MONTHLY ECONOMIC REVIEW

JUNE 2014

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

http://www.centralbank.go.ke

CONTENTS

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

email: Researchstat@centralbank.go.ke

OVERVIEW

Introduction

This Monthly Economic Review highlights recent economic developments through June 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 7.3 percent in May 2014 to 7.4 percent in June 2014. This was reflected in fuel inflation, which rose by 89 basis points to 9.0 percent, and in non-food non-fuel inflation which rose by 11 basis points to 4.5 percent. Annual average inflation also rose 6.8 percent in May 2014 to 7.1 percent in June 2014.

Money Supply

Growth in broad money, M3, accelerated to 18.2 percent in the year to June 2014 from 14.2 percent in a corresponding period in 2013 and was above the respective target of 15.0 percent. The acceleration in money supply was largely reflected in the increase of Net Foreign Assets (NFA) of the banking system.

Interest Rates

The Central Bank Rate (CBR) remained at 8.50 percent in June 2014. The weighted average interbank rate decreased from 7.76 percent in May 2014 to 6.60 percent in June 2014.

Real GDP Growth

The economy was resilient, with output growth at 5.7 percent in 2013 compared with 4.5 percent in 2012. In the first two quarters of 2014, the economy grew by 4.4 percent and 5.8 percent, respectively, compared with growths of 6.4 percent and 7.2 percent in comparable quarters of 2013. Growth in the first and second quarters of 2014 was supported by improved performance in manufacturing, construction and health.

Balance of Payments

Kenya's overall balance of payments improved by USD 1,769.6 million (282.0 percent) to a surplus of USD 2,397 million in the year to June 2014 compared with USD 627 million surplus in the year to June 2013. The improvement largely reflected USD 1,751.5 million increased capital and financial account surplus.

Exchange Rates

The Kenya shilling portrayed mixed performance against major international and regional currencies during the month of June 2014. It 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 June 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 to the end of the FY 2013/14 resulted into a deficit of Ksh 309.1 billion (6.5 percent of GDP) on commitment basis compared with a deficit of Ksh 249.5 billion incurred in the same period of the FY 2012/13. This was lower than the Ksh 391 billion (8.2 percent of GDP) programmed target for the period.

Public Debt

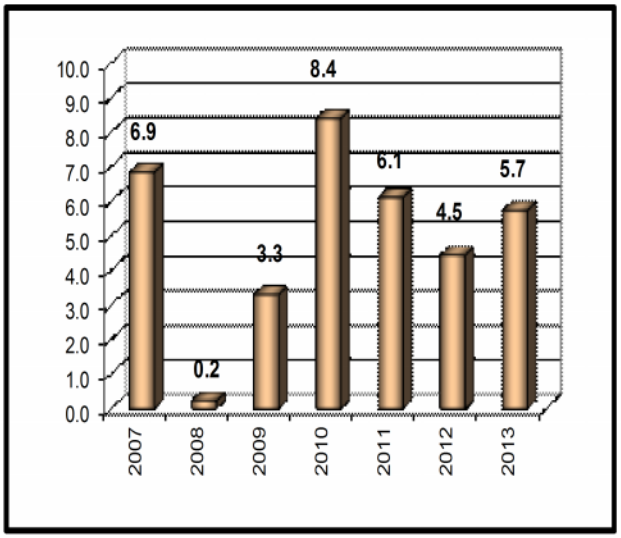
Kenya's public and publicly guaranteed debt increased by 25.1 percent to reach Ksh 2,370.3 billion in June 2014, from Ksh 1,894.1 billion in June, 2013. The total debt stock at the end of June 2014 was equivalent to 49.8 percent of GDP, compared with 44.5 percent of GDP in June 2013. The debt to GDP ratios for both domestic and external debts increased from 24.7 percent and 19.8 percent, respectively, in June 2013 to 27.0 percent and 22.8 percent in June 2014.

Stock Market

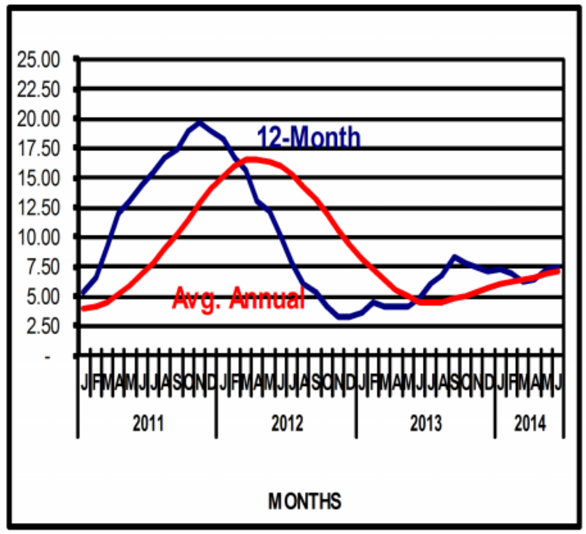
Capital markets recorded mixed performance in June 2014 across the equities and bond market segments. Average share prices changed marginally, while market turnover and market capitalization declined reflecting a reduction in volume of shares traded. The net foreign investor interest at the NSE improved, with more purchases than sales. The bonds market activity declined significantly.

SELECTED ECONOMIC PERFORMANCE INDICATORS

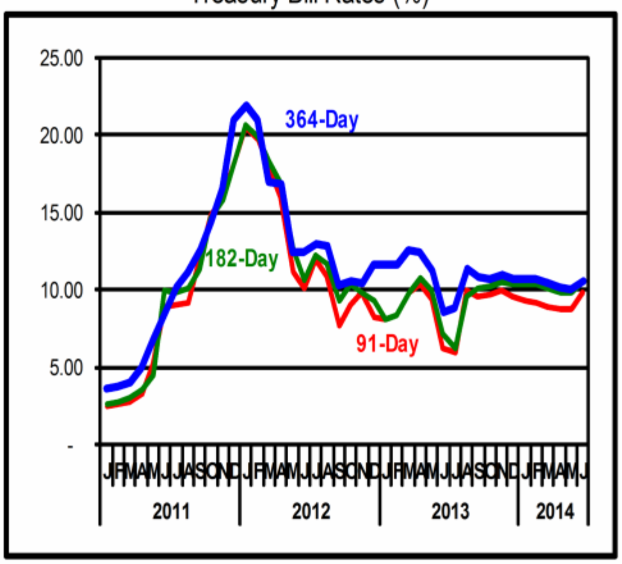
Real GDP Growth (%)



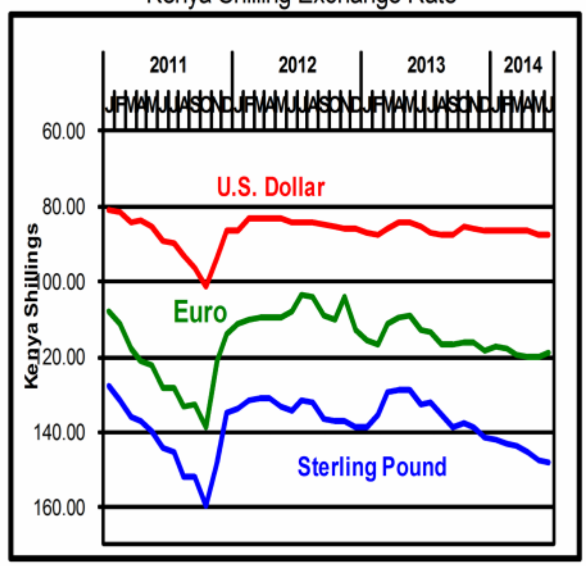
Inflation (%)



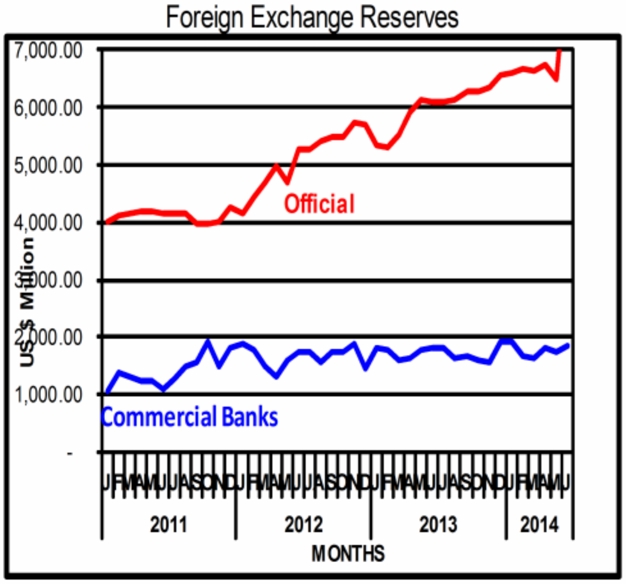
Treasury Bill Rates (%)



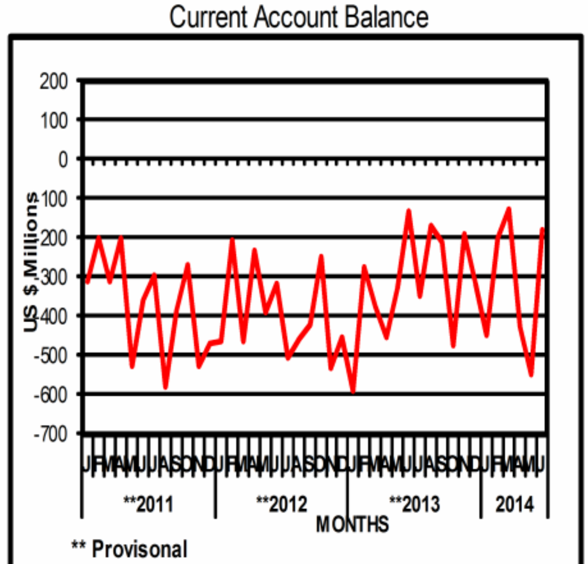
Kenya Shilling Exchange Rate



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

INDICATOR	2013 June	July	Aug	Sep	Oct	Nov	Dec	2014 Apr	May	Jun
1. INFLATION (%)										
CPI	**139.59**	**139.87**	**140.29**	**142.82**	**142.75**	**143.14**	**143.85**	**148.20**	**149.70**	**149.91**
Overall Inflation										
12-month overall inflation	4.91	6.02	6.67	8.29	7.76	7.36	7.15	6.41	7.30	7.39
Average annual overall inflation	4.56	4.44	4.50	4.75	5.05	5.39	5.72	6.58	6.85	7.05
2. INTEREST RATES (%)										
91-day Treasury bill interest rate	6.2	5.9	10.0	9.6	9.7	9.9	9.5	8.8	9.8	9.78
Overdraft interest rate	16.9	17.0	16.9	16.4	17.0	16.5	16.5	16.4	17.8	15.88
3. STOCK MARKET										
Nairobi Stock Exchange 20 Share Price Index	4,598.16	4,787.56	4,697.75	4,793.20	4,992.88	5,100.88	4,926.97	4,948.97	4,881.56	4,885.04
Turnover Ratio (%)	0.90	0.76	0.99	0.61	1.00	0.80	0.58	0.67	1.06	0.90
4. GOVERNMENT BUDGET* (Ksh bn.)										
Revenue $ Grants	851.19	58.60	128.42	210.23	286.22	363.59	468.97	795.75	880.77	1,001.37
Expenses	1,100.83	49.70	150.58	269.87	357.20	473.98	574.21	971.11	1,114.34	1,297.76
Budget Deficit (-) / Surplus (+)	**(249.64)**	**8.90**	**(22.16)**	**(59.63)**	**(70.94)**	**(110.39)**	**(105.24)**	**(175.36)**	**(233.57)**	**(296.39)**
5. MONEY AND CREDIT (Ksh bn.)										
Liquidity (L)[1]	2278.29	2310.73	2341.82	2405.82	2428.78	2480.13	2523.23	2650.16	2701.27	2718.34
Money Supply (M3)[2]	1,820.88	1,835.80	1,849.97	1885.78	1900.19	1953.62	1996.24	2100.61	2147.48	2152.13
Reserve Money	287.44	283.98	309.81	290.35	307.25	316.78	320.76	315.27	315.34	323.73
Total Domestic Credit	1,782.95	1,774.49	1,807.29	1875.28	1889.31	1967.19	1978.52	2127.93	2177.36	2042.87
Government	379.51	346.63	336.11	382.602	368.706	408.813	397.164	441.96	465.19	283.06
Private sector and other public sector	1,403.44	1,427.86	1,471.18	1492.68	1520.6	1558.38	1581.4	1685.97	1712.17	1759.82
6. MONEY AND CREDIT (Annual % Change)										
Liquidity (L)[1]	**15.58**	**11.13**	**10.45**	**16.69**	**15.78**	**16.02**	**18.4309**	18.32	18.84	**19.32**
Money Supply (M3)[2]	14.16	13.81	12.89	12.83	11.58	12.23	15.54	16.55	17.77	18.19
Reserve Money	11.72	10.31	23.81	12.09	22.68	13.27	9.24	**17.71**	**11.88**	12.63
Total Domestic Credit	**14.86**	**10.73**	**13.04**	**15.75**	**14.00**	**16.61**	16.212	16.66	22.44	**14.58**
Government	27.39	4.64	4.77	15.01	5.03	10.30	7.68	(3.53)	18.42	(25.41)
Private and other public sector	11.88	12.32	15.12	15.94	16.42	18.39	18.57	23.43	23.58	25.39
7. BALANCE OF PAYMENTS (US$ m)										
Overall Balance	**(35.34)**	**14.32**	**23.89**	**171.07**	**(21.69)**	**75.64**	**120.13**	**108.94**	**(260.43)**	**2,063.68**
Current Account	(221.75)	(450.69)	(508.10)	(324.63)	(612.28)	(315.98)	(395.36)	(428.83)	(551.97)	(183.10)
Trade Balance	(741.57)	(1,010.87)	(963.16)	(874.43)	(1,160.47)	(898.50)	(970.78)	(1,041.20)	(1,173.89)	(793.62)
Capital and Financial Account	186.41	465.01	531.99	495.69	590.58	391.62	515.49	537.77	291.54	2,246.78
8. FOREIGN EXCHANGE RESERVES (US$ m)	7,888.94	7,906.76	7,739.68	7,958.83	7,859.49	7,893.00	8,483.20	8,585.67	8,223.08	10,398.74
Official	6,089.00	6,095.76	6,119.65	6,290.71	6,263.25	6,333.14	6,560.17	6,757.05	6,490.84	8,554.53
*Months of imports cover***	4.35	4.32	4.29	4.39	4.32	4.36	4.49	4.54	4.34	5.70
Commercial banks	1,799.94	1,811.01	1,620.03	1,668.11	1,596.24	1,559.86	1,923.02	1,828.62	1,732.24	1,844.21
9. PUBLIC DEBT (US$ bn)	**22.02**	**22.39**	**22.88**	**23.54**	**23.55**	**24.18**	**24.46**	**25.00**	**25.01**	**27.05**
Domestic	12.21	12.36	12.75	13.36	13.41	13.59	13.78	14.03	14.10	14.66
As % of GDP	24.28	22.39	23.09	24.21	24.30	24.62	24.96	25.42	25.54	26.56
External	9.81	10.03	10.13	10.17	10.14	10.59	10.69	10.97	10.91	12.39
As % of GDP	19.50	18.17	18.36	18.43	18.36	19.19	19.36	19.87	19.77	22.45
10. GROSS DOMESTIC DEBT (Ksh bn)***	1,050.56	1,078.60	1,116.68	1,168.23	1,174.78	1,170.05	1,189.18	1,216.76	1,232.49	1,284.33
11. AVERAGE EXCHANGE RATE										
Ksh/US$	85.49	86.86	87.49	87.41	85.31	86.10	86.31	86.72	87.41	87.61
Ksh/Pound Sterling	132.42	132.00	135.47	138.54	137.31	138.64	141.37	145.08	147.29	148.15
Ksh/ 100 Yen	87.77	87.28	89.39	88.14	87.24	86.21	83.51	84.59	85.84	85.88
Ksh/Euro	112.81	113.74	116.51	116.67	116.33	116.22	118.18	119.78	120.09	119.16

* 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 7.3 percent in May 2014 to 7.4 percent in June 2014 reflecting a rise in fuel inflation and non-food non-fuel inflation by 89 basis points and 11 basis points, respectively. Food inflation, however, declined by 39 basis points in June 2014. The three months annualized rate of inflation fell to 9.3 percent in June 2014 indicating reduced domestic inflationary pressures (Table 1.1 and Chart 1A).

TABLE 1.1: INFLATION (%)

Overall Inflation	2013							2014					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
12-month	4.91	6.02	6.67	8.29	7.76	7.36	7.15	7.21	6.86	6.27	6.41	7.30	7.39
Average annual	4.56	4.44	4.50	4.75	5.05	5.39	5.72	6.01	6.21	6.39	6.58	6.85	7.05
Three months annualised	4.81	1.71	2.23	9.58	8.49	8.37	2.91	7.64	8.09	7.89	7.93	10.69	9.32
Non-food non-oil inflation	3.86	4.04	3.86	5.02	4.94	5.01	4.71	4.83	4.93	4.97	4.53	4.35	4.47

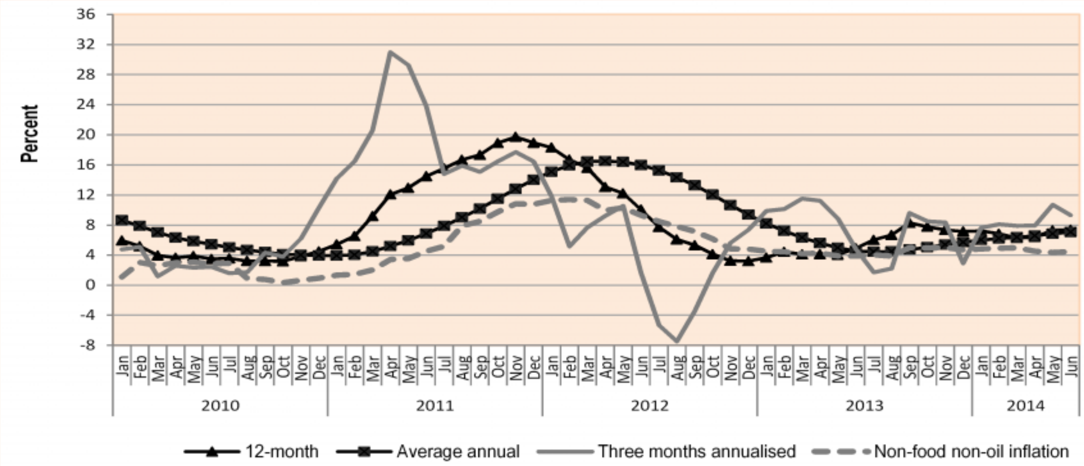
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

The rise in non-food non-fuel inflation to 4.5 percent in June 2014 was reflected in 'health', 'miscellaneous goods and services', 'furnishings, household equipment and routine household maintenance' consumption baskets.

