MONTHLY ECONOMIC REVIEW
JULY 2014
The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at:
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Overview

Introduction

This Monthly Economic Review highlights recent economic developments through July 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 rose from 7.4 percent in June 2014 to 7.7 percent in July 2014. This was reflected in food inflation, which rose by 59 basis points to 8.9 percent, and in fuel inflation, which rose by 8 basis points to 9.1 percent. Non-food, non-fuel inflation stabilized at 4.4 percent in July 2014. Annual average inflation rose marginally from 7.1 percent in June 2014 to 7.2 percent in July 2014.

Money Supply

Growth in broad money, M3, accelerated to 19.3 percent in the year to July 2014 from 13.8 percent in a corresponding period in 2013 and was above the respective target of 18.7 percent. The acceleration in money supply was largely reflected in the increase of Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system.

Interest Rates

The Monetary Policy Committee maintained the Central Bank Rate (CBR) at 8.50 percent on July 8, 2014 in order to continue anchoring inflation expectations and price stability. The weighted average interbank rate increased from 6.60 percent in June 2014 to 8.08 percent in July 2014

Real GDP Growth

The economy was resilient, with output growth at 4.7 percent in 2013 compared with 4.6 percent in 2012. In the first quarter of 2014 the economy slowed down to 4.1 percent growth from 5.2 percent in a comparable quarter of 2013. The deceleration is reflected in growth of output from agriculture and forestry, which reduced to 2.7 per cent from 6.8 per cent. The slowed growth is attributed to erratic weather and suppressed external demand during the review period. Production of key crops, in particular cereals were negatively affected by the erratic rains. Export of vegetables contracted by 20.3 per cent and exports of cut flowers recorded a marginal decline. Furthermore, the hotel industry contracted due to insecurity concerns coupled with negative travel advisories by some key tourist source countries.

Balance of Payments

Kenya's overall Balance of Payments surplus registered USD 1,308.6 million improvement in the 12 months to July 2014 reflecting 26.6 percent increase in the Capital and Financial account surplus.

Exchange Rates

The Kenya shilling displayed mixed performance against major international and EAC currencies during the month of July 2014. On the international scene the shilling strengthened to the Euro but weakened to the US Dollar, the Pound Sterling and the Japanese Yen.

Banking Sector Developments

The Kenyan Banking sector registered improved growth in assets in the year to July 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 during the first month of the FY 2014/15 resulted in a budget surplus of Ksh 21.0 billion (0.4 percent of GDP) on commitment basis compared with a surplus of Ksh 8.9 billion incurred in the similar period in the FY 2013/14. This was within the Ksh 5.3 billion (0.1 percent of GDP) deficit programmed target for the period.This surplus was on account of slow start of Government payments as well as an underperformance in government revenues.

Public Debt

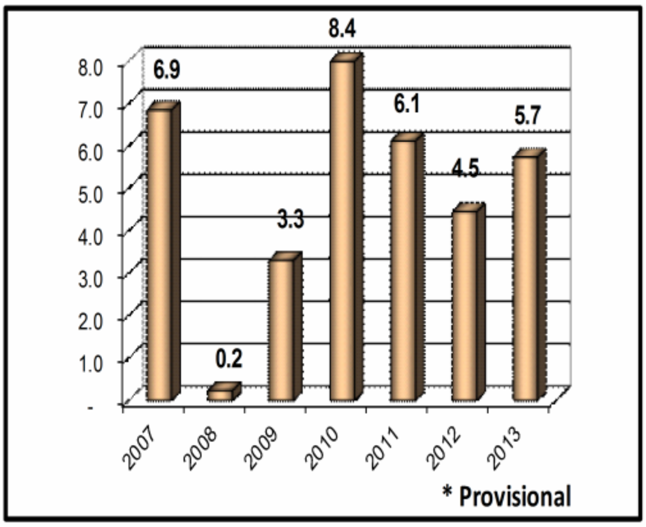
Kenya's public and publicly guaranteed debt increased by 0.7 percent to reach Ksh 2,386.1 billion in July 2014, from Ksh 2370.3 billion in June, 2014. The total debt stock at the end of the first one month of the FY 2014/15 was equivalent to 50.2 percent of GDP, a slight increase from 49.8 percent of GDP in June 2014. The debt to GDP ratios for both domestic and external debt increased from 22.8 percent and 27.0 percent, respectively, in June 2014 to 22.9 percent and 27.3 percent in July 2014.

Stock Market

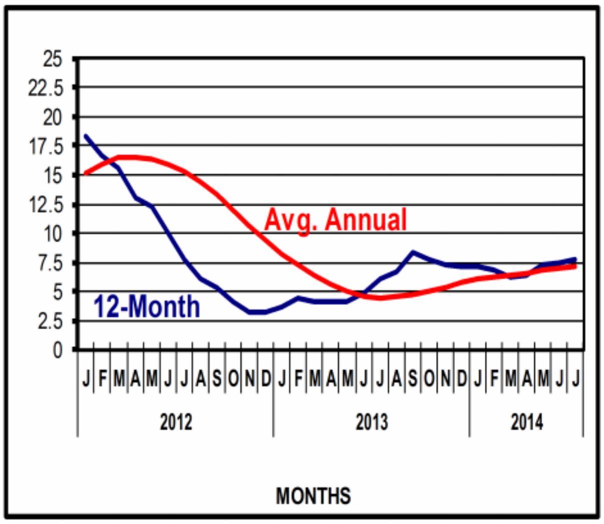
Capital markets recorded mixed performance in July 2014. Equity markets leading indicators closed the month with some gains and losses. Similar performance was recorded in the bonds market. Net foreign investors' participation at the NSE declined marginally, but with more purchases than sales.

SELECTED ECONOMIC PERFORMANCE INDICATORS

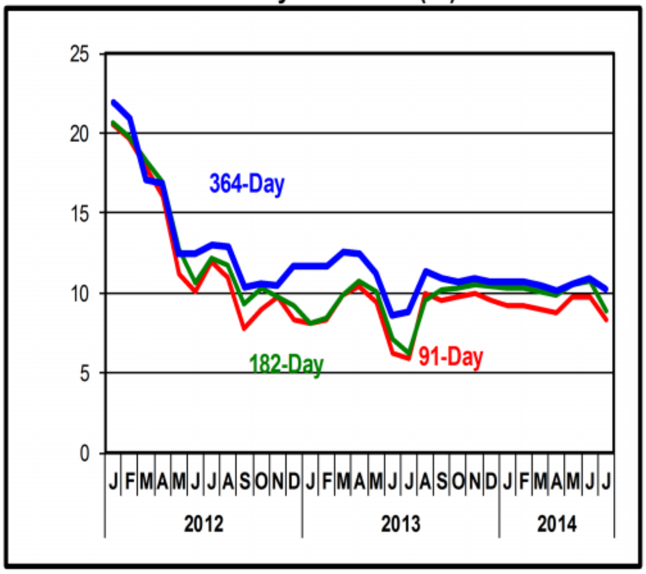
Real GDP Growth (%)



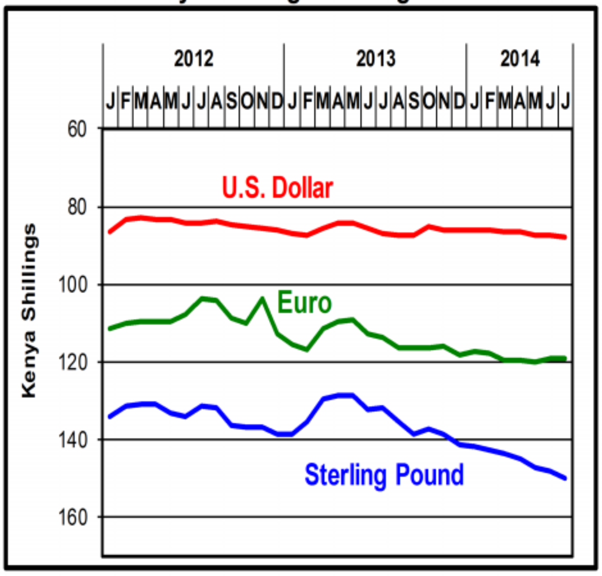
Inflation (%)



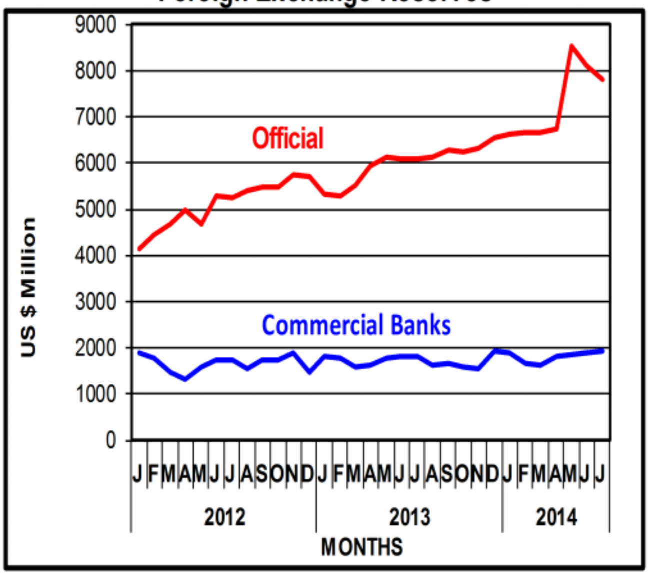
Treasury Bill Rates (%)



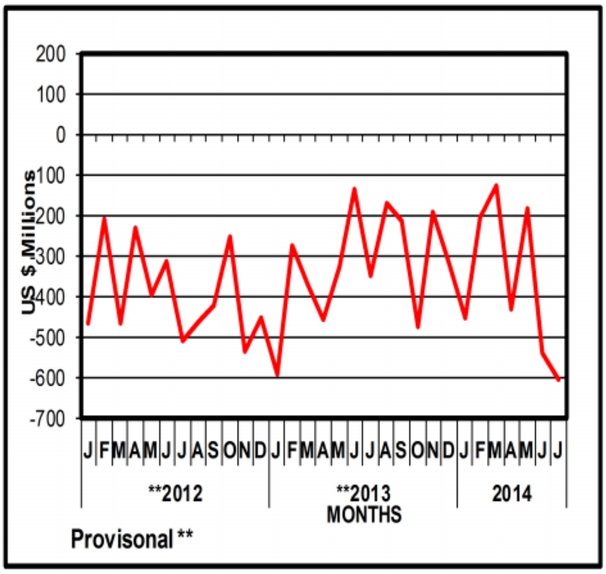
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

		2006	2007	2008	2009	2010	2011	2012	2013*
1.	**POPULATION***								
	People in Millions	36.10	37.20	38.30	38.60	38.50	39.50	40.70	41.80
	Growth (%)	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)	1,649,996	1,903,472	2,211,447	2,558,792	2,827,470	3,348,141	3,811,764	4,234,319
	GDP at Market Prices (Ksh m):								
	At Current Prices	1,862,041	2,151,349	2,483,058	2,863,688	3,169,335	3,726,052	4,254,772	4,757,532
	At Constant 2009 Market Prices	2,588,279	2,765,595	2,772,019	2,863,688	3,104,401	3,294,454	3,441,132	3,638,761
	Real GDP Growth (%)	…	6.9	0.2	3.3	8.4	6.1	4.5	5.7
	Per Capita Income Real 2009 prices (Ksh)	74,862	77,197	75,431	75,910	80,689	83,309	84,649	88,750
3.	**GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]**	**9.1**	**10.1**	**8.9**	**8.4**	**8.3**	**7.2**	**7.1**	**5.4**
4.	**GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]**	**2.2**	**3.5**	**2.4**	**2.2**	**2.5**	**(0.2)**	**1.5**	**(0.3)**
5.	**GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)**	**18.6**	**20.5**	**19.6**	**19.3**	**20.8**	**21.7**	**21.6**	**19.9**
6.	**OVERALL INFLATION BASE PERIOD= FEB 2009**								
	Annual Average Inflation	6.39	4.27	16.27	9.24	3.96	14.02	9.38	5.72
	12-Month Inflation	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)	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 (%)	1.70	1.29	0.29	0.64	0.99	0.46	0.58	0.58
8.	**GOVERNMENT BUDGET (Ksh bn) *****								
	Revenue and Grants	331.21	383.59	457.67	511.36	614.53	679.53	734.43	1,001.40
	Expenditure	368.65	405.20	534.84	621.91	791.79	817.09	915.89	1,297.80
	Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis)	(37.44)	(21.61)	(77.17)	(110.55)	(177.26)	(137.56)	(181.46)	(296.40)
	Budget Deficit (% of GDP)	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)	(5.51)	(6.20)
9.	**MONEY AND CREDIT (Ksh bn)(end period)**								
	Liquidity (L)[1]	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]	666.84	797.54	901.05	1,045.66	1,271.64	1,514.15	1,727.32	2,000.02
	Reserve Money	124.16	155.62	163.59	181.96	222.63	255.01	293.62	320.76
	Total Domestic Credit	**575.76**	**668.90**	**815.52**	**955.82**	**1,188.40**	**1,505.13**	**3,036.21**	**1,982.30**
	Government	137.81	137.40	155.32	205.07	277.78	311.58	368.83	397.16
	Private sector and other public sector	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	**675.00**	**854.00**	**(469.00)**	**780.53**	**163.40**	**(42.88)**	**1,261.00**	**684.72**
	Current Account	-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	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**	**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	2,415.27	3,354.85	2,875.46	3,847.39	4,001.68	4,247.66	5,701.85	6,560.17
		3.9	*4.8*	*3.4*	*4.1*	*3.9*	*3.7*	*4.3*	*4.6*
	Commercial Banks	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*****	**10.68**	**12.04**	**13.46**	**13.66**	**14.96**	**16.60**	**19.27**	**27.52**
	Domestic	4.84	6.08	6.66	6.72	8.06	8.51	10.20	14.91
	As % of GDP	*18.77*	*19.00*	*18.54*	*18.16*	*20.15*	*20.26*	*20.27*	*27.02*
	External	5.84	5.96	6.80	6.94	6.90	8.09	9.08	12.61
	As % of GDP	*22.62*	*18.62*	*18.94*	*18.75*	*17.25*	*19.26*	*18.04*	*22.84*
13.	**EXCHANGE RATE (Ksh/US$) (Annual Average)**	**72.10**	**67.32**	**69.18**	**77.35**	**79.26**	**88.91**	**84.53**	**86.12**

* Provisional.

** Rebased data

*** 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

	2013						2014						
INDICATOR	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**
1. INFLATION (%)													
CPI	**139.87**	**140.29**	**142.82**	**142.75**	**143.14**	**143.85**	**145.40**	**145.95**	**146.61**	**148.20**	**149.70**	**149.91**	**150.60**
Overall Inflation													
12-month overall inflation	6.02	6.67	8.29	7.76	7.36	7.15	7.21	6.86	6.27	6.41	7.30	7.39	7.67
Average annual overall inflation	4.44	4.50	4.75	5.05	5.39	5.72	6.01	6.21	6.39	6.58	6.85	7.05	7.19
2. INTEREST RATES (%)													
91-day Treasury bill interest rate	5.9	10.0	9.6	9.7	9.9	9.5	9.3	9.0	8.8	8.8	8.8	9.8	9.8
Overdraft interest rate	17.0	16.9	16.4	17.0	16.5	16.5	16.8	16.9	16.4	16.4	17.8	15.9	17.1
3. STOCK MARKET													
Nairobi Stock Exchange 20 Share Price Index	4,787.56	4,697.75	4,793.20	4,992.88	5,100.88	4,926.97	4,856.15	4,933.41	4,945.78	4,948.97	4,881.56	4,885.04	4,906.09
Turnover Ratio (%)	0.76	0.99	0.61	1.00	0.80	0.58	0.79	0.68	0.67	0.67	1.06	0.90	0.77
4. GOVERNMENT BUDGET* (Ksh bn.)													
Revenue $ Grants	58.60	128.42	210.23	286.22	363.59	468.97	548.10	611.90	694.30	795.75	880.77	1,001.37	69.58
Expenses	49.70	150.58	269.87	357.20	473.98	574.21	691.60	770.60	855.33	971.11	1,114.34	1,297.76	48.60
Budget Deficit (-) / Surplus (+)	**8.90**	**(22.16)**	**(59.63)**	**(70.94)**	**(110.39)**	**(105.24)**	**(143.50)**	**(158.70)**	**(161.03)**	**(175.36)**	**(233.57)**	**(296.39)**	**20.97**
5. MONEY AND CREDIT (Ksh bn.)													
Liquidity (L)¹	2310.734	2341.82	2405.817	2428.776	2480.134	2523.23	2558.56	2560.08	2592.54	2650.16	2701.27	2718.34	2752.26
Money Supply (M3)²	1,835.80	1,849.97	1885.78	1900.194	1953.621	1996.24	2026.57	2030.49	2060.31	2100.61	2147.48	2152.13	2190.08
Reserve Money	283.98	309.81	290.35	307.25	316.78	320.76	302.32	315.49	309.81	315.27	315.34	323.73	304.65
Total Domestic Credit	1,774.49	1,807.29	1875.279	1889.31	1967.189	1978.52	2010.72	2057.51	2097.87	2127.93	2177.36	2042.87	2130.25
Government	346.63	336.11	382.6023	368.7062	408.8127	397.1639	413.32	438.80	449.87	441.96	465.19	283.06	346.88
Private sector and other public sector	1,427.86	1,471.18	1492.677	1520.604	1558.376	1581.4	1.60	1.62	1.65	1685.97	1712.17	1759.82	1783.37
6. MONEY AND CREDIT (Annual % Change)													
Liquidity (L)¹	**11.13**	**10.45**	**16.69**	**15.78**	**16.02**	**18.4309**	19.97	19.01	18.89	18.32	18.84	**19.32**	**19.11**
Money Supply (M3)²	13.81	12.89	12.83	11.58	12.23	15.54	17.15	16.17	17.35	16.55	17.77	18.19	19.30
Reserve Money	10.31	23.81	12.09	22.68	13.27	9.24	**10.33**	**9.89**	**7.73**	**17.71**	**11.88**	12.63	7.28
Total Domestic Credit	**10.73**	**13.04**	**15.75**	**14.00**	**16.61**	16.21202	15.27	17.77	19.73	16.66	22.44	**14.58**	**20.05**
Government	4.64	4.77	15.01	5.03	10.30	7.68	4.37	11.48	15.05	(3.53)	18.42	(25.41)	0.07
Private and other public sector	12.32	15.12	15.94	16.42	18.39	18.57	18.5	19.6	21.1	23.43	23.58	25.39	24.90
7. BALANCE OF PAYMENTS (US$ m)													
Overall Balance	**14.32**	**23.89**	**171.07**	**(21.69)**	**75.64**	**120.13**	**59.41**	**(33.77)**	**82.02**	**110.54**	**(261.11)**	**2,056.50**	**(419.32)**
Current Account	(450.69)	(508.10)	(324.63)	(612.28)	(315.98)	(395.36)	(450.68)	(203.78)	(249.12)	(428.83)	(551.97)	(183.10)	(541.27)
Trade Balance	(1,010.87)	(963.16)	(874.43)	(1,160.47)	(898.50)	(970.78)	(1,009.74)	(746.71)	(683.99)	(1,041.20)	(1,173.89)	(793.62)	(1,204.68)
Capital and Financial Account	465.01	531.99	495.69	590.58	391.62	515.49	510.09	170.01	331.14	539.37	290.86	2,239.60	121.95
8. FOREIGN EXCHANGE RESERVES (US$ m)	7,906.76	7,739.68	7,958.83	7,859.49	7,893.00	8,483.20	8,518.60	8,250.21	8,285.29	8,593.52	8,230.25	10,398.72	10,029.34
Official	6,095.76	6,119.65	6,290.71	6,263.25	6,333.14	6,560.17	6,611.91	6,578.15	6,660.17	6,764.90	6,498.02	8,554.52	8,127.54
*Months of imports cover***	4.32	4.29	4.39	4.32	4.36	4.49	4.50	4.46	4.52	4.54	4.34	5.70	5.37
Commercial banks	1,811.01	1,620.03	1,668.11	1,596.24	1,559.86	1,923.02	1,906.68	1,672.06	1,625.12	1,828.62	1,732.24	1,844.21	1,901.81
9. PUBLIC DEBT (US$ bn)	**22.39**	**22.88**	**23.54**	**23.55**	**24.18**	**24.46**	**24.61**	**24.59**	**24.60**	**25.00**	**25.01**	**27.05**	**27.19**
Domestic	12.36	12.75	13.36	13.41	13.59	13.78	13.93	14.25	14.24	14.03	14.10	14.66	14.77
As % of GDP	22.39	23.09	24.21	24.30	24.62	24.96	25.24	25.84	25.88	25.58	25.91	27.00	27.25
External	10.03	10.13	10.17	10.14	10.59	10.69	10.68	10.34	10.36	10.97	10.91	12.39	12.42
As % of GDP	18.17	18.36	18.43	18.36	19.19	19.36	19.35	18.76	18.84	19.99	20.05	22.83	22.90
10. GROSS DOMESTIC DEBT (Ksh bn)***	1,078.60	1,116.68	1,168.23	1,174.78	1,170.05	1,189.18	1,200.90	1,229.30	1,231.20	1,216.76	1,232.49	1,284.33	1,296.44
11. AVERAGE EXCHANGE RATE													
Ksh/US$	86.86	87.49	87.41	85.31	86.10	86.31	86.21	86.28	86.49	86.72	87.41	87.61	87.77
Ksh/Pound Sterling	132.00	135.47	138.54	137.31	138.64	141.37	141.99	142.81	143.76	145.08	147.29	148.15	150.04
Ksh/ 100 Yen	87.28	89.39	88.14	87.24	86.21	83.51	82.92	84.52	84.58	84.59	85.84	85.88	86.32
Ksh/Euro	113.74	116.51	116.67	116.33	116.22	118.18	117.50	117.81	119.58	119.78	120.09	119.16	119.02

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

** Based on 36 months average 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 rose from 7.4 percent in June 2014 to 7.7 percent in July 2014 reflecting a rise in food inflation and fuel inflation by 59 basis points and 8 basis points, respectively. Non-food non-fuel inflation, however, eased marginally by 2 basis points in July 2014. The three months annualized rate of inflation also eased to 6.6 percent in July 2014 indicating reduced domestic inflationary pressures (Table 1.1 and Chart 1A).

