MONTHLY ECONOMIC REVIEW

OCTOBER 2014

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

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Overview

Introduction This Monthly Economic Review highlights recent economic developments through October 2014. This includes developments in inflation, money, credit and interest rates, the real sector, balance of payments and exchange rates. It also highlights developments in the banking sector, Government budgetary operations, public debt and the stock market.

Inflation Overall 12-month inflation declined from 6.6 percent in September 2014 to 6.4 percent in October 2014. This was reflected in reduced prices in all categories of inflation. Food inflation declined by 17 basis points to 7.9 percent while fuel inflation fell by 14.3 basis points to 7.0 percent. Non-food non-fuel inflation also declined by 18.8 basis points to 3.5 percent while, annual average inflation declined marginally from 7.2 percent in September 2014 to 7.1 percent in October 2014.

Money Supply Growth in broad money, M3, accelerated to 18.9 percent in the year to October 2014 from 11.6 percent in a similar period in 2013 and was within the respective target of 19.2 percent. The increase in money supply was reflected in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system.

Interest Rates The Central Bank Rate (CBR) remained at 8.50 percent in October 2014, while the weighted average interbank rate decreased to 6.73 percent from 7.43 percent in September 2014.

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

Balance of Payments Kenya's overall Balance of Payments surplus increased by USD 900.4 million in the 12 months to October 2014 following USD 1,281.7 million increase in the Capital and Financial account surplus.

Exchange Rates

The Kenya shilling displayed mixed performance against major international and EAC currencies during the month of October 2014. It strengthened to the Pound Sterling, the Euro and the Japanese Yen but weakened to the US Dollar largely on account of US Dollar appreciation on the international currency markets.

Banking Sector Developments

The Kenyan Banking sector registered improved growth in assets in the year to October 2014 driven by growth in deposits, injection of capital and retention of profits. The sector registered improved performance in earnings and capital and the level of non-performing loans reduced compared with a similar period in 2013.

Government Budgetary Performance

The Government budgetary operations to the end of the first four months of the FY 2014/15 resulted into a deficit of Ksh 38.3 billion (0.8 percent of GDP) on commitment basis compared with a deficit of Ksh 70.9 billion (1.7 percent of GDP) recorded in the comparable period of FY 2013/14 but lower than the Ksh 127 billion (2.7 percent of GDP) deficit programmed for the period.

Public Debt

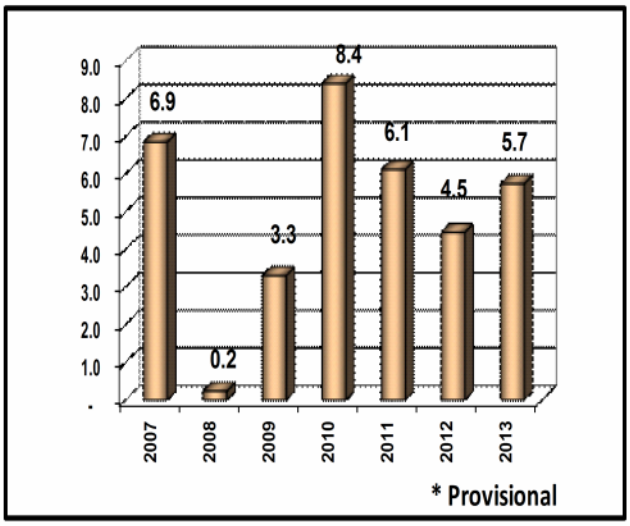
Kenya's public and publicly guaranteed debt declined by 1.5 percent to reach Ksh 2,335.0 billion in October 2014, from Ksh 2370.3 billion in June, 2014. The total debt stock as a share of GDP declined marginally to 49.1 percent as at the end of October 2014 from 49.8 percent as at end June 2014.

Stock Market

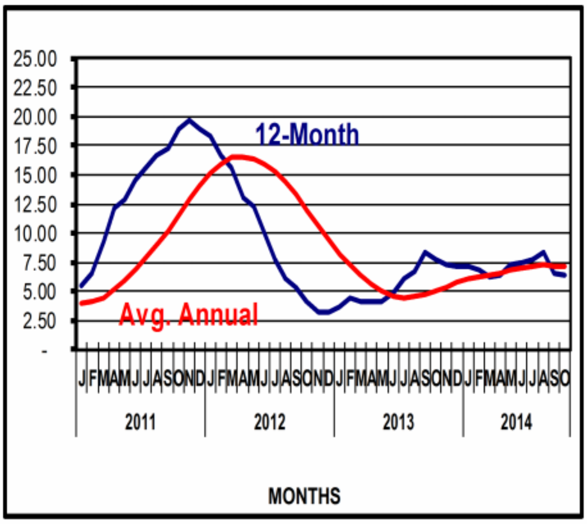
The NSE recorded a lower performance in most leading indicators in October 2014.

SELECTED ECONOMIC PERFORMANCE INDICATORS

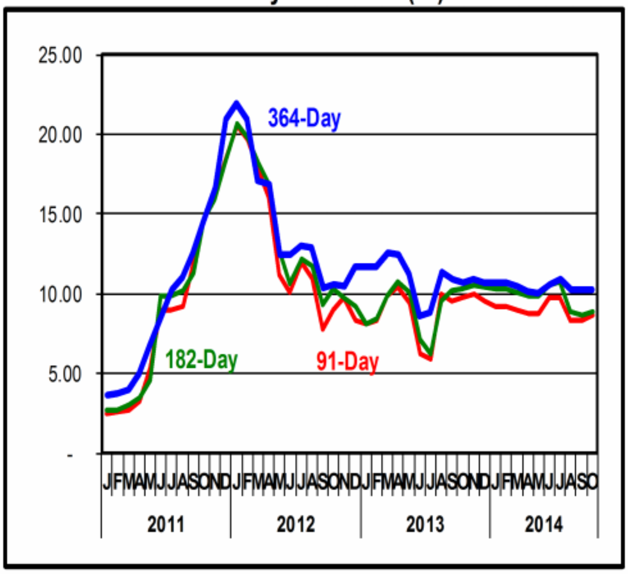
Real GDP Growth (%)



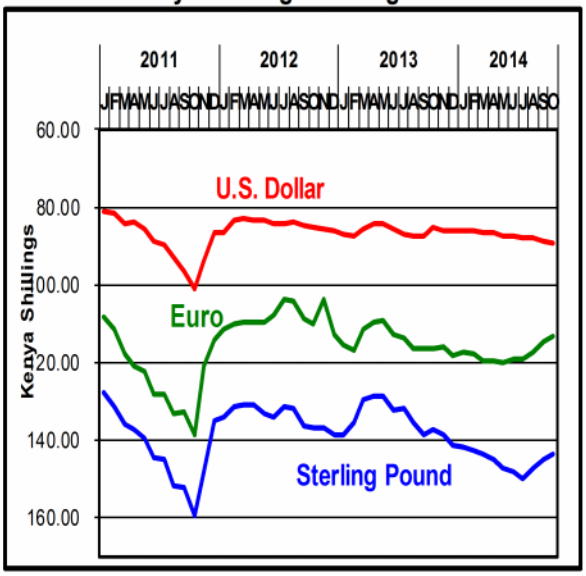
Inflation (%)



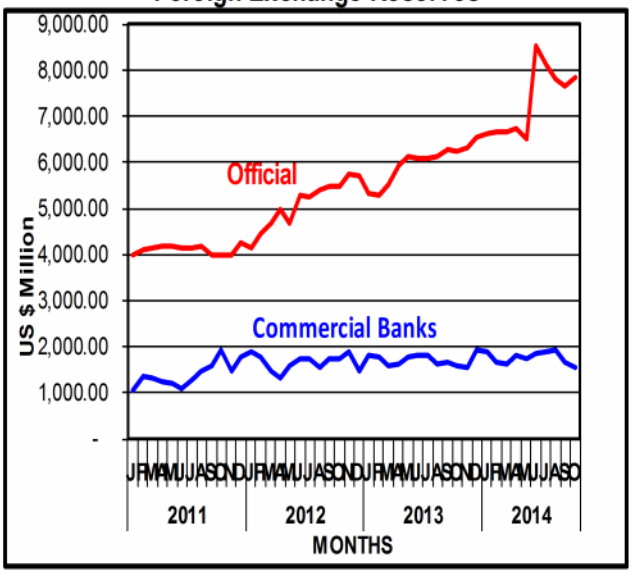
Treasury Bill Rates (%)



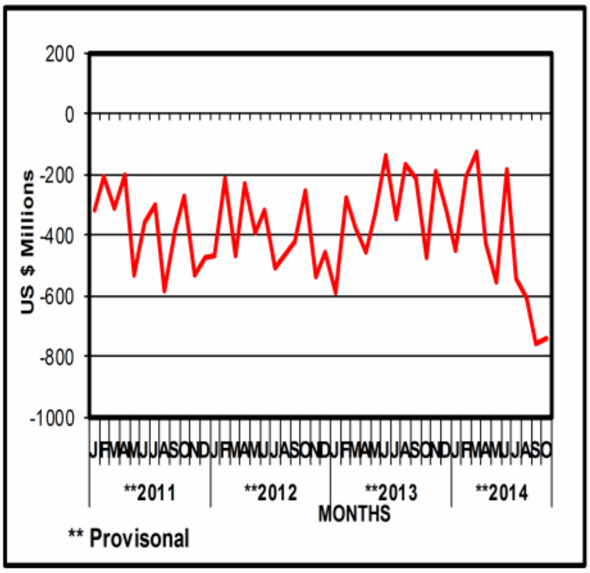
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

		2006	2007	2008	2009	2010	2011	2012	2013*
1.	**POPULATION***								
	People in Millions	36.10	37.20	38.30	38.60	38.50	39.50	40.70	41.80
	Growth (%)	2.85	3.05	2.96	0.78	-0.26	2.60	3.04	2.70
2.	**NATIONAL ACCOUNTS****								
	Gross value added at basic prices (Ksh m)	1,649,996	1,903,472	2,211,447	2,558,792	2,827,470	3,348,141	3,811,764	4,234,319
	GDP at Market Prices (Ksh m):								
	At Current Prices	1,862,041	2,151,349	2,483,058	2,863,688	3,169,335	3,726,052	4,254,772	4,757,532
	At Constant 2009 Market Prices	2,588,279	2,765,595	2,772,019	2,863,688	3,104,401	3,294,454	3,441,132	3,638,761
	Real GDP Growth (%)	…	6.9	0.2	3.3	8.4	6.1	4.5	5.7
	Per Capita Income Real 2009 prices (Ksh)	74,862	77,197	75,431	75,910	80,689	83,309	84,649	88,750
3.	**GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]**	**16.1**	**16.7**	**15.4**	**14.6**	**14.1**	**14.6**	**12.7**	**11.0**
4.	**GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]**	**9.1**	**10.1**	**8.9**	**8.4**	**8.3**	**7.2**	**7.1**	**5.4**
5.	**GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)**	**18.6**	**20.5**	**19.6**	**19.3**	**20.8**	**21.7**	**21.6**	**19.9**
6.	**OVERALL INFLATION BASE PERIOD= FEB 2009**								
	Annual Average Inflation	6.39	4.27	16.27	9.24	3.96	14.02	9.38	5.72
	12-Month Inflation	7.98	5.70	17.83	5.32	4.51	18.93	3.20	7.15
7.	**STOCK MARKET**								
	Nairobi Stock Exchange Price Index (1966=100)	5,645.65	5,444.83	3,521.18	3,247.44	4,432.60	3,205.02	4,133.02	4,926.97
	Trade Turnover Ratio (%)	1.70	1.29	0.29	0.64	0.99	0.46	0.58	0.58
8.	**GOVERNMENT BUDGET (Ksh bn) *****								
	Revenue and Grants	331.21	383.59	457.67	511.36	614.53	679.53	734.43	1,001.40
	Expenditure	368.65	405.20	534.84	621.91	791.79	817.09	915.89	1,297.80
	Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis)	(37.44)	(21.61)	(77.17)	(110.55)	(177.26)	(137.56)	(181.46)	(296.40)
	Budget Deficit (% of GDP)	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)	(5.51)	(6.20)
9.	**MONEY AND CREDIT (Ksh bn)(end period)**								
	Liquidity (L)[1]	834.16	992.42	1,091.93	1,280.44	1,558.16	1,854.93	2,129.49	2,527.00
	Money Supply (M3)[2]	666.84	797.54	901.05	1,045.66	1,271.64	1,514.15	1,727.32	2,000.02
	Reserve Money	124.16	155.62	163.59	181.96	222.63	255.01	293.62	320.76
	Total Domestic Credit	**575.76**	**668.90**	**815.52**	**955.82**	**1,188.40**	**1,505.13**	**3,036.21**	**1,982.30**
	Government	137.81	137.40	155.32	205.07	277.78	311.58	368.83	397.16
	Private sector and other public sector	437.94	531.49	660.20	750.75	910.62	1,193.55	1,333.69	1,585.13
10.	**BALANCE OF PAYMENTS (US$ m)**								
	Overall Balance	**675.00**	**854.00**	**(469.00)**	**780.53**	**163.40**	**(42.88)**	**1,261.00**	**684.72**
	Current Account	-511.00	-1,034.00	-1,983.00	-1,609.28	-2,511.91	-3,330.50	-4,538.37	-4785.96
	Capital and Financial Account	1,187.00	1,888.00	1,514.00	2,389.81	2,675.30	3,287.61	5,799.37	5470.68
11.	**FOREIGN EXCHANGE RESERVES (US$ m) End Period**	**3,331.30**	**4,556.97**	**4,640.78**	**5,064.03**	**5,122.52**	**6,044.78**	**7,159.86**	**8,483.20**
	Official	2,415.27	3,354.85	2,875.46	3,847.39	4,001.68	4,247.66	5,701.85	6,560.17
		3.9	*4.8*	*3.4*	*4.1*	*3.9*	*3.7*	*4.3*	*4.5*
	Commercial Banks	916.03	1,202.12	1,765.32	1,216.63	1,120.84	1,797.12	1,458.01	1,923.02
12.	**PUBLIC DEBT (US$ bn) End Period*****	**10.68**	**12.04**	**13.46**	**13.66**	**14.96**	**16.60**	**19.27**	**27.52**
	Domestic	4.84	6.08	6.66	6.72	8.06	8.51	10.20	14.91
	As % of GDP	*18.77*	*19.00*	*18.54*	*18.16*	*20.15*	*20.26*	*20.27*	*27.02*
	External	5.84	5.96	6.80	6.94	6.90	8.09	9.08	12.61
	As % of GDP	*22.62*	*18.62*	*18.94*	*18.75*	*17.25*	*19.26*	*18.04*	*22.84*
13.	**EXCHANGE RATE (Ksh/US$) (Annual Average)**	**72.10**	**67.32**	**69.18**	**77.35**	**79.26**	**88.91**	**84.53**	**86.12**

* Provisional.

** Rebased data

*** Fiscal year to June 30th.

\[1] Previously M3XT

\[2] Previously M3X

\[3] Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2013 Oct	2013 Nov	2013 Dec	2014 Jan	2014 Feb	2014 Mar	2014 Apr	2014 May	2014 Jun	2014 Jul	2014 Aug	2014 Sep	2014 Oct
1. INFLATION (%)													
CPI	**142.75**	**143.14**	**143.85**	**145.40**	**145.95**	**146.61**	**148.20**	**149.70**	**149.91**	**150.60**	**152.02**	**152.24**	**151.92**
Overall Inflation													
12-month overall inflation	7.76	7.36	7.15	7.21	6.86	6.27	6.41	7.30	7.39	7.67	8.36	6.60	6.43
Average annual overall inflation	5.05	5.39	5.72	6.01	6.21	6.39	6.58	6.85	7.05	7.19	7.33	7.19	7.08
2. INTEREST RATES (%)													
91-day Treasury bill interest rate	9.7	9.94	9.52	9.26	8.98	8.80	8.80	8.82	9.81	9.78	8.29	8.38	8.67
Overdraft interest rate	17.0	16.50	16.51	16.82	16.88	16.44	16.40	17.85	15.88	17.12	16.20	15.79	15.77
3. STOCK MARKET													
Nairobi Stock Exchange 20 Share Price Index	4,992.88	5,100.88	4,926.97	4,856.15	4,933.41	4,945.78	4,948.97	4,881.56	4,885.04	4,906.09	5,139.39	5,256.00	5,194.89
Turnover Ratio (%)	1.00	0.80	0.58	0.79	0.68	0.67	0.67	1.06	0.90	0.77	0.77	0.93	0.61
4. GOVERNMENT BUDGET* (Ksh bn.)													
Revenue $ Grants	286.22	363.59	468.97	548.10	611.90	694.30	795.75	880.77	1,001.37	69.58	142.36	248.08	335.24
Expenses	357.20	473.98	574.21	691.60	770.60	855.33	971.11	1,114.34	1,297.76	48.60	141.07	276.61	373.51
Budget Deficit (-) / Surplus (+)	**(70.94)**	**(110.39)**	**(105.24)**	**(143.50)**	**(158.70)**	**(161.03)**	**(175.36)**	**(233.57)**	**(296.39)**	**20.97**	**1.29**	**(28.52)**	**(38.27)**
5. MONEY AND CREDIT (Ksh bn.)													
Liquidity (L)¹	2428.776	2,480.13	2,523.23	2,558.56	2,560.08	2,592.54	2,650.16	2,701.27	2,718.34	2,752.26	2,880.19	3,020.09	3,037.95
Money Supply (M3)²	1900.194	1,953.62	1,996.24	2,026.57	2,030.49	2,060.31	2,100.61	2,147.48	2,152.13	2,190.08	2,253.32	2,251.76	2,260.02
Reserve Money	307.25	316.78	320.76	302.32	315.49	309.81	315.27	315.34	323.73	304.65	357.05	322.76	348.60
Total Domestic Credit	1889.31	1,967.19	1,978.52	2,010.72	2,057.51	2,097.87	2,127.93	2,177.36	2,042.87	2,130.25	2,187.85	2,110.42	2,117.77
Government	368.7062	408.81	397.16	413.32	438.80	449.87	441.96	465.19	283.06	346.88	372.79	251.07	239.96
Private sector and other public sector	1520.604	1,558.38	1,581.36	1,597.40	1,618.71	1,648.00	1,685.97	1,712.17	1,759.82	1,783.37	1,815.06	1,859.35	1,877.81
6. MONEY AND CREDIT (Annual % Change)													
Liquidity (L)¹	**15.78**	**16.02**	**18.43**	**19.97**	**19.01**	**18.89**	**18.32**	**18.84**	**19.32**	**19.11**	**22.99**	**25.53**	**25.08**
Money Supply (M3)²	11.58	12.23	15.54	17.15	16.17	17.35	16.55	17.77	18.19	19.30	21.80	19.41	18.94
Reserve Money	22.68	13.27	9.24	10.33	9.89	7.73	17.71	11.88	12.63	7.28	15.25	11.16	13.46
Total Domestic Credit	**14.00**	**16.61**	**16.21**	**15.27**	**17.77**	**19.73**	**16.66**	**22.44**	**14.58**	**20.05**	**21.06**	**12.54**	**12.09**
Government	5.03	10.30	7.68	4.37	11.48	15.05	(3.53)	18.42	(25.41)	0.07	10.91	(34.38)	(34.92)
Private and other public sector	16.42	18.39	18.57	18.47	19.60	21.07	23.43	23.58	25.39	24.90	23.37	24.56	23.49
7. BALANCE OF PAYMENTS (US$ m)													
Overall Balance	**(21.69)**	**75.64**	**120.13**	**59.41**	**(33.77)**	**82.02**	**110.54**	**(261.11)**	**2,056.50**	**(419.32)**	**(313.45)**	**(137.65)**	**168.11**
Current Account	(612.28)	(315.98)	(395.36)	(450.68)	(203.78)	(249.12)	(428.83)	(551.97)	(183.10)	(541.27)	(605.82)	(754.55)	(741.49)
Trade Balance	(1,160.47)	(898.50)	(970.78)	(1,009.74)	(746.71)	(683.99)	(1,041.20)	(1,173.89)	(793.62)	(1,204.68)	(1,135.01)	(1,344.76)	(1,269.37)
Capital and Financial Account	590.58	391.62	515.49	510.09	170.01	331.14	539.37	290.86	2,239.60	121.95	292.36	616.90	909.61
8. FOREIGN EXCHANGE RESERVES (US$ m)	7,859.49	7,893.00	8,483.20	8,518.60	8,250.21	8,285.29	8,593.52	8,230.25	10,398.72	10,029.34	9,731.50	9,335.92	9,399.90
Official	6,263.25	6,333.14	6,560.17	6,611.91	6,578.15	6,660.17	6,764.90	6,498.02	8,554.52	8,127.54	7,814.08	7,676.44	7,838.99
*Months of imports cover***	4.32	4.36	4.49	4.50	4.46	4.52	4.54	4.34	5.70	5.37	5.15	5.01	5.06
Commercial banks	1,596.24	1,559.86	1,923.02	1,906.68	1,672.06	1,625.12	1,828.62	1,732.24	1,844.21	1,901.81	1,917.42	1,659.49	1,560.91
9. PUBLIC DEBT (US$ bn)	**23.55**	**24.18**	**24.46**	**24.61**	**24.59**	**24.60**	**25.00**	**25.01**	**27.05**	**27.19**	**26.92**	**26.44**	**26.17**
Domestic	13.41	13.59	13.78	13.93	14.25	14.24	14.03	14.10	14.66	14.77	14.54	14.19	13.97
As % of GDP	24.30	*24.62*	*24.96*	*25.24*	*25.84*	*25.88*	*25.58*	*25.91*	*27.00*	*27.25*	*26.93*	*26.50*	*26.19*
External	10.14	10.59	10.69	10.68	10.34	10.36	10.97	10.91	12.39	12.42	12.38	12.25	*12.20*
As % of GDP	18.36	*19.19*	*19.36*	*19.35*	*18.76*	*18.84*	*19.99*	*20.05*	*22.83*	*22.90*	*22.93*	*22.87*	*22.89*
10. GROSS DOMESTIC DEBT (Ksh bn)***	1,174.78	1,170.05	1,189.18	1,200.90	1,229.30	1,231.20	1,216.76	1,232.49	1,284.33	1,296.44	1,281.09	1,260.87	1,246.14
11. AVERAGE EXCHANGE RATE													
Ksh/US$	85.31	86.10	86.31	86.21	86.28	86.49	86.72	87.41	87.61	87.77	88.11	88.84	89.23
Ksh/Pound Sterling	137.31	138.64	141.37	141.99	142.81	143.76	145.08	147.29	148.15	150.04	147.24	144.99	143.66
Ksh/ 100 Yen	87.24	86.21	83.51	82.92	84.52	84.58	84.59	85.84	85.88	86.32	85.63	82.90	82.62
Ksh/Euro	116.33	116.22	118.18	117.50	117.81	119.58	119.78	120.09	119.16	119.02	117.40	114.74	113.21

