MONTHLY ECONOMIC REVIEW
May 2010
The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at:
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OVERVIEW

Introduction

This Monthly Economic Review highlights recent economic developments through May 2010. This includes developments in money, credit and banking, inflation, interest rates and the exchange rates. It also highlights developments in the real sector, Government budgetary operations, public debt and balance of payments.

Monetary Expansion

Money supply, M3, grew by 24.9 percent in the year to May 2010 compared with 10.6 percent in a corresponding period in 2009 and was above the projected 17.7 percent growth rate for May 2010. The expansion of money supply in the year to May 2010 was mainly due to the growth in domestic credit from the banking system.

Interest Rates

The Monetary Policy Committee in their meeting of 20 May, 2010 retained the Central Bank Rate (CBR) to 6.75 percent to allow the market to absorb earlier reductions in the rate. The rate had previously been lowered in March 2010 to 6.75 percent from the previous position of 7.00 percent in November 2009. Other short term and long term interest rates declined slightly in 2010 from February 2010.

Real GDP Growth

In the first quarter of 2010, the economy grew by 4.4 percent compared with a growth of 5.6 percent in the first quarter of 2009. Growth during the quarter was driven by the agricultural, mining and quarrying, manufacturing, wholesale and retail and the financial sectors which expanded by 4.6 percent, 9.0 percent, 7.8 percent, 3.7 percent and 11.9 percent, respectively from -1.1 percent, -11.9 percent, 5.0 percent, -2.6 percent and 2.1 percent. Total output during the quarter was equivalent to Ksh 356.6 billion. Continued over-reliance on the costly thermal- generated electricity among other reasons resulted in a decline of 2.1 percent in the electricity and water supply sector.

Inflation

The overall 12-month inflation rose by 0.2 percent in May 2010 to 3.9 percent, from 3.7 percent in April 2010. This was a reversal of the declining trend observed since February 2009, except for a marginal increase in January 2010. The annual average inflation on the other hand continued to drop, declining from 15.9 percent in May 2009 to 6.3 percent in April 2010 and further to 5.9 percent in May 2010.

Government Fiscal Operations

The central Government budgetary operations in the eleven months of fiscal year 2009/10 resulted in a deficit of Ksh 142.5 billion or 5.6 percent of GDP on commitment basis compared with a deficit of Ksh 66.1 billion or 2.8 percent of GDP in a similar period of 2008/09. The budget deficit during the period was within the programmed target of 6.4 percent of GDP on commitment basis.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by 13.2 percent in the first eleven months of fiscal year 2009/10 to Ksh 1,192.2 billion in May 2010 from Ksh 1,053.7 billion in June 2009. The external debt to GDP ratio decreased from 22.4 percent in June 2009 to 21.4 percent in May 2010, while the domestic debt to GDP ratio increased from 21.7 percent to 25.7 percent during the period.

Balance of Payments

Kenya's overall balance of payments improved from a deficit of US$ 493 million in the year to April 2009 to a surplus of US$ 408 million in the year to April 2010. The improvement reflects a relatively narrow deficit in the current account.

Exchange Rates

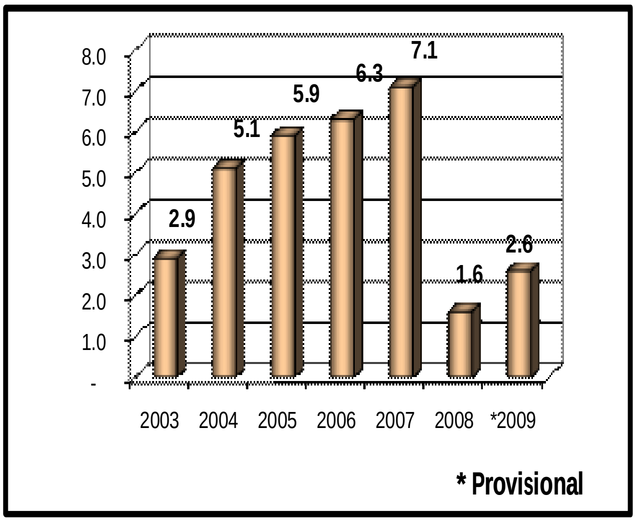
The Kenya Shilling depicted mixed performance in May 2010 against major world currencies, weakening against both the US dollar and the Japanese Yen but strengthening against the Euro and the Sterling Pound. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 78.54 per US dollar in May 2010 compared with Ksh 77.25 per US dollar in April 2010.

Banking Sector Developments

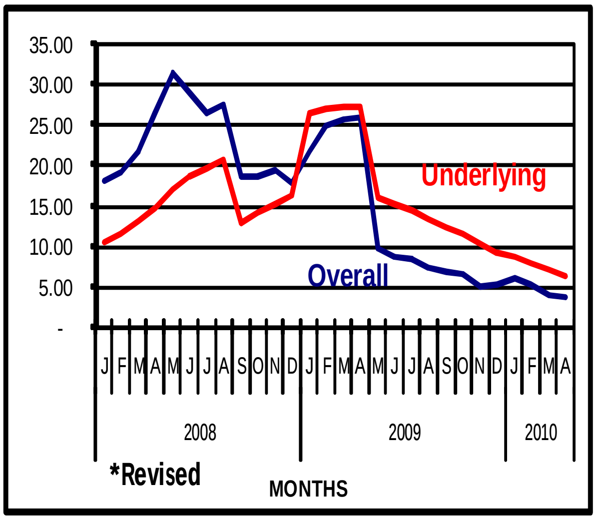
The Banking sector registered growth in asset base largely supported by growth in deposits, injection of capital and retention of profits in May 2010. The stock of gross non-performing loans (NPLs) declined by 10.9 percent from Ksh 69.9 billion in May 2009 to Ksh 62.3 billion.

SELECTED ECONOMIC PERFORMANCE INDICATORS

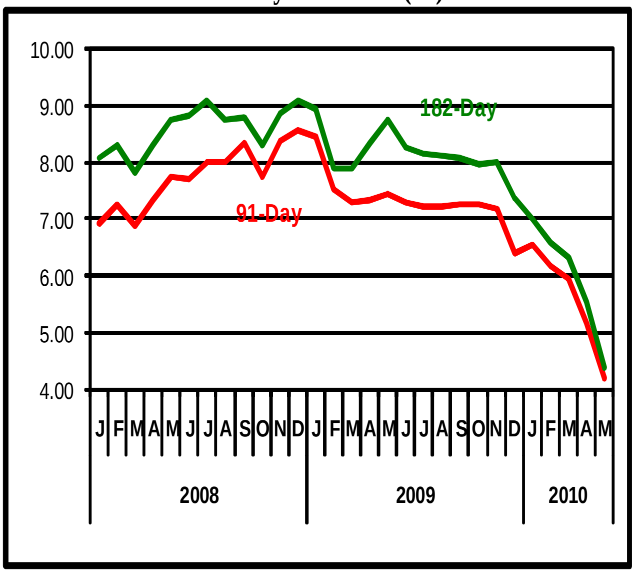
Real GDP Growth (%)



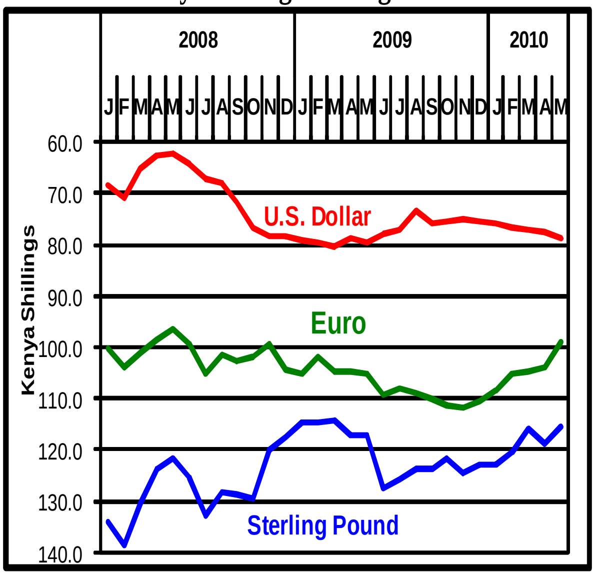
Inflation (%)*



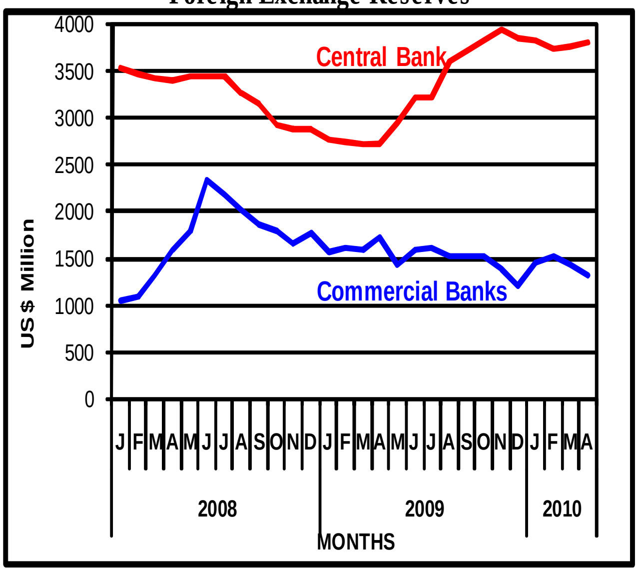
Treasury Bill Rates (%)