TABLE 1.1: INFLATION (%)

Overall Inflation	2013						2014						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
12-month	6.02	6.67	8.29	7.76	7.36	7.15	7.21	6.86	6.27	6.41	7.30	7.39	7.67
Average annual	4.44	4.50	4.75	5.05	5.39	5.72	6.01	6.21	6.39	6.58	6.85	7.05	7.19
Three months annualised	1.71	2.23	9.58	8.49	8.37	2.91	7.64	8.09	7.89	7.93	10.69	9.32	6.63
Non-food non-oil inflation	4.04	3.86	5.02	4.94	5.01	4.71	4.83	4.93	4.97	4.53	4.35	4.47	4.45

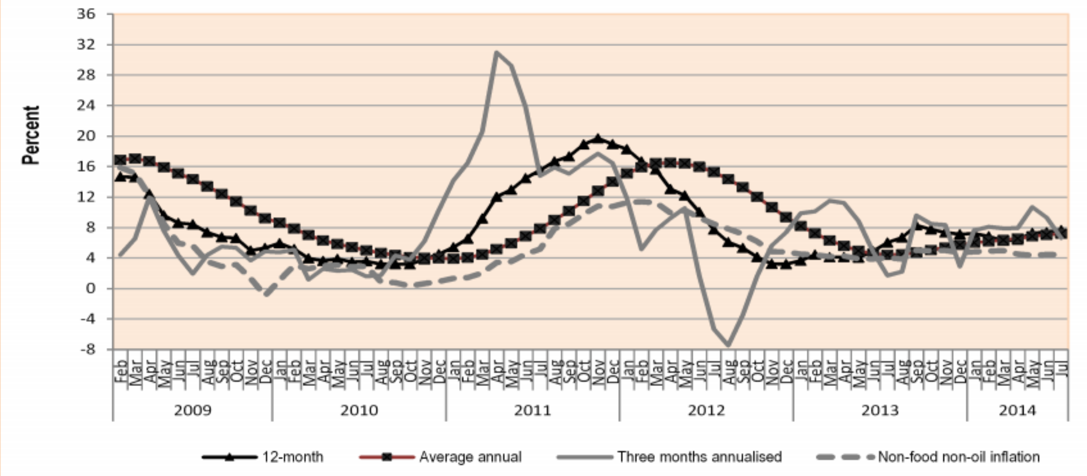
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

The rise in food inflation from 8.3 percent in June 2014 to 8.9 percent in July 2014 reflects a rise in 12-month inflation in the 'food and non-alcoholic beverages' index from 8.4 percent in June 2014 to 9.1 percent in July 2014. This development is attributed to a rise in the retail prices of maize and fresh produce. The 'restaurant and hotels' index also rose from 7.4 percent in June 2014 to 7.5 percent in July 2014.

Fuel inflation also rose from 9.0 percent in June 2014 to 9.1 percent in July 2014. This reflected a rise in 12-month inflation in the 'housing, water, electricity, gas and other fuels' category from 7.2 percent in June 2014 to 7.7 percent in July 2014 following a rise in the price of electricity, LPG gas, kerosene, petrol and diesel. 12-month inflation in the 'transport' category, however, eased from 12.5 percent in June 2014 to 11.8 percent in July 2014.

Non-food non-fuel inflation eased slightly to 4.4 percent in July 2014 reflecting reduced inflation in 'alcoholic beverages, tobacco and narcotics', 'health', 'recreation and culture', 'education' and 'miscellaneous goods and services' consumption baskets.

CHART 1A: INFLATION (%)

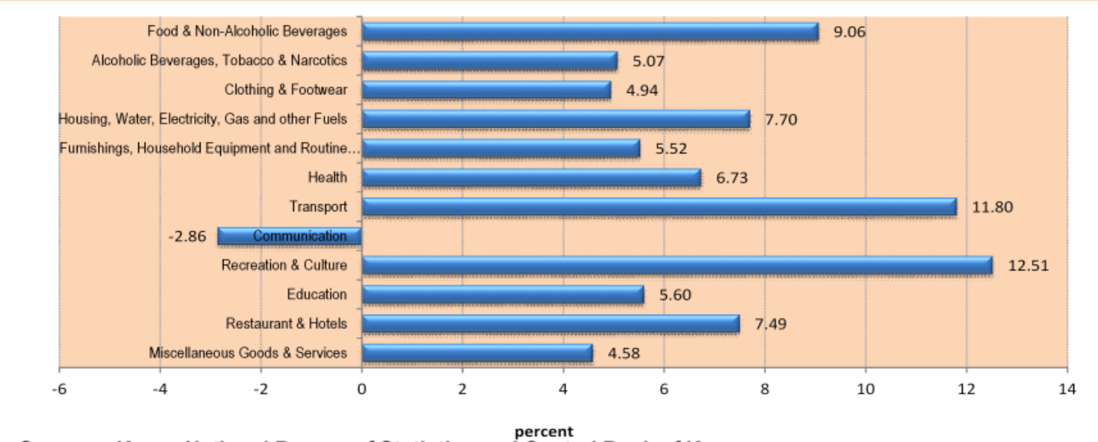


Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

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 46.1 percent of overall 12-month inflation in July 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 17.0 percent and 13.8 percent, respectively.

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



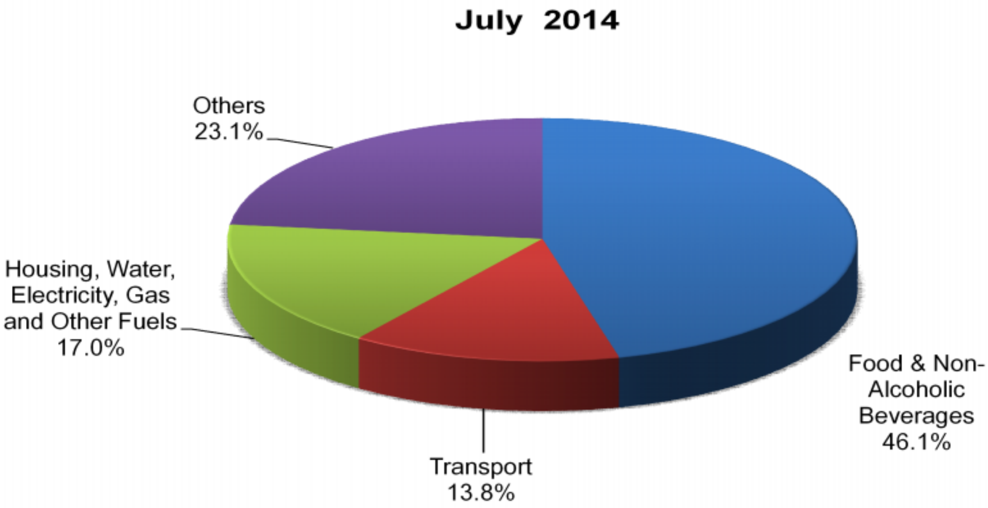
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

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

JULY 2014	Weight-CPI Kenya	NAIROBI Lower Income	NAIROBI Middle Income	NAIROBI Upper Income	NAIROBI Nairobi Combined	REST OF URBAN Rest of Kenya Combined	TOTAL KENYA
Food & Non-alcoholic beverages	36.0	7.25	8.2	9.9	7.6	10.1	9.1
Alcoholic beverages, Tobacco & narcotics	2.1	5.5	5.6	4.9	5.5	4.8	5.1
Clothing & Footwear	7.4	3.7	3.5	12.2	4.0	5.5	4.9
Housing, Water,Electricity,Gas and other fuels	18.3	5.4	7.0	5.2	5.7	9.1	7.7
Furnishings, Household equipment and Routine household maintenance	6.2	2.9	9.1	3.4	4.4	6.3	5.5
Health	3.1	6.0	6.6	1.0	6.0	7.2	6.7
Transport	8.7	10.4	7.6	11.2	9.8	13.3	11.8
Communication	3.8	-8.6	-9.1	0.0	-8.4	0.8	-2.9
Recreation & culture	2.3	12.9	13.4	8.9	12.9	12.3	12.5
Education	3.1	5.2	4.4	9.6	5.1	5.9	5.6
Restaurants & hotels	4.5	3.5	3.5	5.5	3.5	10.3	7.5
Miscellaneous goods & services	4.5	4.6	4.1	4.9	4.5	4.6	4.6
ALL GROUPS	100.0	6.1	6.2	8.0	6.2	8.7	7.7

Source: Kenya National Bureau of Statistics

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



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

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

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
Combined Nairobi	5.79	6.46	8.97	8.25	7.63	7.20	6.73	6.10	5.53	5.16	5.95	6.15	6.21
Lower Income	6.33	7.23	9.67	8.99	8.25	7.65	7.16	6.46	5.80	5.36	6.07	6.10	6.13
Middle Income	4.59	4.57	7.11	6.32	5.92	5.97	5.44	4.93	4.65	4.43	5.37	6.06	6.19
Upper Income	2.28	2.38	6.16	5.37	5.50	5.62	5.89	5.84	5.38	5.64	7.18	7.81	8.04
Other provinces- excluding Nairobi	6.18	6.83	7.82	7.43	7.17	7.11	7.54	7.38	6.78	7.27	8.23	8.25	8.68
TOTAL KENYA	**6.02**	**6.67**	**8.29**	**7.76**	**7.36**	**7.15**	**7.21**	**6.86**	**6.27**	**6.41**	**7.30**	**7.39**	**7.67**

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

Inflation Outlook

Domestic inflation is expected to rise in the near term as unfavourable weather conditions impact negatively on domestic food supplies and generation of electricity.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Growth in broad money, M3, accelerated to 19.3 percent in the year to July 2014 from 13.8 percent in a corresponding period in 2013 and was above the respective target of 18.7 percent. The expansion in money supply, M2 defined as, M3 excluding foreign currency deposits, increased to 18.8 percent in the year to July 2014 from a growth of 13.9 percent in 2013 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits in M3, increased by Ksh 62.2 billion (22.1 percent) compared with an increase of Ksh 33.0 billion (13.3 percent) in the previous year.

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

	2012 July	2013 July	2014 July	Absolute Change 2012/13 July	Absolute Change 2013/14 July	%age change 12 months Jul-13	%age change 12 months Jul-14
1. Money supply, M3 (2+3) 2/	**1613.1**	**1835.8**	**2190.1**	**222.7**	**354.3**	**13.8**	**19.3**
1.1 Money supply, M2 3/	1364.3	1554.0	1846.1	189.7	292.1	13.9	18.8
1.2 Money supply, M1	638.3	756.4	899.4	118.1	143.1	18.5	18.9
1.3 Currency outside banks	128.5	148.4	161.2	19.9	12.7	15.5	8.6
2. Net foreign assets 4/	**311.3**	**383.3**	**489.1**	**72.0**	**105.8**	**23.1**	**27.6**
Central Bank	322.8	411.0	555.6	88.2	144.6	27.3	35.2
Banking Institutions	-11.5	-27.7	-66.5	-16.3	-38.8		
3. Net domestic assets (3.1+3.2)	**1301.8**	**1452.5**	**1701.0**	**150.8**	**248.5**	**11.6**	**17.1**
3.1 Domestic credit (3.1.1+3.1.2)	**1602.5**	**1774.5**	**2130.3**	**172.0**	**355.8**	**10.7**	**20.0**
3.1.1 Government (net)	331.2	346.6	346.9	15.4	0.3	4.6	0.1
3.1.2 Private sector and other public sector	1271.2	1427.9	1783.4	156.6	355.5	12.3	24.9
3.2 Other assets net (3-3.1)	**-300.7**	**-322.0**	**-429.2**	**-21.2**	**-107.3**		
Memorandum items							
1. Overall liquidity, L 1/	**1992.2**	**2310.7**	**2752.3**	**318.6**	**441.5**	**16.0**	**19.1**
2. Reserve money	**257.4**	**284.0**	**304.7**	**26.5**	**20.7**	**10.3**	**7.3**
Currency outside banks	128.5	148.4	161.2	19.9	12.7	15.5	8.6
Bank reserves	128.9	135.6	143.5	6.6	7.9	5.2	5.9

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.

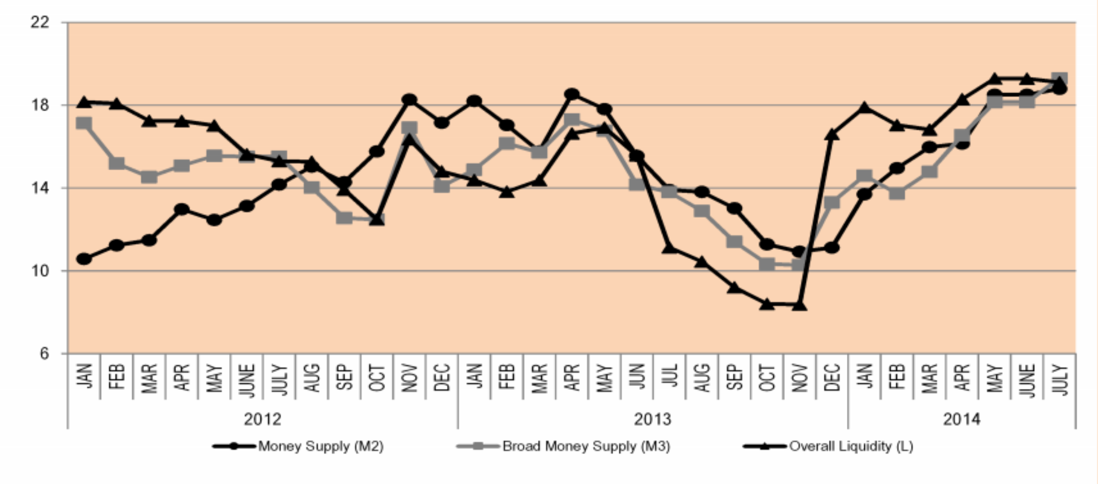
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

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 acceleration in money supply was largely reflected in the increase of Net Foreign Assets (NFA) and Net Domestic Assets of the banking system (Table 2.1). NFA of the banking system grew by 27.6 percent (or Ksh 105.8 billion) in twelve months to July 2014 compared with an increase of 23.1 percent (or Ksh 72.0 billion) in a corresponding period in 2013 reflecting increases in holdings of the Central Bank. NFA of the Central Bank increased by 35.2 percent from Ksh 411.0 billion in July 2013 to Ksh 555.6 billion in July 2014 reflecting accumulation of foreign exchange reserves. The NFA of banking institutions declined by Ksh 38.8 billion to Ksh -66.5 billion from Ksh -27.7 billion in July 2013 on account of increased loans from non-residents and accumulation of deposits. Over the same period, annual growth in Net Domestic Assets (NDA) of the banking system increased to 17.1 percent in the year to July 2014 from 11.6 percent in a similar period in 2013 due to a stronger growth in bank credit to the private sector (Table 2.1).

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

	2013 July		2014 July		Absolute Change July		Annual %age Change July	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2012/13	2013/14	2012/13	2013/14
1. Credit to Government	**346.6**	**19.5**	**346.9**	**16.3**	**15.4**	**0.3**	**4.6**	**0.1**
Central Bank	-48.3	-2.7	-130.9	-6.1	-74.9	-82.6	-281.5	171.1
Commercial Banks & NBFIs	394.9	22.3	477.8	22.4	90.3	82.9	29.6	21.0
2. Credit to other public sector	**38.3**	**2.2**	**39.0**	**1.8**	**-8.9**	**0.6**	**-18.9**	**1.6**
Local government	-1.3	-0.1	3.1	0.1	-4.1	4.4	-146.2	-338.5
Parastatals	39.6	2.2	35.9	1.7	-4.8	-3.8	-10.8	-9.5
3. Credit to private sector	**1389.5**	**78.3**	**1744.4**	**81.9**	**165.5**	**354.9**	**13.5**	**25.5**
Agriculture	57.6	3.2	68.4	3.2	3.5	10.8	6.5	18.8
Manufacturing	172.3	9.7	219.7	10.3	10.4	47.4	6.4	27.5
Trade	226.6	12.8	285.4	13.4	22.4	58.7	11.0	25.9
Building and construction	68.3	3.8	74.7	3.5	6.0	6.4	9.6	9.4
Transport & communications	80.4	4.5	114.5	5.4	4.8	34.0	6.3	42.3
Finance & insurance	27.6	1.6	38.0	1.8	-0.2	10.4	-0.8	37.8
Real estate	180.8	10.2	236.6	11.1	27.0	55.8	17.5	30.8
Mining and quarrying	23.3	1.3	28.9	1.4	-3.6	5.7	-13.4	24.3
Private households	211.3	11.9	275.1	12.9	45.3	63.9	27.3	30.2
Consumer durables	86.7	4.9	104.3	4.9	10.4	17.6	13.6	20.3
Business services	113.6	6.4	155.1	7.3	30.0	41.5	36.0	36.5
Other activities	141.2	8.0	143.7	6.7	9.6	2.6	7.3	1.8
4. TOTAL (1+2+3) *	**1774.5**	**100.0**	**2130.3**	**100.0**	**172.0**	**355.8**	**10.7**	**20.0**

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

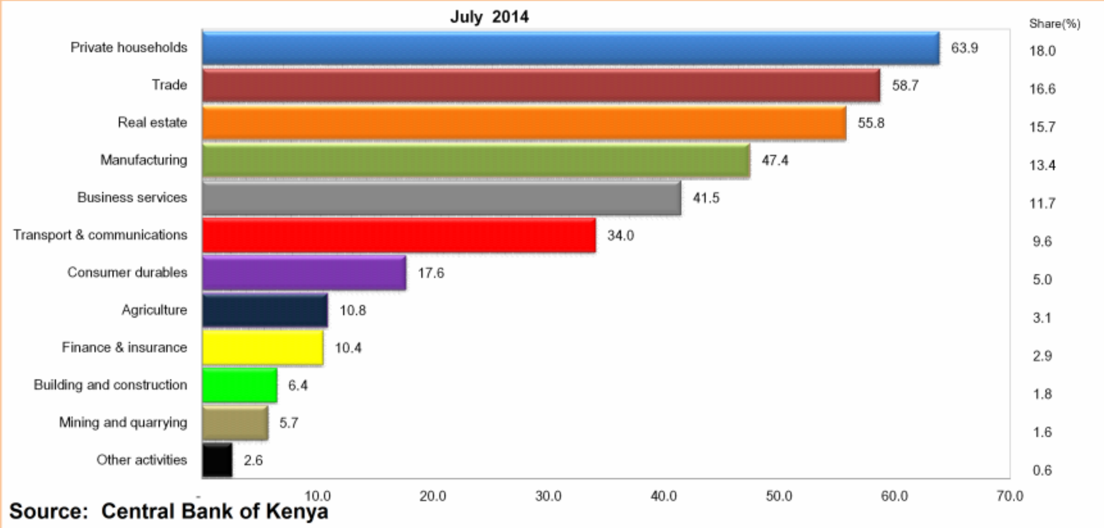
Domestic Credit Developments

Domestic credit from the banking sector increased by Ksh 355.8 billion (20.0 percent) in the twelve months to July 2014 compared with Ksh 172.0 billion (10.7 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 25.5 percent in the year to July 2014 from 13.5 percent in a similar period in 2013. The private sector continued to dominate banking system lending; accounting for 81.9 percent of total lending in July 2014 compared with 16.3 percent share of government.

