MONTHLY ECONOMIC REVIEW
MARCH 2012
The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at:
http://www.centralbank.go.ke

CONTENTS

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

Overview

Introduction

This Monthly Economic Review highlights recent economic developments through March 2012. 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 for the fourth consecutive month to 15.6 percent in March 2012 from 16.7 percent in February 2012 reflecting continued easing in food and fuel inflation. Non-food, non-fuel inflation declined marginally from 11.4 percent in February 2012 to 11.3 percent, while annual average inflation rose from 15.9 percent in February 2012 to 16.5 percent in March 2012.

Money Supply

Growth in broad money supply, M3, decelerated to 14.5 percent in the year to March 2012 from 19.6 percent in the year to March 2011 and was within the 17.7 percent target for March 2012. This reflected a slowdown in the growth of Net Domestic Assets (NDA) of the banking sector.

Interest Rates

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 18.0 percent in March 2012. The weighted average interbank rate increased to 24.02 percent in March 2012 from 18.15 percent in February 2012.

Real GDP Growth

The economy grew at 5.6 percent in 2010 compared with growths of 2.6 percent in 2009 and 1.5 percent in 2008. The growth momentum was sustained in the first quarter of 2011 with quarterly growth rates of 4.9 percent but slowed to 4.1 percent growth in the second quarter of 2011 and to 3.6 percent in the third quarter of 2011. Total output for the third quarter of 2011 amounted to Ksh 399.3 billion compared with output of Ksh 385.3 billion produced in the third quarter of 2010. Except for Electricity and Water Supply, positive growth rates on quarterly production were recorded for all sectors of the economy in the third quarter of 2011.

Balance of Payments

Kenya's overall balance of payments position improved by US$ 58 million from a surplus of 307 million in the year to March 2011 to a surplus of US$ 365 million in the year to March 2012. The movement follows growth in the capital and financial account.

Exchange Rates

The Kenya Shilling appreciated against all major world currencies in March 2012. Against the US dollar, the shilling appreciated by 0.34 percent to exchange at an average of Ksh 82.90 per US dollar in March 2012 compared with Ksh 83.18 per US dollar in February 2012.

Banking Sector Developments

During the period ended March 2012, the Kenyan Banking sector registered improved growth in assets 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 2011.

Government Debt Performance

The central Government budgetary operations for July 2011 – March 2012 in the FY 2011/12 resulted in a deficit of Ksh 152.6 billion on commitment basis compared with a deficit of Ksh 96.1 billion incurred in the same period of the FY 2010/11.

Public Debt

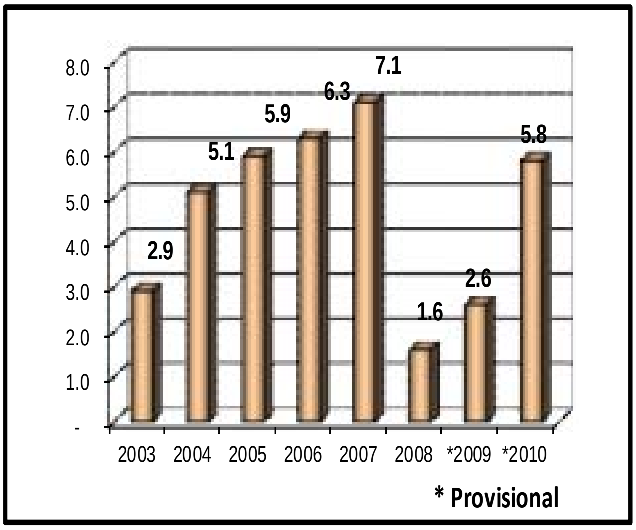
Kenya's public and publicly guaranteed debt increased by Ksh 73.0 billion by the end of the third quarter of the fiscal year 2011/12, from Ksh 1,491.5 billion at the end of June 2011. The total debt-to-GDP ratio declined to 47.5 percent in March 2012 from 54.2 percent in June 2011. Similarly, domestic debt to GDP and external debt to GDP ratios declined from 27.8 percent and 26.4 percent in June 2011 to 27.0 percent and 20.6 percent, respectively, in March 2012. Domestic debt accounted for 56.8 percent of total debt, equivalent to Ksh 887.9 billion.

Stock Market

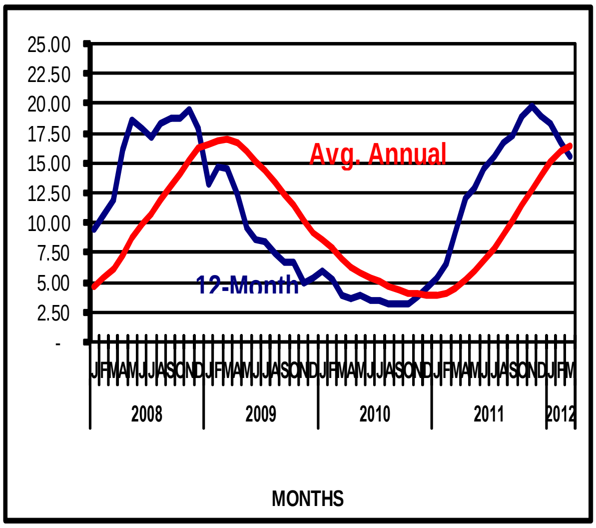
Capital markets activity maintained an upward trend in March, 2012 as shown by key market indicators. All the indices, including the FTSE NSE Kenya Index Series, equity turnover, number of shares traded and volume of bonds closed the month up from their February 2012 level. However, net foreign investor participation declined sharply.

SELECTED ECONOMIC PERFORMANCE INDICATORS

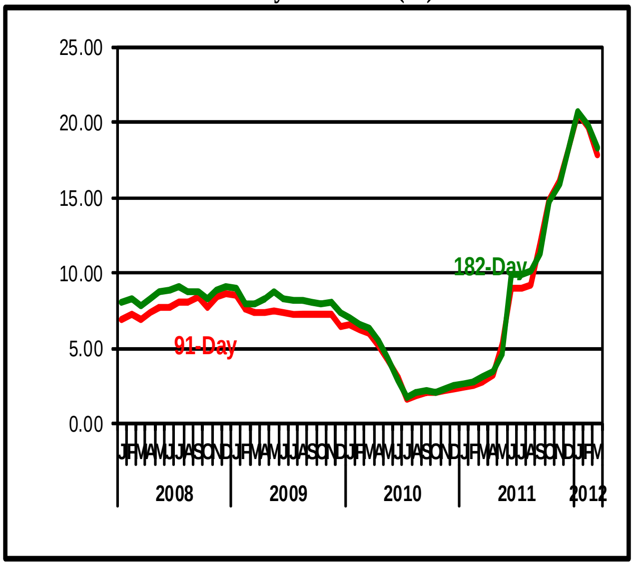
Real GDP Growth (%)



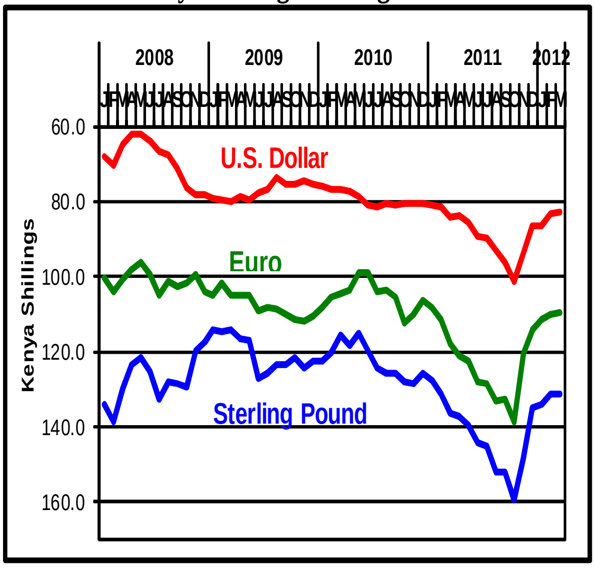
Inflation (%)



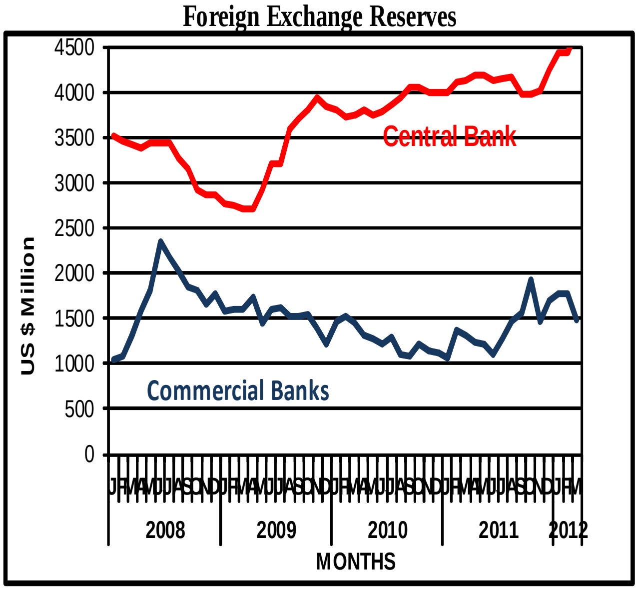
Treasury Bill Rates (%)



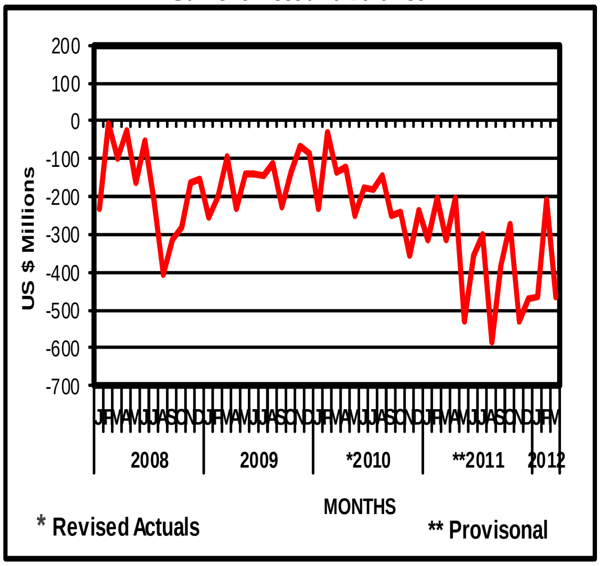
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
1.	**POPULATION***											
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	38.60	39.80
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	0.78	3.11
2.	**NATIONAL ACCOUNTS****											
	Gross value added at basic prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,625	1,444,113	1,616,010	1,858,856	2,080,003	2,232,676
	GDP at Market Prices (Ksh m):											
	At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,565	1,833,511	2,111,173	2,365,453	2,551,161
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,133	1,249,470	1,336,848	1,357,277	1,393,174	1,470,517
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.33	6.99	1.53	2.64	5.55
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,480	34,574	35,968	35,523	35,470	36,419
3.	**GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]**	**12.9**	**10.0**	**8.1**	**10.1**	**12.2**	**13.4**	**14.8**	**13.9**	**16.0**	**13.3**	**12.2**
4.	**GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]**	**6.7**	**4.4**	**4.0**	**4.8**	**6.6**	**5.7**	**6.8**	**6.1**	**8.4**	**5.9**	**5.1**
5.	**GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)**	**17.4**	**18.8**	**14.9**	**16.4**	**17.1**	**16.9**	**17.9**	**19.0**	**19.2**	**19.4**	**19.3**
6.	**OVERALL INFLATION BASE PERIOD= FEB 2009**											
	Annual Average Inflation	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27	9.24	3.96
	12-Month Inflation	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32	4.51
7.	**STOCK MARKET**											
	Nairobi Stock Exchange Price Index (1966=100)	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44	4,432.60
	Trade Turnover Ratio (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64	0.99
8.	**GOVERNMENT BUDGET (Ksh bn) *****											
	Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67	511.36	560.80
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91	718.60
	Budget Deficit (-) / Surplus (+)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)	157.90
	Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(1.54)	0.42	(2.39)	(1.18)	(3.68)	(4.79)	(6.40)
9.	**MONEY AND CREDIT (Ksh bn)(end period)**											
	Liquidity (L)[1]	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,091.93	1,280.47	1,569.57
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.06	1,045.66	1,271.64
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96	222.63
	Total Domestic Credit	**331.29**	**334.00**	**364.93**	**405.20**	**473.61**	**498.66**	**575.76**	**668.90**	**827.41**	**978.32**	**1,188.40**
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	162.78	218.53	277.78
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	664.64	759.79	910.62
10.	**BALANCE OF PAYMENTS (US$ m)****											
	Overall Balance	**217.00**	**372.00**	**59.00**	**365.00**	**117.00**	**306.00**	**675.00**	**854.00**	**(469.00)**	**780.53**	**163.40**
	Current Account	(240.00)	(385.00)	(117.69)	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,609.28	-2,511.91
	Capital and Financial Account	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00	2,389.81	2,675.30
11.	**FOREIGN EXCHANGE RESERVES (US$ m) End Period**	**1,398.72**	**1,459.35**	**1,612.69**	**1,888.04**	**2,078.40**	**2,534.16**	**3,331.30**	**4,556.97**	**4,640.78**	**5,064.03**	**5,122.52**
	Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46	3,847.39	4,001.68
	*Months of imports**** *	*2.8*	*3.2*	*3.3*	*4.4*	*4.1*	*4.0*	*3.9*	*4.8*	*3.4*	*4.1*	*3.9*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63	1,120.84
12.	**PUBLIC DEBT (US$ bn) End Period*****	**7.58**	**7.85**	**8.09**	**9.39**	**9.14**	**9.84**	**10.68**	**12.04**	**13.46**	**13.66**	**14.96**
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72	8.06
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15	21.67	25.90
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94	6.90
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61	22.36	22.20
13.	**EXCHANGE RATE (Ksh/US$) (Annual Average)**	**76.20**	**78.60**	**78.70**	**75.93**	**79.28**	**75.55**	**72.10**	**67.32**	**69.18**	**77.35**	**79.23**

* Provisional.
** Revised to reflect data in Economic Survey 2010.
*** Fiscal year to June 30th.
**** Figures in parentheses refer to official reserves in terms of average of current year of imports of goods and non-factor services.
[1] Previously M3XT
[2] Previously M3X
[3] Revised

Sources: Kenya National Bureau of Statistics, Ministry of Finance, Central Bank of Kenya and Nairobi Stock Exchange

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2011						2012		
	Jan	Feb	Mar	Jun	Sep	Dec	Jan	Feb	Mar
1. INFLATION (%)									
CPI	**110.57**	**112.06**	**114.62**	**120.91**	**125.23**	**130.09**	**130.82**	**130.76**	**132.51**
Overall Inflation									
12-month overall inflation	5.42	6.54	9.19	14.48	17.32	18.93	18.31	16.69	15.61
Average annual overall inflation	3.93	4.05	4.49	6.88	10.18	14.02	15.10	15.93	16.45
2. INTEREST RATES (%)									
91-day Treasury bill interest rate	2.46	2.59	2.77	8.95	11.93	18.30	20.56	19.70	17.80
Overdraft interest rate	13.93	13.65	13.60	13.59	14.64	20.20	20.38	20.53	20.53
3. STOCK MARKET									
Nairobi Stock Exchange Price Index	4,464.92	4,240.18	3,887.07	3,968.12	3,284.06	3,205.02	3,224.00	3,303.75	3,366.89
Turnover Ratio (%)	1.10	0.51	0.71	0.58	0.79	0.46	0.48	0.47	0.50
4. GOVERNMENT BUDGET* (Ksh bn.)									
Revenue $ Grants	362.57	408.80	463.90	679.50	159.25	345.66	398.16	450.53	510.89
Expenses	432.16	489.40	560.00	817.10	179.63	430.93	512.65	586.55	663.49
Budget Deficit (-) / Surplus (+)	**(69.59)**	**(80.60)**	**(96.10)**	**(137.60)**	**(20.38)**	**(85.26)**	**(114.49)**	**(136.0)**	**(152.6)**
5. MONEY AND CREDIT (Ksh bn.)									
Liquidity (L)[1]	1,589.27	1,612.06	1,637.36	1,720.57	1,808.53	1,837.68	1,854.93	1,864.44	1,889.87
Money Supply (M3)[2]	1,285.45	1,306.40	1,324.68	1,380.73	1,484.20	1,489.75	1,514.15	1,505.76	1,504.78
Reserve Money	208.28	209.80	209.40	220.44	236.15	245.37	255.01	244.14	231.67
Total Domestic Credit	1,207.48	1,237.96	1,261.21	1,344.23	1,481.98	1,516.78	1,505.13	1,495.66	1,512.09
Government	278.59	285.61	289.70	277.81	300.49	327.00	311.58	300.73	306.03
Private sector and other public sector	928.89	952.35	971.51	1,066.42	1,181.49	1,189.78	1,193.55	1,194.93	1,206.06
6. MONEY AND CREDIT (Annual % Change)									
Liquidity (L)[1]	**22.48**	**22.92**	**21.25**	**19.20**	**19.15**	**18.91**	**18.03**	**17.96**	**17.13**
Money Supply (M3)[2]	20.44	20.48	19.57	15.16	19.35	19.07	17.14	15.19	14.53
Reserve Money	16.07	19.71	18.00	4.85	12.51	14.54	17.21	10.42	23.17
Total Domestic Credit	**22.63**	**22.69**	**23.99**	**23.69**	**30.10**	**26.65**	**23.87**	**22.14**	**21.39**
Government	26.24	17.36	17.36	0.04	8.01	12.17	7.95	7.15	8.76
Private and other public sector	21.59	24.38	26.12	31.81	37.24	31.07	28.64	26.64	25.15
7. BALANCE OF PAYMENTS (US$ m)									
Overall Balance	**(1.97)**	**24.54**	**20.08**	**(55.13)**	**(184.51)**	**(91.55)**	**(95.81)**	**290.48**	**255.85**
Current Account	(314.62)	(203.65)	(312.59)	(357.57)	(385.11)	(470.90)	(293.24)	(209.09)	(465.72)
Trade Balance	(679.63)	(574.10)	(782.10)	(679.29)	(803.71)	(865.74)	(686.72)	(697.09)	(968.19)
Capital and Financial Account	312.64	228.19	332.67	302.44	200.61	570.00	197.44	499.57	721.58
8. FOREIGN EXCHANGE RESERVES (US$ m)	5,062.44	5,481.38	5,454.41	5,248.75	5,557.17	6,044.72	6,019.34	6,215.47	6,169.27
Official**	3,991.90	4,117.83	4,137.91	4,142.39	3,986.34	4,247.60	4,144.04	4,434.52	4,690.38
Months of imports cover	3.82	3.92	3.94	3.95	3.60	3.74	3.62	3.83	3.97
Commercial banks	1,070.54	1,363.55	1,316.49	1,106.36	1,570.83	1,797.12	1,875.30	1,780.94	1,478.89
9. PUBLIC DEBT (US$ bn)	**16.31**	**16.38**	**16.84**	**16.60**	**15.66**	**17.47**	**17.90**	**18.56**	**18.84**
Domestic	8.94	9.07	9.14	8.51	7.65	9.41	9.57	10.57	10.69
As % of GDP	27.75	30.00	30.48	27.78	27.68	24.32	24.58	26.65	26.97
External	7.38	7.31	7.70	8.09	8.01	8.06	8.34	7.99	8.15
As % of GDP	22.91	24.20	25.52	26.43	28.97	20.82	21.42	20.13	20.55
10. GROSS DOMESTIC DEBT (Ksh bn)* **	726.32	746.86	758.66	764.22	764.27	800.68	809.28	877.29	887.87
11. AVERAGE EXCHANGE RATE									
Ksh/US$	81.03	81.47	84.21	89.0	96.36	86.66	86.34	83.18	82.90
Ksh/Pound Sterling	127.70	131.45	136.10	144.4	152.12	135.10	133.94	131.42	131.18
Ksh/ 100 Yen	98.13	98.65	102.97	110.6	125.55	111.33	112.23	106.10	100.60
Ksh/Euro	108.16	111.29	117.88	128.1	132.68	114.15	111.42	110.06	109.55

* Data on Government budget for 2008/09 fiscal year remain provisional until publication in the Annual Economic Survey

** Figures in parentheses refer to official reserves in terms of average of current year imports of goods and non-factor services.