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

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

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

¹ Previously M3XT

² Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

Overall 12-month inflation declined from 6.6 percent in September 2014 to 6.4 percent in October 2014 partly reflecting a fall in food inflation by 17 basis points to 7.9 percent. Non-food non-fuel inflation also declined by 18.8 basis points to 3.5 percent while fuel inflation fell by 14.3 basis points to 7.0 percent. The three months annualized rate of inflation fell to 3.6 percent in October 2014 indicating easing domestic inflationary pressures (Table 1.1 and Chart 1A).

TABLE 1.1: INFLATION (%)

Overall Inflation	2013			2014									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
12-month	7.76	7.36	7.15	7.21	6.86	6.27	6.41	7.30	7.39	7.67	8.36	6.60	6.43
Average annual	5.05	5.39	5.72	6.01	6.21	6.39	6.58	6.85	7.05	7.19	7.33	7.19	7.08
Three months annualised	8.49	8.37	2.91	7.64	8.09	7.89	7.93	10.69	9.32	6.63	6.33	6.37	3.56
Non-food non-oil inflation	4.94	5.01	4.71	4.83	4.93	4.97	4.53	4.35	4.47	4.45	4.92	3.65	3.46

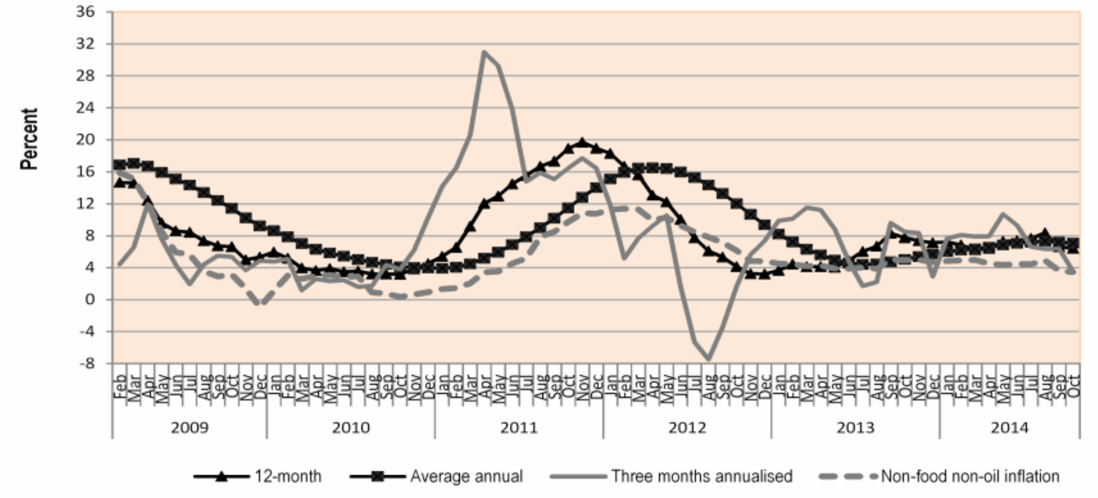
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

The decline in food inflation from 8.1 percent in September 2014 to 7.9 percent in October 2014 reflects a fall in the 12-month inflation in the 'food and non-alcoholic beverages' index from 8.4 percent in September 2014 to 8.2 percent in October 2014. This development is attributed to a decline in prices of maize and fresh produce. The 12-month change in the 'restaurant and hotels' index however, rose from 5.8 percent in September 2014 to 6.1 percent in October 2014.

Fuel inflation eased from 7.2 percent in September 2014 to 7.0 percent in October 2014. This reflected a decline in 12-month inflation in the 'housing, water, electricity, gas and other fuels' category from 5.5 percent in September 2014 to 5.4 percent in October 2014 and a decline in 12-month inflation in the 'transport' category from 10.4 percent in September 2014 to 10.1 percent in October 2014. The easing of fuel inflation largely reflect continued decline in the price of crude oil in the international markets. For instance the price of a barrel of murban crude declined to US$ 87.35 in October 2014 from US$ 97.95 in September 2014.

Non-food non-fuel inflation (NFNF) which measures the impact of monetary policy stance, also declined from 3.7 percent in September 2014 to 3.5 percent in October 2014 reflecting lower inflation in 'recreation and culture', 'alcoholic beverages, tobacco and narcotics', 'furnishings, household equipment and routine household maintenance' and 'communication' consumption baskets. This easing in the NFNF inflation and in the overall 12-month inflation, and the fact that the two measures remained within the target inflation range of 2.50 percent to 7.50 percent set by the National Treasury, indicates minimal inflationary pressures.

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

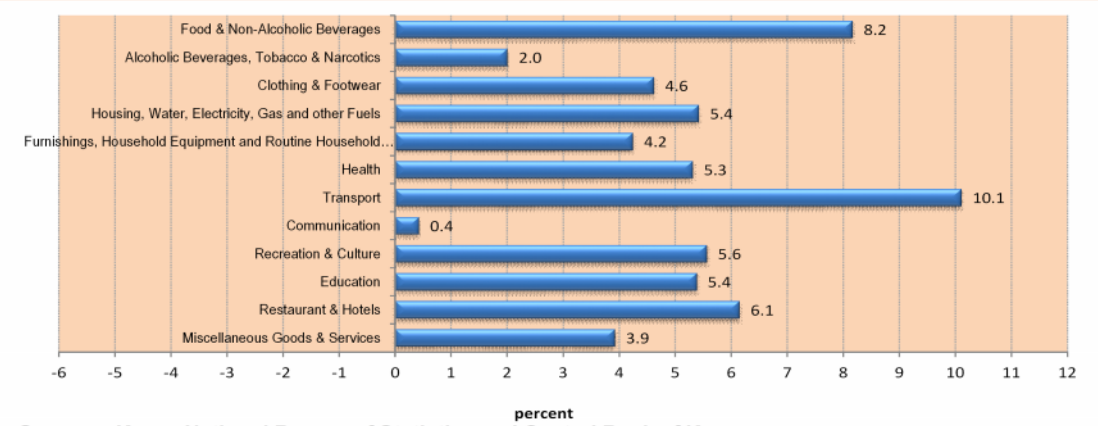


Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

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 49.9 percent of overall 12-month inflation in October 2014 was attributed to 'food and non-alcoholic beverages' category of goods, while inflation in 'housing, water, electricity, gas and other fuels' and 'transport' categories contributed 14.1 percent and 14.0 percent respectively.

CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES



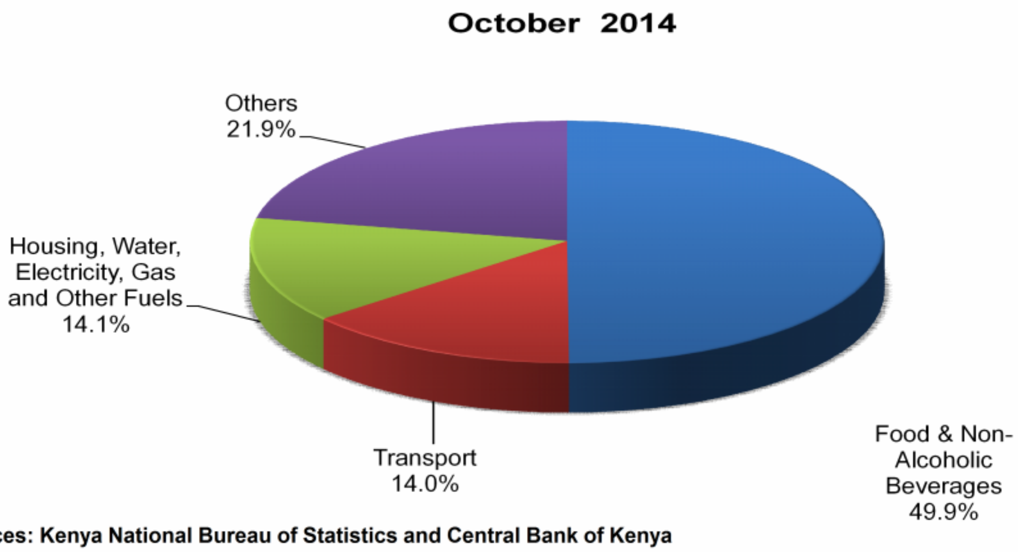
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

TABLE 1.2: 12 MONTHS INFLATION ACROSS BASKETS AND INCOME GROUPS

October 2014	Weight- CPI Kenya	NAIROBI Lower Income	NAIROBI Middle Income	NAIROBI Upper Income	NAIROBI Nairobi Combined	REST OF URBAN Rest of Kenya Combined	TOTAL KENYA
Food & Non-alcoholic beverages	36.0	5.9	5.4	6.9	5.8	9.8	8.2
Alcoholic beverages, Tobacco & narcotics	2.1	0.6	1.2	4.1	0.9	2.7	2.0
Clothing & Footwear	7.4	3.4	2.8	8.0	3.5	5.4	4.6
Housing, Water,Electricity,Gas and other fuels	18.3	2.4	2.6	1.3	2.4	7.5	5.4
Furnishings, Household equipment and Routine household maintenance	6.2	1.5	2.3	2.1	1.7	5.9	4.2
Health	3.1	4.5	2.4	2.7	3.9	6.3	5.3
Transport	8.7	10.5	3.3	3.8	8.7	11.2	10.1
Communication	3.8	0.1	0.0	0.0	0.1	0.6	0.4
Recreation & culture	2.3	5.8	2.7	2.7	4.9	6.0	5.6
Education	3.1	5.2	4.4	9.6	5.1	5.6	5.4
Restaurants & hotels	4.5	2.8	2.6	9.4	3.0	8.4	6.1
Miscellaneous goods & services	4.5	4.0	2.8	5.1	3.8	4.0	3.9
ALL GROUPS	100.0	4.8	3.4	4.3	4.5	7.8	6.4

Source: Kenya National Bureau of Statistics

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



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

Inflationary pressures eased for the lower and upper income groups in Nairobi in October 2014 (Table 1.3). The 12-month consumer price inflation for the 'Nairobi Lower Income' group eased marginally to 4.79 percent in October 2014 from 4.84 percent in September 2014, while 12-month inflation for the 'Nairobi Upper Income' group fell to 4.3 percent in October 2014 from 5.2 percent in September 2014. 12-month inflation for the 'Nairobi Middle Income' group however rose marginally from 3.3 percent to 3.4 percent over the review period. The overall 12-month inflation recorded in urban centers outside Nairobi also eased to 7.8 percent in October 2014.

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

	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Combined Nairobi	8.25	7.63	7.20	6.73	6.10	5.53	5.16	5.95	6.15	6.21	7.32	4.52	4.46
Lower Income	8.99	8.25	7.65	7.16	6.46	5.80	5.36	6.07	6.10	6.13	7.49	4.84	4.79
Middle Income	6.32	5.92	5.97	5.44	4.93	4.65	4.43	5.37	6.06	6.19	6.39	3.34	3.38
Upper Income	5.37	5.50	5.62	5.89	5.84	5.38	5.64	7.18	7.81	8.04	9.58	5.19	4.33
Other provinces- excluding Nairobi	7.43	7.17	7.11	7.54	7.38	6.78	7.27	8.23	8.25	8.68	9.07	8.04	7.79
TOTAL KENYA	**7.76**	**7.36**	**7.15**	**7.21**	**6.86**	**6.27**	**6.41**	**7.30**	**7.39**	**7.67**	**8.36**	**6.60**	**6.43**

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

Inflation Outlook

Domestic inflation is expected to stabilize in the near term on account of falling fuel and energy prices.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Growth in broad money, M3, accelerated to 18.9 percent in the year to October 2014 from 11.6 percent in a comparable period in 2013 and was within the respective target of 19.2 percent. The expansion was in both the Ksh denominated component, M2, and in the foreign currency deposits. M2 increased to 18.4 percent in the year to October 2014 from a growth of 12.8 percent in 2013 and, foreign currency deposits increased by Ksh 62.8 billion (22.2 percent) compared with an increase of Ksh 14.2 billion (5.3 percent) in the previous year (Table 2.1 and Chart 2A).

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

	2012 October	2013 October	2014 October	Absolute Change 2012/13 October	Absolute Change 2013/14 October	%age change 12 months Oct-13	%age change 12 months Oct-14
1. Money supply, M3 (2+3) 2/	**1703.0**	**1900.2**	**2260.0**	**197.2**	**359.8**	**11.6**	**18.9**
1.1 Money supply, M2 3/	1434.7	1617.7	1914.7	183.0	297.0	12.8	18.4
1.2 Money supply, M1	699.1	810.9	915.7	111.8	104.7	16.0	12.9
1.3 Currency outside banks	135.0	153.6	163.2	18.6	9.6	13.8	6.3
1.4 Foreign Currency Deposits	268.3	282.5	345.3	14.2	62.8	5.3	22.2
2. Net foreign assets 4/	**350.9**	**364.7**	**418.2**	**13.8**	**53.6**	**3.9**	**14.7**
Central Bank	351.3	403.7	533.9	52.4	130.2	14.9	32.2
Banking Institutions	-0.4	-39.0	-115.7	-38.6	-76.6		
3. Net domestic assets (3.1+3.2)	**1352.1**	**1535.5**	**1841.8**	**183.4**	**306.3**	**13.6**	**19.9**
3.1 Domestic credit (3.1.1+3.1.2)	**1657.2**	**1889.3**	**2117.8**	**232.1**	**228.5**	**14.0**	**12.1**
3.1.1 Government (net)	351.1	368.7	240.0	17.6	-128.7	5.0	-34.9
3.1.2 Private sector and other public sector	1306.2	1520.6	1877.8	214.4	357.2	16.4	23.5
3.2 Other assets net (3-3.1)	**-305.1**	**-353.8**	**-276.0**	**-48.7**	**77.8**		
Memorandum items							
1. Overall liquidity, L 1/	**2097.7**	**2428.8**	**3038.0**	**331.0**	**609.2**	**15.8**	**25.1**
2. Reserve money	**250.4**	**307.2**	**348.6**	**56.8**	**41.4**	**22.7**	**13.5**
Currency outside banks	135.0	153.6	163.2	18.6	9.6	13.8	6.3
Bank reserves	115.5	153.7	185.4	38.2	31.8	33.1	20.7

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

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

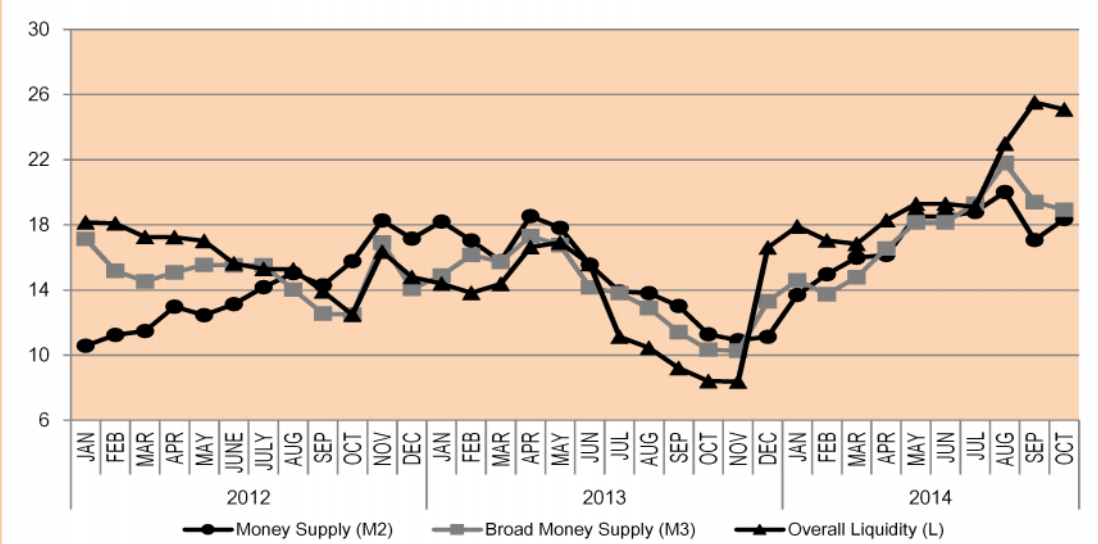
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

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

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The M3 growth was reflected in increases of both Net Foreign Assets (NFA) and Net Domestic Assets of the banking system (Table 2.1). NFA of the banking system grew by 14.7 percent (or Ksh 53.6 billion) in the twelve months to October 2014 compared with an increase of 3.9 percent (or Ksh 13.8 billion) in a corresponding period in 2013. This accumulation reflected wholly in holdings of the Central Bank, largely from proceeds of the sovereign bond issued in June 2014. NFA of the Central Bank increased by 32.2 percent to Ksh 533.9 billion in October 2014 from Ksh 403.7 billion in October 2013while that of other banking institutions declined by Ksh 76.6 billion, to Ksh -115.7 billion from Ksh -39.0 billion in October 2013, on account of increased loans from non-residents and accumulation of foreign deposits. Over the same period, annual growth in Net Domestic Assets (NDA) of the banking system increased to 19.9 percent compared with a growth of 13.6 percent in a similar period in 2013 largely driven by strong growth in domestic credit to the private sector (Table 2.1).