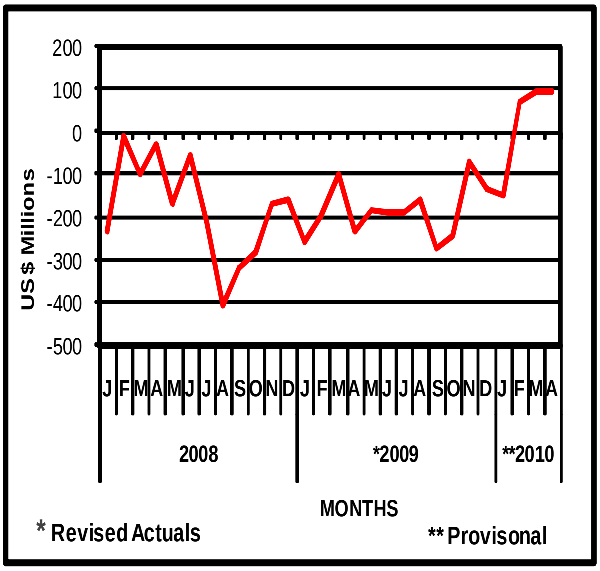
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
1.	POPULATION*										
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	39.40
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	2.87
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	1,444,139	1,615,214	1,833,646	2,048,485
	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	1,622,591	1,828,788	2,077,433	2,273,685
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,133	1,249,459	1,336,874	1,357,640	1,392,832
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.32	7.00	1.55	2.59
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,480	34,611	35,937	35,448	35,351
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]	12.9	10.0	8.1	10.1	12.2	13.4	14.9	13.7	15.5	11.1
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]	6.7	4.4	4.0	4.8	6.6	5.7	8.9	8.5	12.6	6.1
5.	GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	19.1	19.2	23.4
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
	12-Month Inflation	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32
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
	Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64
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
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91
	Budget Deficit (-) / Surplus (+)	7.57	-16.53	-22.32	-27.11	-18.62	5.72	-37.44	-21.61	-77.17	-110.55
	Budget Deficit (% of GDP)	0.81	-1.66	-2.19	-2.51	-1.54	0.42	-2.39	-1.18	-3.68	4.79
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
	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
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96
	Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	827.41	978.32
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	162.78	218.53
	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
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	464.45
	Current Account	-240.00	-385.00	-117.69	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,608.84
	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	2,073.29
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
	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
	*Months of imports*****	*(2.8)*	*3.2*	*3.3*	*4.4*	*4.1*	*4.0*	*3.9*	*4.8*	*3.4*	*4.1*
	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
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
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15	21.67
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61	22.36
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

* 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

	2009							2010				
INDICATOR	Jan	Feb	Mar	Apr	May	June	Dec	Jan	Feb	March	April	May
1. INFLATION (%)												
CPI	99.00	100.00	100.96	101.84	101.84	102.05	104.66	104.89	105.18	104.97	105.56	105.79
Overall Inflation												
12-month overall inflation	13.22	14.69	14.60	12.42	9.61	8.60	5.32	5.95	5.18	3.97	3.65	3.88
Average annual overall inflation	16.56	16.87	17.07	16.72	15.93	15.11	9.24	8.64	7.88	7.03	6.32	5.85
2. INTEREST RATES (%)												
91-day Treasury bill interest rate	8.46	7.55	7.31	7.33	7.45	7.33	6.82	6.56	6.21	5.98	5.17	4.21
Overdraft interest rate	13.84	13.46	13.78	13.16	14.13	14.41	14.13	14.48	14.25	14.06	14.50	14.38
3. STOCK MARKET												
Nairobi Stock Exchange Price Index	3,198.90	2,474.75	2,805.03	2,800.10	2,852.57	3294.56	3247.44	3565.28	3629.31	4072.93	4233.24	4241.81
Turnover (%)	0.30	0.26	0.33	0.35	0.49	0.61	0.34	0.96	0.59	1.01	0.64	1.46
4. GOVERNMENT BUDGET* (Ksh bn.)												
Revenue	277.42	318.85	361.27	407.21	449.64	511.35	266.08	311.97	350.66	394.40	455.12	
Expenses	301.54	359.38	406.94	465.12	515.70	621.91	296.13	372.03	440.03	490.64	561.39	
Budget Deficit (-) / Surplus (+)	(24.12)	(40.53)	(45.67)	(57.91)	(66.06)	(110.56)	(30.05)	(60.06)	(89.37)	(96.24)	(106.26)	
5. MONEY AND CREDIT (Ksh bn.)												
Liquidity (L)[1]	1,089.21	1,103.41	1,107.95	1,135.46	1,139.47	1,166.93	1,280.02	1,297.90	1,311.29	1,350.17	1,364.57	1,404.54
Money Supply (M3)[2]	895.40	900.03	906.07	928.82	928.60	950.24	1,045.21	1,067.27	1,084.35	1,107.90	1,122.79	1,159.59
Reserve Money	152.49	151.82	155.40	152.90	160.40	159.94	181.96	179.45	175.26	177.46	177.50	194.12
Total Domestic Credit	807.34	813.97	827.77	830.13	835.18	854.03	955.29	984.70	1,009.01	1,017.16	1,022.76	1,057.78
Government	156.74	153.91	168.03	166.81	162.55	173.87	205.08	220.69	243.36	246.86	241.89	261.49
Private sector and other public sector	650.60	660.05	659.74	663.32	672.63	680.16	738.27	737.70	743.97	770.30	780.87	796.29
6. MONEY AND CREDIT (Annual % Change)												
Liquidity (L)[1]	9.75	10.19	10.15	7.98	7.09	13.45	17.27	19.16	18.84	21.86	20.18	23.26
Money Supply (M3)[2]	7.49	7.49	11.69	7.49	10.65	13.03	16.00	19.20	20.40	22.28	20.88	24.88
Reserve Money	4.03	4.03	1.57	4.03	8.82	4.59	11.20	17.68	15.40	14.19	16.09	21.02
Total Domestic Credit	18.48	17.55	19.60	11.19	18.68	21.70	18.50	21.97	23.96	22.88	23.20	25.49
Government	4.60	(2.20)	4.68	7.35	38.11	30.30	32.00	40.80	58.11	46.91	45.01	60.87
Private and other public sector	22.40	23.36	24.10	12.19	14.78	19.68	15.50	15.20	14.20	16.76	17.72	17.04
7. BALANCE OF PAYMENTS (US$ m)												
Overall Balance	(106.62)	(22.64)	(30.98)	176.86	41.20	84.39	(81.81)	(37.85)	(84.88)	22.07	60.77	
Current Account	(199.68)	(143.91)	(29.09)	(184.31)	(142.09)	(138.11)	(72.76)	(81.61)	148.04	97.68	95.26	
Trade Balance	(495.25)	(404.04)	(376.20)	(499.66)	(427.78)	(450.59)	(642.04)	(535.67)	(351.53)	(526.20)	(528.62)	
Capital and Financial Account	93.06	121.27	(1.89)	361.17	183.29	222.50	(9.05)	43.76	(232.92)	(75.62)	(34.48)	
8. FOREIGN EXCHANGE RESERVES (US$ m)	4,348.12	4,354.38	4,320.36	4,620.28	4,369.96	4,821.61	5064.03	5279.39	5254.33	5187.64	5124.41	
Official**	2,768.85	2,744.85	2,713.87	2,887.74	2,928.94	3,219.46	3847.39	3809.54	3722.55	3744.62	3805.39	
Months of imports cover	*3.20*	*3.15*	*3.10*	*3.28*	*3.31*	*3.61*	4.09	4.02	3.93	3.92	3.96	
Commercial banks	1,579.27	1,609.52	1,606.49	1,732.54	1,441.03	1,602.15	1216.63	1,469.84	1,531.78	1,443.02	1,319.02	
9. PUBLIC DEBT (US$ bn)	12.15	12.46	12.3	12.8	12.9	13.7	14.7	14.57	14.93	15.08	15.41	
Domestic	5.71	6.00	5.90	6.33	6.25	6.72	7.77	7.65	8.01	8.26	8.46	
As % of GDP	20.24	21.07	20.61	21.32	20.70	21.67	23.85	23.39	24.36	25.48	26.06	
External	6.44	6.46	6.39	6.51	6.62	6.94	6.94	6.91	6.92	6.81	6.96	
As % of GDP	22.83	22.63	22.29	21.94	21.95	22.36	21.29	21.13	21.05	21.01	21.43	
10. GROSS DOMESTIC DEBT (Ksh bn)***	454.27	479.08	474.89	497.58	489.34	518.51	588.97	580.7	608.0	639.1	653.6	
11. AVERAGE EXCHANGE RATE												
Ksh/US$	78.95	79.53	80.26	78.66	79.63	77.85	75.43	75.79	76.69	76.95	77.25	78.54
Ksh/Pound Sterling	114.28	114.54	113.98	116.70	116.98	127.22	122.54	122.53	120.21	115.78	118.51	115.20
Ksh/ 100 Yen	87.45	86.18	82.22	80.84	80.76	80.61	84.12	83.11	84.99	85.04	82.76	85.30
Ksh/Euro	105.02	101.71	104.77	104.80	105.08	109.03	110.27	108.27	105.25	104.46	103.71	98.80

* 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 remained low, declining within single digit level in the year to May 2010. 12-month inflation fell by 5.7 percentage points from 9.6 percent in May 2009 to 3.9 percent in May 2010. The easing was reflected in price levels of most CPI categories of goods and services, except for transport and education baskets. The low inflation creates an environment of low interest rates.

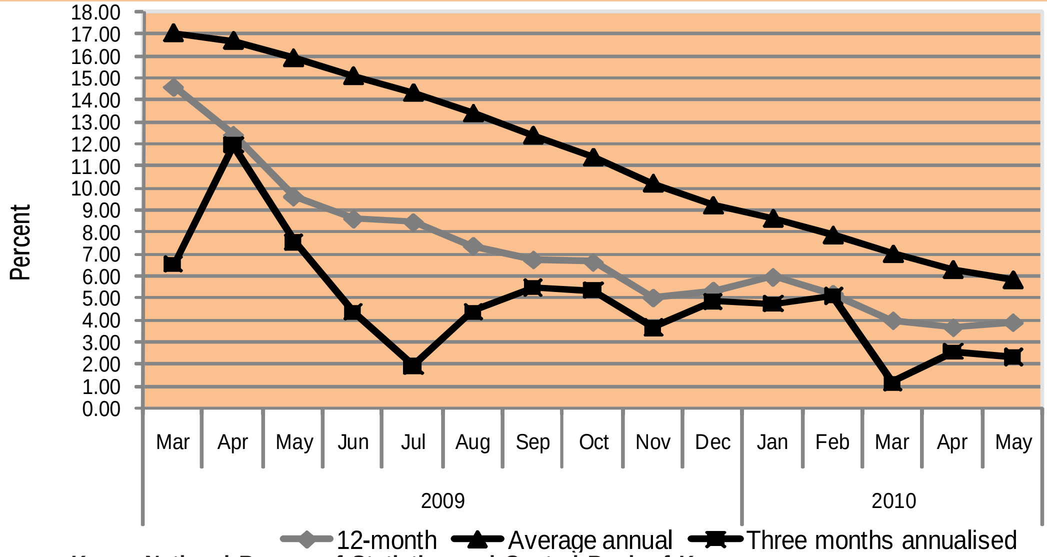
Table 1.1 and Chart 1A depict trends in overall inflation between March 2009 and May 2010.

