | 8.0 | 3.4 |
| Manufacturing | 165.1 | 9.4 | 192.7 | 9.6 | 21.7 | 27.7 | 15.1 | 16.8 |
| Trade | 214.2 | 12.3 | 257.4 | 12.8 | 19.7 | 43.3 | 10.1 | 20.2 |
| Building and construction | 67.5 | 3.9 | 71.2 | 3.5 | 12.3 | 3.6 | 22.4 | 5.4 |
| Transport & communications | 74.6 | 4.3 | 97.8 | 4.9 | -11.0 | 23.3 | -12.9 | 31.2 |
| Finance & insurance | 26.4 | 1.5 | 29.6 | 1.5 | -0.7 | 3.2 | -2.6 | 12.1 |
| Real estate | 165.4 | 9.5 | 205.1 | 10.2 | 24.4 | 39.6 | 17.3 | 24.0 |
| Mining and quarrying | 29.0 | 1.7 | 25.0 | 1.2 | 2.3 | -4.1 | 8.6 | -14.0 |
| Private households | 179.6 | 10.3 | 235.1 | 11.7 | 22.0 | 55.6 | 14.0 | 30.9 |
| Consumer durables | 81.5 | 4.7 | 98.2 | 4.9 | 6.2 | 16.6 | 8.3 | 20.4 |
| Business services | 98.2 | 5.6 | 145.4 | 7.2 | 19.4 | 47.2 | 24.5 | 48.1 |
| Other activities | 149.4 | 8.6 | 172.1 | 8.5 | 14.9 | 22.6 | 11.0 | 15.1 |
| 4. TOTAL (1+2+3) * | 1747.1 | 100.0 | 2015.1 | 100.0 | 235.0 | 268.0 | 15.5 | 15.3 |

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

**Source: Central Bank of Kenya**

## Domestic Credit Developments

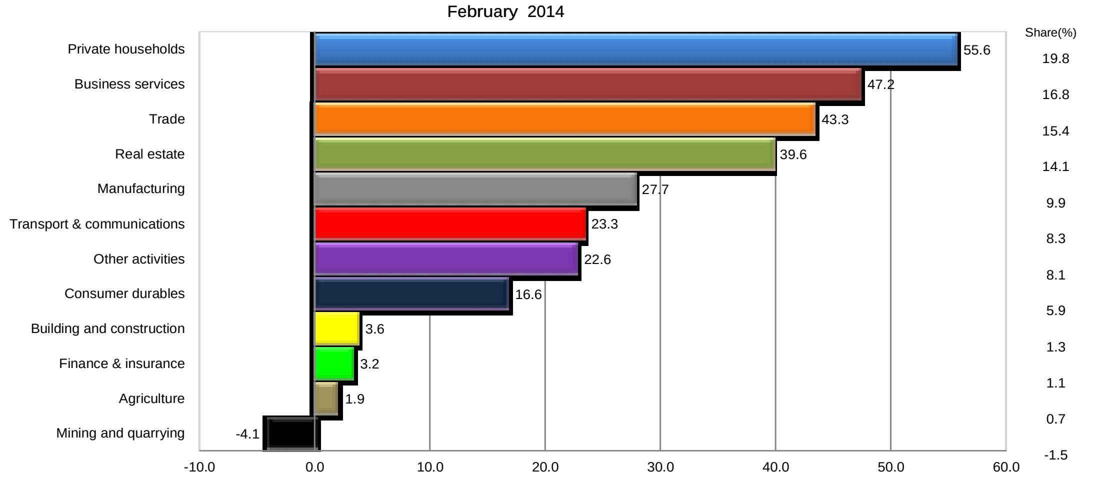
Domestic credit from the banking sector increased by Ksh 268.0 billion (15.3 percent) in the twelve months to February 2014 compared with Ksh 235.0 billion (15.5 percent) in a similar period in 2013 (Table 2.2). The increase was reflected in growth of credit to the private sector which accelerated to 21.5 percent in the year to February 2014 from 11.6 percent in a similar period in 2013. The private sector continued to dominate banking system lending; accounting for 78.8 percent of total lending in February 2014 compared with 19.7 percent share of government.

The additional private sector credit in the twelve months to February 2014 was allocated to the following activities, in order of magnitude: private households 19.8 percent (or Ksh. 55.6 billion); business services 16.8 percent (or Ksh. 47.2 billion); trade at 15.4 percent (or Ksh 43.3 billion); real estate sector at 14.1 percent (or Ksh. 39.6 billion); manufacturing 9.9 percent (or Ksh. 27.7 billion); transport and communication 8.3 percent (or Ksh. 23.3 billion); and consumer durables 5.9 percent (or Ksh. 16.6 billion). Chart 2B below presents the sectoral distribution of private sector credit.

Reflecting accumulation of Government deposits at the Central Bank, growth in net credit to Government declined to 0.7 percent (or Ksh 2.8 billion) in the year to February 2014 compared with an increase of 28.6 percent (or Ksh 87.6 billion) in a corresponding period in 2013. Over a similar period, the 'other public sector' repaid

Ksh 15.3 billion compared to a net credit of Ksh. 12.0 billion over a similar in 2013 (Table 2.2).

**CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO FEBRUARY 2014 (Ksh billion)**




**Source: Central Bank of Kenya**

## Reserve Money

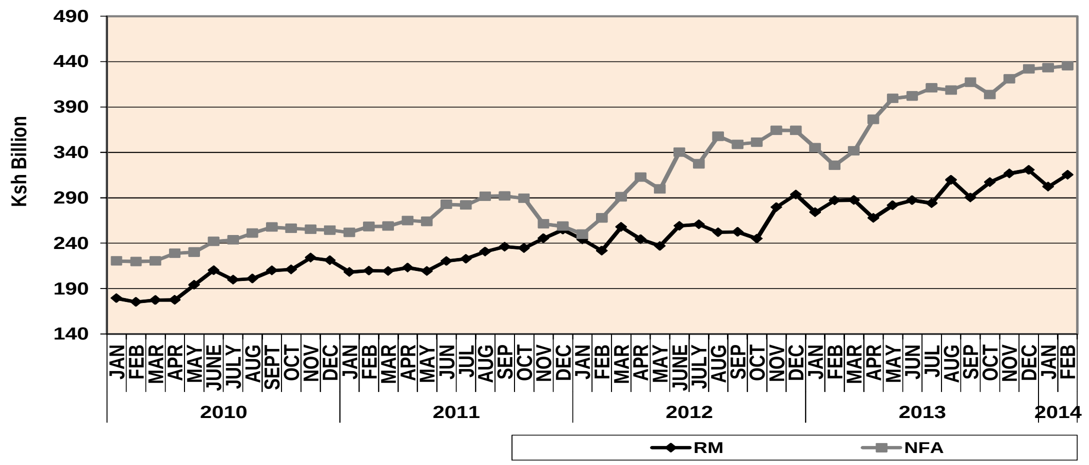
Reserve money (RM) comprises currency held by the non-bank public and commercial banks deposits at the Central Bank. It increased by 9.9 percent in the year to February 2014 compared with 23.9 percent growth in the corresponding period in 2013 (Table 2.3 and Chart 2C). At Ksh 315.5 billion in February 2014, reserve money was Ksh 6.3 billion below respective target. The growth in reserve money reflected 15.1 percent increase in bank reserves and 5.0 percent growth in currency outside banks.

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

| | 2012 | 2013 | 2014 | Absolute change | | Change (%) | | 2014 | |
|---|---|---|---|---|---|---|---|---|---|
| | February | February | February | 2012/13 | 2013/14 | 2012/13 | 2013/14 | February Target | Deviation |
| 1. Net Foreign Assets | 267.8 | 325.7 | 435.6 | 57.9 | 109.8 | 21.6 | 33.7 | 408.6 | 27.0 |
| 2. Net Domestic Assets | -36.2 | -38.6 | -120.1 | -2.4 | -81.5 | 6.8 | 210.9 | -86.7 | -33.4 |
| 2.1 Government Borrowing (ne | 18.9 | 58.6 | -45.4 | 39.7 | -103.9 | 210.0 | -177.4 | 11.7 | -57.0 |
| 2.2 Commercial banks (net) | 1.2 | -44.8 | 0.0 | -46.0 | 44.8 | | -100.00 | -17.9 | 17.9 |
| 2.3 Other Domestic Assets (ne | -61.9 | -56.2 | -78.5 | 5.7 | -22.3 | -9.2 | 39.7 | -80.5 | 1.9 |
| 3. Reserve Money | 231.7 | 287.1 | 315.5 | 55.4 | 28.4 | 23.9 | 9.9 | 321.8 | -6.3 |
| 3.1 Currency outside banks | 126.5 | 148.9 | 156.3 | 22.3 | 7.5 | 17.6 | 5.0 | 159.3 | -3.0 |
| 3.2 Bank reserves | 105.1 | 138.2 | 159.2 | 33.1 | 20.9 | 31.5 | 15.1 | 162.5 | -3.3 |

**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 February 2014 was largely an accumulation of net foreign assets (NFA) of the Central Bank. The NFA of Central Bank rose by 33.7 percent (or Ksh 109.8 billion) to Ksh 435.6 billion in February 2014 from Ksh 325.7 billion in February 2013 on account of inflows from the IMF Extended Credit Facility, and purchases from the interbank market to augment the stock of foreign exchange reserves in line with the statutory required minimum 4 months value of imports and non- factor services.

Over a similar period, the NDA of the Central Bank decreased by Ksh 81.5 billion to Ksh -120.1 billion in the year to February 2014 from Ksh -38.6 billion in the previous year. This was largely reflected in reduction of net Government indebtedness at the Central Bank from Ksh 58.6 billion to net deposits of Ksh 45.4 billion.

## Central Bank Rates

The Central Bank maintained the Central Bank Rate (CBR) at 8.50 percent in February 2014 in order to consolidate the monetary policy gains, as reflected in low and stable inflation rate and sustained exchange rate stability. This was also to allow time for MPC previous decisions to work through the economy.

## Short Term Interest Rates

Short term interest rates trended downwards in February 2014 on account of improved liquidity in the money market (Table 2.4 and Chart 2D). The weighted average interbank rate declined from 10.43 percent in January 2014 to 8.83 percent in February 2014. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, decreased from 9.26 percent in January 2014 to 9.16 percent in February 2014 while the 182-day Treasury bill rate stabilized at 10.35 percent compared with 10.36 percent in January 2014.

## Lending and Deposit Rates

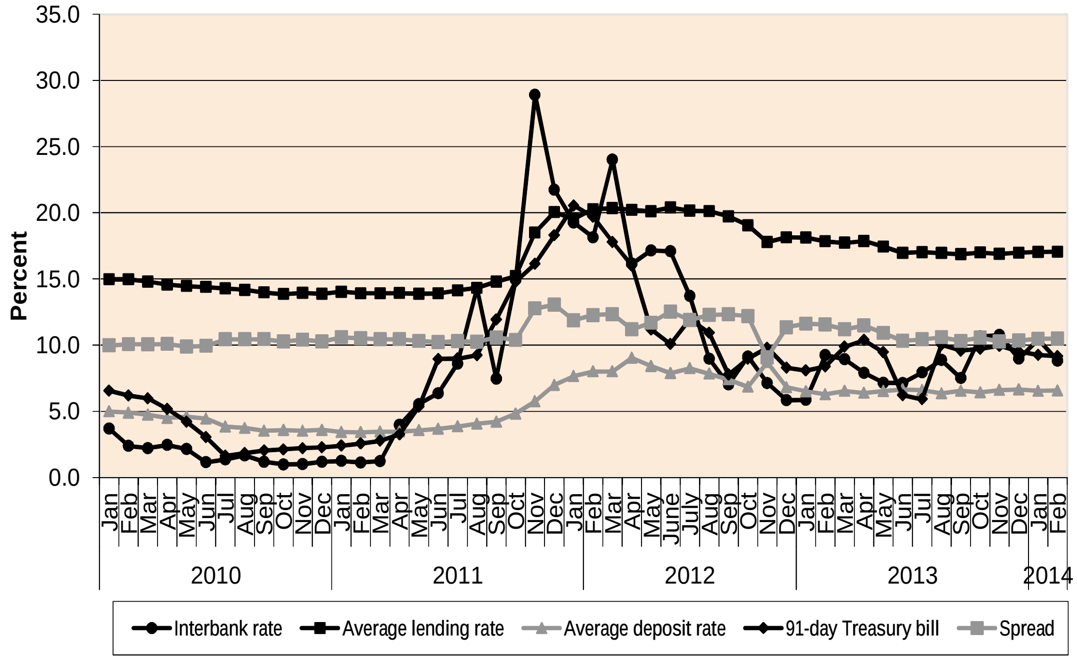
The average lending rate stabilized at 17.06 percent in February 2014 compared with 17.03 percent in January 2014, and the average deposit rate at 6.57 percent in February 2014 compared with 6.55 percent in January 2014. The interest rate spread was largely unchanged at 10.49 percent in February 2014 compared with 10.48 percent in January 2014 (Table 2.4and Chart 2D). This stability was reflected in all loan maturities and deposits.

### TABLE 2.4: INTEREST RATES (%)

| | 2013 | | | | | | | | | | | | 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb |
| 91-day Treasury bill rate | 8.08 | 8.38 | 9.88 | 10.38 | 9.46 | 6.21 | 5.92 | 10.03 | 9.58 | 9.72 | 9.94 | 9.52 | 9.26 | 9.16 |
| Overdraft rate | 17.97 | 17.68 | 17.54 | 17.71 | 17.60 | 16.92 | 17.00 | 16.89 | 16.42 | 16.96 | 16.50 | 16.51 | 16.82 | 16.88 |
| Interbank rate | 5.86 | 9.25 | 8.93 | 7.90 | 7.16 | 7.14 | 7.93 | 8.88 | 7.52 | 10.66 | 10.77 | 8.98 | 10.43 | 8.83 |
| Repo rate | 6.60 | 9.10 | 9.35 | 9.14 | 7.96 | 7.93 | 7.48 | | 7.11 | | | 7.95 | | |
| Reverse Repo rate | - | - | - | - | - | - | - | 8.77 | | 10.85 | 12.35 | 11.28 | | |
| Central Bank Rate (CBR) | 9.50 | 9.50 | 9.50 | 9.50 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 |
| Average lending rate (1) | 18.13 | 17.84 | 17.73 | 17.87 | 17.45 | 16.97 | 17.02 | 16.96 | 16.86 | 17.00 | 16.89 | 16.99 | 17.03 | 17.06 |
| Average deposit rate (2) | 6.51 | 6.29 | 6.54 | 6.39 | 6.53 | 6.65 | 6.59 | 6.36 | 6.55 | 6.43 | 6.61 | 6.65 | 6.55 | 6.57 |
| 0 to 3 - month deposit | 8.78 | 8.38 | 8.58 | 8.58 | 8.96 | 8.77 | 8.70 | 8.39 | 8.44 | 8.36 | 8.78 | 8.98 | 9.39 | 9.43 |
| Savings deposits | 1.65 | 1.61 | 1.42 | 1.45 | 1.53 | 1.73 | 1.64 | 1.67 | 1.64 | 1.63 | 1.58 | 1.58 | 1.56 | 1.49 |
| Spread (1-2) | **11.62** | **11.55** | **11.19** | **11.48** | **10.91** | **10.32** | **10.43** | **10.60** | **10.32** | **10.57** | **10.28** | **10.34** | **10.48** | **10.49** |

**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 2013 grew by 4.7 percent and amounted to Ksh 1.69 trillion compared with 4.6 percent growth in 2012 (Table 3.1). GDP growth in 2013 was broad based and driven largely by growth in output from agriculture and forestry, transport and communication, wholesale and retail trade, and manufacturing, which constituted 20.6 percent; 12.6 percent, 11.5 percent and 9.5 percent, respectively of the overall GDP. On a quarterly basis, real GDP in 2013 is estimated to have increased by 5.7 percent in the first quarter, 4.7 percent in the second quarter, 4.6 percent in the third quarter and 3.9 percent in the fourth quarter compared with 3.8 percent, 4.5 percent, 4.6 percent and 5.2 percent in the four quarters of 2012, respectively (Chart 3A).