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

	2013 October		2014 October		Absolute Change October		Annual %age Change October	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2012/13	2013/14	2012/13	2013/14
1. Credit to Government	**368.7**	**19.5**	**240.0**	**11.3**	**17.6**	**-128.7**	**5.0**	**-34.9**
Central Bank	-33.3	-1.8	-52.6	-2.5	-51.5	-19.4		
Commercial Banks & NBFIs	402.0	21.3	292.6	13.8	69.1	-109.4	20.8	-27.2
2. Credit to other public sector	**40.1**	**2.1**	**48.4**	**2.3**	**-11.3**	**8.3**	**-21.9**	**20.6**
Local government	-1.9	-0.1	0.1	0.0	-7.5	2.1	-134.7	-107.4
Parastatals	42.1	2.2	48.3	2.3	-3.8	6.2	-8.2	14.7
3. Credit to private sector	**1480.5**	**78.4**	**1829.4**	**86.4**	**225.7**	**348.9**	**18.0**	**23.6**
Agriculture	53.5	2.8	73.3	3.5	-1.7	19.7	-3.1	36.8
Manufacturing	177.3	9.4	235.3	11.1	14.3	57.9	8.8	32.7
Trade	253.3	13.4	300.7	14.2	49.8	47.4	24.4	18.7
Building and construction	71.5	3.8	78.8	3.7	7.5	7.3	11.8	10.3
Transport & communications	84.6	4.5	123.0	5.8	8.4	38.4	11.1	45.4
Finance & insurance	25.6	1.4	44.9	2.1	-8.6	19.2	-25.2	75.1
Real estate	186.2	9.9	252.7	11.9	26.5	66.6	16.6	35.7
Mining and quarrying	24.8	1.3	25.7	1.2	4.0	0.9	19.5	3.5
Private households	221.4	11.7	305.6	14.4	46.3	84.2	26.5	38.0
Consumer durables	98.1	5.2	109.3	5.2	19.6	11.2	25.0	11.4
Business services	127.1	6.7	162.1	7.7	37.2	35.0	41.3	27.5
Other activities	156.9	8.3	118.0	5.6	22.4	-38.9	16.7	-24.8
4. TOTAL (1+2+3) *	**1889.3**	**100.0**	**2117.8**	**100.0**	**232.1**	**228.5**	**14.0**	**12.1**

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

Source: Central Bank of Kenya

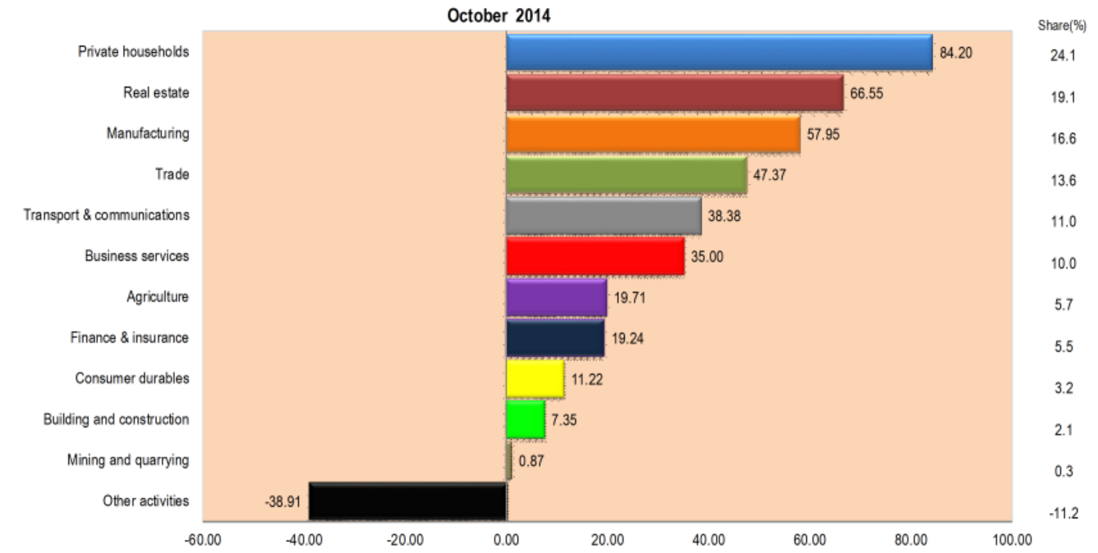
Domestic Credit Developments

Domestic credit from the banking sector increased by Ksh 228.5 billion (12.1 percent) in the twelve months to October 2014 compared with Ksh 232.1 billion (14.0 percent) in a similar period in 2013 (Table 2.2). The domestic credit expansion reflected in credit to the private sector which grew by 23.6 percent in the year to October 2014 compared with 18.0 percent in a similar period in 2013. The private sector continued to dominate banking system lending; accounting for 86.4 percent of total lending in October 2014 compared with 11.3 percent share of government.

Private sector credit in the twelve months to October 2014 was allocated to the following activities, in order of magnitude: private households 24.1 percent (or Ksh 84.2 billion); real estate at 19.1 percent (or Ksh. 66.6 billion); manufacturing 16.6 percent (or Ksh 57.9 billion); trade at 13.6 percent (or Ksh 47.4 billion); transport and communication 11.0 percent (or Ksh. 38.4 billion); and business services 10.0 percent (or Ksh. 35.0 billion). Chart 2B below presents the sectoral distribution of private sector credit.

Net credit to Government decreased by 34.9 percent (or Ksh 128.7 billion) in the year to October 2014 compared with an increase of 5.0 percent (or Ksh 17.6 billion) in a corresponding period in 2013. Over a similar period, credit to the 'other public sector' increased by Ksh 8.3 billion compared with repayment of Ksh 11.3 billion over a similar period in 2013.

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



Source: Central Bank of Kenya

Reserve Money

Reserve money (RM) comprises currency held by the non-bank public and commercial banks deposits at the Central Bank. It increased by 13.5 percent in the year to October 2014 compared with 22.7 percent growth in the corresponding period in 2013 (Table 2.3 and Chart 2C). At Ksh 348.6 billion in October 2014, reserve money was Ksh 18.0 billion above respective target. The growth in reserve money reflected 20.7 percent increases in bank reserves and 6.3 percent in currency outside banks.

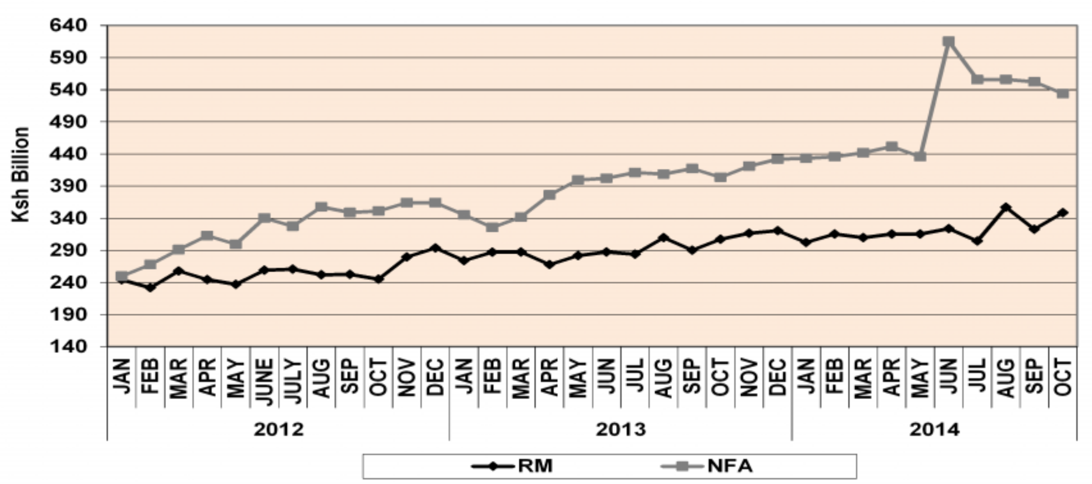
TABLE 2.3: RESERVE MONEY AND ITS SOURCES (Ksh billion)

	2013	2014	Absolute change		Change (%)		2014	
	October	October	2012/13	2013/14	2012/13	2013/14	October Target	Deviation
1. Net Foreign Assets	403.7	533.9	52.4	130.2	14.9	32.2	551.7	-17.8
2. Net Domestic Assets	-96.5	-185.3	4.4	-88.8	-4.3	92.1	-221.1	35.8
2.1 Government Borrowing (net)	-33.3	-52.6	-51.5	-19.4			-184.8	132.1
2.2 Commercial banks (net)	15.7	-24.7	73.8	-40.4			112.4	-137.2
2.3 Other Domestic Assets (net)	-82.7	-111.6	-19.6	-28.9			-148.8	37.1
3. Reserve Money	307.2	348.6	56.8	41.4	22.7	13.5	330.6	18.0
3.1 Currency outside banks	153.6	163.2	18.6	9.6	13.8	6.3	165.4	-2.2
3.2 Bank reserves	153.7	185.4	38.2	31.8	33.1	20.7	165.2	20.2

Source: Central Bank of Kenya

The source of reserve money growth in the twelve months to October 2014 was largely an accumulation of Net Foreign Assets (NFA) at the Central Bank. The NFA increased by 32.2 percent (or Ksh 130.2 billion) to Ksh 533.9 billion in October

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



Source: Central Bank of Kenya

2014 from Ksh 403.7 billion in October 2013 reflecting accumulation of foreign exchange reserves in line with the statutory minimum requirements of 4 months of imports of goods and non-factor services

Over a similar period, the NDA of the Central Bank decreased by Ksh 88.8 billion to Ksh -185.3 billion from Ksh -96.5 billion in October 2013. This was due to accumulation of Government deposits at the Central Bank following sale of Eurobond Dollars to the Central Bank, and liquidity mop up operations by the Central Bank.

Central Bank Rates

The Central Bank Rate (CBR) was held unchanged at 8.50 percent in October 2014 in order to continue anchoring inflationary expectations.

Short Term Interest Rates

Short term interest rates recorded mixed performance in October 2014 (Table 2.4 and Chart 2D). The weighted average interbank rate decreased from 7.43 percent in September 2014 to 6.73 percent in October 2014 reflecting ample liquidity in the interbank market on account of net redemptions of Government securities and Government payments. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, increased marginally to 8.67 percent in October 2014 from 8.38 percent in September 2014 while, the 182-day Treasury bill rate increased to 8.91 percent from 8.61 percent.

The average lending rate stabilized at 16.00 percent in October 2014 compared to 16.04 percent in September 2014, while the average deposit rate remained unchanged at 6.64 percent. Consequently, the interest rate spread stabilized at about 9.4 in September and October 2014 (Table 2.4 and Chart 2D).

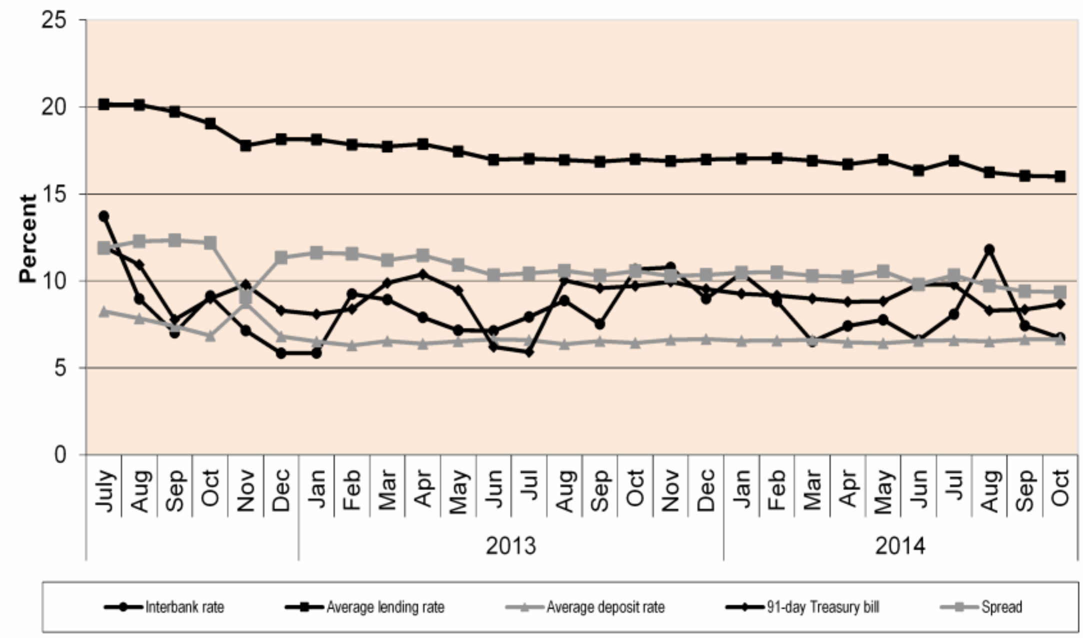
Lending and Deposit Rates

TABLE 2.4: INTEREST RATES (%)

	2013			2014									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct
91-day Treasury bill rate	9.72	9.94	9.52	9.26	9.16	8.98	8.80	8.82	9.81	9.78	8.29	8.38	8.67
Overdraft rate	16.96	16.50	16.51	16.82	16.88	16.44	16.44	17.85	15.88	17.12	16.20	15.79	15.77
Interbank rate	10.66	10.77	8.98	10.43	8.83	6.47	7.40	7.76	6.60	8.08	11.79	7.43	6.73
Repo rate	-	-	7.95	-	-	6.92	8.39	8.42	6.46	-	12.95	8.39	8.39
Reverse Repo rate	10.85	12.35	11.28	-	-	-	-	-	-	-	-	-	-
Central Bank Rate (CBR)	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Average lending rate (1)	17.00	16.89	16.99	17.03	17.06	16.91	16.70	16.97	16.36	16.91	16.24	16.04	16.00
Average deposit rate (2)	6.43	6.61	6.65	6.55	6.57	6.61	6.48	6.42	6.56	6.59	6.51	6.64	6.64
0 to 3 - month deposit	8.36	8.78	8.98	9.39	9.43	10.02	9.63	9.65	10.05	9.80	10.29	9.96	9.80
Savings deposits	1.63	1.58	1.58	1.56	1.49	1.56	1.53	1.54	1.50	1.33	1.50	1.51	1.55
Spread (1-2)	**10.57**	**10.28**	**10.34**	**10.48**	**10.49**	**10.30**	**10.23**	**10.55**	**9.80**	**10.33**	**9.73**	**9.40**	**9.36**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

Performance of The Real Sector

Overview

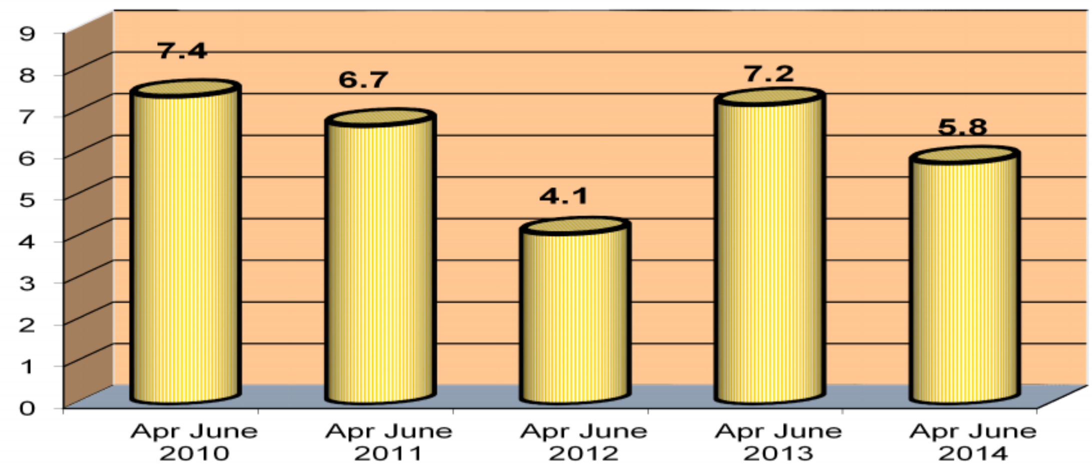
Real GDP in 2013 grew by 5.7 percent and amounted to Ksh 3.64 trillion compared with 4.5 percent growth in 2012 (Table 3.1). The real GDP is estimated to have increased by 4.4 percent in the first quarter of 2014 and 5.8 percent in the second quarter of 2014 compared with growth of 6.4 percent and 7.2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

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

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

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

CHART 3A: REAL GDP GROWTH IN THE APRIL - JUNE QUARTERS

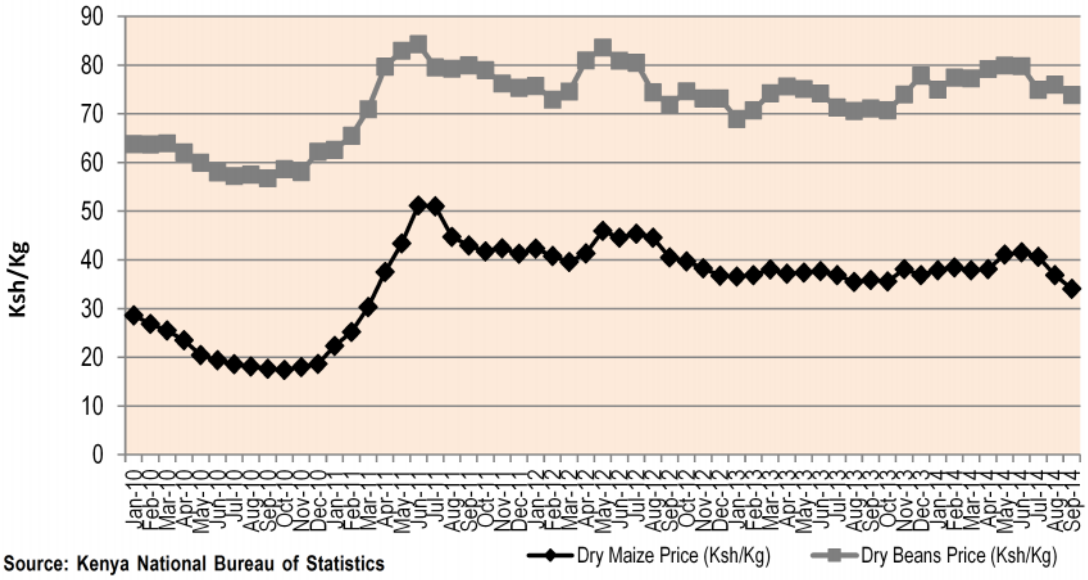


Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

Agriculture

Agriculture recorded 5.9 percent growth in output in the first quarter of 2014 and 5.5 percent in the second quarter of 2014 compared with increases of 5.1 percent and 6.0 percent in the first and second quarter of 2013 respectively. In the third quarter of 2014, improved supply from long rain season harvest and sustained regional trade flows dampened the prices of food items such as maize and beans (Chart 3B).