Fuel inflation also rose from 8.1 percent in May 2014 to 9.0 percent in June 2014. This reflected a rise in the 12-month inflation in the 'transport' category from 11.4 percent in May 2014 to 12.5 percent in June 2014 following a rise in the price of diesel and petrol, and bus fares. The 12-month inflation in the 'housing, water, electricity, gas and other fuels' category also rose from 6.4 percent in May 2014 to 7.2 percent in June 2014 following a rise in the price of electricity, kerosene, charcoal and rent.

Food inflation, however, eased from 8.7 percent in May 2014 to 8.3 percent in June 2014. This reflected a decline in 12-month inflation in the 'food and non-alcoholic beverages' index from 8.9 percent in May 2014 to 8.4 percent in June 2014.

CHART 1A: INFLATION (%)

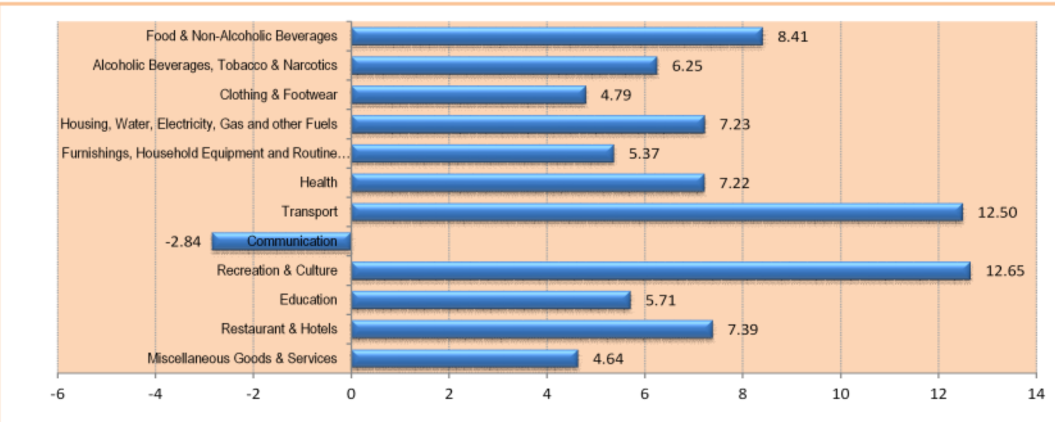


Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

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 44.3 percent of overall 12-month inflation in June 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 16.5 percent and 15.0 percent, respectively.

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



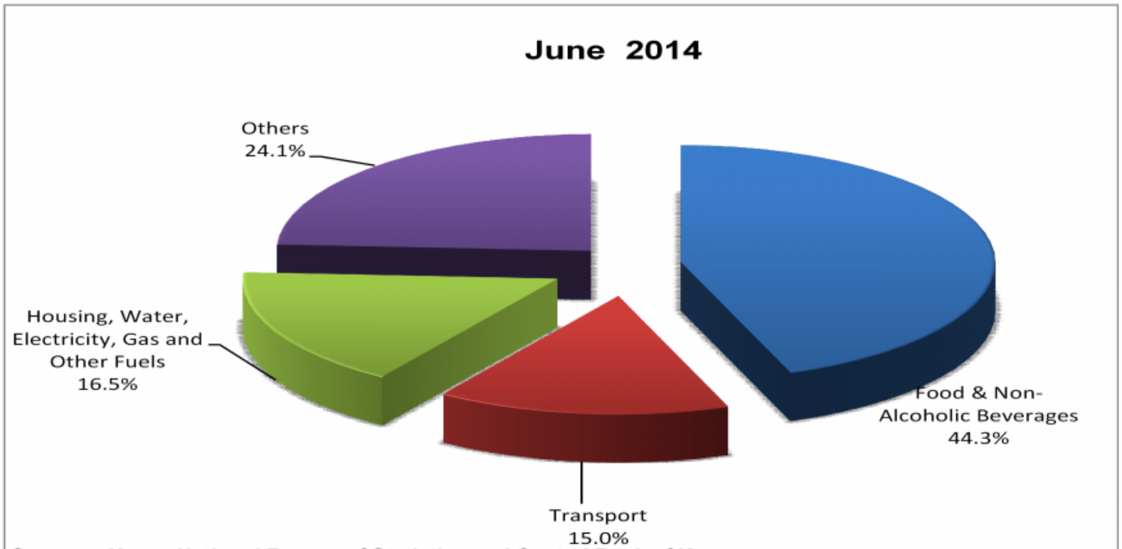
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

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

JUNE 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	6.89	9.1	10.1	7.5	9.0	8.4
Alcoholic beverages, Tobacco & narcotics	2.1	6.5	5.6	3.2	6.2	6.3	6.3
Clothing & Footwear	7.4	4.0	3.4	12.2	4.2	5.2	4.8
Housing, Water,Electricity,Gas and other fuels	18.3	6.3	5.4	3.4	6.0	8.1	7.2
Furnishings, Household equipment and Routine household maintenance	6.2	2.7	8.7	3.4	4.2	6.2	5.4
Health	3.1	5.8	6.2	1.0	5.7	8.3	7.2
Transport	8.7	10.0	8.5	11.4	9.8	14.6	12.5
Communication	3.8	-8.6	-9.1	0.0	-8.4	0.8	-2.8
Recreation & culture	2.3	12.9	13.4	9.6	12.9	12.5	12.7
Education	3.1	5.2	4.4	9.6	5.1	6.1	5.7
Restaurants & hotels	4.5	3.5	3.2	5.6	3.5	10.2	7.4
Miscellaneous goods & services	4.5	4.1	2.9	5.0	3.9	5.1	4.6
ALL GROUPS	100.0	6.1	6.1	7.8	6.2	8.2	7.4

Source: Kenya National Bureau of Statistics

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



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

On average, the rise in prices of goods and services in urban centers outside Nairobi stabilised at 8.2 percent in June 2014 while the rise in prices in Nairobi accelerated to 6.2 percent from 5.9 in May 2014 (Table 1.3). The 12-month consumer price inflation for the 'Nairobi Lower Income' and 'Nairobi Middle Income' groups increased, respectively by 6.1 percent in June 2014, while 12-month inflation for the 'Nairobi upper income' group rose to 7.8 percent.

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

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Combined Nairobi	4.21	5.79	6.46	8.97	8.25	7.63	7.20	6.73	6.10	5.53	5.16	5.95	6.15
Lower Income	4.75	6.33	7.23	9.67	8.99	8.25	7.65	7.16	6.46	5.80	5.36	6.07	6.10
Middle Income	2.83	4.59	4.57	7.11	6.32	5.92	5.97	5.44	4.93	4.65	4.43	5.37	6.06
Upper Income	1.68	2.28	2.38	6.16	5.37	5.50	5.62	5.89	5.84	5.38	5.64	7.18	7.81
Other provinces- excluding Nairobi	5.40	6.18	6.83	7.82	7.43	7.17	7.11	7.54	7.38	6.78	7.27	8.23	8.25
TOTAL KENYA	**4.91**	**6.02**	**6.67**	**8.29**	**7.76**	**7.36**	**7.15**	**7.21**	**6.86**	**6.27**	**6.41**	**7.30**	**7.39**

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

Inflation Outlook

Domestic inflation is expected to rise as unfavourable weather conditions impact negatively on domestic food supplies.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Growth in broad money, M3, accelerated to 18.2 percent in the year to June 2014 from 14.2 percent in a corresponding period in 2013 and was above the respective target of 15.0 percent. The expansion in money supply, M2 defined as, M3 excluding foreign currency deposits, increased to 18.5 percent in the year to June 2014 from a growth of 15.6 percent in 2013 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits in M3, increased by Ksh 44.0 billion (16.1 percent) compared with an increase of Ksh 17.4 billion (6.8 percent) in the previous year. The share of foreign currency deposits in M3 declined marginally from 15.0 percent in June 2013 to 14.6 percent in June 2014

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

	2012 June	2013 June	2014 June	Absolute Change 2012/13 June	Absolute Change 2013/14 June	%age change 12 months Jun-13	%age change 12 months Jun-14
1. Money supply, M3 (2+3) 2/	**1595.1**	**1820.9**	**2151.5**	**225.8**	**330.6**	**14.2**	**18.2**
1.1 Money supply, M2 3/	1339.5	1547.9	1834.4	208.4	286.5	15.6	18.5
1.2 Money supply, M1	623.8	752.8	908.2	129.0	155.3	20.7	20.6
1.3 Currency outside banks	126.9	148.0	158.2	21.0	10.2	16.6	6.9
2. Net foreign assets 4/	**321.8**	**361.2**	**529.5**	**39.4**	**168.3**	**12.3**	**46.6**
Central Bank	330.5	402.1	615.5	71.7	213.4	21.7	53.1
Banking Institutions	-8.7	-40.9	-86.0	-32.2	-45.1		
3. Net domestic assets (3.1+3.2)	**1273.3**	**1459.7**	**1622.0**	**186.4**	**162.3**	**14.6**	**11.1**
3.1 Domestic credit (3.1.1+3.1.2)	**1552.3**	**1783.0**	**2042.9**	**230.6**	**260.0**	**14.9**	**14.6**
3.1.1 Government (net)	297.9	379.5	283.1	81.6	-96.4	27.4	-25.4
3.1.2 Private sector and other public sector	1254.4	1403.4	1759.8	149.0	356.4	11.9	25.4
3.2 Other assets net (3-3.1)	**-279.1**	**-323.3**	**-421.0**	**-44.2**	**-97.7**	**15.9**	**30.2**
Memorandum items							
1. Overall liquidity, L 1/	**1971.1**	**2278.3**	**2717.7**	**307.2**	**439.4**	**15.6**	**19.3**
2. Reserve money	**257.3**	**287.4**	**323.7**	**30.2**	**36.3**	**11.7**	**12.6**
Currency outside banks	126.9	148.0	158.2	21.0	10.2	16.6	6.9
Bank reserves	130.3	139.5	165.6	9.1	26.1	7.0	18.7

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.

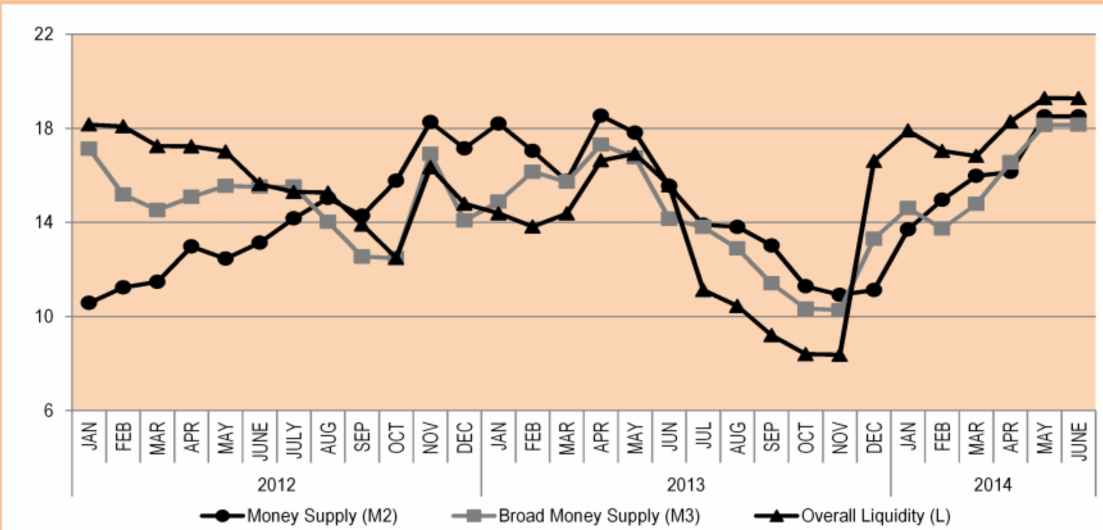
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

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 growth was largely reflected in the increase of Net Foreign Assets (NFA) of the banking system (Table 2.1) which recorded growth of 46.6 percent (or Ksh 168.3 billion) in twelve months to June 2014 compared with an increase of 12.3 percent (or Ksh 39.4 billion) in a corresponding period in 2013. The NFA increase was largely in holdings of the Central Bank which recorded growth of 53.1 percent, largely in foreign exchange arising from the sale of the debut sovereign bond that fetched USD 2.0 billion (Ksh174 billion) in June 2014The NFA of banking institutions declined by Ksh 45.1 billion to Ksh -86.0 billion from Ksh -40.9 billion 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 decreased to 11.1 percent in the year to June 2014 from 14.6 percent in a similar period in 2013 due to a reduction in other domestic assets of the banking system and accumulation of government deposits at the Central Bank (Table 2.1).

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

	2013 June		2014 June		Absolute Change June		Annual %age Change June	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2012/13	2013/14	2012/13	2013/14
1. Credit to Government	**379.5**	**21.3**	**283.1**	**13.9**	**81.6**	**-96.4**	**27.4**	**-25.4**
Central Bank	-20.9	-1.2	-176.0	-8.6	-31.5	-155.2	-295.9	743.5
Commercial Banks & NBFIs	400.4	22.5	459.1	22.5	113.1	58.8	39.4	14.7
2. Credit to other public sector	**36.2**	**2.0**	**40.0**	**2.0**	**-5.0**	**3.8**	**-12.1**	**10.5**
Local government	-3.0	-0.2	3.1	0.2	-4.3	6.0	-320.0	-203.7
Parastatals	39.2	2.2	36.9	1.8	-0.7	-2.2	-1.7	-5.7
3. Credit to private sector	**1367.2**	**76.7**	**1719.8**	**84.2**	**154.0**	**352.6**	**12.7**	**25.8**
Agriculture	55.3	3.1	65.3	3.2	1.0	9.9	1.9	17.9
Manufacturing	167.9	9.4	221.1	10.8	8.7	53.2	5.5	31.7
Trade	227.9	12.8	283.5	13.9	21.2	55.6	10.3	24.4
Building and construction	65.9	3.7	75.8	3.7	6.6	9.9	11.1	15.1
Transport & communications	77.2	4.3	111.4	5.5	-6.0	34.2	-7.2	44.3
Finance & insurance	29.6	1.7	38.9	1.9	2.9	9.3	11.0	31.2
Real estate	176.6	9.9	225.1	11.0	-2.1	48.5	-1.2	27.5
Mining and quarrying	21.8	1.2	28.5	1.4	-4.2	6.7	-16.0	30.7
Private households	207.4	11.6	266.2	13.0	44.2	58.8	27.1	28.3
Consumer durables	85.4	4.8	103.0	5.0	10.2	17.6	13.5	20.6
Business services	117.5	6.6	162.4	7.9	36.7	44.9	45.5	38.2
Other activities	134.6	7.5	138.7	6.8	34.8	4.1	34.8	3.0
4. TOTAL (1+2+3) *	**1783.0**	**100.0**	**2042.9**	**100.0**	**230.6**	**260.0**	**14.9**	**14.6**

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

Source: Central Bank of Kenya

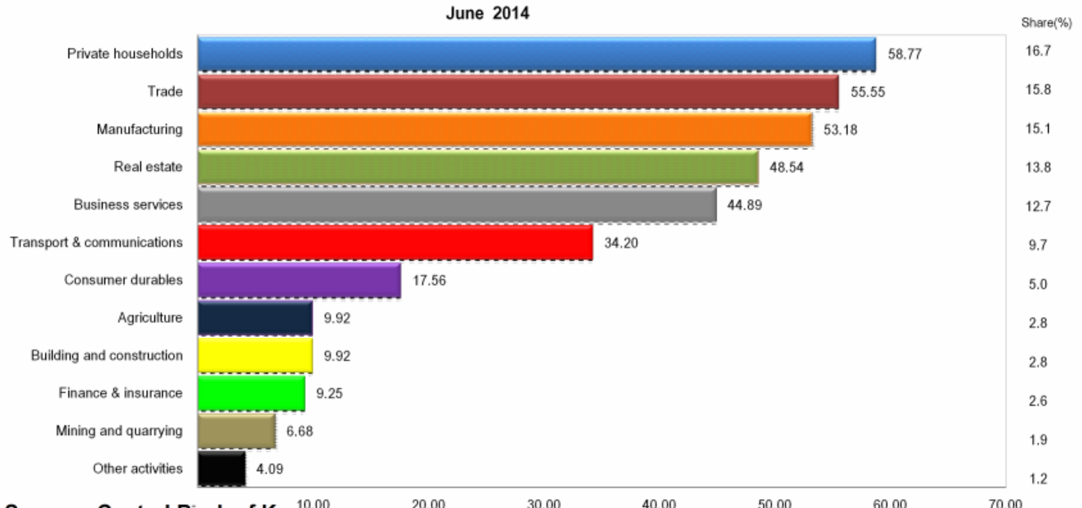
Domestic Credit Developments

Domestic credit from the banking sector increased by Ksh 260.0 billion (14.6 percent) in the twelve months to June 2014 compared with Ksh 230.6 billion (14.9 percent) in a similar period in 2013 (Table 2.2). The increase reflected in credit to the private sector which accelerated to 25.4 percent in the year to June 2014 from 12.7 percent in a similar period in 2013. The private sector continued to dominate banking system lending; accounting for 84.2 percent of total lending in June 2014 compared with 13.9 percent share of government.