**TABLE 3.1: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES**

| | Share in 2013 Nominal GDP (%) | Share in 2013 Real GDP (%) | Kshs Million | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MAIN SECTORS | | | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013* |
| Agriculture and Forestry | *25.32* | *20.58* | 276,089 | 280,518 | 299,749 | 312,926 | 320,423 | 307,354 | 299,431 | 318,586 | 323,415 | 337,064 | 346,935 |
| Fishing | *0.45* | *0.38* | 4,765 | 5,246 | 5,751 | 6,249 | 6,181 | 5,363 | 5,564 | 5,713 | 5,891 | 6,093 | 6,422 |
| Mining and Quarrying | *0.59* | *0.48* | 5,213 | 5,195 | 5,334 | 5,554 | 6,272 | 6,453 | 6,163 | 6,763 | 7,244 | 7,545 | 8,102 |
| Manufacturing | *8.91* | *9.50* | 105,822 | 110,544 | 115,699 | 122,953 | 130,673 | 135,291 | 137,060 | 143,263 | 148,198 | 152,959 | 160,247 |
| Electricity and Water Supply | *1.40* | *2.25* | 27,074 | 27,877 | 27,898 | 27,288 | 29,769 | 31,341 | 30,397 | 33,292 | 32,443 | 35,800 | 37,915 |
| Construction | *4.39* | *3.52* | 31,530 | 32,932 | 35,446 | 37,649 | 40,405 | 43,735 | 49,270 | 51,492 | 53,728 | 56,327 | 59,434 |
| Wholesale and Retail Trade, Repairs | *10.21* | *11.55* | 92,604 | 100,481 | 106,009 | 118,361 | 131,754 | 138,044 | 143,460 | 154,942 | 166,186 | 181,103 | 194,738 |
| Hotels and Restaurants | *1.49* | *1.21* | 9,899 | 13,741 | 15,572 | 17,894 | 20,814 | 13,298 | 18,993 | 19,796 | 20,775 | 21,322 | 20,366 |
| Transport and Communication | *9.10* | *12.59* | 104,915 | 112,251 | 122,243 | 136,306 | 156,845 | 161,615 | 171,994 | 182,181 | 191,248 | 200,289 | 212,282 |
| Financial Intermediation | *4.84* | *4.41* | 42,064 | 42,657 | 43,869 | 47,170 | 50,306 | 51,659 | 55,375 | 60,379 | 65,095 | 69,349 | 74,353 |
| Real estate, Renting and Business Services | *4.11* | *5.17* | 61,864 | 63,740 | 65,882 | 68,446 | 70,860 | 73,503 | 75,674 | 78,089 | 80,888 | 83,583 | 87,209 |
| Public Administration and Defence | *6.74* | *3.08* | 46,991 | 47,062 | 46,461 | 45,974 | 45,031 | 45,317 | 46,031 | 47,085 | 48,271 | 49,584 | 51,935 |
| Education | *6.68* | *5.96* | 71,045 | 72,268 | 72,908 | 73,188 | 76,257 | 80,771 | 82,952 | 86,651 | 90,836 | 95,746 | 100,466 |
| Health and Social Work | *1.92* | *2.08* | 25,431 | 26,408 | 27,249 | 28,075 | 28,983 | 30,035 | 31,352 | 31,786 | 32,892 | 34,009 | 35,143 |
| Other Community, Social and Personal Services | *3.48* | *3.54* | 42,917 | 44,514 | 45,876 | 47,814 | 49,420 | 50,829 | 52,156 | 53,507 | 55,952 | 57,753 | 59,624 |
| Private Households with Employed Persons | *0.45* | *0.28* | 3,855 | 3,932 | 4,011 | 4,091 | 4,173 | 4,256 | 4,342 | 4,428 | 4,517 | 4,607 | 4,699 |
| less: Financial Services Indirectly Measured | *(0.97)* | *-0.82* | (10,315) | (10,801) | (11,261) | (11,835) | (12,174) | (10,484) | (11,945) | (11,260) | (11,843) | (11,729) | (13,778) |
| All Industries at basic 2001 prices | *89.13* | *85.76* | 941,763 | 978,565 | 1,028,696 | 1,088,103 | 1,155,991 | 1,168,382 | 1,198,270 | 1,266,694 | 1,315,734 | 1,381,404 | 1,446,091 |
| Taxes less Subsidies on Products | *10.87* | *14.24* | 113,895 | 130,772 | 144,088 | 161,367 | 180,855 | 188,882 | 196,117 | 208,607 | 224,785 | 229,249 | 240,058 |
| 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 | 1,540,520 | 1,610,653 | 1,686,149 |
| Overall GDP Deflator (2001 =100) | | | | 115 | 121 | 130 | 137 | 155 | 170 | 174 | 198 | 211 | 225 |

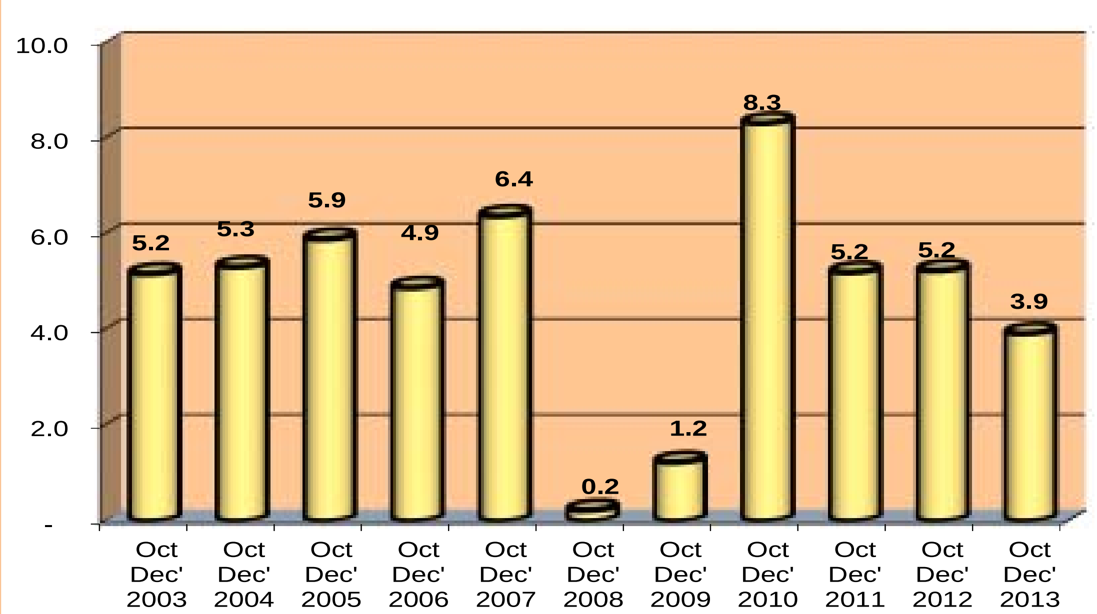
Annual Growth Rates in Percent

| | Share in 2013 Nominal GDP (%) | Share in 2013 Real GDP (%) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture and Forestry | 25.32 | 20.58 | 2.6 | 1.6 | 6.9 | 4.4 | 2.4 | (4.1) | (2.6) | 6.4 | 1.5 | 4.2 | 2.9 |
| Fishing | 0.45 | 0.38 | -6.9 | 10.1 | 9.6 | 8.7 | -1.1 | (13.2) | 3.7 | 2.7 | 3.1 | 3.4 | 5.4 |
| Mining and Quarrying | 0.59 | 0.48 | 3.5 | -0.3 | 2.7 | 4.1 | 12.9 | 2.9 | (4.5) | 9.7 | 7.1 | 4.2 | 7.4 |
| Manufacturing | 8.91 | 9.50 | 6.0 | 4.5 | 4.7 | 6.3 | 6.3 | 3.5 | 1.3 | 4.5 | 3.4 | 3.2 | 4.8 |
| Electricity and Water Supply | 1.40 | 2.25 | 14.0 | 3.0 | 0.1 | -2.2 | 9.1 | 5.3 | (3.0) | 9.5 | (2.6) | 10.3 | 5.9 |
| Construction | 4.39 | 3.52 | 1.0 | 4.4 | 7.6 | 6.2 | 7.3 | 8.2 | 12.7 | 4.5 | 4.3 | 4.8 | 5.5 |
| Wholesale and Retail Trade, Repairs | 10.21 | 11.55 | 1.5 | 8.5 | 5.5 | 11.7 | 11.3 | 4.8 | 3.9 | 8.0 | 7.3 | 9.0 | 7.5 |
| Hotels and Restaurants | 1.49 | 1.21 | -20.3 | 38.8 | 13.3 | 14.9 | 16.3 | (36.1) | 42.8 | 4.2 | 4.9 | 2.6 | (4.5) |
| Transport and Communication | 9.10 | 12.59 | 3.5 | 7.0 | 8.9 | 11.5 | 15.1 | 3.0 | 6.4 | 5.9 | 5.0 | 4.7 | 6.0 |
| Financial Intermediation | 4.84 | 4.41 | 1.5 | 1.4 | 2.8 | 7.5 | 6.6 | 2.7 | 7.2 | 9.0 | 7.8 | 6.5 | 7.2 |
| Real estate, Renting and Business Services | 4.11 | 5.17 | 2.3 | 3.0 | 3.4 | 3.9 | 3.5 | 3.7 | 3.0 | 3.2 | 3.6 | 3.3 | 4.3 |
| Public Administration and Defence | 6.74 | 3.08 | 0.6 | 0.2 | -1.3 | -1.0 | -2.1 | 0.6 | 1.6 | 2.3 | 2.5 | 2.7 | 4.7 |
| Education | 6.68 | 5.96 | 9.7 | 1.7 | 0.9 | 0.4 | 4.2 | 5.9 | 2.7 | 4.5 | 4.8 | 5.4 | 4.9 |
| Health and Social Work | 1.92 | 2.08 | 2.8 | 3.8 | 3.2 | 3.0 | 3.2 | 3.6 | 4.4 | 1.4 | 3.5 | 3.4 | 3.3 |
| Other Community, Social and Personal Services | 3.48 | 3.54 | -0.0 | 3.7 | 3.1 | 4.2 | 3.4 | 2.9 | 2.6 | 2.6 | 4.6 | 3.2 | 3.2 |
| Private Households with Employed Persons | 0.45 | 0.28 | 2.0 | 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 | -0.97 | -0.82 | -3.3 | 4.7 | 4.3 | 5.1 | 2.9 | (13.9) | 13.9 | (5.7) | 5.2 | (1.0) | 17.5 |
| All Industries at basic 2001 prices | 89.13 | 85.76 | 3.1 | 3.9 | 5.1 | 5.8 | 6.2 | 1.1 | 2.6 | 5.7 | 3.9 | 5.0 | 4.7 |
| Taxes less Subsidies on Products | 10.87 | 14.24 | 1.3 | 14.8 | 10.2 | 12.0 | 12.1 | 4.4 | 3.8 | 6.4 | 7.8 | 2.0 | 4.7 |
| Real GDP at 2001 market prices | 100.00 | 100.00 | 2.9 | 5.1 | 5.7 | 6.5 | 7.0 | 1.5 | 2.7 | 5.8 | 4.4 | 4.6 | 4.7 |

*Provisional

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

**CHART 3A: REAL GDP GROWTH IN THE FOURTH QUARTERS**

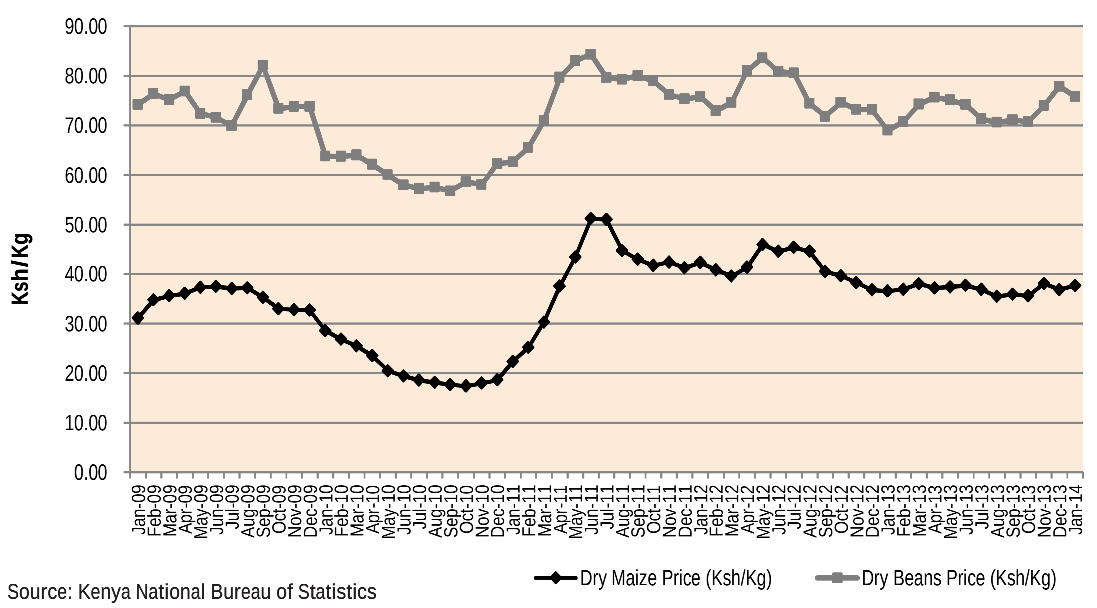



Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

**Agriculture**

Agriculture contributed 20.6 percent of GDP in 2013 and recorded 2.9 percent growth in output over the same period compared with 4.2 percent increase in 2012. Subdued performance in agriculture in 2013 is attributed to unfavorable weather conditions which resulted in marginally increased prices of food items such as maize and beans particularly towards the end of year (Chart 3B).

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




Source: Kenya National Bureau of Statistics

## Major Indicators in Agriculture

Most indicators of performance in agriculture in the year to January 2014 point to favorable outcome (Table 3.2). Among selected crops, production of tea and horticulture increased in the year to January while production of coffee declined. Production of milk also increased during the period under review.

**TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK**

| | 2012 | 2013 | Year to Feb 13 | Year to Feb 14* |
|---|---|---|---|---|
| **Tea** | | | | |
| Output (Metric tonnes) | 369,562 | 432,453 | 398,838 | 427,304 |
| *Growth (%)* | *-2.2%* | *17.0%* | *7.8%* | *7.1%* |
| **Horticulture** | | | | |
| Exports (Metric tonnes) | 250,814 | 309,029 | 264,558 | 308,118 |
| *Growth (%)* | *5.1%* | *23.2%* | *11.7%* | *16.5%* |
| **Coffee** | | | | |
| Sales (Metric tonnes) | 46,051 | 37,942 | 43,539 | 37,411 |
| *Growth (%)* | *53.6%* | *-17.6%* | *29.4%* | *-14.1%* |
| **Milk** | | | | |
| Output (million litres) | 495 | 523 | 509 | 532 |
| *Growth %* | *-9.8%* | *5.6%* | *-5.7%* | *4.5%* |
| **Sugar Cane** | | | | |
| Output (Metric tonnes) | 5,716,300 | 6,671,800 | 5,643,000 | 6,888,300 |
| *Growth (%)* | *7.1%* | *16.7%* | *4.0%* | *22.1%* |

* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

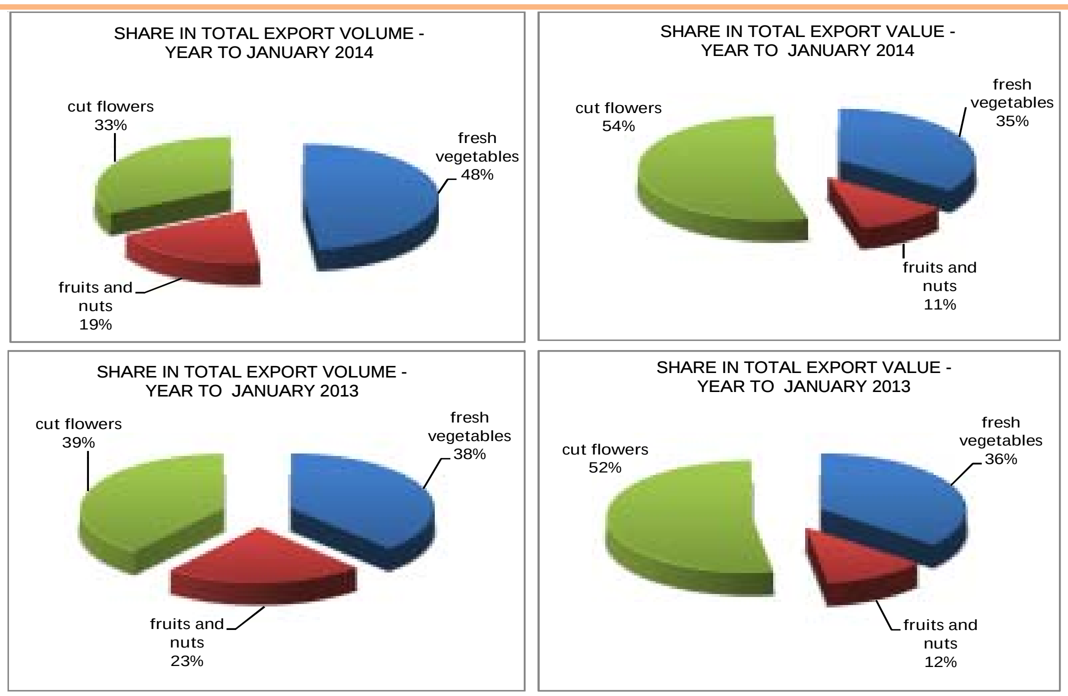
## Tea

Production of tea increased by 14.1 percent in the year to January 2014 compared to marginal increases in the year to January 2013 (Table 3.2). The improvement is attributed to relatively favorable weather conditions. Reflecting the larger volume supplied, the average auction price for tea declined from Ksh 272 per kilogram in the year to January 2013 to Ksh 214 per kilogram in the year to January 2014.

## Horticulture

Export of fresh horticultural products increased by 22.1 percent in the year to January 2014 compared with 7.8 percent growth in the year to January 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 January 2014 (Table 3.2 and Chart 3C).

