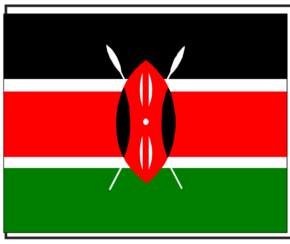

MONTHLY ECONOMIC REVIEW

OCTOBER 2013

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

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OVERVIEW

Introduction

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

Inflation

Overall 12-month inflation decreased from 8.3 percent in September 2013 to 7.8 percent in October 2013. This was reflected in all categories of inflation. Fuel inflation and food inflation decreased by 100 and 52 basis points, respectively, while non-food, non-fuel inflation decreased by 8 basis points. Annual average inflation, however, increased from 4.7 percent in September 2013 to 5.0 percent in October 2013, on target with respect to the medium term inflation target.

Money Supply

Growth in broad money, M3, decreased to 10.3 percent in the year to October 2013 from 12.5 percent in the year to October 2012 and was within the 13.2 percent target for October 2013.

Interest Rates

The Central Bank maintained the Central Bank Rate (CBR) at 8.50 percent in October 2013 in order to provide time for its previous decisions to work through the economy. The weighted average interbank interest rate increased from 7.52 percent in September 2013 to 10.66 percent in October 2013 reflecting tight liquidity in the money market following accumulation of Government deposits at the Central Bank and skewed distribution of interbank liquidity.

Real GDP Growth

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

Balance of Payments

Kenya's overall balance of payments surplus position declined to US$ 606 million in the year to October 2013 from US$ 1,269 million in the year to October 2012.

This is attributed to a reduction in the Capital and Financial account surplus. The cumulative current account deficit as a proportion of GDP reduced to 9.32 percent in the year to October 2013 from 10.64 percent in the year to September 2012.

Exchange Rates

The Kenya shilling strengthened against major International currencies and the EAC currencies in October 2013. Against the USD, the Shilling appreciated to trade an average of Ksh 85.31 per USD in October 2013 compared to an average of Ksh 87.41 per USD in September 2013. The appreciation is mainly attributed to USD inflows from tea and horticulture exports, increased demand for the Kenya shilling from foreign investors for a stake in the 12 year Infrastructure bond and trimming of long dollar positions by commercial banks resulting from the liquidity squeeze in the money market during the period under review.

Banking Sector Developments

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

Government Budgetary Performance

The Central Government budgetary operations for the period July 2013 – October 2013 resulted in a deficit of Ksh 70.9 billion on commitment basis compared with a deficit of Ksh 75.4 billion recorded in the same period of 2012. This was lower than the Ksh 96.2 billion (2.5 percent of GDP) programmed target for the period.

Public Debt

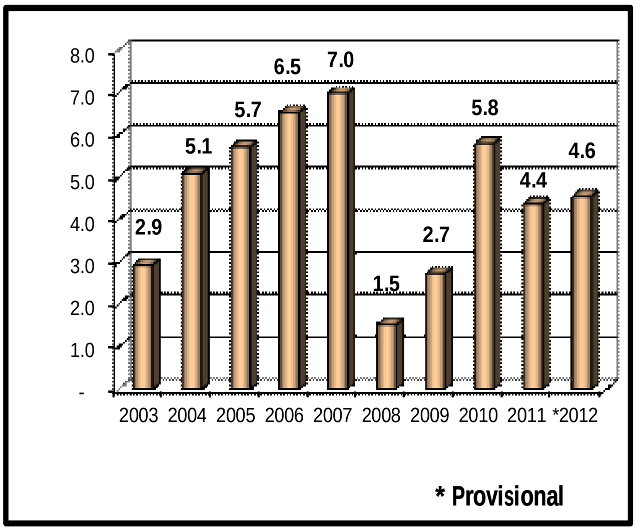
Kenya's public and publicly guaranteed debt grew by Ksh 168.6 billion (or 8.9 percent) during the first four months of fiscal year 2013/14 to reach Ksh 2,062.8 billion in October, 2013, from Ksh 1,894.1 billion at the end of June 2013. Total debt-to-GDP ratio increased from 51.7 percent in June 2013 to 53.2 percent in October 2013. In terms of composition, the share of domestic debt increased from 56.8 percent to 57.0 percent, while that of external debt declined from 43.2 percent in June 2013 to 43.0 percent in October, 2013.

Stock Market

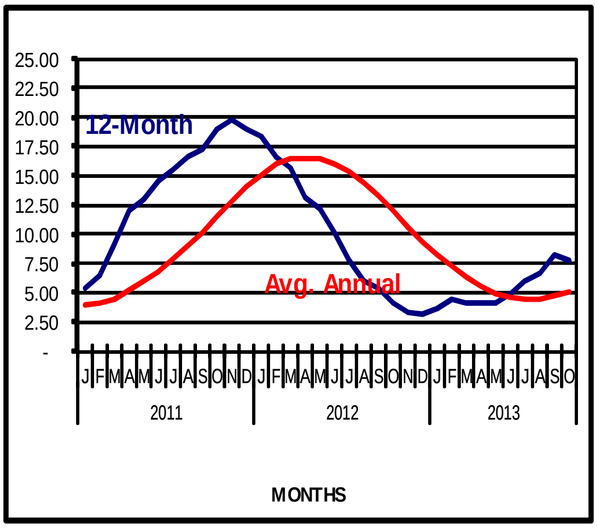
The capital markets maintained strong performance in October 2013, with gains in most equities indices. Bonds market segment turnover and corresponding yields also rose. FTSE NSE Kenyan Shilling Government Bond Index shed 1.83 points as yields rose.

SELECTED ECONOMIC PERFORMANCE INDICATORS

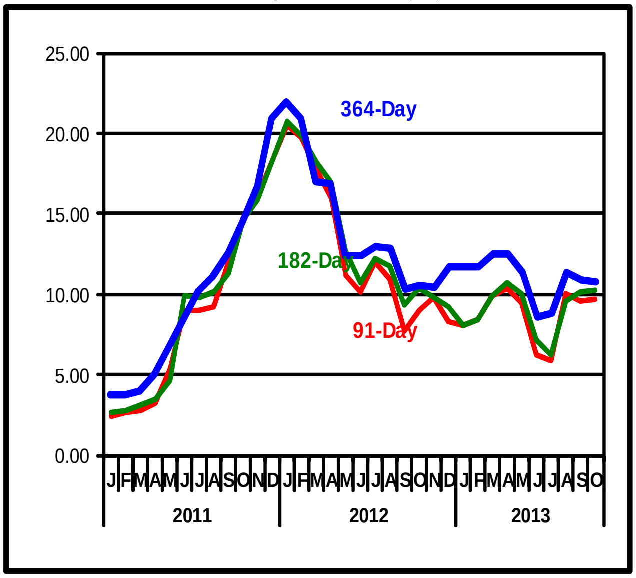
Real GDP Growth (%)



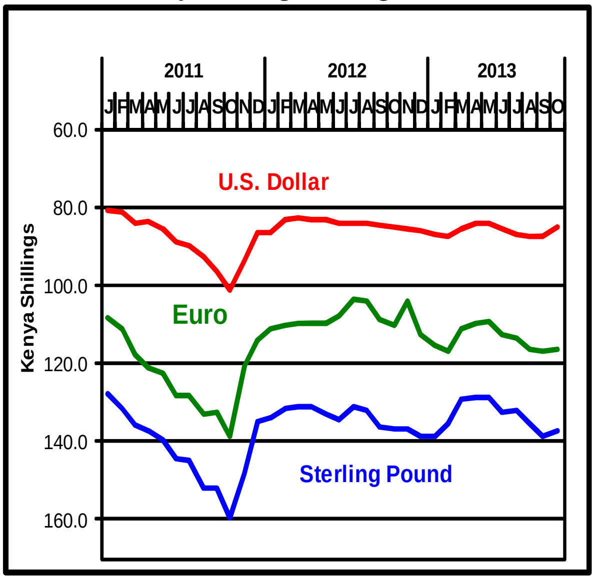
Inflation (%)



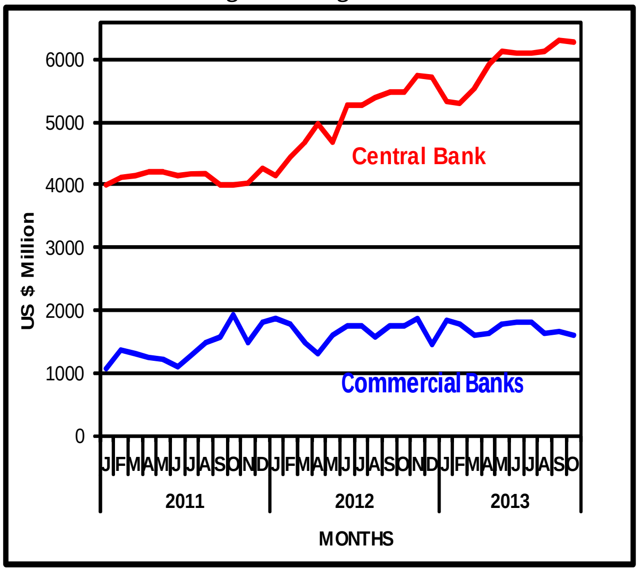
Treasury Bill Rates (%)



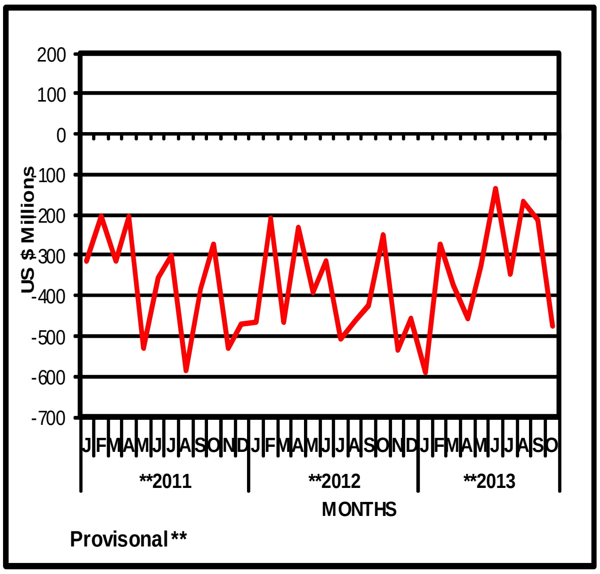
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

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

NA Not Available

* Provisional.

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

*** Fiscal year to June 30th.

\ [1] Previously M3XT

\ [2] Previously M3X

\ [3] Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2012 Oct	2012 Nov	2012 Dec	2013 Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct
1. INFLATION (%)													
CPI	132.46	133.33	134.25	135.62	136.59	137.96023	139.28	139.52	139.59	139.87	140.29	142.82	142.75
Overall Inflation													
12-month overall inflation	4.14	3.25	3.20	3.67	4.45	4.11	4.14	4.05	4.91	6.02	6.67	8.29	7.76
Average annual overall inflation	12.04	10.67	9.38	8.20	7.24	6.33	5.61	4.96	4.56	4.44	4.50	4.75	5.05
2. INTEREST RATES (%)													
91-day Treasury bill interest rate	9.0	9.8	8.3	8.1	8.4	9.9	10.4	9.5	6.2	5.9	10.0	9.6	9.72
Overdraft interest rate	19.1	18.8	17.8	18.0	17.7	17.5	17.7	17.6	16.9	17.0	16.9	16.4	16.96
3. STOCK MARKET													
Nairobi Stock Exchange 20 Share Price Index	4,147.28	4,083.52	4,133.02	4,416.60	4,518.59	4,860.83	4,765.23	5,006.96	4,598.16	4,787.56	4,697.75	4,793.20	4,992.88
Turnover Ratio (%)	0.59	1.07	0.58	0.65	0.86	0.71	0.74	1.08	0.90	0.76	0.99	0.61	1.00
4. GOVERNMENT BUDGET* (Ksh bn.)													
Revenue $ Grants	233.02	304.41	387.89	454.06	514.26	577.34	675.72	758.31	851.19	58.60	128.4	210.2	**286.22**
Expenses	308.46	405.53	506.41	589.55	664.32	776.08	882.08	995.21	1,100.83	49.70	150.6	269.9	357.20
Budget Deficit (-) / Surplus (+)	(75.4)	(101.1)	(118.52)	(135.5)	(150.1)	(198.7)	(206.4)	(236.9)	(249.6)	8.9	(22.2)	(59.6)	(70.9)
5. MONEY AND CREDIT (Ksh bn.)													
Liquidity (L)[1]	2,097.75	2,137.72	2,130.55	2,132.66	2,151.14	2,180.65	2,239.92	2,273.12	2,278.29	2,310.39	2,341.66	2,376.14	2407.35
Money Supply (M3)[2]	1,703.00	1,740.66	1,727.69	1,729.90	1,747.89	1,755.74	1,802.28	1,823.40	1,820.88	1,835.80	1,849.97	1,861.96	1879.11
Reserve Money	250.45	279.65	293.62	274.02	287.10	287.58	267.85	281.85	287.44	283.98	309.81	290.35	307.25
Total Domestic Credit	1,657.24	1,686.97	1,702.51	1,744.37	1,747.08	1,752.20	1,824.02	1,778.27	1,782.95	1,774.49	1,807.46	1,851.62	1868.38
Government	351.06	370.62	368.82	396.00	393.61	391.02	458.11	392.82	379.51	346.63	336.28	358.95	347.78
Private sector and other public sector	1,306.18	1,316.34	1,333.69	1,348.37	1,353.47	1,361.19	1,365.92	1,385.45	1,403.44	1,427.86	1,471.18	1,492.68	1520.60
6. MONEY AND CREDIT (Annual % Change)													
Liquidity (L)[1]	**12.55**	**16.33**	**14.86**	**14.39**	**13.82**	**14.38**	**16.64**	**16.92**	**15.58**	**15.97**	**15.77**	**15.25**	**14.76**
Money Supply (M3)[2]	12.51	16.84	14.10	14.89	16.16	15.73	17.31	16.77	14.16	13.81	12.89	11.41	10.34
Reserve Money	6.75	13.97	15.14	12.24	23.93	11.50	9.54	18.93	11.72	10.31	23.81	12.09	22.68
Total Domestic Credit	11.21	11.22	13.11	16.63	15.54	14.45	17.13	13.05	14.86	**10.73**	**13.05**	**14.29**	**12.74**
Government	21.57	13.34	18.37	31.68	28.62	24.09	43.68	25.68	27.39	4.64	4.82	7.90	**-0.94**
Private and other public sector	8.72	10.64	11.74	12.84	12.22	11.95	10.29	9.92	11.88	12.32	15.12	15.94	16.42
7. BALANCE OF PAYMENTS (US$ m)													
Overall Balance	7.80	154.45	(36.77)	(366.30)	(37.77)	233.20	301.41	206.16	(35.34)	14.32	23.89	171.07	(22.15)
Current Account	(233.99)	(279.05)	(454.24)	(496.02)	(171.41)	(284.44)	(350.74)	(201.07)	(133.66)	(347.26)	(385.66)	(214.27)	(474.82)
Trade Balance	(762.45)	(1,012.61)	(919.36)	(962.58)	(797.25)	(823.38)	(903.64)	(833.08)	(683.33)	(951.89)	(901.02)	(812.43)	(1,089.67)
Capital and Financial Account	241.78	433.50	417.47	129.72	133.64	517.65	652.16	407.23	98.32	361.59	409.55	385.34	452.67
8. FOREIGN EXCHANGE RESERVES (US$ m)	7,249.80	7,634.33	7,160.07	7,155.81	7,079.54	7,113.72	7,563.46	7,886.58	7,888.94	7,906.76	7,739.68	7,958.83	7,859.04
Official**	5,477.63	5,742.46	5,701.85	5,327.85	5,290.07	5,523.28	5,927.56	6,128.10	6,089.00	6,095.76	6,119.65	6,290.71	6,262.80
Months of imports cover	4.22	4.36	4.29	3.97	3.90	4.05	4.31	4.43	4.39	4.36	4.34	4.45	4.39
Commercial banks	1,772.16	1,891.86	1,458.22	1,827.96	1,789.47	1,590.44	1,635.89	1,758.48	1,799.94	1,811.01	1,620.03	1,668.11	1,596.24
9. PUBLIC DEBT (US$ bn)	20.46	20.77	20.84	20.68	20.53	21.03	22.46	22.40	22.02	22.39	22.88	23.54	23.55
Domestic	10.92	11.16	11.29	11.16	10.94	11.47	12.71	*12.6*	12.2	12.4	12.7	13.4	13.41
As % of GDP	24.03	24.79	25.90	*25.3*	*25.0*	*26.0*	*28.2*	*28.5*	*28.7*	*29.1*	29.5	30.1	30.30
External	9.54	9.60	9.55	9.51	9.58	9.56	9.74	*9.8*	*9.8*	*10.0*	*10.1*	*10.2*	10.14
As % of GDP	21.01	21.33	21.26	*22.1*	*21.9*	*21.7*	*21.6*	*23.2*	23.0	*23.6*	*24.0*	*22.9*	30.30
10. GROSS DOMESTIC DEBT (Ksh bn)***	929.32	958.44	971.27	977.93	943.75	981.91	1,065.61	1,074.80	1,050.56	1,078.60	1,116.68	1,168.23	1,174.78
11. AVERAGE EXCHANGE RATE													
Ksh/US$	85.11	85.63	85.99	86.90	87.45	85.82	84.19	84.15	85.49	86.86	87.49	87.41	85.31
Ksh/Pound Sterling	136.81	136.77	138.78	138.80	135.54	129.42	128.81	128.72	132.42	132.00	135.47	138.54	137.31
Ksh/ 100 Yen	107.84	105.81	102.79	97.67	93.96	90.49	86.12	83.37	87.77	87.28	89.39	88.14	87.24
Ksh/Euro	110.35	109.91	112.77	115.47	116.86	111.31	109.65	109.18	112.81	113.74	116.51	116.67	116.33

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

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

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

[1] Previously M3XT

[2] Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

Overall 12-month inflation decreased from 8.3 percent in September 2013 to 7.8 percent in October 2013 largely reflecting a decrease in fuel and food inflation. Non-food, non-fuel inflation also decreased marginally from 5.0 percent in September 2013 to 4.9 percent in October 2013. The three months annualized rate of inflation decreased from 9.6 percent in September 2013 to 8.5 percent in October 2013 indicating a decline in domestic inflationary pressures (Table 1.1 and Chart 1A) after the implementation of VAT 2013 in September.