The additional private sector credit in the twelve months to June 2014 was allocated to the following activities, in order of magnitude: private households 16.7 percent (or Ksh. 58.8 billion); trade 15.8 percent (or Ksh 55.6 billion); manufacturing 15.1 percent (or Ksh. 53.2 billion); real estate sector 13.8 percent (or Ksh. 48.5 billion); business services 12.7 percent (or Ksh. 44.9 billion); transport and communication 9.7 percent (or Ksh. 34.2 billion); and consumer durables 5.0 percent (or Ksh. 17.6 billion). Chart 2B below presents the sectorial distribution of private sector credit.

Reflecting accumulation of Government deposits at the Central Bank, net credit to Government decreased by 25.4 percent (or Ksh -96.4 billion) in the year to June 2014 compared with an increase of 27.4 percent (or Ksh 81.6 billion) in a corresponding period in 2013. Over a similar period, the 'other public sector' grew by Ksh 3.8 billion compared to a net credit repayment of Ksh. 5.0 billion over a similar period in 2013 (Table 2.2).

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



Source: Central Bank of Kenya

Reserve Money

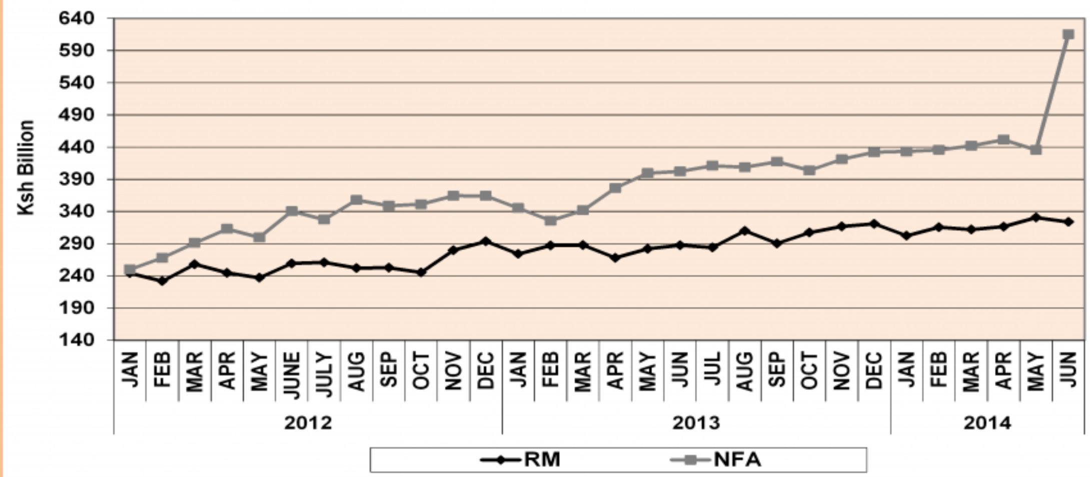
Reserve money (RM) comprises currency held by the non-bank public and commercial banks deposits at the Central Bank. It increased by 12.6 percent in the year to June 2014 compared with 11.7 percent growth in the corresponding period in 2013 (Table 2.3 and Chart 2C). At Ksh 323.7 billion in June 2014, reserve money was Ksh 1.0 billion above respective target. The growth in reserve money reflected 18.7 percent increase in bank reserves and 6.9 percent growth in currency outside banks.

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

	2013	2014	Absolute change		Change (%)		2014	
	June	June	2012/13	2013/14	2012/13	2013/14	June Target	Deviation
1. Net Foreign Assets	402.1	615.5	71.7	213.4	21.7	53.1	472.2	143.3
2. Net Domestic Assets	-114.7	-291.8	-41.5	-177.1	56.7	154.4	-149.5	-142.3
2.1 Government Borrowing (net)	-20.9	-176.0	-31.5	-155.2	-295.9	743.5	-40.1	-135.9
2.2 Commercial banks (net)	-41.7	0.0	-6.3	41.7	0.0	-100.00	-44.8	44.8
2.3 Other Domestic Assets (net)	-56.0	-119.4	-5.4	-63.4	10.7	113.2	-64.5	-54.9
3. Reserve Money	287.4	323.7	30.2	36.3	11.7	12.6	322.7	1.0
3.1 Currency outside banks	148.0	158.2	21.0	10.2	16.6	6.9	160.3	-2.1
3.2 Bank reserves	139.5	165.6	9.1	26.1	7.0	18.7	162.4	3.1

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The source of reserve money growth in the twelve months to June 2014 was largely an accumulation of Net Foreign Assets (NFA) of the Central Bank. The NFA of the Central Bank grew by 53.1 percent (or Ksh 213.4 billion) to Ksh 615.5 billion in June 2014 from Ksh 402.1 billion in June 2013 reflecting interbank purchases of foreign exchange to augment the stock of foreign exchange reserves in line with the statutory minimum requirements of 4 months of imports of goods and non-factor services and receipt of proceeds of the sale of the USD 2 billion debut sovereign bond.

Central Bank Rates

Over a similar period, the NDA of the Central Bank decreased by Ksh 177.1 billion to Ksh -291.8 billion from Ksh -114.7 billion in June 2013. This was largely reflected in decrease of net Government indebtedness at the Central Bank from Ksh 20.9 billion deposit to Ksh 176.0 billion. The buildup of Government deposits at the Central Bank reflected receipts from the sale of Eurobond in the international financial markets.

The Central Bank sustained the Central Bank Rate (CBR) at 8.50 percent in June 2014 in order to continue anchoring inflationary expectations and price stability.

Short Term Interest Rates

Short term interest rates recorded mixed performance in June 2014 (Table 2.4 and Chart 2D). The weighted average interbank rate declined from 7.76 percent in May 2014 to 6.60 percent in June 2014, while the repo rate declined to 6.42 percent from 8.42 percent. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, rose from 8.82 percent in May 2014 to 9.81 percent in June 2014 while the 182-day Treasury bill rate rose from 9.86 percent to 10.50 percent largely on account of a larger Government borrowing requirement.

The average lending rate declined to 16.36 percent in June 2014 from 16.97 in May 2014, while the average deposit rate rose marginally to 6.56 percent from 6.42 percent. The interest rate spread narrowed to 9.80 in June 2014 from 10.55 percent in May 2014 (Table 2.4 and Chart 2D).

Lending and Deposit Rates

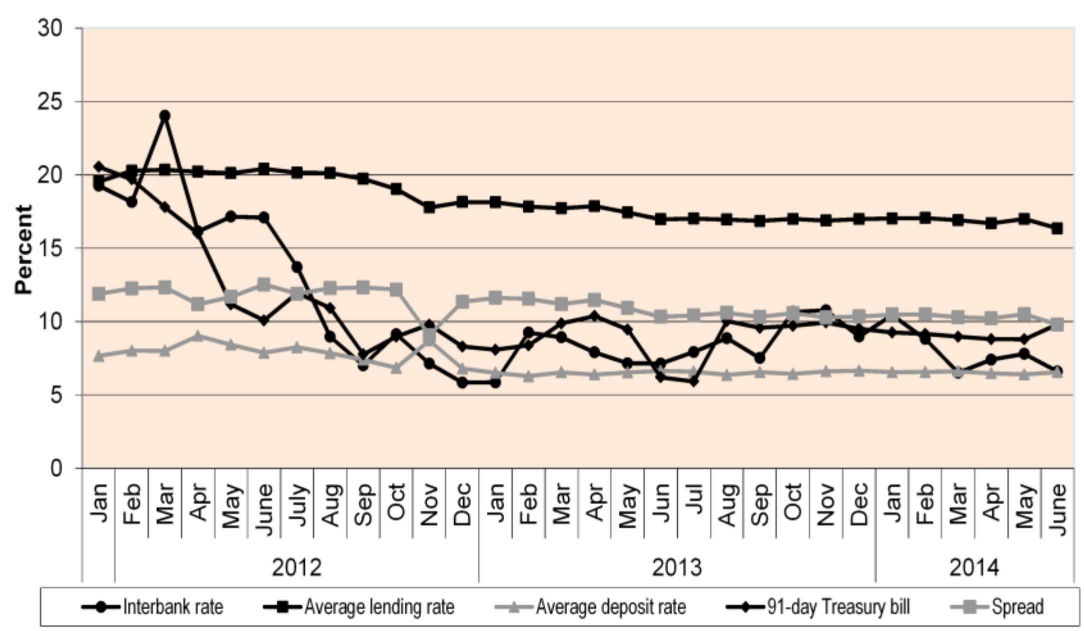
The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for reserve requirements averaged 5.88 percent in June 2014 compared with 5.61 percent in May 2014, and 5.25 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of Ksh 12.66 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in June 2014 compared with Ksh 7.09 billion in May 2014. Commercial banks are required to maintain Cash Reserve Ratio (CRR) at a monthly average of 5.25 percent in the maintenance cycle but subject to a daily minimum of 3.0 percent.

TABLE 2.4: INTEREST RATES (%)

	2013							2014					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
91-day Treasury bill rate	6.21	5.92	10.03	9.58	9.72	9.94	9.52	9.26	9.16	8.98	8.80	8.82	9.81
Overdraft rate	16.92	17.00	16.89	16.42	16.96	16.50	16.51	16.82	16.88	16.44	16.44	17.85	15.88
Interbank rate	7.14	7.93	8.88	7.52	10.66	10.77	8.98	10.43	8.83	6.51	7.40	7.76	6.60
Repo rate	7.93	7.48	-	7.11	-	-	7.95	-	-	6.92	6.71	8.42	6.46
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)	16.97	17.02	16.96	16.86	17.00	16.89	16.99	17.03	17.06	16.91	16.70	16.97	16.36
Average deposit rate (2)	6.65	6.59	6.36	6.55	6.43	6.61	6.65	6.55	6.57	6.61	6.48	6.42	6.56
0 to 3 - month deposit	8.77	8.70	8.39	8.44	8.36	8.78	8.98	9.39	9.43	10.02	9.63	9.65	10.05
Savings deposits	1.73	1.64	1.67	1.64	1.63	1.58	1.58	1.56	1.49	1.56	1.53	1.54	1.50
Spread (1-2)	**10.32**	**10.43**	**10.60**	**10.32**	**10.57**	**10.28**	**10.34**	**10.48**	**10.49**	**10.30**	**10.23**	**10.55**	**9.80**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

Performance of The Real Sector

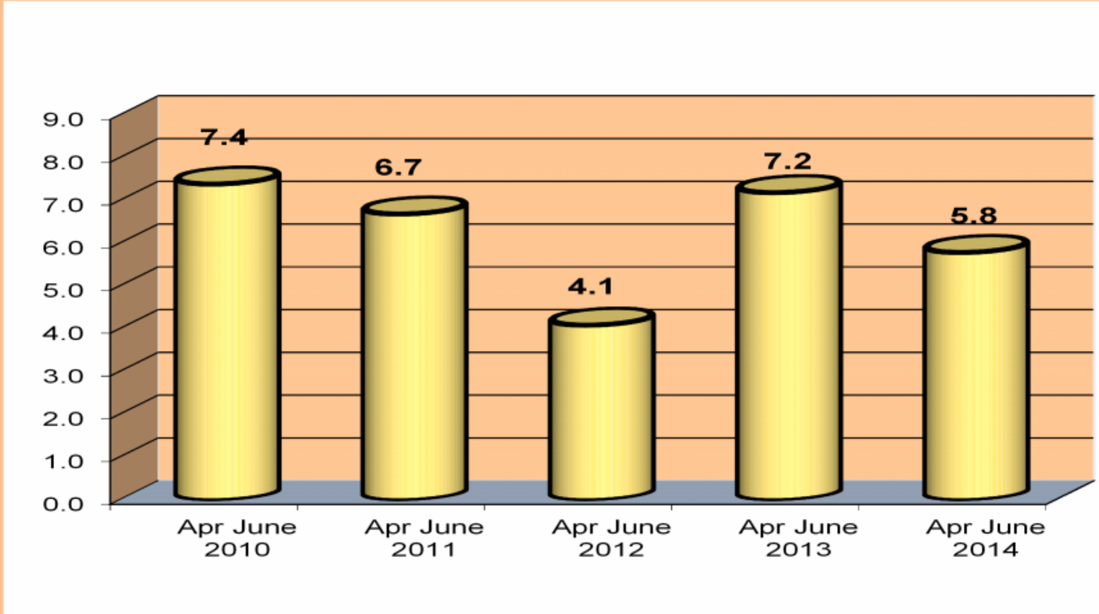
Overview Real GDP in 2013 grew by 5.7 percent and amounted to Ksh 3.64 trillion compared with 4.5 percent growth in 2012 (Table 3.1). The real GDP is estimated to have increased by 4.4 percent in the first quarter of 2014 and 5.8 percent in the second quarter of 2014 compared with growths of 6.4 percent and 7.2 percent in comparable quarters of 2013 (Chart 3A). Growth in the first and second quarters of 2014 was supported by improved performance in manufacturing, construction and health.

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										
	Nominal GDP (%)	**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 FIRST QUARTERS

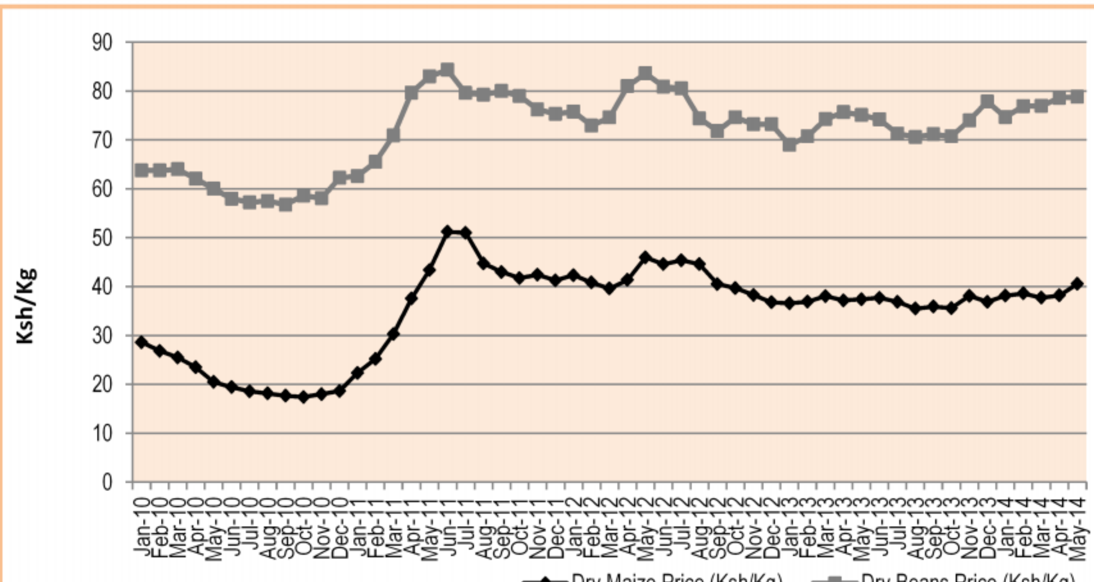


Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

Agriculture

Agriculture recorded 5.9 percent growth in output in the first quarter of 2014 and 5.5 percent in the second quarter of 2014 compared with 5.1 percent increase in the first quarter of 2013 and 6.0 percent increase in the second quarter of 2013. Unfavorable weather conditions in the first half of 2014, however, 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 May 2014 point to slowed growth (Table 3.2). Among selected crops, growth in production of horticulture slowed while production of tea and coffee declined. Production of milk also declined during the year to May 2014 as production of sugarcane improved.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK

	2012	2013	Year to May 13	Year to May 14*
Tea				
Output (Metric tonnes)	369,562	432,453	436,676	430,603
Growth (%)	*-2.2%*	*17.0%*	*22.5%*	*-1.4%*
Horticulture				
Exports (Metric tonnes)	250,814	309,029	279,599	308,118
Growth (%)	*5.1%*	*23.2%*	*18.7%*	*10.2%*
Coffee				
Sales (Metric tonnes)	46,051	37,942	44,543	39,387
Growth (%)	*53.6%*	*-17.6%*	*7.9%*	*-11.6%*
Milk				
Output (million litres)	495	523	552	535
Growth %	*-9.8%*	*5.6%*	*9.1%*	*-3.0%*
Sugar Cane				
Output (Metric tonnes)	5,716,300	6,671,800	5,573,200	7,189,550
Growth (%)	*7.1%*	*16.7%*	*6.0%*	*29.0%*

* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

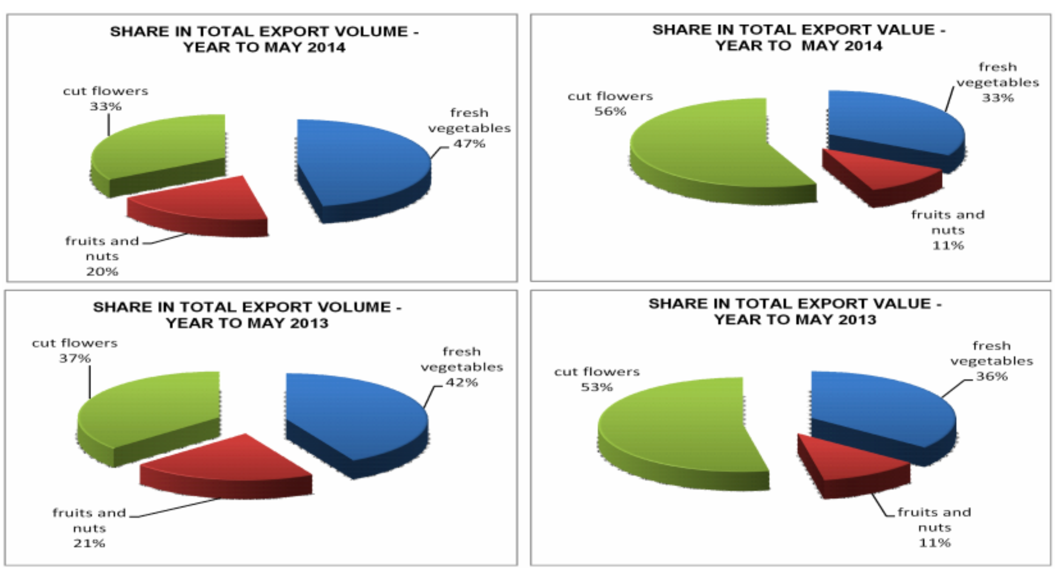
Tea

Production of tea decreased by 1.4 percent in the year to May 2014 compared with growth of 23.5 percent recorded in the year to May 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 265 per kilogram in the year to May 2013 to Ksh 201 per kilogram in the year to May 2014.