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

[1] Previously M3XT

[2] Previously M3X

Sources: Kenya National Bureau of Statistics, Ministry of Finance, Nairobi Stock Exchange and Central Bank of Kenya

TRENDS IN VARIOUS MEASURES OF INFLATION

Overall Inflation

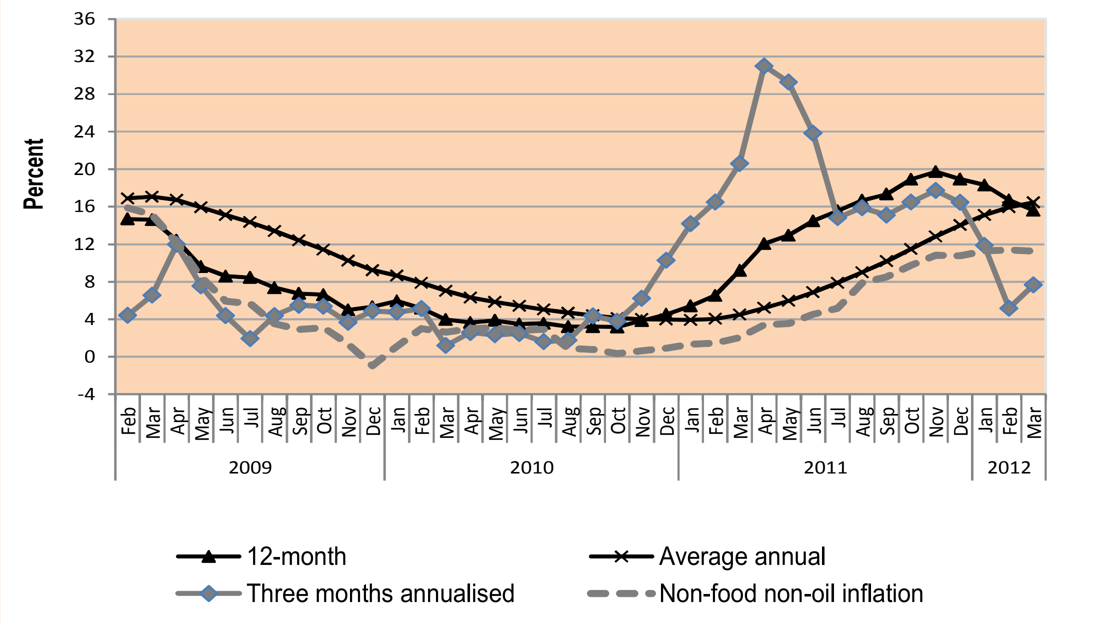
Overall 12-month inflation declined further from 16.7 percent in February 2012 to 15.6 percent in March 2012 reflecting continued easing in food and fuel inflation. Inflation in the 'Food and Non-Alcoholic Beverages' price index declined from 22.1 percent in February 2012 to 20.3 percent in March 2012, while inflation in the 'Transport' index declined from 15.9 percent in February 2012 to 13.0 percent in March 2012. Non-food, non-fuel inflation also marginally declined from 11.4 percent in February 2012 to 11.3 percent in March 2012. Annual average inflation however rose from 15.9 percent in February 2012 to 16.5 percent in March 2012 as the three months annualized rate of inflation also increased from 5.2 percent to 7.7 percent in the same period (Table 1.1 and Chart 1A).

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

Overall Inflation	2010				2011											2012		
	Aug	Sep	Oct	Nov	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
12-month	3.22	3.21	3.18	3.84	6.54	9.19	12.05	12.95	14.48	15.53	16.67	17.32	18.91	19.72	18.93	18.31	16.69	15.61
Average annual	4.69	4.40	4.12	4.02	4.05	4.49	5.20	5.96	6.88	7.88	9.00	10.18	11.49	12.82	14.02	15.10	15.93	16.45
Three months annualised	1.75	4.35	3.79	6.22	16.49	20.58	30.98	29.26	23.82	14.81	15.88	15.08	16.47	17.71	16.45	11.86	5.16	7.66
Non-food non-oil inflation	0.90	0.77	0.34	0.66	1.46	2.05	3.42	3.54	4.52	5.17	7.88	8.51	9.75	10.82	10.76	11.27	11.39	11.27

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

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

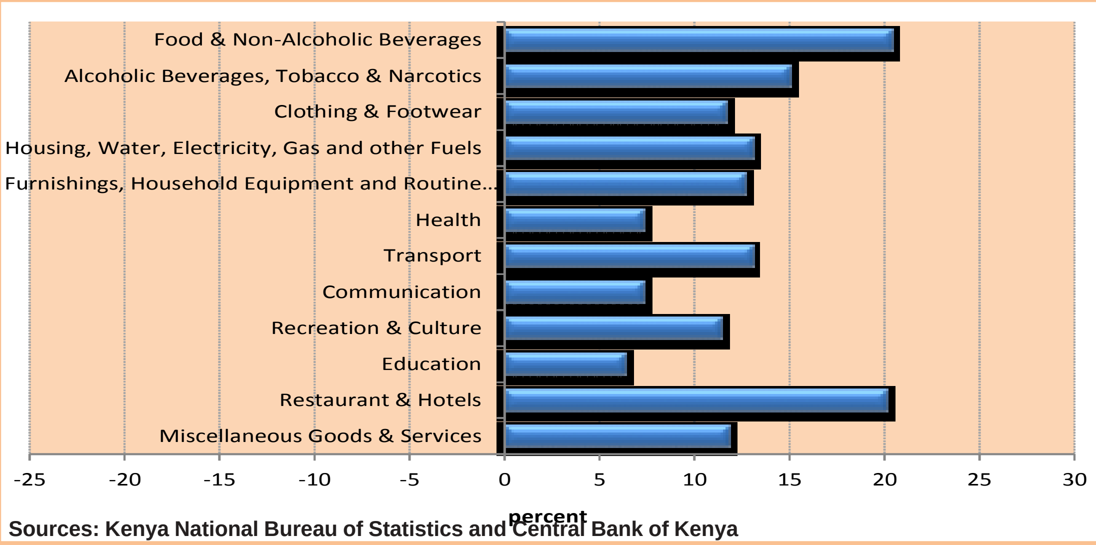


Inflation Across Categories of Goods & Services

The decline in food prices in March 2012 was reflected in the 'Food and Non-Alcoholic Beverages', and the 'Transport' indices, which declined to 20.3 percent and 13.0 percent, respectively, compared with 22.1 percent and 15.9 percent a month earlier. Notable declines were recorded in the prices of diesel and public transport. Inflation in the 'Housing, Water, Electricity, Gas and Other Fuels' basket also eased from 13.8 percent in February 2012 to 13.0 percent in March 2012.

Inflation in the 'Furnishings, Household Equipment and Routine Household Maintenance', 'Restaurants and Hotels', 'Clothing and Footwear', 'Recreation and Culture', 'Communication' and 'Alcoholic Beverages, Tobacco and Narcotics' consumption baskets also eased to 12.6 percent, 20.1 percent, 11.7 percent, 11.4 percent, 7.3 percent and 15.0, respectively, in March 2012 compared with 13.4 percent, 20.4 percent, 11.9 percent, 11.6 percent, 7.4 percent and 15.1 percent, in February 2012. Inflation in 'Education' 'Miscellaneous Goods and Services' and 'Health' consumption baskets however rose to 6.3 percent, 11.8 percent and 7.3 percent, respectively, in March 2012 compared with 6.2 percent, 11.6 percent and 6.7 percent, in February 2012. Non-food, non-fuel inflation therefore marginally declined from 11.4 percent in February 2012 to 11.3 percent in March 2012. 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 50.4 percent of overall 12-month inflation in March 2012 was attributed to food inflation while inflation in Transport and Housing, Water, Electricity, Gas and Other Fuels categories contributed 7.8 percent and 15.1 percent, respectively.

CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES IN MARCH 2012 (%)



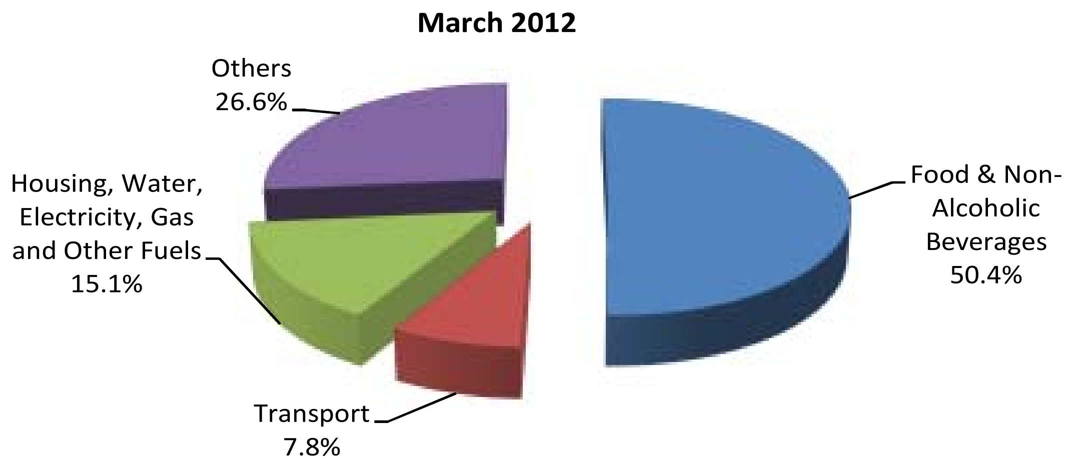
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)

	Aug-10	Sep-10	Oct-10	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
Combined Nairobi	3.67	3.69	3.20	6.61	9.48	12.22	12.44	14.24	18.16	19.18	19.23	18.49	16.48	15.39
Lower Income	4.39	4.32	3.63	7.46	11.04	14.04	13.97	15.96	19.58	20.62	20.63	20.27	17.80	16.50
Middle Income	1.30	1.65	1.63	4.19	5.35	7.56	8.73	9.57	14.33	15.57	15.75	14.07	13.15	12.56
Upper Income	4.71	4.20	4.71	5.43	5.38	6.39	6.18	10.14	14.48	13.99	13.69	11.56	11.09	10.87
Other provinces- excluding Nairobi	2.90	2.87	3.16	6.49	8.99	11.94	13.31	14.66	19.45	20.10	18.73	18.18	16.84	15.77
TOTAL KENYA	**3.22**	**3.21**	**3.18**	**6.54**	**9.19**	**12.05**	**12.95**	**14.48**	**18.91**	**19.72**	**18.93**	**18.31**	**16.69**	**15.61**

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

CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION IN MARCH 2012



Inflationary pressures eased for all the income categories in Nairobi in March 2012. However, inflation was higher in urban centres outside Nairobi by 37 basis points (Table 1.3). On average, the prices of goods and services sold in urban centres outside Nairobi rose by 15.8 percent in March 2012 compared with an average increase of 15.4 percent recorded in Nairobi. The slowdown of inflation in Nairobi reflected reduced transport costs. The indices for the 'Nairobi Lower Income' group, the 'Nairobi Middle Income' and the 'Nairobi Upper Income groups rose at slower rates of 16.5 percent, 12.6 percent and 10.9 percent respectively, in March 2012 compared with 17.8 percent, 13.2 percent and 11.1 percent in the previous month.

TABLE 1.3: OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (MARCH 2012)

MARCH 2012	Weight-CPI Kenya	NAIROBI				REST OF URBAN	TOTAL KENYA
		Lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya Combined	
Food & Non-alcoholic beverages	**36.0**	21.6	15.7	16.5	20.0	20.5	**20.3**
Alcoholic beverages, Tobacco & narcotics	**2.1**	15.2	18.1	6.8	15.6	14.7	**15.0**
Clothing & Footwear	**7.4**	10.2	10.1	6.7	10.1	12.8	**11.7**
Housing, Water,Electricity,Gas and other fuels	**18.3**	14.2	10.7	7.5	13.1	12.9	**13.0**
Furnishings, Household equipment and Routine household maintenance	**6.2**	6.0	13.6	3.2	7.6	16.1	**12.6**
Health	**3.1**	4.0	8.1	3.5	4.9	9.0	**7.3**
Transport	**8.7**	9.7	18.8	17.4	11.9	13.8	**13.0**
Communication	**3.8**	6.1	7.7	5.9	6.5	7.8	**7.3**
Recreation & culture	**2.3**	10.7	15.6	8.5	11.8	11.2	**11.4**
Education	**3.1**	2.8	4.1	6.8	3.3	8.5	**6.3**
Restaurants & hotels	**4.5**	27.2	13.8	12.5	23.6	17.5	**20.1**
Miscellaneous goods & services	**4.5**	11.6	6.3	5.1	10.1	13.0	**11.8**
ALL GROUPS	**100.0**	**16.5**	**12.6**	**10.9**	**15.4**	**15.8**	**15.6**

Source: Kenya National Bureau of Statistics

Inflation Outlook

Inflationary pressures are expected to ease in the coming months on account of the stable exchange rate and expected long rains that will support food production.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Growth in broad money supply, M3, decelerated to 14.5 percent in the year to March 2012 from 19.6 percent in the year to March 2011 and was within the 17.7 percent target for March 2012. This reflected slowdown in the growth of Net Domestic Assets (NDA) of the banking sector (Table 2.1). Money supply, M2, that is, M3 excluding foreign currency deposits, grew by Ksh 131.4 billion (11.5 percent) in the year to March 2012 compared with an increase of Ksh 186 billion (19.4 percent) in a corresponding period in 2011 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits, in M3, increased by Ksh 61 billion (34.0 percent) in the year to March 2012 compared with an increase of Ksh 30.8 billion (20.7 percent) the previous year.

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

	2010 Mar	2011 Mar	2012 Mar	Absolute 2010/11 Mar	Absolute 2011/12 Mar	%age change 12 months Mar-11	%age change 12 months Mar-12
1. Money supply, M3 (2+3) 2/	**1107.9**	**1324.7**	**1517.1**	**216.8**	**192.4**	**19.6**	**14.5**
1.1 Money supply, M2 3/	959.0	1145.0	1276.4	186.0	131.4	19.4	11.5
1.2 Money supply, M1	465.1	603.4	611.8	138.3	8.4	29.7	1.4
1.3 Currency outside banks	96.4	114.2	129.3	17.9	15.0	18.5	13.2
2. Net foreign assets 4/	**268.2**	**286.1**	**276.2**	**17.9**	**-10.0**	**6.7**	**-3.5**
Central Bank	218.1	258.7	291.1	40.6	32.4	18.6	12.5
Banking Institutions	50.1	27.5	-15.0	-22.6	-42.4	-45.2	-154.5
3. Net domestic assets (3.1+3.2)	**839.7**	**1038.6**	**1241.0**	**198.8**	**202.4**	**23.7**	**19.5**
3.1 Domestic credit (3.1.1+3.1.2)	**1017.2**	**1261.2**	**1530.9**	**244.1**	**269.7**	**24.0**	**21.4**
3.1.1 Government (net)	246.9	289.7	315.1	42.8	25.4	17.4	8.8
3.1.2 Private sector and other public sector	770.3	971.5	1215.9	201.2	244.3	26.1	25.2
3.2 Other assets net (3-3.1)	**-177.5**	**-222.7**	**-290.0**	**-45.2**	**-67.3**	**25.5**	**30.2**
Memorandum items							
1. Overall liquidity, L 1/	**1350.5**	**1626.0**	**1906.5**	**275.6**	**280.5**	**20.4**	**17.2**
2. Reserve money	**177.5**	**209.4**	**257.9**	**31.9**	**48.5**	**18.0**	**23.2**
Currency outside banks	96.4	114.2	129.3	17.9	15.0	18.5	13.2
Bank reserves	81.1	95.2	128.6	14.1	33.5	17.4	35.2

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

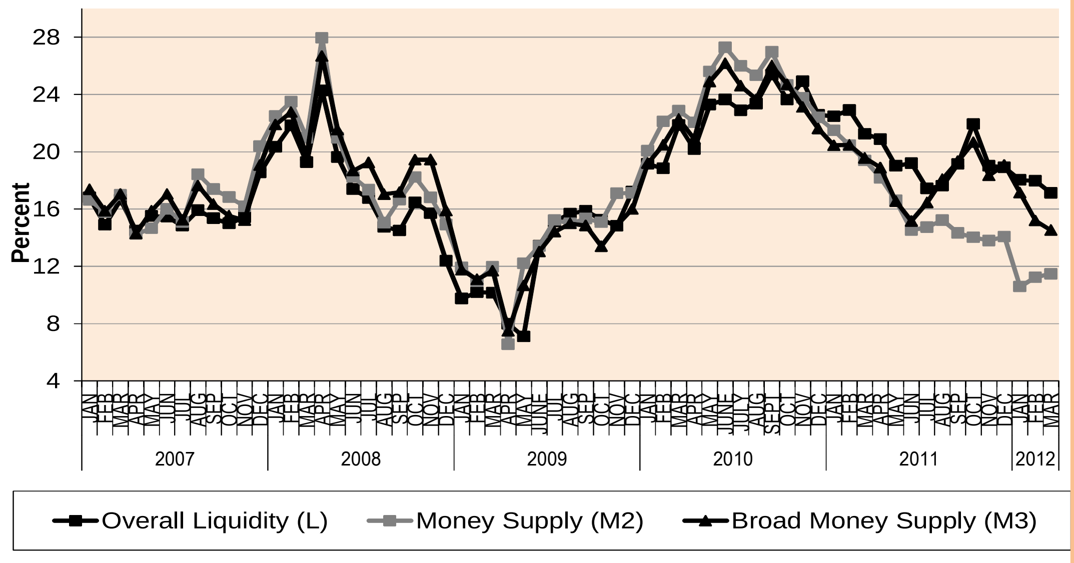
1/ Overall liquidity, L, comprises M3 and non banking public holding of Government securities. It is comparable to M3XT in the past publications.

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

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

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

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The deceleration in the growth of broad money supply, M3, in the year to March 2012 was reflected by slowdown in the growth of Net Domestic Assets (NDA) of the banking system. The NDA of the banking sector increased by Ksh 202.4 billion (19.5 percent) in the year to March 2012 compared with an increase of Ksh 198.8 billion (23.7 percent) recorded the previous year on account of increased credit provision to private sector. The NFA of the banking sector decreased by Ksh 10 billion (3.5 percent) in the twelve months to March 2012 compared with an increase of Ksh 17.9 billion (6.7 percent) in a corresponding period in 2011. The decrease in the NFA of the banking sector reflects a net debtor position for commercial banks consistent with the low interest rates abroad and the appreciation of the Kenya shilling. Growth in NFA of the Central Bank was 12.5 percent in the year to March 2012 compared to 18.6 percent over a similar period in 2011. NFA of commercial banks declined by Ksh 42.4 billion (154.5 percent) in the twelve months to March 2012 compared with a decline of Ksh 22.6 billion (45.2 percent) over a similar period in 2011(Table 2.2). During the period under review, NFA of the Central Bank of Kenya increased by Ksh 32.4billion compared with an increase of Ksh 40.6 billion in 2011. Consequently, the contribution of NDA to the annual change in M3 increased to 105.2 percent in March 2012 from 91.7 percent the previous year, while that of NFA decreased to 5.2 percent from 8.3 percent in the corresponding year in March 2011.