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

Overall Inflation	2012			2013									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
12-month	4.14	3.25	3.20	3.67	4.45	4.11	4.14	4.05	4.91	6.02	6.67	8.29	7.76
Average annual	12.04	10.67	9.38	8.20	7.24	6.33	5.61	4.96	4.56	4.44	4.50	4.75	5.05
Three months annualised	1.65	5.63	7.36	9.88	10.14	11.51	11.23	8.87	4.81	1.71	2.23	9.58	8.49
Non-food non-oil inflation	6.17	4.83	4.81	4.53	4.45	4.17	4.28	3.91	3.86	4.04	3.86	5.02	4.94

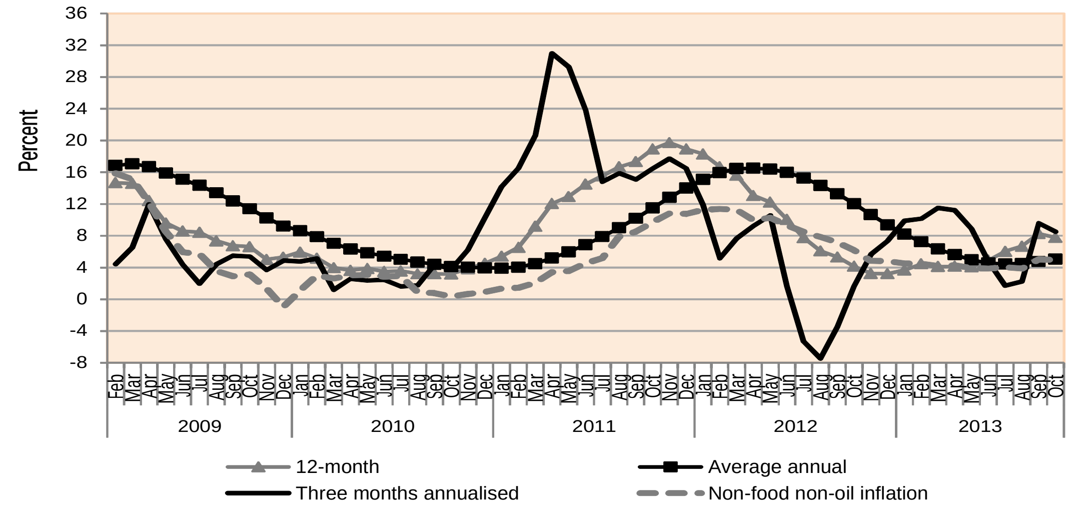
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

The decrease in non-food, non-fuel inflation was reflected in 'clothing and footwear' and 'miscellaneous goods and services' consumption baskets which recorded inflation rates of 5.0 percent and 5.2 percent, respectively, in October 2013, compared with 5.1 percent and 5.3 percent, respectively, in September 2013.

Food inflation decreased from 12.1 percent in September 2013 to 11.5 percent in October 2013. This reflected a decrease in 12-month inflation in the 'food and non-alcoholic beverages' and 'restaurants and hotels' categories. The 12-month change in the 'food and non-alcoholic beverages' index declined from 12.6 percent in September 2013 to 12.0 percent in October 2013 following a decline in the retail prices of vegetables.

Fuel inflation decreased from 5.7 percent in September 2013 to 4.8 percent in October 2013. This reflected a decrease in the 12-month inflation in the 'housing, water, electricity, gas and other fuels' category from 5.1 percent in September 2013 to 4.4 percent in October 2013 owing to a decline in the price of electricity. This is consistent with increased generation of the cheaper hydro- electric power and green energy power in the year to September 2013. The 12- month inflation in the 'transport' category also decreased from 7.0 percent in September 2013 to 5.5 percent in October 2013 following a reduction in the retail price of petrol.

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

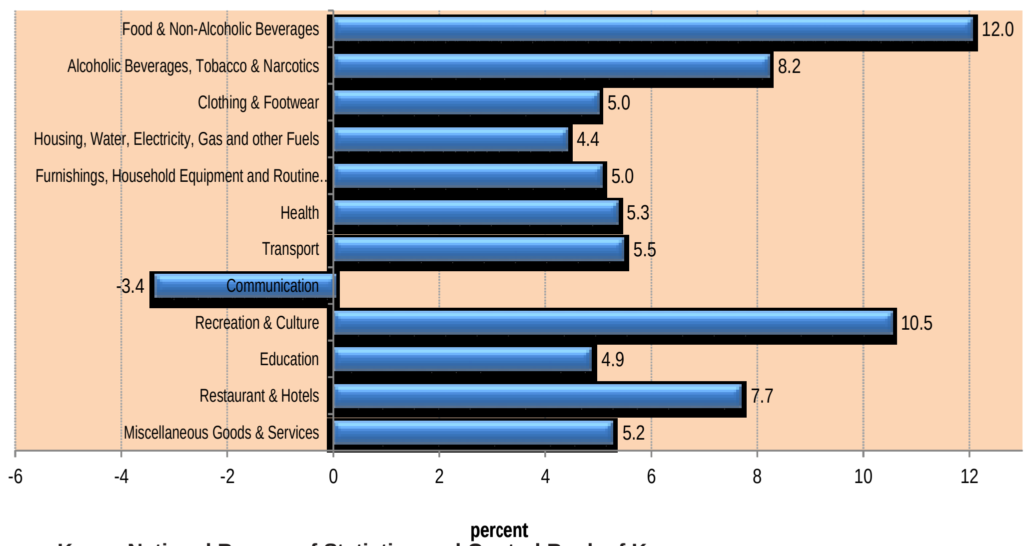


Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

Inflation Across Categories of Goods & Services

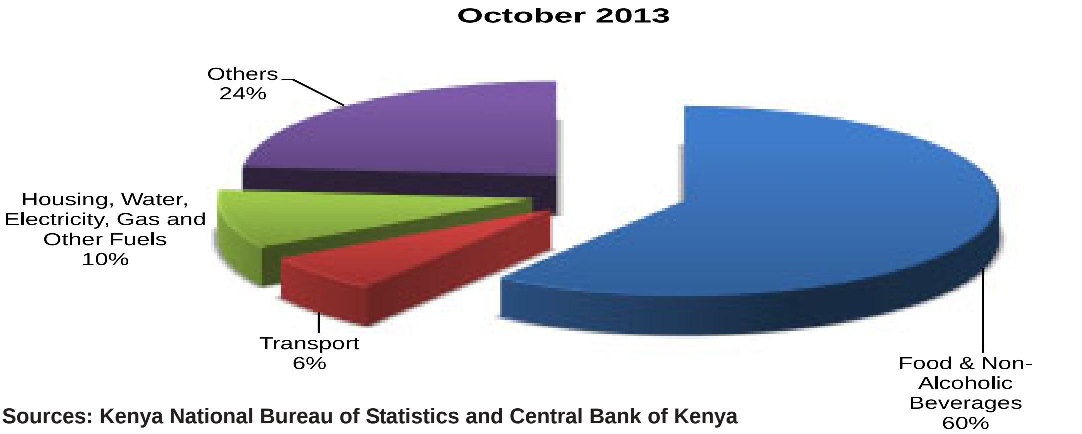
Developments across all categories of goods and services, and the distribution of weights in the Kenya consumer price index (CPI) are summarized in Table 1.2 and Chart 1B. Chart 1C shows that 59.9 percent of overall 12-month inflation in October 2013 was attributed to 'food and non-alcoholic beverages' category of goods while inflation in 'housing, water, electricity, gas and other fuels' and 'transport' categories contributed 10.1 percent and 6.5 percent, respectively.

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



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

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



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

Inflationary pressures decreased for all income groups in Nairobi largely due to easing food price and transport cost. On average, the prices of goods and services in urban centers outside Nairobi rose by 7.4 percent in October 2013 compared with 8.3 percent recorded in Nairobi (Table 1.3). The indices for the 'Nairobi Lower Income', 'Nairobi Middle income' and 'Nairobi Upper Income' groups decreased to 9.0 percent, 6.3 percent and 5.4 percent, respectively, in October 2013 from 9.7 percent, 7.1 percent and 6.2 percent, respectively, in September 2013.

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

OCTOBER 2013	Weight- CPI Kenya	NAIROBI				REST OF URBAN	TOTAL KENYA
		Lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya Combined	
Food & Non-alcoholic beverages	36.0	12.76	14.6	10.4	13.1	11.3	12.0
Alcoholic beverages, Tobacco & narcotics	2.1	6.4	5.9	5.8	6.2	9.5	8.2
Clothing & Footwear	7.4	4.9	1.8	8.0	4.3	5.4	5.0
Housing, Water,Electricity,Gas and other fuels	18.3	6.4	2.9	0.9	5.4	3.7	4.4
Furnishings, Household equipment and Routine household maintenance	6.2	3.5	8.3	2.0	4.6	5.4	5.0
Health	3.1	6.9	8.6	1.5	7.1	4.2	5.3
Transport	8.7	11.0	4.0	6.9	9.2	2.7	5.5
Communication	3.8	-9.7	-9.1	-1.2	-9.2	0.5	-3.4
Recreation & culture	2.3	8.6	13.6	11.5	10.0	10.9	10.5
Education	3.1	8.2	7.3	12.0	8.1	2.6	4.9
Restaurants & hotels	4.5	5.2	2.9	3.3	4.7	9.9	7.7
Miscellaneous goods & services	4.5	5.2	4.1	2.4	4.8	5.5	5.2
ALL GROUPS	100.0	9.0	6.3	5.4	8.3	7.4	7.8

Source: Kenya National Bureau of Statistics

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

	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13
Combined Nairobi	3.45	2.68	2.26	3.12	3.85	3.24	3.67	3.28	4.21	5.79	6.46	8.97	8.25
Lower Income	3.50	2.98	2.56	3.23	3.97	3.16	3.85	3.51	4.75	6.33	7.23	9.67	8.99
Middle Income	3.58	1.99	1.46	2.86	3.64	3.56	3.31	2.77	2.83	4.59	4.57	7.11	6.32
Upper Income	1.79	0.79	1.16	2.37	2.65	2.94	2.39	1.82	1.68	2.28	2.38	6.16	5.37
Other provinces- excluding Nairobi	4.61	3.65	3.86	4.06	4.88	4.72	4.47	4.59	5.40	6.18	6.83	7.82	7.43
TOTAL KENYA	4.14	3.25	3.20	3.67	4.45	4.11	4.14	4.05	4.91	6.02	6.67	8.29	7.76

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

Inflation Outlook

The VAT effects that exerted upward inflation pressures in September expected to ease in October 2013

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Growth in broad money, M3, decreased to 10.3 percent in the year to October 2013 from 12.5 percent in the year to October 2012 and was within the 13.2 percent target for October 2013. Money supply, M2, growth decreased to 11.3 percent in the year to October 2013 from 15.8 percent in a corresponding period in 2012 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits, increased by Ksh 14.2 billion (5.3 percent) compared with a decrease of Ksh 6.5 billion (2.4 percent) in the previous year. Money supply M3 growth has remained within targets since November 2011, thereby signaling minimal demand side inflationary pressure.

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

	2011 October	2012 October	2013 October	Absolute Change 2011/12 October	Absolute Change 2012/13 October	%age change 12 months Oct-12	%age change 12 months Oct-13
1. Money supply, M3 (2+3) 2/	**1513.7**	**1703.0**	**1879.1**	**189.3**	**176.1**	**12.5**	**10.3**
1.1 Money supply, M2 3/	1238.8	1434.7	1596.6	195.9	161.9	15.8	11.3
1.2 Money supply, M1	661.7	699.1	789.9	37.4	90.7	5.6	13.0
1.3 Currency outside banks	129.9	135.0	153.6	5.1	18.6	3.9	13.8
2. Net foreign assets 4/	**330.5**	**350.9**	**364.7**	**20.3**	**13.8**	**6.1**	**3.9**
Central Bank	289.5	351.3	403.7	61.8	52.4	21.3	14.9
Banking Institutions	41.0	-0.4	-39.0	-41.4	-38.6	-101.0	9605.7
3. Net domestic assets (3.1+3.2)	**1183.1**	**1352.1**	**1514.5**	**169.0**	**162.3**	**14.3**	**12.0**
3.1 Domestic credit (3.1.1+3.1.2)	**1490.2**	**1657.2**	**1868.4**	**167.0**	**211.1**	**11.2**	**12.7**
3.1.1 Government (net)	288.8	351.1	347.8	62.3	-3.3	21.6	-0.9
3.1.2 Private sector and other public sector	1201.4	1306.2	1520.6	104.7	214.4	8.7	16.4
3.2 Other assets net (3-3.1)	**-307.1**	**-305.1**	**-353.9**	**2.0**	**-48.8**	**-0.6**	**16.0**
Memorandum items							
1. Overall liquidity, L 1/	**1863.9**	**2097.7**	**2407.3**	**233.9**	**309.6**	**12.5**	**14.8**
2. Reserve money	**234.6**	**250.4**	**307.2**	**15.8**	**56.8**	**6.7**	**22.7**
Currency outside banks	129.9	135.0	153.6	5.1	18.6	3.9	13.8
Bank reserves	104.7	115.5	153.7	10.7	38.2	10.3	33.1

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

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

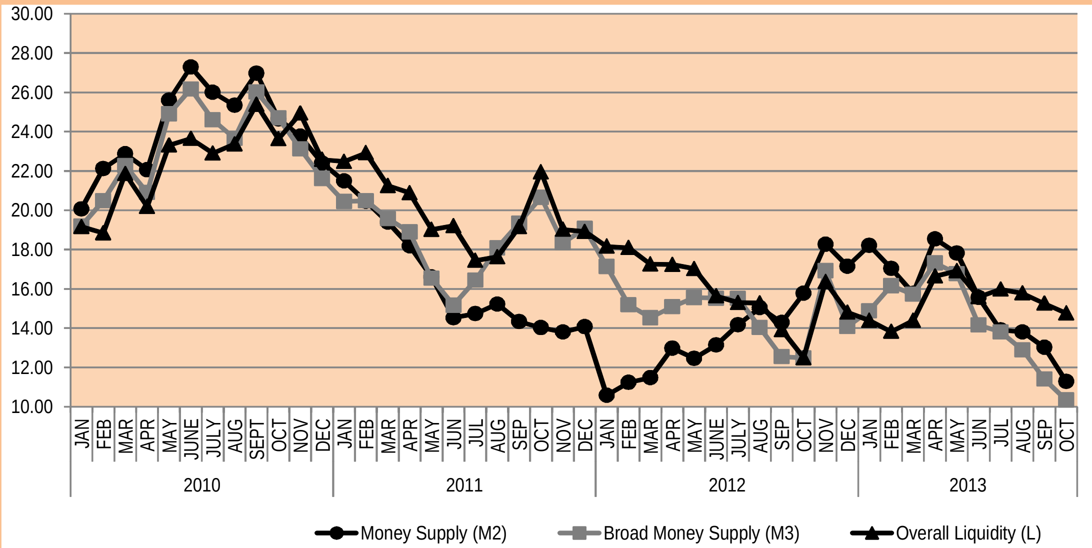
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

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

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The slowdown in the growth of broad money supply was reflected in the Net Foreign Assets (NFA) (Table 2.1). Growth in NFA of the banking system decelerated to 3.9 percent in twelve months to October 2013 from 6.1 percent in a corresponding period in 2012 largely due to an increase in foreign liabilities of commercial banks. The NFA of banking institutions therefore declined by Ksh 38.6 billion from Ksh. -0.4 billion in October 2012 to Ksh -39.0 billion on account of increased loans from non-residents and other accounts payable. Over a similar period, annual growth of the Net domestic Assets (NDA) of the banking system decreased to 12.0 percent in the year to October 2013 from 14.3 percent over a similar period 2012 with the slowdown largely in other domestic assets of the banking system (Table 2.1).

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

	2012 October		2013 October		Absolute Change October		Annual %age Change October	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2011/12	2012/13	2011/12	2012/13
1. Credit to Government	351.1	21.2	347.8	18.6	62.3	-3.3	21.6	-0.9
Central Bank	18.2	1.1	-54.3	-2.9	-12.8	-72.5	-41.3	-398.3
Commercial Banks & NBFIs	332.8	20.1	402.1	21.5	75.1	69.3	29.1	20.8
2. Credit to other public sector	51.4	3.1	40.1	2.1	19.0	-11.3	58.9	-21.9
Local government	5.6	0.3	-1.9	-0.1	2.0	-7.5	57.5	-134.7
Parastatals	45.8	2.8	42.1	2.3	17.0	-3.8	59.0	-8.2
3. Credit to private sector	1254.8	75.7	1480.5	79.2	85.7	225.7	7.3	18.0
Agriculture	55.3	3.3	53.5	2.9	1.9	-1.7	3.7	-3.1
Manufacturing	163.0	9.8	177.3	9.5	5.6	14.3	3.6	8.8
Trade	203.6	12.3	253.3	13.6	5.5	49.8	2.8	24.4
Building and construction	63.9	3.9	71.5	3.8	15.7	7.5	32.5	11.8
Transport & communications	76.2	4.6	84.6	4.5	-2.0	8.4	-2.6	11.1
Finance & insurance	34.2	2.1	25.6	1.4	6.2	-8.6	21.9	-25.2
Real estate	159.7	9.6	186.2	10.0	29.5	26.5	22.7	16.6
Mining and quarrying	20.8	1.3	24.8	1.3	-6.5	4.0	-24.0	19.5
Private households	175.0	10.6	221.4	11.8	9.0	46.3	5.4	26.5
Consumer durables	78.5	4.7	98.1	5.3	3.4	19.6	4.5	25.0
Business services	90.0	5.4	127.1	6.8	2.0	37.2	2.2	41.3
Other activities	134.5	8.1	156.9	8.4	15.5	22.4	13.0	16.7
4. TOTAL (1+2+3) *	1657.2	100.0	1868.4	100.0	167.0	211.1	11.2	12.7

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

Source: Central Bank of Kenya

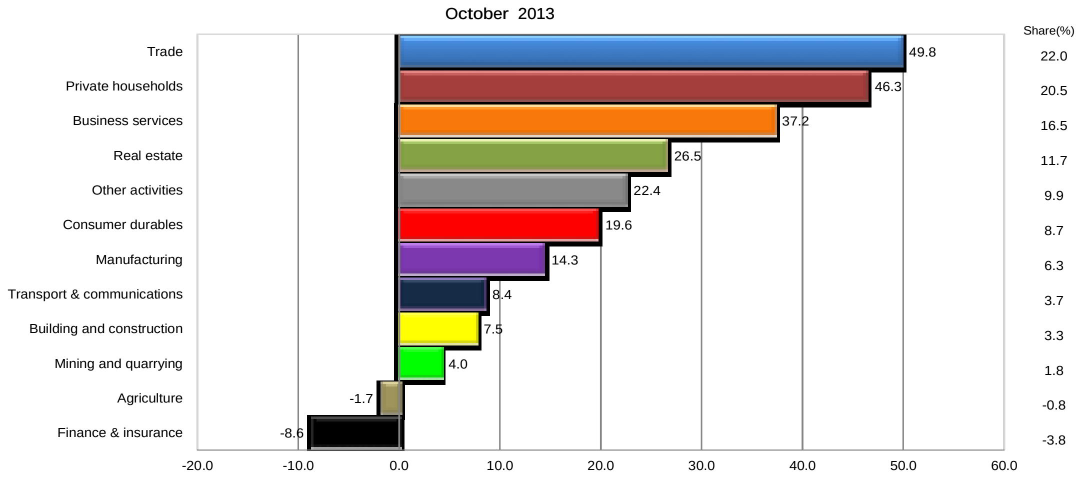
Domestic Credit Developments

Domestic credit from the banking sector increased by Ksh 211.1 billion (12.7 percent) in the twelve months to October 2013 compared with Ksh 167.0 billion (11.2 percent) in a similar period in 2012 (Table 2.2). The increase was reflected in credit to the private sector which accelerated to 18.0 percent growth in October 2013 from 7.3 percent to October 2012. The private sector continued to dominate banking system lending; accounting for 79.2 percent of total lending in October 2013 compared with 18.6 percent share of government.