**CHART 3C: HORTICULTURAL EXPORTS**




Source: Kenya Revenue Authority

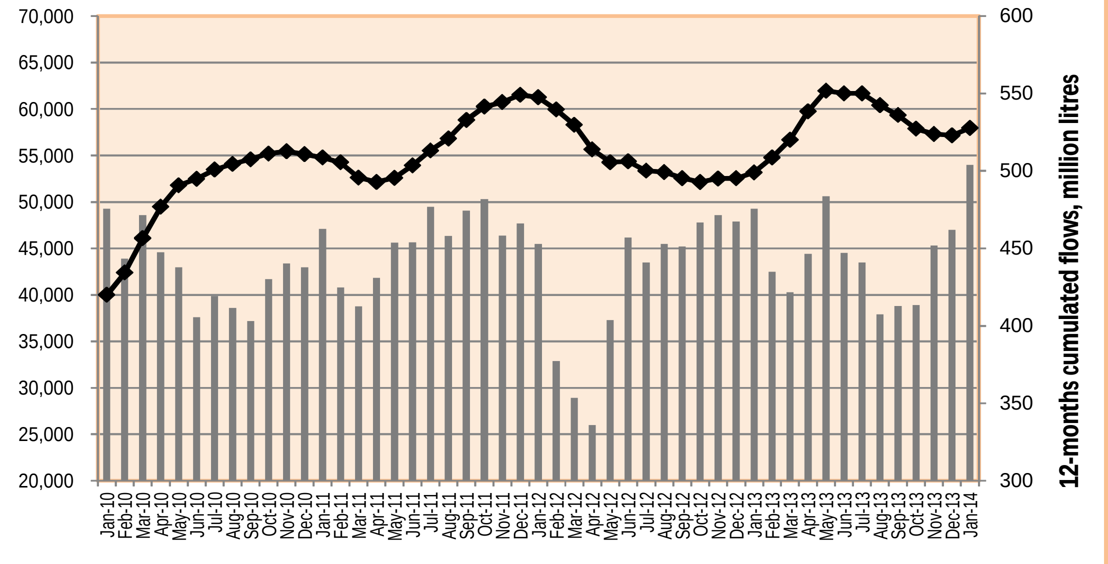
**Coffee**

Coffee sales declined by 18.5 percent in the year to January 2014ompared with 46 percent growth in the year to January 2014. The average auction price for coffee also declined from Ksh 307 per kilogram in the year to January 2013 to Ksh 272 per kilogram in the year to January 2014, reflecting increased global supply and reduced world prices.

**Dairy**

The volume of milk intake in the formal sector increased by 5.7 percent in the year to January 2014 compared with 8.8 percent decline in the year to January 2013 (Chart 3D). Meanwhile, the average 12 month cumulative flows reversed a gradual slowdown in January 2014 on account of sustained rise in monthly flows since October 2013.

**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 2013. This activity grew by 4.8 in 2013 compared with 3.2 percent growth in 2012. Indicators of the performance of manufacturing activity are positive for the 12-month period to February 2014 (Table 3.3 and Chart 3E), with the growth in production of cement, assembled vehicles and galvanized sheets accelerating. Growth in the production of cement improved to 10.5 percent in the year to February 2014. With local cement consumption below production level (Chart 3E), the industry continued to generate some surplus for export.

**TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS**

| | Annual Totals | | Year to Feb 13* | Year to Feb 14* |
|---|---|---|---|---|
| | 2012 | 2013 | | |
| Cement production | | | | |
| Output (MT) | 4,639,723 | 4,997,007 | 4,684,608 | 5,176,480 |
| *Growth %* | *3.6%* | *7.7%* | *3.9%* | *10.5%* |
| Assembled vehicles | | | | |
| Output (No.) | 6,218 | 7,667 | 6,214 | 7,131 |
| *Growth %* | *2.8%* | *23.3%* | *-1.7%* | *14.8%* |
| Galvanized sheets | | | | |
| Output (MT) | 255,815 | 305,152 | 261,622 | 304,483 |
| *Growth %* | *-4.6%* | *19.3%* | *-1.7%* | *16.4%* |

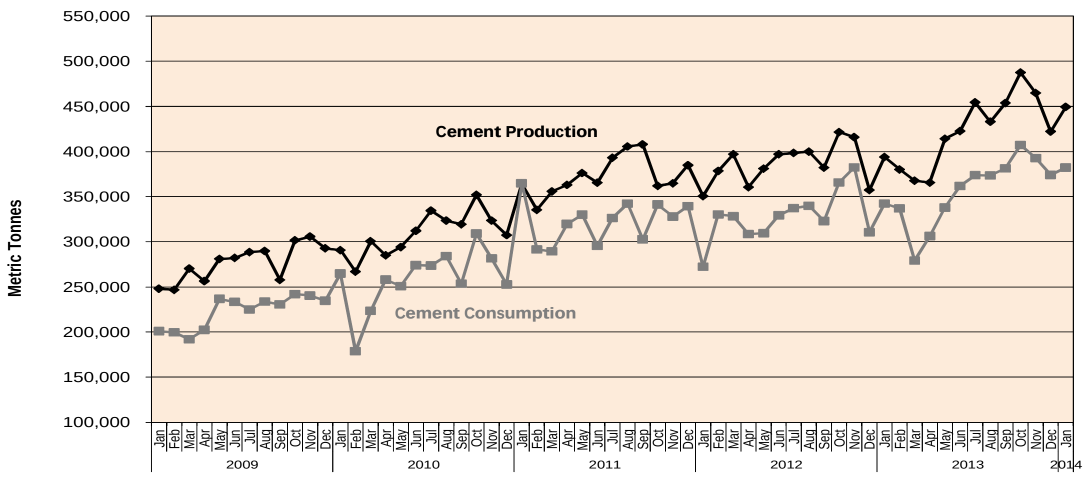
MT = Metric tonnes

* Provisional

** Data in the 'Year to September' columns reflects data for the year to August

Source: Kenya National Bureau of Statistics

**CHART 3E: CEMENT PRODUCTION AND CONSUPTION**




Source: Kenya National Bureau of Statistics

**Energy Sector**

Annual growth in local generation of electricity increased from 5.7 percent in the year to January 2013 to 9.1 percent in the year to January 2014 (Table 3.4). The total amount of electricity generated thus increased from 7,593 million kilowatt hours to 8,283 million kilowatt hours. The supply in the current period comprised 52.5 percent of hydro-electricity, 25.4 percent of thermal power and 22.1 percent of geo-thermal power. The increase in the electricity produced reflects accelerated generation of geo-thermal power (green energy). Generation of hydro-electricity increased by 6.6 percent to a supply of 4,349 million kilowatt hours in the year to January 2014, while generation of geo-thermal power increased by 20.2 percent to a supply of 1,830 million kilowatt hours in the year to January 2014. The generation of thermal power increased by 5.9 percent to 2,107 million kilowatt hours in the year to January 2014. Growth in the consumption of electricity also increased from 1.6 percent in the year to January 2013 to 6.0 percent in the year to January 2014. The average price of murban crude oil declined from US$ 112.8 per barrel in the year to January 2013 to US$ 109.9 per barrel in the year to January 2014.

**TABLE 3.4: ENERGY SECTOR PERFORMANCE**

| | 2012 | 2013 | Year to Jan 13* | Year to Jan 14* |
|---|---|---|---|---|
| Electricity Supply (Generation) | | | | |
| Output (million KWH) | 7,544 | 8,217 | 7,593 | 8,283 |
| *Growth %* | *5.4%* | *8.9%* | *5.7%* | *9.1%* |
| *Of which:* | | | | |
| Hydro-power Generation (million KWH) | 4,032 | 4,387 | 4,080 | 4,349 |
| *Growth (%)* | *26.6%* | *8.8%* | *26.8%* | *6.6%* |
| Geo-Thermal Generation (million KWH) | 1,522 | 1,781 | 1,523 | 1,830 |
| *Growth (%)* | *5.4%* | *17.0%* | *4.8%* | *20.2%* |
| Thermal (million KWH) | 1,990 | 2,049 | 1,990 | 2,107 |
| *Growth (%)* | *-21.4%* | *3.0%* | *-20.9%* | *5.9%* |
| Consumption of electricity (million KWH) | 6,270 | 6,564 | 6,265 | 6,641 |
| *Growth %* | *1.9%* | *4.7%* | *1.6%* | *6.0%* |
| Murban crude oil average price (US $ per barrel) | 113.0 | 110.1 | 112.8 | 109.9 |
| *Growth %* | *2.1%* | *-2.5%* | *0.6%* | *-2.6%* |

* Provisional

Source: Kenya National Bureau of Statistics

## Tourism

The number of tourist arrivals declined by 12.6 percent from 1,231,135 in the year to January 2014 (Table 3.5) compared with 1,102,652 in the year to January 2013. The ports of disembarkation were Jomo Kenyatta International Airport Nairobi (83.0 percent share), and the Moi International Airport, Mombasa (17.0 percent share).

**TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY**

| | 2012 | 2013 | Year to Jan 2013 | Year to Jan 2014 | Year to Jan 2014 % Share | Year to Jan 2014 % Growth |
|---|---|---|---|---|---|---|
| MIAM | 187,151 | 189,654 | 185,463 | 183,061 | *17.0%* | *-1.3%* |
| JKIA | 1,048,390 | 912,998 | 1,045,672 | 892,993 | *83.0%* | *-14.6%* |
| TOTAL | 1,235,541 | 1,102,652 | 1,231,135 | 1,076,054 | *100.0%* | *-12.6%* |

Source: Kenya Tourist Board

## Transport

The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) declined by 0.7 percent in the year to January 2014 compared with 2 percent increase in the year to February 2013. The decline is reflected both to incoming and outgoing passengers (Table 3.6). The volume of oil passed through the Kenya pipeline, however, increased by 6.4 percent to 5,246 million litres in the year to February 2014 compared with 4,930 million litres in the year to February 2013.

## TABLE 3.6: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

| | 2012 | 2013 | Year to Feb 13* | Year to Feb 14* |
|---|---|---|---|---|
| Number of Passengers thro' JKIA | | | | |
| Total passenger flows | 4,302,244 | 4,290,349 | 4,302,241 | 4,273,203 |
| Growth (%) | *4.0%* | *-0.3%* | *0.6%* | *-0.7%* |
| o.w. Incoming | 2,148,105 | 2,144,002 | 2,144,992 | 2,134,128 |
| Growth (%) | *2.8%* | *-0.2%* | *-1.1%* | *-0.5%* |
| Outgoing | 2,154,139 | 2,146,347 | 2,157,249 | 2,139,075 |
| Growth % | *5.3%* | *-0.4%* | *2.3%* | *-0.8%* |
| Kenya Pipeline Oil Throughput | | | | |
| Output ('000 litres) | 4,855,573 | 5,181,609 | 4,930,411 | 5,246,478 |
| Growth % | *14.0%* | *6.7%* | *13.8%* | *6.4%* |

* Provisional

Source: Kenya National Bureau of Statistics

# Developments in the Balance of Payments and Exchange Rates

**Overview**

The overall balance of payments surplus improved by 84.7 percent to USD 1,223 million in the year to February 2014 from a surplus of USD 662 million in the year to February 2013 (Table 4.1). The improvement reflected the improved surplus in the trade related services and remittances inflows, and a reduction in the import payments for oil and machinery and transport equipment.

### TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

| ITEM | Year to Feb 2013* | Year to February 2014* Q1 Mar-May | Q2 Jun-Aug | Q3 Sep-Nov | Q4 Dec-Feb | Year to Feb 2014* | Absolute Change | % Change |
|---|---|---|---|---|---|---|---|---|
| 1. OVERALL BALANCE | 662 | 741 | 3 | 225 | 255 | 1223 | 561.2 | 84.7 |
| 2. CURRENT ACCOUNT | -4680 | -1088 | -1180 | -1252 | -1050 | -4571 | 109.7 | -2.3 |
| 2.1 Goods | -10983 | -2727 | -2716 | -2935 | -2728 | -11106 | -123.3 | 1.1 |
| Exports (fob) | 6221 | 1459 | 1388 | 1438 | 1458 | 5744 | -476.7 | -7.7 |
| Imports (cif) | 17204 | 4186 | 4105 | 4374 | 4186 | 16850 | -353.3 | -2.1 |
| 2.2 Services | 6302 | 1639 | 1536 | 1683 | 1678 | 6535 | 233.0 | 3.7 |
| Non-factor services (net) | 3649 | 977 | 864 | 923 | 988 | 3752 | 103.2 | 2.8 |
| Income (net) | -232 | -74 | -78 | -83 | -50 | -285 | -53.6 | 23.2 |
| Current Transfers (net) | 2885 | 735 | 750 | 843 | 739 | 3068 | 183.5 | 6.4 |
| 3. CAPITAL & FINANCIAL ACCOUNT | 5343 | 1829 | 1183 | 1477 | 1305 | 5794 | 451.4 | 8.4 |
| 3.1 Capital Tranfers (net) | 193 | 28 | 17 | 33 | 24 | 102 | -90.9 | -47.0 |
| 3.2 Financial Account | 5149 | 1800 | 1166 | 1444 | 1281 | 5692 | 542.3 | 10.5 |
| memo: | | | | | | | | |
| Gross Reserves | 7080 | 7887 | 7740 | 7893 | 8352 | 8352 | 1272.8 | 18.0 |
| Official | 5290 | 6128 | 6120 | 6333 | 6679 | 6679 | 1389.3 | 26.3 |
| *import cover*** | *3.4* | *4.0* | *4.1* | *4.2* | *4.4* | *4.4* | 1.0 | 28.5 |
| *import cover**** | *3.9* | *4.4* | *4.3* | *4.4* | *4.5* | *4.5* | 0.6 | 16.5 |
| Commercial Banks | 1789 | 1758 | 1620 | 1560 | 1673 | 1673 | -116.5 | -6.5 |

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

**Source: Central Bank of Kenya**

**Current Account**

The deficit in the current account balance narrowed to USD 4,571 million in the year to February 2014 from USD 4,680 million in the year to February 2013. The improvement was reflected in the services account surplus which increased by 3.7 percent (Table 4.2).

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

| ITEM | Year to Feb 2013* | Year to February 2014* Q1 Mar-May | Q2 Jun-Aug | Q3 Sep-Nov | Q4 Dec-Feb | Year to Feb 2014* | Absolute Change | % Change |
|---|---|---|---|---|---|---|---|---|
| 2. CURRENT ACCOUNT | -4680 | -1088 | -1180 | -1252 | -1050 | -4571 | 109.7 | -2.3 |
| 2.1 Goods | -10983 | -2727 | -2716 | -2935 | -2728 | -11106 | -123.3 | 1.1 |
| *Exports (fob)* | 6221 | 1459 | 1388 | 1438 | 1458 | 5744 | -476.7 | -7.7 |
| Coffee | 257 | 52 | 55 | 45 | 36 | 188 | -68.7 | -26.7 |
| Tea | 1227 | 308 | 308 | 260 | 279 | 1155 | -71.4 | -5.8 |
| Horticulture | 719 | 190 | 163 | 192 | 202 | 747 | 28.2 | 3.9 |
| Oil products | 75 | 13 | 12 | 9 | 8 | 44 | -31.4 | -41.8 |
| Manufactured Goods | 693 | 187 | 177 | 180 | 154 | 699 | 5.2 | 0.8 |
| Raw Materials | 378 | 87 | 76 | 75 | 107 | 345 | -33.0 | -8.7 |
| Chemicals and Related Products (n.e.s) | 548 | 115 | 116 | 116 | 112 | 459 | -88.7 | -16.2 |
| Miscelleneous Man. Articles | 566 | 143 | 150 | 153 | 149 | 595 | 28.9 | 5.1 |
| Re-exports | 490 | 118 | 111 | 172 | 183 | 583 | 94.0 | 19.2 |
| Other | 1269 | 247 | 219 | 236 | 227 | 929 | -339.9 | -26.8 |
| *Imports (cif)* | 17204 | 4186 | 4105 | 4374 | 4186 | 16850 | -353.3 | -2.1 |
| Oil | 4139 | 1106 | 796 | 950 | 954 | 3806 | -333.5 | -8.1 |
| Chemicals | 2084 | 574 | 546 | 575 | 621 | 2316 | 231.3 | 11.1 |
| Manufactured Goods | 2436 | 586 | 656 | 669 | 666 | 2577 | 140.7 | 5.8 |
| Machinery & Transport Equipment | 5005 | 1091 | 1182 | 1149 | 1117 | 4539 | -466.2 | -9.3 |
| Other | 3538 | 829 | 925 | 1031 | 828 | 3612 | 74.3 | 2.1 |
| 2.2 Services | 6302 | 1639 | 1536 | 1683 | 1678 | 6535 | 233.0 | 3.7 |
| *Non-factor services (net)* | 3649 | 977 | 864 | 923 | 988 | 3752 | 103.2 | 2.8 |
| of which transport | 920 | 326 | 256 | 287 | 202 | 1072 | 152.2 | 16.6 |
| of which tourism (Travel) | 746 | 177 | 162 | 159 | 122 | 620 | -126.5 | -17.0 |
| Other services account: gov't | 810 | 219 | 213 | 198 | 189 | 820 | 9.2 | 1.1 |
| Other services account: private | 127 | 46 | 19 | 53 | 219 | 337 | 209.6 | 165.2 |
| *Income (net)* | -232 | -74 | -78 | -83 | -50 | -285 | -53.6 | 23.2 |
| Credit | 166 | 47 | 40 | 56 | 36 | 178 | 12.8 | 7.7 |
| Debit | -397 | -121 | -118 | -139 | -86 | -464 | -66.4 | 16.7 |
| *Current Transfers (net)* | 2885 | 735 | 750 | 843 | 739 | 3068 | 183.5 | 6.4 |
| Private (net) | 2668 | 686 | 701 | 795 | 726 | 2908 | 239.9 | 9.0 |
| of which Remittances | 1183 | 319 | 320 | 334 | 335 | 1307 | 124.1 | 10.5 |
| Public (net) | 216 | 49 | 49 | 49 | 13 | 160 | -56.5 | -26.1 |

* Provisional.