TABLE 1.1: OVERALL INFLATION (%)

Overall Inflation	2009										2010				
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
12-month	14.60	12.42	9.61	8.60	8.44	7.36	6.74	6.62	5.00	5.32	5.95	5.18	3.97	3.65	3.88
Average annual	17.07	16.72	15.93	15.11	14.35	13.42	12.41	11.42	10.24	9.24	8.64	7.88	7.03	6.32	5.85
Three months annualised	6.56	11.97	7.56	4.38	1.95	4.40	5.49	5.37	3.68	4.87	4.76	5.11	1.19	2.58	2.35

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

CHART 1A: OVERALL INFLATION (%)



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

Inflation by Income Groups

All income groups experienced rising inflation in May 2010 except for “Nairobi middle” income group that recorded a marginal decline in inflation from 2.6 percent in April 2010 to 2.5 percent in May 2010. The decline was in electricity tariffs which followed increased production of hydro- power in the country as a result of good rains experienced since end of 2009 through May 2010. This caused the inflation for housing, water, electricity, gas and other fuels category to fall by 1.6 percent, and that of hotels and restaurants, which are big consumers of electricity, to decline by 1.5 percent. Nairobi’s upper income group experienced the highest increase in 12-month inflation, equivalent to 0.9 percent in May 2010 from an inflation level of 6.3

percent in April, 2010. This was largely driven by increasing international crude oil prices during the month. The "Nairobi lower" and "Other provinces excluding Nairobi" experienced increases equivalent to 0.1 percent and 0.3 percent respectively in their 12-month inflation for May 2010.

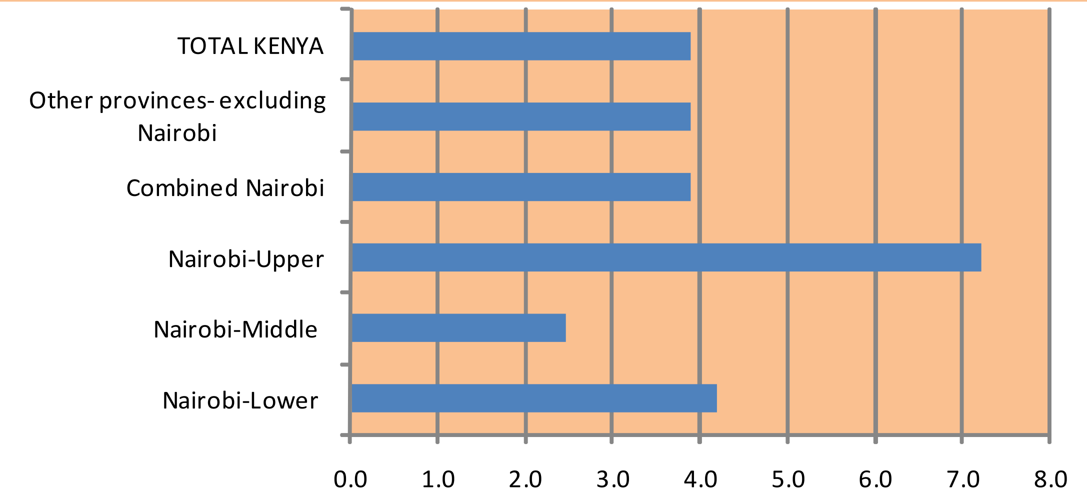
Details on inflation by income groups are shown in Table 1.2 and Chart 1B below.

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

	Feb-10	Mar-10	Apr-10	May-10
Combined Nairobi	5.36	3.91	3.77	3.89
Lower Income	6.16	4.12	4.04	4.18
Middle Income	2.95	2.87	2.55	2.45
Upper Income	5.56	6.32	6.28	7.21
Other provinces- excluding Nairobi	5.05	4.01	3.58	3.88
TOTAL KENYA	**5.18**	**3.97**	**3.65**	**3.88**

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

CHART 1B: 12-MONTH OVERALL INFLATION BY INCOME GROUPS (%)



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

Inflation Across Categories of Goods & Services

Despite the overall rise in inflation in May 2010, virtually all consumer baskets experienced declining inflation during the month, with the exception of the transport basket. The international crude oil prices, which rose from US$ 60.2 per barrel in May 2009 to US$ 77.9 per barrel in May 2010, pushed up the transport inflation from 3.9 percent in May 2009 to 6.0 percent in May 2010.

On a month on month basis, however, food inflation rose marginally by 0.7 percent from the April 2010 level of 3.8 percent, following increases in the prices of seasonal foods such as tomatoes, onions, kale and Irish-potatoes. The increased prices was partially offset by retail prices of milk and oranges during the period. Analysis of the CPI show that food prices in Nairobi drove up the overall food CPI during the month, as the rest of the country experienced negligible increases in the food CPI due to increased production. The increase in food prices in Nairobi is attributed to high transportation costs reflecting the increase in fuel prices and the effect of heavy rains and flooding in some parts of the country which damaged road networks.

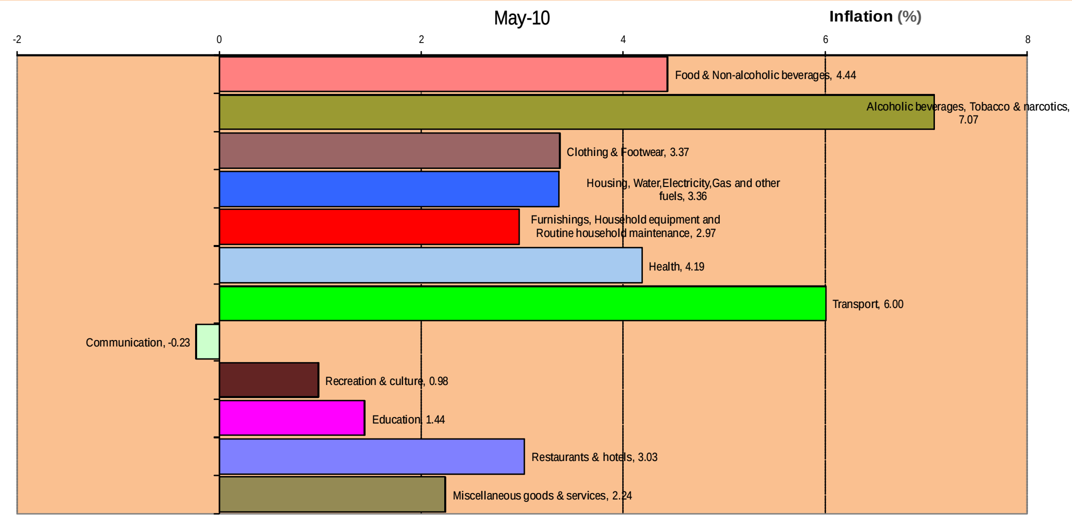
Table 1.3 and Chart 1C below show inflation developments across all the categories of goods and services covered in the CPI.

TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES

MAY 2010	NAIROBI				REST OF URBAN	TOTAL KENYA
	lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya combined	
Food & Non-alcoholic beverages	4.9	1.5	3.5	4.0	4.8	4.4
Alcoholic beverages, Tobacco & narcotics	6.0	6.7	2.4	6.0	7.8	7.1
Clothing & Footwear	3.9	0.0	5.3	3.1	3.6	3.4
Housing, Water,Electricity,Gas and other fuels	5.4	1.1	6.7	4.4	2.6	3.4
Furnishings, Household equipment and Routine household maintenance	4.1	2.6	-0.5	3.6	2.5	3.0
Health	3.3	3.9	12.4	3.8	4.5	4.2
Transport	4.8	8.7	17.8	6.2	5.9	6.0
Communication	-1.1	-0.5	-6.6	-1.2	0.4	-0.2
Recreation & culture	0.3	-0.6	7.4	0.4	1.4	1.0
Education	0.2	3.9	0.0	1.1	1.7	1.4
Restaurants & hotels	1.7	5.6	-4.9	2.4	3.5	3.0
Miscellaneous goods & services	1.5	0.6	2.3	1.3	2.9	2.2
ALL GROUPS	4.2	2.5	7.2	3.9	3.9	3.9

Source: Kenya National Bureau of Statistics

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



Source: Kenya National Bureau of Statistics

Inflation Outlook

With the adequate food production following the good weather experienced in the country so far, it is expected that overall inflation will remain low and stable in the coming months.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Money supply, M3[1], increased by 24.9 percent in the year to May 2010 compared with 10.6 percent in a corresponding period in 2009 and was above the projected 17.7 percent growth rate for May 2010. The expansion in money supply in May 2010 was supported by net domestic credit (NDC). Broad money, M2, that is, M3 excluding foreign currency deposits, grew by 25.6 percent in May 2010 compared with 12.2 percent in May 2009 (Table 2.1 and Chart 2A). The net foreign assets (NFA) of the banking system was little changed at Ksh 253.3 billion in May 2010 from the May 2009 level (Table 2.1)

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

	2008 May	2009 May	2010 May	May-09 12 months %age change	May-10 12 months %age change
1. Money supply, M3 (2+3) 2/	**839.2**	**928.6**	**1,159.6**	**10.65**	**24.88**
1.1 Money supply, M2 3/	709.1	795.6	999.1	12.20	25.58
1.2 Money supply, M1	395.2	392.9	491.2	(0.58)	25.03
1.3 Currency outside banks	81.6	86.5	98.1	6.00	13.51
2. Net foreign assets 4/	**278.8**	**252.5**	**253.3**	**(9.43)**	**0.31**
Central Bank	193.9	204.9	222.1	5.72	8.36
Banking Institutions	85.0	47.6	31.2	(43.99)	(34.35)
3. Net domestic assets (3.1+3.2)	**560.4**	**676.1**	**906.3**	**20.64**	**34.05**
3.1 Domestic credit (3.1.1+3.1.2)	**703.7**	**842.9**	**1,057.8**	**19.78**	**25.49**
3.1.1 Government (net)	117.7	162.6	261.5	38.11	60.87
3.1.2 Private sector and other public sector	586.0	680.4	796.3	16.10	17.04
3.2 Other assets net (3-3.1)	**(143.3)**	**(166.9)**	**(151.5)**	**16.45**	**(9.20)**
Memorandum items					
1. Overall liquidity, L 1/	1,064.0	1,139.5	1,404.5	**7.09**	**23.26**
2. Reserve money	147.4	160.4	194.1	**8.82**	**21.02**
Currency outside banks	81.6	86.5	98.1	6.00	13.51
Bank reserves	**65.8**	**73.9**	**96.0**	12.33	29.80

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.