The allocation of the additional credit across private sector activities, in order of magnitude, was the following: trade at 22.0 percent (or Ksh 49.8 billion); private households at 20.5 percent (or Ksh 46.3 billion); business services at 16.5 percent (or Ksh 37.2 billion); real estate sector at 11.7 percent (or Ksh 26.5 billion); consumer durables at 8.7 percent (or Ksh 19.6 billion); manufacturing at 6.3 percent (or Ksh 14.3 billion); transport and communication at 3.7 percent (or Ksh 8.4 billion) and building and construction at 3.3 percent (or Ksh 7.5 billion). Chart 2B below presents the credit distribution across private sector activities.

Net credit to Government decreased by 0.9 percent (or Ksh 3.3 billion) in the year to October 2013 compared with 21.6 percent (or Ksh 62.3 billion) increase in a corresponding period in 2012 largely due to accumulation of Government deposits at the Central Bank. Meanwhile, while the 'other public sector' repaid Ksh 11.3 billion in the year to October 2013 compared to a net credit of Ksh. 19.0 billion over a similar in 2012 (Table 2.2).

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



Source: Central Bank of Kenya

Reserve Money

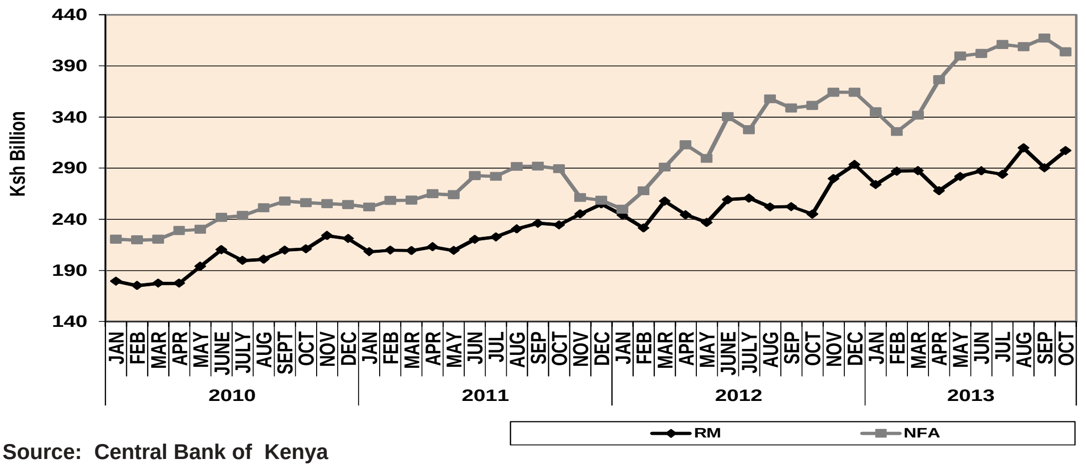
Reserve money (RM) comprises currency held by the non-bank public and commercial banks deposits at the Central Bank. It increased by 22.7 percent in the twelve months to October 2013 compared with 6.7 percent growth in the corresponding period in 2012 (Table 2.3 and Chart 2C). At Ksh 307.2 billion in October 2013, reserve money was Ksh 13.3 billion above respective target. The growth in reserve money reflected 33.1 percent increase in bank reserves and 13.8 percent growth in currency outside banks.

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

	2012	2013	Absolute change		Change (%)		2013	
	October	October	2011/12	2012/13	2011/12	2012/13	October Target	Deviation
1. Net Foreign Assets	351.3	403.7	61.8	52.4	21.3	14.9	358.8	45.0
2. Net Domestic Assets	-100.8	-96.5	-45.9	4.4	83.7	-4.3	-64.8	-31.7
2.1 Government Borrowing (net)	18.2	-54.3	-12.8	-72.5	-41.3	-398.3	8.0	-62.3
2.2 Commercial banks (net)	-58.1	15.7	-76.4	73.8	-417.4	-127.07	-14.0	29.7
2.3 Other Domestic Assets (net)	-63.2	-61.7	46.6	1.5	-42.4	-2.4	-58.8	-2.9
3. Reserve Money	250.4	307.2	15.8	56.8	6.7	22.7	294.0	13.3
3.1 Currency outside banks	135.0	153.6	5.1	18.6	3.9	13.8	153.3	0.3
3.2 Bank reserves	115.5	153.7	10.7	38.2	10.3	33.1	140.7	13.0

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The source of reserve money growth in the 12 months to October 2013 was largely an accumulation of net foreign assets (NFA) of the Central Bank. The NFA of Central Bank rose by 14.9 percent in the year to October 2013 on account of purchases from the interbank market to accumulate foreign exchange reserves in line with the statutory required minimum 4 months value of imports and non- factor services.

Over a similar period, the NDA of the Central Bank increased by Ksh 4.4 billion to Ksh -96.5 billion in the year to October 2013 from Ksh -100.8 billion in the previous year. This was reflected in reduction in net claims to commercial banks, following a net redemptions of outstanding repo securities and liquidity injection through reverse repo securities. Meanwhile, net Government indebtedness at the Central Bank declined by Ksh 72.5 billion to Ksh 54.3 billion net deposit following accumulation of deposits at the Central Bank with proceeds from tax revenues and issuance of securities in the primary market.

Central Bank Rates

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

Short Term Interest Rates

Reflecting the tight liquidity in the money market following accumulation of Government deposits at the Central Bank and skewed distribution of interbank liquidity, short term interest rates trended upwards in the month of October 2013 (Table 2.4 and Chart 2D). The weighted average interbank interest rate increased from 7.52 percent in September 2013 to 10.66 percent in October 2013. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, increased from 9.58 percent in September 2013 to 9.72 percent in October 2013, while the 182-day Treasury bill rate increased from 10.15 percent to 10.28 percent.

Lending and Deposit Rates

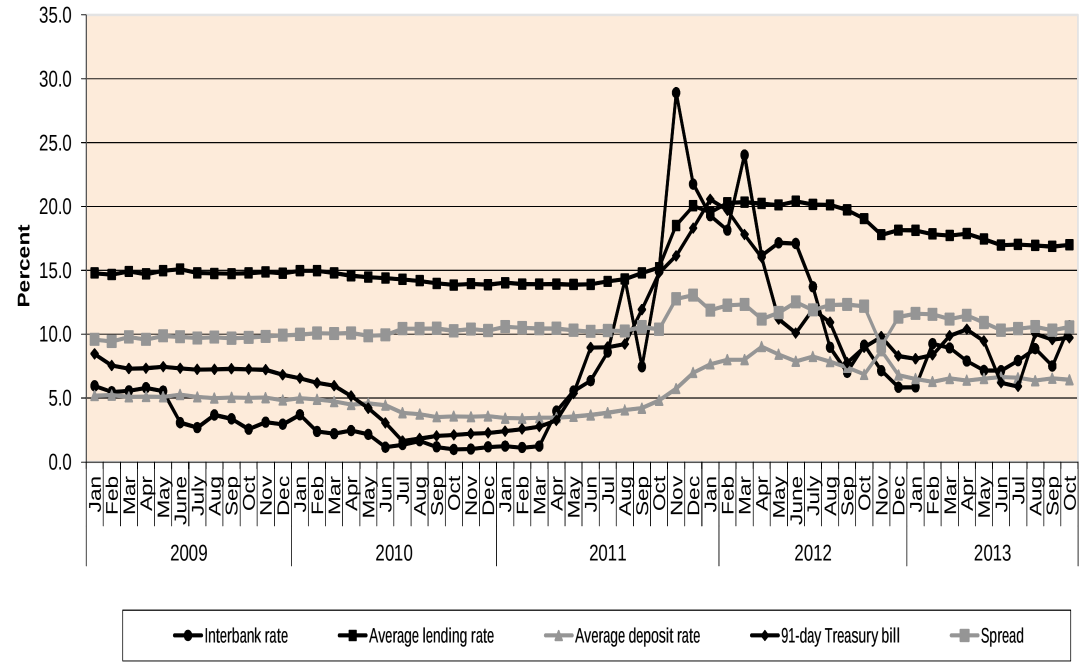
Commercial banks average lending rate increased marginally from 16.86 percent in September 2013 to 17.0 percent in October 2013, while the average deposit rate decreased from 6.55 percent to 6.43 percent. Consequently, the interest rate spread widened from 10.32 percent in September 2013 to 10.57 percent in October 2013 (Table 2.4).

TABLE 2.4: INTEREST RATES (%)

	2012			2013									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
91-day Treasury bill rate	8.98	9.80	8.30	8.08	8.38	9.88	10.38	9.46	6.21	5.92	10.03	9.58	9.72
Overdraft rate	19.13	18.77	17.79	17.97	17.68	17.54	17.71	17.60	16.92	17.00	16.89	16.42	16.96
Interbank rate	9.14	7.14	5.84	5.86	9.25	8.93	7.90	7.16	7.14	7.93	8.88	7.52	10.66
Repo rate	9.74	8.30	6.79	6.60	9.10	9.35	9.14	7.96	7.93	7.48	-	7.11	-
Reverse Repo rate	-	-	-	-	-	-	-	-	-	-	8.77	-	10.85
Central Bank Rate (CBR)	13.00	11.00	11.00	9.50	9.50	9.50	9.50	8.50	8.50	8.50	8.50	8.50	8.50
Average lending rate (1)	19.04	18.70	18.15	18.13	17.84	17.73	17.87	17.45	16.97	17.02	16.96	16.86	17.00
Average deposit rate (2)	6.85	6.69	6.80	6.51	6.29	6.54	6.39	6.53	6.65	6.59	6.36	6.55	6.43
0 to 3 - month deposit	9.39	9.17	9.62	9.11	8.86	9.62	9.14	9.11	9.44	9.44	9.03	9.56	9.31
Savings deposits	1.60	1.58	1.60	1.65	1.61	1.42	1.45	1.53	1.73	1.64	1.67	1.64	1.63
Spread (1-2)	**12.19**	**12.01**	**11.34**	**11.62**	**11.55**	**11.19**	**11.48**	**10.91**	**10.32**	**10.43**	**10.60**	**10.32**	**10.57**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

PERFORMANCE OF THE REAL SECTOR

Overview

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

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

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

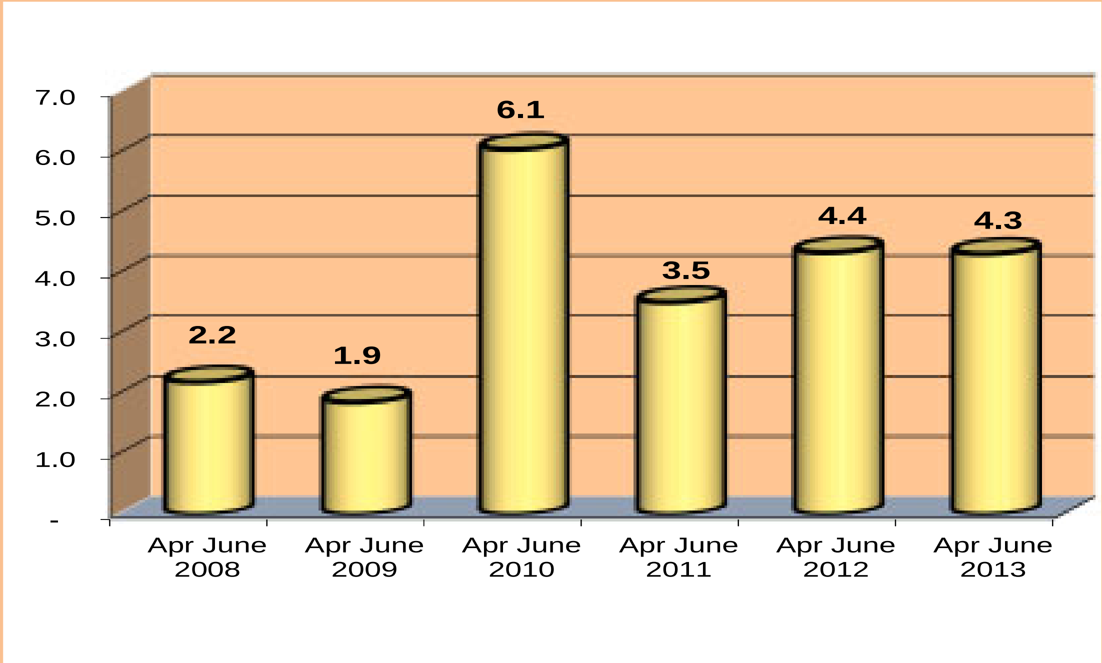
Annual Growth Rates in Percent

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

*Provisional

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

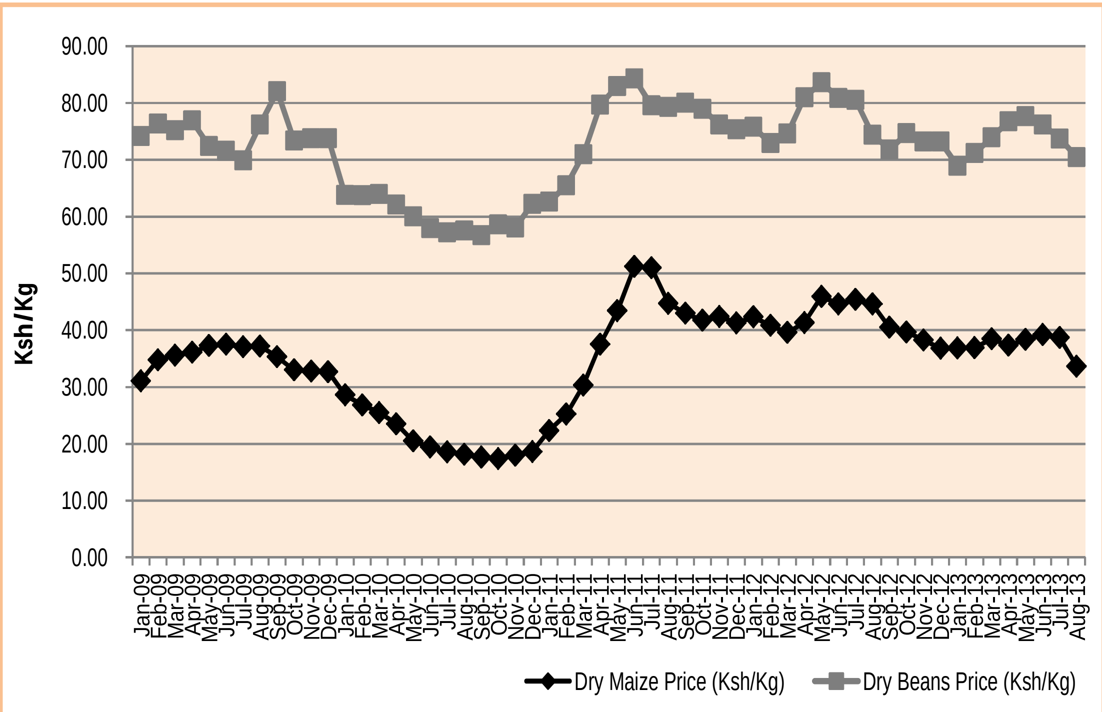
CHART 3A: REAL GDP GROWTH IN THE FIRST QUARTERS



Agriculture

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

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



Major Indicators in Agriculture

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

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK

	2011	2012*	Year to Sep 12*	Year to Sep 13*
Tea				
Output (Metric tonnes)	377,913	369,562	366,093	431,856
Growth (%)	*-5.3%*	*-2.2%*	*-0.9%*	*18.0%*
Horticulture				
Exports (Metric tonnes)	238,562	250,814	247,847	293,631
Growth (%)	*-11.2%*	*5.1%*	*1.8%*	*18.5%*
Coffee				
Sales (Metric tonnes)	29,984	46,051	44,776	38,706
Growth (%)	*-23.0%*	*53.6%*	*33.1%*	*-13.6%*
Milk				
Output (million litres)	549	495	495	533
Growth %	*7.5%*	*-9.8%*	*-7.0%*	*7.6%*
Sugar Cane				
Output (Metric tonnes)	5,338,571	5,716,300	5,708,628	5,876,100
Growth (%)	*-6.5%*	*7.1%*	*0.5%*	*2.9%*

* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

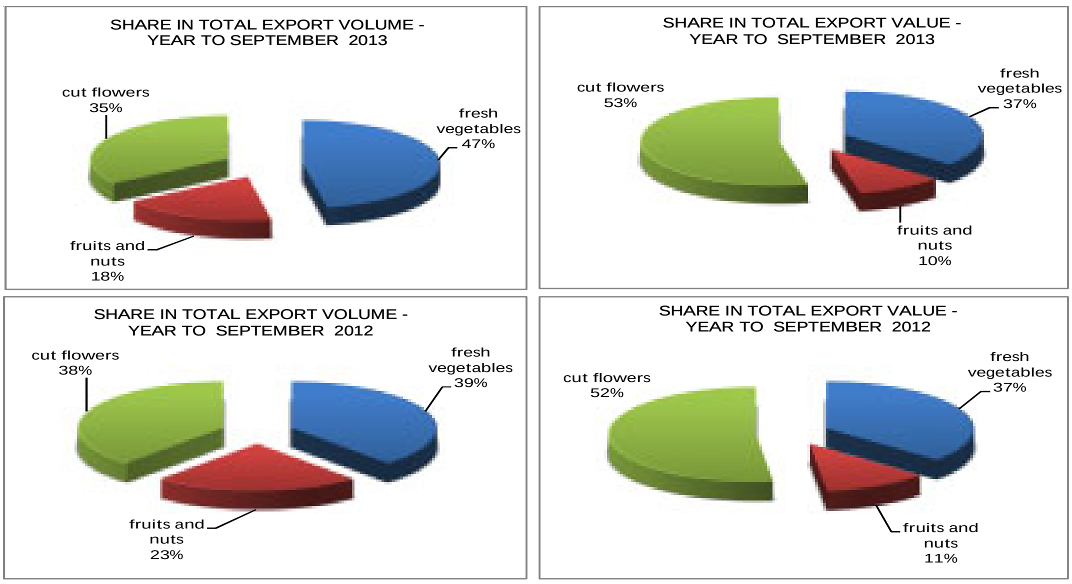
Tea

Production of tea increased by 18.0 percent in the year to September 2013 in relation to 366,093 metric tonnes produced in the year to September 2012 (Table 3.2). The improvement is attributed to relatively favorable weather conditions. Reflecting the larger volume supplied the average auction price for tea declined from Ksh 268 per kilogram in the year to September 2012 to Ksh 238 per kilogram in the year to September 2013.

Horticulture

Export of fresh horticultural products increased by 18.5 percent from 247,847 metric tonnes in the year to September 2012 to 293,631 metric tonnes in the year to September 2013. Exports of fresh vegetables dominated in terms of volume, while cut flowers brought in the largest contribution to total export value in the year to September 2013 (Table 3.2 and Chart 3C).

CHART 3C: HORTICULTURAL EXPORTS



Source: Kenya Revenue Authority

Coffee

Coffee sales declined by 13.6 percent from 44,776 metric tonnes in the year to September 2012 to 38,706 metric tonnes in the year to September 2013. The average auction price for coffee also declined from Ksh 394 per kilogram in the year to September 2012 to Ksh 282 per kilogram in the year to September 2013, reflecting increased global supply and reduced world prices.