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

	2011 March		2012 March		Absolute Change March		Annual %age Change March	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2010/11	2011/12	2010/11	2011/12
1. Credit to Government	**289.7**	**23.0**	**315.1**	**20.6**	**42.8**	**25.4**	**17.4**	**8.8**
Central Bank	-1.5	-0.1	21.1	1.4	23.0	22.6	-93.89	-1506.6
Commercial Banks & NBFIs	291.2	23.1	294.0	19.2	19.8	2.8	7.3	1.0
2. Credit to other public sector	**17.0**	**1.4**	**32.2**	**2.1**	**6.1**	**15.1**	**55.5**	**88.8**
Local government	-1.5	-0.1	-1.0	-0.1	3.4	0.5	-68.8	-35.2
Parastatals	18.6	1.5	33.2	2.2	2.7	14.6	17.2	78.6
3. Credit to private sector	**954.5**	**75.7**	**1183.7**	**77.3**	**195.1**	**229.2**	**25.7**	**24.0**
Agriculture	43.7	3.5	51.0	3.3	7.5	7.2	20.8	16.6
Manufacturing	117.1	9.3	152.9	10.0	24.6	35.8	26.6	30.5
Trade	158.3	12.6	196.3	12.8	35.4	38.0	28.8	24.0
Building and construction	36.3	2.9	56.0	3.7	0.4	19.7	1.1	54.4
Transport & communications	63.8	5.1	87.0	5.7	-2.0	23.2	-3.0	36.3
Finance & insurance	21.7	1.7	27.8	1.8	-6.4	6.2	-22.9	28.4
Real estate	104.9	8.3	143.4	9.4	51.2	38.5	95.1	36.7
Mining and quarrying	22.4	1.8	26.4	1.7	8.4	4.0	59.5	18.0
Private households	138.9	11.0	163.1	10.7	23.7	24.2	20.5	17.4
Consumer durables	63.9	5.1	76.6	5.0	9.2	12.7	16.9	19.9
Business services	82.9	6.6	78.8	5.1	16.8	-4.1	25.3	-5.0
Other activities	100.5	8.0	124.3	8.1	26.5	23.8	35.8	23.7
4. TOTAL (1+2+3) *	**1261.2**	**100.0**	**1530.9**	**100.0**	**244.1**	**269.7**	**24.0**	**21.4**

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

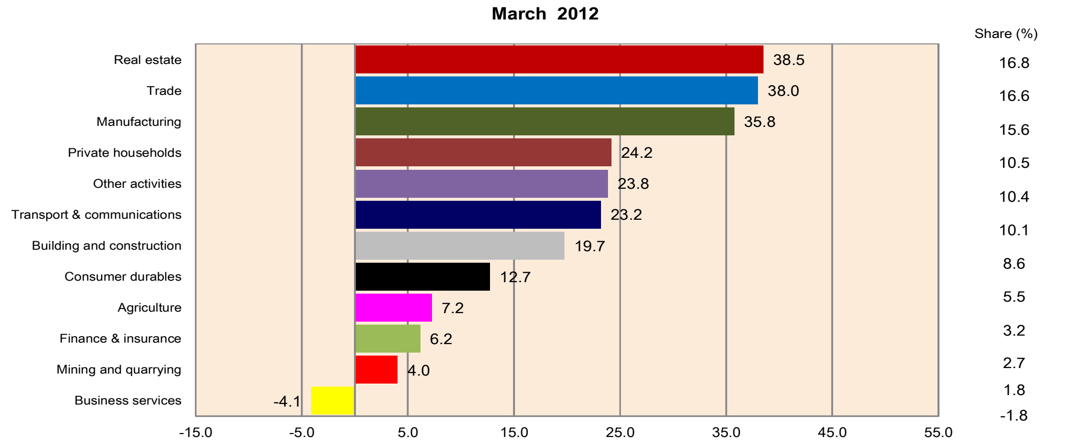
Source: Central Bank of Kenya

Domestic Credit Developments

Domestic credit from the banking sector expanded by Ksh 269.7 billion (21.4 percent) in the twelve months to March 2012 compared with Ksh 244.1 billion (24.0 percent) in a similar period in 2011 (Table 2.2). This reflected increased growth in credit to the private sector. The banking sector channeled its credit largely to the private sector which accounted for 77.8 percent of total lending in March 2012 compared with 75.7 percent in similar period in 2011. The net increase in private sector credit in the year to March 2012 was Ksh 229.2 billion compared with Ksh 195.1 billion recorded in the year to March 2011. This translated into an annual growth rate of 24.0 percent compared with 25.7 percent in March 2011 and corresponding target of 24.3 percent in March 2012.

Credit by commercial banks to the key sectors of the economy - transport and communication, building and construction, and manufacturing sectors – increased in the year to March 2012 compared to a similar period in 2011 (Table 2.2). In terms of shares to total net private sector credit flows, real estates accounted for the largest share (Ksh 38.5 billion or 16.8 percent), followed by Trade (Ksh 38.0 billion or 16.6 percent), Manufacturing (Ksh 35.8 billion or 15.6 percent); private households (Ksh 24.2 billion or 10.5) percent; other activities (Ksh 23.8billion or 10.4 percent); transport and communication (Ksh 23.2 billion or 10.1 percent); building and construction (Ksh 19.7 billion or 8.6 percent), and consumer durables (Ksh 12.7 billion or 5.5 percent) (Chart 2B).

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO MARCH 2012 (Ksh billion)



Source: Central Bank of Kenya

Net credit to the government, which accounted for 20.6 percent of total bank credit in March 2012, increased by Ksh 25.4 billion (8.8 percent) to Ksh 315.1 billion during year under review from Ksh 289.7 billion (23.0 percent of total bank credit) in March 2011.

Reserve Money

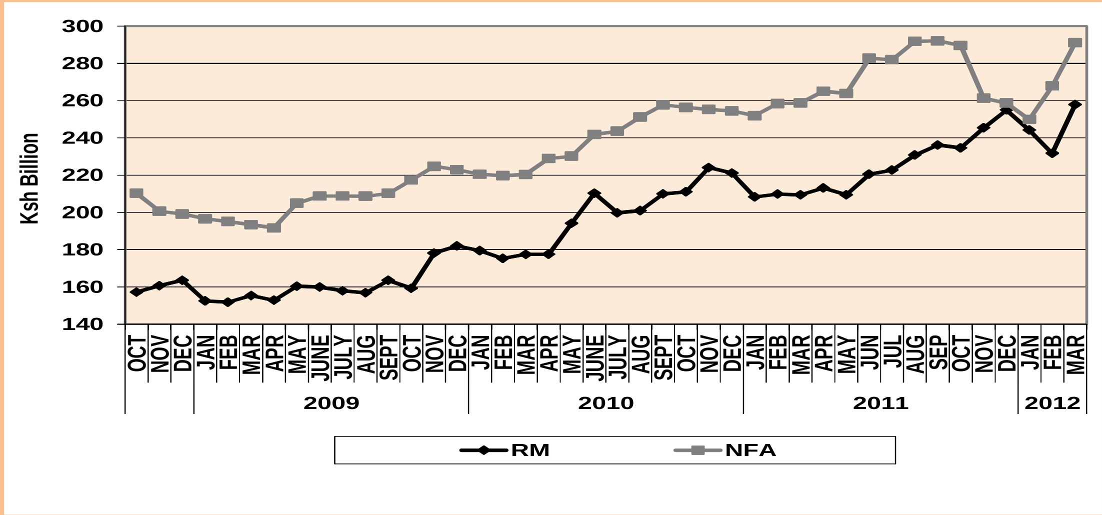
Reserve money increased by 23.2 percent to Ksh 257.9 billion in the twelve months to March 2012 from Ksh 209.4 billion in March 2011 (Table 2.3 and Chart 2C). At Ksh 257.9 billion in March 2012, reserve money was Ksh 16.2 billion above respective target. The growth in reserve money comprised 35.2 percent increase in bank reserves and 13.2 percent growth in currency outside banks. Bank reserves increased by Ksh 33.5 billion in the year to March 2012 compared with an increase of Ksh 14.1 billion in March 2011, while currency outside banks rose by Ksh 15.0 billion compared with an increase Ksh 17.9 billion in a similar period in 2011.

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

	2011	2012	Absolute change		Change (%)		2012	
	March	March	2010/11	2011/12	2010/11	2011/12	March Target	Deviation
1. Net Foreign Assets	258.7	291.1	40.6	32.4	18.6	12.5	288.4	2.7
2. Net Domestic Assets	-49.3	-33.2	-8.6	16.1	21.2	-32.6	-46.7	13.5
2.1 Government Borrowing (net)	-1.5	21.1	23.0	22.6	-93.9	-1506.6	-5.8	26.9
2.2 Advances & Discounts	6.4	5.6	-6.9	-0.8	-52.0	-12.2	9.9	-4.3
2.3 Other Domestic Assets (net)	-54.2	-59.9	-24.7	-5.7	83.9	10.6	-50.8	-9.2
3. Reserve Money	209.4	257.9	31.9	48.5	18.0	23.2	241.7	16.2
3.1 Currency outside banks	114.2	129.3	17.9	15.0	18.5	13.2	131.8	-2.5
3.2 Bank reserves	95.2	128.6	14.1	33.5	17.4	35.2	109.9	18.7

Source: Central Bank of Kenya

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



The sources of reserve money in the twelve months to March 2012 comprised of increases in the net foreign assets (NFA) and net domestic assets (NDA) of the Central Bank of Kenya. Net foreign assets of the Central Bank of Kenya rose by 12.5 percent to Ksh 291.1 billion in the year to March 2012 from 18.6 percent to Ksh 258.7 billion in March 2011.

The NDA of the Central Bank of Kenya rose by Ksh 16.1 billion to Ksh -33.2 billion in the year to March 2012, from Ksh -49.3 billion in the previous year. This was reflected in increased net domestic credit to Government, which more than offset reductions in advances and discounts to commercial banks and other domestic assets (net of liabilities) of the Central Bank. Net credit to the Government from the Central Bank increased by Ksh 22.6 billion to Ksh 21.1 billion in the year to March 2012 compared with a net repayment of Ksh -1.5 billion in a similar period in March 2011. Advances and discounts to commercial banks declined by Ksh 0.8 billion to Ksh 5.6 billion in March 2012 from Ksh 6.4 billion in March 2011, while other domestic assets (net) decreased by Ksh -5.7 billion to Ksh -59.9 billion from Ksh -54.2billion in the previous year.

Central Bank Rates

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 18.0 percent in March 2012. The move was aimed at signaling continuation of a tight monetary policy to rein on inflationary expectations and stabilize the exchange rate.

Short Term Interest Rates

Short term interest rates recorded mixed performance in March 2012 (Table 2.4 and Chart 2D). The weighted average interbank rate increased to 24.02 percent in March 2012 from 18.15 percent in February 2012. The 91-day Treasury bill rate decreased to 17.80 percent in March 2012 from 19.70 percent in February 2012 while the 182-day Treasury bill rate declined to 18.24 percent in March 2012 from 19.88 percent in February 2012.

Lending and Deposit Rates

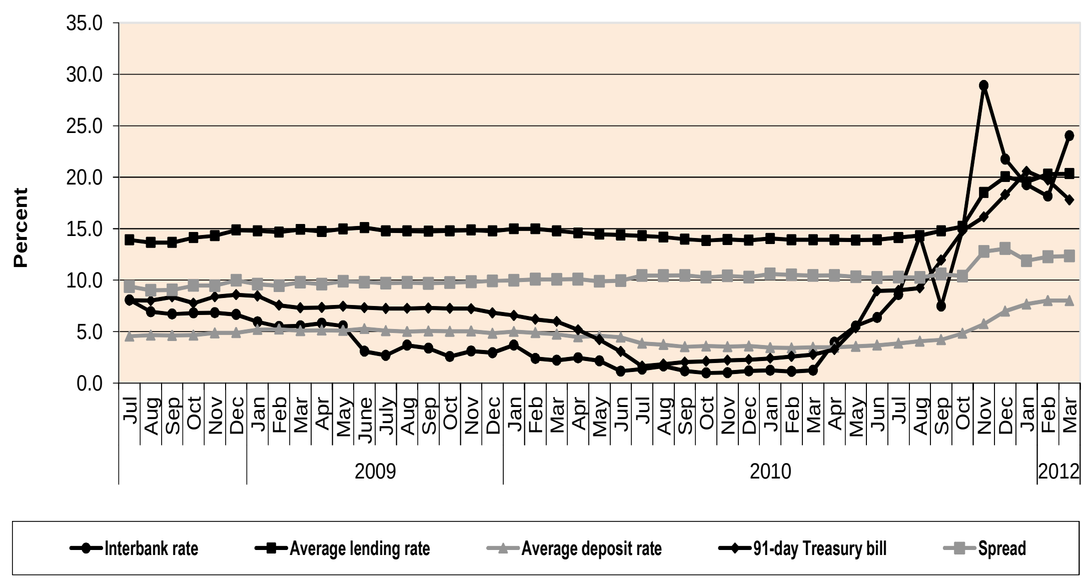
Commercial banks average lending rates increased by 6 basis points to 20.34 percent in March 2012 from 20.28 percent in February 2012 as the average deposit rate stabilized at 8.01 percent. The interest rate spread widened to 12.33 percent in March 2012 from 12.27 percent in February 2012.

TABLE 2.4: INTEREST RATES (%)

	2011											2012		
	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
91-day Treasury bill rate	2.57	2.77	3.26	5.35	8.95	8.99	9.23	11.93	14.80	16.14	18.30	20.56	19.70	17.80
Overdraft rate	13.65	13.60	13.68	13.72	13.59	13.89	14.28	14.64	14.87	18.67	20.20	20.38	20.53	20.53
Interbank rate	1.13	1.24	3.97	5.54	6.36	8.61	14.29	7.46	14.95	28.90	21.75	19.27	18.15	24.02
Repo rate	-	1.66	4.50	5.72	-	5.75	0.00	0.00	18.89	0.00	17.75	17.88	13.78	-
Reverse Repo rate	1.18	1.18	2.99	-	-	6.25	6.25	5.75	-	-	-	-	-	-
Average lending rate (1)	13.92	13.92	13.92	13.88	13.91	14.14	14.32	14.79	15.21	18.51	20.04	19.54	20.28	20.34
Average deposit rate (2)	3.41	3.47	3.47	3.57	3.68	3.85	4.07	4.21	4.83	5.75	6.99	7.66	8.01	8.01
0 to 3 - month deposit	3.67	3.88	3.92	4.08	4.38	4.72	5.37	5.55	6.14	6.95	8.51	9.87	9.98	10.21
Savings deposits	1.41	1.37	1.39	1.38	1.37	1.37	1.37	1.35	1.33	1.41	1.59	1.62	1.69	1.72
Spread (1-2)	**10.51**	**10.45**	**10.46**	**10.31**	**10.23**	**10.29**	**10.25**	**10.58**	**10.39**	**12.77**	**13.06**	**11.88**	**12.27**	**12.33**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

PERFORMANCE OF THE REAL SECTOR

Overview

Real GDP for the year 2010 amounted to Ksh 1.47 trillion and was equivalent to 5.6 percent growth compared with an output of Ksh 1.39 trillion in 2009 (Table 3.1 and Chart 3A). The performance across key sectors of the economy was strong with agriculture and forestry, transport and communication, wholesale and retail trade and manufacturing sectors recording growth rates of 6.3 percent, 5.9 percent, 7.8 percent and 4.4 percent, respectively. Agriculture and forestry contributed 21.7 percent to total output in 2010, while transport and communication, wholesale and retail trade and manufacturing sectors contributed 12.4 percent, 10.5 percent and 9.7 percent, respectively, to total output in 2010.

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

MAIN SECTORS	Share in 2010 Nominal GDP (%)	Share in 2010 Real GDP (%)	Kshs Million 2003	2004	2005	2006	2007	2008	2009	*2010
Agriculture and Forestry	***21.50***	***21.65***	276,089	280,518	299,798	312,926	320,423	307,354	299,431	318,382
Fishing	***0.60***	***0.39***	4,765	5,246	5,751	6,249	6,181	5,363	5,564	5,713
Mining	***0.70***	***0.46***	5,213	5,195	5,334	5,554	6,272	6,453	6,163	6,770
Manufacturing	***10.00***	***9.73***	105,822	110,544	115,699	122,953	130,673	135,291	136,992	143,028
Electricity and water supply	***2.40***	***2.27***	27,074	27,877	27,862	27,288	29,771	31,345	30,390	33,404
Wholesale and retail trade, repairs	***10.30***	***10.51***	92,604	100,486	106,095	118,361	131,754	138,053	143,388	154,558
Hotels & Restaurants	***1.70***	***1.35***	9,899	13,741	15,572	17,894	20,814	13,298	18,993	19,796
Construction	***4.30***	***3.49***	31,530	32,932	35,401	37,649	40,405	43,735	49,141	51,351
Transport, Storage & Communications	***9.80***	***12.38***	104,915	112,260	122,316	136,306	156,845	161,616	171,976	182,051
Financial intermediation	***5.60***	***4.00***	42,064	42,657	45,030	47,170	50,306	51,659	54,043	58,797
Real estate, renting and business services	***4.80***	***5.31***	61,864	63,740	65,882	68,446	70,860	73,503	75,674	78,089
Public administration and defense	***4.70***	***3.20***	46,991	47,062	46,460	45,974	45,031	45,317	46,029	47,035
Education	***5.70***	***5.91***	71,045	72,435	72,963	73,188	76,257	80,771	82,952	86,851
Health and social work	***2.60***	***2.16***	25,431	26,408	27,249	28,075	28,983	30,035	31,352	31,785
Other community, social and personal services	***3.30***	***3.65***	42,917	44,514	45,829	47,814	49,420	50,829	52,219	53,729
Private households with employed persons	***0.40***	***0.30***	3,855	3,932	4,011	4,091	4,173	4,256	4,342	4,428
Less : Financial services indirectly measured	***(0.80)***	***-0.69***	(10,315)	(10,800)	(11,261)	(11,835)	(12,174)	(10,484)	(12,762)	(10,189)
All industries at basic 2001 prices	***87.50***	***86.06***	**941,763**	**978,746**	**1,029,991**	**1,088,103**	**1,155,994**	**1,168,394**	**1,195,887**	**1,265,578**
Taxes less subsidies on products	***12.50***	***13.94***	113,895	130,795	145,143	161,367	180,855	188,882	197,286	204,938
Real GDP at 2001 market prices	***100.00***	***100.00***	**1,055,658**	**1,109,541**	**1,175,134**	**1,249,470**	**1,336,849**	**1,357,276**	**1,393,173**	**1,470,516**
GDP at Mkt Prices			1,055,658	1,109,541	1,175,134	1,249,470	1,336,849	1,357,276	1,393,173	1,470,516
Overall GDP Deflator			107	115	120	130	137	156	170	173

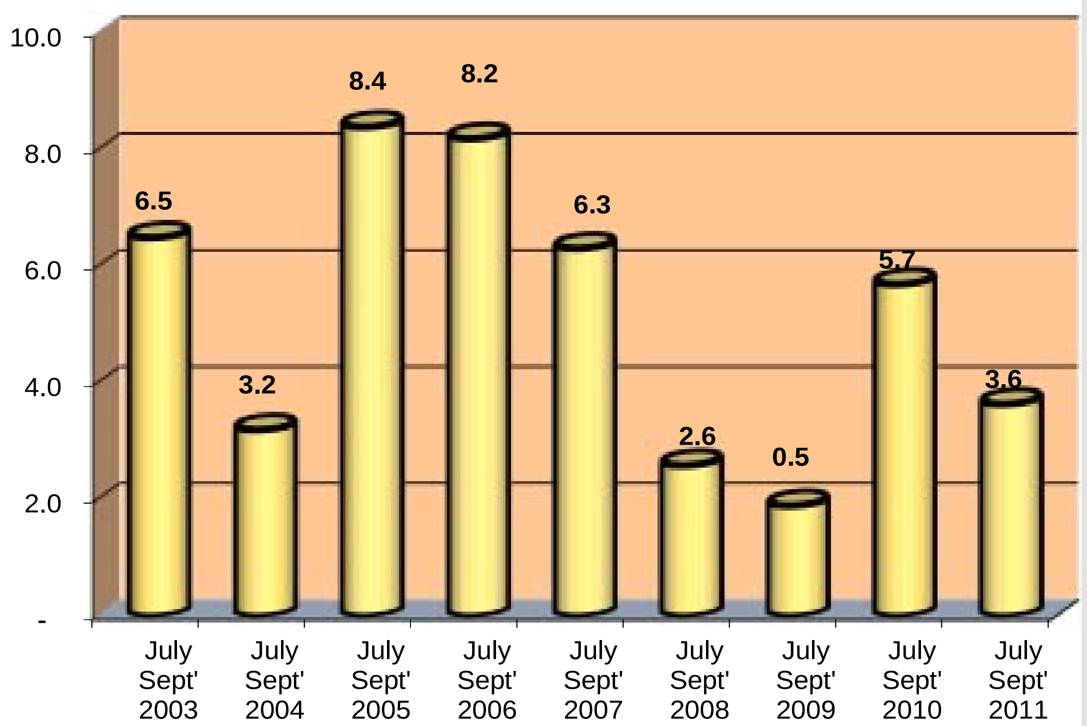
Annual Growth Rates in Percent

	Share in 2010 Nominal GDP	Share in 2010 Real GDP (%)	2003	2004	2005	2006	2007	2008	2009	*2010
Agriculture and Forestry	21.50	21.65	2.6	1.6	6.9	4.4	2.4	(4.1)	(2.6)	6.3
Fishing	0.60	0.39	-6.9	10.1	9.6	8.7	-1.1	(13.2)	3.7	2.7
Mining & Quarrying	0.70	0.46	3.5	-0.3	2.7	4.1	12.9	2.9	(4.5)	9.8
Manufacturing	10.00	9.73	6.0	4.5	4.7	6.3	6.3	3.5	1.3	4.4
Electricity and water supply	2.40	2.27	14.0	3.0	-0.1	-2.1	9.1	5.3	(3.0)	9.9
Wholesale and retail trade, repairs	10.30	10.51	1.5	8.5	5.6	11.6	11.3	4.8	3.9	7.8
Hotels & Restaurants	1.70	1.35	-20.3	38.8	13.3	14.9	16.3	(36.1)	42.8	4.2
Building & Construction	4.30	3.49	1.0	4.4	7.5	6.4	7.3	8.2	12.4	4.5
Transport & Communications	9.80	12.38	3.5	7.0	9.0	11.4	15.1	3.0	6.4	5.9
Financial intermediation	5.60	4.00	1.5	1.4	5.6	4.8	6.6	2.7	4.6	8.8
Real estate, renting and business services	4.80	5.31	2.3	3.0	3.4	3.9	3.5	3.7	3.0	3.2
Public administration and defense	4.70	3.20	0.6	0.2	-1.3	-1.0	-2.1	0.6	1.6	2.2
Education	5.70	5.91	9.7	2.0	0.7	0.3	4.2	5.9	2.7	4.7
Health and social work	2.60	2.16	2.8	3.8	3.2	3.0	3.2	3.6	4.4	1.4
Other community, social and personal services	3.30	3.65	-0.0	3.7	3.0	4.3	3.4	2.9	2.7	2.9
Private households with employed persons	0.40	0.30	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Less : Financial services indirectly measured	-0.80	-0.69	-3.3	4.7	4.3	5.1	2.9	(13.9)	21.7	(20.2)
Total GDP at basic 2001 prices	**87.50**	**86.06**	**3.1**	**3.9**	**5.2**	**5.6**	**6.2**	**1.1**	**2.4**	**5.8**
Taxes less subsidies on products	12.50	13.94	1.3	14.8	11.0	11.2	12.1	4.4	4.4	3.9
Real GDP at 2001 market prices	**100.00**	**100.00**	**2.9**	**5.1**	**5.9**	**6.3**	**7.0**	**1.5**	**2.6**	**5.6**