Horticulture

Export of fresh horticultural products increased by 10.2 percent from 279,599 metric tonnes in the year to May 2013 to 308,118 metric tonnes in the year to May 2014. Exports of fresh vegetables dominated in terms of volume, while cut flowers brought

CHART 3C: HORTICULTURAL EXPORTS



Source: Kenya Revenue Authority

Coffee

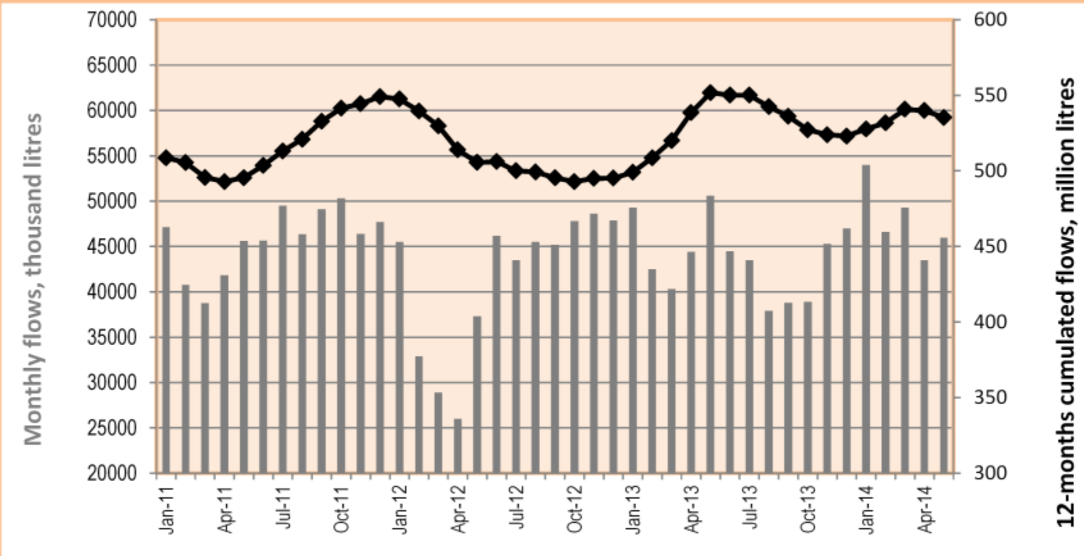
in the largest contribution to total export value in the year to May 2014 (Table 3.2 and Chart 3C).

Coffee sales declined by 11.6 percent from 44,543 metric tonnes in the year to May 2013 to 39,387 metric tonnes in the year to May 2014. The average auction price for coffee increased from Ksh 287 per kilogram in the year to May 2013 to Ksh 301 per kilogram in the year to May 2014 owing to improved quality.

Dairy

The volume of milk intake in the formal sector declined by 3.0 percent to 535 million litres in the year to May 2014 (Chart 3D).

CHART 3D: PROCESSED MILK ('000 LITRES)



Source: Kenya National Bureau of Statistics

Manufacturing

The manufacturing sector accounted for 11.1 percent of the overall GDP growth in 2013. This activity grew by 7.9 percent in the first quarter of 2014 and 9.1 percent in the second quarter of 2014 compared with growths of 10.2 percent and 5.4 percent in the first two quarters of 2013, respectively. Indicators of the performance of manufacturing activity for the 12-month period to May 2014 (Table 3.3 and Chart 3E), show accelerating growth in production of cement, assembled vehicles, galvanized sheets, 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

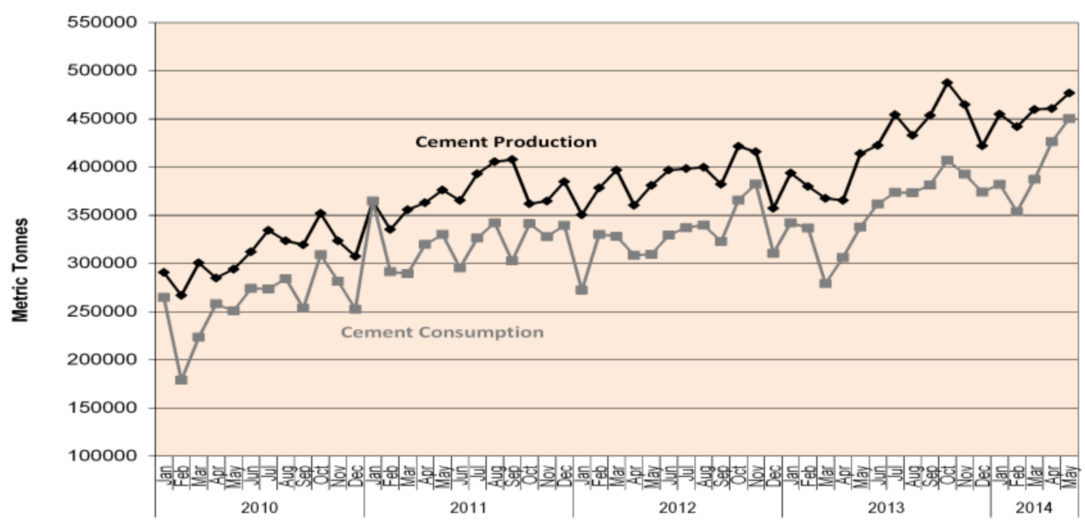
	Annual Totals 2012	Annual Totals 2013*	Year to May 13*	Year to May 14*
Cement production				
Output (MT)	4,639,723	5,059,129	4,693,446	5,432,268
Growth %	*3.6%*	*9.0%*	*3.1%*	*15.7%*
Assembled vehicles				
Output (No.)	6,218	6,948	6,303	7,948
Growth %	*2.8%*	*11.7%*	*-1.6%*	*26.1%*
Galvanized sheets				
Output (MT)	255,815	305,152	273,199	298,857
Growth %	*-4.6%*	*19.3%*	*4.2%*	*9.4%*
Processed sugar				
Output (MT)	493,937	600,210	471,348	660,880
Growth %	*4.0%*	*21.5%*	*4.1%*	*40.2%*
Soft drinks				
Output ('000 litres)	359,518	407,027	368,709	440,855
Growth %	*-3.2%*	*13.2%*	*0.2%*	*19.6%*

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 6.5 percent in the year to May 2013 to 11.3 percent in the year to May 2014 (Table 3.4). The total amount of electricity generated thus increased from 7,726 million kilowatt hours to 8,597 million kilowatt hours. The supply in the current period comprised 47.2 percent of hydro-electricity, 30.1 percent of thermal power and 22.7 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 36.3 percent and 24.4 percent respectively from -18.5 percent and 4.9 percent in the comparable period of 2013. Generation of hydro-electricity, however, decreased by 4.7 percent in the year to May 2014 from 24.2 percent growth in the previous year, reflecting the unfavourable weather outcome. Growth in consumption of electricity increased from 1.9 percent in the year to May 2013 to 7.3 percent in the year to May 2014. The average price of murban crude oil rose marginally from US$ 109.1 per barrel in the year to May 2013 to US$ 109.2 per barrel in the year to May 2014.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	2012	2013	Year to May 13	Year to May 14*
Electricity Supply (Generation)				
Output (million KWH)	7,544	8,217	7,726	8,597
Growth %	*5.4%*	*8.9%*	*6.5%*	*11.3%*
Of which:				
Hydro-power Generation (million KWH)	4,032	4,387	4,262	4,060
Growth (%)	*26.6%*	*8.8%*	*24.2%*	*-4.7%*
Geo-Thermal Generation (million KWH)	1,522	1,781	1,566	1,949
Growth (%)	*5.4%*	*17.0%*	*4.9%*	*24.4%*
Thermal (million KWH)	1,990	2,049	1,898	2,588
Growth (%)	*-21.4%*	*3.0%*	*-18.5%*	*36.3%*
Consumption of electricity (million KWH)	6,270	6,564	6,313	6,776
Growth %	*1.9%*	*4.7%*	*1.9%*	*7.3%*
Murban crude oil average price (US $ per barrel)	113.0	110.1	109.1	109.2
Growth %	*2.1%*	*-2.5%*	*-4.8%*	*0.1%*

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

The number of tourist arrivals declined by 6.5 percent in the year to May 2014 (Table 3.5) compared with a decline of 8.1 percent in the year to May 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 (83.9 percent share), and the Moi International Airport, Mombasa (16.1 percent share).

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2013	Year to May 2013	Year to May 2014	Year to May 2014 % Share	Year to May 2014 % Growth
MIAM	189,654	181,893	174,304	*16.1%*	*-4.2%*
JKIA	912,998	978,798	911,379	*83.9%*	*-6.9%*
TOTAL	**1,102,652**	**1,160,691**	**1,085,683**	***100.0%***	***-6.5%***

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

	2012	2013*	Year to May 13*	Year to May 14*
Number of Passengers thro' JKIA				
Total passenger flows	4,302,244	4,290,349	4,327,922	4,250,540
Growth (%)	*4.0%*	*-0.3%*	*-0.8%*	*-1.8%*
o.w. Incoming	2,148,105	2,144,002	2,159,573	2,121,082
Growth (%)	*2.8%*	*-0.2%*	*-1.6%*	*-1.8%*
Outgoing	2,154,139	2,146,347	2,168,349	2,129,458
Growth %	*5.3%*	*-0.4%*	*0.0%*	*-1.8%*
Kenya Pipeline Oil Throughput				
Output ('000 litres)	4,855,573	5,181,609	4,996,793	5,412,860
Growth %	*14.0%*	*6.7%*	*10.9%*	*8.3%*

* Provisional

Source: Kenya National Bureau of Statistics

Developments in the Balance of Payments and Exchange Rates

Overview

Kenya's overall balance of payments improved by USD 1,769.6 million (282.0 percent to a surplus of USD 2,397 million in the year to June 2014 from USD 627 million surplus in the year to June 2013. The improvement largely reflected a USD 1,751.4 million increase in the capital and financial account surplus.

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to June 2013*	Year to June 2014*				Year to June 2014*	Absolute Change	% Change
		Q1 Jul-Sep	Q2 Oct- Dec	Q3 Jan-Mar	Q4 Apr-Jun			
1. OVERALL BALANCE	627	209	174	101	1912	2397	1769.6	282.0
2. CURRENT ACCOUNT	-4693	-1283	-1324	-904	-1164	-4674	18.1	-0.4
2.1 Goods	-10738	-2848	-3030	-2440	-3009	-11327	-589.1	5.5
Exports (fob)	6108	1409	1434	1558	1617	6018	-89.8	-1.5
Imports (cif)	16846	4258	4464	3999	4625	17345	499.3	3.0
2.2 Services	6046	1565	1706	1537	1845	6653	607.2	10.0
Non-factor services (net)	3495	849	932	1039	1130	3950	454.7	13.0
Income (net)	-265	-81	-73	-38	-103	-296	-30.4	11.4
Current Transfers (net)	2816	798	848	537	817	2999	182.9	6.5
3. CAPITAL & FINANCIAL ACCOUNT	5320	1493	1498	1005	3076	7071	1751.4	32.9
3.1 Capital Tranfers (net)	146	11	28	30	134	203	56.7	38.8
3.2 Financial Account	5174	1482	1470	975	2942	6869	1694.7	32.8
memo:								
Gross Reserves	7889	7959	8483	8279	10399	10399	2509.8	31.8
Official	6089	6291	6560	6654	8555	8555	2465.5	40.5
*import cover***	*4.0*	*4.2*	*4.3*	*4.4*	*5.5*	*5.5*	1.5	36.4
*import cover****	*4.4*	*4.4*	*4.5*	*4.5*	*5.7*	*5.7*	1.4	31.1
Commercial Banks	1800	1668	1923	1625	1844	1844	44.3	2.5

* Provisional.

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

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

Source: Central Bank of Kenya

Current Account

The deficit in the current account narrowed by USD 18.1 million to USD 4,674 million in the year to June 2014 from a deficit of USD 4,693 million in the year to June 2013 following USD 607 million improvement in the services account which, wholly offset the USD 589.1 million widening of the trade deficit (Table 4.2).

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

ITEM	Year to June 2013*	Year to June 2014*				Year to June 2014*	Absolute Change	% Change
		Q1 Jul-Sep	Q2 Oct- Dec	Q3 Jan-Mar	Q4 Apr-Jun			
2. CURRENT ACCOUNT	-4693	-1283	-1324	-904	-1164	-4674	18.1	-0.4
2.1 Goods	-10738	-2848	-3030	-2440	-3009	-11327	-589.1	5.5
Exports (fob)	6108	1409	1434	1558	1617	6018	-89.8	-1.5
Coffee	218	51	39	44	72	206	-11.8	-5.4
Tea	1291	296	265	278	262	1101	-189.6	-14.7
Horticulture	732	164	201	215	205	786	53.8	7.4
Oil products	71	12	9	10	16	46	-24.5	-34.6
Manufactured Goods	685	184	170	166	144	664	-20.9	-3.1
Raw Materials	388	82	109	133	120	444	56.1	14.5
Chemicals and Related Products (n.e.s	500	120	114	118	110	462	-37.8	-7.6
Miscelleneous Man. Articles	570	155	151	157	160	623	53.4	9.4
Re-exports	491	137	165	222	293	817	325.9	66.4
Other	1164	209	209	216	235	869	-294.4	-25.3
Imports (cif)	16846	4258	4464	3999	4625	17345	499.3	3.0
Oil	3954	838	1012	944	1159	3952	-2.0	-0.0
Chemicals	2148	570	596	580	566	2313	164.8	7.7
Manufactured Goods	2414	701	661	656	672	2690	276.0	11.4
Machinery & Transport Equipment	4867	1201	1174	1089	1412	4876	9.5	0.2
Other	3347	910	974	708	794	3386	39.5	1.2
2.2 Services	6046	1565	1706	1537	1845	6653	607.2	10.0
Non-factor services (net)	3495	849	932	1039	1130	3950	454.7	13.0
Non-factor services (credit)	4709	1165	1302	1325	1415	5208	499.0	10.6
of which transport	2118	513	561	506	527	2107	-10.4	-0.5
of which tourism (Travel)	900	216	206	187	201	809	-90.3	-10.0
Other services account: gov't	931	255	211	228	236	930	-0.6	-0.1
Other services account: private	761	181	324	404	452	1361	600.4	78.9
Income (net)	-265	-81	-73	-38	-103	-296	-30.4	11.4
of which official interest	-133	-33	-25	-23	-78	-159	-26.0	19.5
Current Transfers (net)	2816	798	848	537	817	2999	182.9	6.5
Private (net)	2608	749	799	541	822	2911	302.7	11.6
of which Remittances	1199	327	340	341	348	1356	157.8	13.2
Public (net)	208	49	49	-5	-5	88	-119.9	-57.6

* Provisional.

Source: Central Bank of Kenya

Merchandise Account

Trade deficit widened to USD 11,327 million in the year to June 2014 from USD 10,738 million in the year to June 2013 reflecting 3 per cent increase in merchandise imports and 1.5 per cent decline in merchandise exports (Table 4.2).

Imports

The value of merchandise imports rose by USD 499.3 million (3 percent) to USD 17,345 million in the year to June 2014 following increased imports of chemicals, manufactured goods, machinery and transport equipment and other imports. The value of oil imports declined mainly due to decline in world oil prices. As a share of the import bill, imports of chemicals increased from 12.8 per cent to 13.3 per cent and imports of manufactured goods increased from 14.33 per cent to 15.51 per cent, while the share of machinery and transport equipment, oil and other imports declined.

In terms of imports by source region, imports from Africa increased to USD 1,715 million and accounted for 10 percent of total imports (Table 4.3). India and China were the dominant sources and accounted for 18 percent and 14 percent of total imports, respectively.

Exports

The value of merchandise exports declined by USD 89.8 million (1.8 percent) to USD 6,018 million in the year to June 2014. The decline reflected reduced earnings from coffee, tea, oil products, manufactured goods, chemicals and related products and other exports. Earnings from export of coffee and tea declined by USD 11.8 million and USD 189.6 million respectively , largely reflecting a declining trend in the international prices of coffee and tea. However, earnings from export of horticulture, raw materials, miscellaneous manufactured articles and re-exports increased during the period under review.