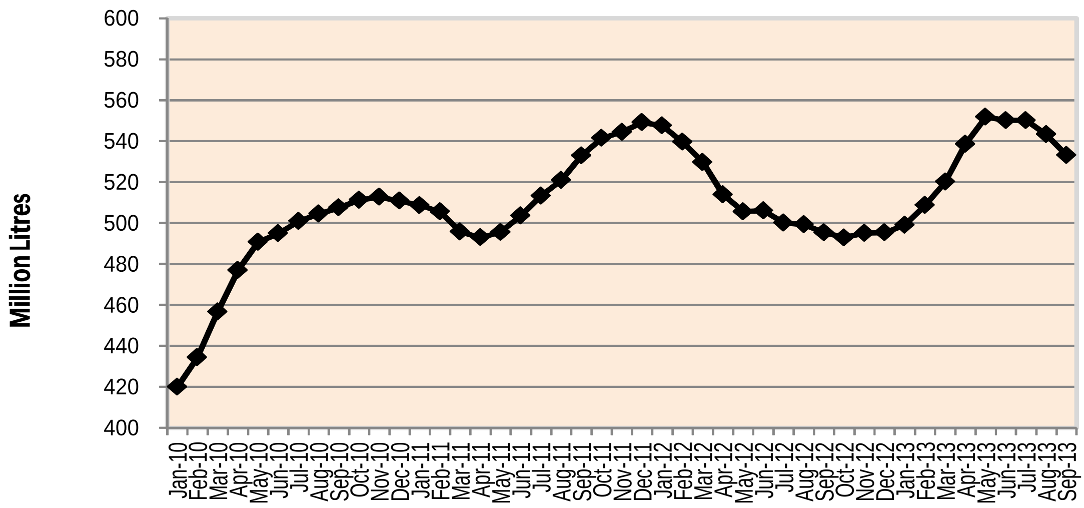
Sugar cane

Cane deliveries increased by 2.9 percent in the year to September 2013 from 5.71 million tonnes in the year to September 2012.

Milk

The milk delivered to the informal sector increased by 7.6 percent in the year to September 2013 from 495 million litres delivered in a comparable period in the previous year (Chart 3D).

CHART 3D: PROCESSED MILK ('000 LITRES)



Source: Kenya National Bureau of Statistics

Manufacturing

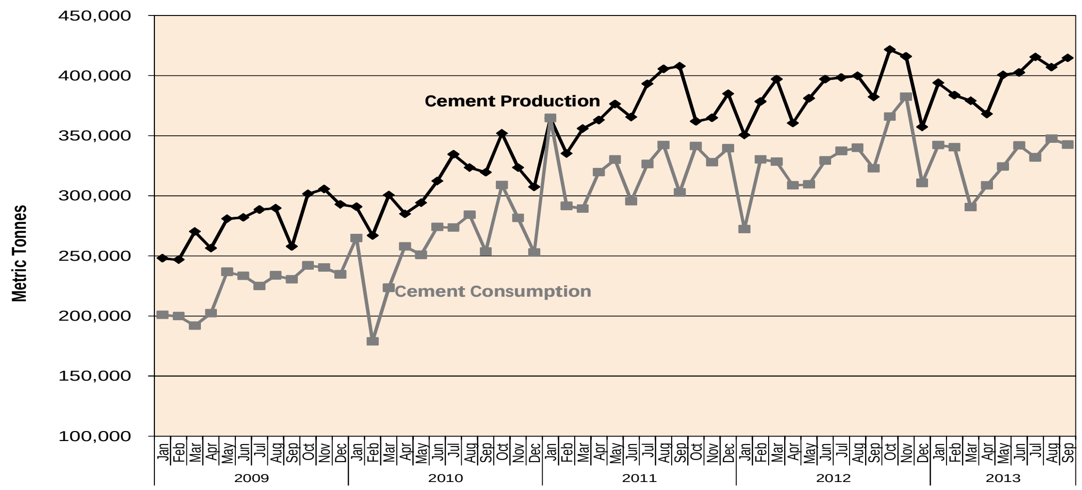
The manufacturing sector accounted for 9.5 percent of the overall GDP growth in 2012. This activity grew by 4.2 percent in the first quarter of 2013 and by 4.3 percent in the second quarter compared with growth of 1.4 percent and 2.1 percent in the first two quarters of 2012, respectively. Indicators of the performance of manufacturing activity are largely positive for the 12-month period to September 2013 (Table 3.3 and Chart 3E), with the growth in production of sugar and soft drinks accelerating to 8.0 percent and 15.1 percent, respectively. Growth in the production of cement however, was stable at 4.5 percent in the year to September 2013 compared with 4.8 percent in the comparable period in 2012. With local cement consumption below production level (Chart 3E), the industry continued to generate some surplus for export. The number of vehicles assembled locally however declined by 7.7 percent to 6,024 in the year to August 2013 (Table 3.3 and Chart 3E).

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	Annual Totals		Year to Sep 12*	Year to Sep 13*
	2011	2012*		
Cement production				
Output (MT)	4,478,428	4,639,723	4,556,649	4,760,270
Growth %	*20.7%*	*3.6%*	*4.8%*	*4.5%*
Assembled vehicles**				
Output (No.)	6,049	6,218	6,526	6,024
Growth %	*5.7%*	*2.8%*	*14.3%*	*-7.7%*
Processed sugar				
Output (MT)	475,061	493,937	495,685	535,373
Growth %	*-9.2%*	*4.0%*	*-5.9%*	*8.0%*
Soft drinks**				
Output ('000 litres)	371,353	359,518	356	409
Growth %	*2.8%*	*-3.2%*	*-3.1%*	*15.1%*

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

CHART 3E: CEMENT PRODUCTION AND CONSUPTION



Source: Kenya National Bureau of Statistics

Energy Sector

Annual growth in local generation of electricity increased from 3.8 percent in the year to September 2012 to 8.1 percent in the year to September 2013 (Table 3.4). The total amount of electricity generated thus increased from 7,386 million kilowatt hours to 7,983 million kilowatt hours. The supply in the current period comprised 55.1 percent hydro-electricity, 23.6 percent thermal power and 21.3 percent geo-thermal power. The increase in the amount of electricity produced reflects accelerated generation of hydro-electricity and geo-thermal power (green energy). Generation of hydro-electricity increased by 16.4 percent to a supply of 4,399 million kilowatt hours in the year to September 2013, while generation of geo-thermal power increased by 12.8 percent to a supply of 1,698 million kilowatt hours in the year to September 2013. The generation of thermal power declined by 10.2 percent in the year to September 2013 following increased electricity supply from water and green energy sources. Consumption of electricity is estimated to have also increased by 3.8 percent from 6,257 million kilowatt hours in the year to September 2012 to

6,492 million kilowatt hours in the year to September 2013. Consumption of fuels was however, marginally lower at 3,597 thousand tonnes in the year to September 2013. The average price of murban crude oil declined from US$ 112.9 per barrel in the year to September 2012 to US$ 109.9 per barrel in the year to September 2013.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	2011	2012*	Year to Sep 12*	Year to Sep 13*
Electricity Supply (Generation)				
Output (million KWH)	7,161	7,544	7,386	7,983
Growth %	*11.8%*	*5.4%*	*3.8%*	*8.1%*
Of which:				
Hydro-power Generation (million KWH)	3,183	4,032	3,779	4,399
Growth (%)	*-0.4%*	*26.6%*	*16.8%*	*16.4%*
Geo-Thermal Generation (million KWH)	1,444	1,522	1,505	1,698
Growth (%)	*0.1%*	*5.4%*	*3.8%*	*12.8%*
Thermal (million KWH)	2,533	1,990	2,102	1,887
Growth (%)	*43.2%*	*-21.4%*	*-13.4%*	*-10.2%*
Consumption of electricity (million KWH)	6,152	6,270	6,257	6,492
Growth %	*4.8%*	*1.9%*	*2.6%*	*3.8%*
Consumption of Fuels ('000 tonnes)	3,545	3,764	3,683	3,597
Growth %	*11.6%*	*6.2%*	*4.7%*	*-2.3%*
Murban crude oil average price (US $ per barrel)	110.6	113.0	112.9	109.9
Growth %	*39.7%*	*2.1%*	*8.3%*	*-2.7%*

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

The number of tourist arrivals declined by 7.0 percent in the year to July 2013 from 1,257,869 in the year to July 2012 (Table 3.5). The ports of disembarkation were Jomo Kenyatta International Airport Nairobi (84.5 percent share), and the Moi International Airport, Mombasa (15.5 percent share).

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

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

Source: Kenya Tourist Board

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

TABLE 3.6: TOURIST ARRIVALS BY CONTINENT

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

Source: Kenya Tourist Board

Transport

The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) declined marginally (by 0.1 percent) from 4,322,079 in the year to September 2012 to 4,319,455 in the year to September 2013. The decline is attributed to incoming passengers. The volume of oil passed through Kenya pipeline however, increased by 0.7 percent to 4,702 million litres in the year to September 2013 compared with 4,668 million litres in the year to September 2012 (Table 3.7). The sluggish growth is attributed todeclining international crude oil prices.

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2011	2012*	Year to Sep 12*	Year to Sep 13*
Number of Passengers thro' JKIA				
Total passenger flows	4,135,126	4,302,244	4,322,079	4,319,455
Growth (%)	*36.5%*	*4.0%*	*11.2%*	*-0.1%*
o.w. Incoming	2,088,798	2,148,105	2,160,816	2,158,386
Growth (%)	*38.4%*	*2.8%*	*9.5%*	*-0.1%*
Outgoing	2,046,328	2,154,139	2,161,263	2,161,069
Growth %	*34.6%*	*5.3%*	*13.0%*	*0.0%*
Kenya Pipeline Oil Throughput				
Output ('000 litres)	4,257,426	4,855,573	4,668,498	4,702,054
Growth %	*1.3%*	*14.0%*	*10.6%*	*0.7%*

* Provisional

Source: Kenya National Bureau of Statistics

Developments in the Balance of Payments and Exchange Rates

Overview Kenya's overall balance of payments surplus position declined to US$ 606 million in the year to October 2013 from a surplus of US$ 1,269 million in the year to October 2012 reflecting a reduction in the Capital and Financial account surplus. (Table 4.1**)**

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Oct 2012	Year to October 2013* Q1 Nov-Jan	Q2 Feb- Apr	Q3 May- Jul	Q4 Aug- Oct	Year to Oct 2013*	Absolute Change	% Change
1. OVERALL BALANCE	1269	-249	497	185	173	606	-662.4	-52.2
2. CURRENT ACCOUNT	-4331	-1229	-807	-682	-1075	-3793	538.5	-12.4
2.1 Goods	-10345	-2895	-2524	-2468	-2803	-10690	-345.2	3.3
Exports (fob)	6134	1556	1485	1448	1399	5888	-246.2	-4.0
Imports (cif)	16479	4451	4009	3917	4202	16578	99.0	0.6
2.2 Services	6014	1665	1718	1786	1728	6898	883.6	14.7
Non-factor services (net)	3313	1046	1032	1113	1007	4198	885.8	26.7
Income (net)	-176	-54	-32	-6	-13	-104	72.0	-40.8
Current Transfers (net)	2878	673	718	679	734	2804	-74.1	-2.6
3. CAPITAL & FINANCIAL ACCOUNT	5600	981	1303	867	1248	4399	-1200.8	-21.4
3.1 Capital Tranfers (net)	249	52	26	59	45	182	-67.0	-26.9
3.2 Financial Account	5350	928	1277	808	1203	4217	-1133.8	-21.2
memo:								
Gross Reserves	7249	7156	7563	7907	7859	7859	609.8	8.4
Official	5478	5328	5928	6096	6263	6263	785.2	14.3
*import cover***	*3.7*	*3.5*	*3.9*	*4.2*	*4.3*	4.3	0.6	14.9
*import cover****	*4.2*	*4.0*	*4.3*	*4.4*	*4.4*	4.4	0.2	4.0
Commercial Banks	1772	1828	1636	1811	1596	1596	-175.3	-9.9

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

Current Account The Current account balance improved from a deficit of US$ 4,331 million in the year to October 2012 to a deficit of US$ 3,793 million in the year to October 2013. The improvement is reflected in improvement of the services account surplus (Table 4.2).

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

ITEM	Year to Oct 2012	Year to October 2013* Q1 Nov-Jan	Q2 Feb- Apr	Q3 May- Jul	Q4 Aug- Oct	Year to Oct 2013*	Absolute Change	% Change
2. CURRENT ACCOUNT	-4331	-1229	-807	-682	-1075	-3793	538.5	-12.4
2.1 Goods	-10345	-2895	-2524	-2468	-2803	-10690	-345.2	3.3
Exports (fob)	6134	1556	1485	1448	1399	5888	-246.2	-4.0
Coffee	268	38	47	61	48	194	-73.7	-27.5
Tea	1180	356	311	326	263	1256	76.7	6.5
Horticulture	683	173	200	177	176	726	43.6	6.4
Oil products	83	17	16	13	10	56	-27.5	-33.1
Manufactured Goods	716	158	184	178	179	700	-16.5	-2.3
Raw Materials	426	89	96	81	66	331	-94.4	-22.2
Chemicals and Related Products (n.e.s)	574	119	123	117	117	475	-98.1	-17.1
Miscelleneous Man. Articles	558	137	138	146	159	581	22.6	4.0
Re-exports	412	138	113	101	146	499	86.9	21.1
Other	1235	330	256	248	235	1069	-165.8	-13.4
Imports (cif)	16479	4451	4009	3917	4202	16578	99.0	0.6
Oil	4041	1154	1061	857	947	4019	-22.2	-0.5
Chemicals	2120	530	531	575	558	2193	73.9	3.5
Manufactured Goods	2311	628	642	606	723	2598	287.1	12.4
Machinery & Transport Equipment	4476	1310	1110	1172	1149	4741	264.9	5.9
Other	3532	829	666	707	826	3027	-504.7	-14.3
2.2 Services	6014	1665	1718	1786	1728	6898	883.6	14.7
Non-factor services (net)	3313	1046	1032	1113	1007	4198	885.8	26.7
of which transport	775	256	247	284	187	975	200.5	25.9
of which tourism (Travel)	782	147	158	184	161	650	-132.3	-16.9
Other services account: gov't	821	179	185	210	193	767	-54.8	-6.7
Other services account: private	-89	201	227	224	242	895	983.9	-1100.7
Income (net)	-176	-54	-32	-6	-13	-104	72.0	-40.8
of which official interest	-123	-37	-31	-28	-34	-129	-6.2	5.0
Current Transfers (net)	2878	673	718	679	734	2804	-74.1	-2.6
Private (net)	2664	638	723	684	739	2783	118.8	4.5
of which Remittances	1134	306	311	323	327	1267	133.3	11.8
Public (net)	214	35	-5	-5	-5	21	-192.9	-90.3

* Provisional.
Source: Central Bank of Kenya

Merchandise Account

The merchandise account deficit widened by US$ 345.2 million or 3.3 percent to US$ 10,690 million in the year to October 2013 from US$ 10,345 million in the year to October 2012, reflecting high spending on merchandise imports (Table 4.2).

Exports

Receipts from merchandise exports declined by US$ 246.2 million or 4.0 percent, to US$ 5,888 million in the year to October 2013. The decline is attributed to reduced earnings from coffee, oil products, manufactured goods, raw materials, chemicals and related products and other non categorised exports. The share of tea exports to total exports increased from 19 to 21 percent and receipts increased by US$ 76.7 million to US$ 1,256 million in the year to October 2013, from US$ 1,180 million in the year to October 2012. Values of horticulture exports also increased by US$ 43.6 million, to US$ 726 million, accounting for 12 percent of total exports up from 11 percent during the 12 months to October 2012. The increase in export receipts from tea and horticulture largely reflect increased export quantities during the period under review. Both the share and value of coffee exports declined in the year to October 2013: the share from 4 to 3 percent of total exports and values from US$ 268 million to US$ 194 million (following a decline in coffee export quantities and prices).

In terms of destination of exports (Table 4.3**)** the share to Africa declined to 46.4 percent from 48.2 percent in the year to October 2012. This reduction is reflected at the sub-regional level where exports receipts from the EAC and COMESA declined. The value of exports to Uganda, Tanzania, Egypt, Sudan and Somalia also declined. Meanwhile, the share of exports to the EU region declined from 21.3 percent to 20.3 percent. Over the same period, exports receipts from the Netherlands, the USA, Pakistan, the United Arab Emirates and Afghanistan increased.

Imports

Payments for merchandise imports increased by 0.6 percent, or US$ 99 million to US$ 16,578 million in the year to October 2013, largely reflecting increases in imports of chemicals, manufactured goods, machinery and transport equipment **(**Table 4.2**)**. During this period, the share of machinery and transport equipment to total imports increased from 27 percent to 29 percent. The increase in imports of machinery and transport equipment comprised largely increases in power generating machines, general industrial machines, office machines, electrical machinery and road vehicles. Meanwhile, the oil import bill declined by US$ 22.2 million, which resulted into a decline in the share of oil to total imports from 25 percent in the year to October 2012 to 24 percent in the year to October 2013 mainly due to reduced importation of crude oil.

In terms of origin **(**Table 4.3**)** Africa accounted for 10.3 percent of total imports (marginally lower than 10.8 percent in the previous period). The decline was reflected in all sub regions other than South Africa. Imports from the EU region accounted for 14.7 percent of total imports and was marginally higher than the previous year; while the share of imports from China declined marginally. Analysis at country level reveals that most of Kenya’s imports were from India (17.5 percent), China (12.1 percent), the UAE (9 percent) and Japan (5.8 percent).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to Oct			Year to Oct		
Country	2011	2012	2013	2011	2012	2013
Africa	1,644	1,734	1,704	11.3	10.8	10.3
Of which						
South Africa	815	739	809	5.6	4.6	4.9
Egypt	207	349	294	1.4	2.2	1.8
Others	622	646	600	4.3	4.0	3.6
EAC	297	352	329	2.0	2.2	2.0
COMESA	577	759	670	4.0	4.7	4.1
Rest of the World	12,876	14,376	14,807	88.7	89.2	89.7
Of which						
India	1,678	2,103	2,894	11.6	13.1	17.5
United Arab Emirate	1,977	1,939	1,491	13.6	12.0	9.0
China	1,626	1,970	1,993	11.2	12.2	12.1
Japan	724	712	950	5.0	4.4	5.8
USA	515	778	679	3.5	4.8	4.1
United Kingdom	678	511	571	4.7	3.2	3.5
Singapore	438	133	225	3.0	0.8	1.4
Germany	346	479	447	2.4	3.0	2.7
Saudi Arabia	458	953	460	3.2	5.9	2.8
Indonesia	472	663	507	3.3	4.1	3.1
Netherlands	258	209	266	1.8	1.3	1.6
France	244	292	260	1.7	1.8	1.6
Bahrain	204	216	393	1.4	1.3	2.4
Italy	144	250	229	1.0	1.6	1.4
Others	3,115	3,167	3,443	21.5	19.7	20.9
Total	14,521	16,110	16,510	100	100	100
EU	2,320	2,399	2,420	16.0	14.9	14.7

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to Oct			Year to Oct		
Country	2011	2012	2013	2011	2012	2013
Africa	2,747	2,933	2,730	47.5	48.2	46.4
Of which						
Uganda	845	809	763	14.6	13.3	13.0
Tanzania	464	533	495	8.0	8.8	8.4
Egypt	257	258	200	4.4	4.2	3.4
Sudan	246	111	72	4.3	1.8	1.2
Somalia	176	232	206	3.0	3.8	3.5
DRC	193	208	229	3.3	3.4	3.9
Rwanda	151	189	159	2.6	3.1	2.7
Others	416	593	606	7.2	9.7	10.3
EAC	1,530	1,594	1,481	26.5	26.2	25.2
COMESA	2,018	1,902	1,728	34.9	31.3	29.4
Rest of the World	3,037	3,148	3,149	52.5	51.8	53.6
Of which						
United Kingdom	528	495	438	9.1	8.1	7.5
Netherlands	381	362	372	6.6	5.9	6.3
USA	321	308	339	5.6	5.1	5.8
Pakistan	243	239	293	4.2	3.9	5.0
United Arab Emirate	227	306	314	3.9	5.0	5.3
Germany	90	109	96	1.6	1.8	1.6
India	107	98	98	1.8	1.6	1.7
Afghanistan	149	135	196	2.6	2.2	3.3
Others	991	1,096	1,003	17.1	18.0	17.1
Total	5,784	6,081	5,879	100	100	100
EU	1,314	1,295	1,191	22.7	21.3	20.3
China	38	68	45	0.7	1.1	0.8

Source: Kenya Revenue Authority

Services Account

The surplus in the services account increased by US$ 883.6 million or 14.7 percent to USD 6,898 million in the year to October 2013. The increase is reflected mainly to net non-factor services, which rose by US$ 885.8 million or 26.7 percent and more specifically in transportation flows and other private services, (telecommunications and insurance). The deficit in the income account improved by US$ 72 million or 40.8 percent to US$ 104 million in the year to October 2013 attributed to an increase in Investment income and reduced private interest payments.