Source: Central Bank of Kenya

## Merchandise Account

The deficit in the merchandise account deteriorated by USD 123.3 million in the year to February 2014 reflecting a decline in receipts from merchandise exports by USD 476.7 million, which more than offset the USD 353.3 million decline in payments for merchandise imports. (Table 4.2)

## Imports

The value of merchandise imports declined by 2.1 percent from USD 17,204 million in the year to February 2013 to USD 16,850 million in the year to February 2014. The slowdown in the import bill reflected reduced importation of oil; machinery and transport equipment. The oil import bill declined by USD 334 million to USD 3,806 million in the year to February 2014, largely attributed to reduced importation of crude petroleum oils. The reduction in Imports of machinery and transport equipment by 9.3 percent was mainly in imports of specialised industrial machinery, office equipment, electrical machinery and other transport equipment.

In terms of imports by source (Table 4.3) imports from rest of the world declined and in particular from the United Arab Emirates, the USA, Saudi Arabia, Singapore, Germany, France and Indonesia. Imports from India, China, Japan the United Kingdom, Bahrain and Italy increased. The share of imports from the African region increased marginally to 10.5 percent in the year to February 2014 from 10.2 percent in the year to February 2013.

## Exports

Receipts from merchandise exports declined by USD 476.7 million or 7.7 percent to USD 5,744 million in the year to February 2014. The decline reflected reduced earnings from coffee, tea, oil products, raw materials, chemicals and related products and other non-categorised exports. The value of coffee exports declined by USD 68.7 million while the value of tea exports declined by USD 71.4 million in the year to February 2014. The decline in coffee exports was attributed to a reduction in both export quantities and prices, while the reduction in tea exports was largely attributed to a decline in world tea prices. Other non- categorised exports, also declined by USD 339.9 million over the same period. Exports of horticulture, Manufactured goods, miscellaneous manufactured goods and re-exports increased in the year to February 2014.

The share of Kenya's exports to Africa recorded an increase from the previous period. (Table 4.3) although export values declined largely from COMESA and the EAC. Exports receipts from the rest of the world also declined during the period under review and largely from the European Union, the United Kingdom, Pakistan, China, United Arab Emirates and Germany.

## TABLE 4.3: KENYA'S DIRECTION OF TRADE

| IMPORTS (in millions of US dollars) | | | | Share of Imports (%) | | |
|---|---|---|---|---|---|---|
| | Year to February | | | Year to February | | |
| Country | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
| Africa | 1,706 | 1,705 | 1,714 | 11.4 | 10.2 | 10.5 |
| *Of which* | | | | | | |
| South Africa | 777 | 738 | 850 | 5.2 | 4.4 | 5.2 |
| Egypt | 212 | 371 | 284 | 1.4 | 2.2 | 1.7 |
| Others | 717 | 596 | 581 | 4.8 | 3.6 | 3.6 |
| EAC | 301 | 371 | 329 | 2.0 | 2.2 | 2.0 |
| COMESA | 646 | 754 | 644 | 4.3 | 4.5 | 4.0 |
| Rest of the World | 13,314 | 15,017 | 14,558 | 88.6 | 89.8 | 89.5 |
| *Of which* | | | | | | |
| India | 1,654 | 2,548 | 2,864 | 11.0 | 15.2 | 17.6 |
| United Arab Emirates | 2,137 | 1,838 | 1,291 | 14.2 | 11.0 | 7.9 |
| China | 1,707 | 2,029 | 2,095 | 11.4 | 12.1 | 12.9 |
| Japan | 663 | 783 | 1,001 | 4.4 | 4.7 | 6.2 |
| USA | 545 | 806 | 649 | 3.6 | 4.8 | 4.0 |
| United Kingdom | 503 | 552 | 570 | 3.3 | 3.3 | 3.5 |
| Singapore | 264 | 183 | 181 | 1.8 | 1.1 | 1.1 |
| Germany | 374 | 481 | 467 | 2.5 | 2.9 | 2.9 |
| Saudi Arabia | 693 | 733 | 516 | 4.6 | 4.4 | 3.2 |
| Indonesia | 564 | 635 | 529 | 3.8 | 3.8 | 3.3 |
| Netherlands | 237 | 213 | 286 | 1.6 | 1.3 | 1.8 |
| France | 235 | 315 | 234 | 1.6 | 1.9 | 1.4 |
| Bahrain | 223 | 260 | 537 | 1.5 | 1.6 | 3.3 |
| Italy | 183 | 239 | 247 | 1.2 | 1.4 | 1.5 |
| Others | 3,332 | 3,400 | 3,091 | 22.2 | 20.3 | 19.0 |
| Total | 15,020 | 16,722 | 16,272 | 100 | 100 | 100 |
| **European Union** | 2,196 | 2,452 | 2,474 | 14.6 | 14.7 | 15.2 |

| EXPORTS (in millions of US dollars) | | | | Share of Exports (%) | | |
|---|---|---|---|---|---|---|
| | Year to February | | | Year to February | | |
| Country | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
| Africa | 2,854 | 2,947 | 2,658 | 48.7 | 47.7 | 50.2 |
| *Of which* | | | | | | |
| Uganda | 855 | 795 | 759 | 14.6 | 12.9 | 14.3 |
| Tanzania | 488 | 541 | 476 | 8.3 | 8.7 | 9.0 |
| Egypt | 286 | 241 | 191 | 4.9 | 3.9 | 3.6 |
| Sudan | 245 | 59 | 81 | 4.2 | 1.0 | 1.5 |
| South Sudan | 0 | 214 | 182 | 0.0 | 3.5 | 3.4 |
| Somalia | 198 | 230 | 185 | 3.4 | 3.7 | 3.5 |
| DRC | 205 | 226 | 207 | 3.5 | 3.7 | 3.9 |
| Rwanda | 161 | 188 | 159 | 2.7 | 3.0 | 3.0 |
| Others | 417 | 453 | 419 | 7.1 | 7.3 | 7.9 |
| EAC | 1,567 | 1,590 | 1,458 | 26.7 | 25.7 | 27.6 |
| COMESA | 2,076 | 1,843 | 1,693 | 35.4 | 29.8 | 32.0 |
| Rest of the World | 3,009 | 3,236 | 2,632 | 51.3 | 52.3 | 49.8 |
| *Of which* | | | | | | |
| United Kingdom | 510 | 492 | 420 | 8.7 | 8.0 | 7.9 |
| Netherlands | 372 | 371 | 395 | 6.3 | 6.0 | 7.5 |
| USA | 296 | 320 | 356 | 5.0 | 5.2 | 6.7 |
| Pakistan | 247 | 279 | 246 | 4.2 | 4.5 | 4.6 |
| China | 46 | 60 | 54 | 0.8 | 1.0 | 1.0 |
| United Arab Emirates | 224 | 356 | 278 | 3.8 | 5.8 | 5.3 |
| Germany | 87 | 114 | 100 | 1.5 | 1.8 | 1.9 |
| India | 107 | 96 | 109 | 1.8 | 1.6 | 2.1 |
| Afghanistan | 163 | 132 | 180 | 2.8 | 2.1 | 3.4 |
| Others | 958 | 1,015 | 496 | 16.3 | 16.4 | 9.4 |
| Total | 5,863 | 6,183 | 5,291 | 100 | 100 | 100 |
| **European Union** | 1,294 | 1,284 | 1,221 | 22.1 | 20.8 | 23.1 |

**Source: Kenya Revenue Authority**

### Services Account

The surplus in the services account increased by USD 233.0 million to USD 6,535 million in the year to February 2014. The increase was reflected in non-factor services and current transfer. Net non-factor services rose by USD 103.2 million mainly due to improvement in transportation, and other private services (insurance and communication services). The surplus in the current transfer account improved by USD 183.5 million largely reflecting a USD 239.9 million increase in private transfer flows. Remittance inflows increased by USD 124.1 million and accounted close to a half of the increase in private transfers. Average remittance inflows in the 12 months to February 2014 increased to USD 108.9 million from USD 98.5million during the year to February 2013.

### Capital and Financial Account

The surplus in the capital and financial account increased by USD 451.4 million to USD 5,794 million in the year to February 2014 from USD 5,343 million in the year to February 2013. The improvement reflected in the financial account surplus is largely on account of increased Commercial Bank flows (by USD 595.3 million) after Commercial Banks run down their foreign assets. Short term flows and Net errors and omissions increased by USD 587.1 million on account of an improvement in Short term flows (USD 83 million) and increase in the residual Net Errors and Omissions (USD 504 million).

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

| ITEM | Year to Feb 2013* | Year to February 2014* | | | | Year to Feb 2014* | Absolute Change | % Change |
|---|---|---|---|---|---|---|---|---|
| | | Q1 Mar-May | Q2 Jun-Aug | Q3 Sep-Nov | Q4 Dec-Feb | | | |
| 3. CAPITAL & FINANCIAL ACCOUNT | 5343 | 1829 | 1183 | 1477 | 1305 | 5794 | 451.4 | 8.4 |
| 3.1 Capital Tranfers (net) | 193 | 28 | 17 | 33 | 24 | 102 | -90.9 | -47.0 |
| 3.2 Financial Account | 5149 | 1800 | 1166 | 1444 | 1281 | 5692 | 542.3 | 10.5 |
| Net Investment Assets and Liabilities | 1233 | 562 | 165 | 285 | 177 | 1188 | -44.8 | -3.6 |
| Official, medium & long-term | 1187 | 241 | 132 | 110 | 134 | 617 | -570.4 | -48.1 |
| Inflows | 1488 | 321 | 215 | 209 | 227 | 972 | -516.2 | -34.7 |
| Outflows | -301 | -80 | -84 | -99 | -93 | -355 | -54.2 | 18.0 |
| Private, medium & long-term (net) | 46 | 321 | 33 | 175 | 43 | 572 | 525.6 | 1139.4 |
| Commercial Banks (net) | 158 | 328 | 53 | 291 | 82 | 753 | 595.3 | 376.5 |
| Other private medium & long-term (n | -112 | -7 | -20 | -115 | -40 | -182 | -69.7 | 62.2 |
| Short-term (net) incl. errors & omissions | 3916 | 1239 | 1002 | 1159 | 1104 | 4503 | 587.1 | 15.0 |

* Provisional.

Source: Central Bank of Kenya

## Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from USD 7,080 million at the end of February 2013 to USD 8,352 million at the end of February 2014. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased to USD 6,679 million (4.5 months of import cover) at the end of February 2014 from USD 5,290 million (3.9 months of imports cover) at the end of February 2013. The build-up in foreign exchange reserves during the period was largely attributed to disbursements from the International Monetary Fund (IMF) and acquisition from the international market.

Foreign Exchange Reserves held by commercial banks decreased to USD 1,673 million at the end of February 2014 from USD 1,789 million at the end of February 2013 reflecting a slowdown in the accumulation of foreign assets. During the same period, Residents' Foreign Currency Deposits increased to USD 3,564 million from USD 3,387 million (Table 4.5).

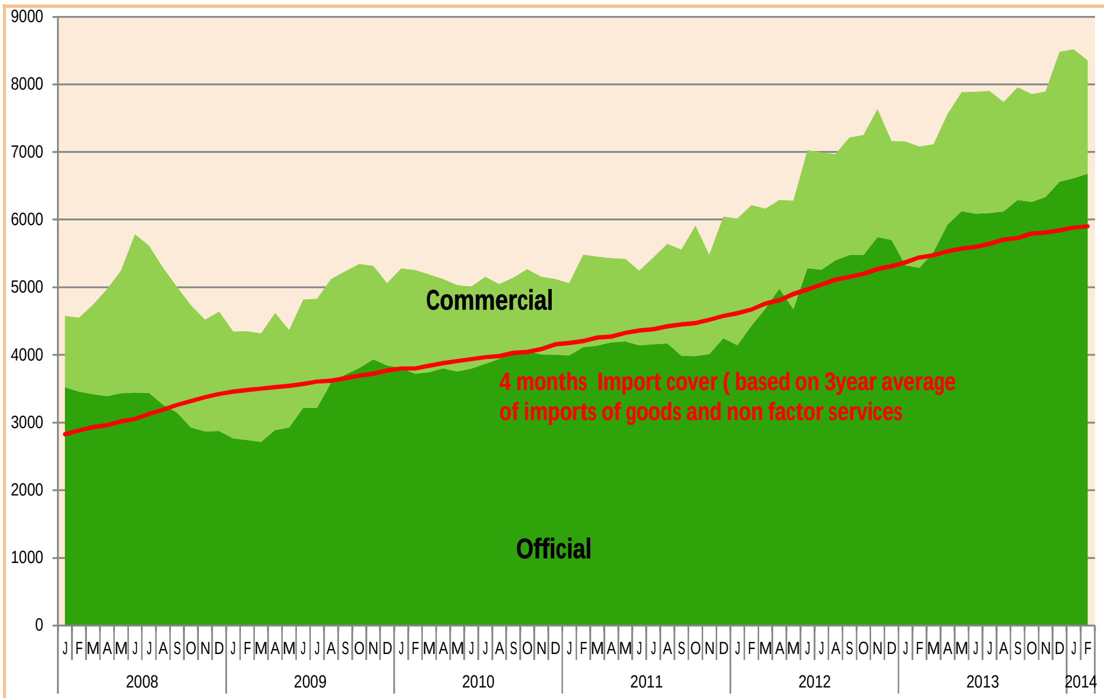
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

| | Feb 13 | Mar 13 | Jun 13 | Jul 13 | Aug 13 | Dec 13 | Jan 14 | Feb 14 |
|---|---|---|---|---|---|---|---|---|
| 1. Gross Foreign Exchange Reserves | 7,080 | 7,114 | 7,889 | 7,907 | 7,740 | 8,483 | 8,519 | 8,352 |
| of which: | | | | | | | | |
| Official | 5,290 | 5,523 | 6,089 | 6,096 | 6,120 | 6,560 | 6,612 | 6,679 |
| *imports cover*** | *3.9* | *4.0* | *4.4* | *4.3* | *4.3* | *4.5* | *4.5* | *4.5* |
| Commercial Banks | 1,789 | 1,590 | 1,800 | 1,811 | 1,620 | 1,923 | 1,907 | 1,673 |
| 2. Residents' foreign currency deposits | 3,387 | 3,441 | 3,371 | 3,462 | 3,362 | 3,909 | 3,939 | 3,564 |

**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 stabilised in February 2014 against the main currencies traded in the international foreighn exchange markets, and the EAC currencies compared to trading levels in January 2014 (Table 4.6 and Chart 4D).

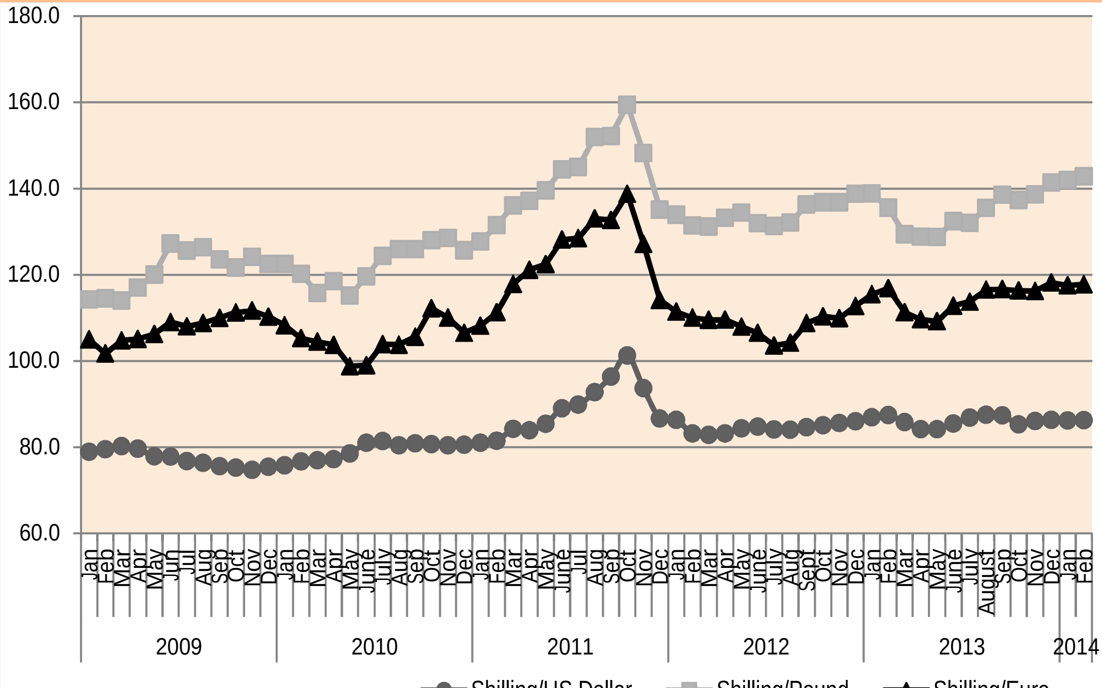
## TABLE 4.6: KENYA SHILLING EXCHANGE RATE

| | 2013 | | | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | June | July | December | Jan | Feb | % change January - February 2014 |
| US Dollar | 86.90 | 87.45 | 85.49 | 86.86 | 86.31 | 86.21 | 86.28 | 0.07 |
| Pound Sterling | 138.80 | 135.54 | 132.42 | 132.00 | 141.37 | 141.99 | 142.81 | 0.58 |
| 100 Japanese Yen | 97.67 | 93.96 | 87.77 | 87.28 | 83.51 | 82.92 | 84.52 | 1.93 |
| Uganda Shilling* | 30.89 | 30.40 | 30.34 | 29.79 | 29.20 | 29.00 | 28.61 | -1.35 |
| Tanzania Shilling* | 18.43 | 18.54 | 19.13 | 18.69 | 18.63 | 18.68 | 18.82 | 0.76 |
| Rwanda Franc* | 7.12 | 7.11 | 7.56 | 7.46 | 7.76 | 7.85 | 7.87 | 0.21 |
| Burundi Franc* | 17.39 | 17.81 | 18.22 | 17.83 | 17.91 | 17.99 | 18.00 | 0.05 |
| Euro | 115.47 | 116.86 | 112.81 | 113.74 | 118.18 | 117.50 | 117.81 | 0.26 |
| Euro per US dollar | 0.75 | 0.75 | 0.76 | 0.76 | 0.73 | 0.73 | 0.73 | -0.19 |

* 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, 99 foreign exchange bureaus and 2 credit reference bureaus as at February 28, 2014.