The value and share of Kenya's exports to Africa declined in the year to June 2014 (Table 4.3). This largely reflected 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 June			Year to June		
Country	2012	2013	2014	2012	2013	2014
Africa	**1,728**	**1,635**	**1,715**	**11**	**10**	**10**
Of which						
South Africa	768	724	834	5	4	5
Egypt	273	335	282	2	2	2
Others	687	575	599	4	3	3
				0	0	0
EAC	**304**	**346**	**350**	**2**	**2**	**2**
COMESA	**728**	**706**	**634**	**5**	**4**	**4**
Rest of the World	**14,231**	**15,212**	**15,630**	**89**	**90**	**90**
Of which				0	0	0
India	1,802	2,576	3,178	11	15	18
United Arab Emirates	2,142	1,688	1,052	13	10	6
China	1,811	1,935	2,355	11	11	14
Japan	697	860	1,002	4	5	6
USA	671	730	915	4	4	5
United Kingdom	508	571	544	3	3	3
Singapore	110	231	205	1	1	1
Germany	431	457	514	3	3	3
Saudi Arabia	888	557	479	6	3	3
Indonesia	669	530	554	4	3	3
Netherlands	216	226	274	1	1	2
France	260	284	243	2	2	1
Bahrain	227	449	496	1	3	3
Italy	196	245	232	1	1	1
Others	3,602	3,874	3,588	23	23	21
Total	**15,959**	**16,846**	**17,345**	**100**	**100**	**100**
EU	2,283	2,411	2,543	14	14	15
China	1,811	1,935	2,355	11	11	14

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to June			Year to June		
Country	2012	2013	2014	2012	2013	2014
Africa	**2,888**	**2,860**	**2,724**	**48**	**47**	**45**
Of which						
Uganda	814	792	719	14	13	12
Tanzania	521	506	499	9	8	8
Egypt	269	235	198	5	4	3
Sudan	167	68	73	3	1	1
South Sudan	74	216	193	1	4	3
Somalia	233	211	171	4	3	3
DRC	209	227	221	4	4	4
Rwanda	166	184	166	3	3	3
Others	435	423	485	7	7	8
				0	0	0
EAC	**1,567**	**1,540**	**1,453**	**26**	**25**	**24**
COMESA	**1,955**	**1,820**	**1,696**	**33**	**30**	**28**
Rest of the World	**3,075**	**3,248**	**3,294**	**52**	**53**	**55**
Of which				0	0	0
United Kingdom	487	478	425	8	8	7
Netherlands	361	373	439	6	6	7
USA	298	331	395	5	5	7
Pakistan	249	286	242	4	5	4
United Arab Emirates	248	364	262	4	6	4
Germany	104	105	115	2	2	2
India	105	99	108	2	2	2
Afghanistan	135	173	141	2	3	2
Others	1,089	1,039	1,167	18	17	19
Total	**5,962**	**6,108**	**6,018**	**100**	**100**	**100**
EU	1,265	1,245	1,340	21	20	22
China	57	58	65	1	1	1

Source: Kenya Revenue Authority

Services Account

The surplus in the Services account increased by USD 607.2 million or 10 percent, from USD 6,046 million in the year to June 2013 to USD 6,653 million in the year to June 2014. The increase was largely on account of net inflows in the non-factor services account and current transfers. Non-factor services account rose by USD 454.7 million to USD 3,950 million over the same period on account of increased receipts from other private services (insurance and communication services and royalties and license fees). The balance in the current transfers account improved by USD 182.9 million (6.5 percent) to USD 2,999 million in the year to June 2014, reflecting USD 302.7 million increase in private transfer which more than offset the USD 119.9 million decline in public transfer. Remittance inflows (under private transfers) also increased, by USD 157.8 million (13.2 percent) to USD 1,356 million during the year to June 2014 from USD 1,199 million during the year to June 2013 (Table 4.2). Average remittance inflows in the year to June 2014 increased to USD 113 million from USD 99.9 million in the year to June 2013, underscoring resilience of remittance flows. However, the income account recorded a deficit of USD 30.4 million largely reflecting increase in both private and public interest payment.

Capital and Financial Account

The capital and financial account improved by 32.9 per cent to a surplus of USD 7,071 million in the year to June 2014 from a surplus of USD 5,320 million in the year to June 2013. The increase was largely in the financial account (to USD 6,869 million in the year to June 2014 from US$ 5,174 million in the year to June 2013) in respect of net official (medium to long-term) flows and net short term financial flows. Inflows in the official medium and long-term amounted to USD 1,912.5 million, which were largely proceeds from the sale of the debut Euro bond in June 2014, while the outflow in the official medium and long-term largely reflected payment of the USD 600 million syndicated loan. Short term flows (including net errors and omissions) also increased by USD 627.3 million during the period under review.

Net Private medium and long term flows however, declined from USD 305 million in the year to June 2013 to USD 102 million in June 2014 largely reflecting payments of private loans.

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

ITEM	Year to June 2013*	Year to June 2014* Q1 Jul-Sep	Q2 Oct- Dec	Q3 Jan-Mar	Q4 Apr-Jun	Year to June 2014*	Absolute Change	% Change
3. CAPITAL & FINANCIAL ACCOUNT	5320	1493	1498	1005	3076	7071	1751.4	32.9
3.1 Capital Tranfers (net)	146	11	28	30	134	203	56.7	38.8
3.2 Financial Account	5174	1482	1470	975	2942	6869	1694.7	32.8
Official, medium & long-term	683	12	71	198	1671	1953	1270.1	185.9
Inflows	990	112	162	296	2333	2903	1912.5	193.1
Outflows	-307	-99	-91	-98	-662	-950	-642.4	209.0
Private, medium & long-term (net)	305	-20	-184	298	8	102	-202.7	-66.4
Commercial Banks (net)	367	10	6	302	156	473	105.6	28.7
Other private medium & long-term (net)	-62	-29	-190	-3	-148	-371	-308.3	493.8
Short-term (net) incl. errors & omissions	4186	1490	1583	478	1262	4813	627.3	15.0

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from USD 7,889 million at the end of June 2013 to USD 10,399 million at the end of June 2014. Official reserves held by the Central Bank of Kenya constituted the bulk of gross reserves and increased to USD 8,555 million (5.7 months of import cover) at the end of June 2014 from USD 6,089 million (4.4 months of imports cover) at the end of June 2013. The build-up in foreign exchange reserves during the period was largely attributed to proceeds from the issuance of the Eurobond in June 2014, International Monetary Fund (IMF) support under the Extended Credit Facility Programme to strengthen Kenya's external position with the last disbursement received in December 2013, and purchases by the Central Bank of Kenya from the interbank market.

Foreign Exchange Reserves held by commercial banks increased by 2.4 percent, to USD 1,844 million at the end of June 2014 from USD 1,800 million at the end of June 2013. During the same period, Residents' Foreign Currency Deposits increased to USD 3,776 million from USD 3,371 million (Table 4.5).

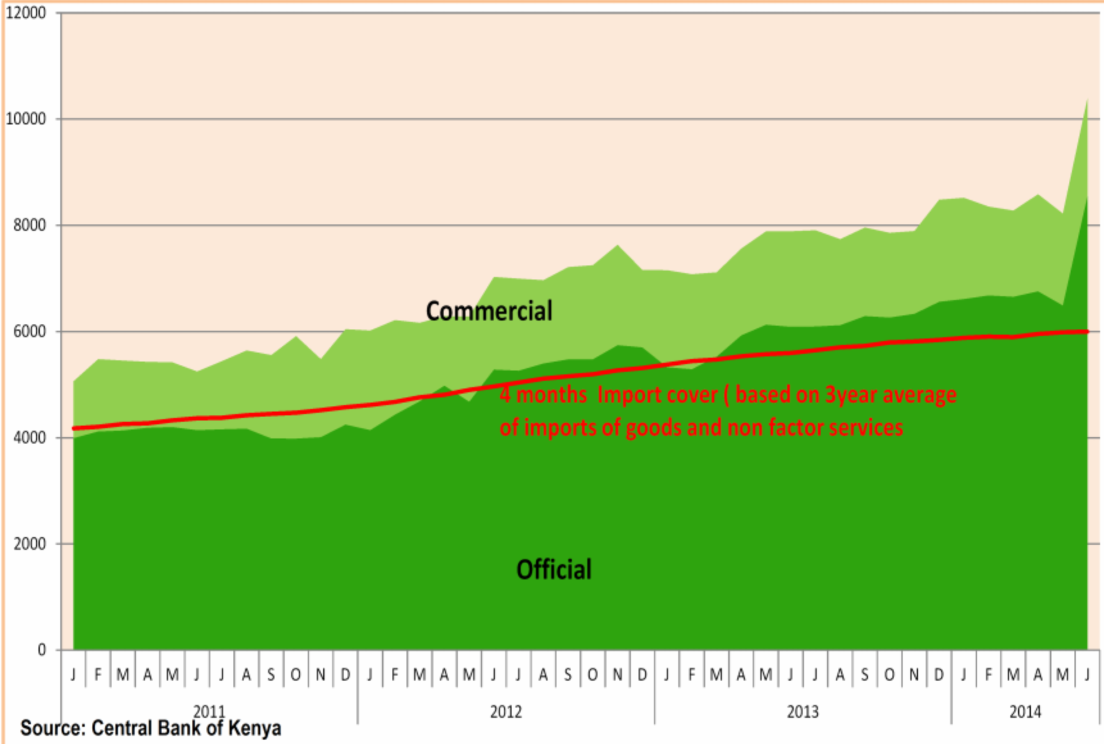
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14
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
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
*import cover***	*4.3*	*4.4*	*4.3*	*4.4*	*4.5*	*4.5*	*4.5*	*4.5*	*4.5*	*4.3*	*5.7*
Commercial Banks	1,620	1,668	1,596	1,560	1,923	1,907	1,673	1,625	1,829	1,732	1,844
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**

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya shilling portrayed mixed performance against major international and regional currencies during the month of June 2014. On the international scene the shilling strengthened to the Euro but weakened to the US Dollar, the Pound Sterling and the Japanese Yen. Performance of the Shilling largely reflected developments in the international market and also increased dollar demand in the domestic market against sluggish inflows. The Shilling traded at an average of 87.61 per USD, 148.15 per Pound Sterling, 119.16 per Euro and 85.88 per 100 Japanese Yen compared to 87.41 per USD, 147.29 per Pound Sterling, 120.09 per Euro and 85.84 per 100 Japanese Yen in May 2014. In the EAC region, the Kenya shilling strengthened to the Uganda and Tanzania shillings but weakened to the Rwanda and Burundi Francs to trade at an average of Ush 29.44, Tsh 19.18, RWF 7.74 and BIF 17.68 compared to Ush 28.97, Tsh 18.92, RWF 7.76 and BIF 17.72 in May 2014 (Table 4.6 and Chart 4D).

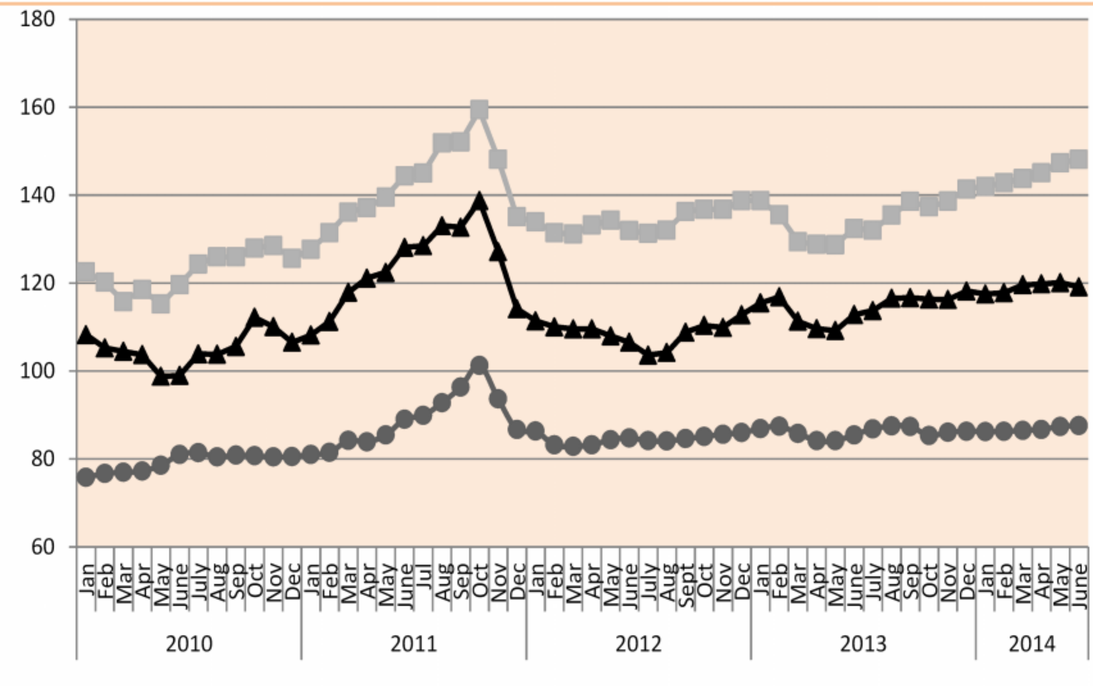
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2013				2014			
	June	October	November	December	Apr	May	June	% change May-June 2014
US Dollar	85.49	85.31	86.10	86.31	86.72	87.41	87.61	0.23
Pound Sterling	132.42	137.31	138.64	141.37	145.08	147.29	148.15	0.58
Euro	112.81	116.33	116.22	118.18	119.78	120.09	119.16	-0.78
100 Japanese Yen	87.77	87.24	86.21	83.51	84.59	85.84	85.88	0.04
Uganda Shilling*	30.34	29.74	29.31	29.20	29.19	28.97	29.44	1.63
Tanzania Shilling*	19.13	18.87	18.68	18.63	18.86	18.92	19.18	1.40
Rwanda Franc*	7.56	7.85	7.80	7.76	7.82	7.76	7.74	-0.24
Burundi Franc*	18.22	18.13	18.01	17.91	17.88	17.72	17.68	-0.18

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

The Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 9 microfinance banks, 7 representative offices of foreign banks, 97 foreign exchange bureaus, 5 money remittance providers and 2 credit reference bureaus as at June 30, 2014.

Structure of the Balance Sheet

The banking sector balance sheet grew by 18.1 percent from Ksh 2,513.5 billion in June 2013 to Ksh 2,967.6 billion in June 2014. The major components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 58.0 percent, 21.3 percent and 5.1 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances grew from Ksh 1,454.9 billion in June 2013 to Ksh 1,784.3 billion in June 2014, which translated to a growth of 22.6 percent. The growth was attributed to increase in lending to personal/households, trade, manufacturing, transport & communication and real estate sectors. Loans and advances net of provisions stood at Ksh 1,764.9 billion in June 2014, up from Ksh 1,440.3 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 72.3 percent of total funding liabilities. The deposit base increased by 15.6 percent from Ksh 1,857.3 billion in June 2013 to Ksh 2,147.9 billion in June 2014 largely supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

Capital & Reserves

The banking sector registered improved capital levels in June 2014 with total shareholders' funds growing by 16.5 percent from Ksh 394.4 billion in June 2013 to Ksh 459.4 billion in June 2014. Core capital and Total capital increased from Ksh 315.2 billion and Ksh 364.0 billion to Ksh 374.6 billion and Ksh 436.6 billion respectively over the same period. However, the ratios of core and total capital to total risk-weighted assets declined from 20.2 percent and 23.3 percent in June 2013 to 15.0 percent and 17.5 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 stock of gross non-performing loans (NPLs) grew by 31.6 percent from Ksh 77.3 billion in June 2013 to Ksh 101.7 billion in June 2014. The upsurge 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 5.3 percent in June 2013 to 5.7 percent June 2014. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 47.2 percent to 38.5 percent in June 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 June 2013 to 2.8 percent in June 2014 (Table 5.1)

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

		13-Jun	14-Jun
1	Gross loans and advances	1454.9	1784.3
2	Interest in Suspense	14.6	19.4
3	Loans and advances (net of interest suspended)	1440.3	1764.9
4	Gross non-performing loans	77.3	101.7
5	Specific Provisions	29.6	31.7
6	General Provisions	10.7	13
7	Total Provisions (5+6)	40.3	44.7
8	Net Advances (3-7)	1400	1720.3
9	Total Non-Performing Loans and Advances (4-2)	62.7	82.3
10	Net Non-Performing Loans and Advances (9-5)	33.1	50.6
11	Total NPLs as % of total advances (9/3)	4.40%	4.70%
12	Net NPLs as % of gross advances (10/1)	2.30%	2.80%
13	Specific Provisions as % of Total NPLs (5/9)	47.20%	38.50%

Source: Central Bank of Kenya

Profitablility

The banking sector recorded an increase of 15.4 percent growth in pre-tax profits, from Ksh 61.5 billion in June 2013 to Ksh 71.0 billion as at end of June 2014. The annualised return on assets declined from 3.9 percent to 3.7 percent over the same period. Similarly, return on equity declined from 31.2 percent to 30.9 percent over the same period. Total income increased by 12.2 percent from Ksh 177.3 billion in June 2013 to Ksh 199.0 billion in June 2014, while total expenses increased by 10.4 percent from Ksh 115.9 billion in June 2013 to Ksh 128.0 billion in June 2014. Interest on loans and advances, fees and commissions and government securities were the main sources of income accounting for 58.5 percent, 19.4 percent and 15.1 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 32.7 percent, 28.4 percent and 24.3 percent, respectively.

Liquidity Ratio Requirement

For the month ended June 30, 2014, average liquid assets amounted to Ksh 820.7 billion while total short-term liabilities stood at Ksh 2,118.1 billion, resulting to an average liquidity ratio of 38.7 percent, against 42.7 percent registered in June 2013.