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



Source: Kenya National Bureau of Statistics

Major Indicators in Agriculture

Indicators on agriculture in the year to September 2014 show mixed performance (Table 3.2). Among selected crops, growth in production of tea and horticulture slowed while production of coffee and sugar cane improved. Production of milk recorded a marginal increase during the year to September 2014.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK

	2012	2013	Year to September 13	Year to September 14*
Tea				
Output (Metric tonnes)	369,562	432,453	432,601	437,518
Growth (%)	*-2.2%*	*17.0%*	*18.2%*	*1.1%*
Horticulture				
Exports (Metric tonnes)	250,814	309,029	293,631	313,992
Growth (%)	*5.1%*	*23.2%*	*18.5%*	*6.9%*
Coffee				
Sales (Metric tonnes)	46,051	37,942	38,141	41,187
Growth (%)	*53.6%*	*-17.6%*	*-14.8%*	*8.0%*
Milk				
Output (million litres)	495	523	536	539
Growth %	*-9.8%*	*5.6%*	*8.2%*	*0.5%*
Sugar Cane				
Output (Metric tonnes)	5,716,300	6,671,800	6,113,800	6,973,900
Growth (%)	*7.1%*	*16.7%*	*7.1%*	*14.1%*

* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

Tea

Production of tea improved marginally by 1.1 percent in the year to September 2014 compared with growth of 18.2 percent recorded in the year to September 2013 (Table 3.2). The average auction price for tea however, declined from Ksh 239 per kilogram in the year to September 2013 to Ksh 193 per kilogram in the year to September 2014.

Horticulture

Export of fresh horticultural products increased by 6.9 percent from 293,631 metric tonnes in the year to September 2013 to 313,992 metric tonnes in the year to September 2014. Exports of fresh vegetables dominated in terms of volume, while cut flowers brought in the largest contribution to total export value (Table 3.2 and Chart 3C).

CHART 3C: HORTICULTURAL EXPORTS

Source: Kenya Revenue Authority

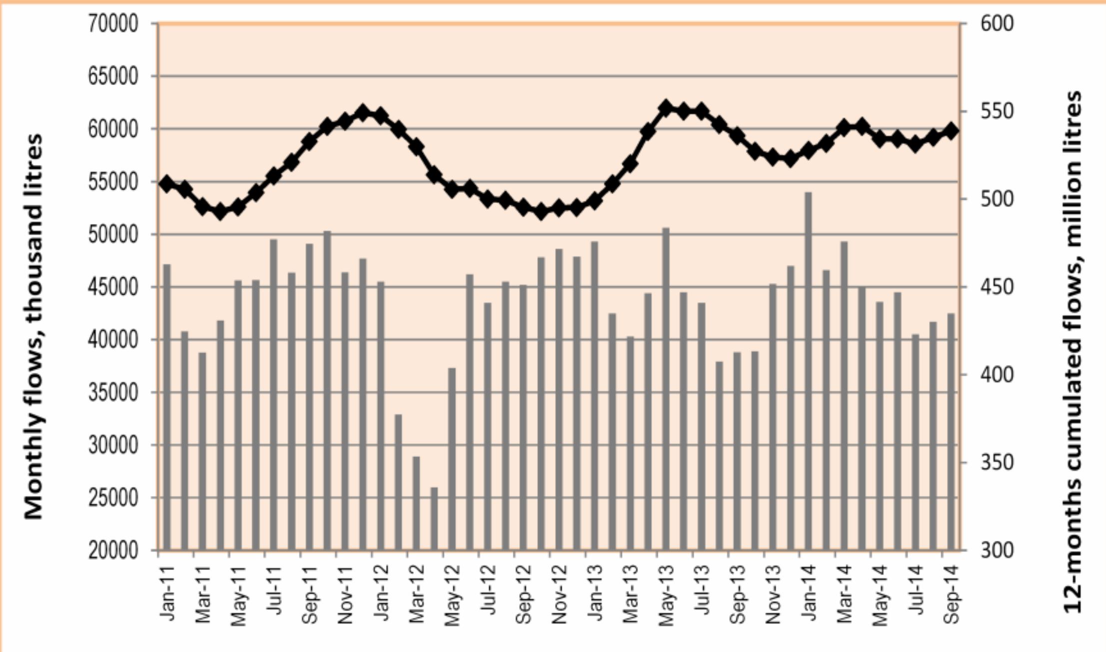
Coffee

Coffee sales rose by 8 percent, from 38,141 metric tonnes in the year to September 2013 to 41,187 metric tonnes in the year to September 2014, reversing a 14.8 percent decline in the comparable period in 2013. The average auction price for coffee also increased from Ksh 282 per kilogram in the year to September 2013 to Ksh 343 per kilogram in the year to September 2014 owing to improved quality.

Dairy

The volume of milk intake in the formal sector rose marginally, by 0.5 percent to 539 million litres in the year to September 2014 (Chart 3D) compared with 8.2 percent increase in the year to October 2013. But the intake recovered for the third consecutive month in September 2014 compared to a sustained slowdown since January 2014.

CHART 3D: PROCESSED MILK (LITRES)



Source: Kenya National Bureau of Statistics

Sugar cane

Production of sugar cane improved by 14.1 percent in the year to September 2014 to 6.97 million tonnes compared with 6.11 million tonnes produced in the year to

Manufacturing

The manufacturing sector accounted for 11.1 percent of the overall GDP growth in 2013. This activity grew by 7.9 percent in the first quarter of 2014 and 9.1 percent in the second quarter of 2014 compared with growth of 10.2 percent and 5.4 percent in the first two quarters of 2013, respectively. Other selected indicators of performance of the manufacturing sector (Table 3.3 and Chart 3E), show acceleration in production of cement, assembled vehicles and sugar. With local cement consumption below production level (Chart 3E), the industry continued to generate some surplus for export.

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

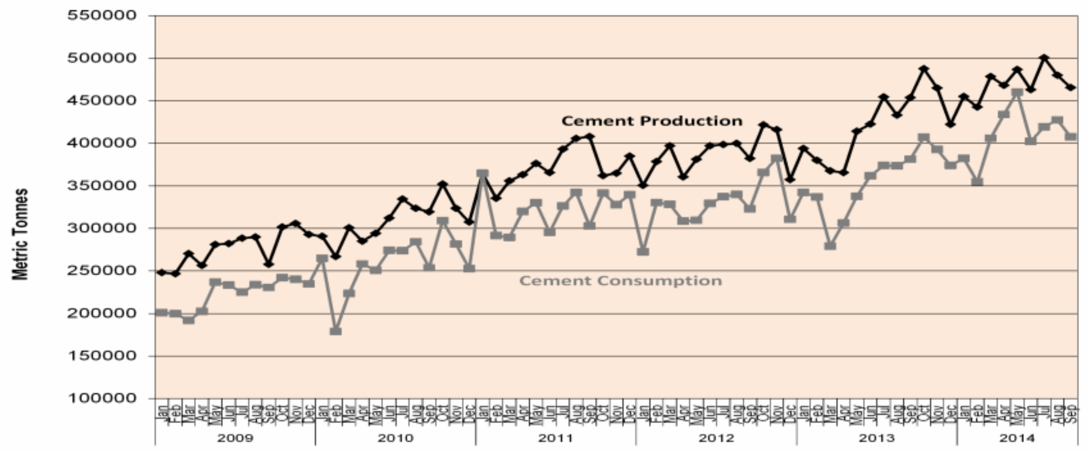
	Annual Totals		Year to September 13*	Year to September 14*
	2012	2013*		
Cement production				
Output (MT)	4,639,723	5,059,129	4,879,310	5,613,846
Growth %	*3.6%*	*9.0%*	*7.1%*	*15.1%*
Assembled vehicles				
Output (No.)	6,218	6,948	6,354	8,992
Growth %	*2.8%*	*11.7%*	*-1.8%*	*41.5%*
Processed sugar				
Output (MT)	493,937	600,210	535,373	637,205
Growth %	*4.0%*	*21.5%*	*8.0%*	*19.0%*

MT = Metric tonnes

* Provisional

Source: Kenya National Bureau of Statistics

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

Energy Sector

Annual growth in local generation of electricity accelerated from 8.1 percent in the year to September 2013 to 10.1 percent in the year to September 2014 (Table 3.4). The total amount of electricity generated thus increased from 7,986 million kilowatt hours to 8,794 million kilowatt hours. The supply in the current period comprised 41.3 percent of hydro-electricity, 32.1 percent of thermal power and 26.6 percent of geo-thermal power. The increase in the amount of electricity produced reflects accelerated generation of thermal and geo-thermal power (green energy) to 49.6 percent and 37.7 percent, respectively, in the year to September 2014 compared with -10.1 percent and 12.8 percent growth registered in the comparable period of 2013. Generation of hydro-electricity, however, decreased by 17.5 percent in the year to September 2014 from 16.4 percent growth in the previous year, reflecting the unfavourable weather conditions. Growth in consumption of electricity increased from 3.2 percent in the year to September 2013 to 9.8 percent in the year to September 2014, while growth in consumption of fuels improved to 4.7 percent. The average price of murban crude oil declined from US$ 109.9 per barrel in the year to September 2013 to US$ 109.3 per barrel in the year to September 2014.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	2012	2013	Year to September 13	Year to September 14*
Electricity Supply (Generation)				
Output (million KWH)	7,544	8,217	7,986	8,794
Growth %	*5.4%*	*8.9%*	*8.1%*	*10.1%*
Of which:				
Hydro-power Generation (million KWH)	4,032	4,387	4,399	3,631
Growth (%)	*26.6%*	*8.8%*	*16.4%*	*-17.5%*
Geo-Thermal Generation (million KWH)	1,522	1,781	1,698	2,337
Growth (%)	*5.4%*	*17.0%*	*12.8%*	*37.7%*
Thermal (million KWH)	1,990	2,049	1,890	2,826
Growth (%)	*-21.4%*	*3.0%*	*-10.1%*	*49.6%*
Consumption of electricity (million KWH)	6,270	6,564	6,455	7,086
Growth %	*1.9%*	*4.7%*	*3.2%*	*9.8%*
Consumption of Fuels ('000 tonnes)	3,764	3,650	3,691	3,864
Growth %	*6.2%*	*-3.0%*	*0.2%*	*4.7%*
Murban crude oil average price (US $ per barrel)	113.0	110.1	109.9	109.3
Growth %	*2.1%*	*-2.5%*	*-2.7%*	*-0.5%*

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

The number of tourist arrivals declined by 14.9 percent in the year to July 2014 (Table 3.5) compared with a decline of 9.3 percent in the year to July 2013. The decline is attributed to adverse travel advisories from source countries regarding insecurity in Kenya. The ports of disembarkation for tourists remained Jomo Kenyatta International Airport Nairobi (83.1 percent share), and the Moi International Airport, Mombasa (16.9 percent share).

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2012	2013	Year to July 2013	Year to July 2014	Year to July 2014 % Share	Year to July 2014 % Growth
MIAM	187,151	189,654	181,460	168,654	*16.9%*	*-7.1%*
JKIA	1,048,390	912,998	991,882	829,415	*83.1%*	*-16.4%*
TOTAL	**1,235,541**	**1,102,652**	**1,173,342**	**998,069**	***100.0%***	***-14.9%***

Source: Kenya Tourist Board

Transport

The total number of passengers (both incoming and outgoing) received at the Jomo Kenyatta International Airport, Nairobi (JKIA) declined by 2.4 percent in the year to September 2014, compared with a decline of 0.1 percent recorded in the previous year. The decline is reflected in both incoming and outgoing passengers (Table 3.6).

TABLE 3.6: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2012	2013*	Year to September 13*	Year to September 14*
Number of Passengers thro' JKIA				
Total passenger flows	4,302,244	4,290,349	4,319,460	4,215,273
Growth (%)	*4.0%*	*-0.3%*	*-0.1%*	*-2.4%*
o.w. Incoming	2,148,105	2,144,002	2,158,391	2,096,693
Growth (%)	*2.8%*	*-0.2%*	*-0.1%*	*-2.9%*
Outgoing	2,154,139	2,146,347	2,161,069	2,118,580
Growth %	*5.3%*	*-0.4%*	*0.0%*	*-2.0%*

*** Provisional**

Source: Kenya National Bureau of Statistics

Developments in the Balance of Payments and Exchange Rates

Overview

The overall Balance of Payments surplus improved to USD 1,507 million in the year to October 2014 from a surplus of USD 607 million in the year to October 2013 (Table 4.1). The improvement reflects in USD 1,281.7 million accumulation of the capital and financial account surplus.

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Oct 2013	Year to October 2014* Q1 Nov-Jan	Q2 Feb-Apr	Q3 May-Jul	Q4 Aug-Oct	Year to Oct 2014*	Absolute Change	% Change
1. OVERALL BALANCE	607	255	159	1376	-283	1507	900.4	148.4
2. CURRENT ACCOUNT	-5041	-1162	-882	-1276	-2102	-5422	-381.3	7.6
2.1 Goods	-11292	-2879	-2472	-3172	-3749	-12272	-979.9	8.7
Exports (fob)	5859	1476	1624	1542	1449	6090	231.1	3.9
Imports (cif)	17152	4355	4096	4714	5198	18363	1211.0	7.1
2.2 Services	6252	1717	1590	1896	1647	6850	598.6	9.6
Non-factor services (net)	3543	975	1054	1227	949	4206	662.6	18.7
Income (net)	-326	-60	-33	-130	-110	-334	-7.7	2.4
Current Transfers (net)	3035	802	569	799	808	2979	-56.3	-1.9
3. CAPITAL & FINANCIAL ACCOUNT	5647	1417	1041	2652	1819	6929	1281.7	22.7
3.1 Capital Tranfers (net)	119	17	66	94	0	177	58.1	48.8
3.2 Financial Account	5528	1400	975	2558	1819	6752	1223.7	22.1
memo:								
Gross Reserves	7859	8519	8586	10029	9400	9400	1540.4	19.6
Official	6263	6612	6757	8128	7839	7839	1575.7	25.2
*import cover***	*4.1*	*4.3*	*4.5*	*5.2*	*4.8*	*4.8*	0.7	17.2
*import cover****	*4.3*	*4.5*	*4.5*	*5.4*	*5.1*	*5.1*	0.7	17.1
Commercial Banks	1596	1907	1829	1902	1561	1561	-35.3	-2.2

* 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 worsened by 7.6 percent or USD 381.3 million to USD 5,422 million deficit in the year to October 2014 from USD 5,041 million deficit in the year to October 2013. The deterioration reflects 8.7 percent worsening of the merchandise account deficit (Table 4.2) which more than offset the 9.6 percent improvement in the services account surplus.

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

ITEM	Year to Oct 2013	Year to October 2014* Q1 Nov-Jan	Q2 Feb-Apr	Q3 May-Jul	Q4 Aug-Oct	Year to Oct 2014*	Absolute Change	% Change
2. CURRENT ACCOUNT	-5041	-1162	-882	-1276	-2102	-5422	-381.3	7.6
2.1 Goods	-11292	-2879	-2472	-3172	-3749	-12272	-979.9	8.7
Exports (fob)	5859	1476	1624	1542	1449	6090	231.1	3.9
Coffee	194	36	56	75	55	223	28.7	14.8
Tea	1256	285	266	269	255	1076	-180.2	-14.3
Horticulture	726	198	213	209	197	817	90.6	12.5
Oil products	56	9	16	7	25	58	2.1	3.7
Manufactured Goods	700	164	165	127	156	611	-88.4	-12.6
Raw Materials	389	107	134	117	107	465	75.7	19.4
Chemicals and Related Products (n.e.s	475	113	119	104	119	455	-20.3	-4.3
Miscelleneous Man. Articles	581	147	161	155	165	628	47.0	8.1
Re-exports	499	191	281	267	151	890	390.9	78.3
Other	983	225	213	212	218	868	-114.8	-11.7
Imports (cif)	17152	4355	4096	4714	5198	18363	1211.0	7.1
Oil	4019	976	985	1105	1024	4091	71.4	1.8
Chemicals	2193	629	565	573	583	2350	156.8	7.1
Manufactured Goods	2598	656	630	665	698	2649	51.0	2.0
Machinery & Transport Equipment	4741	1176	1185	1557	2057	5974	1234.0	26.0
Other	3486	862	713	794	757	3126	-359.6	-10.3
2.2 Services	6252	1717	1590	1896	1647	6850	598.6	9.6
Non-factor services (net)	3543	975	1054	1227	949	4206	662.6	18.7
Non-factor services (credit)	4791	1316	1341	1523	1315	5495	703.2	14.7
of which transport	2159	549	516	577	542	2185	25.6	1.2
of which tourism (Travel)	892	194	187	208	205	794	-98.8	-11.1
Other services account: gov't	945	217	233	238	172	859	-85.4	-9.0
Other services account: private	795	356	406	499	396	1657	861.7	108.4
Income (net)	-326	-60	-33	-130	-110	-334	-7.7	2.4
of which official interest	-129	-26	-23	-85	-44	-178	-48.3	37.4
Current Transfers (net)	3035	802	569	799	808	2979	-56.3	-1.9
Private (net)	2835	771	574	804	813	2962	127.0	4.5
of which Remittances	1267	338	343	353	377	1411	143.9	11.4
Public (net)	200	31	-5	-5	-5	17	-183.2	-91.7

* Provisional.

Source: Central Bank of Kenya

Merchandise Account

The deficit in the merchandise account widened by USD 979.9 million, to USD 12,272 million in the year to October 2014 reflecting 7.1 percent rise in payments for imports that more than offset the 3.9 percent increase in receipts from exports (Table 4.2).

Imports

Spending on merchandise imports increased by USD 1,211 million to USD 18,363 million in the year to October 2014 on account of increased imports of oil, chemicals, manufactured goods and machinery and transport equipment. The 1.8 percent rise in payments for oil imports (to USD 4,091 million in the year to October 2014) was driven largely by increased imports of jet fuel and diesel oil.

In terms of sources of imports by region, the value of imports from Africa decreased to USD 1,643 million (Table 4.3) and accounted for 9 percent of total imports. India and China were the dominant sources accounting for 17 percent and 15 percent of total imports, respectively.

Exports

Receipts from merchandise exports increased by USD 231.1 million to USD 6,090 million in the year to October 2014 reflecting increased earnings from coffee, horticulture, oil products, raw materials, miscellaneous manufactured articles and re-exports. The increase in coffee receipts was on account of increased export quantities while the increase in horticulture exports was on account of both increased export quantities and favourable world prices. Tea, manufactured goods, chemicals and related products and other exports decreased. Earnings from tea exports declined by USD 180.2 million largely reflecting a declining trend in the international prices of tea.