**Structure of the Balance Sheet**

The banking sector balance sheet expanded by 15.9 percent from Ksh 2,380.3 billion in February 2013 to Ksh 2,758.1 billion in February 2014. The major components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 57.5 percent, 22.0 percent and 5.2 percent of total assets, respectively.

**Loans & Advances**

The banking sector gross loans and advances rose from Ksh 1,395.7 billion in February 2013 to Ksh 1,646.0 billion in February 2014, which translated to a growth of 17.9 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 1,586.3 billion in February 2014, up from Ksh 1,342.5 billion registered in a similar period in 2013.

**Deposit Liabilites**

Deposits from customers which form the main source of funding for the banking sector, accounted for 72.5 percent of total funding liabilities. The deposit base grew by 13.7 percent from Ksh 1,760.2 billion in February 2013 to Ksh 2,001.0 billion in February 2014 largely supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

**Capital & Reserves**

The banking sector registered enhanced capital levels in February 2014 with total shareholders' funds growing by 18.9 percent from Ksh 376.9 billion in February 2013 to Ksh 448.0 billion in February 2014. Core capital and Total capital increased from Ksh 307.6 billion and Ksh. 352.5 billion to Ksh. 366.7 billion and Ksh. 426.7 billion respectively over the same period. However, the ratios of core and total capital to total risk-weighted assets declined from 20.2 percent and 23.1 percent in February 2013 to 16.0 percent and 18.6 percent respectively. The decline in capital adequacy ratios was as a result of increase in total risk weighted assets occasioned by the capital charge for market and operational risks that took effect from January 2014.

**Non-performing Loans**

The level of gross non-performing loans (NPLs) grew by 45.2 percent from Ksh 66.1 billion in February 2013 to Ksh 95.9 billion in February 2014. The increase in NPLs is partly attributed to high interest rates, reduced economic activities in 2013 and delayed payment from Government to contractors undertaking various Government projects across the country. Consequently, the ratio of gross NPLs to gross loans increased from 4.7 percent in February 2013 to 5.8 percent in February 2014. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 55.6 percent to 37.2 percent in February 2014 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 deteriorated from 1.7 percent in February 2013 to 3.0 percent in February 2014 (Table 5.1).

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

| | | 13-Feb | 14-Feb |
|---|---|---|---|
| 1 | Gross loans and advances | 1,395.70 | 1,646.00 |
| 2 | Interest in Suspense | 13.40 | 17.30 |
| 3 | Loans and advances (net of interest suspended) | 1,382.30 | 1,628.70 |
| 4 | Gross non-performing loans | 66.10 | 95.90 |
| 5 | Specific Provisions | 29.30 | 29.20 |
| 6 | General Provisions | 10.50 | 13.10 |
| 7 | Total Provisions (5+6) | 39.80 | 42.30 |
| 8 | Net Advances (3-7) | 1,342.50 | 1,586.30 |
| 9 | Total Non-Performing Loans and Advances (4-2) | 52.70 | 78.60 |
| 10 | Net Non-Performing Loans and Advances (9-5) | 23.40 | 49.40 |
| 11 | Total NPLs as % of total advances (9/3) | 3.80% | 4.80% |
| 12 | Net NPLs as % of gross advances (10/1) | 1.70% | 3.00% |
| 13 | Specific Provisions as % of Total NPLs (5/9) | 55.60% | 37.20% |

Source: Central Bank of Kenya

## Profitablility

The banking sector registered an increase of 6.6 percent growth in pre-tax profits, from Ksh 18.9 billion in February 2013 to Ksh 20.1 billion as at end of February 2014. The annualised return on assets declined from 3.8 percent to 3.4 percent over the same period. Similarly, return on equity declined from 30.0 percent to 26.9 percent over the same period. Total income increased by 12.5 percent from Ksh 55.2 billion in February 2013 to Ksh 62.1 billion in February 2014, while total expenses increased by 15.6 percent from Ksh 36.3 billion in February 2013 to Ksh 42.0 billion in February 2014. Interest on loans and advances, fees and commissions and government securities were the main sources of income accounting for 58.8 percent, 18.6 percent and 15.1 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 31.9 percent, 28.1 percent and 23.6 percent, respectively.

## Liquidity Ratio Requirement

For the month ended 28th February 2014, average liquid assets amounted to Ksh 775.2 billion while total short-term liabilities stood at Ksh 1,966.1 billion, resulting to an average liquidity ratio of 39.4 percent, against 41.9 percent registered in February 2013.

## Cash Ratio Requirement

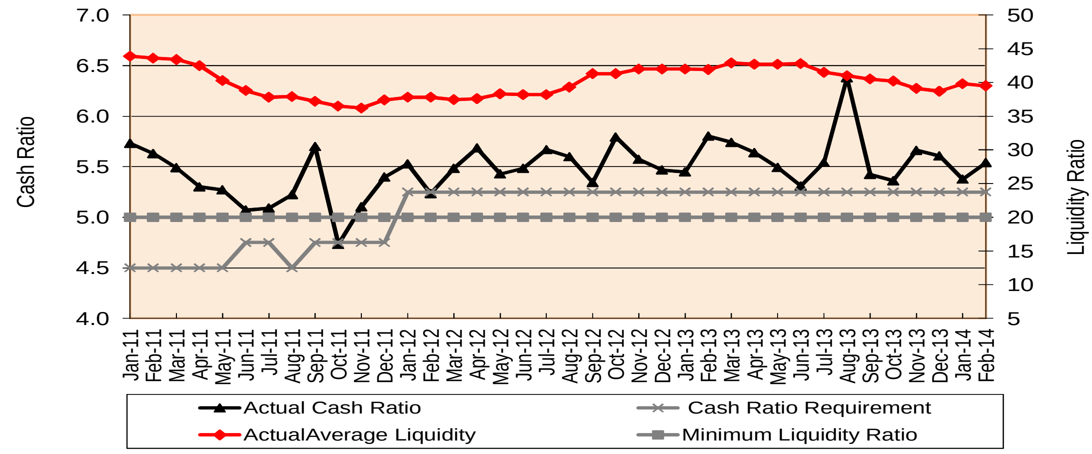
The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for reserve requirements averaged 5.54 percent in February 2014 compared with 5.38 percent in January 2014, and 5.25 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of Ksh 5.47 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in February 2014 compared with Ksh 2.46 billion in January 2014. 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* (%)**

| | 2013 | | | | | | | 2014 | |
|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | Mar | Jun | Jul | Nov | Dec | Jan | Feb |
| **Commercial Banks** | | | | | | | | | |
| Actual Average Liquidity | 42.00 | 41.90 | 42.90 | 42.80 | 41.50 | 39.10 | 38.70 | 39.80 | 39.50 |
| Minimum Liquidity Ratio | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 |
| Actual Cash Ratio - All Banks | 5.45 | 5.80 | 5.74 | 5.31 | 5.54 | 5.66 | 5.61 | 5.38 | 5.54 |
| Minimum Cash Ratio Requirement | 5.25 | 5.25 | 5.25 | 5.25 | 5.25 | 5.25 | 5.25 | 5.25 | 5.25 |
| **NBFIs** | | | | | | | | | |
| Actual Average Liquidity Ratio | 32.80 | 31.40 | 32.90 | 33.10 | 39.50 | 32.60 | 32.60 | 34.20 | 34.13 |
| Minimum Liquidity Ratio | 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 181,123 transaction messages worth Ksh 1,853 billion in February 2014 compared with a volume of 180,897 transaction messages valued at Ksh 1,904 billion moved in January 2014, representing a decrease of 2.66 percent in value and an increase of 0.12 percent in volume moved. Compared to February 2013, the volume increased by 25.56 percent from 144,248 transaction messages to 181,123 transaction messages in February 2014 while value increased by 19.69 percent from 1,548 billion to 1,853 billion, indicating increased uptake of KEPSS services by the public.

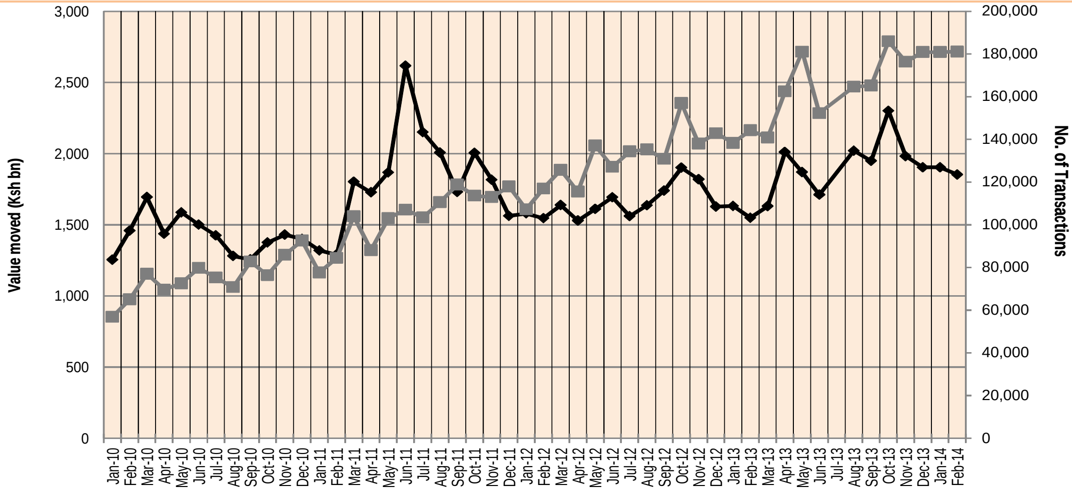
During the twelve months period to February 28, 2014 the value moved averaged Ksh 11 million per transaction. On average, 8,247 transaction messages with an average value of approximately Ksh 93 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks 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) | Per day Transactions |
|---|---|---|---|---|---|---|---|
| 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 |
| Oct-13 | 2,301 | 30 | 185,920 | 0.01 | 22 | 105 | 8,451 |
| Nov-13 | 1,982 | 29 | 176,330 | 0.01 | 21 | 94,381 | 8,397 |
| Dec-13 | 1,905 | 30 | 180,926 | 0.01 | 18 | 105,811 | 10,051 |
| Jan-14 | 1,904 | 31 | 180,897 | 0.01 | 22 | 86,546 | 8,223 |
| Feb-14 | 1,853 | 28 | 181,123 | 0.01 | 20 | 92,665 | 9,056 |

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 4.97 percent from 14,858 transaction messages in January 2014 to 15,596 transaction messages in February 2014 while single third party Message Type (MT 103) used for single credit transfers decreased by 0.02 percent from 192,905 transaction messages to 192,858 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 0.33 percent from 207,763 transaction messages in January 2014 to 208,454 transaction messages in February 2014.

Compared with February 2013, multiple third party messages (MT 102) increased by 25.72 percent from 12,405 transaction messages to 15,596 transaction messages in February 2014 while single third party messages (MT 103) increased by 24.14

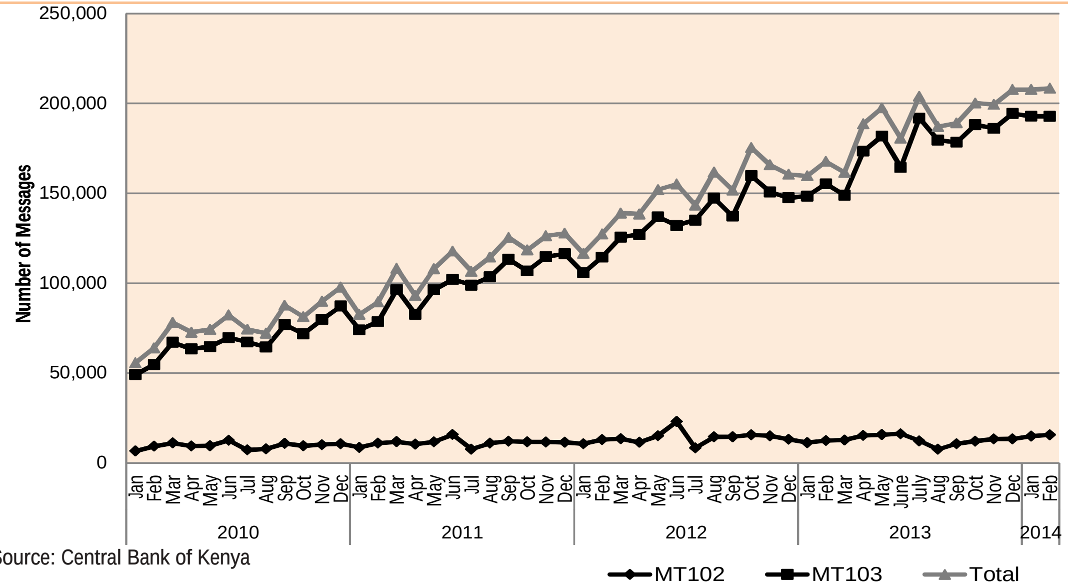
percent from 155,349 transaction messages to 192,858 transaction messages (Table 5.4 and Chart 5C).

**TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS**

| | | MT102 | MT103 | Total |
|---|---|---|---|---|
| 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 |
| | Oct | 12,087 | 188,162 | 200,249 |
| | Nov | 13,265 | 186,194 | 199,459 |
| | Dec | 13,328 | 194,427 | 207,755 |
| 2014 | Jan | 14,858 | 192,905 | 207,763 |
| | Feb | 15,596 | 192,858 | 208,454 |

Source: Central Bank of Kenya

**CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS**



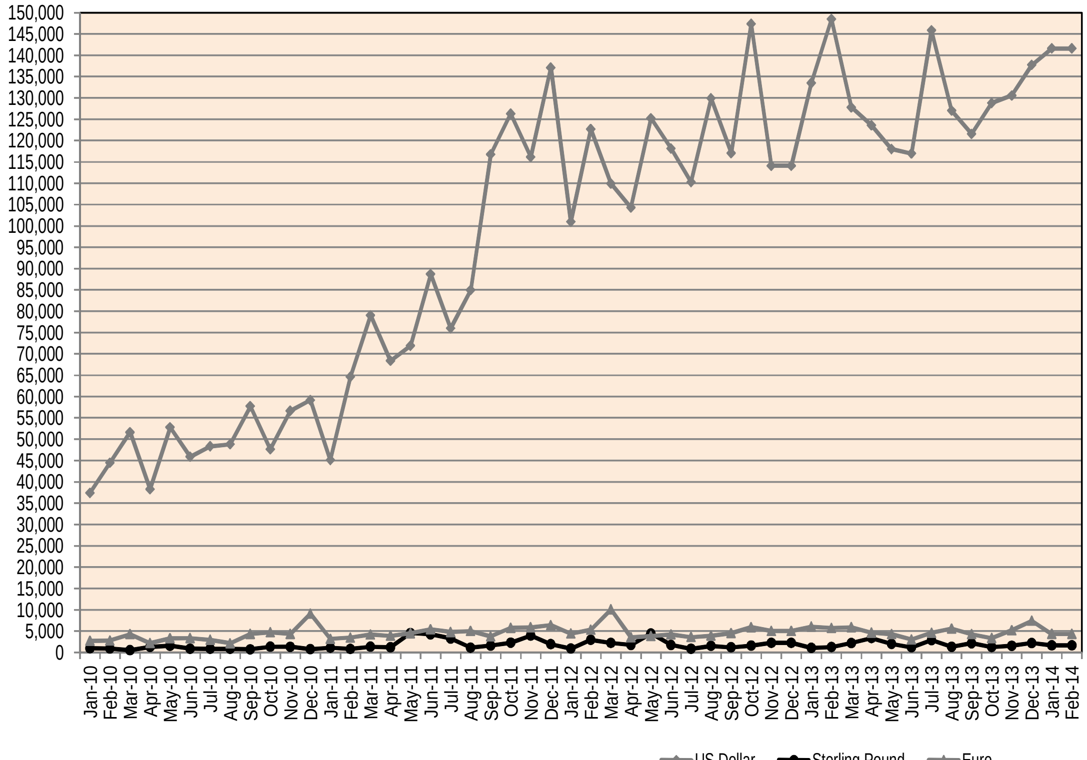

Source: Central Bank of Kenya

Inter-bank transfers (MT 202) accounted for 38.54 percent of the total value moved through KEPSS as at end of February 2014 while third party (MT 102 and MT 103) messages accounted for 61.46 percent. The total number of third party messages grew by 24.26 percent from 167,754 messages in February 2013 to 208,454 messages in February 2014. This signifies continued growth in KEPSS usage by individuals and non-bank corporate bodies.

**Domestic Foreign Currency**

Domestic Foreign Currency messages through KEPSS decreased by 1.10 percent from 15,493 transaction messages in January 2014 to 15,322 transaction messages in February 2014. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period increased by 10.11 percent from Ksh 147.6 billion to Ksh 162.5 billion. The US dollar denominated transactions accounted for 94.63 percent of the value moved (Chart 5D) while the Sterling Pound and the Euro accounted for 1.03 percent and 4.33 percent, respectively.