Cash Ratio Requirement

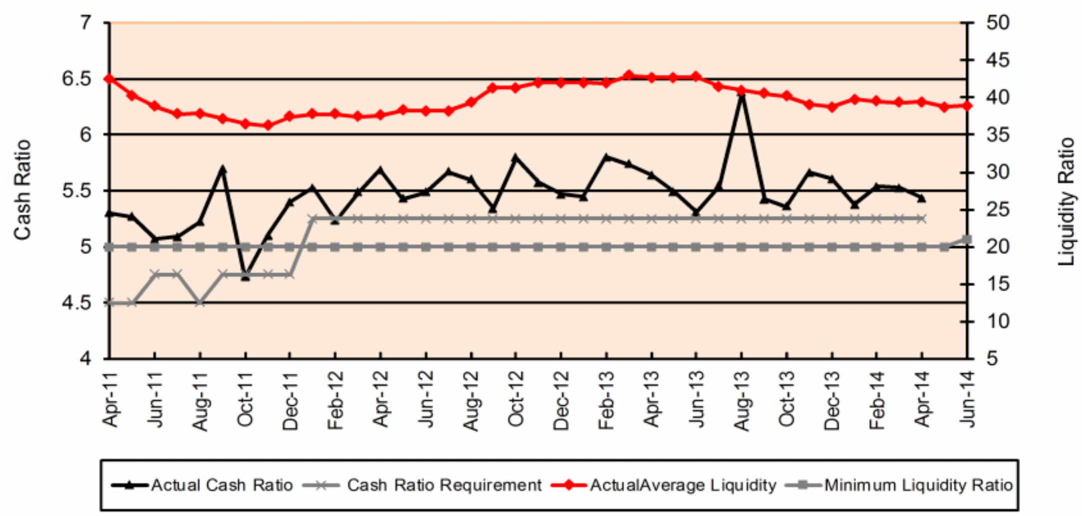
The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for reserve requirements averaged 5.88 percent in June 2014 compared with 5.61 percent in May 2014, and 5.25 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of Ksh 12.66 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in June 2014 compared with Ksh 7.09 billion in May 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					
	Jun	Jul	Aug	Dec	Jan	Feb	Mar	Apr	May	June
Commercial Banks										
Actual Average Liquidity	42.80	41.50	41.00	38.70	39.80	39.50	39.32	39.40	39.40	38.90
Minimum Liquidity Ratio	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	5.31	5.54	6.38	5.61	5.38	5.54	5.53	5.44	5.44	5.88
Minimum Cash Ratio Requirement	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	33.10	39.50	36.50	32.60	34.20	34.13	32.69	29.90	29.90	27.80
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 198,052 transaction messages worth Ksh 2,133 billion in June 2014 compared with a volume of 209,019 transaction messages valued at Ksh 2,188 billion moved in May 2014, representing a decrease of 2.51 percent and 5.25 percent in value and volume respectively. Compared to June 2013, the volume increased by 30.03 percent from 152,310 transaction messages to 198,052 transaction messages in June 2014 while value increased by 24.06 percent from 1,712 billion to 2,133 billion, indicating increased uptake of KEPSS services by the public.

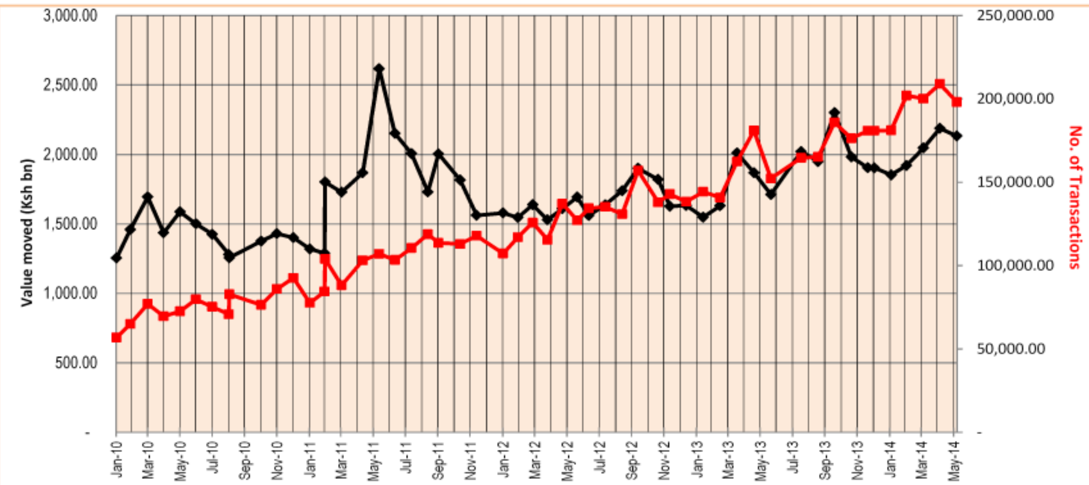
During the twelve months period to June 30, 2014 the value moved averaged Ksh 11 million per transaction. On average, 8,954 transaction messages with an average value of approximately Ksh 97 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted 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

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third Party Messages

Multiple third party Message Type (MT 102) used for multiple credit transfers increased by 29.72 percent from 20,543 transaction messages in May 2014 to 26,649 transaction messages in June 2014 while single third party Message Type (MT 103) used for single credit transfers increased by 0.72 percent from 218,936 transaction messages to 220,504 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 3.20 percent from 239,479 transaction messages in May 2014 to 247,153 transaction messages in June 2014.

Compared with June 2013, multiple third party messages (MT 102) increased by 63.95 percent from 16,254 transaction messages to 26,649 transaction messages in June 2014 while single third party messages (MT 103) increased by 34.11 percent from 164,422 transaction messages to 220,504 transaction messages (Table 5.4 and Chart 5C).

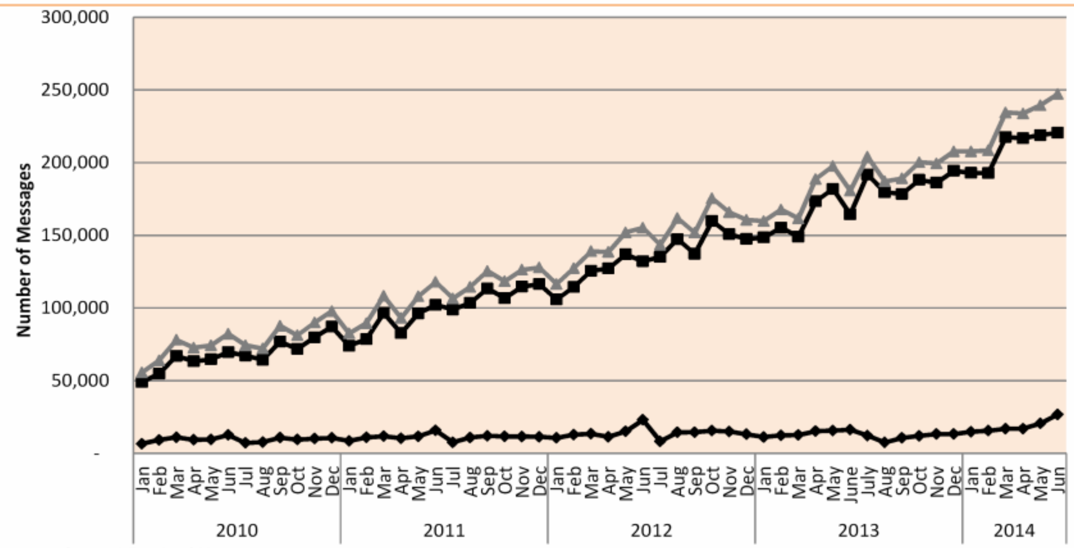
Inter-bank transfers (MT 202) accounted for 29.38 percent of the total value moved through KEPSS as at end of June 2014 while third party (MT 102 and MT 103) messages accounted for 70.62 percent. The total number of third party messages grew by 36.79 percent from 180,676 messages in June 2013 to 247,153 messages in June 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	10661	105,817	116,478
	Feb	12871	114,522	127,393
	Mar	13428	125,628	139,056
	Apr	11439	127,126	138,565
	May	15093	136,942	152,035
	Jun	23048	132,103	155,151
	Jul	8268	135,173	143,441
	Aug	14459	147,373	161,832
	Sep	14527	137,268	151,795
	Oct	15616	159,847	175,463
	Nov	15008	150,800	165,808
	Dec	13123	147,510	160,633
2013	Jan	11267	148,497	159,764
	Feb	12405	155,349	167,754
	Mar	12681	148,954	161,635
	Apr	15247	173,453	188,700
	May	15690	181,934	197,624
	Jun	16254	164,422	180,676
	Jul	12189	191,864	204,053
	Aug	7530	179,629	187,159
	Sep	10655	178,480	189,135
	Oct	12087	188,162	200,249
	Nov	13265	186,194	199,459
	Dec	13328	194,427	207,755
2014	Jan	14858	192,905	207,763
	Feb	15596	192,858	208,454
	Mar	16935	217,572	234,507
	Apr	17019	216,820	233,839
	May	20543	218,936	239,479
	Jun	26649	220,504	247,153

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

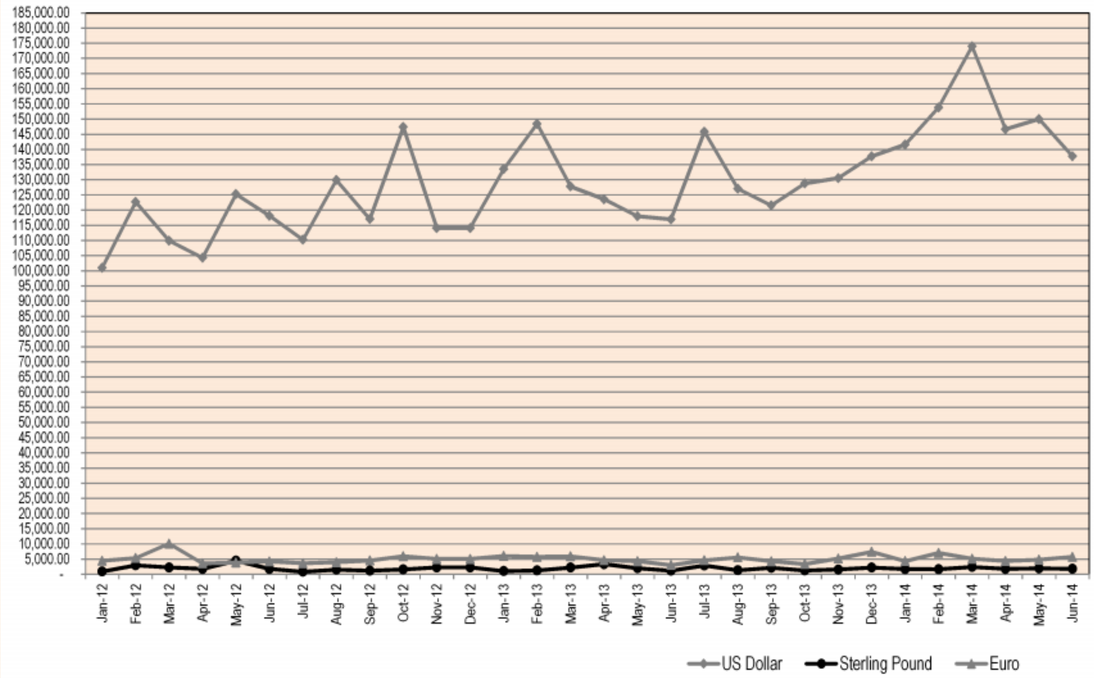


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS decreased by 8.73 percent from 17,214 transaction messages in May 2014 to 15,711 transaction messages in June 2014. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period decreased by 7.30 percent from Ksh 156.7 billion to Ksh 145.3 billion. The US dollar denominated transactions accounted for 94.84 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.23 percent and 3.93 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 to the end of the FY 2013/14 resulted into a deficit of Ksh 309.1 billion (6.5 percent of GDP) on commitment basis compared with a deficit of Ksh 249.5 billion incurred in the same period of the FY 2012/13. This was lower than the Ksh 391 billion (8.2 percent of GDP) programmed target for the period.

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

	FY 2012/13	FY 2013/14		
	June Actual	June Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	**851.19**	**1,001.37**	**1,060.11**	**(58.74)**
Revenue	**830.24**	**974.42**	**1,006.40**	**(31.99)**
Tax Revenue	733.83	851.80	850.36	1.44
Non Tax Revenue	45.60	67.19	67.61	(0.42)
Appropriations-in-Aid	50.81	55.43	88.43	(33.01)
External Grants	20.95	26.96	53.71	(26.75)
2. TOTAL EXPENSES & NET LENDING	**1,100.83**	**1,297.76**	**1,451.07**	**(153.31)**
Recurrent Expenses	808.38	785.06	844.43	(59.37)
Development Expenses	292.46	319.31	413.22	(93.91)
County Transfers	0.00	193.39	193.42	(0.03)
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**(249.64)**	**(296.39)**	**(390.95)**	**94.57**
*As percent of GDP	(5.87)	*(6.23)*	*(8.22)*	
4. ADJUSTMENT TO CASH BASIS	**0.13**	**(12.74)**	**0.00**	**(12.74)**
5. DEFICIT ON A CASH BASIS	**(249.51)**	**(309.13)**	**(390.95)**	**81.83**
* As percent of GDP	(5.86)	(6.50)	(8.22)	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**(19.27)**	**0.00**	**0.00**	**0.00**
7. FINANCING	**230.24**	**309.12**	**390.95**	**(81.83)**
Domestic (Net)	169.78	202.99	99.10	103.89
External (Net)	60.46	106.13	291.85	(185.72)
Capital Receipts (privatisation)	0.00	0.00	0.00	0.00
Others	0.00	0.00	0.00	0.00
Financing gap	0.00	0.00	0.00	0.00

* Computed using the new GDP figures

Source: National Treasury

Revenue

Total government revenues and grants amounted to Ksh 1001.4 billion in the period July 2013 – June 2014, representing an increase of Ksh 150.2 billion from Ksh 851.2 billion collected in a similar period of the FY 2012/13 (Table 6.2). Tax revenue accounted for 85.1 percent of the total revenue realized, surpassing targets by Ksh 12.4 billion while external grants and appropriation in aid underperformed by Ksh 26.8 billion and Ksh 33 billion, respectively, with respect to the targeted amounts of Ksh 53.7 billion and Ksh 88.4 billion during this period (Table 6.1).

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

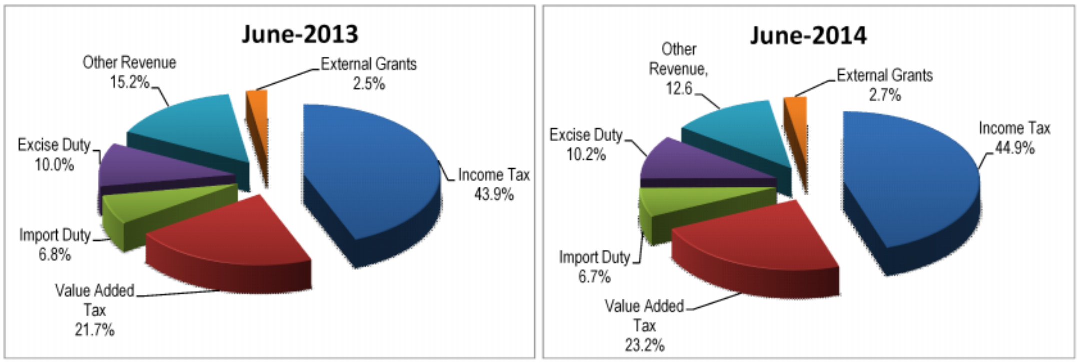
	Jun-13 Ksh bn	Jun-14 Ksh bn	Change
1. Revenue (2+3+4)	**830.2**	**974.4**	**144.2**
2. Tax Revenue	701.2	851.8	150.6
Income Tax	373.4	449.6	76.2
Value Added Tax	184.6	232.6	48.0
Import Duty	57.6	67.6	9.9
Excise Duty	85.5	102.0	16.5
3. Appropriations-in-Aid	50.8	55.43	4.6
4. Other Revenue	78.3	67.2	-11.1
5. External Grants	**20.9**	**27.0**	**6.0**
TOTAL RECEIPTS (1+5)	**851.2**	**1001.4**	**150.2**

Source: National Treasury

Tax revenue grew by Ksh 150.6 billion, equivalent to 21.5 percent increase, from Ksh 701.2 billion collected at the end of the fourth quarter of FY 2012/13 to Ksh 851.8 billion for a similar period of FY 2013/14 (Table 6.2). The increase was largely on account of income tax, which grew by Ksh 76.2 billion (20.4 percent) during the period. Excise, import duty, value added tax and appropriation in aid increased by

Ksh 16.5 billion, Ksh 9.9 billion , Ksh 48 billion and Ksh 4.6 billion respectively. On the other hand, other tax revenue declined by Ksh 11.1 billion during the period under review. The VAT performed well on account of implementation of the VAT law on September 1, 2013 that saw companies dealing in goods and services that were previously exempt and zero-rated being VAT-able under the new VAT Act.

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: National Treasury

Expenditure and Net Lending

Government expenditure and net lending increased by Ksh 196.9 billion in the period July 2013 – June 2014 from Ksh 1,100.8 billion expended during the same period in the FY 2012/13. Total expenditure during this period amounted to Ksh 1,297.8 billion, comprising Ksh 785.1 billion, Ksh 319.3 billion and Ksh 193.4 billion in recurrent expenditure, development expenditure and county transfers, respectively.

Recurrent expenditure decreased by Ksh 23.3 billion during the period under review of which Ksh 43.2 billion, of this decline was in other recurrent expenditure. However salaries and wages, and domestic interest payment increased by 8.9 billion and Ksh 11 billion, respectively. Development expenditure increased by Ksh 26.9 billion but underperformed in relation to the target by Ksh 93.9 billion. Meanwhile, County transfers at Ksh 193.4 billion was within targeted amount (Table 6.1). The lower than projected absorption in the development budget is attributed to slow absorption of funds from external sources.