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

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to October			Year to October		
Country	2012	2013	2014	2012	2013	2014
Africa	**1,734**	**1,704**	**1,643**	**11**	**10**	**9**
Of which						
South Africa	739	809	758	4	5	4
Egypt	349	294	276	2	2	2
Others	646	600	610	4	2	3
EAC	**352**	**329**	**385**	**2**	**2**	**2**
COMESA	**759**	**670**	**629**	**5**	**4**	**3**
Rest of the World	**14,745**	**15,448**	**1,720**	**89**	**90**	**91**
Of which						
India	2,103	2,894	3,051	13	17	17
United Arab Emirates	1,939	1,491	1,232	12	9	7
China	1,970	1,993	2,727	12	12	15
Japan	712	950	991	4	6	5
USA	778	679	1,795	5	4	10
United Kingdom	511	571	523	3	3	3
Singapore	133	225	179	1	1	1
Germany	479	447	55	3	3	3
Saudi Arabia	953	460	557	6	3	3
Indonesia	663	507	559	4	3	3
Netherlands	209	266	234	1	2	1
France	292	260	273	2	2	1
Bahrain	216	393	531	1	2	3
Italy	250	229	236	2	1	1
Others	3,537	4,084	3,309	21	24	18
Total	**16,579**	**17,152**	**18,363**	**100**	**100**	**100**
EU	2,399	2,420	2,538	15	14	14
China	1,970	1,993	2,727	12	12	15

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to October			Year to October		
Country	2012	2013	2014	2012	2013	2014
Africa	**2,933**	**2,730**	**2,716**	**48**	**47**	**45**
Of which						
Uganda	809	763	649	13	13	11
Tanzania	533	495	484	9	8	8
Egypt	258	200	207	4	3	3
Sudan	111	72	77	2	1	1
South Sudan	146	196	214	2	3	4
Somalia	232	206	150	4	4	2
DRC	208	229	231	3	4	4
Rwanda	189	159	157	3	3	3
Others	447	410	547	7	7	9
EAC	**1,594**	**1,481**	**1,374**	**26**	**25**	**23**
COMESA	**1,902**	**1,728**	**1,664**	**31**	**29**	**27**
Rest of the World	**3,204**	**3,130**	**3,374**	**52**	**53**	**55**
Of which						
United Kingdom	495	438	425	8	7	7
Netherlands	362	372	454	6	6	7
USA	308	339	420	5	6	7
Pakistan	239	293	251	4	5	4
United Arab Emirates	306	14	237	5	5	4
Germany	109	96	122	2	2	2
India	98	98	108	2	2	2
Afghanistan	135	196	119	2	3	2
Others	1,152	984	1,238	19	17	20
Total	**6,138**	**5,859**	**6,090**	**100**	**100**	**100**
EU	1,295	1,191	1,387	21	20	23
China	68	45	75	1	1	1

Source: Kenya Revenue Authority

Services Account

The Services account recorded a larger surplus (by USD 598.6 million or 9.6 percent) to USD 6,850 million in the year to October 2014 from USD 6,252 million in the year to October 2013 on account of increases in net non-factor services. Receipts from non-factor services rose to USD 5,495 million driven by increases in receipts from transport and other private services (insurance and communication services; royalties and licence fees). The deficit in the income account deteriorated by USD 7.7 million to USD 334 million in the year to October 2014. The surplus in the current transfers account decreased by USD 56.3 million to USD 2,979 million due to USD 183.2 million decrease in net public transfers that more than offset the USD 127 million increase in net private transfers. Remittance inflows (under private transfers) also increased by USD 143.9 million to USD 1,411 million during the year to October 2014 from USD 1,267 million during the year to October 2013 (Table 4.2). Average remittance inflows in the 12 months to October 2014 increased to USD 117.6 million from USD 105.6 million during the year to October 2013, underscoring resilience of remittances flows.

Capital and Financial Account

The surplus in the capital and financial account increased to USD 6,929 million in the year to October 2014 from USD 5,647 million in the year to October 2013, largely reflecting 22.1 percent improvement in the financial account surplus on the back of increases in official flows, commercial bank flows and short term flows (including net errors and omissions). Official flows rose by USD 615.7 million to USD 1,316 million while commercial bank flows increased to USD 815 million in the year to October 2014 after commercial banks run down their net foreign assets. The run down was an indication of accumulation of liabilities, largely deposits and loans borrowed from non-residents. Short term flows (including net errors and omissions) also increased by USD 643.9 million during the period under review.

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

ITEM	Year to Oct 2013	Year to October 2014* Q1 Nov-Jan	Q2 Feb-Apr	Q3 May-Jul	Q4 Aug-Oct	Year to Oct 2014*	Absolute Change	% Change
3. CAPITAL & FINANCIAL ACCOUNT	5647	1417	1041	2652	1819	6929	1281.7	22.7
3.1 Capital Tranfers (net)	119	17	66	94	0	177	58.1	48.8
3.2 Financial Account	5528	1400	975	2558	1819	6752	1223.7	22.1
Official, medium & long-term	701	88	234	946	48	1316	615.7	87.9
Inflows	1032	159	346	2193	207	2905	1872.8	181.5
Outflows	-331	-70	-111	-1247	-159	-1588	-1257.1	379.4
Private, medium & long-term (net)	345	-57	101	-75	339	309	-36.0	-10.4
Commercial Banks (net)	420	50	172	54	538	815	394.7	94.0
Other private medium & long-term (net)	-76	-108	-71	-129	-199	-506	-430.7	570.1
Short-term (net) incl. errors & omissions	4483	1369	639	1688	1431	5127	643.9	14.4

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 9,400 million in October 2014 from USD 7,859 million at the end of October 2013. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased to USD 7,839 million (5.1 months of import cover) at the end of October 2014 from USD 6,263 million (4.3 months of import cover) at the end of October 2013. The build-up in foreign exchange reserves during the period was largely attributed to proceeds received from the sale of the Eurobond in June 2014 and purchases from the interbank market.

Foreign Exchange Reserves held by Commercial Banks decreased to USD 1,561 million at the end of October 2014 from USD 1,596 million at the end of October 2013. During the same period, residents' foreign currency deposits increased to USD 4,105 million from USD 3,504 million (Table 4.5).

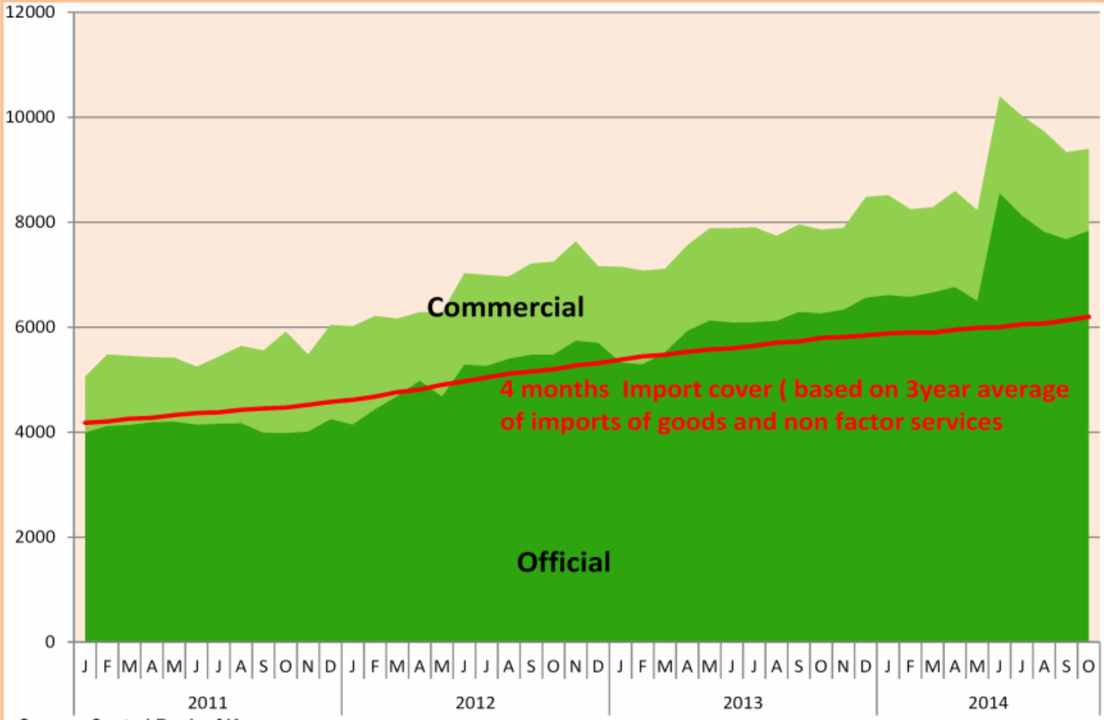
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Oct 13	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14
1. Gross Foreign Exchange Reserves	7,859	7,893	8,483	8,519	8,250	8,285	8,594	8,230	10,399	10,029	9,731	9,336	9,400
of which:													
Official	6,263	6,333	6,560	6,612	6,578	6,660	6,765	6,498	8,555	8,128	7,814	7,676	7,839
*import cover***	*4.3*	*4.4*	*4.5*	*4.5*	*4.5*	*4.5*	*4.5*	*4.3*	*5.7*	*5.4*	*5.1*	*5.0*	*5.1*
Commercial Banks	1,596	1,560	1,923	1,907	1,672	1,625	1,829	1,732	1,844	1,902	1,917	1,659	1,561
2. Residents' foreign currency deposits	3,504	3,562	3,909	3,938	3,562	3,636	3,833	3,805	3,776	4,084	4,292	4,148	4,105

**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 weakened to the US Dollar to trade at an average of 89.23 per USD in October 2014 compared to an average of 88.84 per USD in September 2014. The weakening of the shilling was largely on account of general strengthening of the dollar on the international markets coupled with high dollar demand from importers. The Kenya Shilling therefore, strengthened to the Pound Sterling, the Euro and the Japanese Yen following these currencies depreciation against the USD. In the EAC region, the Kenya shilling strengthened to the Uganda and Tanzania shillings as well as the Burundi Franc but weakened to the Rwanda Franc (Table 4.6 and Chart 4D).

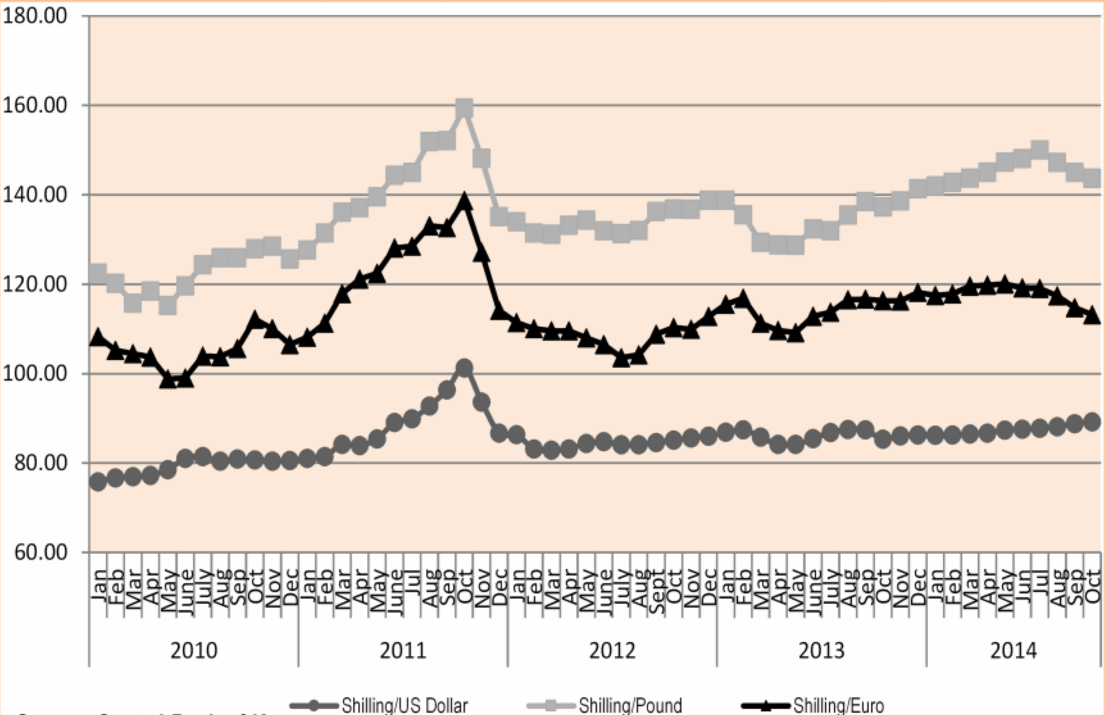
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2014										
	Jan	Feb	Mar	Apr	May	June	July	August	September	October	% change September - October 2014
US Dollar	86.21	86.28	86.49	86.72	87.41	87.61	87.77	88.11	88.84	89.23	0.44
Pound Sterling	141.99	142.81	143.76	145.08	147.29	148.15	150.04	147.24	144.99	143.66	-0.92
Euro	117.50	117.81	119.58	119.78	120.09	119.16	119.02	117.40	114.74	113.21	-1.33
100 Japanese Yen	82.92	84.52	84.58	84.59	85.84	85.88	86.32	85.63	82.90	82.62	-0.34
Uganda Shilling*	29.00	28.61	29.27	29.19	28.97	29.44	29.97	29.66	29.47	30.03	1.91
Tanzania Shilling*	18.68	18.82	18.88	18.86	18.92	19.18	18.97	18.89	18.78	18.96	0.97
Rwanda Franc*	7.85	7.87	7.85	7.82	7.76	7.74	7.76	7.82	7.75	7.72	-0.45
Burundi Franc*	17.99	18.00	17.98	17.88	17.72	17.68	17.65	17.57	17.43	17.47	0.22

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

The Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 9 microfinance banks, 7 representative offices of foreign banks, 92 foreign exchange bureaus, 8 money remittance providers and 2 credit reference bureaus as at October 31, 2014.

Structure of the Balance Sheet

The banking sector balance sheet grew by 19.3 percent from Ksh 2,622.6 billion in October 2013 to Ksh 3,129.3 billion in October 2014. The major components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 59.5 percent, 20.4 percent and 4.5 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances increased from Ksh 1,549.9 billion in October 2013 to Ksh 1,931.2 billion in October 2014, which translated to a growth of 24.6 percent. The growth was attributed to increase in lending to personal/ households, trade, manufacturing, transport and communication and real estate sectors. Loans and advances net of provisions stood at Ksh 1,862.2 billion in October 2014, up from Ksh 1,491.7 billion registered in a similar period in 2013.

Deposit Liabilites

Deposits from customers which form the main source of funding for the banking sector, accounted for 72.1 percent of total funding liabilities. The deposit base grew by 18.3 percent from Ksh 1,906.3 billion in October 2013 to Ksh 2,255.1 billion in October 2014 largely supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

Capital & Reserves

The banking sector recorded increased capital levels in October 2014 with total shareholders' funds growing by 21.0 percent from Ksh 413.7 billion in October 2013 to Ksh 500.7 billion in October 2014. Core capital and total capital increased from Ksh. 326.2 billion and Ksh 384.2 billion to Ksh 394.2 billion and Ksh 465.4 billion, respectively over the same period. However, the ratios of core and total capital to total risk-weighted assets declined from 19.4 percent and 22.9 percent in October 2013 to 15.2 percent and 17.9 percent, respectively. The decline in capital adequacy ratios was as a result of increase in total risk weighted assets occasioned by the capital charge for market and operational risks that took effect from January 2014.

Non-performing Loans

The stock of gross non-performing loans (NPLs) increased by 25.8 percent from Ksh 82.7 billion in October 2013 to Ksh 104.0 billion in October 2014. Similarly, the ratio of gross NPLs to gross loans increased from 5.3 percent in October 2013 to 5.4 percent in October 2014. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 43.2 percent to 40.7 percent in October 2014.

The quality of assets, measured as a proportion of net non-performing loans to gross loans deteriorated from 2.4 percent in October 2013 to 2.6 percent in October 2014 (Table 5.1).

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

		13-Oct	14-Oct
1	Gross loans and advances	1,549.90	1,931.20
2	Interest in Suspense	16.20	20.80
3	Loans and advances (net of interest suspended)	1,533.70	1,910.40
4	Gross non-performing loans	82.70	104.00
5	Specific Provisions	28.70	33.90
6	General Provisions	13.30	14.30
7	Total Provisions (5+6)	42.00	48.20
8	Net Advances (3-7)	1,491.70	1,862.20
9	Total Non-Performing Loans and Advances (4-2)	66.50	83.20
10	Net Non-Performing Loans and Advances (9-5)	37.80	49.30
11	Total NPLs as % of total advances (9/3)	4.30%	4.40%
12	Net NPLs as % of gross advances (10/1)	2.40%	2.60%
13	Specific Provisions as % of Total NPLs (5/9)	43.20%	40.70%

Source: Central Bank of Kenya

Profitablility

The banking sector registered an increase of 14.1 percent growth in pre-tax profits, from Ksh 101.8 billion in October 2013 to Ksh 116.2 billion as at end of October 2014. The annualised return on assets declined slightly to 3.5 percent from 3.6 percent over the same period. Similarly, return on equity decreased from 29.5 percent to 27.9 percent over the same period. Total income increased by 14.7 percent from Ksh 295.1 billion in October 2013 to Ksh 338.6 billion in October 2014, while total expenses increased by 15.1 percent from Ksh 193.3 billion in October 2013 to Ksh 222.4 billion in October 2014. Interest on loans and advances, fees and commissions and government securities were the main sources of income accounting for 59.4 percent, 18.4 percent and 15.1 percent of total income, respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 32.7 percent, 28.0 percent and 24.4 percent, respectively.

Liquidity Ratio Requirement

For the month ended October 31, 2014, average liquid assets amounted to Ksh 822.3 while total short-term liabilities stood at Ksh 2,199.2 billion, resulting to an average liquidity ratio of 37.4 percent, against 39.8 percent registered in October 2013.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for reserve requirements averaged 5.51 percent in October 2014 compared with 5.73 percent in September 2014, and 5.25 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of Ksh 5.6 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in October 2014 compared with Ksh 10.11 billion in September 2014. Commercial banks are required to maintain a Cash Reserve Ratio (CRR) monthly average of 5.25 percent in the 30 day maintenance cycle from 15th through 14th of every month, but subject to a daily minimum of 3.0 percent.

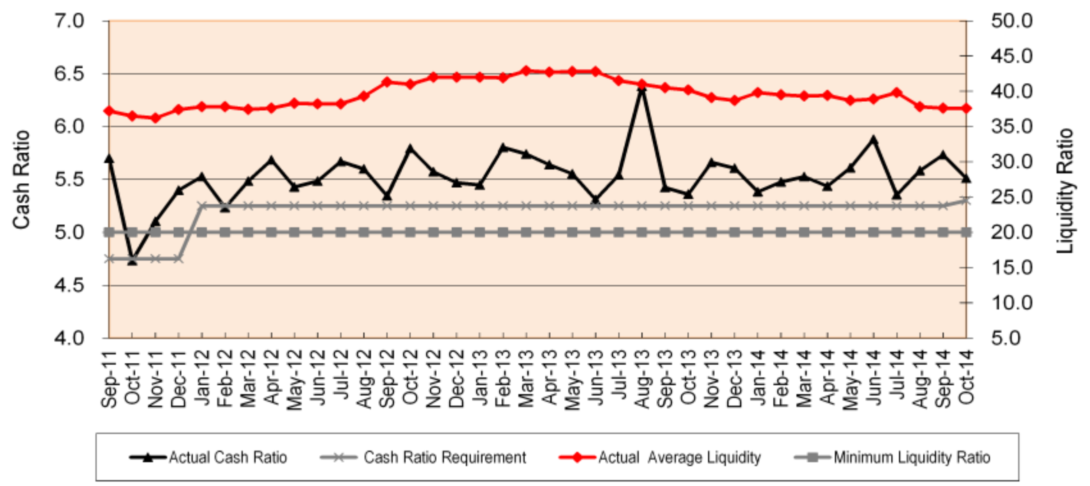
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2013			2014									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct
Commercial Banks													
Actual Average Liquidity	40.20	39.10	38.70	39.80	39.50	39.32	39.40	38.70	38.90	39.80	37.80	37.60	37.58
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	5.36	5.66	5.61	5.38	5.48	5.53	5.44	5.61	5.88	5.35	5.58	5.73	5.51
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	33.10	32.60	32.60	34.20	34.13	32.69	29.90	26.50	27.80	29.70	26.30	26.10	25.19
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 237,027 transaction messages worth Ksh 2,399 billion in October 2014 compared with a volume of 223,227 transaction messages valued at Ksh 2,549 billion moved in September 2014, representing a decrease of 5.88 percent in value and an increase of 6.18 percent in volume. Compared to October 2013, the volume increased by 27.49 percent from 185,920 transaction messages to 237,027 transaction messages in October 2014, while value increased by 4.27 percent from 2,301 billion to 2,399 billion, indicating increased uptake of KEPSS services by the public.