The additional private sector credit in the twelve months to July 2014 was allocated to the following activities, in order of magnitude: private households 18.0 percent (or Ksh. 63.9 billion); trade at 16.6 percent (or Ksh 58.7 billion); real estate sector at 15.7 percent (or Ksh 55.8 billion); manufacturing 13.4 percent (or Ksh 47.4 billion); business services 11.7 percent (or Ksh 41.5 billion); transport and communication 9.6 percent (or Ksh 34.0 billion); and consumer durables 5.0 percent (or Ksh 17.6 billion). Chart 2B presents the sectorial distribution of private sector credit.

Reflecting accumulation of Government deposits at the Central Bank, net credit to Government increased by 0.1 percent (or Ksh 0.3 billion) in the year to July 2014 compared with an increase of 4.6 percent (or Ksh 15.4 billion) in a corresponding period in 2013. Over a similar period, the credit to 'other public sector' grew by Ksh 0.6 billion compared to a net credit repayment of Ksh. 8.9 billion over a similar period in 2013 (Table 2.2).

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



Source: Central Bank of Kenya

Reserve Money

Reserve money (RM) which comprises currency held by the non-bank public and commercial banks deposits at the Central Bank increased by 7.3 percent in the year to July 2014 compared with 10.3 percent growth in the corresponding period in 2013 (Table 2.3 and Chart 2C). At Ksh 304.7 billion in July 2014, reserve money was Ksh 19.5 billion below respective target reflecting build-up of Government deposits. The underperformance in reserve money partly reflected increased Government deposits at the Central Bank. The growth in reserve money reflected 5.9 percent increase in bank reserves and 8.6 percent growth in currency outside banks.

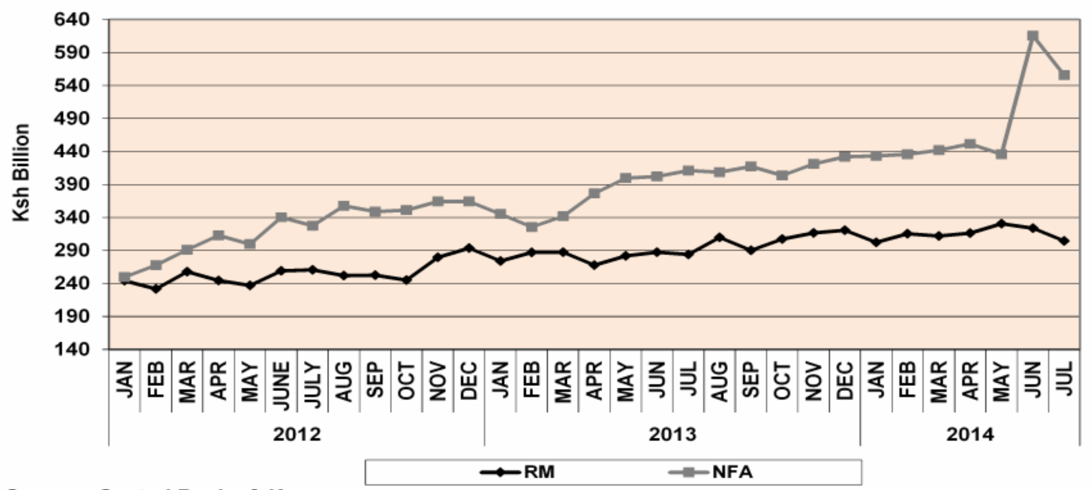
TABLE 2.3: RESERVE MONEY AND ITS SOURCES (Ksh billion)

	2013	2014	Absolute change		Change (%)		2014	
	July	July	2012/13	2013/14	2012/13	2013/14	July Target	Deviation
1. Net Foreign Assets	411.0	555.6	88.2	144.6	27.3	35.2	472.9	82.7
2. Net Domestic Assets	-127.0	-250.9	-61.7	-123.9	94.4	97.5	-148.7	-102.2
2.1 Government Borrowing (net)	-48.3	-130.9	-74.9	-82.6	-281.5	171.1	-7.4	-123.5
2.2 Commercial banks (net)	-12.8	0.7	13.6	13.5			-76.5	77.2
2.3 Other Domestic Assets (net)	-69.8	-124.4	-2.1	-54.6			-64.8	-59.6
3. Reserve Money	284.0	304.7	26.5	20.7	10.3	7.3	324.2	-19.5
3.1 Currency outside banks	148.4	161.2	19.9	12.7	15.5	8.6	160.8	0.4
3.2 Bank reserves	135.6	143.5	6.6	7.9	5.2	5.9	163.4	-19.9

Source: Central Bank of Kenya

The source of reserve money growth in the twelve months to July 2014 was largely an accumulation of Net Foreign Assets (NFA) of the Central Bank. The NFA of the

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



Source: Central Bank of Kenya

Central Bank grew by 35.2 percent (or Ksh 144.6 billion) to Ksh 555.6 billion in July 2014 from Ksh 411.0 billion in July 2013 reflecting interbank purchases of foreign exchange to build the stock of foreign exchange reserves to 4 months of imports of goods and non-factor services in line with the minimun statutory requirements and receipt of the Eurobond proceeds in June 2014.

Over a similar period, the NDA of the Central Bank decreased by Ksh 123.9 billion to Ksh -250.9 billion from Ksh -127.0 billion in July 2013. This was largely reflected in decrease of net Government indebtedness at the Central Bank from net deposits of Ksh 82.6 billion to of Ksh -130.9 billion. The buildup of Government deposits at the Central Bank receipts from the sale of Eurobond in the international financial markets.

Central Bank Rates

The Monetary Policy Committee maintained the Central Bank Rate (CBR) at 8.50 percent on July 8, 2014 in order to continue anchoring inflation expectations and price stability.

Short Term Interest Rates

Short term interest rates edged upward in July 2014 (Table 2.4 and Chart 2D). The weighted average interbank rate increased from 6.60 percent in June 2014 to 8.08 percent in July 2014. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, however, remained largely unchanged at 9.78 percent in July 2014 compared with 9.81 percent in June 2014 while the 182-day Treasury bill rate rose marginally from 10.50 percent to 10.74 percent.

Lending and Deposit Rates

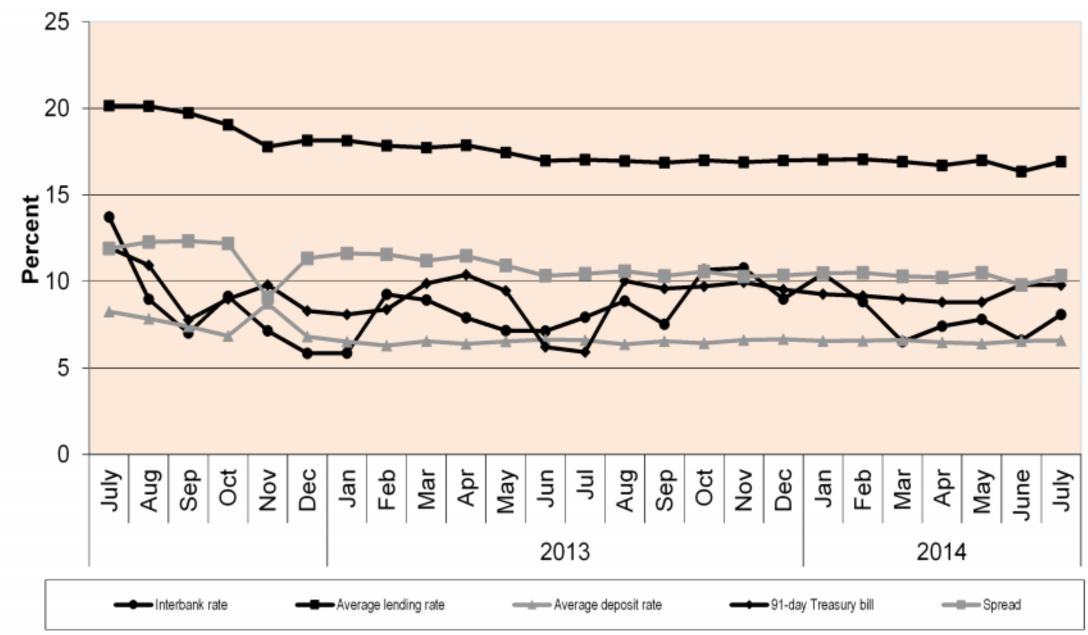
The average lending rate increased to 16.91 percent in July 2014 from 16.36 in June 2014, while the average deposit rate remained largely unchanged at 6.59 percent compared with 6.56 percent. Consequently. The interest rate spread increased to 10.33 in July 2014 from 9.80 percent in June 2014 (Table 2.4 and Chart 2D).

TABLE 2.4: INTEREST RATES (%)

	2013						2014						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July
91-day Treasury bill rate	5.92	10.03	9.58	9.72	9.94	9.52	9.26	9.16	8.98	8.80	8.82	9.81	9.78
Overdraft rate	17.00	16.89	16.42	16.96	16.50	16.51	16.82	16.88	16.44	16.44	17.85	15.88	17.12
Interbank rate	7.93	8.88	7.52	10.66	10.77	8.98	10.43	8.83	6.51	7.40	7.76	6.60	8.08
Repo rate	7.48	-	7.11	-	-	7.95	-	-	6.92	6.71	8.42	6.46	0.00
Reverse Repo rate	-	8.77	-	10.85	12.35	11.28	0.00	-	-	-	-	-	-
Central Bank Rate (CBR)	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Average lending rate (1)	17.02	16.96	16.86	17.00	16.89	16.99	17.03	17.06	16.91	16.70	16.97	16.36	16.91
Average deposit rate (2)	6.59	6.36	6.55	6.43	6.61	6.65	6.55	6.57	6.61	6.48	6.42	6.56	6.59
0 to 3 - month deposit	8.70	8.39	8.44	8.36	8.78	8.98	9.39	9.43	10.02	9.63	9.65	10.05	9.80
Savings deposits	1.64	1.67	1.64	1.63	1.58	1.58	1.56	1.49	1.56	1.53	1.54	1.50	1.33
Spread (1-2)	**10.43**	**10.60**	**10.32**	**10.57**	**10.28**	**10.34**	**10.48**	**10.49**	**10.30**	**10.23**	**10.55**	**9.80**	**10.33**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

Performance of The Real Sector

Overview

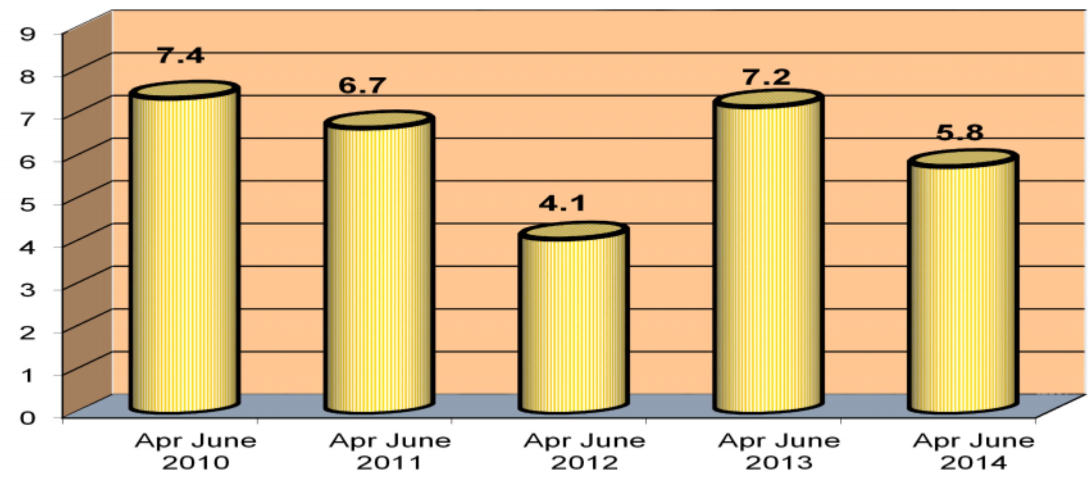
Real GDP in 2013 grew by 4.7 percent and amounted to Ksh 1.69 trillion compared with 4.6 percent growth in 2012 (Table 3.1). The real GDP is estimated to have increased by 4.1 percent in the first quarter of 2014 compared with 5.2 percent in comparable quarter of 2013. The slowdown is attributed to adverse weather which led to a reduction in output from agriculture; suppressed external demand which led to reduced export especially in horticulture; and insecurity which contributed to a contraction in the hotel and restaurants activity.

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

Main Sectors	Share in 2013 Nominal GDP (%)	Share in 2013 Real GDP (%)	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture, forestry and fishing	26.27	22.40	685,710	720,612	684,702	668,969	736,195	753,598	775,799	815,087
Mining and quarrying	0.81	0.85	13,849	16,289	16,296	18,134	23,884	28,428	33,830	30,795
Manufacturing	10.43	11.12	327,918	342,267	346,177	342,532	357,958	383,891	381,942	404,502
Electricity supply	1.06	1.54	34,035	39,792	36,947	39,162	40,545	45,949	52,187	56,045
Water supply; sewerage, waste management	0.87	0.83	22,769	22,558	22,885	24,869	27,493	28,489	29,390	30,270
Construction	4.46	4.48	89,513	97,119	95,474	112,219	133,647	139,033	154,621	163,075
Wholesale and retail trade; repairs	7.85	7.63	172,625	186,328	189,326	200,032	219,221	237,516	254,231	277,699
Transport and storage	7.38	6.62	173,502	185,955	191,536	205,774	215,970	231,340	237,734	240,764
Hotels and restaurants	1.23	1.44	50,040	57,300	39,471	51,510	51,238	53,333	54,972	52,441
Information and communication	1.44	3.36	51,720	61,952	67,574	73,691	86,492	105,483	107,773	122,310
Financial and insurance activities	6.58	5.89	133,353	139,918	146,815	150,411	176,968	185,206	196,265	214,497
Real estate	7.89	8.10	214,219	224,439	235,102	246,546	258,953	272,055	283,061	294,747
Professional, scientific and technical activities	0.99	1.06	26,509	29,836	31,343	33,085	34,092	34,628	36,440	38,553
Administrative and support service activities	1.20	1.33	40,829	43,849	39,645	44,151	45,422	46,546	47,619	48,303
Public administration and defence	4.80	3.88	109,013	111,635	119,363	127,807	129,710	132,986	140,851	141,198
Education	5.43	6.92	145,223	154,720	168,955	177,993	196,171	210,958	235,476	251,650
Human health and social work activities	1.58	1.72	50,447	53,561	56,076	58,686	62,345	60,723	58,761	62,752
Arts, entertainment and recreation	0.14	0.14	3,887	3,951	3,945	4,326	4,853	5,026	4,892	5,076
Other service activities	0.62	0.67	20,144	20,703	21,004	20,885	21,618	21,853	22,732	24,294
Activities of households as employers	0.54	0.51	16,623	16,873	17,126	17,383	17,643	17,908	18,177	18,449
FISIM	-2.57	-2.40	-49,597	-51,383	-53,675	-59,373	-68,827	-75,076	-82,648	-87,358
All economic activities	**89.00**	**88.08**	**2,332,335**	**2,478,274**	**2,476,088**	**2,558,791**	**2,771,591**	**2,919,872**	**3,044,104**	**3,205,148**
Taxes on products	11.00	11.92	255,944	287,322	295,931	304,896	332,810	374,582	397,028	433,613
GDP at market prices	**100.00**	**100.00**	**2,588,279**	**2,765,595**	**2,772,019**	**2,863,688**	**3,104,401**	**3,294,454**	**3,441,132**	**3,638,761**
Annual Growth Rates in Percent										
	Share in 2013 Nominal GDP (%)	**Share in 2013 Real GDP (%)**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Agriculture, forestry and fishing	26.27	22.40	…	5.1	-5.0	-2.3	10.0	2.4	2.9	5.1
Mining and quarrying	0.81	0.85	…	17.6	0.0	11.3	31.7	19.0	19.0	-9.0
Manufacturing	10.43	11.12	…	4.4	1.1	-1.1	4.5	7.2	-0.5	5.9
Electricity supply	1.06	1.54	…	16.9	-7.1	6.0	3.5	13.3	13.6	7.4
Water supply; sewerage, waste management	0.87	0.83	…	-0.9	1.4	8.7	10.6	3.6	3.2	3.0
Construction	4.46	4.48	…	8.5	-1.7	17.5	19.1	4.0	11.2	5.5
Wholesale and retail trade; repairs	7.85	7.63	…	7.9	1.6	5.7	9.6	8.3	7.0	9.2
Transport and storage	7.38	6.62	…	7.2	3.0	7.4	5.0	7.1	2.8	1.3
Hotels and restaurants	1.23	1.44	…	14.5	-31.1	30.5	-0.5	4.1	3.1	-4.6
Information and communication	1.44	3.36	…	19.8	9.1	9.1	17.4	22.0	2.2	13.5
Financial and insurance activities	6.58	5.89	…	4.9	4.9	2.4	17.7	4.7	6.0	9.3
Real estate	7.89	8.10	…	4.8	4.8	4.9	5.0	5.1	4.0	4.1
Professional, scientific and technical activities	0.99	1.06	…	12.6	5.1	5.6	3.0	1.6	5.2	5.8
Administrative and support service activities	1.20	1.33	…	7.4	-9.6	11.4	2.9	2.5	2.3	1.4
Public administration and defence	4.80	3.88	…	2.4	6.9	7.1	1.5	2.5	5.9	0.2
Education	5.43	6.92	…	6.5	9.2	5.3	10.2	7.5	11.6	6.9
Human health and social work activities	1.58	1.72	…	6.2	4.7	4.7	6.2	-2.6	-3.2	6.8
Arts, entertainment and recreation	0.14	0.14	…	1.6	-0.2	9.7	12.2	3.6	-2.7	3.8
Other service activities	0.62	0.67	…	2.8	1.5	-0.6	3.5	1.1	4.0	6.9
Activities of households as employers	0.54	0.51	…	1.5	1.5	1.5	1.5	1.5	1.5	1.5
FISIM	-2.57	-2.40	…	3.6	4.5	10.6	15.9	9.1	10.1	5.7
All economic activities	**89.00**	**88.08**	…	**6.3**	**-0.1**	**3.3**	**8.3**	**5.4**	**4.3**	**5.3**
Taxes on products	11.00	11.92	…	12.3	3.0	3.0	9.2	12.6	6.0	9.2
GDP at market prices	**100.00**	**100.00**	…	**6.9**	**0.2**	**3.3**	**8.4**	**6.1**	**4.5**	**5.7**