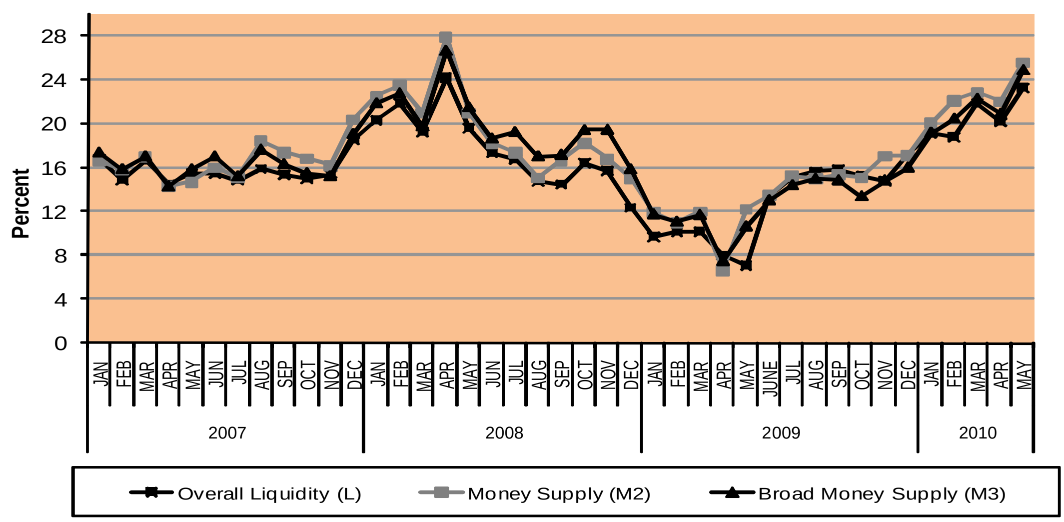
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications.

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.

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

[1] Effective September 2008, the CBK adopted a harmonized definition of monetary aggregates to conform to those of the East Africa partner states. Consequently, M3X has now been renamed M3 denoting extended broad money.

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

	2009 May		2010 May		Annual %age Change May	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2008/09	2009/10
1. Credit to Government	162.6	19.3	261.5	24.7	38.1	60.9
Central Bank	-8.7	-1.0	-13.7	-1.3	-38070.3	56.9
Commercial Banks & NBFIs	171.3	20.3	275.2	26.0	45.5	60.7
2. Credit to other public sector	8.5	1.0	8.4	0.8	-46.9	-1.5
Local government	-3.4	-0.4	-4.7	-0.4	7.9	40.0
Parastatals	11.9	1.4	13.1	1.2	-37.9	10.3
3. Credit to private sector	671.9	79.7	787.9	74.5	17.9	17.3
Agriculture	32.1	3.8	38.0	3.6	16.8	18.6
Manufacturing	89.0	10.6	95.9	9.1	28.1	7.8
Trade	92.9	11.0	127.2	12.0	51.7	36.8
Building and construction	38.4	4.6	33.7	3.2	4.0	-12.4
Transport & communications	53.8	6.4	65.7	6.2	19.6	22.2
Finance & insurance	18.3	2.2	25.1	2.4	-30.2	37.5
Real estate	40.1	4.8	70.3	6.6	57.8	75.2
Mining and quarrying	20.6	2.4	15.9	1.5	294.3	-22.9
Private households	90.3	10.7	121.0	11.4	-19.8	34.0
Consumer durables	41.6	4.9	52.0	4.9	46.5	25.2
Business services	77.3	9.2	71.3	6.7	23.9	-7.7
Other activities	77.6	9.2	71.8	6.8	11.1	-7.5
4. TOTAL (1+2+3) *	842.9	100.0	1057.8	100.0	19.8	25.5

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

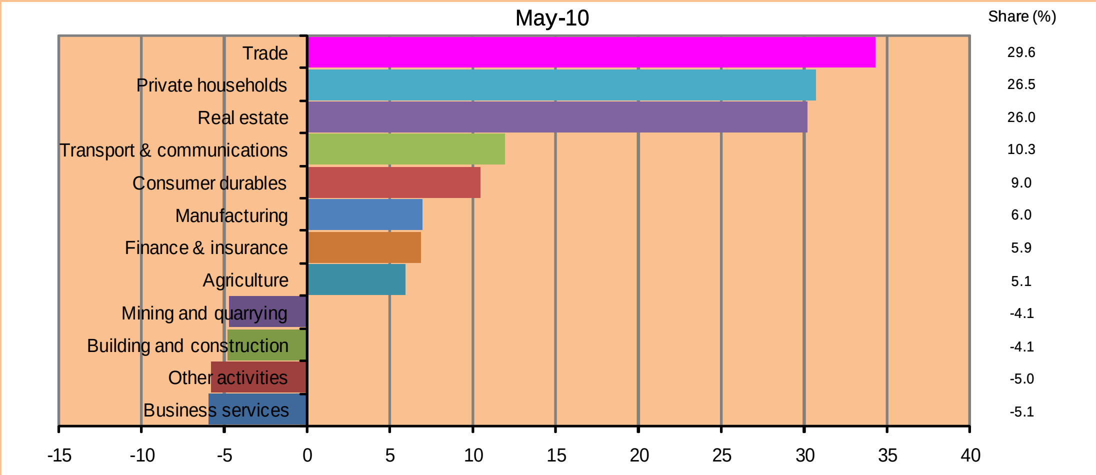
Source: Central Bank of Kenya

Domestic Credit Developments

Domestic credit grew by 25.5 percent or Ksh 214.9 billion in the year to May 2010 compared with 19.8 percent in a similar period in 2009. The new lending was allocated 53.9 percent to the private sector and 46.1 percent to Government. Lending to Government was largely through uptake of Treasury Securities. Credit extended to the private sector decreased marginally from 17.9 percent in the year to May 2009 to 17.3 percent in the year to May 2010, but accounted for 74.5 percent of outstanding stock of total lending by commercial banks by end May 2010.

Bank credit to private sector was channelled to trade (29.5 percent), private households (26.5 percent), real estate (26.0 percent), transport and communication (10.3 percent), consumer durables (9.0 percent), manufacturing (6.0 percent), finance and insurance (5.9 percent), and agriculture (5.1 percent) (Chart 2B).

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO MAY 2010 (Ksh billion)



Source: Central Bank of Kenya

Reserve Money

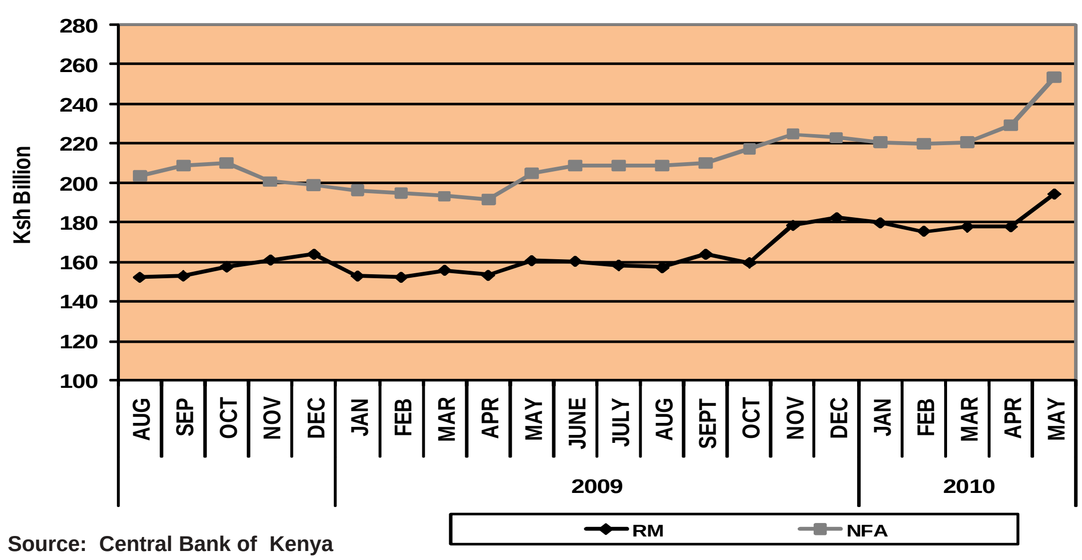
Reserve money increased by 21.0 percent to Ksh 194.1 billion in May 2010 from Ksh 160.4 billion in May 2009 as shown in Table 2.3. The increase in reserve money reflected 29.8 percent growth in bank reserves and 13.5 percent increase in currency outside banks. At Ksh 194.1 billion in May 2010, reserve money was Ksh 26.6 billion above target

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

	2008	2009	2010	Change (%)		2010	
	May	May	May	2008/09	2009/10	May Target	Deviation
1. Net Foreign Assets	193.9	204.9	222.1	5.7	8.4	231.4	-9.3
2. Net Domestic Assets	-46.5	-44.5	-28.0	-4.1	-37.2	-52.0	24.0
2.1 Government Borrowing (net)	0.0	-8.7	-13.7	-38,070.3	56.9	-13.6	-0.1
2.2 Advances & Discounts	-29.7	9.3	7.7	-131.2	-16.8	0.4	7.4
2.3 Other Domestic Assets (net)	-16.7	-45.1	-22.0	169.5	-51.2	-41.3	19.2
3. Reserve Money	147.4	160.4	194.1	8.8	21.0	179.4	14.7
3.1 Currency outside banks	81.6	86.5	98.1	6.0	13.5	110.1	-12.0
3.2 Bank reserves	65.8	73.9	96.0	12.3	29.8	69.3	26.6

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The reserve money expansion in the year to May 2010 was supported by increased accumulation of NFA and expansion of the NDA of the Central Bank. NFA of the Central Bank rose by 8.4 percent to Ksh 222.1 billion in the year to May 2010 reflecting interbank purchases of foreign exchange by the Bank to boost the level of gross reserves.

The NDA of the Central Bank rose by 37.2 percent to Ksh -28.0 billion in the year to May 2010, up from Ksh -44.5 billion in the previous year (Table 2.3). The increase in NDA was wholly in other domestic assets net of liabilities partially offset by the accumulation in government deposits at the Central Bank and repayments of advances and discounts to banks (Ksh 1.6 billion).