Flows from current transfer services declined by US$ 74.1 million or 2.6 percent to US$ 2,804 million reflecting declines in public transfers. However, remittance inflows increased by US$ 133.3 million to US$ 1,267 million during the year to October 2013 from US$ 1,134 million during the year to October 2012. **(**Table 4.2**)** Remittance inflows remained resilient with the 12 month cumulative average increasing to USD105.6 million from US$ 94.5 million during the previous period.

Capital and Financial Account

The surplus in the capital and financial account declined to US$ 4,399 million in the year to October 2013 from US$ 5,600 million in the year to October 2012 **(**Table 4.4**)**. The decline is largely traced to the financial account surplus, from US$ 5,350 million in the year to October 2012 to US$ 4,217 million in the year to October 2013**(**Table 4.4**).** This decline largely comprise official medium to long term inflows (US$ 407.6 million) and short term (nry) including errors and omissions (US$ 715.8 million).

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

ITEM	Year to Oct 2012	Year to October 2013*: Q1 Nov-Jan	Q2 Feb- Apr	Q3 May- Jul	Q4 Aug- Oct	Year to Oct 2013*	Absolute Change	% Change
3. CAPITAL & FINANCIAL ACCOUNT	5600	981	1303	867	1248	4399	-1200.8	-21.4
3.1 Capital Tranfers (net)	249	52	26	59	45	182	-67.0	-26.9
3.2 Financial Account	5350	928	1277	808	1203	4217	-1133.8	-21.2
Official, medium & long-term	1135	215	169	219	97	701	-434.2	-38.3
Inflows	1440	275	262	290	205	1032	-407.6	-28.3
Outflows	-305	-60	-92	-71	-108	-331	-26.6	8.7
Private, medium & long-term (net)	342	-80	292	13	134	358	16.2	4.7
Commercial Banks (net)	405	-42	314	15	133	420	15.3	3.8
Other private medium & long-term (net)	-63	-39	-22	-2	1	-62	1.0	-1.5
Short-term (net) incl. errors & omissions	3874	794	816	576	972	3158	-715.8	-18.5

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from US$ 7,249 million in October 2012 to US$ 7,859 million in October 2013. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased to US$ 6,263 million or 4.4 months of import cover in October 2013 from US$ 5,478 million or 4.2 months of import cover in October 2012. The accumulation of official reserves during the period consisted of IMF disbursements under the Extended Credit Facility and purchases from the Foreign Exchange market. Foreign Exchange Reserves held by commercial banks declined to US$ 1,596 million in October 2013 from US$ 1,772 million in October 2012. Residents' Foreign Currency Deposits increased from US$ 3,345 million in October 2012 to US$ 3,504 million in October 2013 **(**Table 4.5**).**

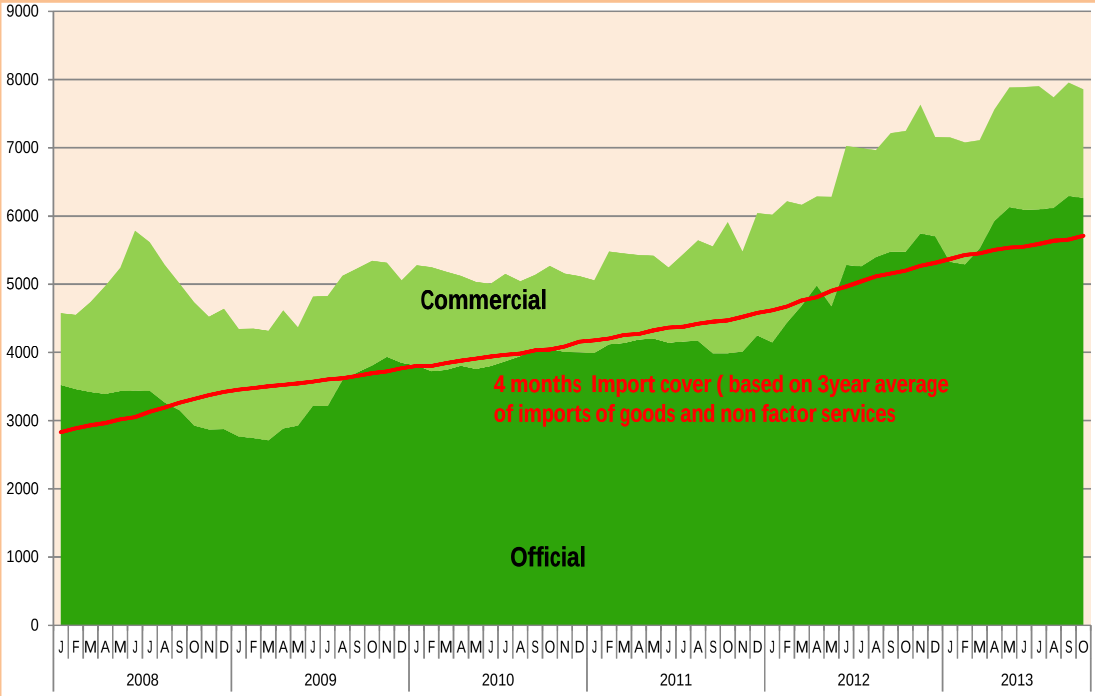
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13
1. Gross Foreign Exchange Reserves	**7,250**	**7,634**	**7,160**	**7,156**	**7,080**	**7,114**	**7,563**	**7,887**	**7,889**	**7,907**	**7,740**	**7,959**	**7,859**
of which:													
Official	5,478	5,742	5,702	5,328	5,290	5,523	5,928	6,128	6,089	6,096	6,120	6,291	6,263
*imports cover***	*4.2*	*4.4*	*4.3*	*4.0*	*3.9*	*4.1*	*4.3*	*4.4*	*4.4*	*4.4*	*4.3*	*4.5*	*4.4*
Commercial Banks	1,772	1,892	1,458	1,828	1,789	1,590	1,636	1,758	1,800	1,811	1,620	1,668	1,596
2. Residents' foreign currency deposits	**3,345**	**3,399**	**3,203**	**3,357**	**3,387**	**3,441**	**3,444**	**3,479**	**3,371**	**3,462**	**3,362**	**3,318**	**3,504**

**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 strengthened against major international and regional currencies in the month of October 2013. The Shilling appreciation against the USD largely reflected increased inflows from the horticulture and tea sectors. In addition, there was increased demand for the Kenya shilling from both offshore and local investors for Kenya Government debt and equities amid tight market liquidity in mid-October.

During this period, the Kenya Shilling traded at an average of Ksh 85.31 per USD, Ksh 137.31 per Pound Sterling, Ksh 116.33 per Euro and Ksh 87.24 per 100 Japanese Yen (Table 4.6). In the EAC region, the Kenya Shilling traded at an average of Ush 29.74, Tsh 18.87, RWF 7.85 and BIF 18.13 compared to Ush 29.41, Tsh 18.48, RWF 7.50 and BIF 17.59 in September 2013. **(**Table 4.6 and Chart 4D**).**

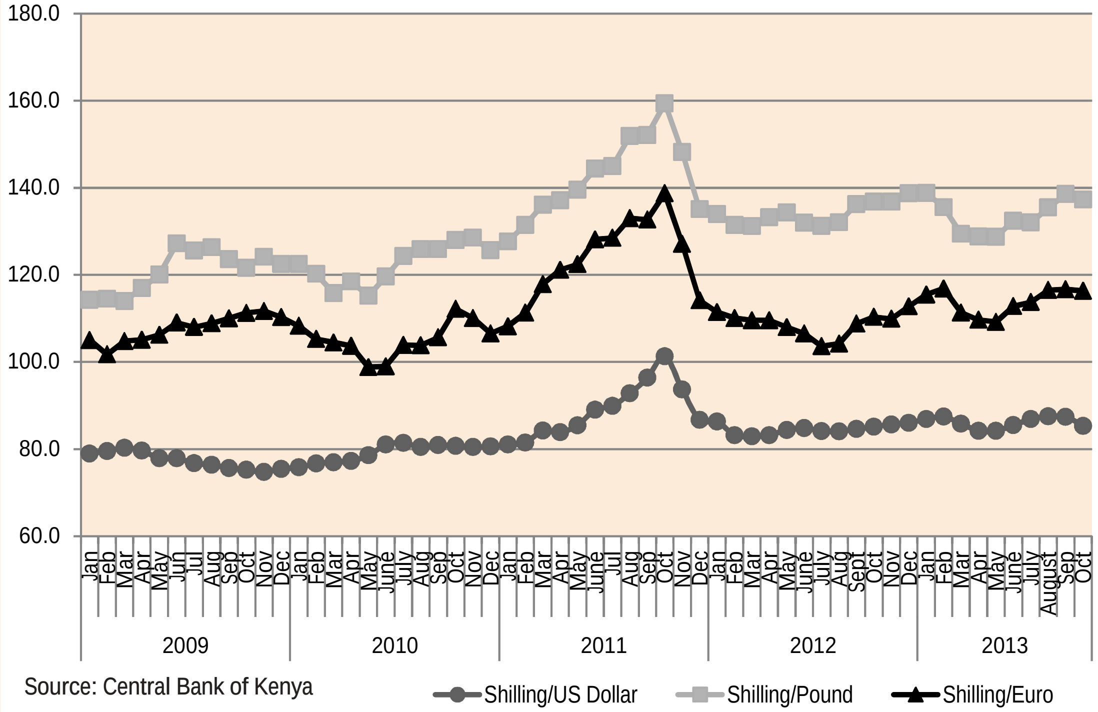
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

				2013										
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	August	Septemb	October	% change September-October 2013
US Dollar	85.11	85.63	85.99	86.90	87.45	85.82	84.19	84.15	85.49	86.86	87.49	87.41	85.31	-2.41
Pound Sterling	136.81	136.77	138.78	138.80	135.54	129.42	128.81	128.72	132.42	132.00	135.47	138.54	137.31	-0.89
100 Japanese Yen	107.84	105.81	102.79	97.67	93.96	90.49	86.12	83.37	87.77	87.28	89.39	88.14	87.24	-1.03
Uganda Shilling*	30.29	30.61	31.09	30.89	30.40	30.74	30.64	30.74	30.34	29.79	29.48	29.41	29.74	1.12
Tanzania Shilling*	18.55	18.65	18.55	18.43	18.54	18.90	19.28	19.36	19.13	18.69	18.50	18.48	18.87	2.12
Rwanda Franc*	7.27	7.22	7.19	7.12	7.11	7.39	7.53	7.67	7.56	7.46	7.40	7.50	7.85	4.59
Burundi Franc*	17.30	17.32	17.57	17.39	17.81	18.15	18.70	18.69	18.22	17.83	17.58	17.59	18.13	3.07
Euro	110.35	109.91	112.77	115.47	116.86	111.31	109.65	109.18	112.81	113.74	116.51	116.67	116.33	-0.29
Euro per US dollar	0.77	0.78	0.76	0.75	0.75	0.77	0.77	0.77	0.76	0.76	0.75	0.75	0.73	-2.13

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

The Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 9 deposit taking microfinance institutions, 7 representative offices of foreign banks, 105 foreign exchange bureaus and 2 credit reference bureaus as at October 31, 2013.

Structure of the Balance Sheet

The banking sector balance sheet expanded by 13.2 percent from Ksh 2,316.1 billion in October 2012 to Ksh 2,622.6 billion in October 2013. The key components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 56.9 percent, 22.1 percent and 5.1 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances grew from Ksh 1,340.7 billion in October 2012 to Ksh 1,549.9 billion in October 2013, which translated to a growth of 15.6 percent. The growth was attributed to increase in lending to households, trade, manufacturing and real estate sectors. Loans and advances net of provisions stood at Ksh 1,491.8 billion in October 2013, up from Ksh 1,290.4 billion registered in a similar period in 2012.

Deposit Liabilites

Deposits from customers which form the main source of funding for the banking sector, accounted for 72.7 percent of total funding liabilities. The deposit base increased by 10.3 percent from Ksh 1,728.7 billion in October 2012 to Ksh 1,906.3 billion in October 2013 largely supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

Capital & Reserves

The banking sector recorded improved capital levels in October 2013 with total shareholders' funds growing by 20.9 percent from Ksh 342.3 billion in October 2012 to Ksh 413.7 billion in October 2013. Consequently, the ratios of core and total capital to total risk-weighted assets increased from 17.8 percent and 20.6 percent in October 2012 to 19.4 percent and 22.9 percent, respectively.

Non-performing Loans

The stock of gross non-performing loans (NPLs) increased by 32.2 percent from Ksh 62.5 billion in October 2012 to Ksh 82.7 billion in October 2013 attributed mainly to high interest rates and the reduced economic activities during the period towards and after the March 2013 general elections. Similarly, the ratio of gross NPLs to gross loans increased from 4.7 percent in October 2012 to 5.3 percent in October 2013. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 54.9 percent to 43.2 percent in October 2013 due to a higher growth in NPLs than the increase in provisions.

The quality of assets, measured as a proportion of net non-performing loans to gross loans declined from 1.7 percent in October 2012 to 2.4 percent in October 2013 (Table 5.1)

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

	Oct-12	Oct-13
1 Gross loans and advances	1,340.70	1,549.90
2 Interest in Suspense	13.30	16.20
3 Loans and advances (net of interest suspended)	1,327.40	1,533.80
4 Specific Provisions	62.50	82.70
5 General Provisions	27.00	28.70
6 Total Provisions (5+6)	9.90	13.30
7 Net Advances (3-7)	36.90	42.00
8 Total Non-Performing Loans and advances (4-2)	1,290.50	1,491.80
9 Gross Non-Performing Loans and advances	49.20	66.50
10 Net Non-Performing Loans and advances (9-5)	22.20	37.80
11 Total NPLs as % of total advances (9/3)	3.70%	4.30%
12 Net NPLs as % of gross advances (11/1)	1.70%	2.40%
13 Provisions coverage ratio (2+5)/10	54.90%	43.20%

Source: Central Bank of Kenya

Profitablility

The banking sector recorded an increase of 13.0 percent growth in pre-tax profits, from Ksh 90.0 billion in October 2012 to Ksh 101.8 billion as at end of October 2013. The annualised return on assets declined from 3.7 percent in October 2012 to 3.6 percent in October 2013. Similarly, return on equity declined from 31.6 percent to 29.5 percent over the same period. Total income decreased marginally by 0.2 percent from Ksh 295.6 billion in October 2012 to Ksh 295.1 billion in October 2013, while total expenses declined by 6.0 percent from Ksh 205.6 billion in October 2012 to Ksh 193.3 billion in October 2013 with the decline largely attributed to reduction in interest expenses. Interest on loans and advances, fees and commissions and interest on government securities were the main sources of income accounting for 59.1 percent, 18.2 percent and 15.6 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 30.6 percent, 29.7 percent and 25.1 percent, respectively.

Liquidity Ratio Requirement

For the month ended October 31, 2013, average liquid assets amounted to Ksh 752.5 billion while total short-term liabilities stood at Ksh 1,874.6 billion, resulting to an average liquidity ratio of 40.1 percent, against 41.1 percent registered in October 2012.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for reserve requirements averaged 5.36 percent in October 2013 compared with 5.42 percent in September 2013, and 5.25 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of Ksh 1.99 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in October 2013 compared with Ksh 3.09 billion in September 2013. Commercial banks are required to maintain Cash Reserve Ratio (CRR) on a monthly average of 5.25 percent in the 30 day maintenance cycle from 15th through 14th of every month but subject to a daily minimum of 3.0 percent.

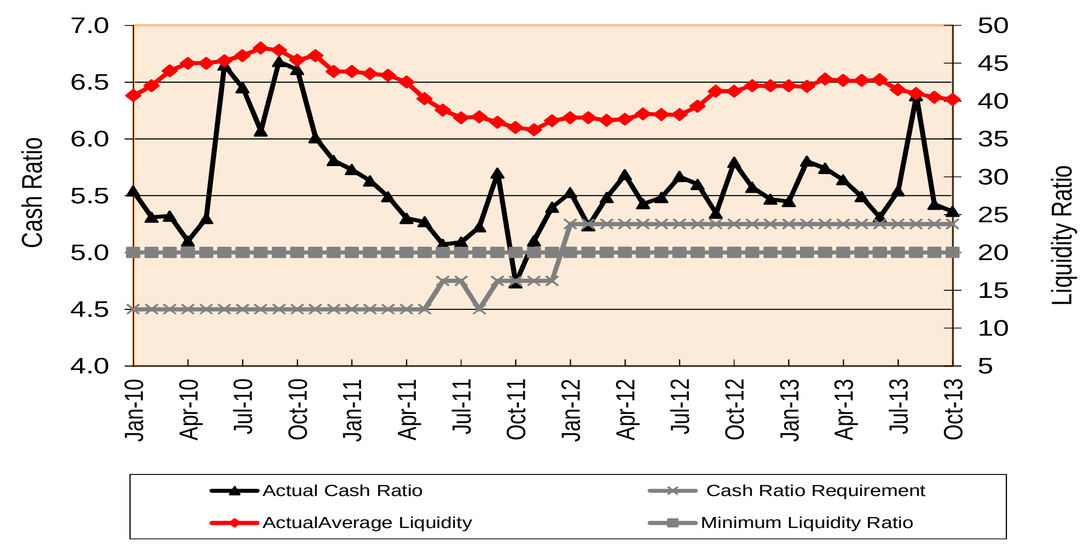
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2012			2013									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Commercial Banks													
Actual Average Liquidity	41.30	42.00	42.00	42.00	41.90	42.90	42.70	42.70	42.80	41.50	41.00	40.50	40.20
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.79	5.57	5.47	5.45	5.80	5.74	5.64	5.49	5.31	5.54	6.38	5.42	5.36
Minimum Cash Ratio Requirement	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
NBFIs													
Actual Average Liquidity Ratio	29.60	34.70	35.60	32.80	31.40	32.90	34.20	34.40	33.10	39.50	36.50	36.80	33.10
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00

* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 185,920 transaction messages worth Ksh 2,301 billion in October 2013 compared with a volume of 165,175 transaction messages valued at Ksh 1,949 billion moved in September 2013, representing an increase of 12.56 percent and 18.05 percent in volume and in value moved respectively. Compared to October 2012, the volume increased by 18.41 percent from 157,020 transaction messages to 185,920 transaction messages in October 2013 while value increased by 21.11 percent from 1,900 billion to 2,301 billion, indicating increased usage of KEPSS by the public.