*Provisional

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

CHART 3A: REAL GDP GROWTH IN THE THIRD QUARTERS



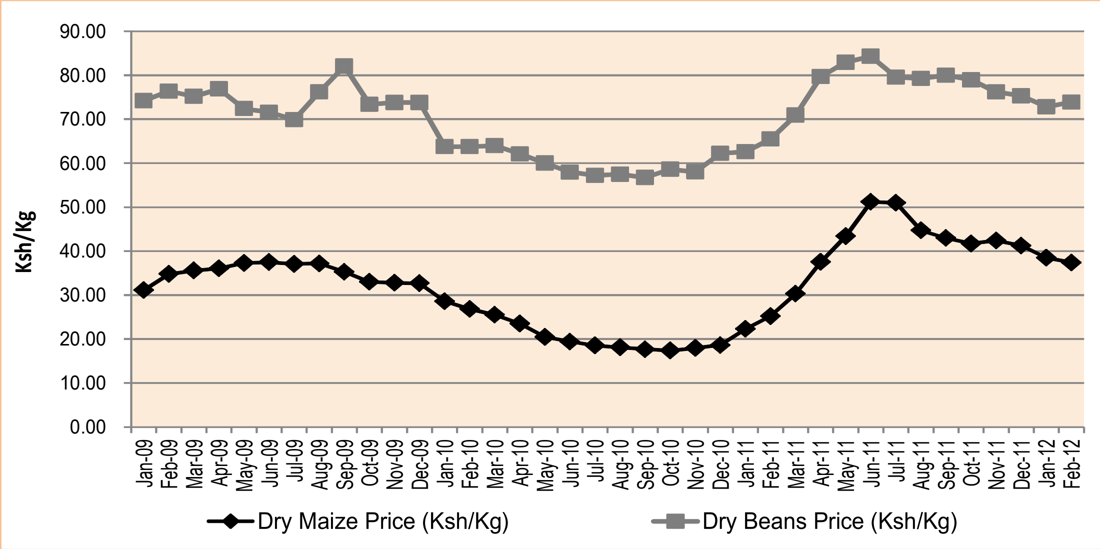
Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

The pace of economic expansion was sustained during the first quarter of 2011, with an estimated real growth rate of 4.9 percent for the quarter but slowed to 4.3 percent in the second quarter of 2011 and 3.6 percent in the third quarter of 2011 due to unfavourable weather conditions and high fuel prices. Output in the third quarter of 2011 amounted to Ksh 399.3 billion compared with output of Ksh 385.3 billion in the third quarter of 2010. 22.4 percent of 2011 quarter three output was attributed to agriculture and forestry, while the transport and communication, wholesale and retail trade and manufacturing sectors contributed 13.8 percent, 10.4 percent and 9.2 percent, respectively.

Agriculture

Agriculture contributed 21.7 percent of GDP in 2010. Output from the sector increased by 6.3 percent to Ksh 318.4 billion in 2010 compared with a decline of 2.6 percent in 2009. Improvement in the sector in 2010 was attributed to favourable weather conditions that prevailed during most of the year. Production of both food and industrial crops increased during the year. A subsequent decline in the prices of food items such as maize and beans was recorded in 2010. This trend was reversed in the early months of 2011 due to unfavorable weather conditions but prices started dropping again following improved rains in the last quarter of 2011 (Chart 3B).

CHART 3B: MOVEMENT IN AVERAGE RETAIL PRICES FOR MAIZE AND BEANS



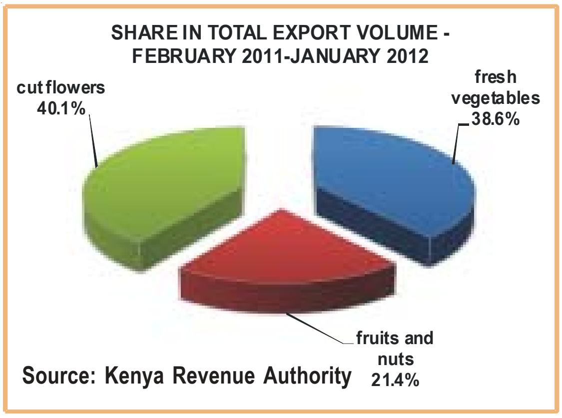
Tea

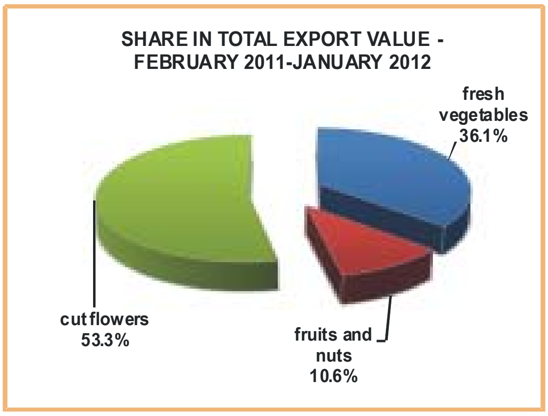
Indicators for agriculture for the March 2011-February 2012 period were largely unfavorable. Production of tea declined by 5.0 percent from 389,169 metric tonnes in the March 2010-February 2011 period to 369,820 metric tonnes in the March 2011-February 2012 period (Table 3.2). The average auction price for tea, however, rose from Ksh 223 per kilogram in the March 2010-February 2011 period to Ksh 264 per kilogram in the March 2011-February 2012 period.

Horticulture

Exports of fresh horticultural crops also declined by 12.8 percent from 271,583 metric tonnes in the March 2010 - February 2011 period to 236,746 metric tonnes in the March 2011 - February 2012 period (Chart 3C).

CHART 3C: HORTICULTURAL EXPORTS



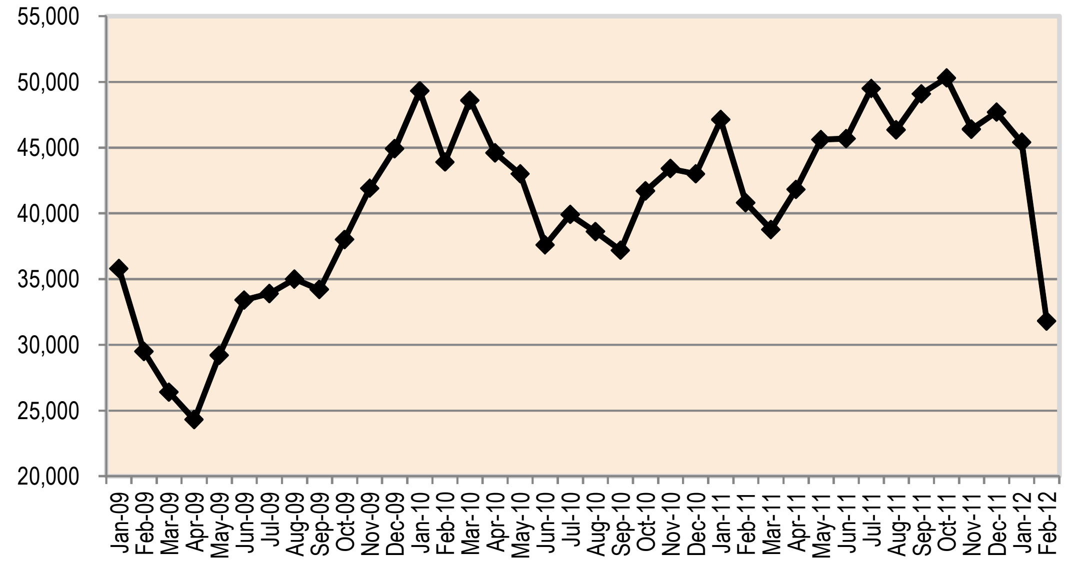


Coffee

Performance of the coffee sub-sector was also unfavourable with sales declining from 36,847 metric tonnes in the March 2010-February 2011 period to 33,639 metric tonnes in the March 2011-February 2012 period. The average auction price for coffee however rose from Ksh 398 per kilogram in the March 2010-February 2011 period to Ksh 502 per kilogram in the March 2011- February 2012 period.

Dairy Production from the dairy sector, however, improved as indicated by an increase in milk delivered to factories to 538 million litres in the March 2011-February 2012 period compared with 506 million litres delivered in a comparable period in the previous year (Chart 3D).

CHART 3D: PROCESSED MILK ('000 LITRES)



Source: Kenya National Bureau of Statistics

Sugarcane The sugar sub-sector also registered lower output during the period under review. Cane deliveries declined by 6.6 percent from 5.78 million tonnes in the March 2010-February 2011 period to 5.40 million tonnes in the March 2011-February 2012 period.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	Annual Totals			
	2010	2011*	Year to Feb 11*	Year to Feb 12*
Tea				
Output (Metric tonnes)	399,006	377,913	389,169	369,820
Growth (%)	*31.2%*	*-5.3%*	*18.0%*	*-5.0%*
Horticulture				
Exports (Metric tonnes)	268,533	238,562	271,583	236,746
Growth (%)	*8.2%*	*-11.2%*	*13.6%*	*-12.8%*
Coffee				
Sales (Metric tonnes)	38,938	29,984	36,847	33,639
Growth (%)	*-21.3%*	*-23.0%*	*-22.0%*	*-8.7%*
Milk				
Output (million litres)	511	549	506	538
Growth %	*25.7%*	*5.8%*	*16.4%*	*6.5%*
Sugar Cane				
Output (Metric tonnes)	5,709,586	5,338,571	5,778,795	5,395,636
Growth (%)	*1.8%*	*-6.5%*	*26.1%*	*-6.6%*

*Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

Manufacturing The contribution of the manufacturing sector to total GDP remained stable at 9.7 percent in 2010 compared with 9.8 percent in 2009. Total manufactured output amounted to Ksh 143.0 billion in 2010 compared with Ksh 137.0 in 2009. Most of the sub-sectors within manufacturing registered improved performance in the March 2011-February 2012 period as indicated by increased production of galvanized sheets, cement, assembled vehicles and soft drinks (Table 3.3). Production of galvanized sheets increased by 24.7 percent to 271,788 tonnes in the March 2011-February 2012 period, while the amount of cement produced increased by 5.5 percent to 4.0 million tonnes in the March 2011-February 2012 period (Chart 3E). The number of vehicles assembled locally also increased from 5,604 in the March 2010-February 2011 period to 6,214 in the March 2011-February 2012 period. The amount of soft drinks produced increased by 0.7 percent to 370,202 thousand litres in the March 2011-February 2012 period. Output of processed sugar, however, declined to 466,814 metric tonnes in the March 2011-February 2012 period.

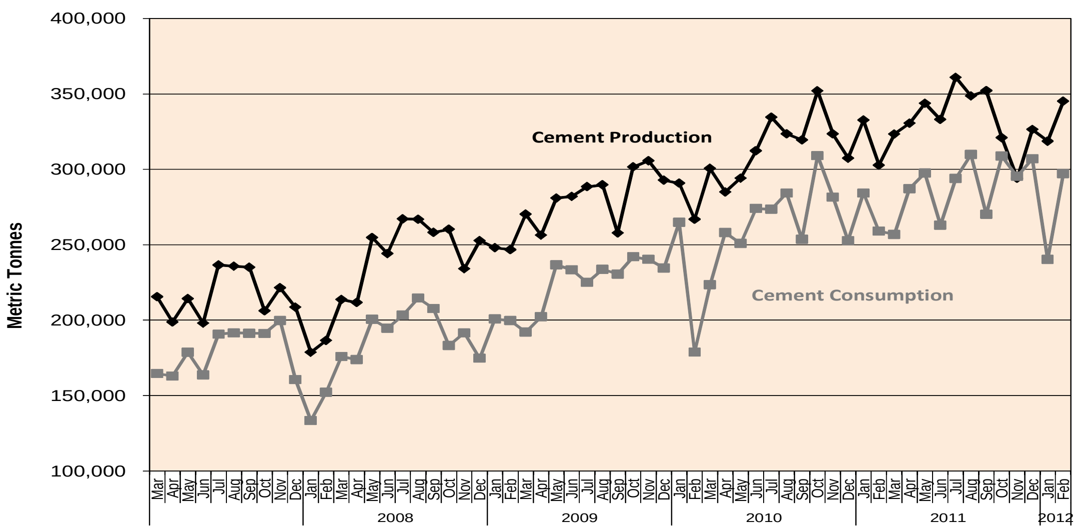
TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	Annual Totals		Year to Feb 11*	Year to Feb 12*
	2010	2011*		
Cement production				
Output (MT)	3,709,806	3,969,003	3,787,491	3,997,392
Growth %	*11.7%*	*7.9%*	*11.9%*	*5.5%*
Assembled vehicles				
Output (No.)	5,721	6,049	5,604	6,214
Growth %	*13.1%*	*10.9%*	*13.3%*	*10.9%*
Galvanized sheets				
Output (MT)	201,410	270,540	217,936	271,788
Growth %	*10.6%*	*34.3%*	*19.7%*	*24.7%*
Processed sugar				
Output (MT)	523,470	475,061	540,431	466,814
Growth %	*-4.5%*	*-9.2%*	*0.3%*	*-13.6%*
Soft drinks				
Output ('000 litres)	361,333	371	367,653	370,202
Growth %	*0.0%*	*2.1%*	*1.1%*	*0.7%*

MT = Metric tonnes
* Provisional

Source: Kenya National Bureau of Statistics

CHART 3E: CEMENT PRODUCTION AND CONSUPTION



Source: Kenya National Bureau of Statistics

Energy Sector

Domestic electricity generation increased by 7.5 percent from 6,698 million kilowatt hours in the March 2010-February 2011 period to 7,199 million kilowatt hours in the March 2011-February 2012 period (Table 3.4). Of the total electricity produced in the March 2011-February 2012 period, 45.1 percent was hydro-power, 34.5 percent was thermal power and the remaining 20.4 percent was geo-thermal power. However, production of hydro-electricity declined by 5.0 percent to 3,248 million kilowatt hours in the March 2011-February 2012 period; while production of thermal power increased by 36.3 percent to 2,484 million kilowatt hours in the same period to compensate for the drought induced reduction in hydropower generation. Estimated consumption of electricity increased by 5.0 percent to 6,217 million kilowatt hours in the March 2011-February 2012 period as compared with consumption over the same period in 2010 while consumption of fuels increased by 11.0 percent to 3,586 thousand tonnes.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	Annual Totals		Year to Feb 11*	Year to Feb 12*
	2010	2011*		
Electricity Supply (Generation)				
Output (million KWH)	6,407	7,161	6,698	7,199
Growth %	*20.2%*	*12.8%*	*26.6%*	*7.5%*
Of which:				
Hydro-power Generation (million KWH)	3,195	3,183	3,418	3,248
Growth (%)	*51.7%*	*-0.4%*	*72.8%*	*-5.0%*
Geo-Thermal Generation (million KWH)	1,442	1,444	1,458	1,467
Growth (%)	*-2.4%*	*0.1%*	*-0.8%*	*0.6%*
Thermal (million KWH)	1,769	2,533	1,822	2,484
Growth (%)	*1.3%*	*46.9%*	*-1.1%*	*36.3%*
Consumption of electricity (million KWH)	5,870	6,152	5,921	6,217
Growth %	*10.8%*	*4.8%*	*9.6%*	*5.0%*
Consumption of Fuels ('000 tonnes)	3,177	3,569	3,232	3,586
Growth %	*-0.4%*	*12.3%*	*0.5%*	*11.0%*
Murban crude oil average price (US $ per barrel)	79.2	110.6	83.1	113.6
Growth %	*26.4%*	*39.7%*	*23.2%*	*36.6%*

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

The number of tourists arriving in Kenya rose by 12.4 percent from 1,125,946 in the March 2010-February 2011 period to 1,265,831 in the March 2011-February 2012 period (Table 3.5). Of the total tourist arrivals, 82.6 percent were through the Jomo-Kenyatta International Airport, Nairobi while 17.4 percent were through the Moi International Airport, Mombasa. The Number of tourists arriving on-board cruise ships amounted to 270 in the March 2011-February 2012 period.

In terms of region of origin, Europe and Africa dominated accounting for 46.7 percent and 24.0 percent of total tourist arrivals, respectively, in the March 2011-February 2012 period (Table 3.6). Oceanic, Africa and America were the three highest growth sources of tourist arrivals at 24.0 percent, 15.8 percent and 12.2 percent, respectively.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2010	2011	Year to Feb 11	Year to Feb 12	Year to Feb 12 % Share	Year to Feb 12 % Growth
CRUISE	-	856	586	270	*0.0%*	*-53.9%*
MIAM	232,698	233,844	244,707	219,633	*17.4%*	*-10.2%*
JKIA	862,586	1,030,436	880,653	1,045,928	*82.6%*	*18.8%*
TOTAL	**1,095,284**	**1,265,136**	**1,125,946**	**1,265,831**	***100.0%***	***12.4%***

Source: Kenya Tourist Board

TABLE 3.6: TOURIST ARRIVALS BY CONTINENT

REGION	2010	2011	Year to Feb 11	Year to Feb 12	Year to Feb 12 % Share	Year to Feb 12 % Growth
Africa	257,132	303,886	262,955	304,431	24.0%	15.8%
Middle East	0	38,880	N/A	39,379	3.1%	N/A
America	142,087	158,268	144,187	161,718	12.8%	12.2%
Asia	137,657	137,707	136,888	140,458	11.1%	2.6%
Europe	536,422	597,443	553,193	590,626	46.7%	6.8%
Oceanic	21,985	28,952	23,354	28,949	2.3%	24.0%
Cruise	0	856	586	270	0.0%	-53.9%
Total	**1,095,284**	**1,265,136**	**1,125,946**	**1,265,831**	**100.0%**	**12.4%**

Source: Kenya Tourist Board

Transport and Tele-communications

The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) increased from 3,166,770 in the March 2010-February 2011 period to 4,278,045 in the March 2011-February 2012 period. This increase was attributed to both incoming and outgoing passengers. The number of incoming passengers increased by 37.4 percent to 2,168,534 in the March 2011-February 2012 period, while the number of outgoing passengers increased by 32.8 percent to 2,109,511 in the same period (Table 3.7).