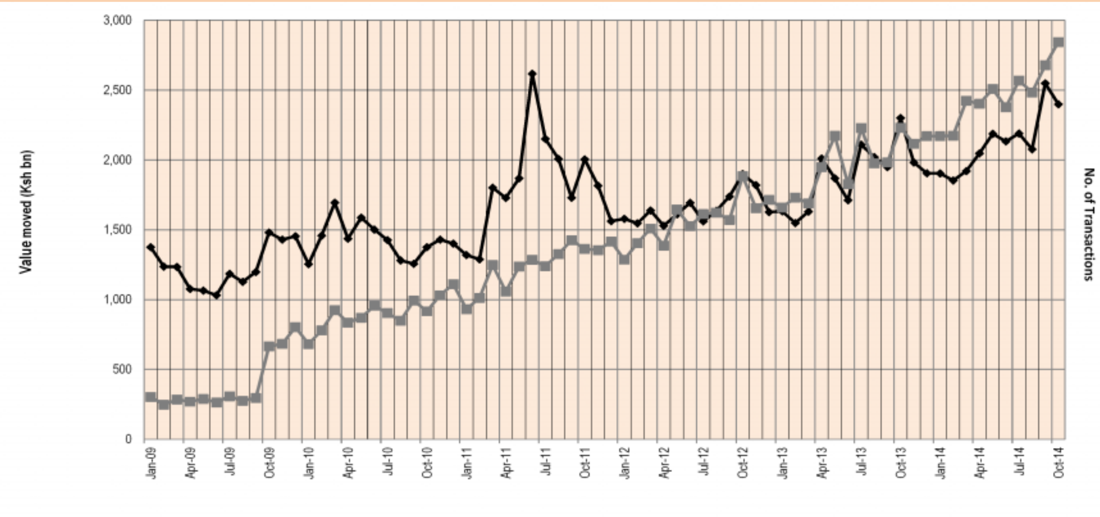
During the twelve months period to October 31, 2014 the value moved averaged Ksh 10 million per transaction. On average, 9,643 transaction messages with an average value of approximately Ksh 101 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted for 99.0 percent of the total settlements, while payments processed through Automated Clearing House (ACH) and settled in KEPSS averaged 1.0 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-12	1,579	28	107,230	0.01	21	75	5,106
Feb-12	1,546	27	116,990	0.01	21	74	5,571
Mar-12	1,638	26	125,739	0.01	22	74	5,715
Apr-12	1,529	26	115,514	0.01	19	80	6,080
May-12	1,610	26	137,135	0.01	22	73	6,233
Jun-12	1,693	26	127,147	0.01	20	85	6,357
Jul-12	1,561	26	134,391	0.01	23	71	6,109
Aug-12	1,637	26	135,243	0.01	23	71	5,880
Sep-12	1,739	26	130,874	0.01	20	87	6,544
Oct-12	1,900	26	157,020	0.01	23	83	6,827
Nov-12	1,820	26	137,975	0.01	22	83	6,272
Dec-12	1,627	30	142,867	0.01	18	90	7,937
Jan-13	1,632	25	138,297	0.01	22	74	6,286
Feb-13	1,548	25	144,248	0.01	20	77	7,212
Mar-13	1,631	28	140,781	0.01	20	82	7,039
Apr-13	2,011	32	162,432	0.01	20	101	8,122
May-13	1,869	31	181,045	0.01	22	85	8,229
Jun-13	1,712	28	152,310	0.01	20	86	7,616
Jul-13	2,109	35	185,773	0.01	23	92	8,077
Aug-13	2,021	24	164,650	0.01	21	96	7,840
Sep-13	1,949	31	165,175	0.01	21	93	7,865
Oct-13	2,301	30	185,920	0.01	22	105	8,451
Nov-13	1,982	29	176,330	0.01	21	94,381	8,397
Dec-13	1,905	30	180,926	0.01	18	105,811	10,051
Jan-14	1,904	31	180,897	0.01	22	87	8,223
Feb-14	1,853	28	181,123	0.01	20	93	9,056
Mar-14	1,920	31	202,035	0.01	21	91	9,621
Apr-14	2,047	27	200,151	0.01	20	102	10,008
May-14	2,188	28	209,019	0.01	21	104	9,953
Jun-14	2,133	32	198,052	0.01	20	107	9,903
Jul-14	2,189	28	214,091	0.01	22	99	9,731
Aug-14	2,077	28	206,937	0.01	21	99	9,854
Sep-14	2,549	33	223,227	0.01	22	116	10,147
Oct-14	2,399	32	237,027	0.01	22	109	10,774

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Third Party Messages

Multiple third party Message Type (MT 102) used for multiple credit transfers increased by 22.16 percent from 18,074 transaction messages in September 2014 to 22,080 transaction messages in October 2014, while single third party Message Type (MT 103) used for single credit transfers increased by 1.77 percent from 241,606 transaction messages to 245,888 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 3.19 percent from 259,680 transaction messages in September 2014 to 267,968 transaction messages in October 2014.

Compared with October 2013, multiple third party messages (MT 102) increased by 82.68 percent from 12,087 transaction messages to 22,080 transaction messages in October 2014 while single third party messages (MT 103) increased by 30.68 percent from 188,162 transaction messages to 245,888 transaction messages (Table 5.4 and Chart 5C).

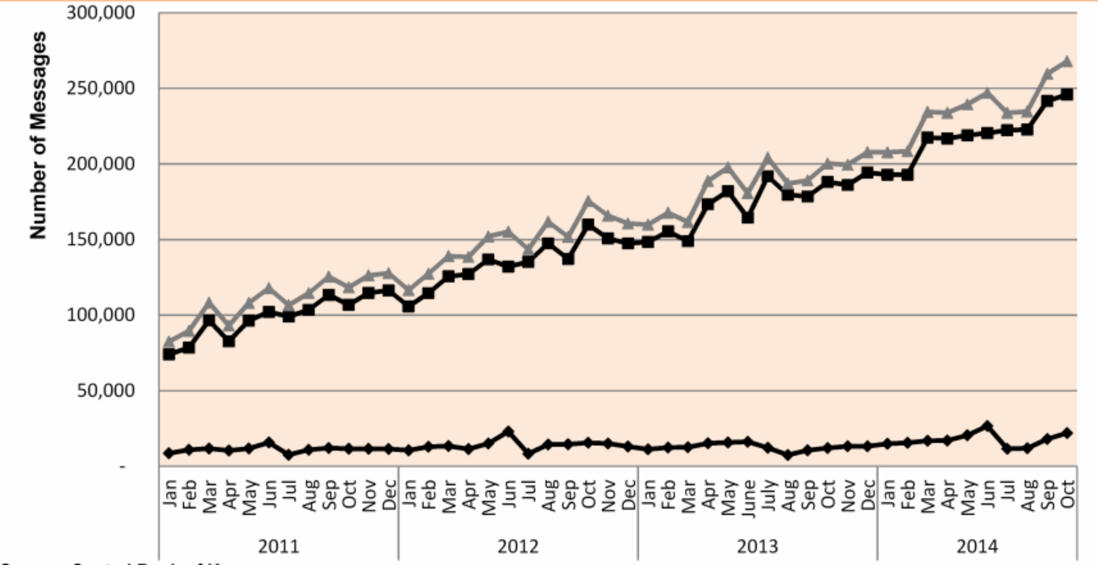
Inter-bank transfers (MT 202) accounted for 39.47 percent of the total value moved through KEPSS as at end of October 2014 while third party (MT 102 and MT 103) messages accounted for 60.53 percent. The total number of third party messages grew by 33.82 percent from 200,249 messages in October 2013 to 267,968 messages in October 2014. This signifies continued growth in KEPSS usage by individuals and non-bank corporate bodies.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2013	Jan	11,267	148,497	159,764
	Feb	12,405	155,349	167,754
	Mar	12,681	148,954	161,635
	Apr	15,247	173,453	188,700
	May	15,690	181,934	197,624
	Jun	16,254	164,422	180,676
	Jul	12,189	191,864	204,053
	Aug	7,530	179,629	187,159
	Sep	10,655	178,480	189,135
	Oct	12,087	188,162	200,249
	Nov	13,265	186,194	199,459
	Dec	13,328	194,427	207,755
2014	Jan	14,858	192,905	207,763
	Feb	15,596	192,858	208,454
	Mar	16,935	217,572	234,507
	Apr	17,019	216,820	233,839
	May	20,543	218,936	239,479
	Jun	26,649	220,504	247,153
	Jul	11,546	222,388	233,934
	Aug	11,903	222,826	234,729
	Sep	18,074	241,606	259,680
	Oct	22,080	245,888	267,968

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

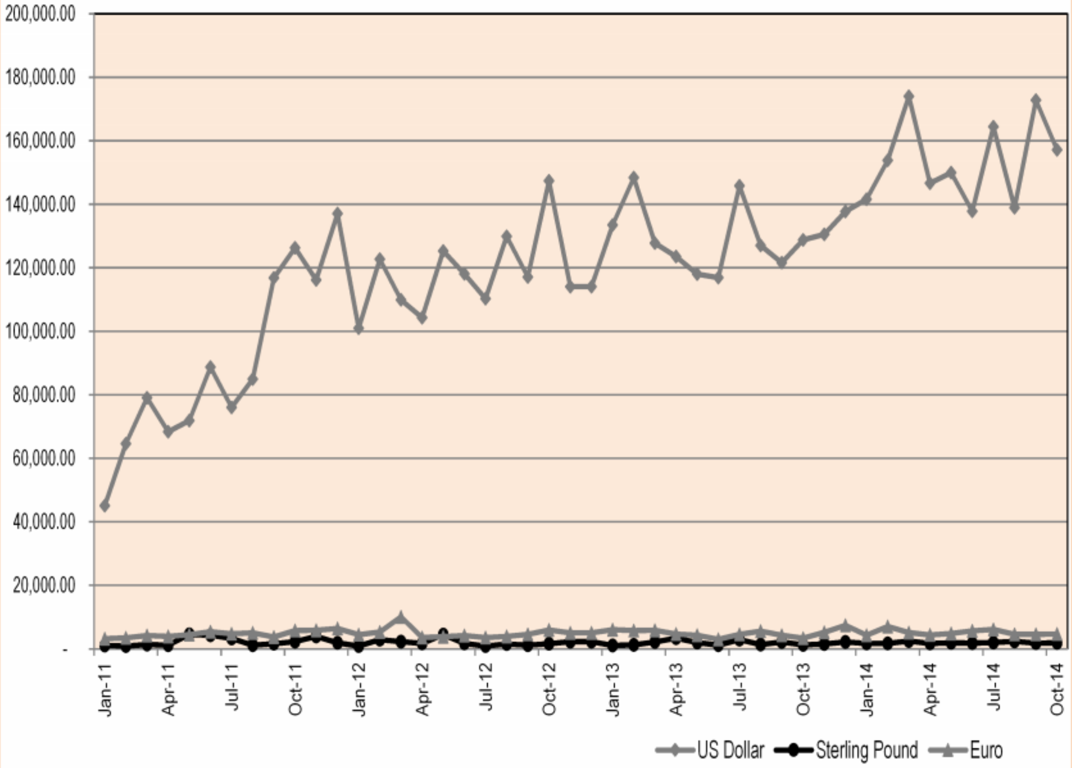


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 3.59 percent from 18,268 transaction messages in September 2014 to 18,923 transaction messages in October 2014. However, the corresponding value in Kenya Shillings equivalent moved in this period decreased by 8.57 percent from Ksh 179.1 billion to Ksh 163.8 billion. The US dollar denominated transactions accounted for 95.95 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.19 percent and 2.86 percent, respectively.

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



Source: Central Bank of Kenya

Government Budget Performance

The Government budgetary operations to the end of the first four months of the FY 2014/15 resulted into a deficit of Ksh 38.3 billion (0.8 percent of GDP) on commitment basis compared with a deficit of Ksh 70.9 billion (1.7 percent of GDP) recorded in the comparable period of FY 2013/14 but lower than the Ksh 127 billion (2.7 percent of GDP) deficit programmed for the period.

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

	FY 2013/14	FY 2014/15		
	Oct Actual	Oct Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	**286.3**	**335.2**	**371.8**	**-36.5**
Revenue	281.6	**329.2**	**354.5**	**-25.2**
Tax Revenue	270.2	299.8	312.9	-13.1
Non Tax Revenue	1.6	12.3	10.4	1.9
Appropriations-in-Aid	9.8	17.2	31.2	-14.0
External Grants	4.6	6.0	17.3	-11.3
2. TOTAL EXPENSES & NET LENDING	**357.2**	**373.5**	**498.8**	**-125.2**
Recurrent Expenses	263.9	249.5	290.9	-41.4
Development Expenses	60.4	73.2	141.2	-68.0
County Transfers	32.9	50.7	66.6	-15.9
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-70.9**	**-38.3**	**-127.0**	**88.7**
As percent of GDP	-1.67	-0.8	*-2.7*	
4. ADJUSTMENT TO CASH BASIS	**0.0**	**0.0**	**0.0**	**0.0**
5. DEFICIT ON A CASH BASIS	-70.9	**-38.3**	**-127.0**	**88.7**
As percent of GDP	-1.67	-0.8	-2.7	
6. DISCREPANCY: Expenditure (+) / Revenue (	**-24.6**	**-4.5**	**0.0**	**-4.5**
7. FINANCING	**46.4**	**33.8**	**127.0**	**-93.2**
Domestic (Net)	41.3	-58.2	91.5	-149.7
External (Net)	5.1	92.0	35.4	56.5
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 335.2 billion in the period July 2014– October 2014, representing an increase of Ksh 49 billion from Ksh 286.2 billion collected in a similar period of the FY 2013/14 (Table 6.2). Tax revenue accounted for 89.4 percent of the total revenue realized. Non-tax revenue surpassed respective target by Ksh 1.9 billion while tax revenue, external grants and appropriations-in-aid recorded deficiency of Ksh 13.1billion, Ksh 11.3 billion and Ksh 14 billion, respectively, with respect to the targeted amounts of Ksh 312.9 billion, Ksh 17.3 billion and Ksh 31.2 billion during this period (Table 6.1).

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

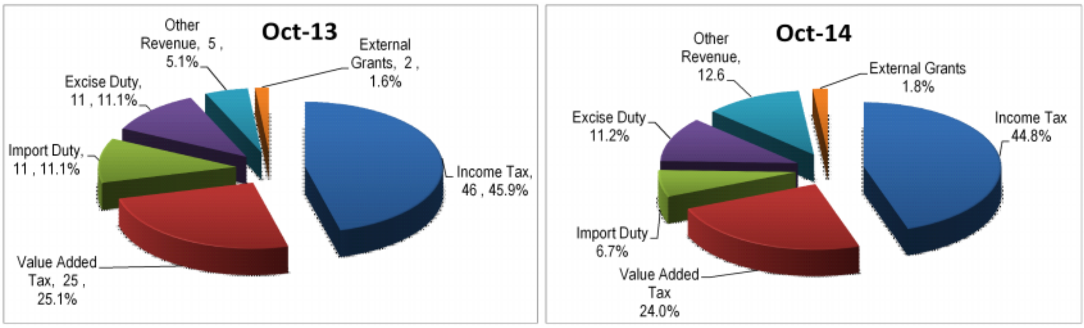
	Oct-13 Ksh bn	Oct-14 Ksh bn	Change
1. Revenue (2+3+4)	**281.6**	**329.2**	**47.6**
2. Tax Revenue	270.2	299.8	29.5
Income Tax	131.5	150.4	18.9
Value Added Tax	72.0	80.4	8.4
Import Duty	31.8	22.5	-9.3
Excise Duty	31.9	37.5	5.6
Others	3.2	9.0	5.9
3. Appropriations-in-Aid	9.83	17.2	7.3
4. Other Revenue	1.5	12.3	10.8
5. External Grants	**4.6**	**6.0**	**1.4**
TOTAL RECEIPTS (1+5)	**286.2**	**335.2**	**49.0**

Source: National Treasury

Tax revenue grew by Ksh 29.5 billion, equivalent to 10.9 percent increase, from Ksh 270.2 billion collected at the beginning of the second quarter of the FY 2013/14 to Ksh 299.8 billion for a similar period of FY 2014/15 (Table 6.2). The increase was dominated by income tax, which grew by Ksh 18.9 billion (14.4 percent) during the period under review. Excise, value added tax, other tax revenue, appropriations-in-aid and other revenue also increased by Ksh 5.6 billion, Ksh 8.4 billion , Ksh 5.9

billion, Ksh 7.3 billion and Ksh 10.8 billion, respectively. On the other hand, import duty declined by Ksh 9.3 billion during the period under review. All taxes except excise duty receipts, fell below respective targets, which may suggest that the level of economic activity during this period was below expectation.

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: National Treasury

Expenditure and Net Lending

Government expenditure and net lending increased by Ksh 16.3 billion in the period July 2014– October 2014 from Ksh 357.2 billion expended during the same period in the FY 2013/14. Total expenditure during this period amounted to Ksh 373.5 billion, comprising Ksh 249.5 billion, Ksh 73.2 billion and Ksh 50.7 billion in recurrent expenditure, development expenditure and county transfers, respectively.

Recurrent expenditure declined by Ksh 14.4 billion to a cumulative Ksh249.5 billion which, was lower than the Ksh 290.9 billion target during the period under review (Table 6.1). This decline was largely on account of Ksh 21.7 billion decline in other recurrent expenditure, which was partially offset by increases in salaries and wages and interest payment amounting to Ksh 1.1 billion and Ksh 6.2 billion, respectively. Development expenditure increased by Ksh 12.8 billion to Ksh 73.2 billion but was below programmed target of Ksh 141.2 billion (by Ksh 68 billion) over the period under review. Meanwhile, County transfers increased to Ksh 50.7 billion in October 2014 from Ksh 32.9 billion in a similar period of the previous financial year but was below target by Ksh 15.9 billion (Table 6.1). The lower than projected absorption in the development budget is attributed to slow absorption of funds from external sources.