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

CHART 3A: REAL GDP GROWTH IN THE FOURTH QUARTERS

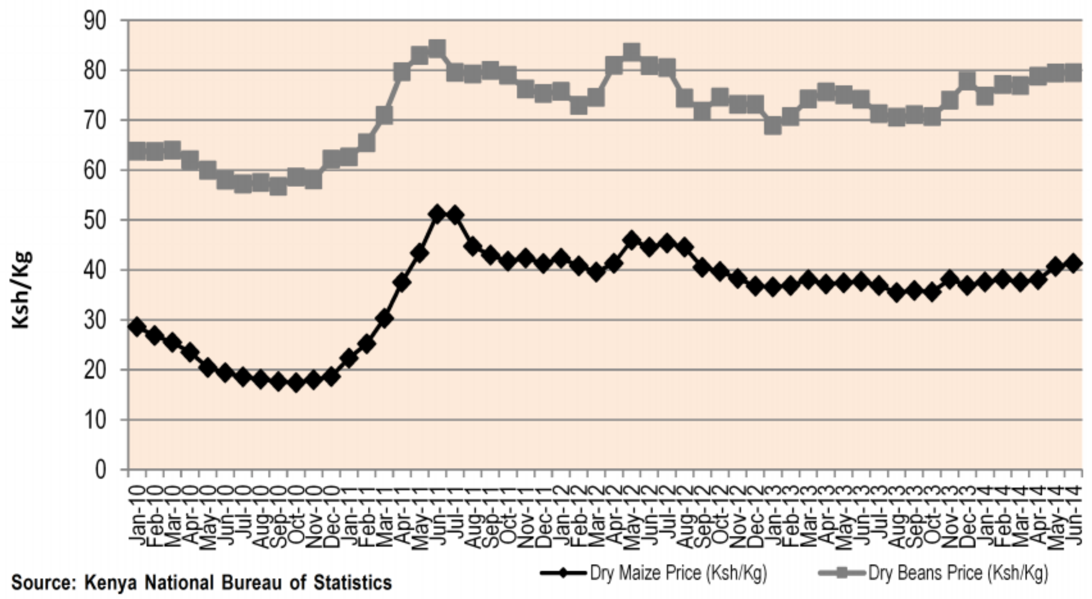


Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

Agriculture

Agriculture contributed 20.2 percent of GDP in the first quarter of 2014 and recorded 2.7 percent growth in output over the same period compared with 6.8 percent increase in the first quarter of 2013. Subdued performance in agriculture in the first quarter of 2014 is attributed to unfavorable weather conditions which resulted in increased prices of food items such as maize and beans (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 June 2014 point to slowed growth (Table 3.2). Among selected crops, growth in production of tea and coffee declined while export of horticultural products slowed. Production of milk also declined during the year to June 2014 as production of sugarcane improved.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK

	2012	2013	Year to June 13	Year to June 14*
Tea				
Output (Metric tonnes)	369,562	432,453	437,009	432,018
Growth (%)	*-2.2%*	*17.0%*	*22.2%*	*-1.1%*
Horticulture				
Exports (Metric tonnes)	250,814	309,029	285,592	309,951
Growth (%)	*5.1%*	*23.2%*	*21.7%*	*8.5%*
Coffee				
Sales (Metric tonnes)	46,051	37,942	42,966	39,940
Growth (%)	*53.6%*	*-17.6%*	*-2.4%*	*-7.0%*
Milk				
Output (million litres)	495	523	550	536
Growth %	*-9.8%*	*5.6%*	*8.7%*	*-2.6%*
Sugar Cane				
Output (Metric tonnes)	5,716,300	6,671,800	5,585,200	7,117,160
Growth (%)	*7.1%*	*16.7%*	*3.9%*	*27.4%*

* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

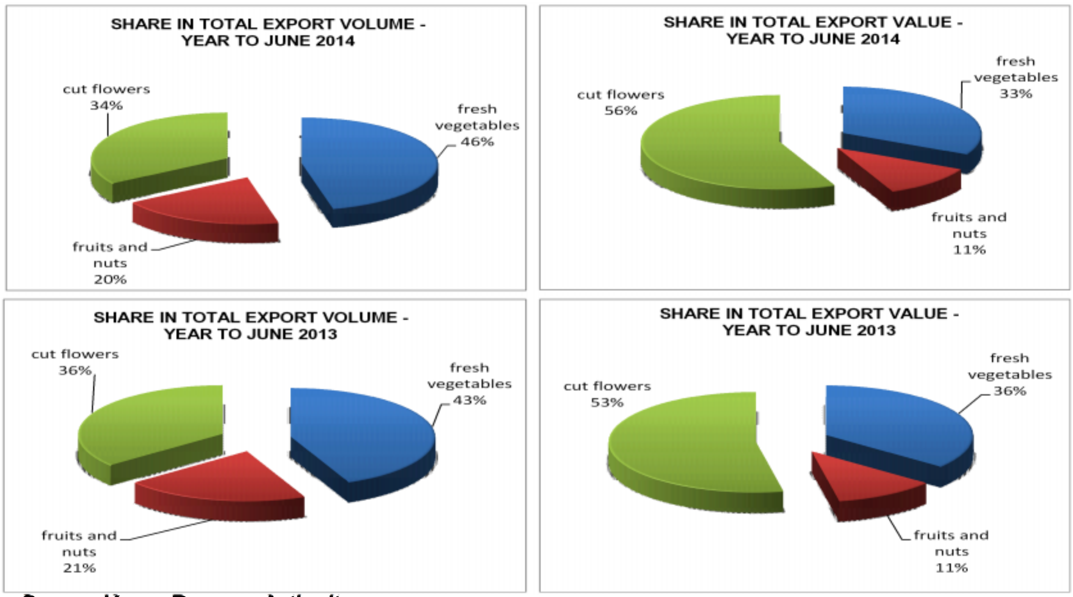
Tea

Production of tea declined by 1.1 percent in the year to June 2014 compared with growth of 22.2 percent recorded in the year to June 2013 (Table 3.2). The decline is attributed to unfavorable weather conditions. However, reflecting the larger volume supplied in 2014 compared with the previous year, the average auction price for tea declined from Ksh 260 per kilogram in the year to June 2013 to Ksh 196 per kilogram in the year to June 2014.

Horticulture

Export of fresh horticultural products increased by 8.5 percent from 285,592 metric tonnes in the year to June 2013 to 309,951 metric tonnes in the year to June 2014. Exports of fresh vegetables dominated in terms of volume, while cut flowers brought in the largest contribution to total export value in the year to June 2014 (Table 3.2 and Chart 3C).

CHART 3C: HORTICULTURAL EXPORTS



Source: Kenya Revenue Authority

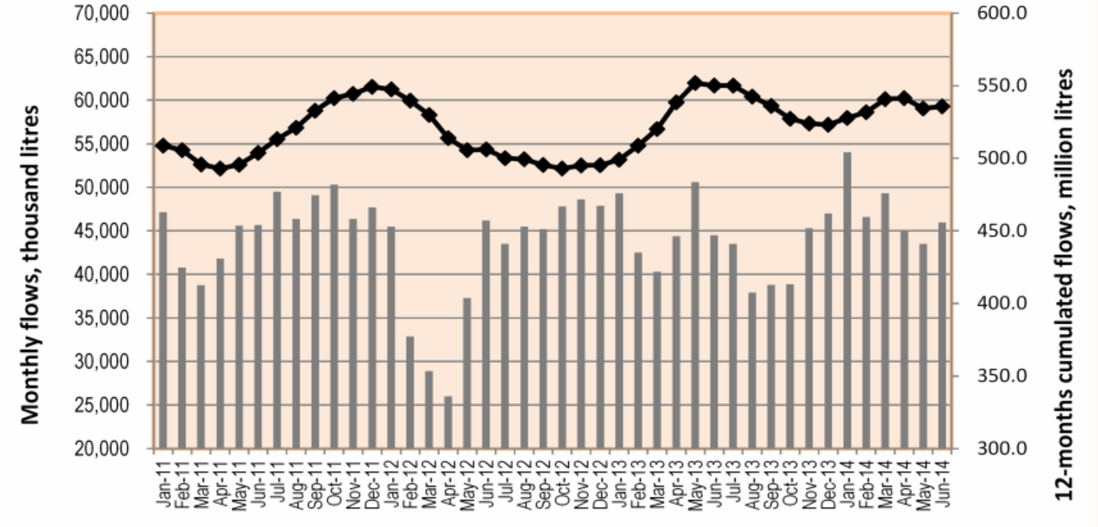
Coffee

Coffee sales declined by 7.0 percent from 42,966 metric tonnes in the year to June 2013 to 39,940 metric tonnes in the year to June 2014. The average auction price for coffee, however, increased from Ksh 283 per kilogram in the year to June 2013 to Ksh 321 per kilogram in the year to June 2014 owing to improved quality.

Dairy

The volume of milk intake in the formal sector declined by 2.6 percent to 536 million litres in the year to June 2014 (Chart 3D). The sector has, however, recorded a gradual increase in monthly uptake since November 2013 on account of increased investment in the activity. Consequently the 12 month cumulative supply in the formal sector has maintained an upward trend.

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 5.0 percent in the first quarter of 2014 compared with 2.5 percent growth in the first quarter of 2013. Indicators of the performance of manufacturing activity for the 12-month period to June 2014 (Table 3.3 and Chart 3E), show accelerating growth in production of cement, assembled vehicles, sugar and soft drinks. 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

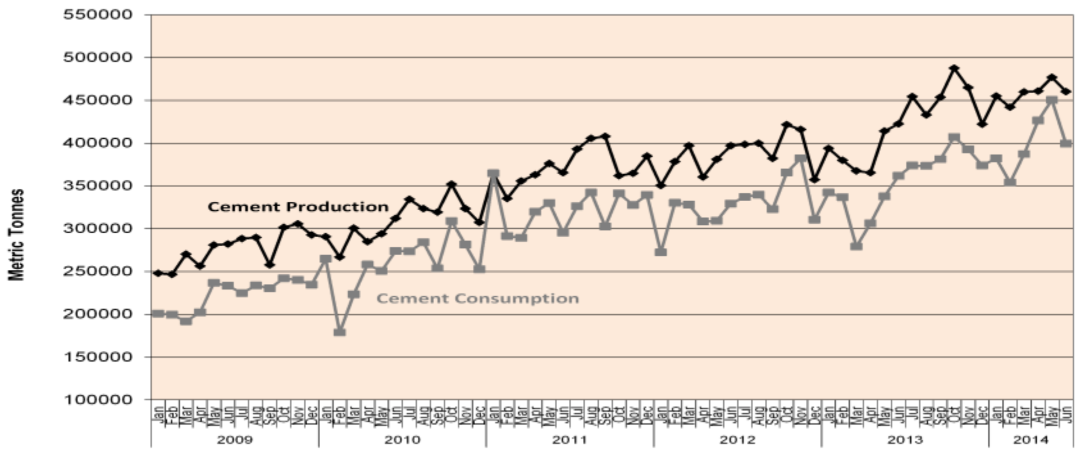
	Annual Totals 2012	Annual Totals 2013*	Year to June 13*	Year to June 14*
Cement production				
Output (MT)	4,639,723	5,059,129	4,719,014	5,469,954
Growth %	*3.6%*	*9.0%*	*3.0%*	*15.9%*
Assembled vehicles				
Output (No.)	6,218	6,948	6,324	8,118
Growth %	*2.8%*	*11.7%*	*-1.9%*	*28.4%*
Processed sugar				
Output (MT)	493,937	600,210	475,749	654,234
Growth %	*4.0%*	*21.5%*	*3.6%*	*37.5%*
Soft drinks				
Output ('000 litres)	359,518	407,027	373	449
Growth %	*-3.2%*	*13.2%*	*1.7%*	*20.4%*

MT = Metric tonnes

* Provisional

Source: Kenya National Bureau of Statistics

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

Energy Sector

Annual growth in local generation of electricity accelerated from 6.8 percent in the year to June 2013 to 11.3 percent in the year to June 2014 (Table 3.4). The total amount of electricity generated thus increased from 7,779 million kilowatt hours to 8,656 million kilowatt hours. The supply in the current period comprised 45.6 percent of hydro-electricity, 31.2 percent of thermal power and 23.2 percent of geo-thermal power. The increase in the amount of electricity produced reflects accelerated generation of thermal and geo-thermal power (green energy) to 43.6 percent and 25.5 percent, respectively, in the year to June 2014 compared with 17.4 percent and 6.3 percent growth registered in the comparable period of 2013. Generation of hydro-electricity, however, decreased by 8.2 percent in the year to June 2014 from 22.6 percent growth in the previous year, reflecting the unfavourable weather outcome. Growth in consumption of electricity increased from 2.8 percent in the year to June 2013 to 7.1 percent in the year to June 2014, while growth in consumption of fuels accelerated to 3.3 percent over the same period. The average price of murban crude oil rose marginally from US$ 109.5 per barrel in the year to June 2013 to US$ 110.7 per barrel in the year to June 2014.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	2012	2013	Year to June 13	Year to June 14*
Electricity Supply (Generation)				
Output (million KWH)	7,544	8,217	7,779	8,656
Growth %	*5.4%*	*8.9%*	*6.8%*	*11.3%*
Of which:				
Hydro-power Generation (million KWH)	4,032	4,387	4,298	3,945
Growth (%)	*26.6%*	*8.8%*	*22.6%*	*-8.2%*
Geo-Thermal Generation (million KWH)	1,522	1,781	1,599	2,008
Growth (%)	*5.4%*	*17.0%*	*6.3%*	*25.5%*
Thermal (million KWH)	1,990	2,049	1,882	2,703
Growth (%)	*-21.4%*	*3.0%*	*-17.4%*	*43.6%*
Consumption of electricity (million KWH)	6,270	6,564	6,363	6,818
Growth %	*1.9%*	*4.7%*	*2.8%*	*7.1%*
Consumption of Fuels ('000 tonnes)	3,764	3,650	3,694	3,816
Growth %	*6.2%*	*-3.0%*	*1.0%*	*3.3%*
Murban crude oil average price (US $ per barrel)	113.0	110.1	109.5	110.7
Growth %	*2.1%*	*-2.5%*	*-3.3%*	*1.0%*

* Provisional
Source: Kenya National Bureau of Statistics

Tourism

The number of tourist arrivals declined by 10.9 percent in the year to June 2014 (Table 3.5) compared with a decline of 9.3 percent in the year to June 2013. The unfavourable performance of tourism is attributed to adverse travel advisories from source countries regarding insecurity in the country. The ports of disembarkation tourist remained Jomo Kenyatta International Airport Nairobi (83.3 percent share), and the Moi International Airport, Mombasa (16.7 percent share).

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2013	Year to June 2013	Year to June 2014	Year to June 2014 % Share	Year to June 2014 % Growth
MIAM	189,654	182,651	172,370	*16.7%*	*-5.6%*
JKIA	912,998	978,909	862,845	*83.3%*	*-11.9%*
TOTAL	**1,102,652**	**1,161,560**	**1,035,215**	***100.0%***	***-10.9%***

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 1.8 percent in the year to May 2014, compared with a decline of 0.8 percent recorded in the previous year. The decline is attributed to both incoming and outgoing passengers, both of which decelerated by 1.8 percent (Table 3.6). On the other hand, the volume of oil passed through the Kenya pipeline increased by 8.3 percent in the year to May 2014, less rapidly compared with 10.9 percent in the year to May 2013.

TABLE 3.6: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2013*	Year to May 13*	Year to May 14*
Number of Passengers thro' JKIA			
Total passenger flows	4,290,349	4,327,922	4,250,540
Growth (%)	*-0.3%*	*-0.8%*	*-1.8%*
o.w. Incoming	2,144,002	2,159,573	2,121,082
Growth (%)	*-0.2%*	*-1.6%*	*-1.8%*
Outgoing	2,146,347	2,168,349	2,129,458
Growth %	*-0.4%*	*0.0%*	*-1.8%*
Kenya Pipeline Oil Throughput			
Output ('000 litres)	5,181,609	4,996,793	5,412,860
Growth %	*6.7%*	*10.9%*	*8.3%*

*** Provisional**

Source: Kenya National Bureau of Statistics

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

The overall Balance of Payments surplus improved to USD 1,963 million in the year to July 2014 from a surplus of USD 655 million in the year to July 2013 (Table 4.1) reflecting a 26.6 percent increase in the Capital and Financial account surplus.

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to July 2013*	Year to July 2014*: Q1 Aug-Oct	Q2 Nov- Jan	Q3 Feb-Apr	Q4 May-Jul	Year to July 2014*	Absolute Change	% Change
1. OVERALL BALANCE	655	173	255	151	1384	1963	1308.6	199.9
2. CURRENT ACCOUNT	-4662	-1445	-1162	-882	-1276	-4765	-103.2	2.2
2.1 Goods	-10761	-2998	-2879	-2472	-3172	-11521	-760.3	7.1
Exports (fob)	6069	1392	1476	1624	1542	6033	-36.4	-0.6
Imports (cif)	16830	4390	4355	4096	4714	17554	723.8	4.3
2.2 Services	6099	1553	1717	1590	1896	6756	657.1	10.8
Non-factor services (net)	3504	836	975	1054	1227	4093	589.5	16.8
Income (net)	-276	-83	-60	-33	-130	-307	-31.1	11.3
Current Transfers (net)	2872	800	802	569	799	2970	98.7	3.4
3. CAPITAL & FINANCIAL ACCOUNT	5317	1618	1417	1033	2660	6728	1411.8	26.6
3.1 Capital Tranfers (net)	146	26	17	66	94	203	56.7	38.8
3.2 Financial Account	5171	1593	1400	967	2566	6526	1355.1	26.2
memo:								
Gross Reserves	7907	7859	8519	8586	10029	10029	2122.6	26.8
Official	6096	6263	6612	6757	8128	8128	2031.8	33.3
*import cover***	*4.1*	*4.1*	*4.3*	*4.5*	*5.2*	*5.2*	1.1	27.9
*import cover****	*4.3*	*4.3*	*4.5*	*4.5*	*5.4*	*5.4*	1.1	24.3
Commercial Banks	1811	1596	1907	1829	1902	1902	90.8	5.0

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

Source: Central Bank of Kenya

Current Account

The deficit in the Current account balance worsened by 2.2 percent or USD 103.2 million to USD 4,765 million in the year to July 2014 from a deficit of USD 4,662 million in the year to July 2013, attributed to 7.1 percent increase in the Merchandise account deficit (Table 4.2).

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

ITEM	Year to July 2013*	Year to July 2014*: Q1 Aug-Oct	Q2 Nov- Jan	Q3 Feb-Apr	Q4 May-Jul	Year to July 2014*	Absolute Change	% Change
2. CURRENT ACCOUNT	-4662	-1445	-1162	-882	-1276	-4765	-103.2	2.2
2.1 Goods	-10761	-2998	-2879	-2472	-3172	-11521	-760.3	7.1
Exports (fob)	6069	1392	1476	1624	1542	6033	-36.4	-0.6
Coffee	207	48	36	56	75	215	8.6	4.2
Tea	1312	263	285	266	269	1084	-228.5	-17.4
Horticulture	727	176	198	213	209	796	68.2	9.4
Oil products	72	10	9	16	7	42	-29.4	-41.1
Manufactured Goods	690	179	164	165	127	635	-54.8	-7.9
Raw Materials	384	93	107	134	117	451	66.2	17.2
Chemicals and Related Products (n.e.s)	494	117	113	119	104	453	-41.1	-8.3
Miscelleneous Man. Articles	567	159	147	161	155	622	54.7	9.6
Re-exports	485	146	191	281	267	885	400.4	82.6
Other	1131	200	225	213	212	850	-280.8	-24.8
Imports (cif)	16830	4390	4355	4096	4714	17554	723.8	4.3
Oil	3860	947	976	985	1105	4013	153.1	4.0
Chemicals	2152	558	629	565	573	2326	173.8	8.1
Manufactured Goods	2433	723	656	630	665	2673	240.2	9.9
Machinery & Transport Equipment	4913	1149	1176	1185	1557	5066	153.2	3.1
Other	3369	973	862	713	794	3342	-27.2	-0.8
2.2 Services	6099	1553	1717	1590	1896	6756	657.1	10.8
Non-factor services (net)	3504	836	975	1054	1227	4093	589.5	16.8
Non-factor services (credit)	4721	1173	1316	1341	1523	5353	632.0	13.4
of which transport	2115	500	549	516	577	2143	27.4	1.3
of which tourism (Travel)	906	211	194	187	208	800	-106.6	-11.8
Other services account: gov't	950	238	217	233	238	925	-25.0	-2.6
Other services account: private	748	224	356	406	499	1485	736.2	98.4
Income (net)	-276	-83	-60	-33	-130	-307	-31.1	11.3
of which official interest	-130	-34	-26	-23	-85	-168	-37.4	28.7
Current Transfers (net)	2872	800	802	569	799	2970	98.7	3.4
Private (net)	2666	751	771	574	804	2900	234.4	8.8
of which Remittances	1219	327	338	343	352	1361	142.0	11.7
Public (net)	206	49	31	-5	-5	70	-135.7	-65.9

* Provisional.