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




Source: Central Bank of Kenya

# Government Budget Performance

The Government budgetary operations for the period July 2013 to February 2014 of the FY 2013/14 resulted in a deficit of Ksh158.7 billion (3.8 percent of GDP) on commitment basis which was higher than the deficit of Ksh 150.0 billion incurred in the same period of the FY 2012/13 but within the Ksh 301.2 billion (4.0 percent of GDP) target for the period under review.

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

| | FY 2012/13 | FY 2013/14 | | |
|---|---|---|---|---|
| | February Actual | February Provisional | Target | Over (+) / below(-) Target |
| **1. TOTAL REVENUE & GRANTS** | **514.3** | **611.9** | **693.2** | **-81.3** |
| **Revenue** | **503.2** | **600.3** | **642.4** | **-42.1** |
| Tax Revenue | 450.2 | 547.3 | 574.1 | -26.8 |
| Non Tax Revenue | 23.1 | 33.5 | 22.4 | 11.1 |
| Appropriations-in-Aid | 29.9 | 19.5 | 45.9 | -26.4 |
| External Grants | 11.1 | 11.6 | 50.8 | -39.2 |
| **2. TOTAL EXPENSES & NET LENDING** | **664.3** | **770.6** | **994.4** | **-223.8** |
| Recurrent Expenses | 501.0 | 517.3 | 504.0 | 13.3 |
| Development Expenses | 163.3 | 162.1 | 301.0 | -138.9 |
| County Transfers | - | 91.2 | 189.4 | -98.2 |
| **3. DEFICIT ON A COMMITMENT BASIS (1-2)** | **-150.0** | **-158.7** | **-301.2** | **142.5** |
| As percent of GDP | -4.0 | | -4.8 | |
| **4. ADJUSTMENT TO CASH BASIS** | **0.00** | **0.0** | **0.0** | 0.0 |
| **5. DEFICIT ON A CASH BASIS** | **-150.0** | **-158.7** | **-301.2** | **142.5** |
| As percent of GDP | -4.0 | | **-4.8** | |
| **6. DISCREPANCY: Expenditure (+) / Revenue (** | **1.99** | **33.0** | **0.0** | |
| **7. FINANCING** | **152.1** | **125.7** | **301.3** | **-175.6** |
| Domestic (Net) | 131.6 | 105.0 | 65.6 | 39.4 |
| External (Net) | 20.5 | 20.7 | 235.7 | -215.0 |
| 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 amounted to Ksh 611.9 billion in the period July 2013– February 2014, representing an increase of Ksh 97.6 billion from Ksh 514.3 billion collected in a similar period of the FY 2012/13 (Table 6.2). However, most components underperformed except non tax revenue which exceeded the target by Ksh 11.1 billion (Table 6.1).

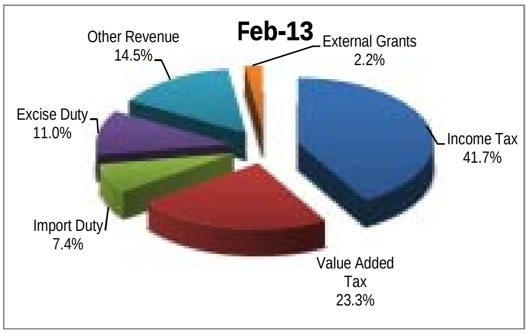
**TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)**

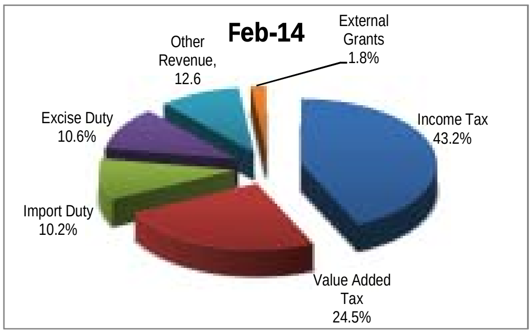
| | Feb-13 Ksh bn | Feb-14 Ksh bn | Change |
|---|---|---|---|
| **1. Revenue (2+3+4)** | **503.2** | **600.3** | **97.1** |
| 2. Tax Revenue | 450.2 | 547.3 | 97.1 |
| Income Tax | 214.7 | 264.2 | 49.5 |
| Value Added Tax | 119.7 | 149.4 | 29.7 |
| Import Duty | 37.9 | 62.5 | 24.6 |
| Excise Duty | 56.5 | 64.7 | 8.2 |
| Others | 21.4 | 6.5 | -14.9 |
| 3. Appropriations-in-Aid | 29.70 | 19.52 | -10.18 |
| 4. Other Revenue | 23.1 | 33.5 | 10.4 |
| 5. External Grants | 11.1 | 11.6 | 0.5 |
| **TOTAL RECEIPTS (1+5)** | **514.3** | **611.9** | **97.6** |

**Source: National Treasury**

Tax revenue grew by Ksh 97.1 billion, equivalent to 21.6 percent, from Ksh 450.2 billion collected for the period up to February of FY 2012/13 to Ksh 547.3 billion for a similar period of FY 2013/14 (Table 6.2). The increase was largely on account of income tax, which increased by Ksh 49.5 billion (23.1 percent) during the period. Excise, import duty and value added tax increased by Ksh 8.2 billion, Ksh 24.6 billion and Ksh 29.7 billion, respectively while other tax revenue declined by Ksh 14.9 billion during the period under review. All taxes except VAT, underperformed with respect to respective targets, which may suggest that the level of economic activity during this period was below expectation. The VAT may have performed well on account of implementation of the VAT law from September 1, 2013.

**CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS**




Source: National Treasury

## Expenditure and Net Lending

Government expenditure and net lending increased by Ksh 106.3 billion in the period July 2013– February 2014 from Ksh 664.3 billion expended during the same period in the FY 2012/13. Total expenditure during this period amounted to Ksh 770.6 billion, comprising Ksh 517.3 billion, Ksh 162.1 billion and Ksh 91.2 billion in recurrent expenditure, development expenditure and county transfers, respectively.

Recurrent expenditure increased by Ksh16.3 billion in the period under review of which Ksh 12.3 billion was in salaries and wages, Ksh 1.2 billion in other recurrent expenditures and Ksh 2.8 billion in interest payments. The increase in interest payments was wholly on domestic debt interest at Ksh 4.2 billion which offset Ksh 1.4 billion declines in foreign interest payments. The development expenditure declined by Ksh 1.2 billion and in relation to the target reflects Ksh 138.9 billion under absorption. Meanwhile, county transfers at Ksh 91.2 billion also underperformed by Ksh 98.2 billion compared to target of Ksh 189.4 billion (Table 6.1). The lower than projected absorption in the development budget and transfers to counties is attributed to slow absorption of funds from external sources and delay in completing the establishment of the institutional structures and legal framework at the Counties.

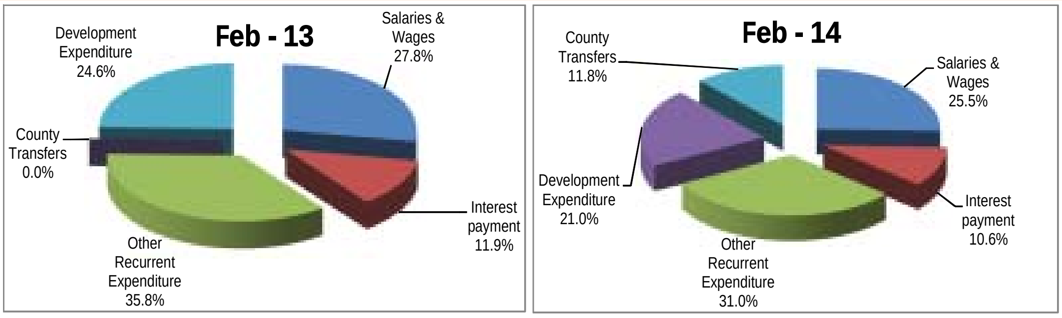
**TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)**

| | Feb-13 Ksh bn | Feb-14 Ksh bn | Movement |
|---|---|---|---|
| **1.Recurrent** | **501.0** | **517.3** | **16.3** |
| Salaries & Wages | 184.5 | 196.8 | 12.3 |
| Total Interest | 78.9 | 81.7 | 2.8 |
| of which:- | | | |
| Domestic* | 71.5 | 75.7 | 4.2 |
| Foreign interest due | 7.4 | 6.0 | -1.4 |
| Others | 237.6 | 238.8 | 1.2 |
| **2. Development** | **163.3** | **162.1** | **-1.2** |
| **3. County Transfers** | **0.0** | **91.2** | **91.2** |
| **TOTAL EXPENSES** | **664.3** | **770.6** | **106.3** |

*Includes commission and other charges paid to CBK

Source: National Treasury

### CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE




Source: National Treasury

**Financing**

Budgetary operations of the Government resulted in a financing requirement of Ksh 199.5 billion in the period July 2013 - February 2014 compared with Ksh 152.0 billion in the same period in 2012/13. The Government sourced the funds through domestic borrowing amounting to Ksh 178.9 billion and net external debt borrowing of Ksh 20.7 billion. The funds were allocated to bridge the Government budgetary deficit of Ksh 125.7 billion and Ksh 57.4 billion was held as government deposits (Table 6.4). The build-up of Government deposits in part mirror lower than budgeted uptake in development budget and County transfers.

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

| I. FINANCING REQUIREMENTS | Feb-13 | Feb-14 |
|---|---|---|
| 1. Budget deficit | 152.0 | 125.7 |
| 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 | 0.0 | 57.4 |
| 5. Adjustment to cash basis | 0.0 | 16.4 |
| TOTAL | 152.0 | 199.5 |
| **II. FINANCING SOURCES** | **Feb-13** | **Feb-14** |
| 1. Budget surplus | 0.0 | 0.0 |
| 2. External debt increase | 20.5 | 20.7 |
| 3. Increase in domestic debt | 91.2 | 178.9 |
| 3.1 Central Bank | 8.5 | 36.9 |
| 3.2 Commercial banks | 54.3 | 63.6 |
| 3.3 Non-bank sources | 28.3 | 78.3 |
| 4. Reduction in GoK deposits at CBK | 40.3 | 0.0 |
| 5. Privatisation proceeds (Net of Restructuring Costs) | 0.0 | 0.0 |
| TOTAL | 152.0 | 199.5 |

Sources: National Treasury and Central Bank of Kenya

**Government Borrowing from the Central Bank**

Government indebtedness to the Central Bank amounted to Ksh 73.3 billion in the period July 2013 – February 2014, which was Ksh 17.4 billion higher than the Ksh 55.9 billion in the same period of the FY 2012/13. The increase in Government liability to the Central Bank was attributed to holdings of rediscounted securities which increased by Ksh 9.8 billion over the period under review. Government overdraft at the Central Bank increased by Ksh 8.8 billion to Ksh 34.2 billion as at February 2014.

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

| | 2013 February | 2014 February | Movement |
|---|---|---|---|
| **Total Credit** | **55.9** | **73.3** | **17.4** |
| 1. Overdraft | 25.4 | 34.2 | 8.8 |
| 2. Rediscounted securities | 0.9 | 10.7 | 9.8 |
| Treasury bills | 0.5 | 10.7 | 10.2 |
| Treasury bonds | 0.4 | 0.0 | -0.4 |
| 3. Pre-1997 Government Overdraft at CBK | 29.5 | 28.3 | -1.2 |
| 4. IMF funds onlent to Government | 0.0 | 0.0 | 0.0 |
| 5. Cleared items in transit | 0.1 | 0.0 | -0.1 |
| **Memorandum** | | | |
| Authorised overdraft limit | 25.4 | 34.2 | 8.8 |
| Amount utilised to date | 25.4 | 34.2 | 8.8 |
| Amount available | 0.0 | 0.0 | 0.0 |

Source: Central Bank of Kenya

## Outlook for FY 2013/14

In the revised budget estimates for the FY 2013/14, ordinary revenue is estimated at Ksh 950.5 billion (25.2 percent of GDP) while external grants are estimated at Ksh 78.9 billion (2.4 percent of GDP). Government expenditure is estimated at Ksh 1,470.6 billion (or 38.9 percent of GDP), of which, Ksh 821.9 billion (21.8 percent of GDP) will be in recurrent expenses, transfer to the county government of Ksh 193.5 billion and the rest in development expenses (Table 6.6).

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

| | Ksh (Bn) | % of GDP |
|---|---|---|
| **1. TOTAL REVENUE** | **1,097.64** | **29.07** |
| Ordinary Revenue | 950.50 | 25.17 |
| Appropriations-in-Aid | 68.23 | 1.81 |
| External Grants | 78.91 | 2.09 |
| **2. TOTAL EXPENSES & NET LENDING** | **1,470.61** | **38.94** |
| Recurrent Expenses | 821.89 | 21.76 |
| Development Expenses | 455.26 | 12.06 |
| County Transfer | 193.47 | 5.12 |
| **3. DEFICIT ON A COMMITMENT BASIS (1-2)** | **(372.97)** | **(9.88)** |
| **4. ADJUSTMENT TO CASH BASIS** | **0.00** | **0.00** |
| **5. DEFICIT ON A CASH BASIS** | **(372.97)** | **(9.88)** |
| **6. DISCREPANCY: Expenditure (+) / Revenue (-)** | **0.00** | **0.00** |
| **7. FINANCING** | **372.97** | **9.88** |
| Domestic (Net) | 134.68 | 3.57 |
| External (Net) | 238.29 | 6.31 |

Source: Central Bank of Kenya

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 373 billion (or 9.9 percent of GDP) in 2013/14. The deficit is expected to be financed through net external borrowing of Ksh 238.3 billion and net domestic borrowing of Ksh 134.7 billion.

# Developments in Public Debt

### Overall Debt

Kenya's public and publicly guaranteed debt increased by 12.0 percent to reach Ksh 2,121.6 billion in February 2014, from Ksh 1,894.1 billion in June 2013. The total debt stock at the end of February 2014 was equivalent to 56.2 percent of GDP, compared with 51.7 percent of GDP in June 2013. The debt to GDP ratios for both domestic and external debts increased from 28.7 percent and 23.0 percent, respectively, in June 2013 to 32.6 percent and 23.6 percent in February 2014 (Table 7.1). The increase in total public debt to GDP ratio is largely therefore, in the domestic debt component.

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

| | Jun-12 | Dec-12 | May-13 | Jun-13 | Jul-13 | Aug-13 | Sep-13 | Oct-13 | Nov-13 | Dec-13 | Jan-14 | Feb-14 | Change 2013/14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bilateral | 246.2 | 265.4 | 254.8 | 257.6 | 270.6 | 272.0 | 270.0 | 273.9 | 283.7 | 284.9 | 284.2 | 244.2 | -13.4 |
| Multilateral | 452.9 | 482.7 | 504.2 | 511.8 | 529.1 | 539.8 | 544.1 | 539.9 | 553.3 | 562.6 | 561.7 | 573.3 | 61.5 |
| Commercial Banks | 50.5 | 58.4 | 58.3 | 58.9 | 59.9 | 60.1 | 59.6 | 58.7 | 59.5 | 59.1 | 59.0 | 59.1 | 0.2 |
| Supplier Credits | 14.8 | 15.5 | 15.0 | 15.2 | 15.6 | 15.6 | 15.6 | 15.5 | 15.8 | 15.8 | 15.6 | 15.7 | 0.5 |
| Sub-Total | **764.5** | **822.0** | **832.24** | **843.56** | **875.23** | **887.54** | **889.31** | **887.99** | **912.23** | **922.37** | **920.41** | **892.30** | **48.76** |
| **(As a % of GDP)** | 23.56 | 22.7 | 22.7 | 23.0 | 23.6 | 23.5 | 22.9 | 22.9 | 23.5 | 23.8 | 23.7 | 23.6 | |
| **(As a % of total debt)** | 47.1 | 45.8 | 43.6 | 44.5 | 44.8 | 44.3 | 43.2 | 43.0 | 43.8 | 43.7 | 43.4 | 42.1 | |
| **DOMESTIC/[1]** | | | | | | | | | | | | | |
| **Banks** | **459.2** | **542.9** | **595.9** | **563.5** | **573.7** | **593.7** | **618.3** | **612.8** | **609.2** | **627.6** | **633.4** | **664.4** | **100.9** |
| Central Bank | 47.4 | 56.8 | 64.0 | 36.4 | 47.7 | 64.7 | 63.6 | 57.4 | 67.2 | 64.6 | 56.6 | 73.3 | 36.9 |
| Commercial Banks | 411.9 | 486.1 | 531.8 | 527.1 | 526.0 | 528.9 | 554.7 | 555.4 | 542.0 | 563.0 | 576.8 | 591.1 | 64.0 |
| **Non-banks** | **388.5** | **418.5** | **469.0** | **477.5** | **496.1** | **513.8** | **540.2** | **551.6** | **550.6** | **551.3** | **557.0** | **553.2** | **75.7** |
| Pension Funds | 193.2 | 195.7 | 256.6 | 263.1 | 272.4 | 281.7 | 289.5 | 284.9 | 288.2 | 294.1 | 306.0 | 304.8 | 41.7 |
| Insurance Companies | 92.4 | 98.9 | 109.3 | 108.6 | 111.9 | 115.9 | 117.2 | 117.8 | 117.6 | 114.4 | 116.6 | 117.3 | 8.7 |
| Other Non-bank Sources | 103.0 | 123.9 | 103.1 | 105.9 | 111.8 | 116.1 | 133.5 | 149.0 | 144.8 | 142.8 | 134.4 | 131.1 | 25.2 |
| **Non-residents** | **11.0** | **10.1** | **10.0** | **9.6** | **8.9** | **9.2** | **9.7** | **10.3** | **10.3** | **10.3** | **10.5** | **11.7** | **2.1** |
| **Sub-Total** | **858.8** | **971.4** | **1074.8** | **1050.6** | **1078.6** | **1116.7** | **1168.2** | **1174.8** | **1170.1** | **1189.2** | **1200.9** | **1229.3** | **178.7** |
| | 26.47 | 26.9 | 29.3 | 28.7 | 29.1 | 29.5 | 30.1 | 30.3 | 30.2 | 30.7 | 31.0 | 32.6 | |
| | 52.9 | 54.2 | 56.4 | 55.5 | 55.2 | 55.7 | 56.8 | 57.0 | 56.2 | 56.3 | 56.6 | 57.9 | |
| **GRAND TOTAL** | **1623.4** | **1793.4** | **1907.0** | **1894.1** | **1953.8** | **2004.2** | **2057.5** | **2062.8** | **2082.3** | **2111.6** | **2121.3** | **2121.6** | **227.5** |
| **(As a % of GDP)** | 50.0 | 49.6 | 52.1 | 51.7 | 52.7 | 53.0 | 53.1 | 53.2 | 53.7 | 54.5 | 54.7 | 56.2 | |

**Sources: National Treasury and Central Bank of Kenya**

### Domestic Debt

Total domestic debt increased by Ksh 178.8 billion in the first eight months of FY 2013/14 to reach Ksh 1,229.4 billion in February 2014. This was largely as a result of increases of Ksh 99.4 billion in Treasury bonds, Ksh 50.1 billion in Treasury bills and Ksh 27.2 billion in Government overdraft at the Central Bank (Table 7.2). Consequently, domestic debt-to-total debt ratio increased from 55.5 percent in June, 2013 to 57.9 percent in February, 2014, while domestic debt-to-GDP edged up to 32.6 percent in February, 2014, from 28.7 percent in June, 2013 (Table 7.1).

### TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

| | 2013 | | | | | | | | | | 2014 | | | | Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | % | Feb | % | June | % | July | % | Dec | % | Jan | % | Feb | % | Jun-13 -Feb-14 |
| **Total Stock of Domestic Debt (A+B)** | **978.3** | **100.0** | **943.8** | **100.0** | **1,050.6** | **100.0** | **1,078.6** | **100.0** | **1,189.2** | **100.0** | **1,200.9** | **100.0** | **1,229.4** | **100.0** | **178.8** |
| **A. Government Securities** | **948.6** | **97.0** | **911.4** | **96.6** | **1,040.8** | **99.1** | **1,060.4** | **98.3** | **1,152.4** | **96.9** | **1,175.9** | **97.9** | **1,189.7** | **96.8** | **149.0** |
| **1. Treasury Bills (excluding Repo Bills)** | **203.5** | **20.8** | **164.7** | **17.5** | **267.7** | **25.5** | **254.8** | **23.6** | **307.3** | **25.8** | **316.3** | **26.3** | **317.8** | **25.9** | **50.1** |
| Banking institutions | 147.1 | 15.0 | 108.9 | 11.5 | 183.5 | 17.5 | 179.1 | 16.6 | 191.1 | 16.1 | 193.1 | 16.1 | 204.4 | 16.6 | 20.9 |
| Others | 56.5 | 5.8 | 55.8 | 5.9 | 84.2 | 8.0 | 75.7 | 7.0 | 116.2 | 9.8 | 123.2 | 10.3 | 113.4 | 9.2 | 29.2 |
| **2. Treasury Bonds** | **715.6** | **73.1** | **717.2** | **76.0** | **744.2** | **70.8** | **776.7** | **72.0** | **816.3** | **68.6** | **831.3** | **69.2** | **843.6** | **68.6** | **99.4** |
| Banking institutions | 343.5 | 35.1 | 343.0 | 36.3 | 341.0 | 32.5 | 344.3 | 31.9 | 369.5 | 31.1 | 381.4 | 31.8 | 391.6 | 31.9 | 50.6 |
| Pension Funds | | | | | 220.1 | 21.0 | 229.8 | 21.3 | 230.9 | 19.4 | 233.4 | 19.4 | 235.1 | 19.1 | 15.0 |
| Others | 372.1 | 38.0 | 374.2 | 39.6 | 183.0 | 17.4 | 202.6 | 18.8 | 215.9 | 18.2 | 216.5 | 18.0 | 216.9 | 17.6 | 33.9 |
| **4. Non-Interest Bearing Debt** | **29.5** | **3.0** | **29.5** | **3.1** | **28.9** | **2.7** | **28.9** | **2.7** | **28.9** | **2.4** | **28.3** | **2.4** | **28.3** | **2.3** | **(0.6)** |
| Of which: Repo T/Bills | 27.8 | 2.8 | 29.4 | 3.1 | 28.9 | 2.8 | 28.8 | 2.7 | 28.8 | 2.4 | 28.3 | 2.4 | 28.3 | 2.3 | (0.6) |
| **B. Others:** | **29.7** | **3.0** | **32.3** | **3.4** | **9.8** | **0.9** | **18.2** | **1.7** | **36.7** | **3.1** | **25.0** | **2.1** | **39.7** | **3.2** | **29.9** |
| Of which CBK overdraft to Government | 25.4 | 2.6 | 25.4 | 2.7 | 7.0 | 0.7 | 20.5 | 1.9 | 34.2 | 2.9 | 22.5 | 1.9 | 34.2 | 2.8 | 27.2 |

**Source: Central Bank of Kenya**

**Treasury Bills**

Treasury bill holdings, excluding repos, increased by Ksh 50.1 billion from Ksh 267.7 billion in June 2013 to Ksh 317.8 billion in December 2013 (Table 7.2). As a result, the proportion of Treasury bills in total domestic debt increased to 25.9 percent in February 2014, from 25.5 percent in June 2013. The dominant investors were commercial banks and pension funds, with shares of 61 percent and 21.9 percent respectively, by February 2014, compared with shares of 68.5 percent and 16 percent as at June 2013 (Table 7.3).

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

| | 2013 | | | | | | | | | | 2014 | | | | Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Holders | Jan | % | Feb | % | Mar | % | Jun | % | Dec | % | Jan | % | Feb | % | Jun 13-Feb 14 |
| Banking Institutions | 183.5 | 68.5 | 5.8 | 38.4 | 5.9 | 51.3 | 6.9 | 68.5 | 191.1 | 62.2 | 193.1 | 61.0 | 204.4 | 64.3 | 128.9 |
| 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 | 10.7 | 3.3 | 10.7 |
| Comm. Banks | 183.5 | 68.5 | 5.8 | 38.4 | 5.9 | 51.2 | 6.9 | 68.5 | 191.1 | 62.2 | 193.1 | 61.0 | 193.7 | 61.0 | 118.2 |
| NBFIs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Insurance Companies | 14.9 | 5.6 | 12.4 | 82.6 | 12.6 | 108.8 | 14.9 | 5.6 | 20.5 | 6.7 | 19.7 | 6.2 | 20.2 | 6.4 | 13.0 |
| Parastatals | 5.6 | 2.1 | 3.1 | 20.6 | 1.6 | 13.9 | 5.6 | 2.1 | 4.1 | 1.3 | 4.0 | 1.3 | 4.3 | 1.4 | -1.6 |
| Building Societies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pension Funds | 42.9 | 16.0 | 22.7 | 150.8 | 25.7 | 222.3 | 42.9 | 16.0 | 69.9 | 22.7 | 72.5 | 22.9 | 69.7 | 21.9 | 41.0 |
| Others | 20.8 | 7.8 | -28.9 | -192.4 | -34.2 | -296.3 | -52.9 | 7.8 | 21.7 | 7.1 | 26.9 | 8.5 | 19.2 | 6.0 | -0.3 |
| Total | 267.7 | 100.0 | 15.0 | 100.0 | 11.5 | 100.0 | 17.4 | 100.0 | 307.3 | 100.0 | 316.3 | 100.0 | 317.8 | 100.0 | 185.8 |

**Source: Central Bank of Kenya**

**Treasury Bonds**

Outstanding Treasury bonds increased by Ksh 99.4 billion, from Ksh 744.2 billion in June 2013 to Ksh 843.6 billion in February 2014. The proportion of bonds to total domestic debt declined from 70.8 percent in June 2013 to 68.6 percent in February 2014 following increased acquisition of Treasury bills and access of the overdraft facility by Government (Table 7.2). The increase in the holding of Treasury bonds was as follows: Ksh 50.6 billion, Ksh 15.0 billion, Ksh 3.5 billion and Ksh 33.8 billion absorbed by commercial banks, pension funds, insurance companies and other holders, respectively. Parastatals and building society holdings declined by Ksh 3.3 billion and Ksh 0.1 billion, respectively, while the Treasury bonds held by non-bank financial institutions remained unchanged during the period. The shares of Treasury bonds held by commercial banks and other holders increased from 45.8 percent and 6.2 percent to 46.4 percent and 9.3 percent, respectively. However, the shares held by insurance companies, parastatals and pension funds declined from 12.6 percent, 5.7 percent and 29.6 percent in June 2013 to 11.5 percent, 4.7 percent and 27.9 percent, respectively in February 2014. Meanwhile, the share held by building societies and non-bank financial institutions remained unchanged during the period (Table 7.4)

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

| Holders | 2013 | | | | | | | | | | 2014 | | | | Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | % | Feb | % | Mar | % | June | % | Dec | % | Jan | % | Feb | % | Jun 13-Feb 14 |
| Banking Institutions | 21.1 | 12.3 | 38.4 | 20.8 | 40.0 | 21.2 | 341.2 | 45.9 | 369.7 | 45.3 | 381.5 | 45.9 | 391.6 | 46.4 | 50.4 |
| 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 | 0.0 | 0.0 | 0.0 |
| Comm. Banks | 20.7 | 12.1 | 38.0 | 20.6 | 39.6 | 21.0 | 341.0 | 45.8 | 369.5 | 45.3 | 381.4 | 45.9 | 391.6 | 46.4 | 50.6 |
| NBFIs | 0.4 | 0.2 | 0.4 | 0.2 | 0.4 | 0.2 | 0.2 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0 | 0.0 |
| Insurance Companies | 88.0 | 51.5 | 90.9 | 49.1 | 93.2 | 49.4 | 93.7 | 12.6 | 96.7 | 11.8 | 96.9 | 11.7 | 97.2 | 11.5 | 3.5 |
| Parastatals | 43.4 | 25.4 | 43.4 | 23.5 | 43.0 | 22.8 | 42.7 | 5.7 | 39.4 | 4.8 | 39.2 | 4.7 | 39.4 | 4.7 | -3.3 |
| Of which: NSSF | 22.7 | 13.3 | 22.7 | 12.3 | 22.7 | 12.0 | 22.7 | 3.1 | 21.2 | 2.6 | 21.2 | 2.5 | 21.2 | 2.5 | -1.5 |
| Building Societies | 0.6 | 0.4 | 0.6 | 0.3 | 0.6 | 0.3 | 0.6 | 0.1 | 0.5 | 0.1 | 0.5 | 0.1 | 0.5 | 0.1 | -0.1 |
| Pension Funds | 171.0 | 100.0 | 184.9 | 100.0 | 188.9 | 100.0 | 220.1 | 29.6 | 230.9 | 28.3 | 233.4 | 28.1 | 235.1 | 27.9 | 15.0 |
| Others | -306.4 | -179.2 | -358.1 | -193.7 | -365.8 | -193.7 | 45.8 | 6.2 | 79.1 | 9.7 | 79.7 | 9.6 | 79.6 | 9.3 | 33.8 |
| Total | 17.7 | 10.3 | 0.0 | 0.0 | 0.0 | 0.0 | 744.2 | 100.0 | 816.3 | 100.0 | 831.3 | 100.0 | 843.6 | 100.0 | 99.4 |

**Source: Central Bank of Kenya**

## Domestic Debt Maturity structure

Total domestic debt as at February 2014 amounted to Ksh 1,229.3 billion with Treasury bonds and bills accounting for 96.8 percent of the debt (Table 7.2). In terms of maturity structure, Government securities worth Ksh 125.1 billion will fall due between March and April 2014, and will comprise Ksh 121.8 billion and Ksh 3.3 billion in Treasury bills and Treasury bonds, respectively. Treasury bill maturities in the period will comprise Ksh 22.9 billion, Ksh 22.1 billion and Ksh 106.8 billion in 91-day, 182-day and 364-day Treasury bills, respectively, while Treasury bonds maturing during this period will comprise Ksh 6.4 billion in the 2–year fixed rate Treasury bond.

The average length of maturity of existing domestic debt declined to four years and eleven months in February, 2014, from 5 years and 2 months in June 2013.

**TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)**

| | | 2013 | | | | | | | | | | 2014 | | | | Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Jan | % | Feb | % | Mar | % | Jun | % | Dec | % | Jan | % | Feb | % | Jun-13 to Jan-14 |
| Treasury bills | 91-Day | 51.6 | -201.4 | 32.9 | -130.6 | 34.2 | -135.0 | 36.2 | 3.4 | 30.3 | 2.5 | 30.8 | 2.6 | 29.4 | 2.4 | -6.8 |
| | 182-Day | 95.3 | -372.0 | 79.0 | -313.2 | 72.4 | -286.1 | 52.2 | 5.0 | 47.6 | 4.0 | 55.0 | 4.6 | 57.4 | 4.7 | 5.2 |
| | 364-Day | 56.6 | -221.0 | 52.8 | -209.2 | 80.0 | -316.1 | 179.3 | 17.1 | 229.4 | 19.3 | 230.5 | 19.2 | 230.9 | 18.8 | 51.6 |
| Treasury Bonds | 1.5-Year | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | 2-Year | 115.6 | -451.3 | 121.8 | -483.0 | 141.8 | -560.2 | 122.0 | 11.6 | 140.8 | 11.8 | 140.8 | 11.7 | 140.9 | 11.5 | 18.9 |
| | 3-Year | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | 4-Year | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 19.1 | 1.8 | 25.1 | 2.1 | 25.1 | 2.1 | 29.9 | 2.4 | 10.8 |
| | 5-Year | 122.2 | -477.0 | 122.2 | -484.4 | 122.2 | -482.8 | 138.4 | 13.2 | 127.0 | 10.7 | 127.0 | 10.6 | 141.4 | 11.5 | 3.0 |
| | 6-Year | 51.6 | -201.4 | 51.6 | -204.5 | 51.6 | -203.9 | 40.7 | 3.9 | 40.7 | 3.4 | 40.7 | 3.4 | 40.7 | 3.3 | 0.0 |
| | 7-Year | 19.3 | -75.3 | 19.3 | -76.5 | 19.3 | -76.2 | 19.3 | 1.8 | 17.0 | 1.4 | 17.0 | 1.4 | 17.0 | 1.4 | -2.3 |
| | 8-Year | 17.6 | -68.7 | 17.6 | -69.8 | 17.6 | -69.6 | 31.8 | 3.0 | 38.7 | 3.3 | 38.7 | 3.2 | 40.9 | 3.3 | 9.1 |
| | 9-Year | 18.2 | -70.9 | 18.2 | -72.1 | 18.2 | -71.8 | 18.2 | 1.7 | 18.2 | 1.5 | 18.2 | 1.5 | 18.2 | 1.5 | 0.0 |
| | 10-Year | 101.0 | -394.3 | 101.0 | -400.5 | 112.1 | -442.8 | 109.4 | 10.4 | 116.1 | 9.8 | 131.1 | 10.9 | 131.1 | 10.7 | 21.7 |
| | 11-Year | 4.0 | -15.7 | 4.0 | -16.0 | 4.0 | -15.9 | 4.0 | 0.4 | 4.0 | 0.3 | 4.0 | 0.3 | 4.0 | 0.3 | 0.0 |
| | 12-Year | 63.5 | -247.9 | 63.5 | -251.8 | 63.5 | -250.9 | 30.2 | 2.9 | 54.7 | 4.6 | 54.7 | 4.6 | 45.4 | 3.7 | 15.2 |
| | 15-Year | 96.5 | -376.8 | 102.4 | -406.0 | 102.4 | -404.6 | 119.8 | 11.4 | 127.3 | 10.7 | 127.3 | 10.6 | 142.9 | 11.6 | 23.1 |
| | 20-Year | 38.1 | -148.9 | 38.1 | -151.2 | 38.1 | -150.7 | 49.0 | 4.7 | 49.0 | 4.1 | 49.0 | 4.1 | 49.0 | 4.0 | 0.0 |
| | 25-Year | 20.2 | -78.8 | 20.2 | -80.0 | 20.2 | -79.8 | 20.2 | 1.9 | 20.2 | 1.7 | 20.2 | 1.7 | 20.2 | 1.6 | 0.0 |
| | 30-Year | 22.1 | -86.4 | 22.1 | -87.7 | 22.1 | -87.5 | 22.1 | 2.1 | 22.1 | 1.9 | 22.1 | 1.8 | 22.1 | 1.8 | 0.0 |
| | Repo T bills | 29.78 | -116.2 | 29.38 | -116.5 | 29.38 | -116.1 | 28.9 | 2.8 | 28.83 | 2.4 | 28.83 | 2.4 | 28.30 | 2.3 | -0.6 |
| | Overdraft | 25.37 | -99.0 | 25.37 | -100.6 | 25.37 | -100.2 | 7.0 | 0.7 | 27.98 | 2.4 | 27.98 | 2.3 | 27.98 | 2.3 | 21.0 |
| | Other Domestic debt | -25.62 | 100.0 | -25.23 | 100.0 | -25.31 | 100.0 | 2.79 | 0.3 | 24.16 | 2.0 | 11.85 | 1.0 | 11.85 | 1.0 | 9.1 |
| Total Debt | | 948.63 | -3702.6 | 911.40 | -3612.8 | 949.24 | -3750.1 | 1050.56 | 100.0 | 1189.18 | 100.0 | 1200.90 | 100.0 | 1229.30 | 100.0 | |