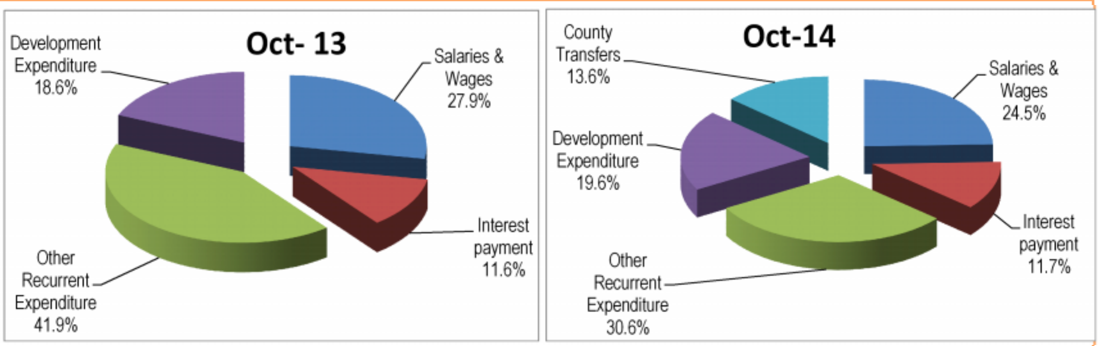
TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)

	Oct-13 Ksh bn	Oct-14 Ksh bn	Movement
1.Recurrent	**263.9**	**249.5**	**-14.4**
Salaries & Wages	90.4	91.5	1.1
Total Interest	37.6	43.7	6.2
of which			
Domestic*	34.1	39.6	5.5
Foreign interest due	3.5	4.2	0.7
Others	136.0	114.3	-21.7
2. Development	**60.4**	**73.2**	**12.8**
3. County Transfers	**32.9**	**50.7**	**17.8**
TOTAL EXPENSES	**357.2**	**373.5**	**16.3**

*Includes commission and other charges paid to CBK

Source: National Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: National Treasury

Financing

Budgetary operations of the Government resulted in a financing requirement of Ksh 92.5 billion in the period July 2014 – October 2014 compared with Ksh 103.6 billion in the same period of the FY 2013/14. The Government sourced the funds through net external borrowing of Ksh 92.5 billion. The funds were allocated to bridge the Government budgetary deficit of Ksh 33.8 billion, repayment of domestic debt of Ksh 26.9 billion and buildup of government deposits by Ksh 31.9 billion (Table 6.4). The build-up of Government deposits in part mirror lower than budgeted uptake in development expenses. In addition, inability of the Government to source its financing requirements through domestic borrowing reflects the high level of redemption of maturing domestic debt during this period.

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

I. FINANCING REQUIREMENTS	Oct-13	Oct-14
1. Budget deficit	46.4	33.8
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	26.9
3.1 Central Bank (incl. items in transit)	0.0	17.6
3.2 Commercial banks (net of deposits)	0.0	4.6
3.3 Non-bank sources	0.0	4.7
4. Increase in GoK deposits at CBK	57.2	31.9
TOTAL	**103.6**	**92.5**
II. FINANCING SOURCES	**Oct-13**	**Oct-14**
1. Budget surplus	0.0	0.0
2. External debt increase	5.1	92.0
3. Increase in domestic debt	98.5	0.0
3.1 Central Bank	21.0	0.0
3.2 Commercial banks	6.4	0.0
3.3 Non-bank sources	71.0	0.0
4. Reduction in GoK deposits at CBK	0.0	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
6. Others (domestic loan repayments)	0.0	0.5
TOTAL	**103.6**	**92.5**

Sources: National Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

The government debt at the Central Bank declined by Ksh 9.8 billion to Ksh 47.6 billion for the period July 2014 – October 2014, compared to Ksh 57.4 billion owed in a similar period of the FY 2013/2014. The decrease in Government's liability to the Central Bank was largely attributed to a decline in utilization of government overdraft facility at the Central Bank which was partially offset by increased holding of rediscounted securities. In addition, the Government repaid Ksh 1.1 billion, through the regular amortization of the pre- 1997 overdraft at the Central Bank. The Government borrowing through overdraft facility at the Central Bank was within the statutory limit.

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

	2013	2014	Movement
	Oct	Oct	
Total Credit	**57.4**	**47.6**	**-9.8**
1. Overdraft	28.0	18.3	-9.7
2. Rediscounted securities	0.4	1.4	1.0
Treasury bills	0.1	1.4	1.3
Treasury bonds	0.3	0.0	-0.3
3. Pre-1997 Government Overdraft at CBK	28.9	27.8	-1.1
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.1	0.0	-0.1
Memorandum			
Authorised overdraft limit	**34.2**	39.1	4.9
Amount utilised to date	28.0	18.3	-9.7
Amount available	6.2	20.8	14.6

Source: Central Bank of Kenya

Outlook for FY 2014/15

In the budget estimates for the FY 2014/15, ordinary revenue is estimated at Ksh 950.5 billion (23.1 percent of GDP) and external grants estimated at Ksh 78.9 billion (1.7 percent of GDP). Government expenditure is estimated at Ksh 1,470.6 billion (or 30.9 percent of GDP) and comprise recurrent expenditure amounting to Ksh 821.9 billion (17.3 percent of GDP), development expenditure amounting to Ksh 455.26 billion (9.57 percent of GDP) and county transfers amounting to Ksh 193.5 billion (4.1 percent of GDP) as shown in Table 6.6.

TABLE 6.6: BUDGET ESTIMATES FOR THE FISCAL YEAR 2014/15 (Ksh Billion)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE	**1,097.6**	**23.1**
Ordinary Revenue	950.5	20.0
Appropriations-in-Aid	68.2	1.4
External Grants	78.9	1.7
2. TOTAL EXPENSES & NET LENDING	**1,470.6**	**30.9**
Recurrent Expenses	821.9	17.3
Development Expenses	455.3	9.6
County Transfer	193.5	4.1
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-373.0**	**-7.8**
4. ADJUSTMENT TO CASH BASIS	**0.0**	**0.0**
5. DEFICIT ON A CASH BASIS	**-373.0**	**-7.8**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.0**	**0.0**
7. FINANCING	**372.9**	**7.8**
Domestic (Net)	134.7	2.8
External (Net)	238.2	5.0

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

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 373 billion (7.8 percent of GDP) in 2014/15. The deficit is expected to be financed through net external borrowing of Ksh 238.3 billion and net domestic borrowing of Ksh 134.7 billion.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt Kenya's public and publicly guaranteed debt declined by 1.5 percent to reach Ksh 2,335.0 billion in October 2014, from Ksh 2,370.3 billion in June, 2014. The total debt stock at the end of October 2014 was equivalent to 49.1 percent of GDP, compared with 49.8 percent of GDP in June 2014. The domestic debt component of total debt declined from 27.0 percent in June 2014 to 26.2 percent in October 2014, while the external debt to GDP ratio increased marginally from 22.8 percent in June 2014 to 22.9 percent in October 2014 (Table 7.1).

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

	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Change 2014/15
EXTERNAL										
Bilateral	244.2	283.7	288.5	288.4	289.9	286.2	285.3	278.5	275.8	-14.1
Multilateral	573.3	581.9	587.5	595.6	597.3	604.7	605.8	608.0	612.1	14.8
Commercial Banks	59.1	59.2	59.1	59.6	182.2	182.5	183.6	185.2	184.9	2.6
Supplier Credits	15.7	15.7	15.9	14.3	16.5	16.3	16.3	16.1	16.0	-0.4
Sub-Total	**892.3**	**940.5**	**951.0**	**957.9**	**1085.9**	**1089.7**	**1091.0**	**1087.8**	**1088.8**	2.9
(As a % of GDP)	18.8	19.8	20.0	20.1	22.8	22.9	22.9	22.9	22.9	
(As a % of total debt)	42.1	42.3	42.3	43.7	45.8	45.7	46.0	46.3	46.6	
DOMESTIC										
Banks	**664.4**	**663.5**	**632.5**	**644.1**	**682.8**	**698.7**	**682.2**	**665.0**	**638.1**	**-44.7**
Central Bank	73.3	77.2	63.2	68.1	65.7	61.6	62.0	63.6	29.1	-36.6
Commercial Banks	591.1	586.3	569.3	576.0	617.1	637.1	620.3	601.4	609.0	-8.1
Non-banks	**553.2**	**606.7**	**650.5**	**575.3**	**586.5**	**583.6**	**585.7**	**584.1**	**595.6**	**9.1**
Pension Funds	304.8	310.6	311.1	313.6	322.9	323.3	323.6	321.2	317.4	-5.5
Insurance Companies	117.3	117.8	118.3	120.1	121.0	121.1	125.8	127.6	127.8	6.8
Other Non-bank Sources	131.1	178.3	221.1	141.7	142.6	139.2	136.3	135.2	150.4	7.8
Non-residents	**11.7**	**14.0**	**13.4**	**13.1**	**14.9**	**14.2**	**13.2**	**11.8**	**12.4**	**-2.5**
Sub-Total	**1229.3**	**1284.2**	**1296.5**	**1232.5**	**1284.2**	**1296.4**	**1281.1**	**1260.9**	**1246.1**	**-38.1**
(As a % of GDP)	25.8	25.9	25.6	25.9	27.0	27.3	26.9	26.5	26.2	
(As a % of total debt)	57.9	57.7	57.7	56.3	54.2	54.3	54.0	53.7	53.4	
GRAND TOTAL	**2121.6**	**2224.7**	**2247.4**	**2190.4**	**2370.2**	**2386.1**	**2372.1**	**2348.7**	**2335.0**	**-35.2**
(As a % of GDP)	44.6	45.6	45.6	46.0	49.8	50.2	49.9	49.4	49.1	

Sources: National Treasury and Central Bank of Kenya

Domestic Debt The total stock of domestic debt declined by Ksh 38.1 billion during the first four months of the FY 2014/15 to reach Ksh 1,246.1 billion in October 2014, resulting in a decline in the domestic debt to GDP ratio to 26.2 percent from 27.0 percent in June 2014. This was largely on account of net redemptions of Ksh 15.5 billion in Treasury bills and repayment of Ksh 18.9 billion in the Government's outstanding overdraft at the Central Bank, respectively (Table 7.2). The share of domestic debt in total debt declined from 54.2 percent in June, 2014 to 53.4 percent in October 2014 (Table 7.1).

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2014										Change
	June	%	July	%	Aug	%	Sep	%	Oct	%	Jun 14 - Oct 14
Total Stock of Domestic Debt (A+B)	**1,284.3**	**100.0**	**1,296.4**	**100.0**	**1,281.1**	**100.0**	**1,260.9**	**100.0**	**1246.14372**	**100**	**(38.2)**
A. Government Securities	**1,242.4**	**96.7**	**1,261.3**	**97.3**	**1,246.6**	**98.9**	**1,223.7**	**97.0**	**1,233.8**	**99.0**	**(8.7)**
1. Treasury Bills (excluding Repo Bills)	**299.4**	**23.3**	**319.2**	**24.6**	**305.6**	**24.2**	**276.0**	**21.9**	**283.9**	**22.8**	(15.5)
Banking institutions	176.5	13.7	199.7	15.4	187.4	14.9	162.9	**12.9**	**173.5**	**13.9**	(2.9)
Others	123.0	9.6	119.5	9.2	118.2	9.4	113.2	**9.0**	110.4	**8.9**	(12.6)
2. Treasury Bonds	**914.8**	**71.2**	**914.4**	**70.5**	**913.2**	**72.4**	**919.9**	**73.0**	922.1	**74.0**	**7.3**
Banking institutions	436.4	34.0	436.2	33.6	433.2	34.4	437.8	34.7	**436.9**	**35.1**	0.5
Pension Funds	247.5	19.3	322.9	24.9	255.7	20.3	259.4	**20.6**	255.7	20.5	8.2
Others	230.9	18.0	155.3	12.0	224.4	17.8	222.7	**17.7**	229.5	**18.4**	(1.4)
4. Non-Interest Bearing Debt	**28.3**	**2.2**	**27.7**	**2.1**	**27.8**	**2.2**	**27.8**	**2.2**	27.8	**2.2**	**(0.5)**
Of which: Repo T/Bills	28.3	2.2	27.7	2.1	27.7	2.2	27.7	2.2	**27.7**	**2.2**	(0.6)
B. Others:	**41.9**	**3.3**	**35.2**	**2.7**	**34.5**	**2.7**	**37.2**	**3.0**	12.4	1.0	**(29.5)**
Of which CBK overdraft to Government	37.2	2.9	31.7	2.4	30.4	2.4	34.4	2.7	**18.3**	**1.5**	(18.9)

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding repos, declined by Ksh 15.5 billion from Ksh 299.4 billion in June 2014 to Ksh 283.9 billion in October 2014 (Table 7.2). As a result, the proportion of Treasury bills to total domestic debt decreased to 22.8 percent in October 2014 from 23.3 percent in June 2014. The dominant investors in Treasury Bills were commercial banks (60.6 percent) and pension funds (21.7 percent) in October 2014 (Table 7.3).

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

	2014										Change
Holders	**June**	**%**	**July**	**%**	**Aug**	**%**	**Sep**	**%**	**Oct**	**%**	**Jun 14 - Oct 14**
Banking Institutions	176.5	58.9	199.7	62.6	187.4	67.9	**162.9**	**59.0**	**173.5**	**61.1**	-2.9
Central Bank	0.0	0.0	2.0	0.6	3.7	1.3	1.4	0.5	1.4	0.5	1.4
Comm. Banks	176.4	58.9	197.6	61.9	183.7	66.5	161.5	58.5	172.1	60.6	-4.3
Insurance Companies	19.9	6.6	20.5	6.4	23.3	8.4	25.9	9.4	24.1	8.5	4.2
Parastatals	4.2	1.4	4.2	1.3	3.1	1.1	3.1	1.1	36.1	12.7	31.9
Pension Funds	67.8	22.6	67.6	21.2	67.8	24.6	61.9	22.4	61.7	21.7	-6.1
Others	31.1	10.4	27.1	8.5	24.0	8.7	22.2	8.1	-11.6	-4.1	-42.7
Total	**299.4**	**100.0**	**319.2**	**100.0**	**305.6**	**100.0**	**276.0**	**100.0**	**283.9**	**100.0**	-15.5

Source: Central Bank of Kenya

Treasury Bonds

Outstanding Treasury bonds increased by Ksh 7.3 billion, from Ksh 914.8 billion in June 2014 to Ksh 922.1 billion in October 2014. The proportion of Treasury bonds in domestic debt increased from 71.2 percent in June 2014 to 74.0 percent in October 2014 (Table 7.2). The holding of Treasury bonds by dominant investors: Ksh 436.9 billion by commercial banks, Ksh 255.7 billion by pension funds and Ksh 103.7 billion by Insurance companies. While the proportion of holdings of Treasury bonds by commercial banks, other holders and parastatals declined from 47.7 percent, 10.3 percent and 3.8 percent respectively, in June 2014 to 47.4 percent 10.0 percent and 3.6 percent, respectively, in October 2014, the share of pension funds rose from 27.1 percent in June 2014 to 27.7 percent in October 2014 (Table 7.4).

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

Holders	June	%	July	%	Aug	%	Sep	%	Oct	%	Change Jun 14 - Oct 14
Banking Institutions	436.4	47.7	436.2	47.7	433.2	47.4	437.8	47.6	436.9	47.4	0.5
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	436.3	47.7	436.1	47.7	433.1	47.4	437.7	47.6	436.9	47.4	0.5
NBFIs	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.0
Insurance Companies	101.2	11.1	100.6	11.0	102.6	11.2	101.7	11.1	103.7	11.2	2.6
Parastatals	34.4	3.8	34.1	3.7	34.2	3.7	32.9	3.6	32.9	3.6	-1.5
Of which: NSSF	16.2	1.8	16.1	1.8	16.1	1.8	14.9	1.6	14.9	1.6	-1.3
Building Societies	0.5	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.6	0.1	0.1
Pension Funds	247.5	27.1	322.9	35.3	255.7	28.0	259.4	28.2	255.7	27.7	8.2
Others	94.7	10.3	19.9	2.2	86.9	9.5	87.4	9.5	92.1	10.0	-2.6
Total	**914.8**	**100.0**	**914.4**	**100.0**	**913.2**	**100.0**	**919.9**	**100.0**	**922.1**	**100.0**	7.3

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Total domestic debt as at October 2014 amounted to Ksh 1,246.1 billion. Government securities worth Ksh 48.5 billion will fall due in October 2014, comprising Ksh 12.7 billion, Ksh 14.3 billion and Ksh 6.09 billion in 91-day, 182-day and 364-day Treasury bills, respectively.

The average length of maturity of existing domestic debt rose to 5 years and 1 month in October 2014 from 4 years and 10 months in June 2014.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2014										Change Jun 14 to Oct 14
	%	Jun	%	Jul	%	Aug	%	Sep	%	Oct	%	
Treasury bills	91-Day	54.7	4.3	59.4	4.6	52.1	4.1	32.7	2.6	27.7	2.2	-27.0
	182-Day	88.9	6.9	93.9	7.2	85.8	6.7	65.2	5.2	57.8	4.6	-31.1
	364-Day	155.8	12.1	165.3	12.8	146.7	11.5	157.6	12.5	176.5	14.2	20.7
Treasury Bonds	1.5-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	166.7	13.0	174.5	13.5	158.2	12.4	158.2	12.5	144.5	11.6	-22.2
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	29.9	2.3	29.9	2.3	29.9	2.3	29.9	2.4	29.9	2.4	0.0
	5-Year	175.3	13.6	175.3	13.5	188.7	14.7	175.5	13.9	175.5	14.1	0.2
	6-Year	40.7	3.2	40.7	3.1	40.7	3.2	40.7	3.2	40.7	3.3	0.0
	7-Year	17.0	1.3	8.7	0.7	8.7	0.7	8.7	0.7	8.7	0.7	-8.3
	8-Year	40.9	3.2	40.9	3.2	40.9	3.2	40.9	3.2	40.9	3.3	0.0
	9-Year	18.2	1.4	18.2	1.4	18.2	1.4	18.2	1.4	18.2	1.5	0.0
	10-Year	131.1	10.2	131.1	10.1	131.1	10.2	146.7	11.6	146.7	11.8	15.6
	11-Year	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	0.0
	12-Year	45.4	3.5	45.4	3.5	45.4	3.5	45.4	3.6	61.4	4.9	16.0
	15-Year	142.9	11.1	142.9	11.0	142.9	11.2	142.9	11.3	142.9	11.5	0.0
	20-Year	60.5	4.7	60.5	4.7	60.5	4.7	60.5	4.8	60.5	4.9	0.0
	25-Year	20.2	1.6	20.2	1.6	20.2	1.6	20.2	1.6	20.2	1.6	0.0
	30-Year	22.1	1.7	22.1	1.7	23.9	1.9	28.1	2.2	28.1	2.3	6.0
	Repo T bills	28.3	2.2	27.7	2.1	27.7	2.2	27.7	2.2	27.7	2.2	-0.6
	Overdraft	39.1	3.0	31.7	2.4	30.4	2.4	34.4	2.7	18.3	1.5	-20.8
	Other Domestic debt	2.76	0.22	4.1	0.3	25.2	2.0	23.4	1.9	16.0	1.3	13.2
Total Debt		1284.33	100.00	1296.4	100.0	1281.1	100.0	1260.9	100.0	1246.1	100.0	-38.2

Source: Central Bank of Kenya

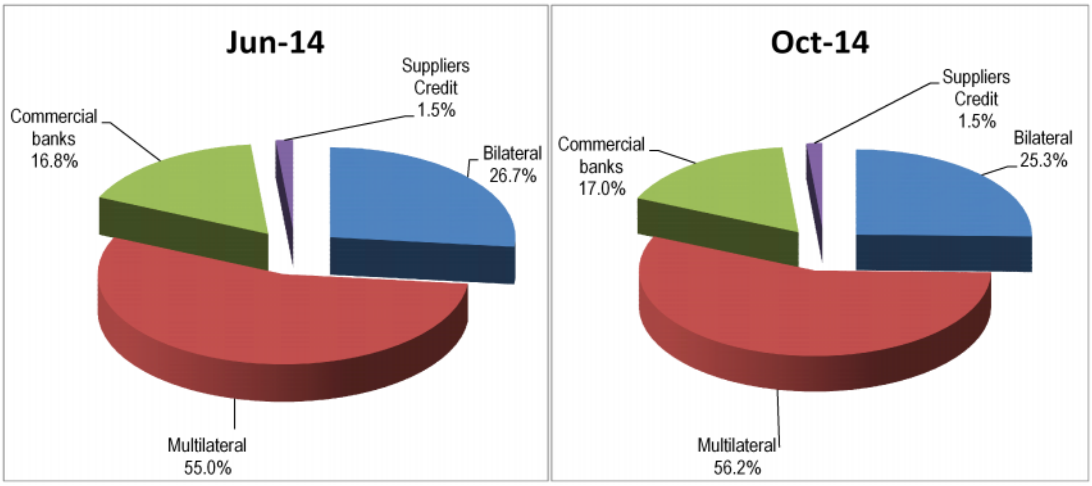
External Debt

Kenya's public and publicly guaranteed external debt increased by Ksh 2.9 billion to Ksh 1,088.8 billion in October 2014, from Ksh 1085.9 billion in June, 2014 (Table 7.1). The public external debt to the central government amounted to Ksh 1046.6 billion, while the rest was to parastatals guaranteed by the government. The African Development Bank (ADB) and International Development Association (IDA) collectively accounted for Ksh 5.5 billion of the increase in multilateral debt, while France and China accounted for Ksh 0.7 billion and Ksh 9.2 billion, respectively, of the increase in bilateral debt. Japan's contribution to the bilateral debt reduced by Ksh 0.1 billion, during the period under review. The growth in external debt during this period was largely driven by exchange rate revaluations.