Source: Central Bank of Kenya

Merchandise Account

The deficit in the Merchandise account worsened by USD 760.3 million to USD 11,521 million in the year to July 2014 reflecting a 0.6 percent drop in receipts from merchandise exports and a 4.3 percent increase in payments for merchandise imports (Table 4.2).

Imports

Payments for merchandise imports went up by USD 723.8 million to USD 17,554 million in the year to July 2014 on account of increased importation of oil, chemicals, manufactured goods, machinery and transport equipment. Payments for oil imports increased by USD 153.1 million in the year to July 2014 from USD 3,860 million in the year to July 2013 to USD 4,013 million in the year to July 2014 following increased import of diesel oil.

In terms of imports by source region, imports from Africa increased to USD 1,695 million (Table 4.3). Imports from the rest of the world also increased with an increase in imports from India, China, Japan, USA, Germany, Saudi Arabia, Indonesia and the Netherlands. Imports from the United Arab Emirates, the United Kingdom, Singapore, France and Bahrain decreased.

Exports

Receipts from merchandise exports decreased by USD 36.4 million to USD 6,033 million in the year to July 2014 reflecting reduced earnings from tea, oil products, manufactured goods; chemicals and related products and other exports with the decline in tea exports reflecting a fall in world prices. Receipts from coffee, horticulture exports, raw materials, miscellaneous manufactured articles and re-exports increased during the period under review. Earnings from coffee increased on account of favourable world prices and a rise in export quantities.

The value and share of Kenya's exports to Africa declined in the year to July 2014 (Table 4.3) largely reflecting decreases in exports to the EAC and COMESA. Exports to the rest of the world and in particular to the European Union, the USA and India increased.

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to July			Year to July		
Country	2012	2013	2014	2012	2013	2014
Africa	**1,780**	**1,592**	**1,695**	**11**	**9**	**10**
Of which						
South Africa	755	732	814	5	4	5
Egypt	329	291	279	2	2	2
Others	695	568	603	4	3	3
EAC	**318**	**329**	**368**	**2**	**2**	**2**
COMESA	**791**	**652**	**625**	**5**	**4**	**4**
Rest of the World	**14,534**	**15,238**	**15,859**	**89**	**91**	**90**
Of which						
India	1,950	2,518	3,264	12	15	19
United Arab Emirates	2,174	1,595	1,091	13	9	6
China	1,870	1,952	2,356	11	12	13
Japan	715	868	1,006	4	5	6
USA	715	707	1,195	4	4	7
United Kingdom	514	573	544	3	3	3
Singapore	102	241	195	1	1	1
Germany	428	466	507	3	3	3
Saudi Arabia	913	530	540	6	3	3
Indonesia	684	510	574	4	3	3
Netherlands	232	234	246	1	1	1
France	263	284	242	2	2	1
Bahrain	171	502	464	1	3	3
Italy	203	235	235	1	1	1
Others	3,602	4,024	3,399	22	24	19
Total	**16,314**	**16,830**	**17,554**	**100**	**100**	**100**
EU	2,297	2,438	2,488	14	14	14
China	1,870	1,952	2,356	11	12	13

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to July			Year to July		
Country	2012	2013	2014	2012	2013	2014
Africa	**2,887**	**2,841**	**2,701**	**48**	**47**	**45**
Of which						
Uganda	809	788	666	14	13	11
Tanzania	515	508	503	9	8	8
Egypt	257	228	204	4	4	3
Sudan	155	71	72	3	1	1
South Sudan	92	210	203	2	3	3
Somalia	239	209	169	4	3	3
DRC	209	229	225	4	4	4
Rwanda	169	181	156	3	3	3
Others	443	417	502	7	7	8
EAC	**1,558**	**1,539**	**1,396**	**26**	**25**	**23**
COMESA	**1,931**	**1,812**	**1,646**	**32**	**30**	**27**
Rest of the World	**3,089**	**3,228**	**3,332**	**52**	**53**	**55**
Of which						
United Kingdom	495	464	429	8	8	7
Netherlands	358	381	441	6	6	7
USA	303	331	404	5	5	7
Pakistan	242	300	238	4	5	4
United Arab Emirates	236	350	272	4	6	5
Germany	105	105	123	2	2	2
India	101	98	108	2	2	2
Afghanistan	129	188	128	2	3	2
Others	1,119	1,011	1,189	19	17	20
Total	**5,976**	**6,069**	**6,033**	**100**	**100**	**100**
EU	1,289	1,226	1,364	22	20	23
China	74	43	63	1	1	1

Source: Kenya Revenue Authority

Services Account

The surplus in the Services account increased by USD 657.1 million or 10.8 percent, to USD 6,756 million in the year to July 2014 from USD 6,099 million in the year to July 2013 on account of increases in net non-factor services and current transfers. Net non-factor services rose to USD 4,093 million on account of increases in receipts from other private services (Insurance and Communication services; royalties and licence fees). The deficit in the Income account worsened by USD 31.1 million in the year to July 2014 to USD 307 million reflecting decrease in investment income. Meanwhile, the surplus in the Current Transfers account improved by USD 98.7 million to USD 2,970 million attributed to USD 234.4 million increase in net private transfers which more than offset the USD 135.7 million drop in net public transfers. Remittance inflows (under private transfers) also increased by USD 142 million to USD 1,361 million during the year to July 2014 from USD 1,219 million during the year to July 2013 (Table 4.2). Average remittance inflows in the 12 months to July 2014 increased to USD 113.4 million from USD 101.6 million during the year to July 2013, underscoring resilience of remittances flows.

Capital and Financial Account

The surplus in the Capital and Financial account increased to USD 6,728 million in the year to July 2014 from USD 5,317 million in the year to July 2013, largely reflecting a 26.2 percent improvement in the Financial account surplus on the back of increases in official flows, commercial bank flows and short term flows net errors and omissions. Official flows rose by USD 1,292.8 million to USD 1,959 million.

Commercial bank flows increased from USD 157 million to USD 409 million in the year to July 2014 after commercial banks run down their net foreign assets. Short term flows (including net errors and omissions) increased by USD 69 million during the period under review.

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

ITEM	Year to July 2013*	Year to July 2014* Q1 Aug-Oct	Q2 Nov- Jan	Q3 Feb-Apr	Q4 May-Jul	Year to July 2014*	Absolute Change	% Change
3. CAPITAL & FINANCIAL ACCOUNT	5317	1618	1417	1033	2660	6728	1411.8	26.6
3.1 Capital Tranfers (net)	146	26	17	66	94	203	56.7	38.8
3.2 Financial Account	5171	1593	1400	967	2566	6526	1355.1	26.2
Official, medium & long-term	667	97	88	234	1539	1959	1292.8	194.0
Inflows	981	205	159	346	2193	2903	1921.4	195.8
Outflows	-315	-108	-70	-111	-654	-943	-628.6	199.7
Private, medium & long-term (net)	100	124	-57	101	-75	93	-6.7	-6.7
Commercial Banks (net)	157	133	50	172	54	409	252.9	161.5
Other private medium & long-term (net)	-56	-9	-108	-71	-129	-316	-259.6	459.8
Short-term (net) incl. errors & omissions	4404	1371	1369	631	1102	4473	69.0	1.6

* Provisional.
Source: Central Bank of Kenya

Foreign Exchange Reserves

In the year to July 2014, the banking system's total foreign exchange holdings increased to USD 10,029 million from USD 7,907 million at the end of July 2013. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased to USD 8,128 million (5.4 months of import cover) at the end of July 2014 from USD 6,096 million (4.3 months of imports cover) at the end of July 2013. The build-up in foreign exchange reserves during the period was largely attributed to proceeds received from the sale of the Eurobond in June 2014, disbursements from the International Monetary Fund (IMF) with the last disbursement received in December 2013 and purchases from the interbank market.

Foreign Exchange Reserves held by Commercial Banks increased to USD 1,902 million at the end of July 2014 from USD 1,811 million at the end of July 2013. During the same period, Residents' Foreign Currency Deposits increased to USD 4,084 million from USD 3,462 million (Table 4.5).

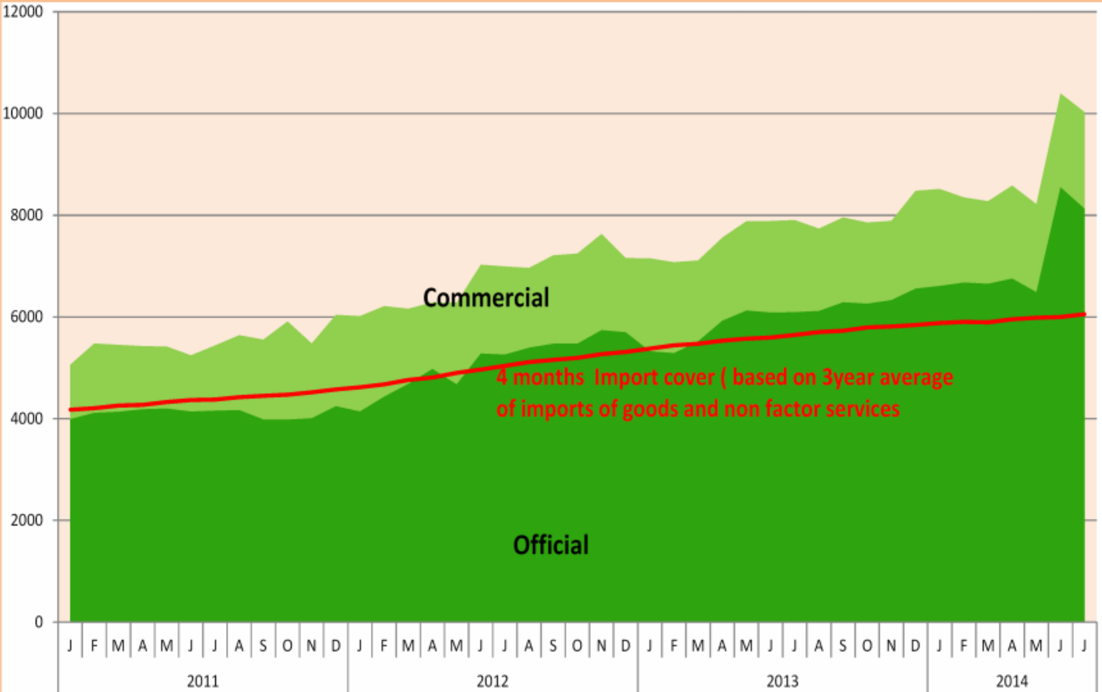
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14	Jul 14
1. Gross Foreign Exchange Reserves	7,740	7,959	7,859	7,893	8,483	8,519	8,352	8,279	8,586	8,223	10,399	10,029
of which:												
Official	6,120	6,291	6,263	6,333	6,560	6,612	6,679	6,654	6,757	6,491	8,555	8,128
*import cover***	4.3	4.4	4.3	4.4	4.5	4.5	4.5	4.5	4.5	4.3	5.7	5.4
Commercial Banks	1,620	1,668	1,596	1,560	1,923	1,907	1,673	1,625	1,829	1,732	1,844	1,902
2. Residents' foreign currency deposits	3,362	3,318	3,504	3,562	3,909	3,939	3,564	3,636	3,833	3,805	3,776	4,084

**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

In July 2014, the Kenya Shilling weakened to the US Dollar to trade at an average of 87.77 per USD compared to an average of 87.61 in June 2014. The weakening of the shilling was largely on account of high dollar demand from importers in early July amid high liquidity in the money market and high dollar demand towards the end of the month driven by importers meeting their end month obligations.

The Kenya Shilling strengthened to the Euro but weakened to the Pound Sterling and the Japanese Yen in July 2014 to trade at an average of 150.04 per Pound Sterling, 119.02 per Euro and 86.32 per 100 Japanese Yen compared to an average of 148.15 per Pound Sterling, 119.16 per Euro and 85.88 per 100 Japanese Yen in June 2014. In the EAC region, the Kenya shilling strengthened to the Uganda Shilling and the Rwanda Franc but weakened to the Tanzania Shilling and the Burundi Franc to trade at an average of Ush 29.97, Tsh 18.97, RWF 7.76 and BIF 17.65 against an average of Ush 29.44, Tsh 19.18, RWF 7.74 and BIF 17.68 in June 2014 (Table 4.6 and Chart 4D).

TABLE 4.6: KENYA SHILLING EXCHANGE RATE

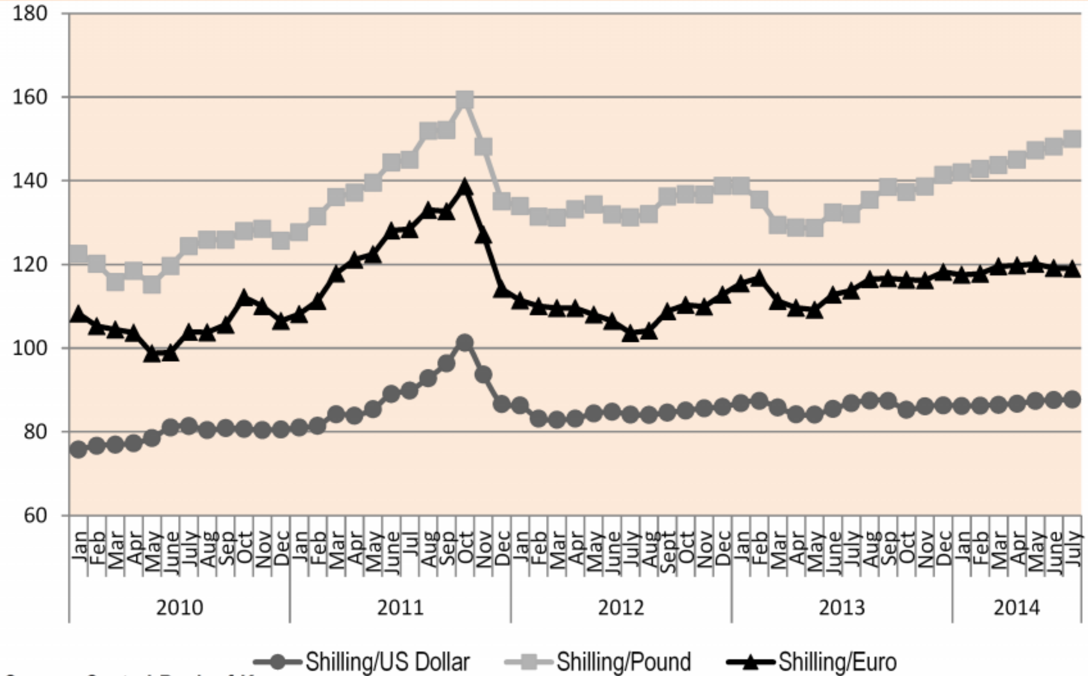
	2013						2014							
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	% change June-July 2014
US Dollar	86.86	87.49	87.41	85.31	86.10	86.31	86.21	86.28	86.49	86.72	87.41	87.61	87.77	0.18
Pound Sterling	132.00	135.47	138.54	137.31	138.64	141.37	141.99	142.81	143.76	145.08	147.29	148.15	150.04	1.28
Euro	113.74	116.51	116.67	116.33	116.22	118.18	117.50	117.81	119.58	119.78	120.09	119.16	119.02	-0.11
100 Japanese Yen	87.28	89.39	88.14	87.24	86.21	83.51	82.92	84.52	84.58	84.59	85.84	85.88	86.32	0.52
Uganda Shilling*	29.79	29.48	29.41	29.74	29.31	29.20	29.00	28.61	29.27	29.19	28.97	29.44	29.97	1.79
Tanzania Shilling*	18.69	18.50	18.48	18.87	18.68	18.63	18.68	18.82	18.88	18.86	18.92	19.18	18.97	-1.12
Rwanda Franc*	7.46	7.40	7.50	7.85	7.80	7.76	7.85	7.87	7.85	7.82	7.76	7.74	7.76	0.21
Burundi Franc*	17.83	17.58	17.59	18.13	18.01	17.91	17.99	18.00	17.98	17.88	17.72	17.68	17.65	-0.22

* Units of currency per Kenya Shilling

Source :Central Bank of Kenya

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 microfinance banks, 7 representative offices of foreign banks, 94 foreign exchange bureaus, 7 money remittance providers and 2 credit reference bureaus as at July 31, 2014.

Structure of the Balance Sheet

The banking sector balance sheet expanded by 19.0 percent from Ksh 2,528.6 billion in July 2013 to Ksh 3,008.2 billion in July 2014. The main components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 57.9 percent, 22.0 percent and 5.3 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances rose from Ksh 1,470.0 billion in July 2013 to Ksh 1,806.2 billion in July 2014, which translated to a growth of 22.9 percent. The growth was attributed to increase in lending to personal/households, trade, manufacturing, transport and communication and real estate sectors. Loans and advances net of provisions stood at Ksh 1,786.4 billion in July 2014, up from Ksh 1,455.2 billion registered in a similar period in 2013.

Deposit Liabilites

Deposits from customers which form the major source of funding for the banking sector, accounted for 72.6 percent of total funding liabilities. The deposit base grew by 17.6 percent from Ksh 1,856.9 billion in July 2014 to Ksh 2,183.5 billion in July 2014 largely supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

Capital & Reserves

The banking sector recorded improved capital levels in July 2014 with total shareholders' funds growing by 18.6 percent from Ksh 396.8 billion in July 2013 to Ksh 470.6 billion in July 2014. Core capital and Total capital increased from Ksh. 318.6 billion and Ksh 373.9 billion to Ksh 376.6 billion and Ksh 437.1 billion, respectively over the same period. However, the ratios of core and total capital to total risk-weighted assets declined from 20.1 percent and 23.5 percent in July 2013 to 15.0 percent and 17.4 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 value of gross non-performing loans (NPLs) grew by 27.8 percent from Ksh 78.8 billion in July 2013 to Ksh 100.7 billion in July 2014. The increase in NPLs is partly attributed to spill-over effects of high interest rates experienced in 2012 and lag-effects of reduced economic activities before and after the March 2013 general elections. The ratio of gross NPLs to gross loans increased from 5.4 percent in July 2013 to 5.6 percent July 2014. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 46.6 percent to 40.4 percent in July 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 2.3 percent in July 2013 to 2.7 percent in July 2014 (Table 5.1).