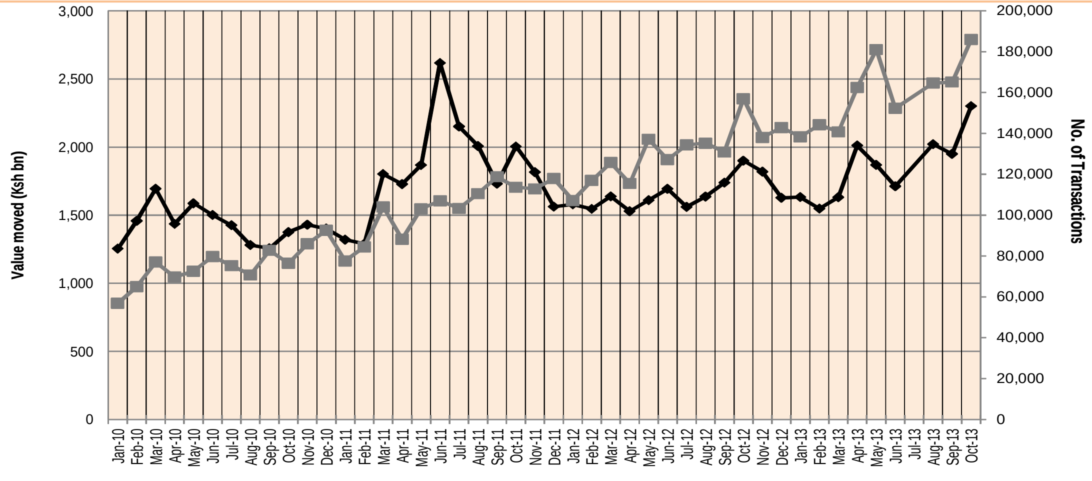
During the twelve months period to October 31, 2013 the value moved averaged Ksh 12 million per transaction. On average, 7,579 transaction messages with an average value of approximately Ksh 89 billion were moved daily (See Table 5.3 and Chart 5B below). Direct settlements through KEPSS from commercial 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-11	1,320	21	77,625	0.02	21	63	3,696
Feb-11	1,289	23	84,448	0.02	20	64	4,222
Mar-11	1,802	26	103,986	0.02	22	82	4,727
Apr-11	1,728	21	88,168	0.02	19	91	4,640
May-11	1,868	26	103,112	0.02	21	89	4,910
May-11	1,868	26	103,112	0.02	21	89	4,910
Jun-11	2,617	24	107,063	0.02	21	125	5,098
Jul-11	2,151	24	103,338	0.02	21	102	4,921
Aug-11	2,007	25	110,498	0.02	22	91	5,023
Sep-11	1,730	27	118,798	0.01	22	79	5,400
Oct-11	2,004	25	113,658	0.02	20	100	5,683
Nov-11	1,816	28	112,923	0.02	22	83	5,133
Dec-11	1,562	30	117,916	0.01	20	78	5,896
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

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 13.44 percent from 10,655 transaction messages in September 2013 to 12,087 transaction messages in October 2013 while single third party Message Type (MT 103) used for single credit transfers increased by 5.42 percent from 178,480 transaction messages to 188,162 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 5.85 percent from 189,135 transaction messages in September 2013 to 200,249 transaction messages in October 2013.

Compared with October 2012, multiple third party messages (MT 102) decreased by 22.6 percent from 15,616 transaction messages to 12,087 transaction messages in October 2013, while single third party messages (MT 103) increased by 17.71 percent from 159,847 transaction messages to 188,162 transaction messages (Table 5.4 and Chart 5C).

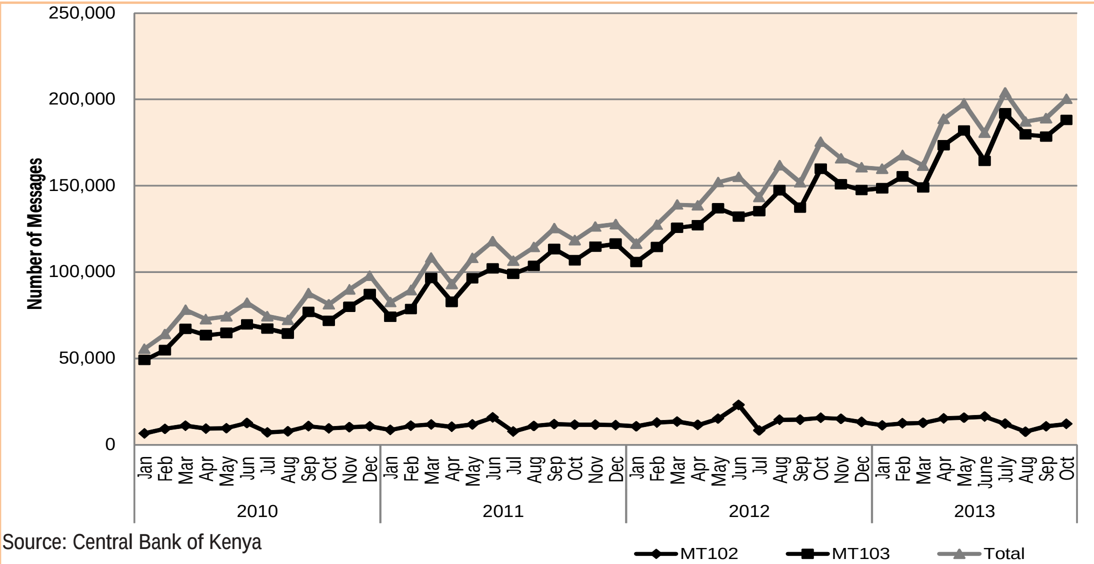
Inter-bank transfers (MT 202) accounted for 35.65 percent of the total value moved through KEPSS as at end of October 2013, while third party (MT 102 and MT 103) messages accounted for 64.35 percent. The total number of third party messages grew by 14.13 percent from 175,463 messages in October 2012 to 200,249 messages in October 2013. This signifies continued growth in KEPSS usage by individuals and non-bank corporate bodies.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2011	Jan	8,580	74,004	82,584
	Feb	10,955	78,589	89,544
	Mar	11,778	96,550	108,328
	Apr	10,392	82,691	93,083
	May	11,739	96,324	108,063
	Jun	15,794	102,098	117,892
	Jul	7,584	98,977	106,561
	Aug	10,929	103,561	114,490
	Sep	12,028	113,333	125,415
	Oct	11,653	106,768	118,421
	Nov	11,602	114,741	126,343
	Dec	11,424	116,384	127,808
2012	Jan	10,661	105,817	116,478
	Feb	12,871	114,522	127,393
	Mar	13,428	125,628	139,056
	Apr	11,439	127,126	138,565
	May	15,093	136,942	152,035
	Jun	23,048	132,103	155,151
	Jul	8,268	135,173	143,441
	Aug	14,459	147,373	161,832
	Sep	14,527	137,268	151,795
	Oct	15,616	159,847	175,463
	Nov	15,008	150,800	165,808
	Dec	13,123	147,510	160,633
2013	Jan	11,267	148,497	159,764
	Feb	12,405	155,349	167,754
	Mar	12,681	148,954	161,635
	Apr	15,247	173,453	188,700
	May	15,690	181,934	197,624
	Jun	16,254	164,422	180,676
	Jul	12,189	191,864	204,053
	Aug	7,530	179,629	187,159
	Sep	10,655	178,480	189,135
	Oct	12,087	188,162	200,249

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

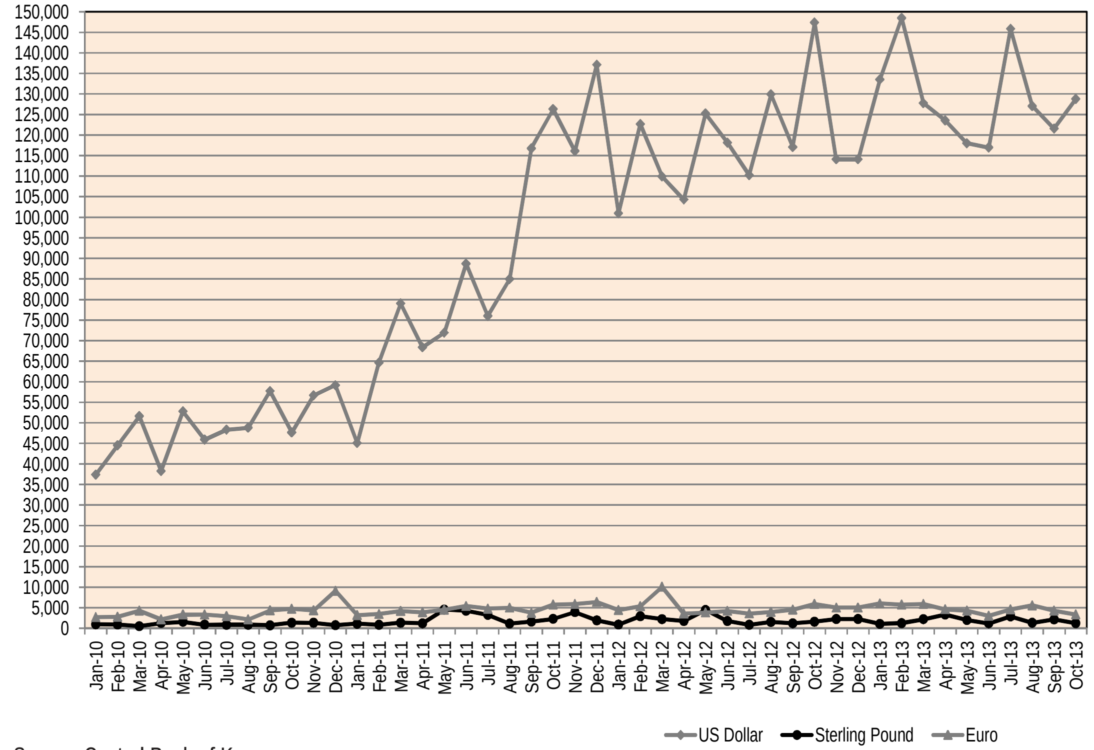


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 14.0 percent from 14,033 transaction messages in September 2013 to 15,997 transaction messages in October 2013. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period increased by 4.23 percent from Ksh 128.0 billion to Ksh 133.4 billion. The US dollar denominated transactions accounted for 96.54 percent of the value moved (See Chart 5D), while the Sterling Pound and the Euro accounted for 0.94 percent and 2.52 percent, respectively.

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



Source: Central Bank of Kenya

Government Budget Performance

The Central Government budgetary operations for the period July 2013 – October 2013 resulted in a deficit of Ksh 70.9 billion on commitment basis compared with a deficit of Ksh 75.4 billion in the same period of 2012 (Table 6.1). The deficit-to-GDP ratio stood at 1.83 percent both on commitment and cash basis during this period. The budget deficit for the period was below the programmed target of 2.6 percent of GDP.

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

	FY 2012/13	FY 2013/14		
	October Actual	October Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	**233.0**	**286.3**	**328.2**	**-42.0**
Revenue	230.1	281.6	308.0	-26.4
Tax Revenue	211.0	270.2	279.3	-9.0
Non Tax Revenue	5.2	1.6	8.3	-6.8
Appropriations-in-Aid	13.8	9.8	20.4	-10.6
External Grants	3.0	4.6	20.2	-15.6
2. TOTAL EXPENSES & NET LENDING	**308.5**	**357.2**	**424.4**	**-67.2**
Recurrent Expenses	227.8	263.9	238.6	25.3
Development Expenses	80.7	60.4	128.7	-68.3
County Transfers	0.0	32.9	57.1	-24.2
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-75.4	-70.9	**-96.2**	**-25.2**
As percent of GDP	**-2.29**	**-1.94**	**-2.63**	
4. ADJUSTMENT TO CASH BASIS	**0.0**	**0.0**	0.0	**0.0**
5. DEFICIT ON A CASH BASIS	-75.4	-70.9	**-96.2**	**-25.2**
As percent of GDP	**-2.29**	**-1.94**	**-2.6**	
6. DISCREPANCY: Expenditure (+) / Revenue	**7.8**	**-24.6**	**31.8**	
7. FINANCING	**83.3**	**46.4**	**127.9**	**-81.5**
Domestic (Net)	79.1	41.3	84.3	-43.0
External (Net)	4.2	5.1	43.6	-38.5
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: National Treasury

Revenue

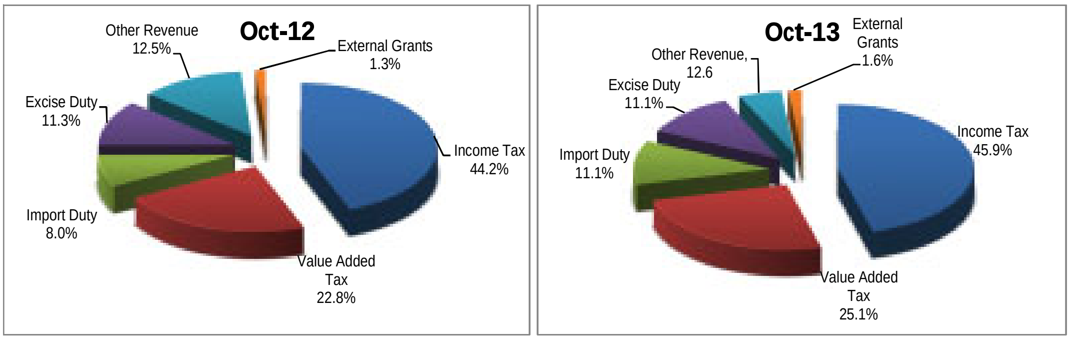
Total government revenues and grants amounted to Ksh 286.2 billion in the period July – October 2013, representing an increase of Ksh 53.2 billion from Ksh 233.0 billion collected in a similar period in 2012 (Table 6.2). However, total government revenue and external grants underperformed by Ksh 26.4 billion and Ksh 15.6 billion respectively, with respect to the targeted amounts of Ksh 308.0 billion and Ksh 20.2 billion during the period (Table 6.1).

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Oct-12 Ksh bn	Oct-13 Ksh bn	Change
1. Revenue (2+3+4)	**230.1**	**281.6**	**51.5**
2. Tax Revenue	211.0	270.2	59.2
Income Tax	103.1	131.5	28.4
Value Added Tax	53.1	72.0	18.9
Import Duty	18.5	31.8	13.2
Excise Duty	26.3	31.9	5.6
Others	10.1	3.2	-6.9
3. Appropriations-in-Aid	13.80	9.83	-3.97
4. Other Revenue	5.2	1.5	-3.7
5. External Grants	**3.0**	**4.6**	**1.7**
TOTAL RECEIPTS (1+5)	**233.0**	**286.2**	**53.2**

Source: National Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: National Treasury

Tax revenue grew by Ksh 59.2 billion, equivalent to 28.1 percent, from Ksh 211.0 billion in the first four months of 2012 to Ksh 270.2 billion in a similar period of 2013 (Table 6.2). The increase was largely on account of income tax, which grew by Ksh 28.4 billion (27.5 percent) during the period. Excise, import duty and value added tax increased by Ksh 5.6 billion, Ksh 13.2 billion and Ksh 18.9 billion respectively, while other tax revenue declined by Ksh 6.9 billion (68.3 percent) during the period under review. All taxes underperformed with respect to their programmed targets, except VAT, which is a sign that the level of economic activity during this period may have been below expectation. The VAT partly performed well on account of implementation of the VAT law on September 1, 2013.

Expenditure and Net Lending

Government expenditure and net lending increased by Ksh 48.7 billion in the period July – October 2013 from Ksh 308.5 billion expended during the same period of 2012. Total expenditure for the first four months of 2013 amounted to Ksh 357.2 billion, comprising Ksh 263.9 billion, Ksh 60.4 and Ksh 32.9 billion in recurrent expenditure, development expenditure and County transfers, respectively.

The main recurrent expenditure items included salaries and wages and other recurrent expenditures, which increased by Ksh 3.9 billion and Ksh 34.5 billion, to Ksh 90.4 billion and Ksh. 136.0 billion, respectively. Expenditure on domestic debt interest payments declined by Ksh 2.0 billion to Ksh. 34.1 billion in the period July – October 2013. Expenditure and net lending targets were missed by Ksh 67.2 billion of which Ksh 68.3 billion and Ksh 24.2 billion was on account of development expenditure and County transfers, respectively (Table 6.1), while fully offset Ksh 25.3 billion ecess of recurrent expenditure.

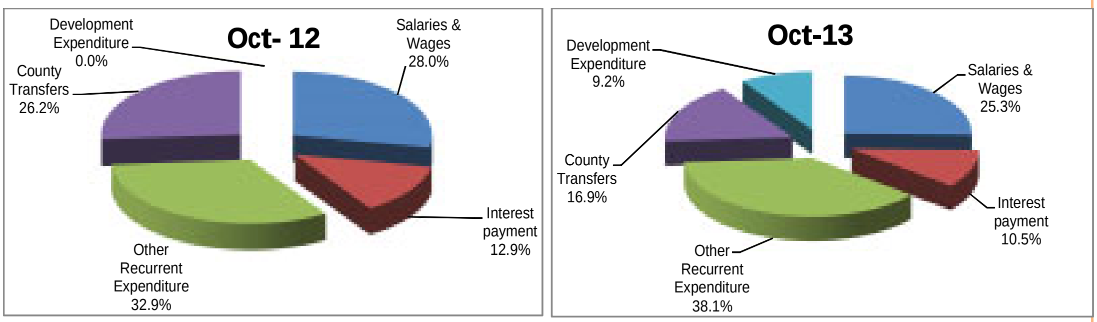
TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)

	Oct-12 Ksh bn	Oct-13 Ksh bn	Movement
1.Recurrent	**227.8**	**263.9**	**36.2**
Salaries & Wages	86.5	90.4	**3.9**
Total Interest	39.8	37.6	**-2.2**
of which			
Domestic*	36.1	34.1	-2.0
Foreign interest due	3.7	3.5	-0.2
Others	101.5	136.0	34.5
2. Development	**80.7**	**60.4**	**-20.3**
3. County Transfers	**0.0**	**32.9**	**32.9**
TOTAL EXPENSES	**308.5**	**357.2**	**48.7**

*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 103.6 billion in the July – October 2013 period compared with Ksh 77.2 billion in the same period in 2012. The Government sourced the funds through domestic borrowing amounting to Ksh 98.5 billion and net external debt borrowing of Ksh 5.1 billion. The funds were allocated to bridge the Government budgetary deficit of Ksh 46.4 billion and build up government deposits by Ksh 57.2 billion (Table 6.4).