**Source: Central Bank of Kenya**

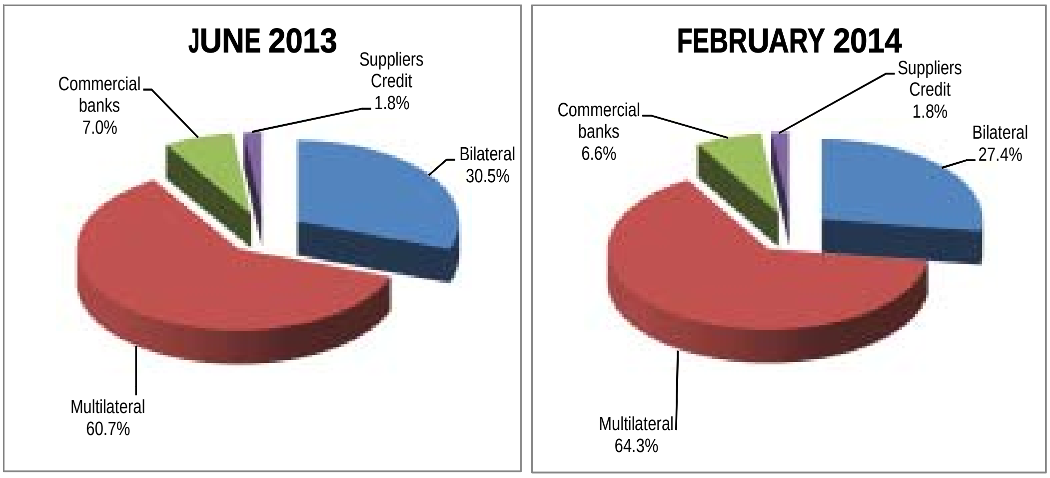
**External Debt**

Kenya's public and publicly guaranteed external debt increased by Ksh 48.76 billion to Ksh 892.3 billion (USD 10.3 billion), at the end of February in FY 2013/14, from Ksh 843.6 billion (USD 9.8 billion) in June 2013 (Table 7.1). The amount of total external debt to the central government was Ksh 892.3 billion (USD 10.3 billion), while the rest was to Parastatals, guaranteed by the government. The African Development Bank (ADB) and International Development Association (IDA) collectively accounted for Ksh 39.9 billion of the multilateral debt increase, while France and China accounted for Ksh 11.6 billion and Ksh 11.3 billion, respectively, of the increase in bilateral debt. These increases were largely due to additional disbursements and exchange rate revaluations during the period. Japan's contribution to the bilateral debt reduced by Ksh 4.2 billion during the period under review.

**Composition of External Debt by Creditor**

Kenya's official external creditors, the multilateral and bilateral lenders, accounted for 42.1 percent of total public and publicly guaranteed external debt by February 2014. The proportion of external debt owed to multilateral lenders increased from 60.7 percent in June 2013 to 64.3 percent in February 2014 while that owed to commercial banks and bilateral lenders declined from 7.0 percent and 30.5 percent in June 2013 to 6.6 percent and 27.4 percent in February 2014 (Chart 7A).

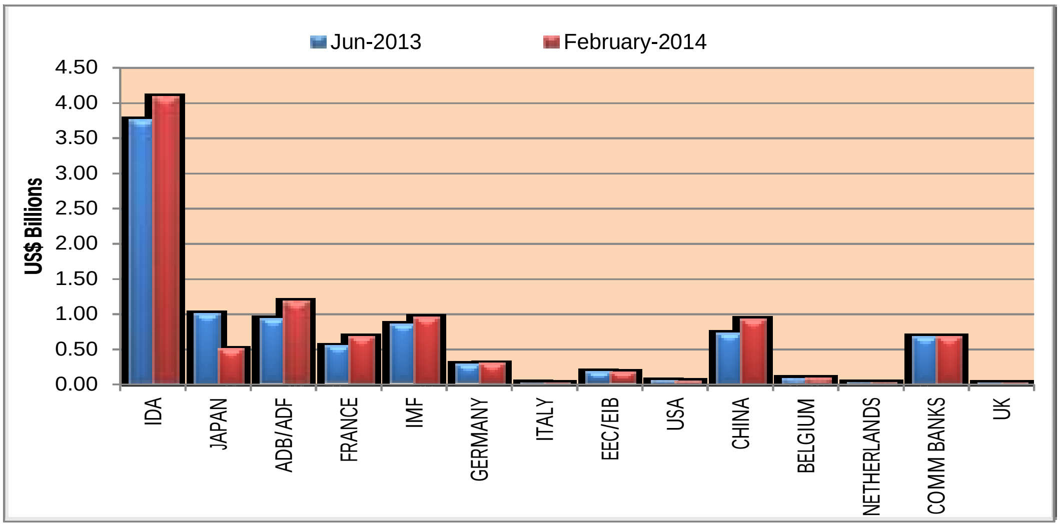
**CHART 7A: COMPOSITION OF EXTERNAL DEBT**




Source: National Treasury

Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 4.1 billion or 39.8 percent of total external debt while that owed to China, Kenya's largest bilateral lender, amounted to USD 1.0 billion at the end of February 2014 (Chart 7B).

**CHART 7B: EXTERNAL DEBT BY CREDITOR**

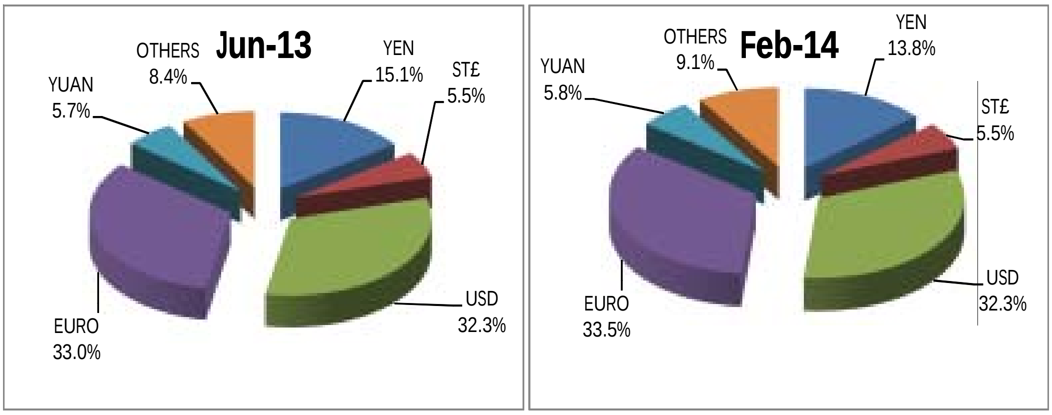



Source: National Treasury

**Currency Composition of External Debt**

External debt held in the Euro, Yuan and in 'other currencies', which includes currencies from non-Paris club countries such as Korea, China, Kuwait and Saudi Arabia, increased from 33.0 percent, 5.7 percent and 8.4 percent of total external debt, respectively, in June 2013 to 33.5 percent, 5.8 percent and 9.1 percent in February 2014. Debt held in Japanese Yen declined from 15.1 percent to 13.8 percent during the same period. The proportion of debt held in the sterling pound and US dollar remained constant at 5.5 percent and 32.3 percent, respectively (Chart 7C).

**CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY**




Source: National Treasury

**Public Debt Service**

Cumulative interest and other charges on domestic debt for the period July 2013 to February, 2014 in the FY 2013/14 amounted to Ksh 73.5 billion compared with Ksh 71.6 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 11.4 billion and Ksh 62 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 0.5 billion and Ksh 1.2 billion, respectively. External debt service for the period July 2013 – February 2014 amounted to Ksh 2.3 billion, comprising Ksh 1.9 billion in principal repayments, and Ksh 0.4 billion in interest payments.

**Performance for the FY 2013/14**

In the fiscal year 2013/14, external debt is estimated at Ksh 900.8 billion while gross and net domestic debt are estimated at Ksh 996.0 billion (26.4 percent of GDP) and Ksh 844.1 billion (22.4 percent of GDP), respectively.

# Activity in the Stock Market

The stock market recorded mixed performances in the equities and bonds market segments in February 2014. On average, equity prices recovered after a two months decline since November 2013. Foreign investor participation improved slightly, but remained on the sale side for the third month in a row.

## Equity Market

The NSE 20 Share Index closed 77.26 points higher in February 2014 at 4,933.41 points from 4,856.15 points in January 2014 and NASI increased to 141.05 points from 134.66 points (Chart 8A and Table 8.1). Market Capitalization gained Ksh 62.55 billion, to close at Ksh 1,950.55 billion. Equities turnover declined to Ksh 14,742.87 in February 2014 million from Ksh 15,970.23 million due to lower shares supply, which stood at 545 million. Shareholder wealth measured by market capitalization's rebounded to Ksh 1.9 trillion range reflecting the higher share prices (Chart 8A).

**TABLE 8.1: SELECTED STOCK MARKET INDICATORS**

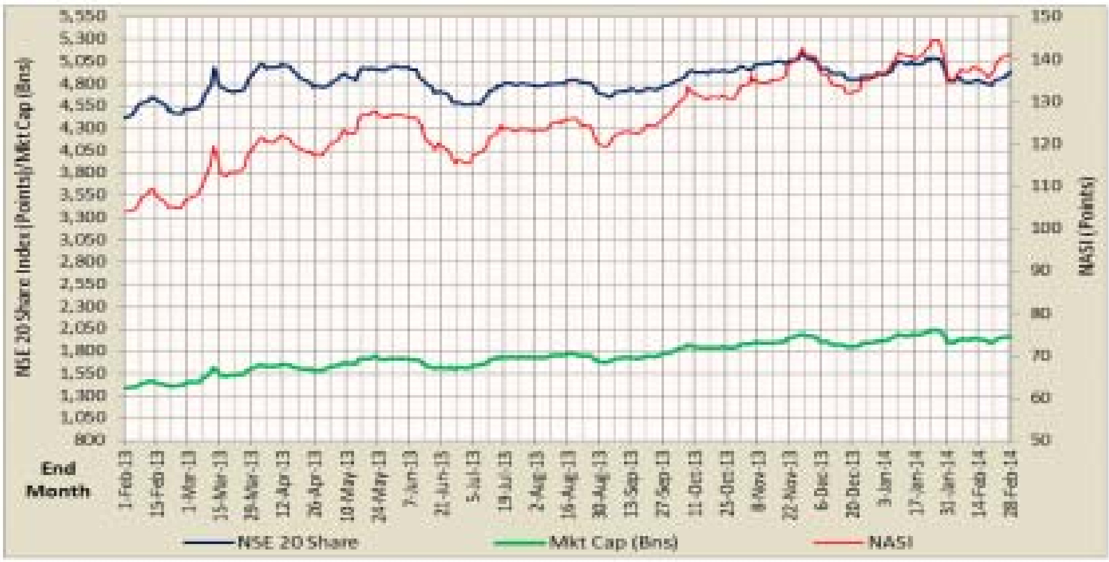
| Period (Month) | NSE 20 Share Index (1966=100) | NASI (2008=100) | Number of Shares Traded ( Millions) | Equities Turnover (Ksh Millions) | Market Capitalization (Ksh Billions) | Bond Turnover (Ksh Millions) | FP to Equity Turnover | FS to Equity Turnover | Overall net FP to Equity Turnover |
|---|---|---|---|---|---|---|---|---|---|
| Dec-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% |
| Oct-13 | 4,992.88 | 133.24 | 804.51 | 15,937.19 | 1,873.66 | 51,674.82 | 64.28% | 47.19% | 55.73% |
| Nov-13 | 5,100.88 | 141.17 | 645.20 | 13,128.66 | 1,975.00 | 27,310.57 | 48.21% | 41.47% | 44.84% |
| Dec-13 | 4,926.97 | 136.65 | 466.25 | 11,329.23 | 1,920.72 | 23,695.80 | 54.95% | 61.04% | 57.99% |
| Jan-14 | 4,856.15 | 134.66 | 638.48 | 15,970.23 | 1,898.00 | 42,549.39 | 48.28% | 53.77% | 51.03% |
| Feb-14 | 4,933.41 | 141.05 | 545.32 | 14,745.87 | 1,960.55 | 27,671.60 | 47.52% | 57.72% | 52.62% |

**Source: Nairobi Securities Exchange**

Foreign Investors dominated the NSE, with overall net participation as a percent of total equity turnover at 52.62 percent in February 2014 from 51.03 percent in January 2014. Foreign purchases accounted for 47.52 percent of total equity turnover against 57.72 percent sales, reflecting a net outflow.

Shareholders' wealth measured by market capitalization rebounded to the Ksh 1.9–trillion range (Chart 8A).

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




Source: Nairobi Securities Exchange

**Most Active Sectors & FTSE NSE Kenya Index Series**

The Telecommunication and Technology sector dominated trading, with 217.20 million shares, which accounted for 39.91 percent of the market. Banking sector had 167.48 million shares or 30.77 percent and the Manufacturing sector was the third most active with 57.46 million shares or 10.56 percent of the market.

The FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at the NSE, and FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks, closed higher in February at 172.36 points and 175.17 points in February 2014, respectively from 166.72 points and 168.80 points in January 2014. The FTSE NSE Kenyan Shilling Government Bond Index declined to 92.287 points from to 92.523 points, reflecting slight increase in market yields.

**Bond Market**

Bonds turnover declined by 34.97 percent in February 2014, with a total of 660 deals worth Ksh 27,672 million traded down from 486 deals worth Ksh 42,549 million in January 2014. The FXD1/2014/010 dominated trading, at 19.15 percent of total turnover, with yields ranging from 11.60 percent to 11.9 percent against a coupon rate of 12.18 percent. The Corporate bonds segment accounted for 0.7 percent of the market, where HFCK had 4 deals worth Ksh 176.54 million of the total Ksh 193.84 million in this segment.

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

| | Feb-14 | Jun-13 | Feb 14/Jun 2013 Movement |
|---|---|---|---|
| ASSETS | | | |
| Balances due from Banking Institutions and Gold hold | 572,759 | 527,944 | 44,815 |
| Funds held with International Monetary Fund | 1,953 | 2,694 | (741) |
| Items in the course of collection | 47 | 154 | (107) |
| Advances to commercial banks | 6,506 | 351 | 6,155 |
| Loans and Advances | 38,237 | 10,887 | 27,350 |
| Other Assets | 2,828 | 2,545 | 283 |
| Retirement Benefits Assets | 2,967 | 2,967 | 0 |
| Property and Equipment | 12,369 | 12,052 | 317 |
| Intangible Assets | 744 | 973 | (229) |
| Due from Government of Kenya | 28,334 | 28,889 | (555) |
| TOTAL ASSETS | 666,744 | 589,456 | 77,288 |
| LIABILITIES | | | |
| Currency in Circulation | 197,688 | 183,047 | 14,641 |
| Investments by Banks | - | 10,633 | (10,633) |
| Deposits | 278,215 | 221,927 | 56,288 |
| International Monetary Fund | 128,787 | 118,568 | 10,219 |
| Other Liabilities | 961 | 2,203 | (1,242) |
| Provisions | 123 | 123 | 0 |
| TOTAL LIABILITIES | 605,774 | 536,501 | 69,273 |
| | | | |
| EQUITY AND RESERVES | 60,970 | 52,955 | 8,015 |
| Share Capital | 5,000 | 5,000 | 0 |
| General reserve fund | 39,044 | 40,545 | (1,501) |
| Period surplus | 8,027 | 0 | 8,027 |
| Asset revaluation reserve | 8,899 | 7,410 | 1,489 |
| Dividends payable | 0 | 0 | 0 |
| TOTAL LIABILITIES AND EQUITY | 666,744 | 589,456 | 62,239 |

**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 44,815 million to Ksh 572,759 million in February 2014 from Ksh 527,944 million in June 2013. The expansion reflected largely CBK purchases 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 February 2014 were Ksh 47 million, representing 69.5 percent recovery from Ksh 154 million outstanding as at June 2013.

**Advances to commercial banks** are balances of money advanced 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 6,155 million to Ksh 6,506 million in February 2014 from Ksh 351 million in June 2013.

**Loans and Advances** class of asset includes mainly outstanding balances on advances to commercial banks under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF fund on-lent to Government. The balances increased by Ksh 27,350 million to Ksh 38,237 million in February 2014 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 283 million to Ksh 2,828 million in February 2014 from Ksh 2,545 million in June 2013.

**Due from Government of Kenya** asset 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 14,641 million to Ksh 197,688 million in February 2014 from Ksh 183,047 million in June 2013.

**Deposits** liability represents deposits held by Government of Kenya, local commercial banks deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances increased by Ksh 56,288 million to Ksh 278,215 million in February 2014 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 128,787 million in February 2014 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 decreased by Ksh 1242 million to Ksh 961 million in February 2014 from Ksh 2,203 million in June 2013.

**Equities and reserves** increased by Ksh 8,015 million to Ksh 60,970 million in February 2014 from Ksh 52,955 million in June 2013 reflecting increases of KSh 8,027 million in the period surplus and Ksh 1,489 million in asset revaluation which more than offset a decrease of Ksh 1,501 million in the General reserve fund.