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

		13-Jul	14-Jul
1	Gross loans and advances	1470	1806.2
2	Interest in Suspense	14.8	19.8
3	Loans and advances (net of interest suspended)	1455.2	1786.4
4	Gross non-performing loans	78.8	100.7
5	Specific Provisions	29.8	32.7
6	General Provisions	11	12.4
7	Total Provisions (5+6)	41	45.1
8	Net Advances (3-7)	1414.2	1741.3
9	Total Non-Performing Loans and Advances (4-2)	64	80.9
10	Net Non-Performing Loans and Advances (9-5)	34.2	48.2
11	Total NPLs as % of total advances (9/3)	4.40%	4.50%
12	Net NPLs as % of gross advances (10/1)	2.30%	2.70%
13	Specific Provisions as % of Total NPLs (5/9)	46.60%	40.40%

Source: Central Bank of Kenya

Profitablility

The banking sector registered an increase of 14.0 percent growth in pre-tax profits, from Ksh 71.4 billion in July 2013 to Ksh 81.4 billion as at end of July 2014. The annualised return on assets declined from 3.8 percent to 3.6 percent over the same period. Similarly, return on equity declined from 30.9 percent to 29.7 percent over the same period. Total income increased by 15.1 percent from Ksh 205.3 billion in July 2013 to Ksh 236.2 billion in July 2014, while total expenses increased by 15.7 percent from Ksh 133.8 billion in July 2013 to Ksh 154.8 billion in July 2014. Interest on loans and advances, fees and commissions and government securities were the main sources of income accounting for 57.9 percent, 19.5 percent and 15.0 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 31.8 percent, 27.8 percent and 24.0 percent, respectively.

Liquidity Ratio Requirement

For the month ended 31st July 2014, average liquid assets amounted to Ksh 764.1 billion, while total short-term liabilities stood at Ksh 1,926.5 billion, resulting to an average liquidity ratio of 39.7 percent, against 41.5 percent registered in July 2013.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for reserve requirements averaged 5.35 percent in July 2014 compared with 5.88 percent in June 2014, and above 5.25 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of Ksh 2.14 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in July 2014 compared with Ksh 12.66 billion in June 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.

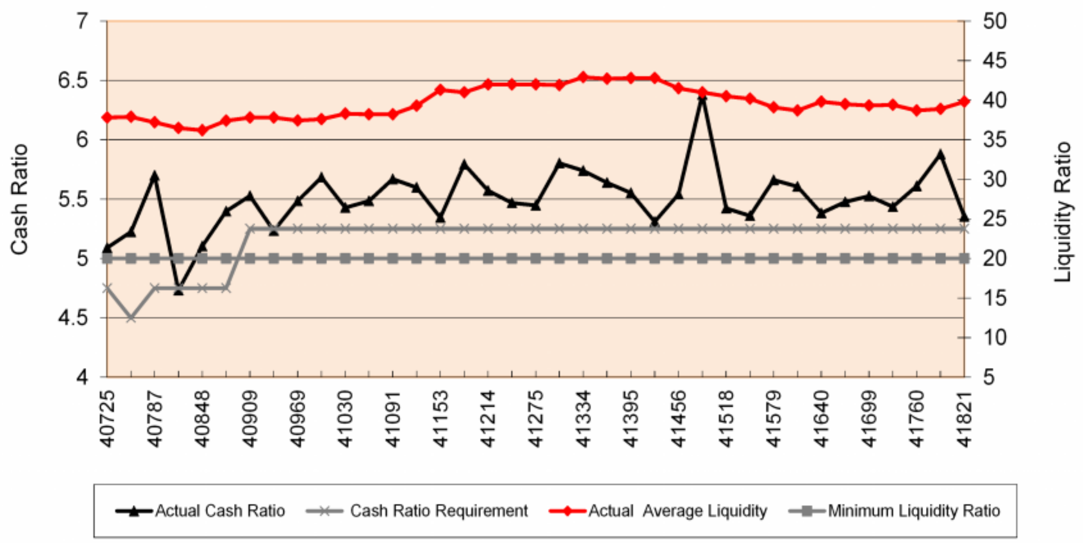
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2013						2014						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July
Commercial Banks													
Actual Average Liquidity	41.50	41.00	40.50	40.20	39.10	38.70	39.80	39.50	39.32	39.40	39.40	38.90	39.80
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.54	6.38	5.42	5.36	5.66	5.61	5.38	5.54	5.53	5.44	5.44	5.88	5.35
Minimum Cash Ratio Requirement	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
NBFIs													
Actual Average Liquidity Ratio	39.50	36.50	36.80	33.10	32.60	32.60	34.20	34.13	32.69	29.90	29.90	27.80	29.70
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00

* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 214,091 transaction messages worth Ksh 2,189 billion in July 2014 compared with a volume of 198,052 transaction messages valued at Ksh 2,133 billion moved in June 2014, representing an increase of 2.62 percent and 8.10 percent in value and volume, respectively. Compared to July 2013, the volume increased by 15.24 percent from 185,773 transaction messages to 214,091 transaction messages in July 2014 while value increased by 3.77 percent from 2,109 billion to 2,189 billion, indicating increased uptake of KEPSS services by the public.

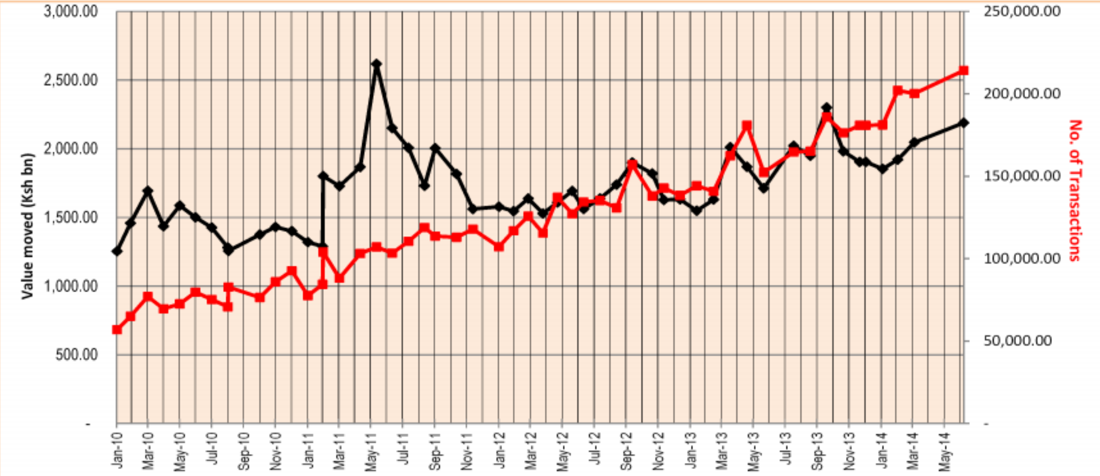
During the twelve months period to July 31, 2014 the value moved averaged Ksh 11 million per transaction. On average, 9,092 transaction messages with an average value of approximately Ksh 98 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted for 98.0 percent of the total settlements, while payments processed through ACH and settled in KEPSS averaged 2.0 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-12	1,579	28	107,230	0.01	21	75	5,106
Feb-12	1,546	27	116,990	0.01	21	74	5,571
Mar-12	1,638	26	125,739	0.01	22	74	5,715
Apr-12	1,529	26	115,514	0.01	19	80	6,080
May-12	1,610	26	137,135	0.01	22	73	6,233
Jun-12	1,693	26	127,147	0.01	20	85	6,357
Jul-12	1,561	26	134,391	0.01	23	71	6,109
Aug-12	1,637	26	135,243	0.01	23	71	5,880
Sep-12	1,739	26	130,874	0.01	20	87	6,544
Oct-12	1,900	26	157,020	0.01	23	83	6,827
Nov-12	1,820	26	137,975	0.01	22	83	6,272
Dec-12	1,627	30	142,867	0.01	18	90	7,937
Jan-13	1,632	25	138,297	0.01	22	74	6,286
Feb-13	1,548	25	144,248	0.01	20	77	7,212
Mar-13	1,631	28	140,781	0.01	20	82	7,039
Apr-13	2,011	32	162,432	0.01	20	101	8,122
May-13	1,869	31	181,045	0.01	22	85	8,229
Jun-13	1,712	28	152,310	0.01	20	86	7,616
Jul-13	2,109	35	185,773	0.01	23	92	8,077
Aug-13	2,021	24	164,650	0.01	21	96	7,840
Sep-13	1,949	31	165,175	0.01	21	93	7,865
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	87	8,223
Feb-14	1,853	28	181,123	0.01	20	93	9,056
Mar-14	1,920	31	202,035	0.01	21	91	9,621
Apr-14	2,047	27	200,151	0.01	20	102	10,008
May-14	2,188	28	209,019	0.01	21	104	9,953
Jun-14	2,133	32	198,052	0.01	20	107	9,903
Jul-14	2,189	28	214,091	0.01	22	99	9,731

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third Party Messages

Multiple third party Message Type (MT 102) used for multiple credit transfers decreased by 56.67 percent from 26,649 transaction messages in June 2014 to 11,546 transaction messages in July 2014, while single third party Message Type (MT 103) used for single credit transfers increased by 0.85 percent from 220,504 transaction messages to 222,388 transaction messages in the same period. Overall, total third party messages through KEPSS decreased by 5.35 percent from 247,153 transaction messages in June 2014 to 233,934 transaction messages in July 2014. Compared with July 2013, multiple third party messages (MT 102) decreased by 5.28 percent from 12,189 transaction messages to 11,546 transaction messages in July 2014 while single third party messages (MT 103) increased by 15.91 percent from 191,864 transaction messages to 222,388 transaction messages (Table 5.4 and Chart 5C).

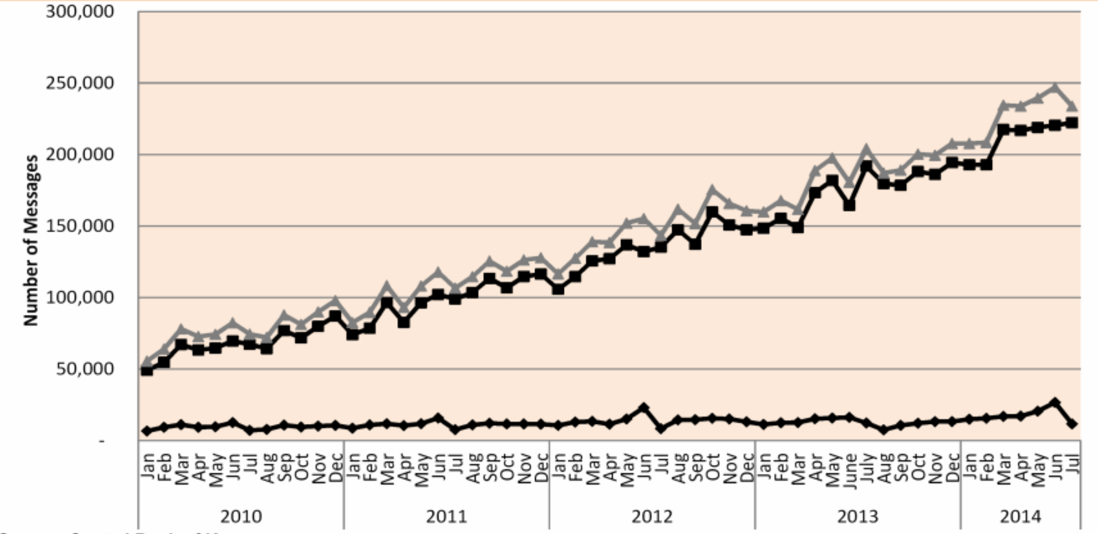
Inter-bank transfers (MT 202) accounted for 35.62 percent of the total value moved through KEPSS as at end of July 2014 while third party (MT 102 and MT 103) messages accounted for 64.38 percent. The total number of third party messages grew by 14.64 percent from 204,053 messages in July 2013 to 233,934 messages in July 2014. This signifies continued growth in KEPSS usage by individuals and non-bank corporate bodies.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2012	Jan	10,661	105,817	116,478
	Feb	12,871	114,522	127,393
	Mar	13,428	125,628	139,056
	Apr	11,439	127,126	138,565
	May	15,093	136,942	152,035
	Jun	23,048	132,103	155,151
	Jul	8,268	135,173	143,441
	Aug	14,459	147,373	161,832
	Sep	14,527	137,268	151,795
	Oct	15,616	159,847	175,463
	Nov	15,008	150,800	165,808
	Dec	13,123	147,510	160,633
2013	Jan	11,267	148,497	159,764
	Feb	12,405	155,349	167,754
	Mar	12,681	148,954	161,635
	Apr	15,247	173,453	188,700
	May	15,690	181,934	197,624
	Jun	16,254	164,422	180,676
	Jul	12,189	191,864	204,053
	Aug	7,530	179,629	187,159
	Sep	10,655	178,480	189,135
	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
	Mar	16,935	217,572	234,507
	Apr	17,019	216,820	233,839
	May	20,543	218,936	239,479
	Jun	26,649	220,504	247,153
	Jul	11,546	222,388	233,934

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

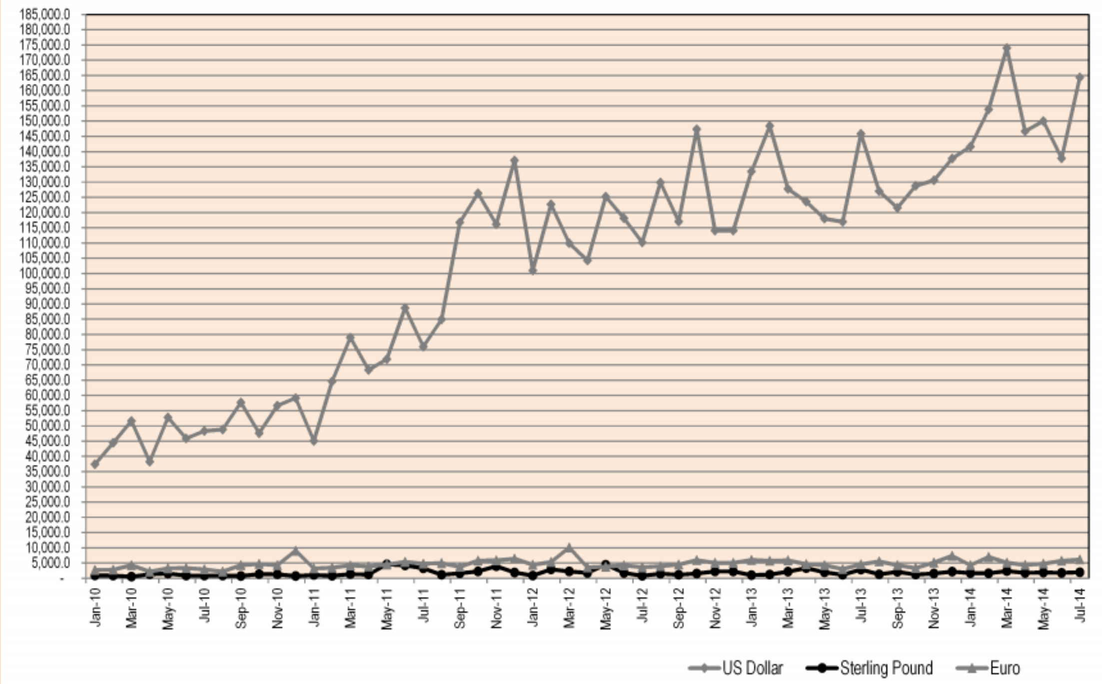


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 15.29 percent from 15,711 transaction messages in June 2014 to 18,113 transaction messages in July 2014. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period increased by 18.73 percent from Ksh 145.3 billion to Ksh 172.5 billion. The US dollar denominated transactions accounted for 95.28 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.14 percent and 3.58 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 during the first month of the FY 2014/15 resulted in a budget surplus of Ksh 21.0 billion (0.4 percent of GDP) on commitment basis compared with a surplus of Ksh 8.9 billion incurred in the similar period in the FY 2013/14. This was within the Ksh 5.3 billion (0.1 percent of GDP) deficit programmed target for the period.This surplus was on account of slow start of Government payments as well as an underperformance in government revenues.

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

	FY 2013/14	FY 2014/15		
	July Actual	July Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	**58.6**	**69.6**	**81.6**	**-12.1**
Revenue	**58.6**	**69.6**	**79.0**	**-9.5**
Tax Revenue	56.1	64.1	71.0	-6.8
Non Tax Revenue	0.2	1.1	1.2	0.0
Appropriations-in-Aid	2.3	4.3	6.9	-2.6
External Grants	0.0	0.0	2.6	-2.6
2. TOTAL EXPENSES & NET LENDING	**49.7**	**48.6**	**87.0**	**-38.4**
Recurrent Expenses	49.6	47.9	59.4	-11.4
Development Expenses	0.2	0.7	27.6	-26.9
County Transfers	0.0	0.0	0.0	0.0
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**8.9**	**21.0**	**-5.3**	**26.3**
As percent of GDP	0.2	0.4	*-0.1*	
4. ADJUSTMENT TO CASH BASIS	**0.0**	**0.0**	**0.0**	**0.0**
5. DEFICIT ON A CASH BASIS	**8.9**	**21.0**	**-5.3**	**26.3**
As percent of GDP	0.2	0.4	-0.1	
6. DISCREPANCY: Expenditure (+) / Revenue (-	**-6.9**	**-17.0**	**0.0**	**-17.0**
7. FINANCING	**-15.8**	**-38.0**	**5.3**	**-43.3**
Domestic (Net)	-12.5	-35.2	-2.2	-33.0
External (Net)	-3.3	-2.8	7.5	-10.3
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: National Treasury

Revenue

Total government revenues and grants during the first month of the fiscal year 2014/15 amounted to Ksh 69.6 billion. This marked an increase of Ksh 11.0 billion from Ksh 58.6 billion recorded in a similar period in FY 2013/14 (Table 6.2). Tax revenue accounted for 92.1 percent of the total revenue realized, tax revenue fell short of the target by Ksh 6.8 billion. External grants and appropriation in aid both underperformed by Ksh 2.6 billion with respect to the targeted amounts of Ksh 6.9 billion and Ksh 2.6 billion respectively during this period (Table 6.1) Most revenue components performed below targets largely reflective of a slow start to the fiscal year.

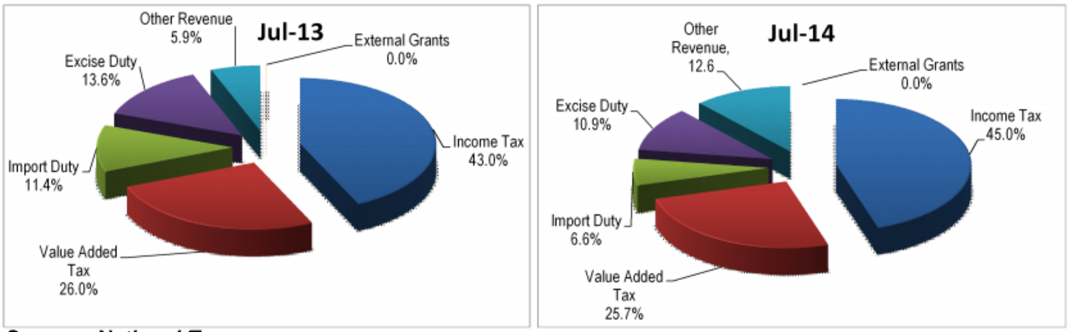
TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Jul-13 Ksh bn	Jul-14 Ksh bn	Change
1. Revenue (2+3+4)	**58.6**	**69.6**	**11.0**
2. Tax Revenue	56.1	64.1	8.0
Income Tax	25.2	31.3	6.1
Value Added Tax	15.3	17.9	2.6
Import Duty	6.7	4.6	-2.1
Excise Duty	7.9	7.6	-0.3
Others	1.0	2.7	
3. Appropriations-in-Aid	2.3	4.31	2.1
4. Other Revenue	0.2	1.1	0.9
5. External Grants	**0.0**	**0.0**	**0.0**
TOTAL RECEIPTS (1+5)	**58.6**	**69.6**	**11.0**

Source: National Treasury

Tax revenue grew by Ksh 8.0 billion, equivalent to 14.3 percent increase, from Ksh 56.1 billion collected in the first month of the FY 2013/14 to Ksh 64.1 billion collected in a similar period in the FY 2014/15 (Table 6.2). The increase was largely on account of income tax, which grew by Ksh 6.1 billion (24.2 percent) during the period. Excise tax and Import duty declined by Ksh 0.3 and Ksh 2.1 billion respectively. Value added tax and Appropriations in Aid increased by Ksh 2.6 billion and Ksh 2.1 billion respectively. Other tax revenue rose by Ksh 1.7 billion during the period under review. All taxes under-performed with respect to targets, which suggests a slow start to the fiscal year.