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2010	2011*	Year to Feb 11*	Year to Feb 12*
Number of Passengers thro' JKIA				
Total passenger flows	3,029,419	4,135,126	3,166,770	4,278,045
Growth (%)	*15.4%*	*36.5%*	*16.2%*	*35.1%*
o.w. Incoming	1,508,841	2,088,798	1,578,431	2,168,534
Growth (%)	*13.1%*	*38.4%*	*13.6%*	*37.4%*
Outgoing	1,520,578	2,046,328	1,588,339	2,109,511
Growth %	*17.8%*	*34.6%*	*18.8%*	*32.8%*

* Provisional

Source: Kenya National Bureau of Statistics

Developments in the Balance of Payments and Exchange Rates

Overview

Kenya's overall balance of payments position improved by US$ 58 million from a surplus of 307 million in the year to March 2011 to a surplus of US$ 365 million in the year to March 2012. The movement follows growth in the capital and financial account (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to March 2011*	Year to March 2012*	Absolute Change
1. OVERALL BALANCE	307	365	58
2. CURRENT ACCOUNT	-2892	-4598	-1706
2.1 Goods	-7731	-9343	-1612
Exports (fob)	5354	5877	522
Imports (cif)	13085	15220	2134
2.2 Services	4839	4745	-94
Non-factor services (net)	2534	2577	43
Income (net)	-21	-36	-15
Current Transfers	2326	2203	-123
3. CAPITAL & FINANCIAL ACCOUNT	3199	4963	1765
3.1 Capital Tranfers (net)	228	157	-71
3.2 Financial Account	2971	4806	1836
memo:			0
Gross Reserves	5454	6169	715
Official	4138	4690	552
*imports cover***	3	3	0
*imports cover****	4	4	0
Commercial Banks	1316	1479	162

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

Source: Central Bank of Kenya

Current Account

The deficit in the current account widened from US$ 2,892 million in the year to March 2011 to US$ 4,598 million in the year to March 2012. The deterioration in the current account was as a result of a 20.8 percent or US$ 1,612 million widening of the merchandise account deficit and a 2.0 percent or US$ 94 million decline in the services account (Table 4.2).

Direction of Trade

The share of exports to African countries accounted for 48.8 percent in the year to March 2012 compared to 46.3 percent in the year to March 2011, while those to the East African Community (EAC) region accounted for 27.0 percent, and increased from US$ 1,375 million in the year to March 2011 to US$ 1,586 million in the year to March 2012. Exports to COMESA region accounted for 35.2 percent and increased from US$ 1,802 million to 2,068 million over the same period. Kenya's exports were mainly to Uganda (14.7 percent), United Kingdom (8.5 percent), Tanzania (8.5 percent), Netherlands (6.3 percent) and USA (5.1 percent).

During the period under review, Kenya's imports were mainly from United Arab Emirates (14.8 percent), China (11.4 percent), India (10.6 percent), Saudi Arabia (5.4 percent) and South Africa (5.0 percent). The share of imports from African countries accounted for 11.2 percent. Imports from the EAC region accounted for 2.0 percent of total imports and increased from US$ 264 million in the year to March 2011 to US$ 309 million in the year to March 2012. Imports from the COMESA region accounted for 4.4 percent of total imports in the year to March 2012 (Table 4.3).

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

ITEM	Year to March 2011 *	Year to March 2012 *	Absolute Change
2. CURRENT ACCOUNT	-2892	-4598	-1706
2.1 Goods	-7731	-9343	-1612
Exports (fob)	5354	5877	522
Coffee	208	248	40
Tea	1110	1175	65
Horticulture	726	658	-68
Oil products	109	105	-4
Manufactured Goods	631	745	113
Raw Materials	234	411	177
Chemicals and Related Products (n.e.s)	463	580	117
Miscelleneous Man. Articles	463	547	84
Re-exports	314	324	10
Other	1097	1085	-12
Imports (cif)	13085	15220	2134
Oil	3049	4202	1153
Chemicals	1734	1992	258
Manufactured Goods	1895	2304	410
Machinery & Transport Equipment	3870	3747	-123
Other	2397	2667	270
2.2 Services	4839	4745	-94
Non-factor services (net)	2534	2577	43
of which tourism	854	884	30
Income (net)	-21	-36	-15
of which official interest	-54	-78	-24
Current Transfers	2326	2203	-123
Private (net)	2166	2222	57
Public (net)	160	-19	-179

* Provisional.

Source: Central Bank of Kenya

Merchandise Account

The merchandise account deficit declined from US$ 7,731 million in the year to March 2011 to US$ 9,343 million in the year to March 2012 due to increased imports and slower growth in export of goods.

Exports

The total value of exports increased by US$ 522 million to US$ 5,877 million in the year to March 2012 following increased exports of coffee, tea, manufactured goods, raw materials, chemicals and related products and re-exports. The value of coffee exports increased by 19.3 percent or US$ 40 million to US$ 248 million in the year to March 2012 owing to an increase in export prices. Likewise, Tea export values increased by US$ 65 million to US$ 1,175 million in the year to March 2012 following an increase in export prices. The value of horticulture exports however reduced by US$ 68.1 million to US$ 658 million in the year to March 2012 due to a decline in export quantities. The exports of manufactured goods rose by 18 percent to US$ 745 million in the year to March 2012 following increased export prices of processed leather, textile yarn materials, woven textile materials, knitted or crocheted fabrics and clay construction materials in addition to increased export quantities of paper and paper board, articles of paper and paper board, Portland cement, glassware, Iron and Steel. Exports of raw materials rose by 75.5 percent to US$ 411 million in the year to March 2012. The value of re-exports increased from US$ 314 million to US$ 324 million over the same period.

Imports

The value of imports increased by US$ 2,134 million to US$ 15,220 million in the year to March 2012, mainly on account of increased value of imports of oil, chemicals and manufactured goods. Oil imports accounted for 28 percent of the total import bill. It increased by 37.8 percent to US$ 4,202 in the year to March 2012 due to high oil prices in the global market. Imports of manufactured items, mainly intermediate goods, accounted for 15 percent of the total import bill and increased from US$ 1,895 million in the year to March 2011 to US$ 2,304 million in the year to March 2012 following increased import values of rubber manufactures, articles of paper and paper board, textile yarn, fabrics and articles, Non-metal mineral manufactures, Iron and Steel, Non-ferrous metals such as copper and aluminium and metal manufactures such as Structures of Iron, Steel and aluminium. Machinery and transport equipment accounted for 25 percent of the total import bill and declined by US$ 123 million from US$ 3,870 million in the year to March 2011 to US$ 3,747 million in the year to March 2012 on account of decreased import values of Power Generating Machinery and Equipment, Metal working machinery, Motor cars and other motor vehicles principally designed for the transport of persons.

Services Account

The surplus in the services account reduced by 2 percent or US$ 94 million to US$ 4,745 million in the year to March 2012 mainly due to a decline in the Income and Current Transfers accounts. Income receipts declined by US$ 37.2 million to US$ 182 million in the year to March 2012, owing to a reduction in Investment Income.

Current transfers decreased from US$ 2,326 million in the year to March 2011 to US$ 2,203 million in the year to March 2012 a decline of 5.3 percent. This was largely attributed to a decline in public transfer receipts amounting to US$ 183 million. Gross private transfers increased by US$ 57 million to US$ 2,222 million in the year to March 2012 mainly on account of increased remittance inflows to Kenya, which totalled US$ 995 million in the year to March 2012 compared to US$ 695 million in the year to March 2011, representing a 43.2 percent increase over the 2011 figures. In March 2012, remittances to Kenya amounted to US$ 106 million, creating a 49 percent increase over March 2011 remittances. In addition, the average remittances inflow in the year to March 2012 amounted to US$ 83 million up from US$ 58 million recorded in the year to March 2011. This increase can be attributed to improved data collection techniques and proper classification of remittances by some commercial banks, aggressive outreach to the Diaspora to invest in Government's Savings Development and Infrastructure bonds and increased competition among money transfer service providers resulting in the reduction of transaction charges hence encouraging the use of formal remittances channels. North America accounted for 54.31 percent of the total remittances in March 2012 while Europe and the rest of the world accounted for 26.74 percent and 18.95 percent, respectively.

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to March			Year to March		
Country	2010	2011	2012	2010	2011	2012
Africa	**1,373**	**1,509**	**1,708**	**12.8**	**11.5**	**11.2**
Of which						
South Africa	885	785	763	8.3	6.0	5.0
Egypt	139	240	237	1.3	1.8	1.6
Others	349	484	708	3.3	3.7	4.7
EAC	**190**	**264**	**309**	**1.8**	**2.0**	**2.0**
COMESA	**349**	**526**	**676**	**3.3**	**4.0**	**4.4**
Rest of the World	**9,319**	**11,577**	**13,511**	**87.2**	**88.5**	**88.8**
Of which						
India	1,172	1,454	1,616	11.0	11.1	10.6
United Arab Emirates	1,316	1,658	2,259	12.3	12.7	14.8
China	1,061	1,541	1,731	9.9	11.8	11.4
Japan	662	719	673	6.2	5.5	4.4
USA	587	497	549	5.5	3.8	3.6
United Kingdom	498	614	503	4.7	4.7	3.3
Singapore	355	498	222	3.3	3.8	1.5
Germany	299	331	390	2.8	2.5	2.6
Saudi Arabia	416	331	824	3.9	2.5	5.4
Indonesia	258	390	560	2.4	3.0	3.7
Netherlands	200	233	249	1.9	1.8	1.6
France	194	241	241	1.8	1.8	1.6
Bahrain	52	104	216	0.5	0.8	1.4
Italy	161	149	185	1.5	1.1	1.2
Others	2,087	2,816	3,293	19.5	21.5	21.6
Total	**10,692**	**13,085**	**15,220**	**100**	**100**	**100**

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to March			Year to March		
Country	2010	2011	2012	2010	2011	2012
Africa	**2,158**	**2,479**	**2,870**	**45.7**	**46.3**	**48.8**
Of which						
Uganda	590	730	862	12.5	13.6	14.7
Tanzania	394	437	497	8.4	8.2	8.5
Egypt	182	214	288	3.9	4.0	4.9
Sudan	179	242	224	3.8	4.5	3.8
Somalia	161	155	209	3.4	2.9	3.6
DRC	148	169	207	3.1	3.2	3.5
Rwanda	127	138	165	2.7	2.6	2.8
Others	379	394	418	8.0	7.4	7.1
EAC	**1,171**	**1,375**	**1,586**	**24.8**	**25.7**	**27.0**
COMESA	**1,500**	**1,802**	**2,068**	**31.8**	**33.7**	**35.2**
Rest of the World	**2,560**	**2,876**	**3,006**	**53.3**	**53.2**	**53.7**
Of which						
United Kingdom	525	499	500	11.1	9.3	8.5
Netherlands	345	346	368	7.3	6.5	6.3
USA	214	288	298	4.5	5.4	5.1
Pakistan	208	232	247	4.4	4.3	4.2
United Arab Emirates	173	237	225	3.7	4.4	3.8
Germany	95	95	90	2.0	1.8	1.5
India	75	105	102	1.6	2.0	1.7
Afghanistan	135	134	164	2.9	2.5	2.8
Others	789	939	1,013	16.7	17.5	17.2
Total	**4,718**	**5,354**	**5,877**	**100**	**100**	**100**

Source: Kenya Revenue Authority

Capital and Financial Account

The capital and financial account surplus grew from US$ 3,199 million in the year to March 2011 to US$ 4,963 million in the year to March 2012. This was mainly on account of an improved Financial Account by US$ 1,836 million to US$ 4,806 million in the year to March 2012 caused by increased short term financial flows including errors and omissions of US$ 1,683 million from US$ 2,193 million in the year to March 2011 to US$ 3,875 million in the year to March 2012. Private, medium and long term flows however, declined by US$ 150 million to US$ 16 million in March 2012 (Table 4.4).

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

ITEM	Year to Mar 2011*	Year to Mar 2012*	Absolute Change
3. CAPITAL & FINANCIAL ACCOUNT	**3199**	**4963**	***1765***
3.1 Capital Tranfers (net)	228	157	*-71*
3.2 Financial Account	2971	4806	*1836*
Official, medium & long-term	295	404	*109*
Inflows	517	682	*166*
Outflows	-222	-279	*-56*
Private, medium & long-term (net)	483	527	*44*
Commercial Banks (net)	317	511	*194*
Other private medium & long-term (net)	166	16	*-150*
Short-term (net) incl. errors & omissions	2193	3875	*1683*

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by US$ 715 million from US$ 5,454 million in March 2011 to US$ 6,169 million in March 2012. Foreign exchange reserves held by commercial banks increased by 12 percent from US$ 1,316 million in March 2011 to US$ 1,479 million in March 2012. The increase in the commercial banks reserves may be attributed to the accumulation of foreign deposits and equities by commercial banks. The official foreign exchange reserves held by the Central Bank also increased by US$ 552 million from US$ 4,138 million or 3.9 months of import cover in March 2011 to US$ 4,690 million (3.97 months of import cover) in March 2012. Over the same period residents' foreign currency deposits increased by 33 percent from US$ 2,330 million to US$ 3,092 million (Table 4.5).

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

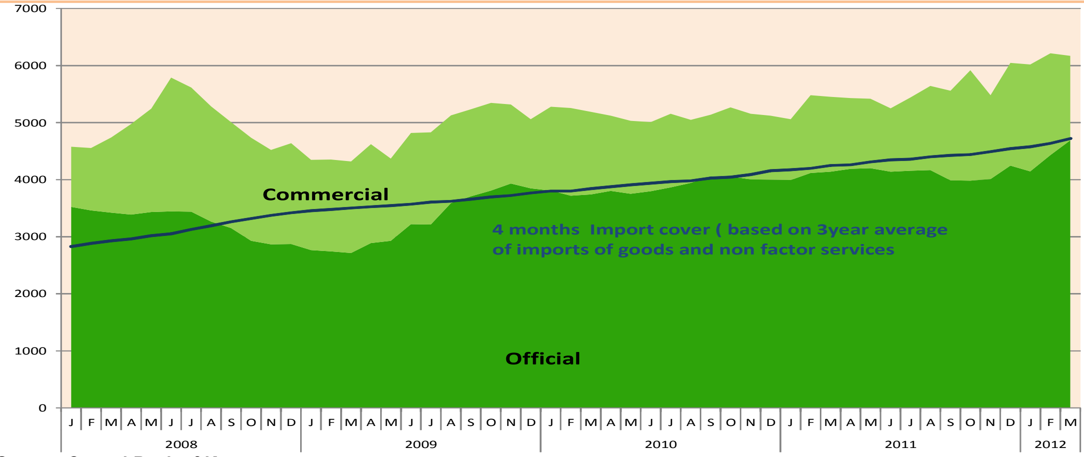
	Feb 11	Mar 11	Jun 11	Jul 11	Aug 11	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12
1. Gross Foreign Exchange Reserves	**5,481**	**5,454**	**5,249**	**5,442**	**5,645**	**5,483**	**6,045**	**6,019**	**6,215**	**6,169**
of which:										
Official	4,118	4,138	4,142	4,159	4,171	4,011	4,248	4,144	4,435	4,690
*imports cover**										
*imports cover**	*3.9*	*3.9*	*3.8*	*3.8*	*3.8*	*3.6*	*3.7*	*3.6*	*3.8*	*4.0*
Commercial Banks	1,364	1,316	1,106	1,283	1,474	1,472	1,797	1,875	1,781	1,479
2. Residents' foreign currency deposits	**2,302**	**2,330**	**2,331**	**2,502**	**2,652**	**2,950**	**3,226**	**3,386**	**3,174**	**3,092**

*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

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling appreciated against all major world currencies in March 2012. Against the US dollar, the Shilling appreciated by 0.34 percent to exchange at an average of Ksh 82.90 per US dollar in March 2012 compared with Ksh 83.18 per US dollar in February 2012.

Against the Sterling Pound, the Euro and the Japanese Yen, the Shilling appreciated by 0.18 percent, 0.46 percent and 5.18 percent respectively to trade at an average of Ksh 131.18 per Sterling Pound, Ksh. 109.55 per Euro and Ksh 100.60 per Japanese Yen in March 2012 compared to Ksh 131.42 per Sterling Pound, Ksh 110.06 per Euro and Ksh 106.10 per Japanese Yen in February 2012. The appreciation was as a result of the effects of Monetary Policy tightening of liquidity in the domestic money market.

In the EAC region, the Kenya Shilling appreciated against the Uganda Shilling, the Tanzania Shilling and the Rwanda Franc but depreciated against the Burundi Franc. On average, the Uganda Shilling exchanged at Ush 29.96, the Tanzania Shilling at Tsh 19.23, the Rwanda Franc at RWF 7.29 and the Burundi Franc at BIF 15.64 compared to Ush 27.97, Tsh 19.17, the Rwanda Franc 7.25 and the Burundi Franc 15.75 in February 2012 (Table 4.6 and Chart 4B).

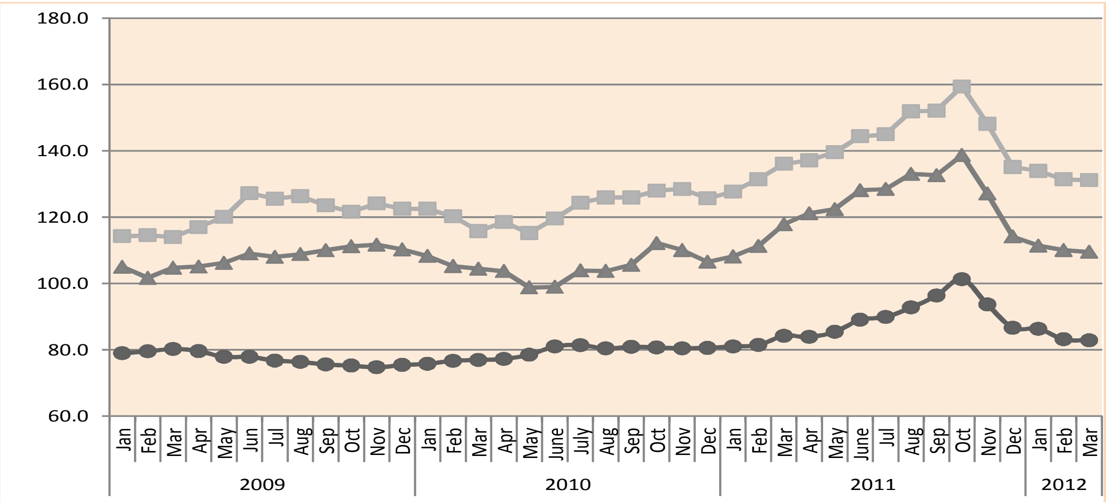
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2011					2012			% Change Feb 12-Mar 12
	Feb	Mar	Jun	Jul	Dec	Jan	Feb	Mar	
US Dollar	81.47	84.21	89.05	89.90	86.66	86.34	83.18	82.90	-0.34
Pound Sterling	131.45	136.10	144.40	145.00	135.10	133.94	131.42	131.18	-0.18
100 Japanese Yen	98.65	102.97	110.62	109.07	111.33	112.23	106.10	100.60	-5.18
Uganda Shilling*	28.79	28.43	27.61	28.87	28.25	27.90	27.97	29.96	7.11
Tanzania Shilling*	18.51	17.93	17.79	17.59	18.65	18.44	19.17	19.23	0.31
Rwanda Franc*	7.36	7.12	6.74	6.68	6.96	6.98	7.25	7.29	0.63
Burundi Franc*	15.11	14.66	13.84	13.69	15.11	15.18	15.75	15.64	-0.69
Euro	111.29	117.88	128.11	128.48	114.15	111.42	110.06	109.55	-0.46
Euro per US dollar	0.732	0.714	0.695	0.700	0.759	0.77	0.76	0.76	0.12

* 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

During the period ended March 31, 2012, the Kenyan Banking sector recorded significant growth in assets driven by growth in deposits and retention of profits. The level of non-performing loans declined compared with a similar period in 2011.

The sector comprised of 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 112 foreign exchange bureaus and 2 credit reference bureaus as at March 31, 2012.

Structure of the Balance Sheet

The banking sector's aggregate balance sheet expanded by 15.8 percent from Ksh 1,810.4 billion in March 2011 to Ksh 2,095.7 billion in March 2012. The significant items of the balance sheet were loans and advances, government securities and placements, which accounted for 57 percent, 21 percent and 6 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances increased from Ksh 994.8 billion in March 2011 to Ksh 1,235.7 billion in March 2012, which translated to a growth of 24.2 percent. The growth was attributed to increase in lending to households, trade, manufacturing and real estate sectors. Loans and advances net of provisions stood at Ksh 1,224.9 billion in March 2012, up from Ksh 983.9 billion registered in a similar period in 2011.