Other domestic assets net of other liabilities rose by 51.2 percent from Ksh -45.1 billion in May 2009 to Ksh -22.0 billion in May 2010. The increase in other domestic assets reflected an increase in debtors as well as an increase in the retirement benefits assets.

The Central Bank Rate

The Monetary Policy Committee Meeting on 20 May, 2010 and decided to retain the Central Bank Rate (CBR) at 6.75 percent to allow the market to absorb earlier reductions in the rate. The rate had previously been lowered in March 2010 to 6.75 percent from the 7.00 percent in November 2009.

Interbank Interest Rate

The average interbank rate declined to 2.16 percent in May 2010 from 2.46 percent in April 2010 and 2.21 percent in March 2010 (Table 2.4 and Chart 2B). Similarly the reverse repo rate declined from 2.46 percent in April 2010 to 2.41 percent in May 2010. The 91-day Treasury bill rate declined to 4.21 percent in May 2010 from 5.17 percent in April 2010. The decline in the short term money market rates was attributed to the lowering of the CBK rate (the policy originally rate of the Central Bank of Kenya).

Lending and Deposit Rates

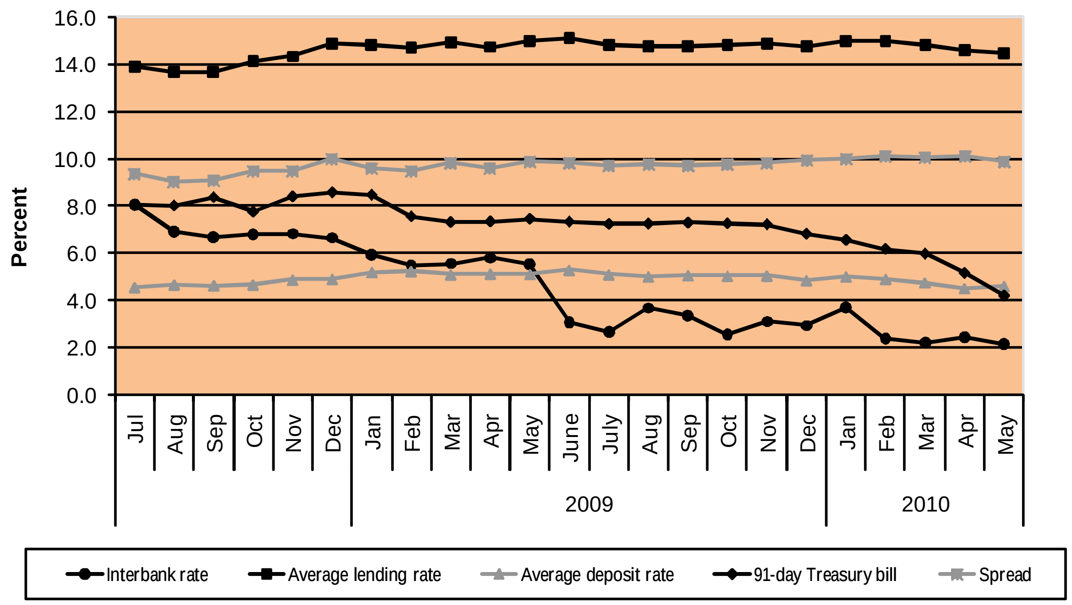
Commercial banks average lending rates declined to 14.46 percent in May 2010 from 14.58 percent in April 2010. The average deposit rate rose from 4.49 percent in April 2010 to 4.58 percent in May 2010. As a result, the interest rate spread declined marginally in May 2010 (Chart 2D).

TABLE 2.4: INTEREST RATES (%)

	2009						2010				
	Mar	Apr	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
91-day Treasury bill rate	7.31	7.33	7.29	7.26	7.22	6.82	6.56	6.19	5.98	5.17	4.21
Overdraft rate	13.78	13.66	13.76	14.03	14.24	14.13	14.48	14.25	13.59	14.50	14.38
Interbank rate	5.57	5.81	3.38	2.57	3.11	2.95	3.69	2.39	2.21	2.46	2.16
Repo rate	4.62	4.06	6.18	6.18	6.18	-	-	-	-	-	-
Reverse Repo rate		6.67	4.01	3.17	4.36	3.62	3.91	2.80	2.43	2.47	2.41
Average lending rate (1)	14.92	14.71	14.74	14.78	14.85	14.76	14.98	14.98	14.80	14.58	14.46
Average deposit rate (2)	5.09	5.12	5.05	5.03	5.06	4.84	5.00	4.89	4.74	4.49	4.58
0 to 3 - month deposit	5.89	5.96	6.05	5.83	5.98	5.90	5.81	5.57	5.28	4.90	5.20
Savings deposits	1.90	1.91	1.65	1.85	1.71	1.73	1.75	1.81	1.81	1.85	1.76
Spread (1-2)	**9.78**	**9.59**	**9.69**	**9.75**	**9.79**	**9.92**	**9.98**	**10.08**	**10.06**	**10.09**	**9.88**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

Performance of The Real Sector

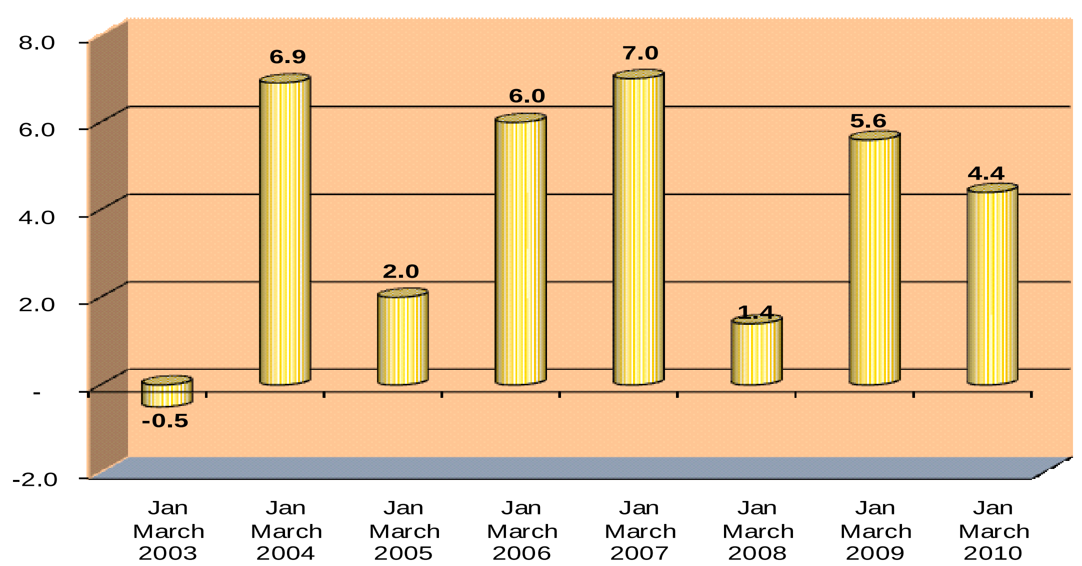
Overview

The Real GDP in the year 2009 increased by 2.6 percent and reflected mixed performances in the key sectors of the economy. Tourism, transport and communication and the building and construction sectors experienced significant growth equivalent to 42.8 percent, 6.4 percent and 14.1 percent, respectively, in 2009 from a decline of 36.1 percent in tourism, and respective growth rates of 3.1 percent and 8.2 percent for the transport and construction sectors in 2008. The services sector continued to drive economic growth in 2009 with tourism recording the highest growth rate. Agriculture being a major contributor to GDP in 2009 at 24.4 percent, recovered from -4.1 percent in 2008 to -2.6 percent in 2009.

Real GDP growth increased by 4.4 percent in the first three months of 2010 compared with a growth of 5.6 percent in the same period of 2009. The slower growth in the first quarter of 2010 relative to 2009 reflected declines in the growth of the fishing, electricity and water supply, construction, hotels and restaurants, transport and communication and real estate, renting and business services sectors amounting to 13.8 percent, 3.4 percent, 19.3 percent, 155.9 percent, 11.1 percent and 6.8 percent respectively, during the quarter. The decline in the hotels and restaurants sector reflected the base effect following the dramatic recovery of the sector in 2009. Output in most of the other sectors, however, improved during the quarter with the agricultural sector, which benefited greatly from thefavourable weather growing by 4.6 percent. Other sectors which expanded during the quarter included the manufacturing sector, the mining and quarrying sector, the wholesale and retail sector and the financial intermediation sector which grew by 7.8 percent, 9.0 percent, 3.7 percent and 11.9 percent, respectively .

The economy is projected to grow by between 4.5 percent in 2010, supported by the current momentum of the agricultural sector which constitutes 24.4 percent of the total GDP (Table 3.1 and Chart 3A) and continuation of Government spending under the fiscal stimulus strategy and monetary easing by the Central Bank of Kenya

CHART 3A: REAL GDP TREND IN THE FIRST QUARTERS



Source: Kenya National Bureau of Statistics

TABLE 3.1: GROWTH RATES IN REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