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

I. FINANCING REQUIREMENTS	**Oct-12**	**Oct-13**
1. Budget deficit	83.3	46.4
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	57.2
5. Adjustment to cash basis	-6.1	0.0
TOTAL	**77.2**	**103.6**
II. FINANCING SOURCES	**Oct-12**	**Oct-13**
1. Budget surplus	0.0	0.0
2. External debt increase	4.2	5.1
3. Increase in domestic debt	70.5	98.5
3.1 Central Bank	9.8	21.0
3.2 Commercial banks	40.6	6.4
3.3 Non-bank sources	20.1	71.0
4. Reduction in GoK deposits at CBK	2.5	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	**77.2**	**103.6**

Sources: National Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank amounted to Ksh 57.4 billion in the July – October 2013 period, which was Ksh 0.2 billion higher than the Ksh 57.2 billion in a similar period of the previous year. The increase in Government's liability to the Central Bank was attributed to a raise in the Government overdraft at the Bank by Ksh 2.6 billion from Ksh 25.4 billion at the end of October 2012, while fully offset Ksh 2.4 bilion repayments of outstanding secured lending in the (regular amortization of the pre-1997 overdraft at the Central Bank and maturities of rediscounted securities). On account of maturities, holdings of rediscounted securities declined by Ksh 1.3 billion to Ksh0.4 billion. Rediscounted Treasury bills and bonds amounted to Ksh 0.9 billion and Ksh 0.4 billion, respectively, at the end of October 2013. Amortization of the pre-1997 overdraft reduced Government indebtedness at the Bank by Ksh 1.1 billion while it was maintained within the statutory limit of Ksh 34.2 billion.

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

	2012	2013	Movement
	October	October	
Total Credit	**57.2**	**57.4**	**0.2**
1. Overdraft	25.4	28.0	2.6
2. Rediscounted securities	1.7	0.4	-1.3
Treasury bills	1.0	0.1	-0.9
Treasury bonds	0.8	0.3	-0.4
3. Pre-1997 Government Overdraft at CBK	30.0	28.9	-1.1
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.1	0.1	0.0
Memorandum			
Authorised overdraft limit	**25.4**	**34.2**	8.8
Amount utilised to date	25.4	28.0	2.6
Amount available	0.0	6.2	6.2

Source: Central Bank of Kenya

Outlook for FY 2013/14

In the budget estimates for the FY 2013/14, total domestic revenue is estimated at Ksh 955.0 billion, equivalent to 24.7 percent of GDP. External grants are estimated at Ksh 56.2 billion or 1.5 percent of GDP and Government expenditure at Ksh 1,263.3 billion (or 32.7 percent of GDP), of which Ksh 802.7 billion (20.8 percent of GDP) will be in recurrent expenses 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	**1011.20**	**26.15**
Revenue	955.03	**24.70**
Tax Revenue	816.47	**21.12**
Non Tax Revenue	53.71	**1.39**
Appropriations-in-Aid	84.84	**2.19**
External Grants	56.18	**1.45**
2. TOTAL EXPENSES & NET LENDING	**1,263.32**	**32.67**
Recurrent Expenses	802.65	**20.76**
Development Expenses	455.68	**11.78**
Civil Contigency Fund	5.00	**0.13**
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-252.12**	**-6.52**
4. ADJUSTMENT TO CASH BASIS	**1.32**	**0.03**
5. DEFICIT ON A CASH BASIS	**-250.80**	**-6.49**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.00**	**0.00**
7. FINANCING	**-250.80**	**-6.49**
Domestic (Net)	106.74	**2.76**
External (Net)	144.06	**3.73**

Source: Central Bank of Kenya

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 252.1 billion (or 6.5 percent of GDP) in FY 2013/14. The deficit is expected to be financed through net external borrowing of Ksh 144.1 billion and net domestic borrowing of Ksh 106.7 billion.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt

Kenya's public and publicly guaranteed debt increased by 8.9 percent to reach Ksh 2,062.8 billion at the end of October, 2013 from Ksh 1,894.1 billion in June, 2013. The total debt stock at the end of October, 2013 was equivalent to 53.2 percent of GDP, compared with 51.7 percent of GDP in June, 2013. Domestic debt to GDP ratio increased from 28.7 percent in June 2013 to 30.3 percent in October 2013, while external debt to GDP ratio declined to 22.9 percent in October, 2013 from 23.0 percent in June 2013(Table 7.1).

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

	Jun-12	Dec-12	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Change 2013/14
EXTERNAL									
Bilateral	246.2	265.4	254.8	257.6	270.6	272.0	270.0	273.9	16.3
Multilateral	452.9	482.7	504.2	511.8	529.1	539.8	544.1	539.9	28.1
Commercial Banks	50.5	58.4	58.3	58.9	59.9	60.1	59.6	58.7	-0.2
Supplier Credits	14.8	15.5	15.0	15.2	15.6	15.6	15.6	15.5	0.3
Sub-Total	**764.5**	**822.0**	**832.24**	**843.56**	**875.23**	**887.54**	**889.31**	**887.99**	**44.4**
(As a % of GDP)	23.56	22.7	22.7	23.0	23.6	23.5	22.9	22.9	
(As a % of total debt)	47.1	45.8	43.6	44.5	44.8	44.3	43.2	43.0	
DOMESTIC									
Banks	**459.2**	**542.9**	**595.9**	**563.5**	**573.7**	**593.7**	**618.3**	**612.8**	**49.33**
Central Bank	47.4	56.8	64.0	36.4	47.7	64.7	63.6	57.4	**21.02**
Commercial Banks	411.9	486.1	531.8	527.1	526.0	528.9	554.7	555.4	**28.31**
Non-banks	**388.5**	**418.5**	**469.0**	**477.5**	**496.1**	**513.8**	**540.2**	**551.6**	**74.11**
Pension Funds	193.2	195.7	256.6	263.1	272.4	281.7	289.5	284.9	**21.86**
Insurance Companies	92.4	98.9	109.3	108.6	111.9	115.9	117.2	117.8	**9.14**
Other Non-bank Sources	103.0	123.9	103.1	105.9	111.8	116.1	133.5	149.0	**43.10**
Non-residents	**11.0**	**10.1**	**10.0**	**9.6**	**8.9**	**9.2**	**9.7**	**10.3**	**0.77**
Sub-Total	**858.8**	**971.4**	**1074.8**	**1050.6**	**1078.6**	**1116.7**	**1168.2**	**1174.8**	**124.21**
(As a % of GDP)	26.47	26.9	29.3	28.7	29.1	29.5	30.1	30.3	
(As a % of total debt)	52.9	54.2	56.4	55.5	55.2	55.7	56.8	57.0	
GRAND TOTAL	**1623.4**	**1793.4**	**1907.0**	**1894.1**	**1953.8**	**2004.2**	**2057.5**	**2062.8**	**168.64**
(As a % of GDP)	50.0	49.6	52.1	51.7	52.7	53.0	53.1	53.2	

Sources: National Treasury and Central Bank of Kenya

Domestic Debt

Totall domestic debt increased by Ksh 124.2 billion (or 11.8 percent) in the first four month of fiscal year 2013/14 to reach Ksh 1,174.8 billion in October 2013, from Ksh 1,050.6 billion at the end of June 2013. This followed increases of Ksh 57.7 billion in Treasury bonds, Ksh 44.4 billion in Treasury bills, Ksh 21.0 billion in Government overdraft at the Central Bank and Ksh22.2 billion in Other domestic debt during the period (Table 7.2). Consequently, domestic debt-to-total debt ratio increased from 55.5 percent in June, 2013 to 57.0 percent in October, 2013, while domestic debt-to-GDP edged up to 30.3 percent in October, 2013, from 28.7 percent in June, 2013 (Table 7.1).

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2012		2013										Change
	Jun	%	June	%	July	%	August	%	Sept	%	Oct	%	Jun-13 -Oct-13
Total Stock of Domestic Debt (A+B)	**858.8**	**100.0**	**1050.56**	**100.0**	**1078.60**	**100.0**	**1116.68**	**100.0**	**1168.2**	**100.0**	**1174.8**	**100.0**	**124.21**
A. Government Securities	**849.0**	**98.9**	**1040.8**	**99.1**	**1060.4**	**98.3**	**1081.3**	**96.8**	**1131.4**	**96.8**	**1142.8**	**97.3**	**102.00**
1. Treasury Bills (excluding Repo Bills)	**132.05**	**15.4**	**267.69**	**25.5**	**254.79**	**23.6**	**278.01**	**24.9**	**307.6**	**26.3**	**312.0**	**26.6**	**44.35**
Banking institutions	75.50	8.8	183.45	17.5	179.07	16.6	184.73	16.5	199.3	17.1	197.4	16.8	**13.94**
Others	56.55	6.6	84.24	8.0	75.72	7.0	93.28	8.4	108.3	9.3	114.6	9.8	**30.41**
2. Treasury Bonds	**686.95**	**80.0**	**744.17**	**70.8**	**776.69**	**72.0**	**774.40**	**69.3**	**794.8**	**68.0**	**801.8**	**68.3**	**57.65**
Banking institutions	334.11	38.9	341.05	32.5	344.26	31.9	341.68	30.6	352.9	30.2	354.1	30.1	**13.10**
Pension Funds	164.53	19.2	220.14	21.0	229.81	21.3	232.27	20.8	232.0	19.9	229.6	19.5	**9.49**
Others	188.31	21.9	182.99	17.4	202.62	18.8	200.45	18.0	209.9	18.0	218.1	18.6	**35.06**
4. Non-Interest Bearing Debt	**30.00**	**3.5**	**28.89**	**2.7**	**28.89**	**2.7**	**28.89**	**2.6**	**28.9**	**2.5**	**28.9**	**2.5**	**0.00**
Of which: Repo T/Bills	29.78	3.5	28.90	2.8	28.83	2.7	28.83	2.6	28.8	2.5	28.8	2.5	**-0.07**
B. Others:	**9.83**	**1.1**	**9.80**	**0.9**	**18.23**	**1.7**	**35.37**	**3.2**	**36.9**	**3.2**	**32.0**	**2.7**	**22.21**
Of which CBK overdraft to Government	7.26	0.8	7.00	0.7	20.48	1.9	32.72	2.9	34.2	2.9	28.0	2.4	**20.98**

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding repos, increased by Ksh 44.4 billion to reach Ksh 312.0 billion in October 2013 (Table 7.2). As a result the proportion of Treasury bills in total domestic debt increased to 26.6 percent in October, 2013, from 25.5 percent in June, 2013. Commercial banks held Ksh 197.4 billion, (equivalent to 63.3 percent) of total Treasury bills. But the share of banks in total outstanding Treasury bills declined from 68.5 percent in June, 2013 to 63.3 percent in October and the proportion held by parastatals declined from 2.1 percent to 1.5 percent, over the same period. Meanwhile holdings by insurance companies, pension funds and 'other' holders, which comprise Saccos, listed and private companies, self-help groups, educational institutions, religious institutions and individuals increased to 6.6 percent, 19.0 percent and 8.8 percent, respectively, during the same period (Table 7.3).

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

	2012													
Holders	Jun	%	Dec	%	Jun	%	Jul	%	Aug	%	Sept	%	Oct	%
Banking Institutions	75.5	57.2	139.2	70.9	183.5	68.5	179.1	70.3	184.7	66.4	199.3	64.8	197.4	63.3
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	75.5	57.2	139.2	70.9	183.5	68.5	179.1	70.3	184.7	66.4	199.3	64.8	197.4	63.3
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
Insurance Companies	7.2	5.5	11.9	6.1	14.9	5.6	15.5	6.1	18.7	6.7	19.2	6.2	20.4	6.6
Parastatals	1.2	0.9	2.8	1.4	5.6	2.1	5.6	2.2	5.9	2.1	4.7	1.5	4.6	1.5
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	28.7	21.7	24.2	12.3	42.9	16.0	42.6	16.7	49.4	17.8	57.4	18.7	62.0	19.9
Others	19.5	14.7	18.2	9.3	20.8	7.8	12.1	4.8	19.3	6.9	27.0	8.8	27.6	8.8
Total	**132.0**	**100.0**	**196.3**	**100.0**	**267.7**	**100.0**	**254.8**	**100.0**	**278.0**	**100.0**	**307.6**	**100.0**	**312.0**	**100.0**

Source: Central Bank of Kenya

Treasury Bonds

Outstanding Treasury bonds increased by Ksh 57.7 billion, from Ksh 744.2 billion in June 2013 to Ksh 801.8 billion at the end of October 2013. In terms of investing institutions, the accumulation was allocated as follows: Ksh 13.1 billion, Ksh 9.5 billion, Ksh 3.6 billion and Ksh 34.0 billion absorbed by commercial banks, pension funds, insurance companies and other holders, respectively. Parastatal and building society holdings declined by Ksh 2.4 billion and Ksh 0.1 billion, respectively, while those held by non-bank financial institutions remained unchanged during the period. The proportion of bonds in total domestic debt declined from 70.8 percent in June 2013 to 68.3 percent in October 2013 following increased acquisition of Treasury bills and use of the overdraft facility by the Government (Table 7.2).

Treasury bond holdings by commercial banks, insurance companies, parastatals and pension funds declined from 45.8 percent, 12.6 percent, 5.7 percent and 29.6 percent in June, 2013 to 44.2 percent, 12.1 percent, 5.0 percent and 28.6 percent, respectively in October, 2013. Those by other holders increased to 10.0 percent from 6.2 percent, while those by building societies and non-bank financial institutions remained unchanged during the period (Table 7.4).

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

	2012				2013									
Holders	Jun	%	Dec	%	June	%	Jul	%	Aug	%	Sep	%	Oct	%
Banking Institutions	335.6	48.9	344.1	48.1	341.2	45.9	344.4	44.3	341.9	44.1	353.1	44.4	354.3	44.2
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	334.1	48.6	343.5	48.0	341.0	45.8	344.3	44.3	341.7	44.1	352.9	44.4	354.1	44.2
NBFIs	1.5	0.2	0.6	0.1	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0
Insurance Companies	85.1	12.4	87.0	12.2	93.7	12.6	96.4	12.4	97.2	12.6	98.0	12.3	97.3	12.1
Parastatals	46.1	6.7	44.4	6.2	42.7	5.7	42.7	5.5	41.0	5.3	41.0	5.2	40.3	5.0
Of which: NSSF	24.5	3.6	23.8	3.3	22.7	3.1	22.7	2.9	22.3	2.9	22.3	2.8	21.6	2.7
Building Societies	0.6	0.1	0.6	0.1	0.6	0.1	0.6	0.1	0.5	0.1	0.5	0.1	0.5	0.1
Pension Funds	164.5	24.0	171.5	23.9	220.1	29.6	229.8	29.6	232.3	30.0	232.0	29.2	229.6	28.6
Others	54.9	8.0	68.4	9.6	45.8	6.2	62.8	8.1	61.6	8.0	70.3	8.8	79.8	10.0
Total	**687.0**	**100.0**	**716.1**	**100.0**	**744.2**	**100.0**	**776.7**	**100.0**	**774.4**	**100.0**	**794.8**	**100.0**	**801.8**	**100.0**

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Total domestic debt at the end of October 2013 amounted to Ksh 1,174.8 billion, and comprised Ksh 801.8 billion, Ksh 312.0 billion, Ksh 27.9 billion, Ksh 28.8 billion and Ksh 4.5 billion in Treasury bonds, Treasury bills, Government overdraft at the Central Bank, Repo Treasury bills and other domestic debt, respectively. In terms of maturity structure, Government securities worth Ksh 110.18 billion (Table 7.2) will fall due between November 2013 and January 2014, and will comprise Ksh 84.4 billion and Ksh 25.7 billion in Treasury bills and Treasury bonds, respectively. Treasury bill maturities in the period will comprise Ksh 42.3 billion, Ksh 24.7 billion and Ksh 17.4 billion in 91-day, 182-day and 364-day Treasury bills, respectively, while Treasury bonds maturing during this period will comprise Ksh 23.43 billion, and Ksh 2.32 billion in 2–year and 7–year fixed rate Treasury bonds.

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

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2012		2013										Change Jun-13 to Aug-13
		Jun	%	June	%	July	%	August	%	Sept	%	Oct	%	
Treasury bills	91-Day	24.3	2.8	36.2	3.4	28.8	2.7	30.2	2.7	40.3	3.4	42.3	3.6	6.1
	182-Day	75.7	8.8	52.2	5.0	49.7	4.6	54.5	4.9	58.4	5.0	55.2	4.7	3.0
	364-Day	32.1	3.7	179.3	17.1	176.3	16.3	193.3	17.3	208.9	17.8	214.5	18.3	35.2
Treasury Bonds	1-Year	51.5	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	86.5	10.1	122.0	11.6	122.0	11.3	139.9	12.5	139.0	11.8	139.0	11.8	17.0
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	0.0	0.0	19.1	1.8	19.1	1.8	19.1	1.7	25.1	2.1	25.1	2.1	6.0
	5-Year	115.3	13.4	138.4	13.2	151.2	14.0	136.4	12.2	136.4	11.6	127.0	10.8	-11.3
	6-Year	57.4	6.7	40.7	3.9	40.7	3.8	40.7	3.6	40.7	3.5	40.7	3.5	0.0
	7-Year	22.5	2.6	19.3	1.8	19.3	1.8	19.3	1.7	19.3	1.6	19.3	1.6	0.0
	8-Year	17.6	2.0	31.8	3.0	31.8	2.9	31.8	2.8	38.7	3.3	38.7	3.3	6.9
	9-Year	25.4	3.0	18.2	1.7	18.2	1.7	18.2	1.6	18.2	1.5	18.2	1.5	0.0
	10-Year	95.7	11.1	109.4	10.4	121.5	11.3	116.1	10.4	116.1	9.9	116.1	9.9	6.7
	11-Year	4.0	0.5	4.0	0.4	4.0	0.4	4.0	0.4	4.0	0.3	4.0	0.3	0.0
	12-Year	63.5	7.4	30.2	2.9	30.2	2.8	30.2	2.7	38.7	3.3	54.7	4.7	24.5
	15-Year	75.4	8.8	119.8	11.4	127.3	11.8	127.3	11.4	127.3	10.8	127.3	10.8	7.5
	20-Year	29.7	3.5	49.0	4.7	49.0	4.5	49.0	4.4	49.0	4.2	49.0	4.2	0.0
	25-Year	20.2	2.4	20.2	1.9	20.2	1.9	20.2	1.8	20.2	1.7	20.2	1.7	0.0
	30-Year	22.1	2.6	22.1	2.1	22.1	2.1	22.1	2.0	22.1	1.9	22.1	1.9	0.0
Repo T bills		29.2	3.4	28.9	2.8	28.8	2.7	28.83	2.6	28.83	2.5	28.83	2.5	-0.1
Overdraft		7.3	0.8	7.0	0.7	15.5	1.4	32.72	2.9	34.19	2.9	27.98	2.4	21.0
Other Domestic debt		3.3	0.4	2.79	0.3	2.81	0.3	2.72	0.2	2.75	0.2	4.46	0.4	1.7
Total Debt		858.83	100.0	1050.56	100.0	1078.60	100.0	1116.68	100.0	1168.23	99.4	1174.76	100.0	

Source: Central Bank of Kenya

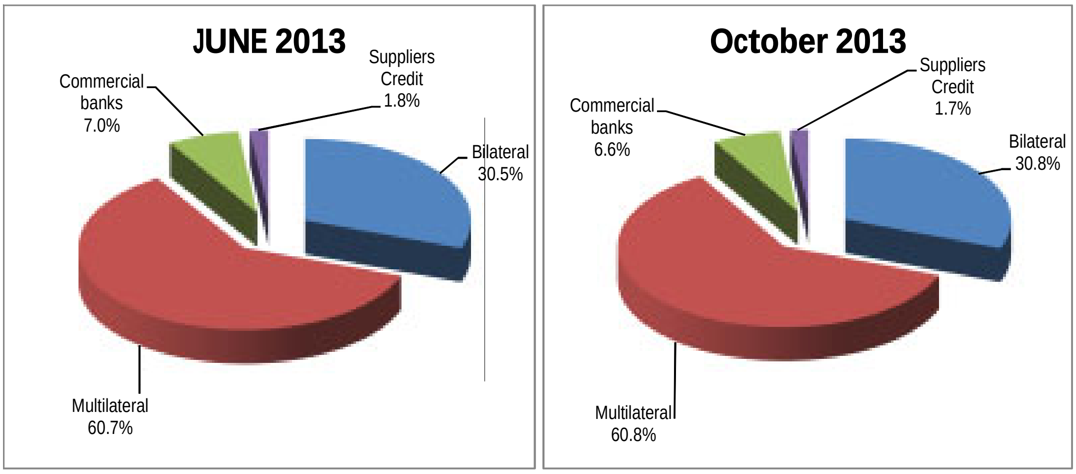
External Debt

Kenya's public and publicly guaranteed external debt increased by Ksh 44.4 billion to Ksh 888.0 billion (USD 10.4 billion), at the end of the first four months of fiscal year 2013/14, from Ksh 843.6 billion (USD 9.8 billion) in June, 2013. Total external debt to the Government amounted to Ksh 842.7 billion (USD 9.9 billion), while the rest was external debt to Parastatals, guaranteed by the Government. Public and publicly guaranteed debt from bilateral sources, multilateral sources and Suppliers' credits increased by Ksh 16.3 billion, Ksh 28.1 billion and Ksh 0.3 billion respectively, while that from commercial banks declined by Ksh 0.2 billion during the period. African Development Bank (ADB) and International Development Association (IDA) collectively accounted for Ksh 27.8 billion of the multilateral debt increase while France, China and Japan accounted for Ksh 5.9 billion, Ksh 9.2 billion and Ksh 1.7 billion, respectively, of the bilateral debt increase. These increases were largely due to additional disbursements and exchange rate revaluations during the period.