Composition of External Debt by Creditor

Kenya's official external creditors, the multilateral and bilateral lenders, accounted for 81.5 percent of total public and publicly guaranteed external debt by October 2014. The proportion of external debt owed to commercial banks increased from 16.8 percent in June 2014 to 17.0 percent in October 2014, while that owed to bilateral lenders declined from 26.7 percent, in June 2014 to 25.3 percent in October 2014. The share of external debt owed to multilateral lenders increased from 55.0 percent in June 2014 to 56.2 percent in October 2014 (Chart 7A).

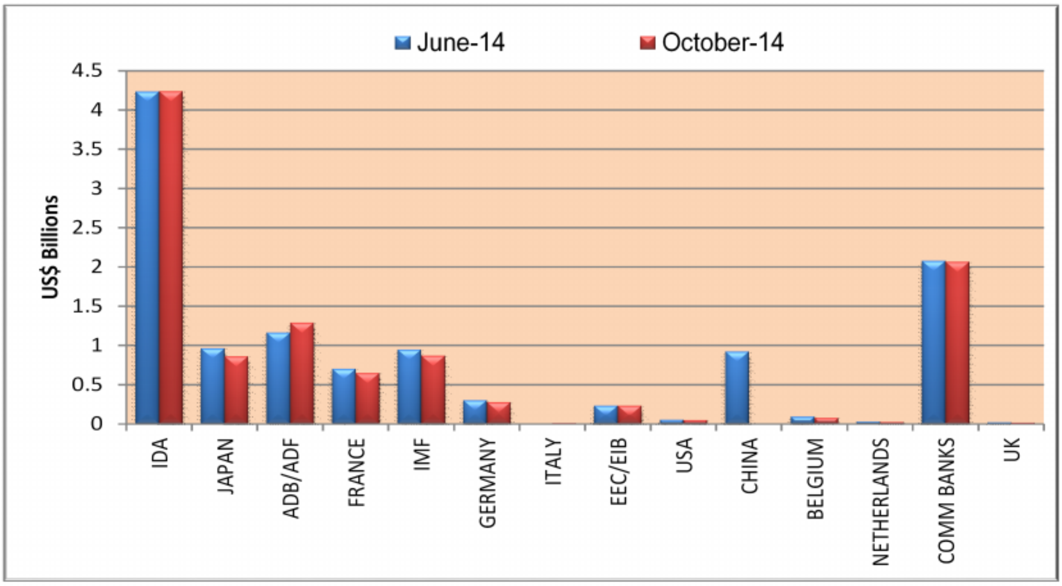
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: National Treasury

Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 4.2 billion or 34.8 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender, amounted to USD 0.9 billion, which is equivalent to 7.1 percent of the total external debt at the end of October 2014 (Chart 7B).

CHART 7B: EXTERNAL DEBT BY CREDITOR

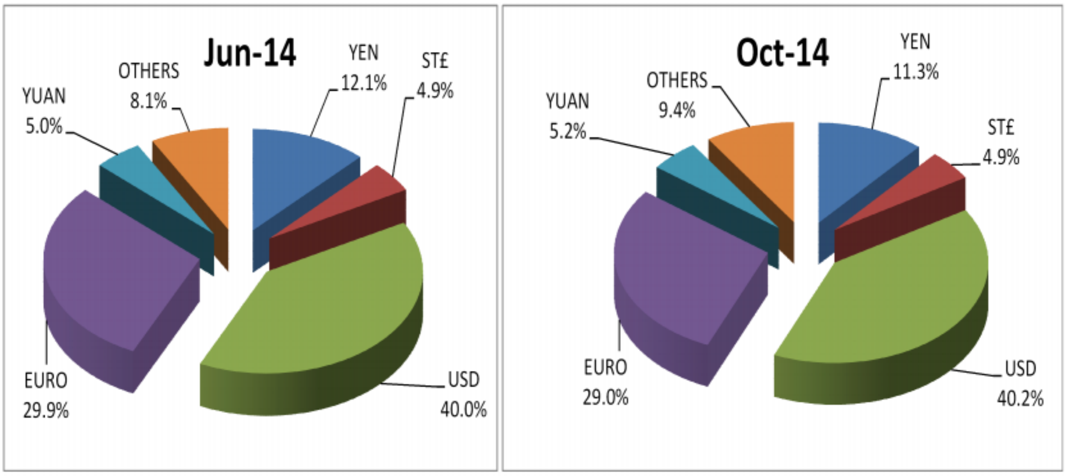


Source: National Treasury

Currency Composition of External Debt

The proportion of external debt denominated in the US dollar increased slightly from 40 percent in June 2014 to 40.2 percent in October 2014, while that denominated in Japanese Yen and Euro declined from 12.1 percent and 29.9 percent, respectively, to 11.3 percent and 29.0 percent, during the period under review (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: National Treasury

Public Debt Service

Cumulative interest and other charges on domestic debt for first four months of FY 2014/15 amounted to Ksh 39.7 billion compared with Ksh 29.1 billion during a similar period of FY 2013/14. This comprised of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 11.7 billion and Ksh 27.0 billion, respectively. In addition, collective interest on Government overdraft and the Pre-97 overdraft, amounted to Ksh 1.0 billion. External debt service for the first four months of FY 2014/15, amounted to Ksh 3.3 billion, comprising Ksh 2.6 billion in principal repayments and Ksh 0.7 billion in interest payments.

Performance for the FY 2014/15

Total public and publicly guaranteed external debt is estimated at Ksh 1,195.7 billion (25.8 percent of GDP), of which gross and net domestic debt stand at Ksh1, 274.7 billion (27.5 percent of GDP) and Ksh 1,213.4 billion (26.2 percent of GDP), respectively.

Activity in the Stock Market

The equity market segment leading indicators except total turnover declined in October 2014. The bond market segment also recorded losses. Net foreign investor participation to equity turnover at the NSE improved during the period both in foreign purchases and foreign sales.

Equity Market

The NSE 20 Share Index closed 61.11 points lower in October 2014 compared to level in September 2014 and the NASI declined by 3.8 points to 159.23 points from 163.00 points during the month. Market Capitalization edged lower at Ksh 2,246.61 billion from Ksh. 2,293.49 billion while volume of shares traded declined by 34.0 percent. However, equities turnover increased by Ksh 45.54 million or 0.2 percent (Table 8.1 and Chart 8A).

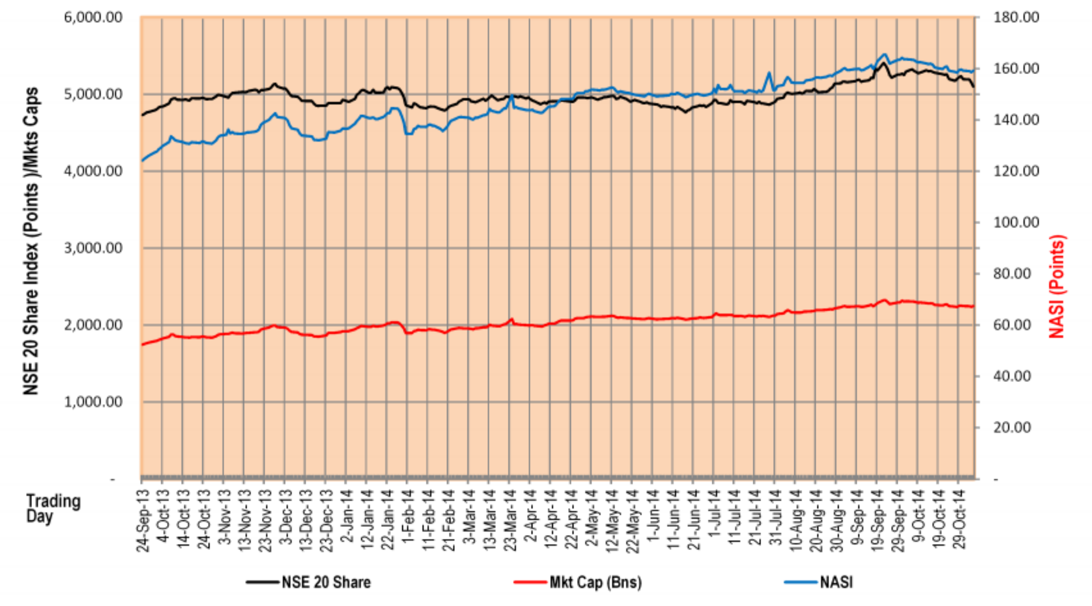
TABLE 8.1: SELECTED STOCK MARKET INDICATORS

Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)	FP to Equity Turnover	FS to Equity Turnover	Overall net FP to Equity Turnover
Jan-13	4,416.60	103.50	518.71	8,464.46	1,387.81	20,999.59	59.06%	33.86%	46.46%
Feb-13	4,518.59	106.91	692.28	14,693.27	1,451.01	20,240.18	42.73%	69.45%	56.09%
Mar-13	4,860.83	117.91	571.29	11,182.65	1,599.80	25,690.98	55.92%	39.74%	47.83%
Apr-13	4,765.23	118.07	596.83	9,856.50	1,601.93	35,190.25	56.75%	26.73%	42.67%
May-13	5,006.96	126.80	867.77	16,070.53	1,720.43	73,523.70	53.22%	31.60%	42.41%
Jun-13	4,598.16	116.31	727.78	13,021.29	1,618.27	85,904.11	66.13%	46.15%	56.14%
Jul-13	4,787.56	122.86	615.90	11,205.17	1,727.83	34,170.82	65.88%	51.38%	58.63%
Aug-13	4,697.75	119.96	670.38	20,797.41	1,681.66	24,520.25	75.75%	28.44%	52.10%
Sep-13	4,793.20	127.35	488.79	10,062.50	1,790.85	29,304.17	65.89%	45.39%	55.64%
Oct-13	4,992.88	133.24	804.51	15,937.19	1,873.66	51,674.82	64.28%	47.19%	55.73%
Nov-13	5,100.88	141.17	645.20	13,128.66	1,975.00	27,310.57	48.21%	41.47%	44.84%
Dec-13	4,926.97	136.65	466.25	11,329.23	1,920.72	23,695.80	54.95%	61.04%	57.99%
Jan-14	4,856.15	134.66	638.48	15,970.23	1,898.00	42,549.39	48.28%	53.77%	51.03%
Feb-14	4,933.41	141.05	545.32	14,742.87	1,960.55	27,671.60	47.52%	57.72%	52.62%
Mar-14	4,945.78	143.89	544.06	13,042.51	2,003.52	32,371.60	50.55%	53.61%	52.08%
Apr-14	4,948.97	151.13	728.00	15,750.00	2,106.08	58,572.78	62.32%	53.37%	57.84%
May-14	4,881.56	150.20	854.00	23,022.00	2,092.00	38,379.11	48.90%	60.10%	54.50%
Jun-14	4,885.00	150.00	731.00	18,190.00	2,107.00	28,541.83	63.40%	49.18%	56.29%
Jul-14	4,906.09	151.69	625.20	15,043.00	2,125.31	49,467.93	56.19%	55.25%	55.72%
Aug-14	5,139.39	157.94	628.64	15,512.78	2,216.57	55,003.41	55.06%	34.08%	44.57%
Sep-14	5,256.00	163.00	767.18	19,241.28	2,293.49	41,859.78	43.71%	48.13%	45.92%
Oct-14	5,194.89	159.23	506.05	19,286.82	2,246.61	38,080.27	50.82%	57.08%	53.95%

Source: Nairobi Securities Exchange

Foreign Investors participation dominated the NSE activities, with overall net foreign participation to total equity turnover closing higher at 53.95 percent in October 2014 from 45.92 percent in September 2014. Foreign purchases accounted for 50.82 percent of total equity turnover against 57.08 percent foreign sales, reflecting net outflow (Chart 8.1).

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



Source: Nairobi Securities Exchange

Most Active Sectors & FTSE NSE Kenya Index Series

Banking, Telecommunication and Technology, and Manufacturing and Allied sectors dominated trading, accounting for 31.9 percent, 26.7 percent and 10.5 percent respectively of all shares traded in the October 2014.

The FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at NSE declined to 208.21 points in October 2014 up from 216.06 points in September 2014. FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks declined to 207.87 points from 216.15 points in September 2014. The FTSE NSE Kenyan Government Bond Index declined to 93.33 points from 93.45 points, reflecting an uptick in market yields.

Bond Market

Bonds turnover declined by 9.03 percent in October 2014, to Ksh 38,080.27 million traded compared with Ksh 41,859.78 million in September 2014. Corresponding deals were 596 up from 350 deals in September 2014. The FXD1/2014/010 dominated trading, at 13 percent of total turnover, with yields ranging from 11.65 percent to 12.5 percent against a coupon rate of 12.18 percent. The Corporate bonds segment traded Ksh 527.81 million, with NICB dominating at Ksh 333.43 million bonds traded.

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

1.0 ASSETS	OCT 2014	JUNE 2014	INCREASE/ (DECREASE)	OCT 2013
1.1 BALANCES DUE FROM BANKING INSTITUTIONS AND GOLD HOLDINGS	669,564	759,650	(90,086)	531,969
1.2 FUNDS HELD WITH IMF	2,818	692	2,125	1,583
1.3 ITEMS IN THE COURSE OF COLLECTION	28	70	(42)	107
1.4 ADVANCES TO COMMERCIAL BANKS	85	50	35	18,809
1.5 LOANS AND OTHER ADVANCES	21,233	40,463	(19,229)	31,923
1.6 OTHER ASSETS	2,773	3,142	(369)	3,352
1.7 RETIREMENT BENEFIT ASSET	7,659	7,659	0	2,967
1.8 PROPERTY AND EQUIPMENT	13,779	13,811	(32)	11,823
1.81 INTANGIBLE ASSETS	517	639	(122)	857
1.9 DUE FROM GOVERNMENT OF KENYA	27,779	28,334	(555)	28,889
TOTAL ASSETS	746,235	854,510	(108,275)	632,279
2.0 LIABILITIES				
2.1 CURRENCY IN CIRCULATION	207,518	199,966	7,551	194,311
2.2 INVESTMENTS BY BANKS	11,862	-	11,862	-
2.3 DEPOSITS	326,846	448,800	(121,953)	263,610
2.4 INTERNATIONAL MONETARY FUND	126,110	130,064	(3,954)	119,264
2.5 OTHER LIABILITIES	1,574	5,097	(3,523)	1,405
2.6 PROVISIONS	157	157	0	123
TOTAL LIABILITIES	674,067	784,084	(110,017)	578,713
3.0 EQUITY AND RESERVES	72,168	70,426	1,742	53,566
Share Capital	5,000	5,000	-	5,000
General reserve fund	51,432	51,432	-	40,545
Period surplus	1,742		1,742	611
Asset Revaluation	8,853	8,853	-	7,410
Retirment Benefit Asset Reserves	5,141	5,141	-	
Dividends payable	-	-	-	-
4.0 TOTAL LIABILITIES AND EQUITY	746,235	854,510	(108,275)	632,279

Source: Central Bank of Kenya

Notes on the Financial Position

Assets

Balances due from Banking institutions and Gold holdings category include foreign reserves held in external current accounts, deposits and special/projects accounts, foreign travelers cheques, domestic foreign currency clearing accounts, gold, special drawing rights and RAMP securities invested with World Bank. The category decreased by Ksh 90,086 million (11.8 percent) from Ksh 759,650 million in June 2014 to Ksh 669,564 million in October 2014.

Items in course of collection represent the value of clearing instruments which are held by the Central Bank, while awaiting clearing by respective commercial banks. The balances as at October 2014 were Ksh 28 million, representing 60.1 percent recovery from Ksh 70 million outstanding as at June 2014.

Advances to commercial banks include balances of money advanced by Central Bank to commercial banks through reverse Repo (injection of liquidity) for a short duration (7 days) and Treasury bills and bonds rediscounted by commercial banks. The balance outstanding increased by Ksh 35 million (70 percent) from Ksh 50 million in June 2014 to Ksh 85 million in October 2014.

Loans and Advances include outstanding balances on advances to commercial banks under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF fund on-lent to Government. The balances decreased by Ksh 19,229 million (a repayment of 47.5 percent) from Ksh 40,463 million in June 2014 to Ksh 21,233 million in October 2014.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets decreased by Ksh 369 million (11.7 percent) from Ksh 3,142 million in June 2014 to Ksh 2,773 million in October 2014.

Due from Government of Kenya liability category arose from overdrawn accounts which were converted to a long term debt with effect from 1 July 1997 after an amendment to the Central Bank of Kenya Act to limit lending to GoK to 5 percent of GoK audited revenue. The Government repaid by Ksh 555 million thereby reducing the long term outstanding debt to Ksh 27,779 million in August 2014 from Ksh 28,334 million in June 2014.

Liabilities

Currency in circulation increased by Ksh 7,551 million (3.8 percent) from Ksh 199,966 million in June 2014 to Ksh 207,518 million in October 2014.

Deposits liability represents deposits held by Government of Kenya, local commercial banks deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances decreased by Ksh 121,953 million to Ksh 326,846 million in October 2014 from Ksh 448,800 million in June 2014.

Amount due to International Monetary Fund represents the Central Bank's obligations to the IMF. The Bank repaid Ksh 3,954 million thereby reducing the outstanding balance due to Ksh 126,110 in October 2014 from Ksh 130,064 million in June 2014.

Other liabilities include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance decreased by Ksh 3,523 million to Ksh 1,574 million in October 2014 from Ksh 5,097 million in June 2014.

Equities and reserves increased by Ksh 1,742 million (2.4 percent), representing the period surplus from June 2014.