Deposit Liabilites

Deposits from customers were the main source of funding for the banking sector, accounting for 74.4 percent of total funding liabilities. The deposit base increased by 16.6 percent from Ksh1,338.1 billion in March 2011 to Ksh 1,560.8 billion in March 2012 mainly due to branch expansion, remittances and receipts from exports.

Capital & Reserves

The banking sector registered improved capital levels in March 2012 with total capital growing by 16.5 percent from 241.2 Ksh billion in March 2011 to Ksh 280.9 billion in March 2012, whereas shareholders' funds increased by 8.7 percent from Ksh 275.8 billion in March 2011 to Ksh 299.8 billion. However, the ratios of core and total capital to total risk-weighted assets decreased from 18.9 percent and 21.1 percent to 17.9 percent and 20.2 percent respectively mainly due to a more than proportionate increase in total risk weighted assets than the increase in core and total capital.

Non-performing Loans

The value of gross non-performing loans (NPLs) declined by 10.2 percent from Ksh 59.8 billion in March 2011 to Ksh 53.7 billion in March 2012. As a result, the ratio of gross NPLs to gross loans improved from 6.0 percent to 4.3 percent over the same period. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs increased to 60.1 percent from 58.3 percent in March 2011 mainly due to increase in provisions. The quality of assets, measured as a proportion of net non-performing loans to gross loans improved from 2.1 percent to 1.4 percent in March 2012 (Table 5.1).

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

		Mar-12	Mar-12
1	Gross loans and advances	994.8	1,235.7
2	Interest in Suspense	10.9	10.8
3	Loans and advances (net of interest suspended)	983.9	1,224.9
4	Gross non-performing loans	59.8	53.7
5	Specific Provisions	28.5	25.8
6	General Provisions	6.3	8.7
7	Total Provisions (5+6)	34.8	34.5
8	Net Advances (3-7)	949.1	1,190.4
9	Total Non-Performing Loans and advances (4-2)	48.9	42.9
10	Net Non-Performing Loans and advances (9-5)	20.4	17.1
11	Total NPLs as % of total advances (9/3)	5.00%	3.50%
12	Net NPLs as % of gross advances (10/1)	2.10%	1.40%
13	Specific Provisions as % of Total NPLs (5/9)	58.30%	60.10%

Source: Central Bank of Kenya

Profitablility

The banking sector registered a 24.1 percent growth in pre-tax profits, from Ksh 19.9 billion in March 2011 to Ksh 24.7 billion as at end of March 2012. Similarly, the annualised return on assets increased from 3.4 percent in March 2011 to 3.7 percent in March 2012, while return on equity increased from 28.8 percent to 32.9 percent during the same period. Total income went up by 63.1 percent from Ksh 54.2 billion in March 2011 to Ksh 88.4 billion in March 2012, while total expenses increased by 85.7 percent from Ksh 34.3 billion in March 2011 to Ksh 63.7 billion in March 2012 with the increase largely attributed to interest on deposits, which increased by 283 percent during the period under review. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 62 percent, 17 percent and 12 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 40 percent, 24 percent and 19 percent, respectively.

For the month of March 2012, average liquid assets amounted to Ksh 558.5 billion while total short-term liabilities stood at Ksh 1,499.0 billion, resulting to an average liquidity ratio of 37.3 percent, against 44.3 percent registered in March 2011.

Liquidity Ratio Requirement

The ratio of gross loans to deposits ratio stood at 79.2 percent, an increase from 74.3 percent in March 2011.

Cash Ratio Requirement

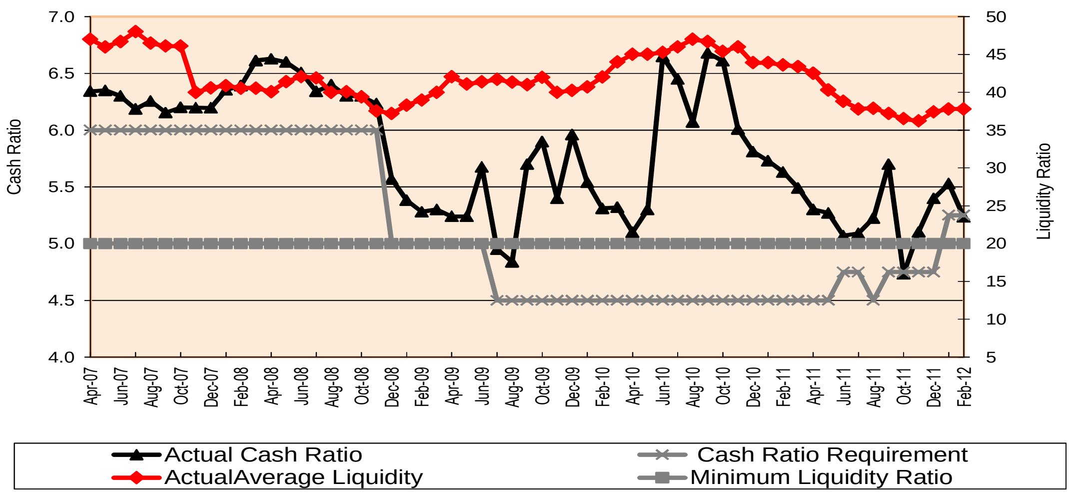
The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.48 percent in March 2012 compared with 5.23 percent in February 2012 and 5.25 percent statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of Ksh 3.43 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in March 2012 compared with Ksh -0.25 billion below monthly average cash requirement in February 2012. Commercial banks are required to maintain Cash Reserve Ratio (CRR) on a monthly average of 5.25 percent in the 30 day maintenance cycle from 15th through 14th of every month but subject to a daily minimum of 3.0 percent.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2011								2012	
	Feb	Mar	Apr	May	Jun	Oct	Nov	Dec	Jan	Feb
Commercial Banks										
Actual Average Liquidity	43.60	43.40	42.50	40.30	38.80	36.50	36.20	37.40	37.80	37.80
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.63	5.49	5.30	5.28	5.07	4.73	5.10	5.40	5.53	5.23
Minimum Cash Ratio Requirement	4.50	4.50	4.50	4.5	4.5	4.75	4.75	4.75	5.25	5.25
NBFIs										
Actual Average Liquidity Ratio	58.00	55.60	50.80	46.70	46.40	35.10	31.10	29.10	28.30	26.85
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 125,739 transaction messages worth Ksh 1,638 billion in March 2012 compared with a volume of 116,990 transaction messages valued at Ksh 1,546 billion moved in February 2012, representing 5.93 percent increase in value and 7.48 percent increase in volume. Compared with March 2011, the volume increased by 20.92 percent from 103,986 transaction messages to 125,739 transaction messages in March 2012, while value decreased by 9.07 percent from 1,802 billion to 1,638 billion, indicating increased usage of KEPSS by the public for lower values per transaction during the period under review (Table 5.3).

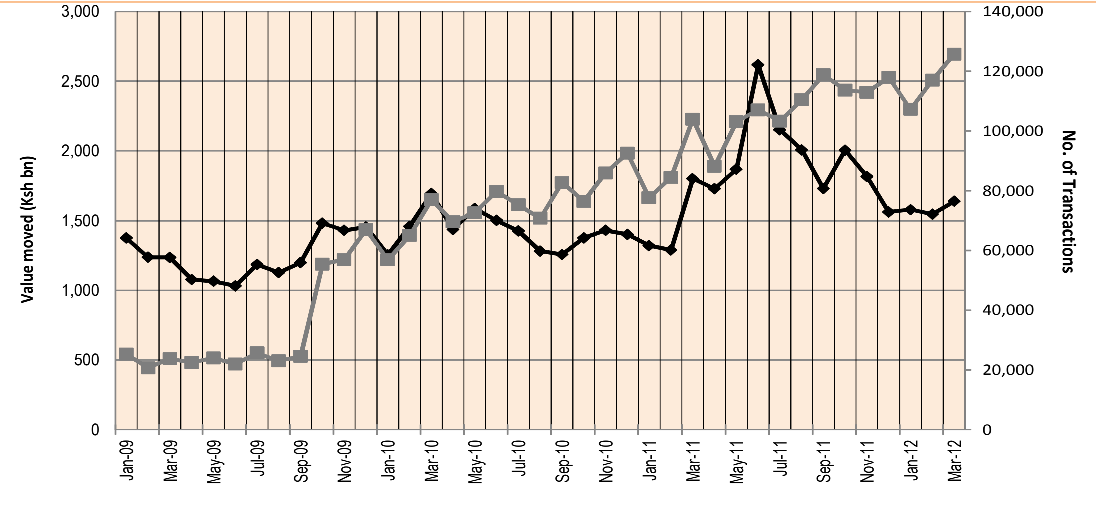
During the twelve months period to March 31, 2012 the value moved averaged Ksh 17 million per transaction. On average, 5,258 transaction messages with an average value of approximately Ksh 88 billion were moved daily (Table 5.3 and Chart 5B). Settlements through KEPSS from commercial banks accounted for 99.0 percent of the total settlements while payments processed through 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)	Per day Transactions
Jan-10	1,254	18	56,862	0.02	20	63	2,843
Feb-10	1,458	22	65,010	0.02	20	73	3,251
Mar-10	1,694	26	77,058	0.02	23	74	3,350
Apr-10	1,436	23	69,634	0.02	20	72	3,482
May-10	1,587	22	72,588	0.02	21	76	3,457
Jun-10	1,501	23	79,760	0.02	21	71	3,798
Jul-10	1,426	21	75,289	0.02	22	65	3,422
Aug-10	1,280	23	70,771	0.02	20	64	3,539
Sep-10	1,256	25	82,770	0.02	22	57	3,762
Oct-10	1,376	29	76,415	0.02	23	60	3,322
Nov-10	1,430	26	85,968	0.02	22	65	3,908
Dec-10	1,401	29	92,592	0.02	23	61	4,026
Jan-11	1,320	21	77,625	0.02	21	63	3,696
Feb-11	1,289	23	84,448	0.02	20	64	4,222
Mar-11	1,802	26	103,986	0.02	22	82	4,727
Apr-11	1,728	21	88,168	0.02	19	91	4,640
May-11	1,868	26	103,112	0.02	21	89	4,910
May-11	1,868	26	103,112	0.02	21	89	4,910
Jun-11	2,617	24	107,063	0.02	21	125	5,098
Jul-11	2,151	24	103,338	0.02	21	102	4,921
Aug-11	2,007	25	110,498	0.02	22	91	5,023
Sep-11	1,730	27	118,798	0.01	22	79	5,400
Oct-11	2,004	25	113,658	0.02	20	100	5,683
Nov-11	1,816	28	112,923	0.02	22	83	5,133
Dec-11	1,562	30	117,916	0.01	20	78	5,896
Jan-12	1,579	28	107,230	0.01	21	75	5,106
Feb-12	1,546	27	116,990	0.01	21	74	5,571
Mar-12	1,638	26	125,739	0.01	22	74	5,715

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third Party Messages

Multiple third party Message Type (MT 102) increased by 4.33 percent from 12,871 transaction messages in February 2012 to 13,428 transaction messages in March 2012 while single third party Message Type (MT 103) increased by 9.70 percent from 114,522 transaction messages to 125,628 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 9.16 percent from 127,393 transaction messages in February 2012 to 139,056 transaction messages in March 2012.

Compared with March 2011, multiple third parties messages (MT 102) increased by 14.01 percent from 11,778 transaction messages to 13,428 transaction messages in March 2012 while single third party messages (MT 103) increased by 30.12 percent from 96,550 transaction messages to 125,628 transaction messages (Table 5.4 and Chart 5C).

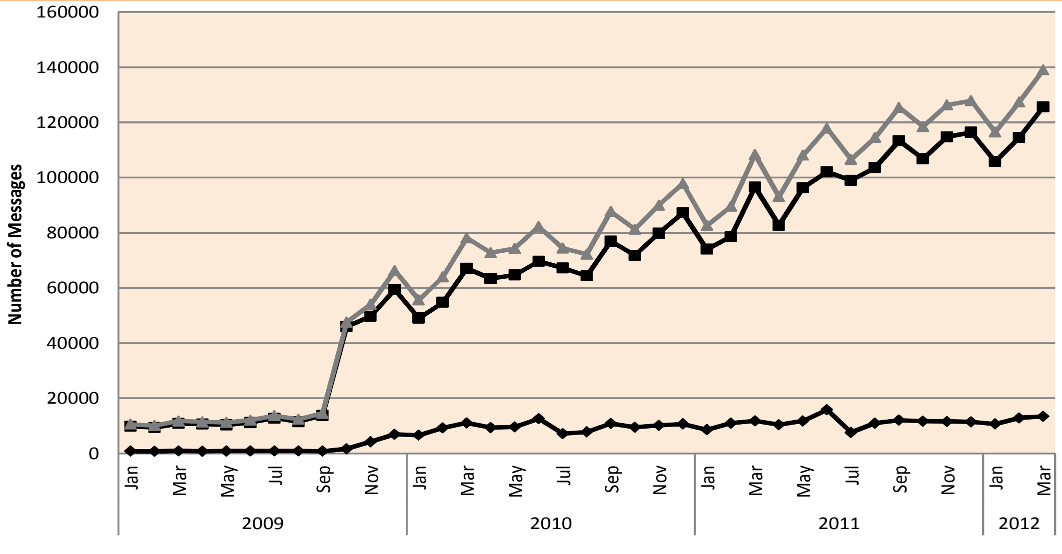
Inter-bank transfers (MT 202) accounted for 44.85 percent of the total value moved through KEPSS as at end of March 2012, while third party messages accounted for 55.15 percent. The total number of third party messages (MT 102 and MT 103) grew by 28.37 percent from 108,328 messages in March 2011 to 139,056 messages in March 2012.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2011	Jan	8580	74,004	82,584
	Feb	10955	78,589	89,544
	Mar	11778	96,550	108,328
	Apr	10392	82,691	93,083
	May	11739	96,324	108,063
	Jun	15794	102,098	117,892
	Jul	7584	98,977	106,561
	Aug	10929	103,561	114,490
	Sep	12028	113,333	125,415
	Oct	11653	106,768	118,421
	Nov	11602	114,741	126,343
	Dec	11424	116,384	127,808
2012	Jan	10661	105,817	116,478
	Feb	12871	114,522	127,393
	Mar	13428	125,628	139,056

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

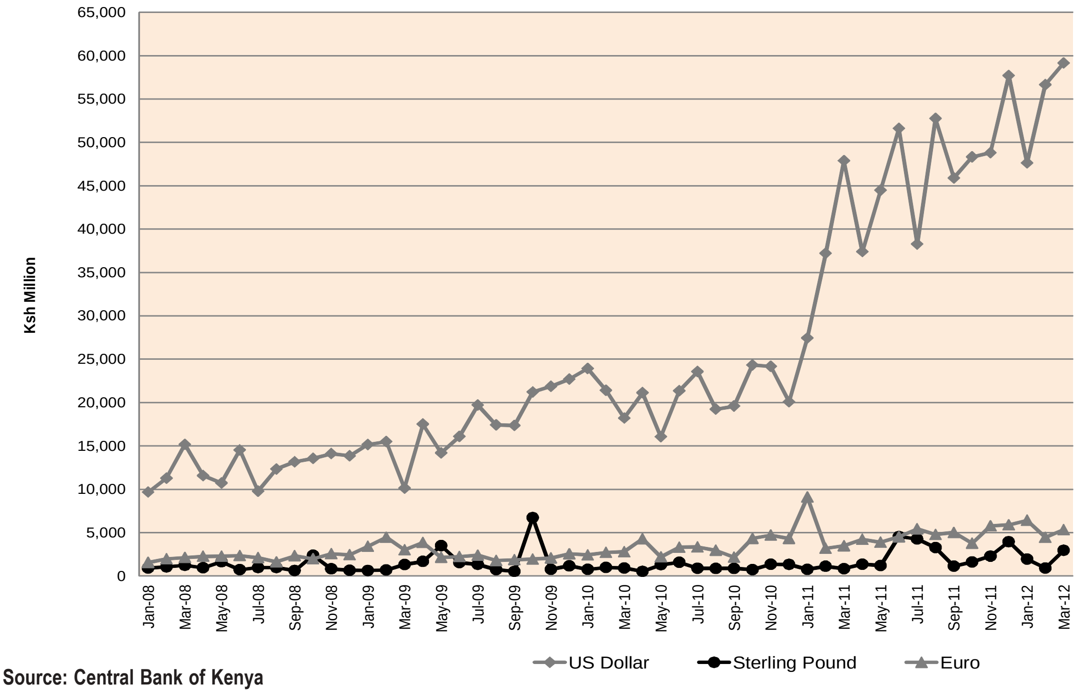


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 10.04 percent from 10,628 transaction messages in February 2012 to 1,695 transaction messages in March 2012. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period decreased by 6.66 percent from Ksh 131 billion to Ksh 122.3 billion. The US dollar accounted for 89.91 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.83 percent and 8.26 percent, respectively.

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



Source: Central Bank of Kenya

Government Budget Performance

Central Government budgetary operations for the period July 2011 – March 2012 in the fiscal year 2011/12 resulted in a deficit of Ksh 152.6 billion on commitment basis compared with a deficit of Ksh 96.1 billion in the same period of fiscal year 2010/11 (Table 6.1). The deficit-to-GDP ratio stood at 4.6 percent on commitment basis and 4.4 percent on cash basis during this period. The budget deficit for the period was within the programmed target of 6.5 percent of GDP.

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

	FY 2010/11	FY 2011/12		
	March Actual	March Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	**463.9**	**510.9**	**586.0**	**-75.1**
Revenue	448.1	499.9	552.5	-52.5
Tax Revenue	404.5	450.5	480.0	-29.6
Non Tax Revenue	12.7	14.7	20.0	-5.3
Appropriations-in-Aid	30.8	34.8	52.4	-17.7
External Grants	15.8	11.0	33.5	-22.6
2. TOTAL EXPENSES & NET LENDING	**560.0**	**663.5**	**798.9**	**-135.4**
Recurrent Expenses	410.1	479.1	491.2	-12.1
Development Expenses	149.9	184.4	307.8	-123.4
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-96.1	-152.6	-212.9	-60.3
As percent of GDP	**-3.6**	**-4.63**	**-6.5**	
4. ADJUSTMENT TO CASH BASIS	**7.1**	**8.5**	**0.0**	**8.5**
5. DEFICIT ON A CASH BASIS	-89.0	-144.1	-212.9	-68.8
As percent of GDP	**-3.6**	**-4.4**	**-6.5**	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**9.2**	**-9.85**	**0.0**	
7. FINANCING	**98.2**	**134.3**	**212.9**	**-78.6**
Domestic (Net)	79.4	107.0	120.7	-13.7
External (Net)	18.9	27.3	92.2	-64.9
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: Treasury

Revenue

In the period July 2011 – March 2012, government revenues and grants increased to Ksh 510.9 billion compared with Ksh 463.9 billion collected in a similar period of the fiscal year 2010/11. Despite this increase, total government revenue and external grants underperformed by Ksh 52.5 billion and Ksh 22.6 billion, respectively, with respect to the targeted amounts of Ksh 552.5 billion and Ksh 33.5 billion during the period (Table 6.1). The underperformance was attributed to slowdown in economic activity.