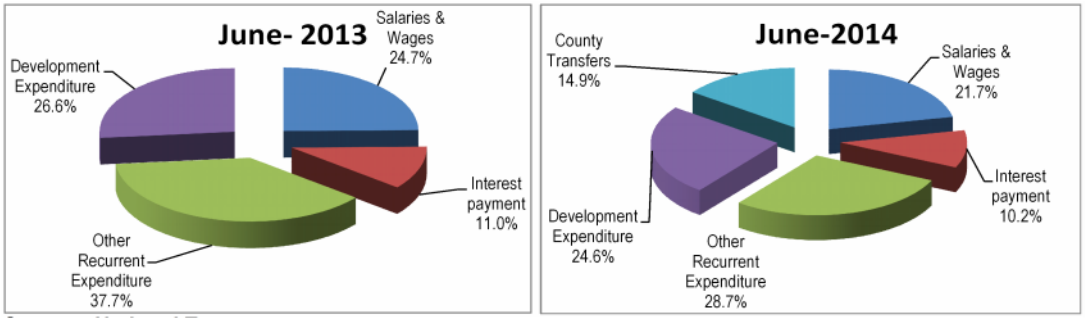
TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)

	Jun-13 Ksh bn	Jun-14 Ksh bn	Movement
1.Recurrent	**808.4**	**785.1**	**-23.3**
Salaries & Wages	272.3	281.2	8.9
Total Interest	121.0	132.0	11.0
of which			
Domestic*	109.7	119.2	9.5
Foreign interest due	11.3	12.8	1.4
Others	415.1	371.9	-43.2
2. Development	**292.5**	**319.3**	**26.9**
3. County Transfers	**9.8**	**193.4**	**183.6**
TOTAL EXPENSES	**1110.6**	**1297.8**	**187.1**

*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 339.9 billion in the period July – June 2014 compared with Ksh 266.3 billion in the same period in the FY 2012/13. The Government sourced the funds through domestic borrowing amounting to Ksh 233.8 billion and net external debt borrowing of Ksh 106.1 billion. The funds were allocated to bridge the Government budgetary deficit of Ksh 309.1 billion and buildup of government deposits by Ksh 46.2 billion (Table 6.4). The build-up of Government deposits in part mirror lower than budgeted uptake in development expenses.

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

I. FINANCING REQUIREMENTS	Jun-13	Jun-14
1. Budget deficit	249.5	309.1
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	25.1	46.2
5. Adjustment to cash basis	-8.2	-15.5
TOTAL	**266.3**	**339.9**
II. FINANCING SOURCES	**Jun-13**	**Jun-14**
1. Budget surplus	0.0	0.0
2. External debt increase	60.5	106.1
3. Increase in domestic debt	205.9	233.8
3.1 Central Bank	16.7	29.3
3.2 Commercial banks	113.9	90.1
3.3 Non-bank sources	75.3	114.3
4. Reduction in GoK deposits at CBK	0.0	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	**266.3**	**339.9**

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 3.0 billion thereby increasing the net stock of debt to Ksh 65.7 billion for the period July 2013 – June 2014, compared to Ksh 64 billion owed in a similar period of the 2012/2013 fiscal year. The increase in Government's liability to the Central Bank was largely attributed to the upward revision of the statutory limit of government overdraft at the Central Bank which was partially offset by redemptions of rediscounted securities acquired during the tight phase of monetary policy between November 2011 and June 2012. In addition, the Government repaid Ksh 1.1 billion, through the regular amortization of the pre- 1997 overdraft at the Central Bank. In May 2013, the statutory limit of government overdraft at the Central Bank was revised upwards to 37.2 billion to reflect the 2011/12 audited government accounts. Government borrowing through this facility was maintained within this limit.

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

	2013	2014	Movement
	June	June	
Total Credit	**64.0**	**65.7**	**1.6**
1. Overdraft	34.2	37.2	3.1
2. Rediscounted securities	0.3	0.1	-0.3
Treasury bills	0.0	0.0	0.0
Treasury bonds	0.3	0.0	-0.3
3. Pre-1997 Government Overdraft at CBK	29.4	28.3	-1.1
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.1	0.0	0.0
Memorandum			
Authorised overdraft limit	34.2	37.2	3.1
Amount utilised to date	34.2	37.2	3.1
Amount available	0.0	0.0	0.0

Source: Central Bank of Kenya

Outlook for FY 2014/15

In the revised budget estimates for the FY 2013/14, ordinary revenue is estimated at Ksh 950.5 billion (23.1 percent of GDP) while external grants are estimated at Ksh 78.9 billion (1.7 percent of GDP). Government expenditure is estimated at Ksh 1,470.6 billion (or 30.9 percent of GDP), of which, Ksh 821.9 billion (17.3 percent of GDP) will be in recurrent expenses, transfer to the county government of Ksh 193.5 billion and the rest in development expenses (Table 6.6).

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

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE	**1097.64**	**23.07**
Ordinary Revenue	950.50	19.98
Appropriations-in-Aid	68.23	1.43
External Grants	78.91	1.66
2. TOTAL EXPENSES & NET LENDING	**1470.61**	**30.91**
Recurrent Expenses	821.89	17.28
Development Expenses	455.26	9.57
County Transfer	193.47	4.07
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-372.97**	**-7.84**
4. ADJUSTMENT TO CASH BASIS	**0.00**	**0.00**
5. DEFICIT ON A CASH BASIS	**-372.97**	**-7.84**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.00**	**0.00**
7. FINANCING	**372.97**	**7.84**
Domestic (Net)	134.68	2.83
External (Net)	238.29	5.01

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 373 billion (7.8 percent of GDP) in 2013/14. The deficit is expected to be financed through net external borrowing of Ksh 238.3 billion and net domestic borrowing of Ksh 134.7 billion.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt

Kenya's public and publicly guaranteed debt increased by 25.1 percent to reach Ksh 2,370.3 billion in June 2014, from Ksh 1,894.1 billion in June, 2013. The total debt stock at the end of June 2014 was equivalent to 49.8 percent of GDP, compared with 44.5 percent of GDP in June 2013. The debt to GDP ratios for both domestic and external debts increased from 24.7 percent and 19.8 percent, respectively, in June 2013 to 27.0 percent and 22.8 percent in June 2014 (Table 7.1).

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

	Jun-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Change
									2013/14
Bilateral	257.6	284.9	284.2	244.2	283.7	288.5	288.4	289.9	32.3
Multilateral	511.8	562.6	561.7	573.3	581.9	587.5	595.6	597.3	85.5
Commercial Banks	58.9	59.1	59.0	59.1	59.2	59.1	59.6	182.2	123.3
Supplier Credits	15.2	15.8	15.6	15.7	15.7	15.9	14.3	16.5	1.2
Sub-Total	**843.6**	**922.4**	**920.4**	**892.3**	**940.5**	**951.0**	**957.9**	**1085.9**	**242.4**
*(As a % of GDP)	19.8	19.4	19.3	18.8	19.8	20.0	20.1	22.8	
*(As a % of total debt)	44.5	43.7	43.4	42.1	43.3	43.9	43.7	45.8	
DOMESTIC/[1]									
Banks	**563.5**	**627.6**	**633.4**	**664.4**	**663.5**	**632.5**	**644.1**	**682.8**	**119.4**
Central Bank	36.4	64.6	56.6	73.3	77.2	63.2	68.1	65.7	29.3
Commercial Banks	527.1	563.0	576.8	591.1	586.3	569.3	576.0	617.1	90.0
Non-banks	**477.5**	**551.3**	**557.0**	**553.2**	**553.7**	**570.8**	**575.3**	**586.5**	**109.0**
Pension Funds	263.1	294.1	306.0	304.8	310.6	311.1	313.6	322.9	59.8
Insurance Companies	108.6	114.4	116.6	117.3	117.8	118.3	120.1	121.0	12.4
Other Non-bank Sources	105.9	142.8	134.4	131.1	125.3	141.4	141.7	142.6	36.7
Non-residents	**9.6**	**10.3**	**10.5**	**11.7**	**14.0**	**13.4**	**13.1**	**14.9**	**5.4**
Sub-Total	**1050.6**	**1189.2**	**1200.9**	**1229.3**	**1231.2**	**1216.8**	**1232.5**	**1284.3**	**233.8**
*(As a % of GDP)	24.7	25.0	25.2	25.8	25.9	25.6	25.9	27.0	
*(As a % of total debt)	55.5	56.3	56.6	57.9	56.7	56.1	56.3	54.2	
GRAND TOTAL	**1894.1**	**2111.6**	**2121.3**	**2121.6**	**2171.7**	**2167.7**	**2190.4**	**2370.3**	**476.1**
*(As a % of GDP)	44.5	44.4	44.6	44.6	45.6	45.6	46.0	49.8	

*** Computed using the new 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 233.8 billion during the FY 2013/14 to reach Ksh 1,284.3 billion in June 2014. This was as a result of increases of Ksh 170.6 billion in Treasury bonds, Ksh 31.7 billion in Treasury bills and Ksh 30.2 billion in Government overdraft at the Central Bank (Table 7.2). Domestic debt-to-total debt ratio decreased from 55.5 percent in June, 2013 to 54.2 percent in June 2014, due to an increase in the stock of external debt which more than offset the rise in the domestic debt stock in the period under review. Domestic debt-to-GDP ratio edged up to 27.0 percent in June 2014, from 24.7 percent in June 2013 (Table 7.1).

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2013						2014						Change
	June	%	Dec	%	Mar	%	Apr	%	May	%	June	%	Jun-13 -June-14
Total Stock of Domestic Debt (A+B)	**1,050.6**	**100.0**	**1,189.2**	**100.0**	**1,231.2**	**100.0**	**1216.8**	**100.0**	**1,232.5**	**100.0**	**1,284.3**	**100.0**	**233.8**
A. Government Securities	**1,040.8**	**99.1**	**1,152.4**	**96.9**	**1,194.6**	**97.0**	**1,179.6**	**96.9**	**1,190.1**	**96.6**	**1,242.4**	**96.7**	**201.7**
1. Treasury Bills (excluding Repo Bills)	**267.7**	**25.5**	**307.3**	**25.8**	**302.8**	**24.6**	**276.7**	**22.7**	**274.8**	**22.3**	**299.4**	**23.3**	**31.7**
Banking institutions	183.5	17.5	191.1	16.1	190.3	15.5	151.9	12.5	152.9	12.4	176.5	13.7	(7.0)
Others	84.2	8.0	116.2	9.8	112.5	9.1	124.8	10.3	121.9	9.9	123.0	9.6	38.7
2. Treasury Bonds	**744.2**	**70.8**	**816.3**	**68.6**	**863.6**	**70.1**	**874.7**	**71.9**	**886.9**	**72.0**	**914.8**	**71.2**	**170.6**
Banking institutions	341.0	32.5	369.5	31.1	407.9	33.1	414.8	34.1	420.5	34.1	436.4	34.0	95.3
Pension Funds	220.1	21.0	230.9	19.4	238.0	19.3	240.5	19.8	244.6	19.8	247.5	19.3	27.3
Others	183.0	17.4	215.9	18.2	217.7	17.7	219.3	18.0	221.8	18.0	230.9	18.0	47.9
4. Non-Interest Bearing Debt	**28.9**	**2.7**	**28.9**	**2.4**	**28.3**	**2.3**	**28.3**	**2.3**	**28.3**	**2.3**	**28.3**	**2.2**	**(0.6)**
Of which: 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	2.2	(0.6)
B. Others:	**9.8**	**0.9**	**36.7**	**3.1**	**36.6**	**3.0**	**37.2**	**3.1**	**42.4**	**3.4**	**41.9**	**3.3**	**32.1**
Of which CBK overdraft to Government	7.0	0.7	34.2	2.9	34.2	3.0	34.2	3.1	39.1	3.2	37.2	2.9	30.2

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding repos, increased by Ksh 31.7 billion from Ksh 267.7 billion in June 2013 to Ksh 299.4 billion in June 2014 (Table 7.2). However, despite this increase, the proportion of Treasury bills to total domestic debt decreased to 23.3 percent in June 2014 from 25.5 percent in June 2013. The dominant investors in Treasury Bills were commercial banks and pension funds, with shares of 58.9 percent, and 22.6 percent respectively, by June 2014 compared with shares of 68.5 percent and 16 percent as at June 2013 (Table 7.3).

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

	2013				2014												Change
Holders	Jun	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%	May	%	June	%	Jun 13-June- 14
Banking Institutions	183.5	68.5	191.1	62.2	193.1	61.0	204.4	64.3	190.3	62.9	151.9	54.9	152.9	55.6	176.5	58.9	-7.0
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	10.7	3.3	14.6	4.8	0.5	0.2	0.5	0.2	0.0	0.0	0.0
Comm. Banks	183.5	68.5	191.1	62.2	193.1	61.0	193.7	61.0	175.8	58.1	151.4	54.7	152.4	55.5	176.4	58.9	-7.0
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	0.0	0.0
Insurance Companies	14.9	5.6	20.5	6.7	19.7	6.2	20.2	6.4	20.1	6.6	20.4	7.4	19.9	7.3	19.9	6.6	4.9
Parastatals	5.6	2.1	4.1	1.3	4.0	1.3	4.3	1.4	4.2	1.4	4.3	1.6	5.1	1.9	4.2	1.4	-1.4
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	0.0	0.0
Pension Funds	42.9	16.0	69.9	22.7	72.5	22.9	69.7	21.9	72.7	24.0	70.6	25.5	68.9	25.1	67.8	22.6	24.9
Others	20.8	7.8	21.7	7.1	26.9	8.5	19.2	6.0	15.5	5.1	29.5	10.7	28.0	10.2	31.1	10.4	10.3
Total	267.7	100.0	307.3	100.0	316.3	100.0	317.8	100.0	302.8	100.0	276.7	100.0	274.8	100.0	299.4	100.0	31.7

Source: Central Bank of Kenya

Treasury Bonds

Outstanding Treasury bonds increased by Ksh 170.6 billion, from Ksh 744.2 billion in June 2013 to Ksh 914.8 billion in June 2014. The proportion of bonds to total domestic debt increased from 70.8 percent in June 2013 to 71.2 percent in June 2014 following a decrease in the proportion of Treasury bills holdings (Table 7.2). The increase in the holding of Treasury bonds was as follows: Ksh 95.3 billion, Ksh 27.3 billion and Ksh 48.8 billion absorbed by commercial banks, Pension Funds and other holders, respectively. Treasury Bonds held by non-bank financial institutions and Central Bank remained unchanged during the period under review. The shares of Treasury bonds held by Commercial banks and other holders increased from 45.8 percent and 6.2 percent to 47.4 percent and 9.9 percent respectively. However, the shares held by insurance companies, parastatals and pension funds declined from 12.6 percent, 5.7 percent and 29.6 percent in June, 2013 to 11.2

percent, 3.9 percent and 27.5 percent, respectively in June 2014. Meanwhile, the share held by building societies, Central Bank and non-bank financial institutions remained unchanged during the period under review (Table 7.4)

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

Holders	2013				2014								Change
	June	%	Dec	%	Mar	%	Apr	%	May	%	June	%	Jun 13-June 14
Banking Institutions	341.2	45.9	369.7	45.3	407.9	47.2	414.8	47.2	420.5	47.2	436.4	47.4	95.2
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
Comm. Banks	341.0	45.8	369.5	45.3	407.9	47.2	414.7	47.2	420.5	47.2	436.3	47.4	95.3
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	0.0
Insurance Companies	93.7	12.6	96.7	11.8	97.7	11.3	97.9	11.3	100.1	11.3	101.2	11.2	7.5
Parastatals	42.7	5.7	39.4	4.8	39.4	4.6	34.4	4.6	42.7	4.6	34.4	3.9	-8.3
Of which: NSSF	22.7	3.1	21.2	2.6	21.2	2.5	16.2	2.5	22.7	2.5	16.2	1.8	-6.6
Building Societies	0.6	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.6	0.1	0.5	0.1	-0.1
Pension Funds	220.1	29.6	230.9	28.3	238.0	27.6	240.5	27.6	220.1	27.6	247.5	27.5	27.3
Others	45.8	6.2	79.1	9.7	79.9	9.3	86.4	9.3	102.7	9.3	94.7	9.9	48.8
Total	**744.2**	**100.0**	**816.3**	**100.0**	**863.6**	**100.0**	**874.7**	**100.0**	**886.9**	**100.0**	**914.8**	**100.0**	**170.6**

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Total domestic debt as at June 2014 amounted to Ksh 1,284.3 billion with government securities accounting for 96.7 percent of this debt (Table 7.2). In terms of maturity structure, Government securities worth Ksh 6.4 billion will fall due between June and July 2014, and will 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.