Composition of External Debt by Creditor

Kenya's official creditors, the multilateral and bilateral lenders, accounted for 92.0 percent of total public and publicly guaranteed external debt in October 2013. But the proportion of debt owed to multilateral lenders and commercial banks declined to 59.0 percent and 6 percent, respectively, in October, 2013 from 60.7 percent and 7.0 percent in June, 2013. Bilateral debt and supplier's credit increased to 31.0 percent and 2.0 percent, respectively, of total public debt in October, 2013 following additional disbursements during the period (Chart 7A).

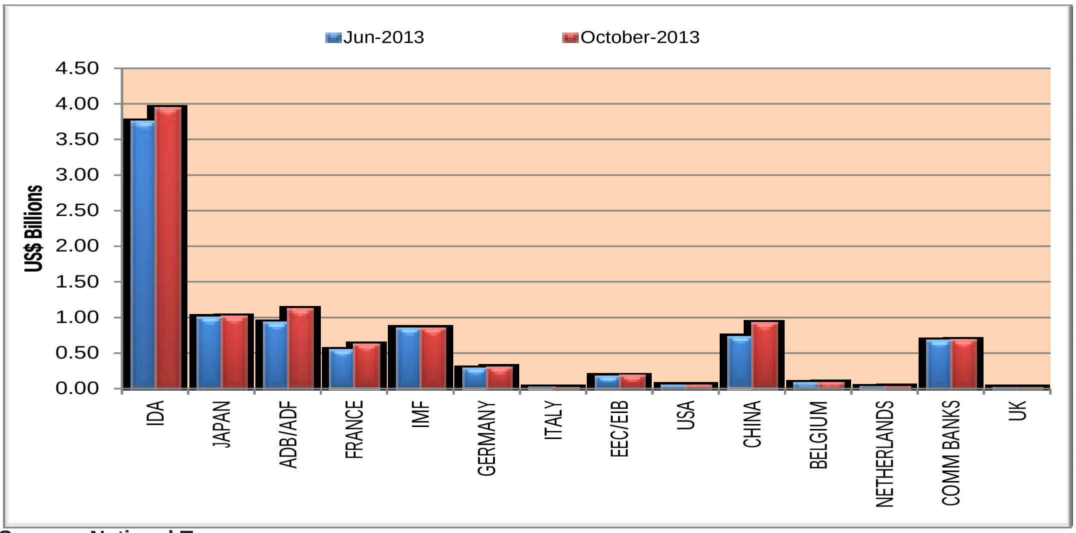
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: National Treasury

Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 3.95 billion or 37.9 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender, amounted to USD 1.0 billion at the end of October 2013 (Chart 7B).

CHART 7B: EXTERNAL DEBT BY CREDITOR

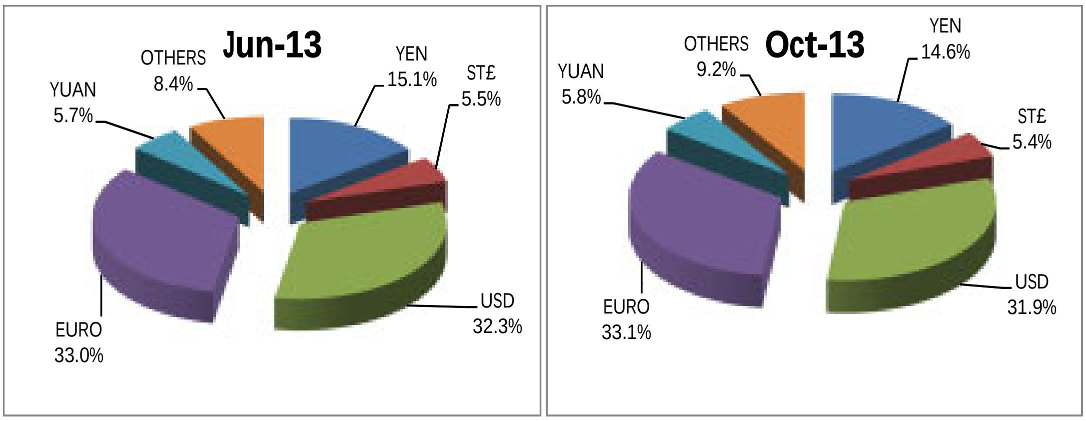


Source: National Treasury

Currency Composition of External Debt

The Euro and US dollar denominated currencies constituted 65.0 percent of total public and publicly guaranteed external debt in October, 2013. Debt held in all the major currencies declined during the period, as a result of debt service and exchange rate revaluations. Holdings in the Japanese Yen, the sterling Pound, the US Dollar, and the Chinese Yuan declined from 15.1 percent, 5.5 percent, 32.3 percent, 33.0 percent and 5.7 percent, respectively in June, 2013 to 14.6 percent, 5.4 percent, 31.9 percent, and 5.8 percent in October, 2013. Debt held in the Euro and 'other currencies', which includes currencies from non-Paris club countries such as Korea, Kuwait and Saudi Arabia, increased to account for 33.1 percent and 9.2 percent of total debt.

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: National Treasury

Public Debt Service

Cumulative interest and other charges on domestic debt for October 2013 in the fiscal year 2013/14 amounted to Ksh 34.1 billion compared with Ksh 36.1 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 5.6 billion and Ksh 27.5 billion, respectively, while Ksh 0.4 billion was on interest charges on Government overdraft at the Central Bank. External debt service for July 2013 - October 2013 amounted to Ksh 13.6 billion, comprising Ksh 9.2 billion in principal repayments and Ksh 4.4 billion in interest payments.

Performance for the FY 2013/14

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

ACTIVITY IN THE STOCK MARKET

The market maintained strong performance in October 2013, with all leading equity indicators gaining. Foreign Purchases to total Equity turnover however declined slightly on account of higher turnover. The bond market segment was also strong in the month.

Equity Market

The NSE 20 Share Index rose by 95.45 points to close at 4,992.88 points in October 2013 from 4,793.20 points in September 2013 (Table 8.1). NASI rose to 133.24 points from 127.35 points in the period under review. Market Capitalization, which measures total shareholders' wealth at NSE, was Ksh 1,873.66 billion up from Ksh 1,790.85 billion. The improvement reflected increases in volume of shares traded and average share prices.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

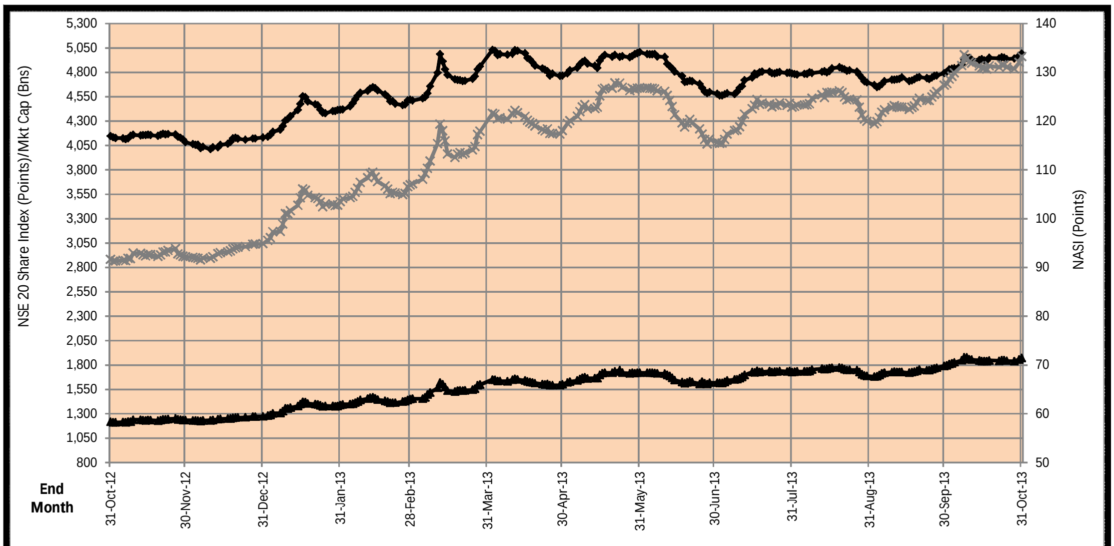
Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)	FP to Equity Turnover	FS to Equity Turnover	Overall net FP to Equity Turnover
Oct-11	3,507.34	72.71	570.14	4,466.00	927.00	34,737.60	72.59%	56.49%	64.54%
Nov-11	3,155.46	66.33	398.90	3,928.00	854.68	26,691.60	71.79%	71.00%	71.40%
Dec-11	3,205.02	68.03	336.50	3,973.00	868.24	24,999.05	68.19%	44.65%	56.42%
Jan-12	3,224.00	69.00	351.00	3,544.00	880.00	24,513.50	31.55%	54.46%	43.00%
Feb-12	3,303.75	72.07	342.00	3,493.00	920.00	27,121.66	57.23%	34.47%	45.85%
Mar-12	3,366.89	73.47	366.00	6,386.00	940.00	47,811.97	60.44%	18.93%	39.69%
Apr-12	3,546.66	76.91	526.15	7,640.23	985.00	35,503.62	64.29%	41.11%	52.70%
May-12	3,650.85	78.48	543.29	8,815.35	1,005.19	47,343.28	58.32%	45.85%	52.09%
Jun-12	3,703.94	80.75	385.51	6,214.24	1,048.72	28,259.68	62.44%	36.06%	49.25%
Jul-12	3,832.42	83.26	383.61	6,037.89	1,098.90	34,170.82	51.90%	38.19%	45.05%
Aug-12	3,865.76	84.66	338.92	5,680.73	1,117.39	86,918.78	58.56%	40.12%	49.34%
Sep-12	3,972.03	87.38	470.26	9,781.50	1,155.99	95,866.77	68.67%	35.08%	51.88%
Oct-12	4,147.28	91.67	458.43	11,082.25	1,217.09	72,596.46	68.61%	41.85%	55.23%
Nov-12	4,083.52	92.20	836.90	10,537.05	1,234.47	38,895.86	67.02%	25.88%	46.45%
Dec-12	4,133.02	94.86	461.89	7,582.42	1,272.00	26,672.11	73.58%	45.50%	59.54%
Jan-13	4,416.60	103.50	518.71	8,464.46	1,387.81	20,999.59	59.06%	33.86%	46.46%
Feb-13	4,518.59	106.91	692.28	14,693.27	1,451.01	20,240.18	42.73%	69.45%	56.09%
Mar-13	4,860.83	117.91	571.29	11,182.65	1,599.80	25,690.98	55.92%	39.74%	47.83%
Apr-13	4,765.23	118.07	596.83	9,856.50	1,601.93	35,190.25	56.75%	26.73%	42.67%
May-13	5,006.96	126.80	867.77	16,070.53	1,720.43	73,523.70	53.22%	31.60%	42.41%
Jun-13	4,598.16	116.31	727.78	13,021.29	1,618.27	85,904.11	66.13%	46.15%	56.14%
Jul-13	4,787.56	122.86	615.90	11,205.17	1,727.83	34,170.82	65.88%	51.38%	58.63%
Aug-13	4,697.75	119.96	670.38	20,797.41	1,681.66	24,520.25	75.75%	28.44%	52.10%
Sep-13	4,793.20	127.35	488.79	10,062.50	1,790.85	29,304.17	65.89%	45.39%	55.64%
Oct-13	4,992.88	133.24	804.51	15,937.19	1,873.66	51,674.82	64.28%	47.19%	55.73%

Source: Nairobi Securities Exchange

Equities turnover rose to Ksh 15,937.19 million in October 2013 from Ksh 10,062.50 million in September 2013 on the back of a higher shares supply and better prices. Number of shares traded rose to 805 million from 489 million.

Overall Net Foreign Investor participation stabilized at 55.73 percent in October 2013 in relation to 55.64 percent of total equity turnover in September 2013. Foreign investors continued to acquire shares in local firms, with purchases accounting for 64.28 percent of total equity turnover against 47.19 percent sales. This underscores continued investor confidence in the economy.

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



Source: Nairobi Securities Exchange

The stock market remained strong in October 2013 as reflected by trends of NASI and NSE 20 Share Index. Market capitalization surpassed the Ksh 1.8 trillion mark, creating additional Ksh 82.8 billion wealth to shareholders in the month (Chart 8A).

Most Active Sectors & FTSE NSE Kenya Index Series

Telecommunication and Technology sector dominated trading, with 455.49 million shares, accounting for 56.53 percent of the market. Banking sector traded 143.43 million shares or 17.80 percent and the Energy and Petroleum sector was the third top traded sector with 53.63 million shares or 6.66 percent of the market. At the listed firm level Safaricom, Equity Bank and Kenol Kobil counters led with 455.49 million, 55.43 million and 31.46 million shares traded, respectively.

The FTSE NSE Kenya 15 Index, a performance measure of the 15 largest stocks by market capitalization at NSE and FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks, closed the month of October higher at 174.65 points and 176.15 points compared with 168.83 points and 171.33 points in September 2013, respectively. The FTSE NSE Kenyan Shilling Government Bond Index edged lower to 91.11 points from to 92.94 points, on the back of rising yields.

Bond Market

Bonds turnover edged up by 76.34 percent as corresponding deals rose to 603 in October 2013 from 364 deals in September 2013. Bonds worth Ksh 51.67 billion were traded in October 2013 compared with Ksh 29.30 billion sold in September 2013. The IFB1/2013/12 dominated trading, at 49.82 percent of total turnover, with yields ranging from 12 percent to 12.71 percent against a coupon rate of 11.0 percent. Corporate bonds trading accounted for 0.07 percent of the market, where Housing Finance Bond traded 3 deals worth Ksh 26.8 million of the total Ksh 34.40 million in this segment.

Statement of Financial Position Of The Central Bank of Kenya

(Kenya shillings million)

	Oct-13	Jun-13	Oct 13/Jun 2013 Movement
ASSETS			
Balances due from Banking Institutions and Gold hold	531,969	527,944	4,025
Funds held with International Monetary Fund	1,583	2,694	(1,111)
Items in the course of collection	107	154	(47)
Advances to commercial banks	18,809	351	18,458
Loans and Advances	31,923	10,887	21,036
Other Assets	3,352	2,545	807
Retirement Benefits Assets	2,967	2,967	0
Property and Equipment	11,823	12,052	(229)
Intangible Assets	857	973	(116)
Due from Government of Kenya	28,889	28,889	0
TOTAL ASSETS	632,279	589,456	42,823
LIABILITIES			
Currency in Circulation	194,311	183,047	11,264
Investments by Banks	-	10,633	(10,633)
Deposits	263,610	221,927	41,683
International Monetary Fund	119,264	118,568	696
Other Liabilities	1,405	2,203	(798)
Provisions	123	123	0
TOTAL LIABILITIES	578,713	536,501	42,212
EQUITIES AND RESERVES	53,566	52,955	611
Share capital	5,000	5,000	0
General Reserve Fund	40,545	40,545	0
Period Surplus	611	0	611
Asset Revaluation	7,410	7,410	0
Dividends Payable	0	0	0
TOTAL LIABILITIES AND EQUITY	632,279	589,456	42,823

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 4,025 million to Ksh 531,969 million in October 2013 from Ksh 527,944 million in June 2013. The expansion reflected largely CBK purchase of foreign exchange from domestic interbank market to build official reserves.

Items in course of collection represent the value of clearing instruments which are held by the Bank, while awaiting clearing by respective commercial banks. The balances as at October 2013 were Ksh 107 million, a representing 30.5 percent recovery from Ksh 154 million outstanding as at June 2013.

Advances to commercial banks are balances of money lent by Central Bank to commercial banks through reverse Repo (injection of liquidity) for a short duration of 7 days and rediscounted Treasury bills and bonds by commercial banks. The balance outstanding increased by Ksh 18,458 million to Ksh 18,809 million in October 2013 from Ksh 351 million in June 2013 largely on account of tight liquidity in the money market.

Loans and Advances class of asset includes mainly outstanding balances on advances to commercial bank under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF fund on-lent to Government. The balances increased by Ksh 21,036 million to Ksh 31, 923 million in October 2013 from Ksh 10,887 million in June 2013.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets increased by Ksh 807 million to Ksh 3,352 million in October 2013 from Ksh 2,540 million in June 2013.

Due from Government of Kenya liability category 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 11,264 million to Ksh 194,311 million in October 2013 from Ksh 183,047 million in June 2013.

Deposits liability represents deposits held by Government of Kenya, local commercial bank deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances increased by Ksh 41,683 million to Ksh 263,610 million in October 2013 from Ksh 221,927 million in June 2013.

Amount due to International Monetary Fund represents the Bank's obligations to the IMF. The balances increased to Ksh 119,264 million in October 2013 from Ksh 118,568 million in June 2013.

Other liabilities include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance decreased by Ksh 798 million to Ksh 1,405 million in October 2013 from Ksh 2,203 million in June 2013.

Equities and reserves increased by Ksh 611 million to Ksh 53,566 million in October 2013 from Ksh 52,955 million in June 2013 reflecting an increase in the period surplus.