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: National Treasury

Expenditure and Net Lending

Government expenditure and net lending declined by Ksh 1.1 billion to Ksh 48.6 billion during the first month of the FY 2014/15 from Ksh 49.7 billion expended over a similar period in FY 2013/14.. Total expenditure during this period amounted to Ksh 48.6 billion, comprising Ksh 47.9 billion in recurrent expenditure and Ksh 0.7 billion in development expenditure. There were no county transfers during the period under review.

Recurrent expenditure decreased by Ksh 1.6 billion during the period under review. Salaries and wages, and interest payments increased by 2.2 billion and Ksh 2.0 billion, respectively. The increase in interest payment consisted of a Ksh 1.2 billion increase in domestic interest payments and Ksh 0.8bn in foreign interest payments. Other recurrent expenditure declined by Ksh 5.8bn in the period under review. Development expenditure increased by Ksh 0.5 billion but underperformed in relation to the target. There were no county transfers in the period under review which was in line with the expectation of the budgetary estimates (Table 6.1). The lower than projected absorption in the development budget is attributed to slow absorption of funds from external sources.

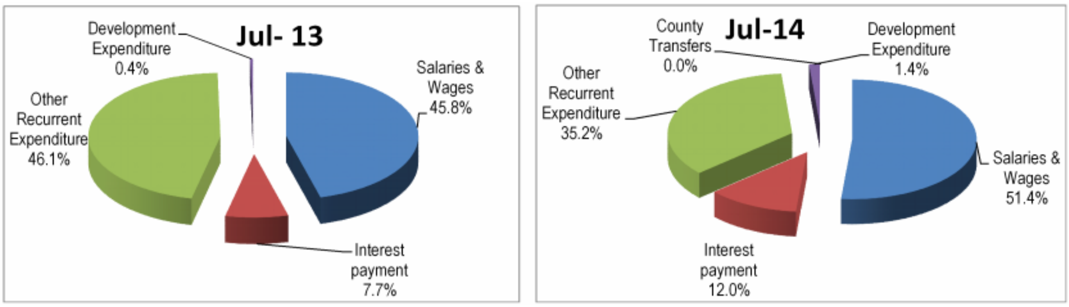
TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)

	Jul-13 Ksh bn	Jul-14 Ksh bn	Movement
1.Recurrent	**49.6**	**47.9**	**-1.6**
Salaries & Wages	22.8	25.0	2.2
Total Interest	3.8	5.8	2.0
of which			
Domestic*	3.3	4.5	1.2
Foreign interest due	0.5	1.3	0.8
Others	22.9	17.1	-5.8
2. Development	**0.2**	**0.7**	**0.5**
3. County Transfers	**0.0**	**0.0**	**0.0**
TOTAL EXPENSES	**49.7**	**48.6**	**-1.1**

*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 54.2 billion in the first month of the FY 2014/2015 compared with Ksh 44.6 billion in a similar period in the FY 2013/14. The Government sourced the funds through domestic borrowing amounting to Ksh 16.2 billion and reduced net external debt by Ksh 2.8 billion. In the first month of the fiscal year there was a budgetary surplus of Ksh 38 billion. There was a buildup of government deposits by Ksh 44.3 billion (Table 6.4). The build-up of Government deposits in part mirrors the slow uptake in development expenses.

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

I. FINANCING REQUIREMENTS	Jul-13	Jul-14
1. Budget deficit	0.0	0.0
2. External debt reduction	3.3	2.8
3. Domestic debt reduction	2.5	7.1
3.1 Central Bank (incl. items in transit)	0.0	3.6
3.2 Commercial banks (net of deposits)	2.5	0.0
3.3 Non-bank sources	0.0	3.5
4. Increase in GoK deposits at CBK	38.8	44.3
5. Adjustment to cash basis	0.0	0.0
TOTAL	44.6	54.2
II. FINANCING SOURCES	**Jul-13**	**Jul-14**
1. Budget surplus	15.8	38.0
2. External debt increase	0.0	0.0
3. Increase in domestic debt	28.8	16.2
3.1 Central Bank	8.4	0.0
3.2 Commercial banks	0.0	16.2
3.3 Non-bank sources	20.4	0.0
4. Reduction in GoK deposits at CBK	0.0	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	44.6	54.2

Sources: National Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

The government increased the debt owed to the Central Bank by Ksh 16.7 billion thereby increasing the net stock of debt to Ksh 61.6 billion for the first month of the FY 2014/2015 compared to Ksh 44.9 billion owed in a similar period of the 2013/ 2014 fiscal year. The increase in Government's liability to the Central Bank was largely due to utilisation of the overdraft facility, which however, remained within the statutory limit. The Government repaid Ksh 1.1 billion, through the regular amortization of the pre- 1997 overdraft at the Central Bank. In May 2014, the statutory limit of government overdraft at the Central Bank was revised upwards to 37.2 billion and Government borrowing through this facility has been maintained within this limit.

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

	2013	2014	Movement
	July	July	
Total Credit	**44.9**	**61.6**	**16.7**
1. Overdraft	15.5	31.7	16.2
2. Rediscounted securities	0.4	2.1	1.7
Treasury bills	0.0	2.0	2.0
Treasury bonds	0.3	0.0	-0.3
3. Pre-1997 Government Overdraft at CBK	28.9	27.8	-1.1
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	37.2	11.9
Amount utilised to date	25.4	31.7	6.3
Amount available	0.0	0.0	0.0

Source: Central Bank of Kenya

Outlook for FY 2014/15

In the budget estimates for the FY 2014/15 ordinary revenue is estimated at Ksh 1087.1 billion (22.9 percent of GDP) while external grants are estimated at Ksh 58.7 billion (1.2 percent of GDP). Government expenditure is estimated at Ksh 1,597.8 billion (or 33.6 percent of GDP), of which, Ksh 871.5 billion (18.3 percent of GDP) will be in recurrent expenses, transfer to the county government of Ksh 229.3 billion, a contingency fund of Ksh 5.0 billion and the balance is 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	**1240.0**	**26.1**
Ordinary Revenue	1087.1	**22.9**
Appropriations-in-Aid	94.1	**2.0**
External Grants	58.7	**1.2**
2. TOTAL EXPENSES & NET LENDING	**1597.8**	**33.6**
Recurrent Expenses	871.5	**18.3**
Development Expenses	492.0	**10.3**
County Transfer	229.3	**4.8**
Contigency Fund	5.0	**0.1**
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-357.8**	**-7.5**
4. ADJUSTMENT TO CASH BASIS	**0.0**	**0.0**
5. DEFICIT ON A CASH BASIS	**-357.8**	**-7.5**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.0**	**0.0**
7. FINANCING	**357.8**	**7.5**
Domestic (Net)	192.1	**4.0**
External (Net)	165.8	**3.5**

Source: Treasury using the new re-based GDP figures as of Sept 2014

Source: National Treasury using the new re-based GDP figures as of Sept 2014

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 357.8 billion (7.5 percent of GDP) in 2014/15. The deficit is expected to be financed through net external borrowing of Ksh 165.8 billion and net domestic borrowing of Ksh 192.1 billion.

Developments in Public Debt

Overall Debt

Kenya's public and publicly guaranteed debt increased by 0.7 percent to reach Ksh 2,386.1 billion in July 2014, from Ksh 2370.3 billion in June, 2014. The total debt stock at the end of the first one month of the FY 2014/15 was equivalent to 50.2 percent of GDP, a slight increase from 49.8 percent of GDP in June 2014. The debt to GDP ratios for both domestic and external debt increased from 22.8 percent and 27.0 percent, respectively, in June 2014 to 22.9 percent and 27.3 percent in July 2014 (Table 7.1).

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

	Jun-13	Jul-13	Oct-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Change 2014/15
Bilateral	257.6	270.6	273.9	284.2	244.2	283.7	288.5	288.4	289.9	286.2	-3.8
Multilateral	511.8	529.1	539.9	561.7	573.3	581.9	587.5	595.6	597.3	604.7	7.4
Commercial Banks	58.9	59.9	58.7	59.0	59.1	59.2	59.1	59.6	182.2	182.5	0.2
Supplier Credits	15.2	15.6	15.5	15.6	15.7	15.7	15.9	14.3	16.5	16.3	-0.1
Sub-Total	**843.6**	**875.2**	**888.0**	**920.4**	**892.3**	**940.5**	**951.0**	**957.9**	**1085.9**	**1089.7**	3.7
(As a % of GDP)	19.8	18.4	18.7	19.3	18.8	19.8	20.0	20.1	22.8	22.9	
(As a % of total debt)	44.5	44.8	43.0	43.4	42.1	43.3	43.9	43.7	45.8	45.7	
DOMESTIC/[1]											
Banks	**563.5**	**573.7**	**612.8**	**633.4**	**664.4**	**663.5**	**632.5**	**644.1**	**682.8**	**698.7**	**15.9**
Central Bank	36.4	47.7	57.4	56.6	73.3	77.2	63.2	68.1	65.7	61.6	-4.1
Commercial Banks	527.1	526.0	555.4	576.8	591.1	586.3	569.3	576.0	617.1	637.1	20.0
Non-banks	**477.5**	**496.1**	**551.6**	**557.0**	**553.2**	**553.7**	**570.8**	**575.3**	**586.5**	**583.6**	**-2.9**
Pension Funds	263.1	272.4	284.9	306.0	304.8	310.6	311.1	313.6	322.9	323.3	0.5
Insurance Companies	108.6	111.9	117.8	116.6	117.3	117.8	118.3	120.1	121.0	121.1	0.1
Other Non-bank Sources	105.9	111.8	149.0	134.4	131.1	125.3	141.4	141.7	142.6	139.2	-3.4
Non-residents	**9.6**	**8.9**	**10.3**	**10.5**	**11.7**	**14.0**	**13.4**	**13.1**	**14.9**	**14.2**	**-0.8**
Sub-Total	**1050.6**	**1078.6**	**1174.8**	**1200.9**	**1229.3**	**1231.2**	**1216.8**	**1232.5**	**1284.3**	**1296.4**	**12.1**
(As a % of GDP)	24.7	22.7	24.7	25.2	25.8	25.9	25.6	25.9	27.0	27.3	
(As a % of total debt)	55.5	55.2	57.0	56.6	57.9	56.7	56.1	56.3	54.2	54.3	
GRAND TOTAL	**1894.1**	**1953.8**	**2062.8**	**2121.3**	**2121.6**	**2171.7**	**2167.7**	**2190.4**	**2370.3**	**2386.1**	**15.8**
(As a % of GDP)	44.5	41.1	43.4	44.6	44.6	45.6	45.6	46.0	49.8	50.2	

*** computed using the re-based GDP figures as of Sept 2014**

Sources: National Treasury and Central Bank of Kenya

Domestic Debt

The total stock of domestic debt increased by Ksh 12.1 billion during the first one month of the FY 2014/15 to reach Ksh 1,296.4 billion. This was solely as a result of an increase of Ksh 19.8 billion in Treasury Bills holdings. Treasury Bonds, non-interest bearing debt, and the government overdraft facility at the Central Bank declined by Ksh 0.4 billion, Ksh 0.6 billion and Ksh 5.6 billion, respectively (Table 7.2). As a ratio of total debt, domestic debt increased from 54.2 percent in June, 2014 to 54.3 percent in July 2014.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2013		2014										Change
	June	%	Mar	%	Apr	%	May	%	June	%	July	%	Jun-14-July-14
Total Stock of Domestic Debt (A+B)	**1,050.6**	**100.0**	**1,231.2**	**100.0**	**1216.8**	**100.0**	**1,232.5**	**100.0**	**1,284.3**	**100.0**	**1,296.4**	**100.0**	**12.1**
A. Government Securities	**1,040.8**	**99.1**	**1,194.6**	**97.0**	**1,179.6**	**96.9**	**1,190.1**	**96.6**	**1,242.4**	**96.7**	**1,261.3**	**97.3**	**18.8**
1. Treasury Bills (excluding Repo Bills)	**267.7**	**25.5**	**302.8**	**24.6**	**276.7**	**22.7**	**274.8**	**22.3**	**299.4**	**23.3**	**319.2**	**24.6**	19.8
Banking institutions	183.5	17.5	190.3	15.5	151.9	12.5	152.9	12.4	176.5	13.7	199.7	15.4	23.2
Others	84.2	8.0	112.5	9.1	124.8	10.3	121.9	9.9	123.0	9.6	119.5	9.2	(3.5)
2. Treasury Bonds	**744.2**	**70.8**	**863.6**	**70.1**	**874.7**	**71.9**	**886.9**	**72.0**	**914.8**	**71.2**	**914.4**	**70.5**	**(0.4)**
Banking institutions	341.0	32.5	407.9	33.1	414.8	34.1	420.5	34.1	436.4	34.0	436.2	33.6	(0.2)
Pension Funds	220.1	21.0	238.0	19.3	240.5	19.8	244.6	19.8	247.5	19.3	322.9	24.9	75.4
Others	183.0	17.4	217.7	17.7	219.3	18.0	221.8	18.0	230.9	18.0	155.3	12.0	(75.6)
4. Non-Interest Bearing Debt	**28.9**	**2.7**	**28.3**	**2.3**	**28.3**	**2.3**	**28.3**	**2.3**	**28.3**	**2.2**	**27.7**	**2.1**	**(0.6)**
Of which: Repo T/Bills	28.9	2.8	28.3	2.3	28.3	2.3	28.3	2.3	28.3	2.2	27.7	2.1	(0.6)
B. Others:	**9.8**	**0.9**	**36.6**	**3.0**	**37.2**	**3.1**	**42.4**	**3.4**	**41.9**	**3.3**	**35.2**	**2.7**	**(6.7)**
Of which CBK overdraft to Government	7.0	0.7	34.2	3.0	34.2	3.1	39.1	3.2	37.2	2.9	31.7	2.4	(5.6)

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding repos, increased by Ksh 19.8 billion from Ksh 299.4 billion in June 2014 to Ksh 319.2 billion in July 2014 (Table 7.2). Consequently, the proportion of Treasury Bills to total domestic debt increased to 24.6 percent in July 2014 from 23.3 percent in June 2014. The dominant investors in Treasury Bills were commercial banks and pension funds, with shares of 61.9 percent, and 21.2 percent respectively, by July 2014 compared with shares of 58.9 percent and 22.6 percent as at June 2014 (Table 7.3).

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

	2013						2014								Change
Holders	Jul	%	Sept	%	Dec	%	Apr	%	May	%	June	%	July	%	Jun 14-July- 14
Banking Institutions	179.1	70.3	199.3	64.8	191.1	62.2	151.9	54.9	152.9	55.6	176.5	58.9	199.7	62.6	23.2
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.2	0.5	0.2	0.0	0.0	2.0	0.6	2.0
Comm. Banks	179.1	70.3	199.3	64.8	191.1	62.2	151.4	54.7	152.4	55.5	176.4	58.9	197.6	61.9	21.2
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	15.5	6.1	19.2	6.2	20.5	6.7	20.4	7.4	19.9	7.3	19.9	6.6	20.5	6.4	0.7
Parastatals	5.6	2.2	4.7	1.5	4.1	1.3	4.3	1.6	5.1	1.9	4.2	1.4	4.2	1.3	0.0
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	42.6	16.7	57.4	18.7	69.9	22.7	70.6	25.5	68.9	25.1	67.8	22.6	67.6	21.2	-0.2
Others	12.1	4.8	27.0	8.8	21.7	7.1	29.5	10.7	28.0	10.2	31.1	10.4	27.1	8.5	-4.0
Total	254.8	100.0	307.6	100.0	307.3	100.0	276.7	100.0	274.8	100.0	299.4	100.0	319.2	100.0	19.8

Source: Central Bank of Kenya

Treasury Bonds

Outstanding Treasury Bonds decreased by Ksh 0.4 billion from Ksh 914.8 billion in June 2014 to Ksh 914.4 billion in July 2014.Subsequently, the proportion of bonds to total domestic debt decreased from 71.2 percent in June 2014 to 70.5 percent in July 2014 following an increase in the proportion of Treasury Bills holdings (Table 7.2). The decline in the holding of Treasury Bonds was as follows: Ksh 0.2 billion, Ksh 0.3 billion, Ksh 0.6 billion and Ksh 74.8 billion redeemed by commercial banks, parastatals , insurance companies and other holders, respectively. Treasury Bonds held by non-bank financial institutions, building societies and Central Bank remained unchanged during the period under review. In terms of the proportion of holdings, the shares of commercial banks, The Central Bank, building societies, National Social Security Fund and non-bank financial institutions remained unchanged during the period under review. The shares of Treasury bonds held by insurance companies and other holders declined from 11.1percent and 10.3 percent to 11 percent and 2.2 percent, respectively. Conversely, the share held pension fund increased from 27.1 percent in June, 2014 to 35.3 percent in June 2014(Table 7.4)

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

Holders	2013								2014								Change
	June	%	Oct	%	Nov	%	Dec	%	Apr	%	May	%	June	%	July	%	Jun 14-July 14
Banking Institutions	341.2	45.9	354.3	44.2	348.1	43.9	369.7	45.3	414.8	47.4	420.5	47.4	436.4	47.7	436.2	47.7	-0.2
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	341.0	45.8	354.1	44.2	347.9	43.9	369.5	45.3	414.7	47.4	420.5	47.4	436.3	47.7	436.1	47.7	-0.2
NBFIs	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.0
Insurance Companies	93.7	12.6	97.3	12.1	96.7	12.2	96.7	11.8	97.9	11.2	100.1	11.3	101.2	11.1	100.6	11.0	-0.6
Parastatals	42.7	5.7	40.3	5.0	40.3	5.1	39.4	4.8	34.4	3.9	42.7	4.8	34.4	3.8	34.1	3.7	-0.3
Of which: NSSF	22.7	3.1	21.6	2.7	21.6	2.7	21.2	2.6	16.2	1.8	22.7	2.6	16.2	1.8	16.1	1.8	-0.1
Building Societies	0.6	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.6	0.1	0.5	0.1	0.5	0.1	0.0
Pension Funds	220.1	29.6	229.6	28.6	228.8	28.8	230.9	28.3	240.5	27.5	220.1	24.8	247.5	27.1	322.9	35.3	75.4
Others	45.8	6.2	79.8	10.0	79.0	10.0	79.1	9.7	86.4	9.9	102.7	11.6	94.7	10.3	19.9	2.2	-74.8
Total	**744.2**	**100.0**	**801.8**	**100.0**	**793.4**	**100.0**	**816.3**	**100.0**	**874.7**	**100.0**	**886.9**	**100.0**	**914.8**	**100.0**	**914.4**	**100.0**	-0.4

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Total domestic debt as at July 2014 amounted to Ksh 1,296.4 billion with government securities accounting for 97.3 percent of this debt (Table 7.2). In terms of maturity structure, Government securities worth Ksh 14.3 billion fell due in July 2014, and will comprise In terms of maturity structure, Government securities worth Ksh 14.3 billion matured in July 2014, and comprised Ksh 6.4 billion and Ksh 7.9 billion in Treasury bills and Treasury bonds, respectively. Treasury bills maturities in the period comprise Ksh 2.5 billion, Ksh 0.6 billion and Ksh 3.3 billion in 91-day, 182-day and 364-day Treasury bills, respectively, while Treasury bonds maturing during this period comprised Ksh 7.9 billion in the 2–year fixed rate Treasury bond.