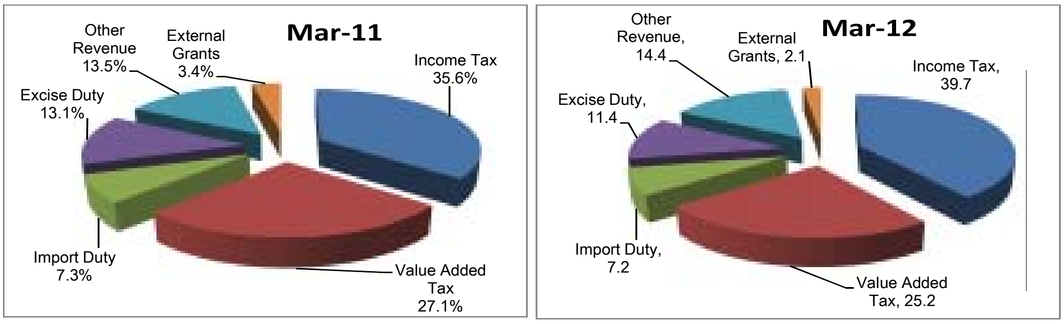
TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Mar-11 Ksh bn	Mar-12 Ksh bn	Change
1. Revenue (2+3+4)	**448.1**	**499.9**	**51.8**
2. Tax Revenue	404.5	450.5	46.0
Income Tax	165.0	203.1	38.1
Value Added Tax	125.5	128.6	3.1
Import Duty	34.0	36.6	2.6
Excise Duty	60.9	58.0	-2.9
Others	19.2	24.2	5.1
3. Appropriations-in-Aid	30.8	34.8	3.92
4. Other Revenue	12.7	14.7	2.0
5. External Grants	**15.8**	**11.0**	**-4.8**
TOTAL RECEIPTS (1+5)	**463.9**	**510.9**	**47.0**

Source: Treasury

Tax revenue expanded by Ksh 46.0 billion, equivalent to 11.4 percent, from Ksh 404.5 billion collected in the first nine months of 2010/11 to Ksh 450.5 billion for a similar period of fiscal year 2011/12 (Table 6.2). The increase was largely on account of income tax, which expanded by Ksh 38.1 billion (23.1 percent) during the period, surpassing its

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

programmed target by Ksh 4.2 billion. Value added tax and import duty expanded during the period by Ksh 3.1 billion and Ksh 2.6 billion, but remained below their respective programmed targets. All taxes improved with respect to the previous fiscal year with the exception of excise duty which declined by Ksh 2.9 billion (4.7 percent) during the period under review. The decline was partly attributed to policy and administrative measures undertaken to address the cost of living during the period, which included the removal of excise duty on kerosene, reduction of excise duty on diesel, duty remission on imported wheat and maize, among others. Other reasons for the decline in excise taxes included shifting beer consumption to non-malt, containerized and cheaper beer which was zero rated to cater for the lower end market, and the telecommunications aggressive marketing in the first half of the fiscal year. External grants declined by Ksh 4.8 billion to stand at Ksh 11.0 billion for the period July 2011 – March 2012.

Expenditure and Net Lending

Government expenditure and net lending increased by Ksh 103.5 billion in the period July 2011 – March 2012 from Ksh 560.0 billion expended during the same period in the fiscal year 2010/11. Total expenditure for the first nine months of fiscal year 2011/12 amounted to Ksh 663.5 billion, comprising Ksh 479.1 billion and Ksh 184.4 billion in recurrent and development expenditure, respectively.

The main recurrent expenditure items included salaries and wages and interest on domestic debt, which increased by Ksh 16.4 billion and Ksh 6.9 billion, respectively. Other recurrent expenditures increased by Ksh 45.8 billion to stand at Ksh 253.9 billion in the period July 2011 – March 2012. Expenditure and net lending targets were missed by Ksh 135.4 billion of which Ksh 123.4 billion was on account of development expenditure (Table 6.1).

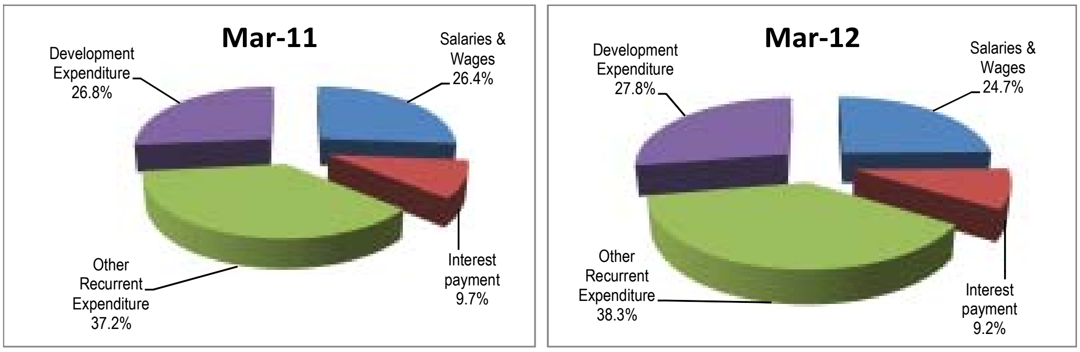
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Mar-11 Ksh bn	Mar-12 Ksh bn	Movement
1.Recurrent	**410.1**	**479.1**	**69.0**
Salaries & Wages	147.6	164.0	**16.4**
Total Interest	54.4	61.2	**6.8**
of which			
Domestic*	49.2	56.1	6.9
Foreign interest	5.2	5.1	-0.1
Others	208.1	253.9	45.8
2. Development	**149.9**	**184.4**	**34.5**
TOTAL EXPENSES	**560.0**	**663.5**	**103.5**

*Includes commission and other charges paid to CBK

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

Budgetary operations of the Government resulted in a financing requirement of Ksh 153.3 billion in the period July 2011 – March 2012 compared with Ksh 107.9 billion in the same period in 2010/11. The Government sourced the funds through domestic borrowing amounting to Ksh 123.6 billion and net external debt borrowing of Ksh 27.3 billion. In addition, Government reduced own deposits at the Central Bank by Ksh 2.3 billion (Table 6.4).

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

I. FINANCING REQUIREMENTS	Mar-11	Mar-12 *
1. Budget deficit	98.2	134.3
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	9.6	0.0
5. Adjustments to cash basis	0.0	19.0
TOTAL	107.9	153.3
II. FINANCING SOURCES	**Mar-11**	**Mar-12**
1. Budget surplus	0.0	0.0
2. External debt increase	18.9	27.3
3. Increase in domestic debt	89.0	123.6
3.1 Central Bank	1.2	22.0
3.2 Commercial banks	31.5	35.6
3.3 Non-bank sources	56.3	66.0
4. Reduction in GoK deposits at CBK	0.0	2.3
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	107.9	153.3

* Provisional

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank increased by Ksh 9.3 billion to stand at Ksh 61.0 billion in the period July 2011 – March 2012, compared with Ksh 51.7 billion in the same period of the previous fiscal year. The increase in Government's liability to the Central Bank was attributed to the overdraft at the Central Bank and the rediscounted securities during the period. The holdings of rediscounted securities remained significantly high following the sustained tight monetary stance taken several months prior to March 2012. Rediscounted Treasury bills and bonds amounted to Ksh 1.2 billion and Ksh 3.8 billion, respectively, at the end of March 2012. Amortization of the pre-1997 overdraft reduced Government indebtedness at the Central Bank by Ksh 1.1 billion, while Government overdraft at the Central Bank was maintained within the statutory limit of Ksh 25.4 billion.

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

	2011	2012	Movement
	March	March	
Total Credit	**51.7**	**61.0**	**9.3**
1. Overdraft	19.7	25.4	5.6
2. Rediscounted securities	0.2	5.0	4.7
Treasury bills	0.2	1.2	0.9
Treasury bonds	0.0	3.8	3.8
3. Pre-1997 Government Overdraft at CBK	31.7	30.6	-1.1
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.1	0.1	0.0
Memorandum			
Authorised overdraft limit	**22.9**	**25.4**	2.4
Amount utilised to date	19.7	25.4	5.6
Amount available	3.2	0.0	-3.2

Source: Central Bank of Kenya

Outlook for FY 2011/12

In the revised budget estimates for the FY 2011/12, Government revenue is estimated at Ksh 806.4 billion (or 24.5 percent of GDP). External grants are estimated at Ksh 48.2 billion or 1.5 percent of GDP. Government expenditure is estimated at Ksh 1,082.8 billion (or 32.9 percent of GDP), of which Ksh 697.5 billion (21.2 percent of GDP) will be in recurrent expenses and the rest in development expenses (Table 6.6).

TABLE 6.6: BUDGET ESTIMATES FOR THE FISCAL YEAR 2011/12 (Ksh Billion)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE AND GRANTS	**854.5**	**25.93**
Ordinary revenue	724.8	22.00
Appropriations-in-Aid	81.6	2.47
External Grants	48.2	1.46
2. TOTAL EXPENSES & NET LENDING	**1082.8**	**32.86**
Recurrent Expenses	697.5	**21.17**
Development Expenses	385.2	**11.69**
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-228.3**	**-6.93**
4. ADJUSTMENT TO CASH BASIS	**0.00**	**0.00**
5. DEFICIT ON A CASH BASIS	**-228.3**	**-6.93**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.00**	**0.00**
7. FINANCING	**228.3**	**6.93**
Domestic (Net)	62.1	1.88
External (Net)	166.2	5.04

Source: Central Bank of Kenya

The overall budget deficit including grants is therefore estimated at Ksh 228.3 billion (6.9 percent of GDP) in 2011/12. The deficit will be financed through net external borrowing of Ksh 166.2 billion (5.0 percent of GDP) and net domestic borrowing of Ksh 62.1 billion (1.9 percent of GDP).

Developments in Public Debt

Overall Debt

Kenya's public and publicly guaranteed debt amounted to Ksh 1,564.5 billion by end March 2012, an increase of Ksh 73.0 billion, since June 2011. The total debt stock by March 2012 was equivalent to 47.5 percent of GDP, while that in June 2011 was Ksh 1,491.5 billion or 54.2 percent of GDP. Domestic debt to GDP ratio and external debt to GDP ratio declined from 27.8 percent and 26.4 percent in June 2011 to 27.0 percent and 20.6 percent, respectively, in March 2012. Domestic debt constituted 56.8 percent of total debt during the period. In March 2012, total domestic debt increased by Ksh 123.6 billion largely due to increased stocks of Treasury bonds, Treasury bills and Central Bank overdraft to the Government. Total external debt declined by Ksh 50.7 billion, largely as a result of revaluations following appreciation of the Kenya shilling against the world's major currencies.

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

	Jun-09	Jun-10	Jun-11	Sep-11	Dec-11	Jan-12	Feb-12	Mar-12	Change 2011/12
EXTERNAL* **									
Bilateral	185.9	196.3	257.0	258.5	240.7	263.3	235.5	243.0	-13.94
Multilateral	327.6	348.6	445.3	514.7	422.9	419.7	410.7	417.1	-28.19
Supplier Credits	23.8	20.5	25.0	26.6	22.0	22.2	16.6	16.5	-8.52
Sub-Total	**537.4**	**565.5**	**727.3**	**799.83**	**685.61**	**705.20**	**662.81**	**676.61**	**-50.7**
(As a % of GDP)	22.5	22.2	26.4	29.0	20.8	21.4	20.13	20.6	
(As a % of total debt)	50.9	46.1	48.8	51.1	46.1	46.6	43.0	43.2	
DOMESTIC/[1]									
Banks	**290.8**	**401.8**	**418.1**	**413.1**	**431.2**	**425.3**	**468.9**	**475.7**	**57.6**
Central Bank	40.1	51.9	39.7	58.1	68.5	61.7	61.7	61.7	22.0
Commercial Banks	250.7	350.0	378.4	355.0	362.7	363.7	407.2	414.0	35.6
Non-banks	**225.1**	**255.3**	**338.3**	**343.1**	**360.5**	**373.2**	**396.1**	**399.2**	**60.9**
Non-bank Financial Institutions	1.0	3.0	2.6	2.1	1.9	1.8	1.8	1.5	-1.0
Other Non-bank Sources	224.1	252.4	335.7	341.0	358.6	371.4	394.3	397.7	62.0
Non-residents	**2.6**	**3.1**	**7.9**	**8.1**	**9.1**	**10.7**	**12.3**	**12.9**	**5.1**
Sub-Total	**518.5**	**660.3**	**764.2**	**764.3**	**800.7**	**809.3**	**877.3**	**887.9**	**123.6**
(As a % of GDP)	21.7	25.9	27.78	27.68	24.32	24.58	26.65	26.97	
(As a % of total debt)	49.1	53.9	51.2	48.9	53.9	53.4	57.0	56.8	
GRAND TOTAL	**1055.9**	**1225.7**	**1491.5**	**1564.1**	**1486.3**	**1514.5**	**1540.1**	**1564.5**	**73.0**
(As a % of GDP)	44.1	48.0	54.2	56.6	45.1	46.0	46.78	47.52	

*** Includes IMF Loans

/[1] Domestic Debt is reported on a gross basis

Note

From January 2001 domestic debt is reported on a gross basis, that is, without netting out government deposits and Treasury advances to parastatals. The debt is, however, net of IMF disbursements on-lent to the Government by CBK and which are considered as part of external debt.

Sources: Treasury and Central Bank of Kenya

Domestic Debt

Total domestic debt increased by Ksh 123.6 billion from a stock of Ksh 764.2 billion at the end of June 2011 to Ksh 887.9 billion at the end of March 2012 (Table 7.2). The rise was largely attributed to increases of Ksh 87.9 billion in Treasury bonds, Ksh 18.9 billion in Treasury bills and Ksh 17.8 billion in the Government overdraft at the Central Bank. Non-interest bearing debt declined following Ksh 1.1 billion repayment during the period.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2011				2012						Change
	June	%	Dec	%	Jan	%	Feb	%	Mar	%	June-11 - Mar-12
Total Stock of Domestic Debt (A+B)	764.2	100.0	800.7	100.0	809.3	100.0	877.3	100.0	887.9	100.0	123.6
A. Government Securities	753.9	98.7	771.7	96.4	781.3	96.5	849.0	96.8	859.6	96.8	105.7
1. Treasury Bills (excluding Repo Bills)	126.6	16.6	107.1	13.4	110.6	13.7	140.6	16.0	145.5	16.4	18.9
Banking institutions	87.7	11.5	54.1	6.8	53.9	6.7	77.9	8.9	80.8	9.1	-6.9
Others	38.9	5.1	53.0	6.6	56.7	7.0	62.8	7.2	64.6	7.3	25.8
2. Treasury Bonds	595.7	77.9	633.5	79.1	640.1	79.1	677.8	77.3	683.6	77.0	87.9
Banking institutions	288.4	37.7	305.9	38.2	307.2	38.0	326.5	37.2	330.4	37.2	42.0
Others	307.3	40.2	327.6	40.9	332.9	41.1	351.3	40.0	353.2	39.8	45.9
4. Non-Interest Bearing Debt	31.7	4.1	31.1	3.9	30.6	3.8	30.6	3.5	30.6	3.4	-1.1
Of which: Repo T/Bills	30.8	4.0	30.8	3.8	29.8	3.7	29.8	3.4	29.8	3.4	-1.0
B. Others:	10.29	1.3	28.93	3.6	27.99	3.5	28.31	3.2	28.28	3.2	18.0
Of which CBK overdraft to Government	7.6	1.0	26.2	3.3	25.4	3.1	25.4	2.9	25.4	2.9	17.8

From January 2001 domestic debt is reported on a gross basis without netting out government deposit and Treasury advances to parastatals

Source: Central Bank of Kenya

Treasury Bills

Treasury bills holdings excluding repos increased from Ksh 126.6 billion in June 2011 and a low of Ksh 107.1 billion in December 2011 to stand at Ksh 145.5 billion in March 2012, following increased uptake in February and March 2012. The proportion of Treasury bills in total domestic debt increased from 13.4 percent in December 2011 to 16.4 percent in March 2012, but remained lower than 16.6 percent level in June 2011 (Table 7.2). At the end of March 2012, commercial banks held 55.6 percent of total Treasury bills (Table 7.3).

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

	2011								2012					
Holders	Feb	%	Mar	%	Jun	%	Dec	%	Jan	%	Feb	%	Mar	%
Banking Institutions	103.1	79.0	104.8	81.0	87.7	69.3	54.1	50.5	53.9	48.8	77.9	55	80.8	56
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	103.1	79.0	104.8	81.0	87.7	69.3	54.1	50.5	53.9	48.8	77.9	55.4	80.8	55.6
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	4.1	3.2	3.9	3.0	4.7	3.7	9.2	8.6	7.7	7.0	7.0	5.0	7.4	5.1
Parastatals	3.0	2.3	3.3	2.6	3.2	2.6	2.9	2.7	2.7	2.5	3.1	2.2	3.3	2.2
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	2.9	2.2	3.0	2.3	4.8	3.8	14.9	13.9	18.8	17.0	23.6	16.8	26.7	18.4
Others	17.3	13.3	14.4	11.2	26.1	20.6	26.1	24.4	27.4	24.8	29.1	20.7	27.2	18.7
Total*	**130.5**	**100.0**	**129.4**	**100.0**	**126.6**	**100.0**	**107.1**	**100.0**	**110.6**	**100.0**	**140.6**	**100.0**	**145.5**	**100.0**

* Excludes repurchase order bills

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds outstanding increased by Ksh 87.9 billion from Ksh 595.7 billion in June 2011 to Ksh 683.6 billion at the end of March 2012, following successful bond issues during the period which included the 12-year infrastructure bond, the 30-year special development bond and several other shorter term discounted fixed rate bonds (Table 7.4). Despite the increase, the proportion of Treasury bonds in total domestic debt declined from 77.9 percent in June 2011 to 77.0 percent in March 2012 (Table 7.2).

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

Holders	2011										2012					
	Jan	%	Feb	%	Mar	%	June	%	Dec	%	Jan	%	Feb	%	Mar	%
Banking Institutions	269.4	50.0	280.7	50.3	283.7	49.7	290.9	48.8	307.8	48.6	309.0	48.3	328.3	48.4	331.9	48.6
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	266.9	49.6	278.2	49.8	281.2	49.3	288.4	48.4	305.9	48.3	307.2	48.0	326.5	48.2	330.4	48.3
NBFIs	2.5	0.5	2.5	0.5	2.5	0.4	2.5	0.4	1.9	0.3	1.8	0.3	1.8	0.3	1.5	0.2
Insurance Companies	66.3	12.3	67.7	12.1	69.4	12.2	70.9	11.9	79.5	12.6	80.9	12.6	83.1	12.3	84.0	12.3
Parastatals	44.2	8.2	45.1	8.1	46.6	8.2	46.6	7.8	48.7	7.7	47.7	7.5	47.7	7.0	47.6	7.0
Of which: NSSF	21.4	4.0	22.6	4.1	23.0	4.0	23.6	4.0	25.7	4.1	24.7	3.9	24.7	3.6	24.7	3.6
Building Societies	0.3	0.1	0.3	0.1	0.3	0.0	0.3	0.0	0.6	0.1	0.6	0.1	0.6	0.1	0.6	0.1
Pension Funds	103.0	19.1	108.8	19.5	114.3	20.0	118.5	19.9	147.2	23.2	161.6	25.2	170.9	25.2	172.5	25.2
Others	55.3	10.3	55.5	9.9	56.5	9.9	68.4	11.5	49.7	7.8	40.2	6.3	47.2	7.0	46.9	6.9
Total	538.6	100.0	558.1	100.0	570.8	100.0	595.7	100.0	633.5	100.0	640.1	100.0	677.8	100.0	683.6	100.0

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Total domestic debt amounted to Ksh 887.9 billion at the end of March 2012 comprising of Ksh 683.6 billion, Ksh 145.5 billion, Ksh 25.4 billion, Ksh 29.8 billion and Ksh 3.7 billion in Treasury bonds, Treasury bills, Government overdraft at the Central Bank, Repo Treasury bills and other domestic debt, respectively. The average maturity profile of domestic debt (by days to maturity) declined to 5 years and 6 months in March 2012, from 5 years and 10 months in June 2011.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2011						2012						Change Jun-11 to Mar-12
		June	%	Sep	%	Dec	%	Jan	%	Feb	%	Mar	%	
Treasury bills	91-Day	69.1	9.0	54.5	7.1	54.1	6.8	51.1	6.3	62.0	7.1	56.3	6.3	-12.8
	182-Day	22.5	2.9	23.9	3.1	29.3	3.7	37.3	4.6	50.7	5.8	59.2	6.7	36.7
	364-Day	34.9	4.6	35.4	4.6	23.6	3.0	22.1	2.7	27.9	3.2	29.9	3.4	-5.1
Treasury Bonds	1-Year	0.0	0.0	0.0	0.0	11.1	1.4	26.0	3.2	36.6	4.2	51.5	5.8	51.5
	2-Year	73.0	9.6	69.7	9.1	93.4	11.7	86.2	10.7	86.2	9.8	80.0	9.0	7.0
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	5-Year	114.6	15.0	113.2	14.8	113.2	14.1	110.4	13.6	110.4	12.6	110.4	12.4	-4.1
	6-Year	70.8	9.3	70.8	9.3	63.4	7.9	63.4	7.8	63.4	7.2	63.4	7.1	-7.4
	7-Year	24.3	3.2	22.5	2.9	22.5	2.8	22.5	2.8	22.5	2.6	22.5	2.5	-1.8
	8-Year	25.7	3.4	20.6	2.7	20.6	2.6	20.6	2.6	20.6	2.4	17.6	2.0	-8.1
	9-Year	27.7	3.6	27.7	3.6	27.7	3.5	27.7	3.4	27.7	3.2	27.7	3.1	0.0
	10-Year	91.4	12.0	95.3	12.5	95.3	11.9	95.3	11.8	95.3	10.9	95.3	10.7	3.9
	11-Year	4.0	0.5	4.0	0.5	4.0	0.5	4.0	0.5	4.0	0.5	4.0	0.5	0.0
	12-Year	20.1	2.6	20.1	2.6	34.7	4.3	36.4	4.5	63.5	7.2	63.5	7.2	43.4
	15-Year	75.4	9.9	75.4	9.9	75.4	9.4	75.4	9.3	75.4	8.6	75.4	8.5	0.0
	20-Year	29.7	3.9	29.7	3.9	29.7	3.7	29.7	3.7	29.7	3.4	29.7	3.3	0.0
	25-Year	20.2	2.6	20.2	2.6	20.2	2.5	20.2	2.5	20.2	2.3	20.2	2.3	0.0
	30-Year	18.8	2.5	22.1	2.9	22.1	2.8	22.1	2.7	22.1	2.5	22.1	2.5	3.4
Repo T bills		30.78	4.0	30.78	4.0	30.78	3.8	29.78	3.7	29.8	3.4	29.8	3.4	-1.0
Overdraft		7.57	1.0	25.37	3.3	26.17	3.3	25.37	3.1	25.4	2.9	25.4	2.9	17.8
Other Domestic debt		3.60	0.5	2.86	0.4	3.08	0.4	3.39	0.4	3.70	0.4	3.7	0.4	0.1
Total Debt		764.2	100.0	764.3	100.0	800.7	100.0	809.3	100.0	877.3	100.0	887.9	100.0	

Source: Central Bank of Kenya

Maturity Profile of Treasury Bills and Bonds

In terms of expected maturities, Government securities worth Ksh 85.5 billion will fall due between April and June 2012 in the 2011/12 fiscal year. Of the total maturing debt, Ksh 77.1 billion, equivalent to 90.2 percent will be in Treasury bills, while the remainder will be in Treasury bonds. Treasury bill maturities in the period will comprise Ksh 56.3 billion, Ksh 16.3 billion and Ksh 4.5 billion in 91-day, 182-day and 364-day Treasury bills, respectively, while Treasury bonds maturing during this period will comprise of Ksh 2.4 billion and Ksh 6.0 billion in 9-year and 6-year discounted fixed rate bonds, respectively.