MAIN SECTORS	Share in 2009 Nominal GDP (%)	Share in 2009 Real GDP (%)	Kshs Million						
			2003	2004	2005	2006	2007	2008	*2009
Agriculture and Forestry	***24.4***	***21.50***	276,089	280,518	299,798	312,926	320,423	307,356	299,449
Fishing	***0.40***	***0.41***	4,765	5,246	5,751	6,249	6,181	5,363	5,761
Mining	***0.50***	***0.44***	5,213	5,195	5,334	5,554	6,272	6,453	6,179
Manufacturing	***9.50***	***9.91***	105,822	110,544	115,699	122,953	130,673	135,291	138,003
Electricity and water supply	***2.40***	***2.20***	27,074	27,877	27,862	27,492	30,002	31,617	30,631
Wholesale and retail trade, repairs	***10.00***	***10.06***	92,604	100,486	106,095	118,361	131,754	138,051	140,096
Hotels & Restaurants	***1.70***	***1.36***	9,899	13,741	15,572	17,895	20,814	13,298	18,993
Construction	***4.40***	***3.58***	31,530	32,932	35,401	37,648	40,405	43,735	49,893
Transport, Storage & Communications	***9.80***	***12.36***	104,915	112,260	122,316	136,306	156,845	161,699	172,096
Financial intermediation	***5.70***	***3.88***	42,064	42,657	45,030	47,170	50,306	51,659	54,043
Real estate, renting and business services	***5.10***	***5.43***	61,864	63,740	65,882	68,446	70,860	73,503	75,674
Public administration and defense	***4.50***	***3.29***	46,991	47,062	46,460	45,722	44,791	45,080	45,804
Education	***6.00***	***5.95***	71,045	72,435	72,963	73,152	76,220	80,732	82,912
Health and social work	***2.70***	***2.26***	25,431	26,408	27,249	28,146	29,053	30,106	31,428
Other community, social and personal services	***3.60***	***3.81***	42,917	44,514	45,829	47,815	49,419	50,841	53,103
Private households with employed persons	***0.40***	***0.31***	3,855	3,932	4,011	4,091	4,173	4,256	4,342
Less : Financial services indirectly measured	***-1.20***	***-0.92***	-10,315	-10,800	-11,261	-11,835	-12,174	-10,484	-12,762
All industries at basic 2001 prices	***90.10***	***85.84***	941,763	978,746	1,029,991	1,088,091	1,156,017	1,168,556	1,195,645
Taxes less subsidies on products	***9.90***	***14.16***	113,895	130,795	145,143	161,367	180,855	189,083	197,187
Real GDP at 2001 market prices	***100.00***	***100.00***	1,055,658	1,109,541	1,175,134	1,249,458	1,336,872	1,357,639	1,392,832
GDP at Mkt Prices			1,055,658	1,109,541	1,175,134	1,249,458	1,336,872	1,357,639	1,392,832
Overall GDP Deflator			107	115	120	130	137	153	163

* Provisional

Source: Tea Board of Kenya, Horticultural Crops Development Authority, Coffee Board of Kenya and Sugar Board of Kenya

Agriculture

Agriculture's contribution to GDP increased from 23.4 percent in 2008 to 24.4 percent in 2009. Overall growth in 2009 was minimal due to the drought experienced in most parts of the country and the over-dependence on rain water as well as lack of innovative ways of harnessing the same. The year 2010, however, began well with total output for the first quarter growing at 4.6 percent, from a decline of -1.1 experienced in the first quarter of the 2009. Despite the overall increase in agricultural output, the sector still experienced mixed performances by activity. Among the cash crops, tea recorded an overall growth of 75.4 percent during the first four months of 2010, while coffee and horticultural exports, on the other hand, declined by 44.9 percent and 11.9 percent, respectively (Table 3.2).

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE			
	2008	**2009**	**Jan - Apr 2009**	**Jan-Apr 2010**
Tea				
Output (Metric tonnes)	345,818.00	314,193.89	84,144.51	147,578.72
Growth (%)	*-6.44%*	*-9.14%*	*-14.29%*	*75.39%*
Horticulture				
Output (Metric tonnes)	253,730.57	248,162.54	94,506.83	83,298.60
Growth (%)	*-2.72%*	*-2.19%*	*-5.49%*	*-11.86%*
Coffee				
Output (Metric tonnes)	38,705.00	48,933.00	27,849.00	15,346.00
Growth (%)	*-25.95%*	*26.43%*	*41.12%*	*-44.90%*
Sugar Cane				
Output (Metric tonnes)	4,979,470.28	5,610,702.00	1,986,886.00	2,011,668.00
Growth (%)	*-4.32%*	*12.68%*	*24.20%*	*1.25%*

Source: Tea Board of Kenya, Horticultural Crops Development Authority, Coffee Board of Kenya and Sugar Board of Kenya

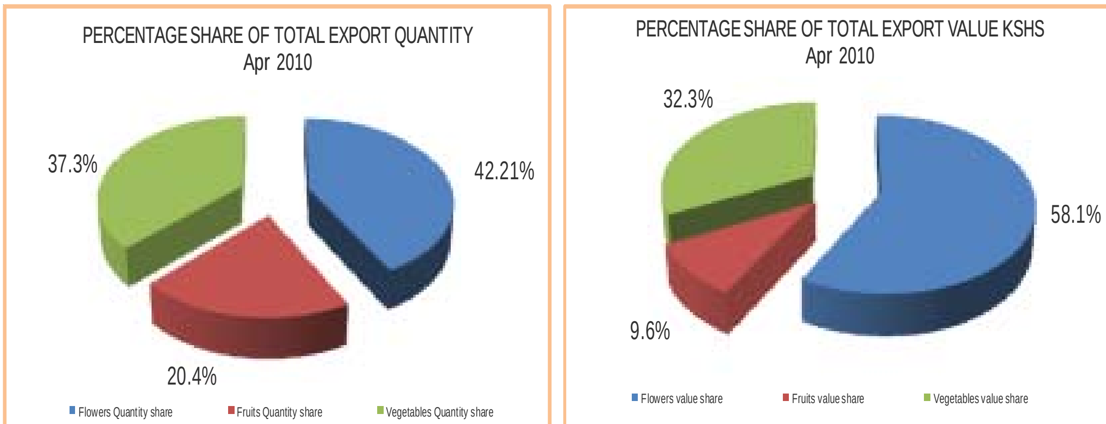
Tea

Tea production production increased during the first four months of 2010 surpassing that of the same period in 2009 by 63,434.1 metric tonnes. The tea production in 2010 was attributed to unexpected wet weather conditions experienced in the tea growing areas in the east and west rift regions during the first two months of 2010 which under normal circumstances are dry months. World market tea prices improved by 24 percent to US$ 3.00 per kilogram in April 2010 compared with US$ 2.42 per kilogram in April 2009.

Horticulture

Cumulative horticultural export volumes amounted to 83,298.6 metric tonnes in the period January-April 2010, 11.9 percent below export volume in a comparable period in the 2009. The decline in horticultural exports volume was attributed to depressed demand from Kenya's traditional flower markets, arising from the global financial crisis, and the volcaninc erruptions in Iceland in April 2010 that emitted volcanic ash into European airspace resulting to cancellations of flights to and from Europe, a key destination of the bulk of Kenya's horticultural produce. The value of horticultural exports in the same period declined marginally by Ksh 0.1 billion from Ksh 18.5 billion in January – April 2009. Total horticultural income declined by Ksh 1.4 billion in April 2010 from Ksh 5.4 billion received in March 2010. Compared with April 2009 exports, flower and fruit exports declined respectively by 8.9 and 45.5 percent, while vegetable exports increased by 19.5 percent, in April 2010. Consequently, the value of horticultural exports in April 2010 fell by Ksh 378.4 million or 8.5 percent compared with April 2009. Details on the performance of the horticultural sub-sector are provided in Chart 3B.

CHART 3B: HORTICULTURE EXPORTS



Source: Horticultural Crops Development Authority

Coffee

Coffee production between January and April 2010 amounted to 15,346.0 metric tonnes or 44.9 percent below 27,849.0 metric tonnes produced during the same period in the previous year. The sector was affected by drought in 2009 and unpredictable rainfall patterns in 2010, which made crop management and disease control difficult and costly to the farmers. However, from the beginning of 2009, coffee prices maintained an upward trend, reaching an all time high of US $ 5.66 per kilogram in February 2010 and falling to US $ 4.17 per kilogram in April 2010.

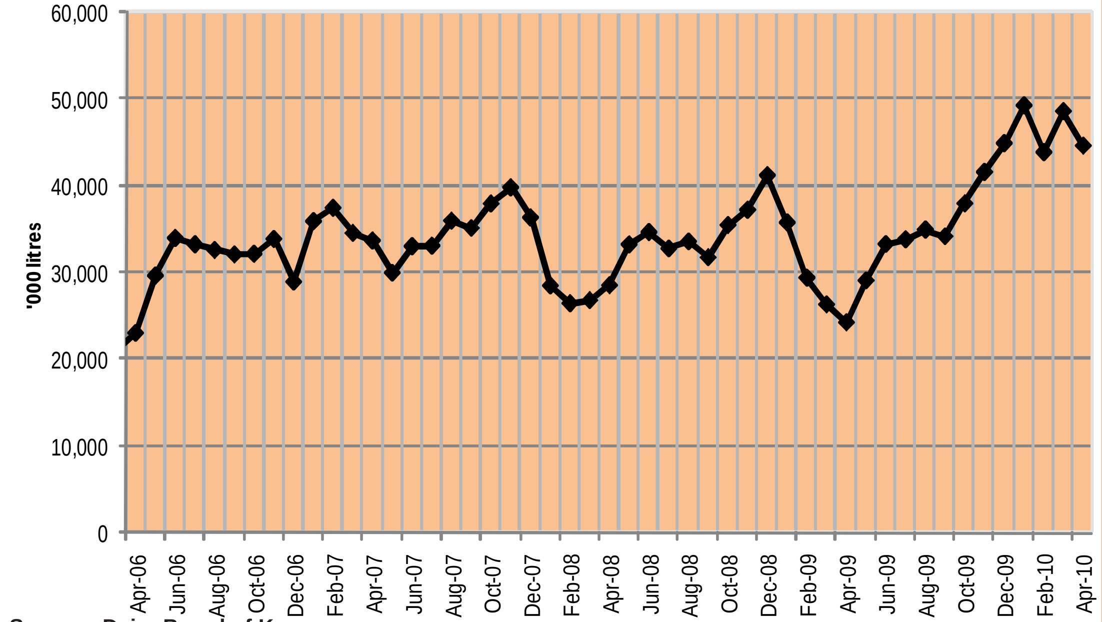
Sugarcane

Total sugarcane deliveries increased in April 2010, reversing the decline recorded in February and March 2010. Total deliveries in the first four months of 2010 amounted to 2,011,668 metric tonnes, equivalent to a 1.3 percent above production over the same period in 2009. The sugarcane industry has been growing in terms of expansion in acreage by the West Kenya Company and subsequent stabilization of production and increased competitiveness by most of the other companies, and production is expected to increase in the course of 2010.

Dairy

Following the milk glut experienced in the dairy industry in early 2010, production for the period January – April 2010 surpassed that of the same period of 2009 by 70.4 million litres, or 60.6 percent. This was attributed to increased fodder following good rains in the first quarter of the year. Cumulative intakes for the period January-April 2010, the highest received in a similar period in the history of the dairy industry in Kenya, amounted to 186.4 million litres compared with 116.1 million litres delivered in the period January-April 2009 (Chart 3C).