The average length of maturity of existing domestic debt declined to 4 years and 9 months in July 2014, from 4years and 10 months in June 2014.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2013		2014														Change
	%	Jun	%	Jan	%	Feb	%	Mar	%	Apr	%	May	%	Jun	%	Jul	%	Jun 14 to Jul 14
Treasury bills	91-Day	36.2	3.4	30.8	2.6	29.4	2.4	33.9	2.8	33.4	2.7	41.2	3.3	54.7	4.3	59.4	4.6	4.8
	182-Day	52.2	5.0	55.0	4.6	57.4	4.7	66.0	5.4	75.3	6.2	77.9	6.3	88.9	6.9	93.9	7.2	4.9
	364-Day	179.3	17.1	230.5	19.2	230.9	18.8	202.9	16.5	168.0	13.8	155.7	12.6	155.8	12.1	165.3	12.8	9.5
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	0.0	0.0
	2-Year	122.0	11.6	140.8	11.7	140.9	11.5	160.8	13.1	154.4	12.7	166.7	13.5	166.7	13.0	174.5	13.5	7.9
	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	0.0	0.0
	4-Year	19.1	1.8	25.1	2.1	29.9	2.4	29.9	2.4	29.9	2.5	29.9	2.4	29.9	2.3	29.9	2.3	0.0
	5-Year	138.4	13.2	127.0	10.6	141.4	11.5	141.4	11.5	158.9	13.1	158.9	12.9	175.3	13.6	175.3	13.5	0.0
	6-Year	40.7	3.9	40.7	3.4	40.7	3.3	40.7	3.3	40.7	3.3	40.7	3.3	40.7	3.2	40.7	3.1	0.0
	7-Year	19.3	1.8	17.0	1.4	17.0	1.4	17.0	1.4	17.0	1.4	17.0	1.4	17.0	1.3	8.7	0.7	-8.3
	8-Year	31.8	3.0	38.7	3.2	40.9	3.3	40.9	3.3	40.9	3.4	40.9	3.3	40.9	3.2	40.9	3.2	0.0
	9-Year	18.2	1.7	18.2	1.5	18.2	1.5	18.2	1.5	18.2	1.5	18.2	1.5	18.2	1.4	18.2	1.4	0.0
	10-Year	109.4	10.4	131.1	10.9	131.1	10.7	131.1	10.6	131.1	10.8	131.1	10.6	131.1	10.2	131.1	10.1	0.0
	11-Year	4.0	0.4	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	0.0
	12-Year	30.2	2.9	54.7	4.6	45.4	3.7	45.4	3.7	45.4	3.7	45.4	3.7	45.4	3.5	45.4	3.5	0.0
	15-Year	119.8	11.4	127.3	10.6	142.9	11.6	142.9	11.6	142.9	11.7	142.9	11.6	142.9	11.1	142.9	11.0	0.0
	20-Year	49.0	4.7	49.0	4.1	49.0	4.0	49.0	4.0	49.0	4.0	49.0	4.0	60.5	4.7	60.5	4.7	0.0
	25-Year	20.2	1.9	20.2	1.7	20.2	1.6	20.2	1.6	20.2	1.7	20.2	1.6	20.2	1.6	20.2	1.6	0.0
	30-Year	22.1	2.1	22.1	1.8	22.1	1.8	22.1	1.8	22.1	1.8	22.1	1.8	22.1	1.7	22.1	1.7	0.0
	Repo T bills	28.9	2.8	28.8	2.4	28.3	2.3	28.3	2.3	28.3	2.3	28.3	2.3	28.3	2.2	27.7	2.1	-0.6
	Overdraft	7.0	0.7	27.98	2.3	32.19	2.6	34.2	2.8	34.2	2.8	39.1	3.2	39.1	3.0	31.7	2.4	-7.5
	Other Domestic debt	2.79	0.3	11.85	1.0	11.85	1.0	2.3	0.2	3.0	0.25	3.33	0.27	2.76	0.22	4.1	0.3	1.3
	Total Debt	**1050.56**	**100.0**	**1200.90**	**100.0**	**1229.30**	**100.4**	**1231.2**	**100.0**	**1216.8**	**100.00**	**1232.5**	**100.00**	**1284.33**	**100.00**	**1296.4**	**100.0**	**12.1**

Source: Central Bank of Kenya

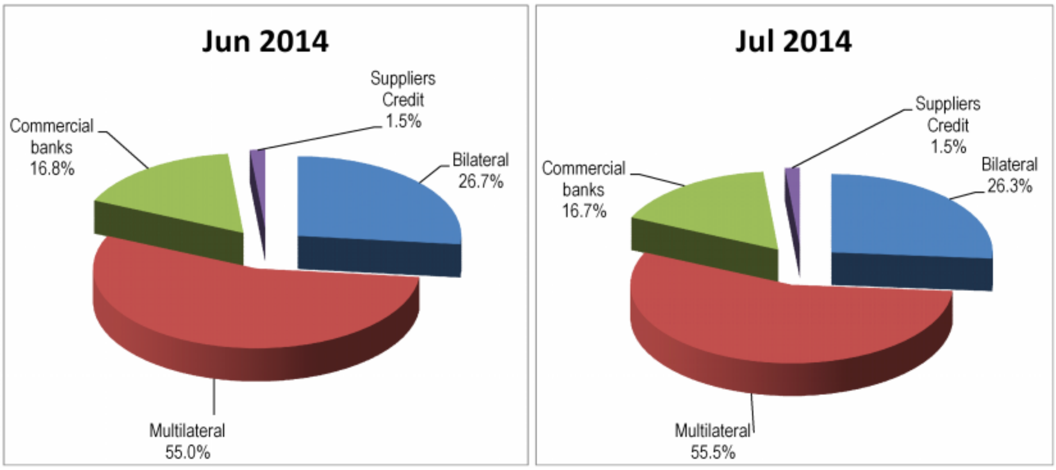
External Debt

Kenya's public and publicly guaranteed external debt increased by Ksh 3.7 billion to Ksh 1,089.7 billion (USD 12.4 billion), during the first one month of the fiscal year 2014/15, from Ksh 1,085.9 billion (USD 12.37 billion) in June, 2014 (Table 7.1). Total external debt to the central government was Ksh 1,045.7 billion (USD 11.9 billion), while the rest was Parastatals debt guaranteed by the central government. The African Development Bank (ADB) and International Development Association (IDA) collectively accounted for Ksh 8.5 billion of the increase in multilateral debt , while Italy and Germany accounted for Ksh 1.2 billion and Ksh 0.8 billion, respectively, of the increase in bilateral debt. The increase in public and publicly guaranteed debt reflected additional disbursements and exchange rate revaluations during the period under review. External debt owed to Japan and International Monetary Fund declined by Ksh 1.8 billion and Ksh 3.3 billion during the period under review.

Composition of External Debt by Creditor

Official external loans from multilateral and bilateral sources accounted for 45.7 percent of the total public and publicly guaranteed debt as at July 2014.The proportion of external debt owed to multilateral lenders increased from 50 percent in June 2014 to 55.5 percent in July 2014 while that owed to commercial banks and bilateral lenders declined from 16.8 percent and 26.7 percent in June 2014 to 16.7 percent and 26.3 percent in July 2014, respectively. The proportion of debt held by supplier creditors remained unchanged during the period under review (Chart 7A).

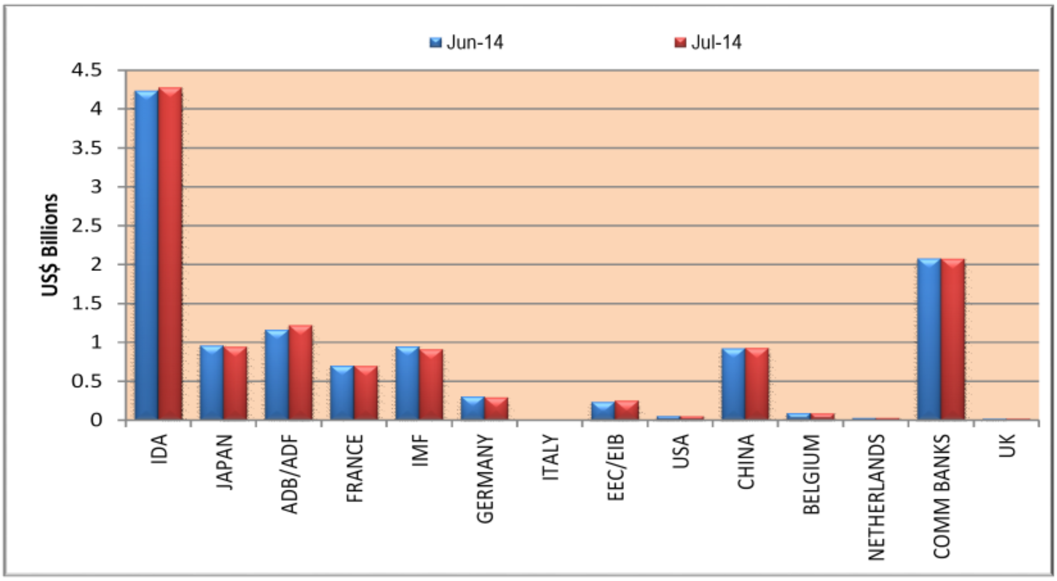
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: National Treasury

Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 4.3 billion or 34.5 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender, amounted to USD 0.9 billion which is equivalent to 7.6 percent of the total external debt at the end of the first month of the FY 2014/15 (Chart 7B).

CHART 7B: EXTERNAL DEBT BY CREDITOR

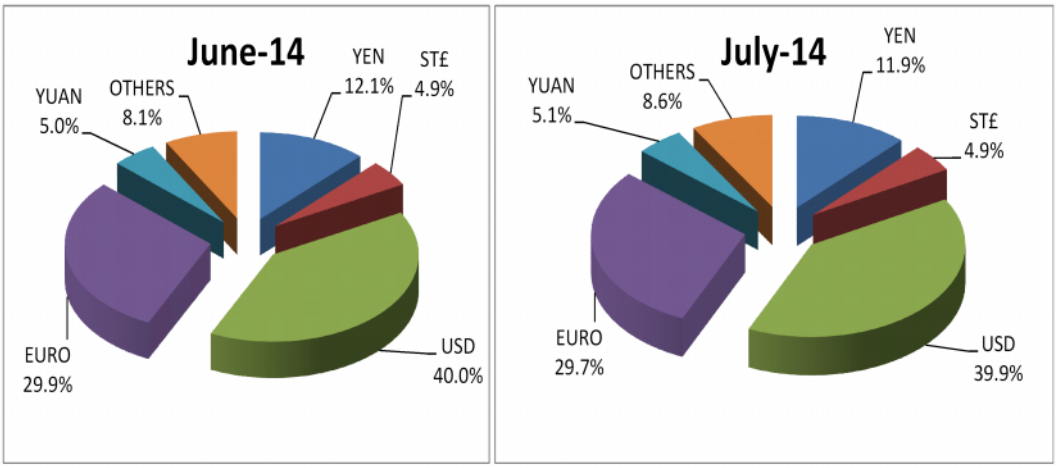


Source: National Treasury

Currency Composition of External Debt

External debt held in Chinese Yuan and in other currencies' increased from 5 percent and 8.1 percent of total external debt in June 2014 to 5.1 percent and 8.6 percent, respectively in July 2014. Debt held in Japanese Yen, Euro, and US dollar declined from 12.1 percent, 29.9 percent and 40 percent to 11.9 percent, 29.7 percent, and 39.9 percent during the period under review. The proportion of debt held in Sterling Pound remained unchanged at 4.9 percent (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: National Treasury

Public Debt Service

Interest and other charges on domestic debt during July 2014 amounted to Ksh 4.5 billion compared with Ksh 3.4 billion during July 2013. Of the Ksh 4.5 billion, interest and other charges on Treasury bills amounted to Ksh 1.1 billion while that on Treasury bonds was Ksh 3.2 billion. In addition, interest on Government overdraft amounted to Ksh 0.2 billion. External debt service for the period July 2014 amounted to Ksh 58 billion, comprising Ksh 56.7 billion in principal repayments, and Ksh 1.3 billion in interest payments.

Performance for the FY 2014/15

Total public and publicly guaranteed external debt is estimated at Ksh 1,195.7 billion (25.1 percent of GDP), of which gross and net domestic debt stand at Ksh 1,274.7 billion (26.8 percent of GDP) and Ksh 1,213.4 billion (25.5 percent of GDP), respectively (2014 Budget Policy Statement).

ACTIVITY IN THE STOCK MARKET

The leading market indicators were a mix of losses and gains for both equities and bond segments in July 2014. Foreign investor purchases exceeded sales despite slight decline in Net foreign investor to total equity turnover.

Equity Market

The NSE 20 Share Index closed 21.09 points higher in July 2014 from its June 2014 level. Similarly, NASI rose to 151.69 points from 150.37 points during the period under review. Market Capitalization gained Ksh 18.31 billion but the equities turnover declined to 15,043 Ksh million in July 2014 from Ksh 18,190 million in June 2014 on account of low volumes transacted at 625 million shares (Table 8.1).

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

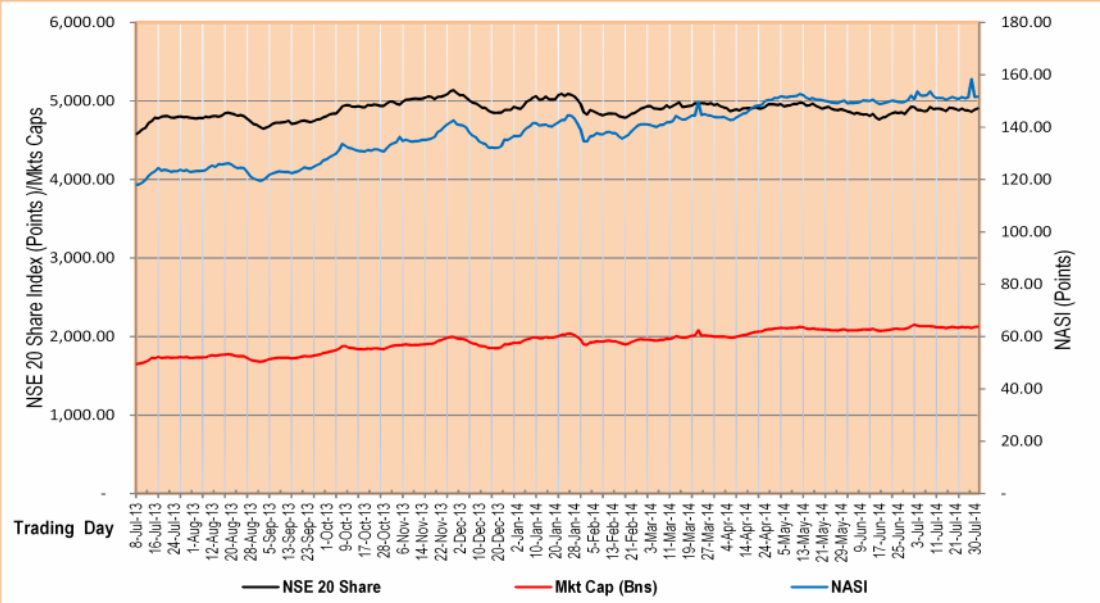
Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)	FP to Equity Turnover	FS to Equity Turnover	Overall net FP to Equity Turnover
Jun-12	3,703.94	80.75	385.51	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%
Mar-14	4,945.78	143.89	544.06	13,042.51	2,003.52	32,371.60	50.55%	53.61%	52.08%
Apr-14	4,948.97	151.13	727.99	15,749.93	2,106.08	58,572.78	62.32%	53.37%	57.84%
May-14	4,881.56	150.20	853.71	23,022.92	2,091.66	38,379.11	48.90%	60.10%	54.50%
Jun-14	4,885.04	150.37	731.04	18,190.02	2,106.69	28,541.82	63.40%	49.18%	56.29%
Jul-14	4,906.09	151.69	625.48	15,043.24	2,125.31	48,607.65	56.19%	55.25%	55.72%

Source: Nairobi Securities Exchange

Foreign Investors maintained market dominance at the NSE, with overall net foreign participation accounting for 55.72 percent of total equity turnover in July 2014. This was however, slightly lower than 56.29 percent recorded in June 2014. Foreign purchases accounted for 56.19 percent against 55.25 percent sales, reflecting net inflow (Table 8.1).

The stock market continued to improve, with both NASI and NSE 20 Share Indices gaining. Shareholders' wealth measured by market capitalization remained above the Ksh 2.0 trillion mark set in March 2014 (Chart 8A).

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



Source: Nairobi Securities Exchange

Most Active Sectors & FTSE NSE Kenya Index Series

Telecommunication and Technology Banking and Insurance sectors dominated trading, accounting for 52.31 percent, 22.55 percent and 6.97 percent, respectively of all shares traded during the month.

The FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at NSE, closed at 198.38 points in July 2014 up from 194.99 points in June 2014. FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks reached the two hundred mark for the first time to close at 200.51 points from 196.88 points in June 2014. The FTSE NSE Kenyan Government Bond Index declined to 93.02 points from 93.76 points, reflecting uptick in market yields.

Bond Market

Bonds turnover increased by 73.32 percent in July 2014, with a total of 597 deals worth Ksh 49,467.93 million traded up from 365 deals worth Ksh 28,735.20 million in June 2014. The IFB 1/2011/12 dominated trading, at 13.23 percent of total turnover, with yields ranging from 10.65 percent to 13.60 percent against a coupon rate of 12 percent. There was no activity in the corporate bonds segment in the month of July 2014.

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

	Jul-14	Jun-14	Jul 14/Jun 2014 Movement
ASSETS			
Balances due from Banking Institutions and Gold holdings	700,148	759,650	(59,502)
Funds held with International Monetary Fund	17	692	(676)
Items in the course of collection	37	70	(32)
Advances to commercial banks	2,058	50	2,008
Loans and Advances	35,118	40,463	(5,345)
Other Assets	3,001	3,142	(141)
Retirement Benefits Assets	7,659	7,659	0
Property and Equipment	13,399	13,811	(412)
Intangible Assets	602	639	(37)
Due from Government of Kenya	27,779	28,334	(555)
TOTAL ASSETS	**789,818**	**854,510**	**(64,692)**
LIABILITIES			
Currency in Circulation	206,570	199,966	6,604
REPO Sold to Banks	0	0	0
Deposits	380,166	448,800	(68,634)
International Monetary Fund	128,930	130,064	(1,134)
Other Liabilities	3,079	5,097	(2,018)
Provisions	157	157	0
TOTAL LIABILITIES	**718,902**	**784,084**	**(65,183)**
EQUITY AND RESERVES	**70,770**	**70,426**	**344**
Share Capital	5,000	5,000	**0**
General reserve fund	51,432	51,432	**0**
Period surplus	344	0	**344**
Asset revaluation reserve	8,853	8,853	**0**
Retirment Benefit Asset Reserves	5,141	5,141	**0**
Dividends payable	0	0	**0**
TOTAL LIABILITIES AND EQUITY	**789,672**	**854,510**	**(64,838)**

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 decreased by Ksh 59,502 million to Ksh 700,148 million in July 2014 from Ksh 759,650 million in June 2014. The decrease reflects utilization of part of the Eurobond proceeds to repay the syndicated loans contracted by the Government in April 2012.

Items in course of collection represent the value of clearing instruments which are held by the Bank, while awaiting clearing by respective commercial banks. The balances as at July 2014 were Ksh 37 million, representing 47.1 percent recovery from Ksh 70 million outstanding as at June 2014.

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 2,008 million to Ksh 2,058 million in July 2014 from Ksh 50 million in June 2014.

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 decreased by Ksh 5,345 million to Ksh 35,118 million in July 2014 from Ksh 40,463 million in June 2014.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets decreased by Ksh 141 million to Ksh 3,001 million in July 2014 from Ksh 3,142 million in June 2014.

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

Liabilities

Currency in circulation increased by Ksh 6,604 million to Ksh 206,570 million in July 2014 from Ksh 199,966 million in June 2014.

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 decreased by Ksh 68,634 million to Ksh 380,166 million in July 2014 from Ksh 448,800 million in June 2014.

Amount due to International Monetary Fund represents the Banks obligations to the IMF. The balances decreased by Ksh 1,134 million to Ksh 128,930 in July 2014 from Ksh 130,064 million in June 2014.

Other liabilities include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance decreased by Ksh 2,018 million to Ksh 3,079 million in July 2014 from Ksh 5,097 million in June 2014.

Equities and reserves increased by Ksh 344 million to Ksh 70,770 million in July 2014 from Ksh 70,426 million in June 2014 reflecting increases of Ksh 344 million in period surplus.