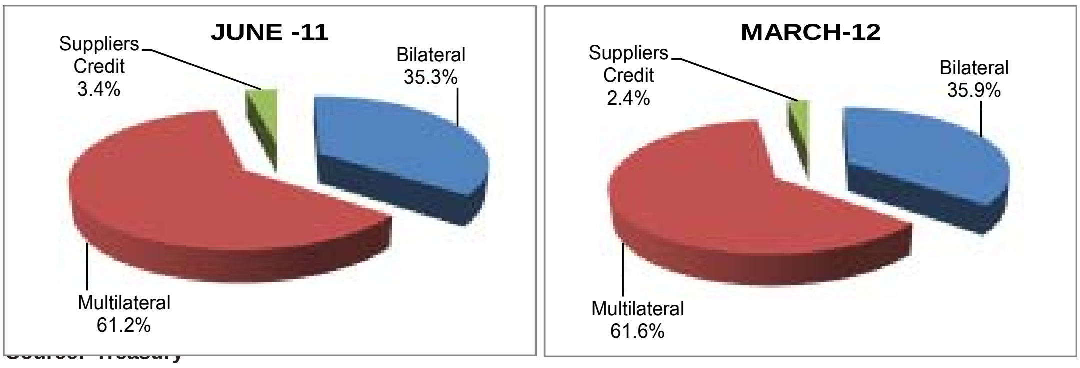
External Debt

Kenya's external debt declined by Ksh 50.7 billion from Ksh 727.3 billion (US$ 7.88 billion) in June 2011 to Ksh 676.6 billion (US$ 8.1 billion) at the end of March 2012 (Table 7.1). Debt owed to multilateral creditors, bilateral creditors and that acquired through suppliers' credits declined by Ksh 28.19 billion, Ksh 13.94 billion and Ksh 8.52 billion, respectively, following appreciation of the Kenya Shilling against major currencies during the period.

Composition of External Debt by Creditor

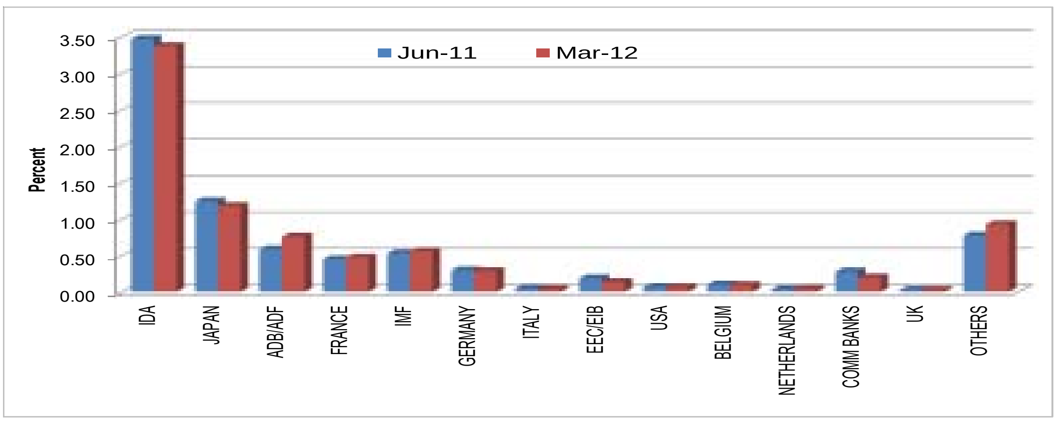
Kenya's official creditors, the multilateral and bilateral lenders, accounted for over 96 percent of total external debt in March 2012. The proportion of external debt owed to multilateral and bilateral creditors increased from 61.2 percent and 35.3 percent in June 2011 to 61.6 percent and 35.9 percent respectively in March 2012. Supplier's credits accounted for 2.4 percent of total external debt (Chart 7A).

CHART 7A: COMPOSITION OF EXTERNAL DEBT



Debt owed to IDA, Kenya's largest multilateral lender, amounted to US$ 3.4 billion or 41.4 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender amounted to US$ 1.2 billion at the end of the third quarter of fiscal year 2011/12. During the period under review, debt owed to ADB/ADF and the IMF increased by US$ 172.8 million and US$ 27.0 million from US$ 585.8 million and US$ 529.5 million respectively to US$ 758.7 million and US$ 556.5 million in March 2012 (Chart 7B).

CHART 7B: EXTERNAL DEBT BY CREDITOR

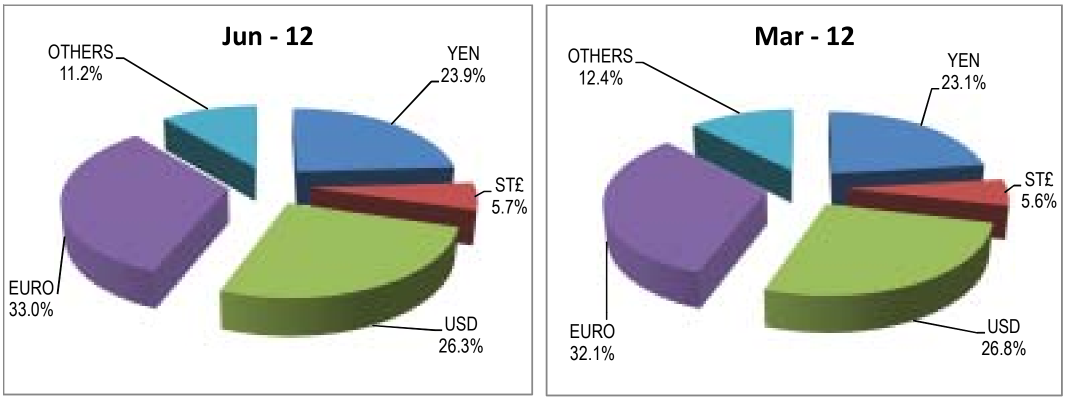


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in US dollars and other currencies increased from 26.3 percent and 11.2 percent in June 2011 to 26.8 percent and 12.4 percent, respectively, in March 2012. Debt holdings in all the other major currencies declined during the period under review. Movements in currency composition of external debt reflected exchange rate fluctuations during the period (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt for the period July 2011 – March 2012 amounted to Ksh 56.1 billion, compared with Ksh 47.2 billion incurred for the same period of the previous fiscal year. This comprised Ksh 44.8 billion, Ksh 9.2 billion and Ksh 2.1 billion, respectively, in interest and other charges on Treasury bonds, Treasury bills and Government overdraft at the Central Bank. External debt service for the period July 2011 – March 2012 amounted to Ksh 28.4 billion comprising Ksh 21.5 billion in principal repayments and Ksh 6.9 billion in interest cost.

Outlook for the FY 2011/12

To overcome the low low uptake of Government securities, the Government sought alternative funding through a syndicated loan, amounting to US$ 600.0 million, during the fiscal year 2011/12. This resulted in revised budget estimates for the fiscal year 2011/12, projecting a net domestic borrowing of Ksh 62.1 billion and net external borrowing of Ksh 166.2 billion.

ACTIVITY IN THE STOCK MARKET

The equities market maintained a strong rally, with key market indicators gaining significantly for three months in a row. Bonds turnover surged by 68 percent, with players doubling number of deals transacted in February 2012 (Table 8.1 and Chart 8.A).

Equity Market

The NSE 20 Share Index and NASI added 191 basis points and 64 basis points to level 3,366.89 points and 73.47 points in March from 3,303.75 points and 73.00 points in February 2012, respectively. Market Capitalization, which measures total shareholders' wealth at the bourse, gained Ksh 20 billion to close at Ksh 940 billion from 920 billion during the period. Equity turnover was up Ksh 2,893 million to close the month at Ksh 6,386 million from Ksh 3,493 million in February 2012. Turnover Ratio as a measure of market liquidity gained 3 basis points to reach 0.50 percent from 0.47 percent during the period. The number of shares traded rose to 366 million in March from 342 million in February, reflecting a general recovery in the market.

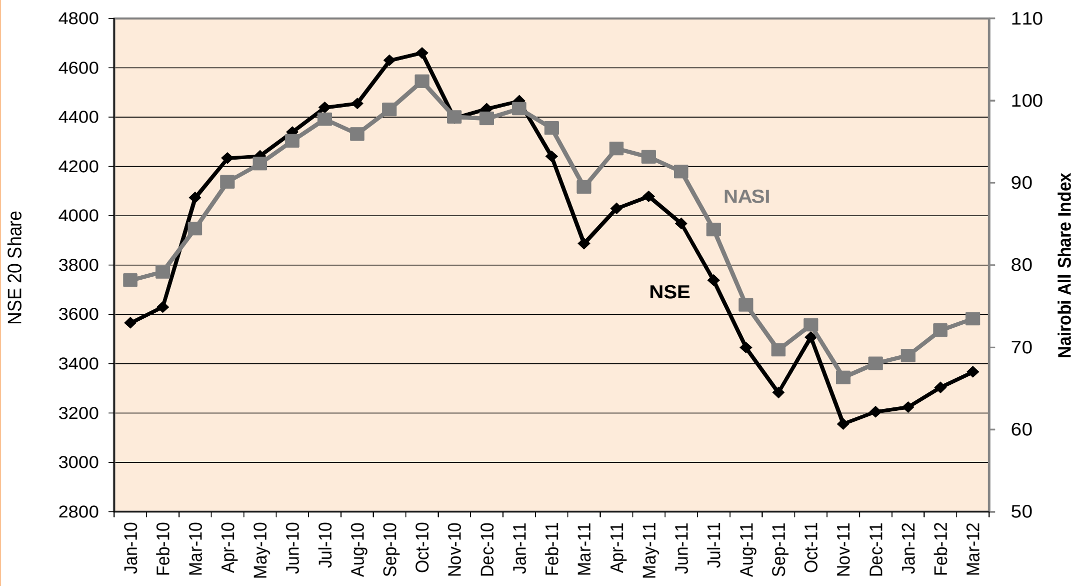
Net foreign investors' participation was down to 39.69 percent from 45.85 percent of total equity turnover during the period, with purchases of 60.44 percent of total equity turnover outweighing 18.93 percent of sales.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

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)
Jan-10	3,565.28	78.15	603.91	6,358.02	910.02	26,750.00
Feb-10	3,629.41	79.18	369.76	4,214.87	922.10	41,638.70
Mar-10	4,072.93	84.43	627.00	8,325.6	983.12	50,411.00
Apr-10	4,233.24	90.13	398.53	6,754.90	1,062.00	23,241.00
May-10	4,241.81	92.33	934	10,342.00	1,073.00	37,204.50
Jun-10	4,339.28	95.10	365	6,804.00	1,108.65	95,241.75
Jul-10	4,438.58	97.74	691	11,383.00	1,142.60	63,517.00
Aug-10	4,454.59	95.93	1,031	16,173.55	1,136.10	23,189.80
Sep-10	4,629.80	98.92	804	7,731.50	1,173.70	30,875.50
Oct-10	4,659.56	102.36	501	10,233.33	1,221.85	34,110.00
Nov-10	4,395.17	98.01	499	9,302.00	1,169.17	33, 691.00
Dec-10	4,432.60	97.82	358	5,885.41	1,166.99	23,280.00
Jan-11	4,464.92	99.02	725	9,462.18	1,192.28	19,891.30
Feb-11	4,240.18	96.66	335	6,215.78	1,176.85	49,040.10
Mar-11	3,887.07	89.50	469	7,984.12	1,090.23	40,116.05
Apr-11	4,029.23	94.18	497	7,883.04	1,154.92	33,376.20
May-11	4,078.10	93.15	410	8,405.61	1,144.00	33,646.10
Jun-11	3,968.12	91.36	411	7,047.50	1,121.00	69,415.48
Jul-11	3,738.46	84.32	434	7,132.18	1,050.00	33,414.55
Aug-11	3,465.02	75.15	552	6,109.01	950.41	44,111.70
Sep-11	3,284.06	69.68	582	5,453.00	885.57	36,112.40
Oct-11	3,507.34	72.71	570	4,466.00	927.00	34,737.60
Nov-11	3,155.46	66.33	399	3,928.00	854.68	26,691.60
Dec-11	3,205.02	68.03	337	3,973.00	868.24	24,999.05
Jan-12	3,224.00	69.00	351	3,544.00	880.00	24,513.50
Feb-12	3303.75	72.07	342	3,493.00	920.00	27,121.66
Mar-12	3366.89	73.47	366	6,386.00	940.00	47,811.97

Source: Nairobi Stock Exchange

CHART 8A: NSE 20 SHARE INDEX (1966=100)



Source: Nairobi Stock Exchange

Banking sector dominated trading, with 179.79 million shares, which accounted for 48.83 percent of the entire market activity. This was followed Telecommunications and Technology sector with 116.1 million shares or 31.7 percent, while Energy and Petroleum sector closed top three with 109.03 million shares or 29.78 percent of the market. Equity Bank Ltd, Safaricom and Kenol Kobil were the leading counters with, 79.46 million, 22.17 million shares and 10.27 million shares traded, respectively.

FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks ranked by market capitalization at NSE and FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks trading at the Exchange, closed March up at 98.20 points and 100.06 points from 95.12 points and 97.29 points on February 29, 2012. FTSE NSE Kenya 25 crossed the 100 points mark on March 28, 2012, for the first time since its introduction on November 8, 2011.

Bond Market

The turnover of bonds traded at the NSE was up 68.4 percent with total deals rising to 624 in March from 319 deals in February 2012. A total of bonds valued Ksh 47,812 million up from Ksh 27,122 million were traded during the period. This strong performance highlights increased investor appetite for long term securities as yields in short term paper in primary market continue to decline and inflation pressures ease, leading to real positive returns.

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

	Mar-12	Jun-11	Mar 12/Jun 11 Movement
ASSETS			
Balances due from Banking Institutions and Gold holdings	387,657	368,835	(2,079)
Items in the course of collection	81	409	(348)
Funds held with International Monetary Fund	758	2,731	(1,969)
Advances to commercial banks	4,958	49	5,644
Loans and Advances	29,846	30,642	359
Other Assets	5,079	5,385	(315)
Retirement Benefits Assets	1,897	1,897	(0)
Property and Equipment	3,674	2,849	205
Prepaid operating lease rentals	266	268	(2)
Intangible Assets	1,540	1,171	144
Due from Government of Kenya	30,554	32,380	(1,826)
TOTAL ASSETS	**466,310**	**446,616**	**(188)**
LIABILITIES			
Balances due to Banking Insturions (RAMP A/Cs)	0	0	0
Currency in Circulation	162,127	147,718	11,172
Repos sold to Banks	0	0	0
Deposits	157,359	135,792	4,693
International Monetary Fund	88,979	81,829	8,022
Other Liabilities	5,740	9,447	(2,530)
Dividends Payable	1,661	2,641	(980)
Provisions	98	98	0
TOTAL LIABILITIES	**415,964**	**377,525**	**20,377**
EQUITIES AND RESERVES	**50,346**	**69,091**	**(20,565)**
Share capital	5,000	5,000	0
General Reserve Fund	62,722	62,722	0
Period Surplus	1,369	0	(20,565)
Asset Revaluation	(18,745)	1,369	0
Proposed Dividends	0	0	0
TOTAL LIABILITIES AND EQUITY	**466,310**	**446,616**	**(188)**

Source: Central Bank of Kenya

NOTES ON THE FINANCIAL POSITION

Assets

Balances due from Banking institutions and Gold holdings category consist of foreign reserves held in external current accounts, deposits and special/projects accounts, foreign travelers cheques, Domestic Foreign Currency Clearing Accounts, Gold, Special Drawing Rights and RAMP securities invested with World Bank. The category increased by Ksh 18,822 million to Ksh 387,657million in March 2012 from Ksh 368,835 million in June 2011. The increase largely reflected receipts of loan disbursement from the IMF and the Central Bank purchase of foreign exchange from the interbank market.

Items in course of collection represent the value of clearing instruments which are held by the Bank, while awaiting clearing by respective commercial banks. The balances as at March 2012 were Ksh 81 million, a decrease of 328 million compared with Ksh 409 million as at June 2011.

Advances to commercial banks are balances of money lend by Central Bank to commercial banks through reverse Repo (injection of liquidity) for a short duration of up to 7 days only and the rediscounted Treasury bills and bonds by commercial banks. The balance outstanding increased to Ksh 4,958 million in March 2012 from Ksh 49 million in June 2011 largely reflecting rediscounted Treasury bills and bonds by commercial banks.

Loans and Advances class of asset includes mainly outstanding balances on advances to commercial bank under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF fund on-lent to Government. The balances decreased by Ksh 796 million to Ksh 29,846 million in March 2012 from Ksh 30,642 million in June 2011 largely reflecting increased utilization of the OLF window by commercial banks.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets decreased by Ksh 306 million to Ksh 5,079 million in March 2012 from Ksh 5,385 million in June 2011.

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

Liabilities

Currency in circulation increased by Ksh 14,409 million to Ksh 162,127 million in March 2012 from Ksh 147,718 million in June 2011.

Deposits liability represents deposits held by Government of Kenya, local commercial bank deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances increased by Ksh 21,567million to Ksh 157,359 million in March 2012 largely reflecting an increase in commercial bank deposits.

Amount due to International Monetary Fund represents the Banks obligations to the IMF. The balances increased by Ksh 7,150 million to Ksh 88,979 million in March 2012. The increase largely reflected receipts of loan disbursement from the IMF.

Other liabilities and provisions include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance decreased by Ksh 3,707 million to Ksh 5,740 million in March 2012 from Ksh 9,447 million in June 2011.

Equities and reserves decreased by Ksh 18,745 million to Ksh 50,346 million in March 2012 reflecting a decline in the period surplus of Ksh 18,745 million.