CHART 3C: PROCESSED MILK PRODUCTION IN KENYA ('000 LITRES)



Source: Dairy Board of Kenya

Manufacturing

The contribution of manufacturing to GDP at 9.5 percent in 2009 was slightly lower than 9.8 percent in 2008. In the first quarter of 2010, total manufacturing output increased by 7.8 percent compared with 5.0 percent growth in the first quarter of 2009. The share of manufacturing in real GDP thereby rose to 10.1 percent. Production of the sampled commodities during the period January – April 2010 was varied with milk and soda ash production recording the highest growth at 60.6 percent and 37.4 percent, respectively.

During the first four months of 2010, sugar production fell by 19,661.7 metric tonnes or 9.8 percent as a result of cane shortage following intense competition for the cane by the companies, and poor production by some companies including Chemelil and Muhoroni sugar companies.

Cumulative cement output for the first four months of 2010 amounted to 1.1 million metric tonnes or 10.9 percent expansion 2009, but significantly lower than the 29.2 percent recorded in the same period in 2009. Growth in cement production has been gradual but steady through the years, reflecting increased economic activity (Table 3.3).

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE			
	2008	2009	Jan-Apr 2009	Jan-Apr 2010
Processed sugar				
Output (MT)	512,192.3	548,207.0	199,933.0	180,271.3
Growth %	*-1.6%*	*7.0%*	*18.7%*	*-9.8%*
Cement production				
Output (MT)	2,828,799.0	3,320,282.0	1,021,361.0	1,132,982.0
Output Growth %	11.1%	17.4%	29.2%	10.9%
Soda ash				
Output (MT)	513,415.0	404,904.0	101,671.0	139,691.0
Growth %	*32.8%*	*-21.1%*	*-33.1%*	*37.4%*
Milk				
Output ('000 litres)	390,963.0	406,276.5	116,062.6	186,429.5
Growth %	*-7.6%*	*3.9%*	*4.9%*	*60.6%*
Beer				
Output ('000 litres)	426,733.3	421,208.4	138,879.1	146,646.7
Growth %	*12.5%*	*-1.3%*	*23.3%*	*5.6%*
Cigarettes				
Output (Milles)	14,786,407	14,000,486	4,764,635	4,339,962
Growth %	*-4.5%*	*-5.3%*	*-6.4%*	*-8.9%*

MT = Metric tonnes

Source: Kenya Sugar Board, Magadi Soda Co., Kenya Revenue Authority, Kenya Dairy Board and KNBS

In the alcoholic beverages sector, cumulative beer production increased by 5.6 percent from 138.9 million litres in January-April 2009 to 146.6 million litres in January-April 2010.

Cigarette output declined by 8.9 percent in the first four months of 2010 from 4.8 million milles produced in January-April 2009 (Table 3.3).

Soda ash mining picked up in the first four months of 2010 with output that was 37.4 percent above 101,671.0 metric tonnes mined in January –April 2009 (Table 3.3).

Energy Sector

Local generation of electricity increased in April 2010 after fourteen consecutive months of decline. Consequently, cumulative generation for the period January – April 2010 was 21.5 million Kilowatt hours or 1.2 percent above 1,820.2 million kilowatt hours produced in January –April 2009. The increase was attributed to rising water levels in the electricity producing dams due to more favourable weather. Collectively, Geo-Thermal and Thermal power accounted for 59.9 percent of the total power generated between January and April 2010. Hydro-power generated in the period under review increased, thereby minimizing the margin of decline from -21.9 percent in January – April 2009 to -16.6 percent in January – April 2010. Geo-thermal power generation remained virtually constant, while thermal power generation increased by 33.9 percent over January – April 2009 production level. (Table 3.4).

Electricity consumption increased up by 6.6 percent from 1,742.9 million Kilowatt hours between January and April 2009, to 1,858.7 million Kilowatt hours between January and April 2010.

Similarly, total fuel consumption increased up by 10.0 percent from 975.7 metric tonnes in January – April 2009 to 1,073.4 metric tonnes in January-April 2010. The increase in electricity consumption and fuel consumption reflect pick up of economic activity.

During the period January - April 2010, the average international crude oil prices were US$ 66.7 per barrel or 42.4 percent above US$46.8 percent recorded in US 2009.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE			
	2008	2009	Jan-Apr 2009	Jan-Apr 2010
Electricity Supply (Generation)				
Output (KWH Millions)	5,694.1	5,331.5	1,820.2	1,841.8
Growth %	*-9.4%*	*-6.4%*	*-4.5%*	*1.2%*
Of which:				
Hydro-power Generation (KWH Millions)	3,240.4	2,105.4	886.5	739.1
Growth (%)	*-9.6%*	*-35.0%*	*-21.9%*	*-16.6%*
Geo-Thermal Generation (KWH Millions)	1,038.8	1,478.1	435.2	435.1
Growth (%)	*4.8%*	*42.3%*	*28.3%*	*0.0%*
Thermal (KWH Millions)	1,414.9	1,747.0	498.5	667.6
Growth (%)	*-17.4%*	*23.5%*	*15.6%*	*33.9%*
Consumption of electricity (KWH Millions)	5,286.4	5,320.9	1,742.9	1,858.7
Growth %	*3.1%*	*0.7%*	*1.6%*	*6.6%*
Consumption of Fuels (Metric Tonnes)	2,860.3	3,190.0	975.7	1,073.4*
Growth %	*-8.4%*	*11.5%*	*8.1%*	*10.0%*
Murban crude oil average price (US $ per barrel)	97.9	62.6	46.8	66.7
Growth %	*35.0%*	*-36.0%*	*-53.1%*	*42.4%*

Source: Kenya National Bureau of Statistics

Tourism

The number of international tourist arrivals into the country via Mombasa International Airport and the Jomo-Kenyatta International Airport in the first four months of 2010 was 335,670, a 15.9 percent rise from the arrivals for the same period in the previous year. The expansion occured despite of flight cancellations due to the volcanic ash eruptions in Iceland during April 2010. The new visitors, equivalent to 46,152 visitors, comprised 52.3 percent, 23.6 percent, 11.4 percent, 11.1 percent and 1.6 percent from Europe, Africa, Asia, America and the Oceanic regions, respectively. There were, however, no cruise arrivals for the period under review (Table 3.5 and 3.6). Cumulative tourism earnings for January – April 2010 amounted to US $ 363.6 million, more than double the income from the same period in the previous year which amounted to US $ 170.7 million.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2008	2009	Jan-Apr 2009	Jan-Apr 2010	Jan - Apr 2010 % Share	Jan - Apr 2010 % Growth
CRUISE	6,877	12,096	11,809	-	*0.0%*	*-100.0%*
MIAM	112,517	176,469	64,261	85,660	*25.5%*	*33.3%*
JKIA	609,606	763,916	213,448	250,010	*74.5%*	*17.1%*
TOTAL	729,000	952,481	289,518	335,670	*100.0%*	*15.9%*

Cruise ships - Entry through port of Mombasa; JKIA - Entry through Jomo Kenyatta International Airport; MIAM - Entry through Moi International Airport Mombasa.

Source: Kenya Tourism Board

Growth in the number of visitors into the country reflects Kenya as an attractive destination and is attributed to massive campaigns in both the local and international media by the Kenya Tourists Board. In January – April 2010, arrivals from Asia increased by 29.9 percent while those from America increased by 9.5 percent. Arrivals from Europe, Africa and the Oceanic regions grew by 23.0 percent, 18.4 percent and 17.8 percent, respectively, during the period (Table 3.6).

TABLE 3.6: TOTAL ARRIVALS BY CONTINENT

REGION	2008	2009	Jan-Apr 2009	Jan-Apr 2010	Jan - Apr 2010 % Share	Jan- Apr 2010 % Growth
Africa	207,770	228,827	66,915	79,256	23.6%	18.4%
America	97,771	128,658	33,926	37,154	11.1%	9.5%
Asia	94,496	108,524	29,369	38,142	11.4%	29.9%
Europe	308,123	456,427	142,853	175,646	52.3%	23.0%
Oceanic	13,963	17,949	4,646	5,471	1.6%	17.8%
Cruise	6,877	12,096	11,809	-	0.0%	-100.0%
Total	**729,000**	**952,481**	**289,518**	**335,670**	100.0%	15.9%

Source: Kenya Tourism Board

Transport and Tele-communications

The Transport and Communications sector currently contributes 9.8 percent of the GDP. In the first four months of 2010, the volume of cargo throughput handled by Kenya Ports Authority (KPA) at the port of Mombasa increased by 7.8 percent from 6.0 million metric tonnes equivalent, in January-April 2009. This consisted of 86.1 percent imports, 13.3 percent exports and 0.6 percent transit shipments, equivalent to 5,524,314.6 metric tonnes, 856,448.7 metric tonnes and 38,742.5 metric tonnes, respectively. Similarly, cargo transported via Kenya Pipeline Company (KPC) for the same period increased by 0.2 percent to 1.4 billion litres, in the period January-April 2010. In the telecommunication subsector, excise duty on airtime rose by 26.6 percent in January-April 2010, from Ksh 2.2 billion received between January and April 2009 Table 3.7 and Chart 3D). During the same period, the total number of passengers embarking and disembarking at JKIA rose by 13.6 percent and 8.2 percent, respectively.