The average length of maturity of existing domestic debt declined to 4 years and 10 months in June 2014, from 5 years and 2 months in June 2013.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2013		2014								Change
		Jun	%	Mar	%	Apr	%	May	%	Jun	%	Jun 13 to Jun 14
Treasury bills	91-Day	36.2	3.4	33.9	2.8	33.4	2.8	41.2	2.8	54.7	2.7	18.5
	182-Day	52.2	5.0	66.0	5.4	75.3	5.4	77.9	5.4	88.9	6.2	36.8
	364-Day	179.3	17.1	202.9	16.5	168.0	16.5	155.7	16.5	155.8	13.8	-23.5
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
	2-Year	122.0	11.6	160.8	13.1	154.4	13.1	166.7	13.1	166.7	12.7	44.7
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	19.1	1.8	29.9	2.4	29.9	2.4	29.9	2.4	29.9	2.5	10.8
	5-Year	138.4	13.2	141.4	11.5	158.9	11.5	158.9	11.5	175.3	13.1	36.9
	6-Year	40.7	3.9	40.7	3.3	40.7	3.3	40.7	3.3	40.7	3.3	0.0
	7-Year	19.3	1.8	17.0	1.4	17.0	1.4	17.0	1.4	17.0	1.4	-2.3
	8-Year	31.8	3.0	40.9	3.3	40.9	3.3	40.9	3.3	40.9	3.4	9.1
	9-Year	18.2	1.7	18.2	1.5	18.2	1.5	18.2	1.5	18.2	1.5	0.0
	10-Year	109.4	10.4	131.1	10.6	131.1	10.6	131.1	10.6	131.1	10.8	21.7
	11-Year	4.0	0.4	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	0.0
	12-Year	30.2	2.9	45.4	3.7	45.4	3.7	45.4	3.7	45.4	3.7	15.2
	15-Year	119.8	11.4	142.9	11.6	142.9	11.6	142.9	11.6	142.9	11.7	23.1
	20-Year	49.0	4.7	49.0	4.0	49.0	4.0	49.0	4.0	60.5	4.0	11.4
	25-Year	20.2	1.9	20.2	1.6	20.2	1.6	20.2	1.6	20.2	1.7	0.0
	30-Year	22.1	2.1	22.1	1.8	22.1	1.8	22.1	1.8	22.1	1.8	0.0
	Repo T bills	28.9	2.8	28.3	2.3	28.3	2.3	28.3	2.3	28.3	2.3	-0.6
	Overdraft	7.0	0.7	34.2	2.8	34.2	2.78	39.12	2.78	39.12	2.8	32.1
	Other Domestic debt	2.79	0.3	2.3	0.2	3.0	0.19	3.33	0.19	2.76	0.2	0.0
	Total Debt	**1050.56**	**100.0**	**1231.2**	**100.0**	**1216.8**	**100.00**	**1232.5**	**100.00**	**1284.3**	**100.0**	**233.8**

Source: Central Bank of Kenya

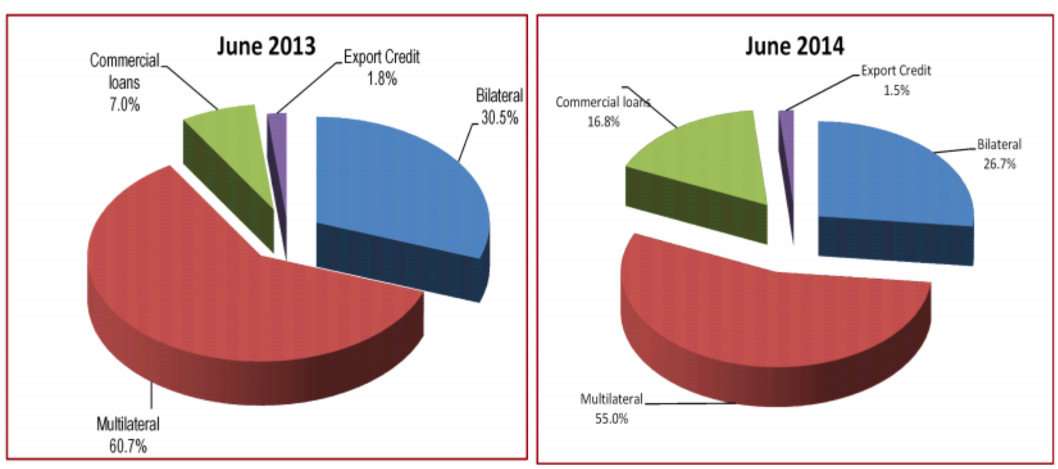
External Debt

Kenya's public and publicly guaranteed external debt increased by Ksh 242.4 billion to Ksh 1085.9 billion (USD 12.4 billion), during the fiscal year 2013/14, from Ksh 843.6 billion (USD 9.8 billion) in June, 2013 (Table 7.1). The amount of total external debt to the central government was Ksh 1040.7 billion (USD 11.9 billion), while the rest was to Parastatals guaranteed by the government. The African Development Bank (ADB) and International Development Association (IDA) collectively accounted for Ksh 61.7 billion of the increase in multilateral debt , while France and China accounted for Ksh 13.3 billion and Ksh 16.5 billion, respectively, of the increase in bilateral debt. These increases were largely due to additional disbursements and exchange rate revaluations during the period. Japan's and Italy's contribution to the bilateral debt reduced by Ksh 3.9 billion and Ksh 2.2 billion during the period under review.

Composition of External Debt by Creditor

Kenya's official external creditors, the multilateral and bilateral lenders, accounted for 45.8 percent of total public and publicly guaranteed debt by June 2014.The proportion of external debt owed to commercial banks increased from 7 percent in June 2013 to 16.8 percent in June 2014 while that owed to multilateral lenders, bilateral lenders and suppliers credit declined from 60.7 percent, 30.5 percent and 1.8 percent in June 2013 to 55 percent, 26.7 percent and 1.5 percent in June 2014 (Chart 7A). The increase in external debt owed to commercial banks during this period is largely attributed to the increase of Ksh 122.6 billion in June 2014 on account of the successful issuance, by the Government of Kenya, of the debut sovereign bond (Eurobond) in June 2014 which attracted a lot interest in the international markets.

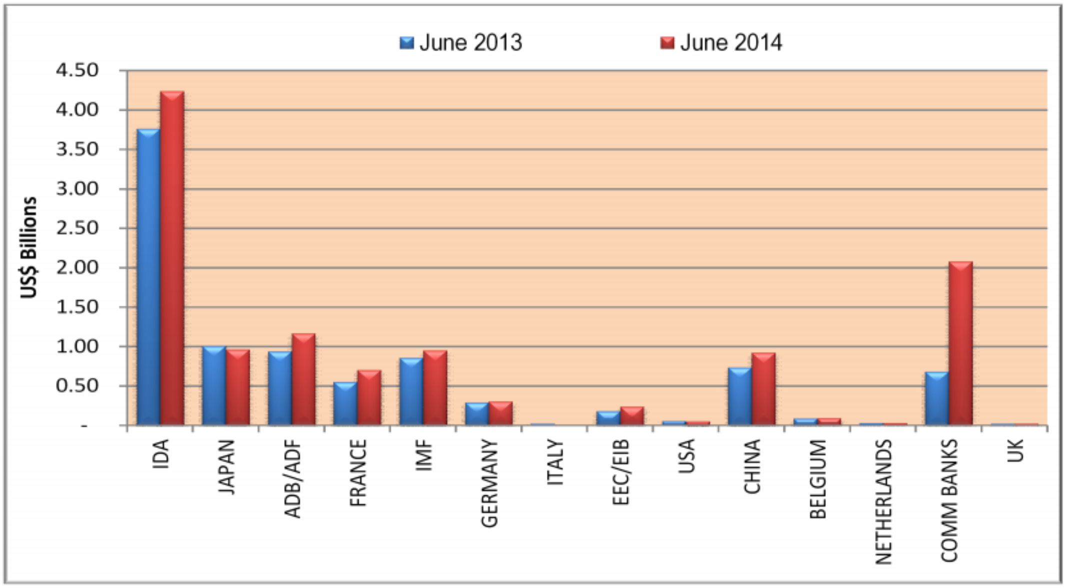
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: National Treasury

Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 4.2 billion or 33.9 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender, amounted to USD 1.0 billion which is equivalent to 7.8 percent of the total external debt at the end of June 2014 (Chart 7B).

CHART 7B: EXTERNAL DEBT BY CREDITOR

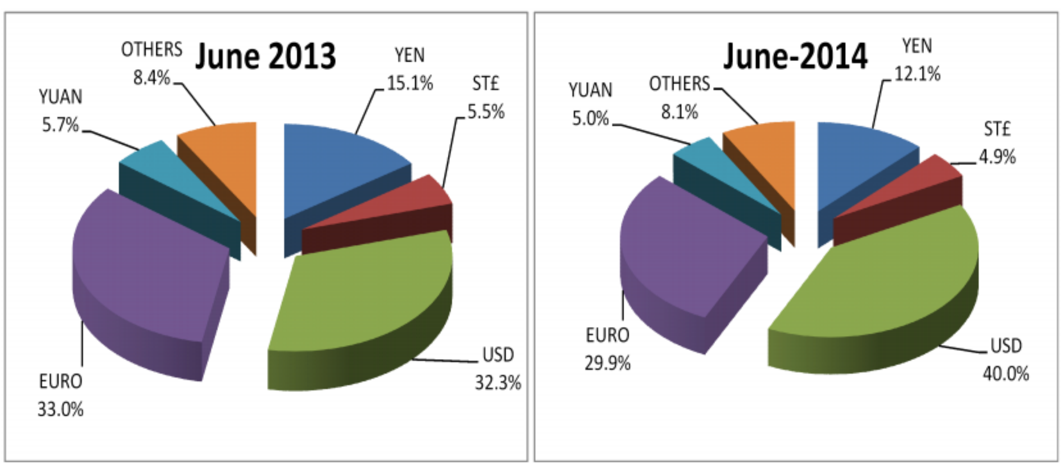


Source: National Treasury

Currency Composition of External Debt

External debt denominated in the US dollar increased from 32.4 percent of total external debt in June 2013 to 40 percent in June 2014. Debt denominated in Japanese Yen, Sterling Pound, the Euro, other currencies' and in the Yuan declined from 15.1 percent, 5.5 percent 33 percent, 8.4 percent and 5.7 percent to 12.1 percent, 4.9 percent, 29.9 percent, 8.1 percent and 5.6 percent during the same period. The proportion of debt denominated in Sterling Pound remained constant at 5.5 percent (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: National Treasury

Public Debt Service

Cumulative interest and other charges on domestic debt for the period July 2013 to June 2014 in the FY 2013/14 fiscal year amounted to Ksh 120.5 billion compared with Ksh 110.2 billion during a similar period of the previous fiscal year. This comprised interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 28.9 billion and Ksh 88.5 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 2 billion and Ksh 1.1 billion, respectively. External debt service for the period July 2013 – June 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 2013/14

Total public and publicly guaranteed external debt is estimated at Ksh 1195.7 billion (25.1 percent of GDP), while gross and net domestic debt stand at Ksh 1274.7 billion (26.8 percent of GDP) and Ksh 1213.4 billion (25.5 percent of GDP), respectively.

Activity in the Stock Market

The leading market indicators showed mixed performance for the equities segment of the market and sharp decline in the bond market in June 2014. Net foreign investor participation at NSE improved with more foreign inflows than outflows as there were more purchases than sales.

Equity Market

The NSE 20 Share Index closed 0.1 percent higher in June 2014 at 4,885.04 points from 4,881.56 points in May 2014. Similarly, NASI rose by 0.1 percent to 150.37 points in June 2014 from 150.20 points in May 2014. Market capitalization gained Ksh 15.03 billion (0.7 percent), to close at Ksh 2,106.69 billion in June 2014 from Ksh 2,091.66 billion in May 2014. Monthly equities turnover declined by 21 percent to Ksh 18,190 million in June 2014 from Ksh 23,022 million due to lower shares supply, which stood at 731 million and was 14.3 percent lower than the previous month(Table 8.1).

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

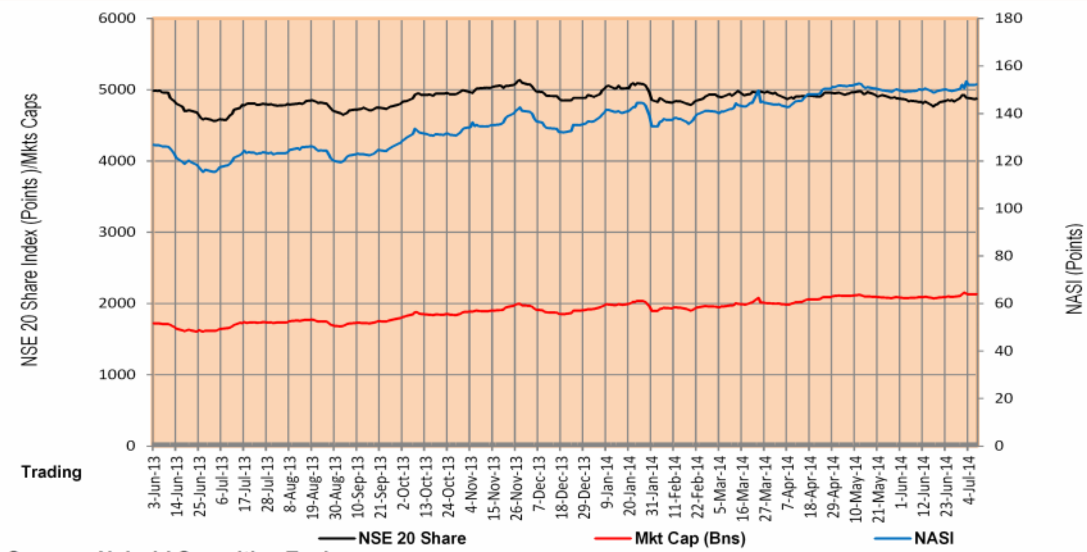
Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)	FP to Equity Turnover	FS to Equity Turnover	Overall net FP to Equity Turnover
Jan-13	4,416.60	103.50	518.71	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%

Source: Nairobi Securities Exchange

On year-to-year comparison, NSE 20 Share Index rose by 286.88 points (or 6.02 percent) compared to the level in June 2013. NASI added 34.06 points (or 29.3 percent) compared to the level one year ago (Table 8.1). Investors' wealth at NSE measured by Market Capitalization grew by Ksh 488.42 billion (30.2 percent) since June 2013.

Foreign Investors maintained dominance at the NSE with overall net foreign participation closing at 56.29 percent in June 2014 from 54.50 percent of total equity turnover in May 2014. Foreign purchases accounted for 63.40 percent of total equity turnover against 49.18 percent sales, reflecting net inflow (table 8.1). The stock market continued to grow in value as indicated in trends of NASI, NSE 20 Share Indices and Market Capitalization (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 Energy and Petroleum sectors dominated trading, with 348.13 million shares, 153.00 million shares and 71.61 million shares, respectively. In terms of market share the sectors accounted for 46.4 percent, 20 percent and 10 percent, respectively. Automobile and accessories was the least active with 1.59 million shares traded.

The FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at NSE; and the FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks, closed at 194.99 points and 196.88 points in June 2014, which were 1.4 percent and 1.5 percent higher than the 192.29 points and 194.03 points recorded in May 2014, respectively. The FTSE NSE Kenyan Government Bond Index decreased, albeit, marginally to 93.76 points from to 93.98 points, reflecting stable market yields.

Bond Market

Bonds turnover declined by 25.63 percent in June 2014, with a total of 365 deals worth Ksh 28,541.82 million traded, down from Ksh 38,379.11 million traded in May 2014. The IFB 1/2013/12 dominated trading, at 31.37 percent of total turnover, with yields ranging from 11.20 percent to 10.67 percent against a coupon rate of 11 percent. The corporate bonds segment accounted for a meager 0.07 percent of the market.

Statement of Financial Position Of The Central Bank of Kenya

(Kenya shillings million)

	Jun-14	Jun-13	Jun 14/Jun 2013 Movement
ASSETS			
Balances due from Banking Institutions and Gold hold	759,650	527,944	231,706
Funds held with International Monetary Fund	692	2,694	(2,002)
Items in the course of collection	70	154	(84)
Advances to commercial banks	50	351	(301)
Loans and Advances	40,463	10,887	29,576
Other Assets	3,163	2,545	618
Retirement Benefits Assets	7,659	2,967	4,692
Property and Equipment	13,626	12,052	1,574
Intangible Assets	639	973	(334)
Due from Government of Kenya	28,334	28,889	(555)
TOTAL ASSETS	**854,346**	**589,456**	**264,890**
LIABILITIES			
Currency in Circulation	199,966	183,047	16,919
Investments by Banks	-	10,633	(10,633)
Deposits	448,800	221,927	226,873
International Monetary Fund	130,064	118,568	11,496
Other Liabilities	5,097	2,203	2,894
Provisions	157	123	34
TOTAL LIABILITIES	**784,084**	**536,501**	**247,583**
EQUITY AND RESERVES	**70,262**	**52,955**	**17,307**
Share Capital	5,000	5,000	0
General reserve fund	51,454	40,545	10,909
Period surplus	0	0	0
Asset revaluation reserve	8,667	7,410	1,257
Retirment Benefit Asset Reserves	5,141		
Dividends payable	0	0	0
TOTAL LIABILITIES AND EQUITY	**854,346**	**589,456**	**264,890**

Source: Central Bank of Kenya

NOTES ON THE FINANCIAL POSITION

Assets

Balances due from Banking institutions and Gold holdings category consist of foreign reserves held in external current accounts, deposits and special/projects accounts, foreign travelers cheques, domestic foreign currency clearing accounts, gold, special drawing rights and RAMP securities invested with World Bank. The category increased by KSh 231,706 million (43.9 percent) to KSh 759,650 million in June 2014 from KSh 527,944 million in June 2013. The expansion reflected largely CBK purchases of foreign exchange from domestic interbank market to build official reserves and receipts from the sale of Debut Eurobond in June 2014.

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 June 2014 were KSh 70 million, representing 54.5 percent recovery from Ksh 154 million outstanding as at June 2013.

Advances to commercial banks are balances of money advanced by Central Bank to commercial banks for money market liquidity management for a short duration of 7 days and rediscounted Treasury bills and bonds by commercial banks. The balance outstanding decreased sharply, by KSh 301 million to KSh 50 million in June 2014 from KSh 351 million in June 2013 on account of reverse repo maturities.

Loans and Advances includes outstanding balances on advances to commercial banks under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF funds on-lent to Government. The balance increased by KSh 29,576 million (271.7 percent) to KSh 40,463 million in June 2014 from KSh 10,887 million in June 2013.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets increased by KSh 618 million to KSh 3,163 million in June 2014 from KSh 2,545 million in June 2013.

Due from Government of Kenya liability category arose 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 16,919 million (9.2 percent) to KSh 199,966 million in June 2014 from KSh 183,047 million in June 2013.

Deposits liability comprise deposits held by Government of Kenya, local commercial banks deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances increased by KSh 226,873 million (102.2 percent) to KSh 448,800 million in June 2014 from KSh 221,927 million in June 2013 largely on account of buildup of Government deposits following receipts from the sale of Eurobond in the international financial markets.

Amount due to International Monetary Fund represents the Bank's obligations to the IMF. The balances increased by KSh 11,496 million to KSh 130,064 in June 2014 from KSh 118,568 million in June 2013.

Other liabilities include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance increased by KSh 2,894 million to KSh 5,097 million in June 2014 from KSh 2,203 million in June 2013.

Equities and reserves increased by KSh 17,307 million to KSh 70,262 million in June 2014 from KSh 52,955 million in June 2013 reflecting increases of KSh 1,257 million in asset revaluation and KSh 10,909 million in the General reserve fund.