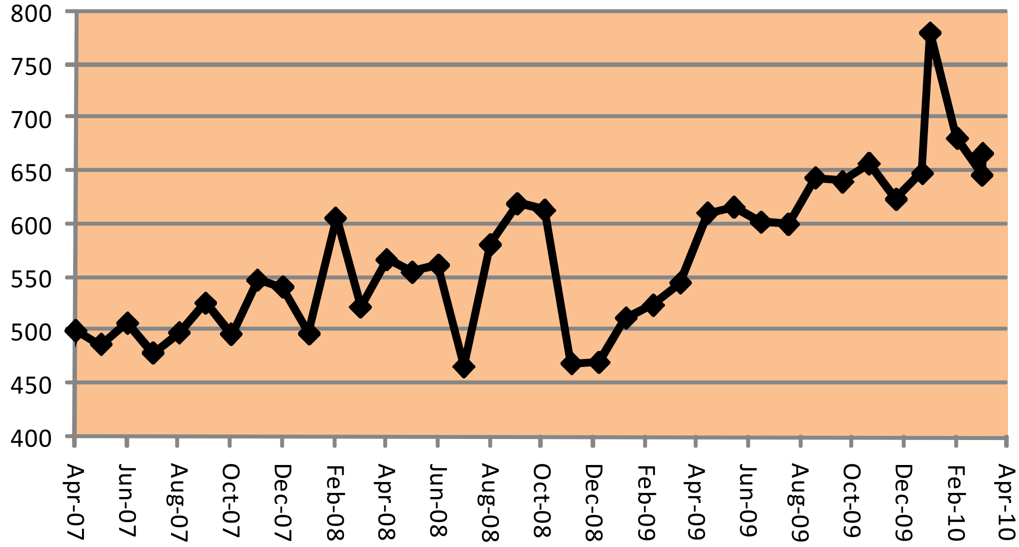
TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	CUMULATIVE			
	2008	2009	Jan-Apr 2009	Jan-Apr 2010
Mombasa Port Cargo Throughput				
Output (MT) Equivalent	16,414,729	19,061,631	5,954,825	6,419,506
Output Growth %	*2.8%*	*16.1%*	*11.1%*	*7.8%*
Number of passengers Thro' JKIA				
Incoming	1,468,814	1,291,278	393,396	446,808
Growth (%)	*-0.7%*	*-12.1%*	*-1.5%*	*13.6%*
Outgoing	1,476,851	1,334,482	388,429	420,192
Growth %	*-0.3%*	*-9.6%*	*-3.3%*	*8.2%*
Kenya Pipeline oil Throughput				
Output ('000 litres)	3,859,481	4,323,370	1,417,509	1,420,113
Output Growth %	*-2.6%*	*12.0%*	*12.7%*	*0.2%*
Kenya Revenue Authority (Excise tax on airtime)				
Kshs million	6,528	7,225	2,192	2,776
Output Growth %	*9.5%*	*10.7%*	*0.0%*	*26.6%*

MT = Metric tonnes

Source: Kenya Ports Authority and Kenya Pipeline Company Ltd.

CHART 3D: EXCISE TAX ON AIRTIME

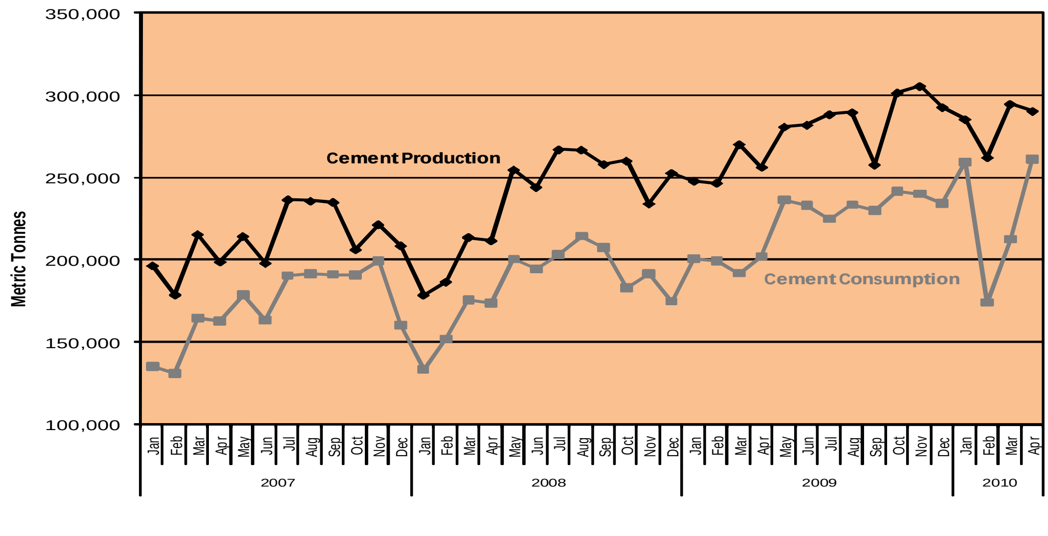


Source: Kenya Revenue Authority (KRA)

Building & Construction Industry

Cement consumption went up by 14.3 percent from 794,874 metric tonnes in January-April 2009 to 908,107 metric tonnes in January-April 2010, reflecting increased economic activity in the industry.

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

Developments in the Balance of Payments and Exchange Rates

Overview

Kenya's overall balance of payments improved from a deficit of US$ 493 million in the year to April 2009 to a surplus of US$ 408 million in the year to April 2010. The improvement reflects a relatively narrow deficit in the current account (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Apr 2009*	Year to April 2010* Q1 May-Jul	Q2 Aug-Oct	Q3 Nov-Jan	Q4 Feb-Apr	Year to Apr 2010*	Absolute Change
1. OVERALL BALANCE	-493	122	284	4	-2	408	***901***
2. CURRENT ACCOUNT	-2185	-425	-531	-177	341	-792	***1392***
2.1 Goods	-6343	-1303	-1544	-1709	-1406	-5962	*381*
Exports (fob)	4767	1113	1139	1211	1291	4754	*-13*
Imports (cif)	11110	2416	2683	2921	2697	10716	*-393*
2.2 Services	4158	877	1013	1532	1747	5170	*1012*
Non-factor services (net)	1998	368	483	885	1122	2858	*860*
Income (net)	-66	-24	-24	-12	56	-3	*63*
Current Transfers	2227	533	554	659	569	2315	*89*
3. CAPITAL & FINANCIAL ACCOUNT	1692	547	815	181	-343	1200	***-491***
3.1 Capital Tranfers (net)	351	70	31	84	29	215	*-136*
3.2 Financial Account	1341	477	784	97	-372	986	*-355*
memo:							
Gross Reserves	4620	4830	5347	5279	5124	5124	***504***
Official	2888	3216	3810	3810	3805	3805	*918*
*imports cover***	*2.9*	*3.3*	*4.1*	*4.0*	*3.9*	*3.9*	*1.1*
*imports cover****	*3.3*	*3.6*	*4.1*	*4.0*	*4.0*	*4.0*	*0.7*
Commercial Banks	1733	1614	1536	1470	1319	1319	*-414*

* Provisional.

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

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

Source: Central Bank of Kenya

Current Account

The current account deficit narrowed from US$ 2,185 million in the year to April 2009 to US$ 792 million in the year to April 2010, due to a strong surplus in the services account (Table 4.2).

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

ITEM	Year to Apr 2009*	Year to April 2010* Q1 May-Jul	Q2 Aug-Oct	Q3 Nov-Jan	Q4 Feb-Apr	Year to Apr 2010*	Absolute Change
2. CURRENT ACCOUNT	-2185	-425	-531	-177	341	-792	***1392***
2.1 Goods	-6343	-1303	-1544	-1709	-1406	-5962	*381*
Exports (fob)	4767	1113	1139	1211	1291	4754	*-13*
Coffee	165	67	48	29	58	201	*37*
Tea	898	214	225	302	313	1054	*156*
Horticulture	693	170	159	190	181	699	*6*
Oil products	89	23	33	21	19	96	*8*
Manufactured Goods	589	122	130	140	157	548	*-41*
Raw Materials	264	53	45	62	68	228	*-36*
Re-exports	293	74	82	72	82	310	*17*
Other	1777	391	417	396	414	1618	*-159*
Imports (cif)	11110	2416	2683	2921	2697	10716	*-393*
Oil	2687	508	637	636	634	2416	*-271*
Chemicals	1406	323	319	359	385	1386	*-20*
Manufactured Goods	1525	319	388	416	419	1542	*18*
Machinery & Transport Equipment	3176	669	812	830	752	3062	*-114*
Other	2316	597	528	679	507	2310	*-6*
2.2 Services	4158	877	1013	1532	1747	5170	*1012*
Non-factor services (net)	1998	368	483	885	1122	2858	*860*
of which tourism	718	132	180	261	284	857	*138*
Income (net)	-66	-24	-24	-12	56	-3	*63*
of which official interest	-102	-28	-18	-23	-17	-85	*18*
Current Transfers	2227	533	554	659	569	2315	*89*
Private (net)	1987	454	475	607	574	2111	*124*
Public (net)	239	79	79	51	-5	204	*-35*

* Provisional.

Source: Central Bank of Kenya

The deficit in the goods account also narrowed from US$ 6,343 million to US$ 5,962 million due to a lower import bill. In addition, receipts from tea and coffee exports were higher in 2009 respectively reflecting favourable international commodity prices and improved domestic output.

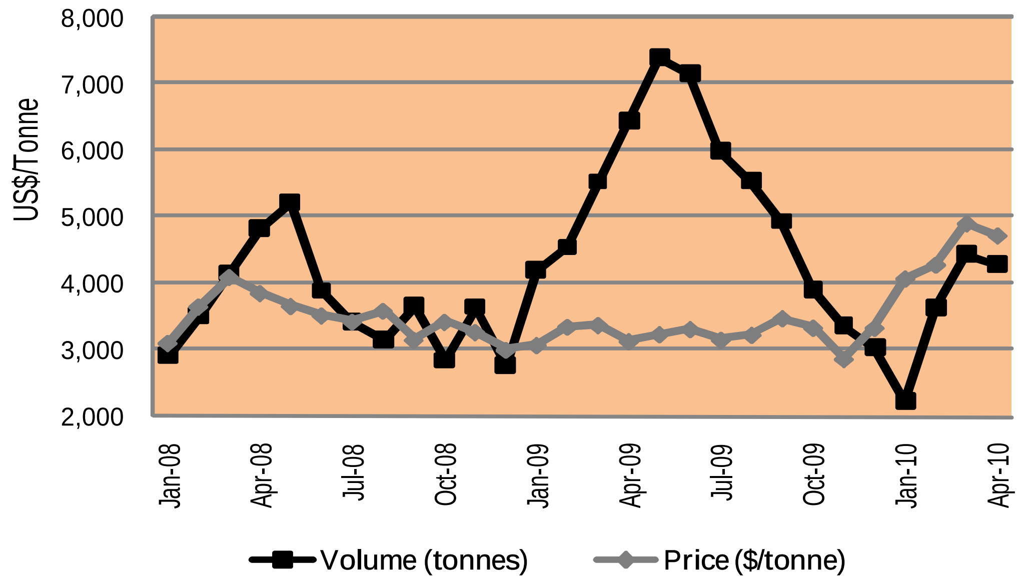
Imports

The value of merchandise imported declined from US$ 11,110 million to US$ 10,716 million during the year to April 2010. The oil import bill was lower at US$ 2,416 million in the year to April 2010 compared with US$ 2,687 million in a similar period in 2009 mainly due to lower oil prices in the international market. The reduction in the oil import bill accounted for 69.0 percent of the improvement in merchandize imports.

Exports

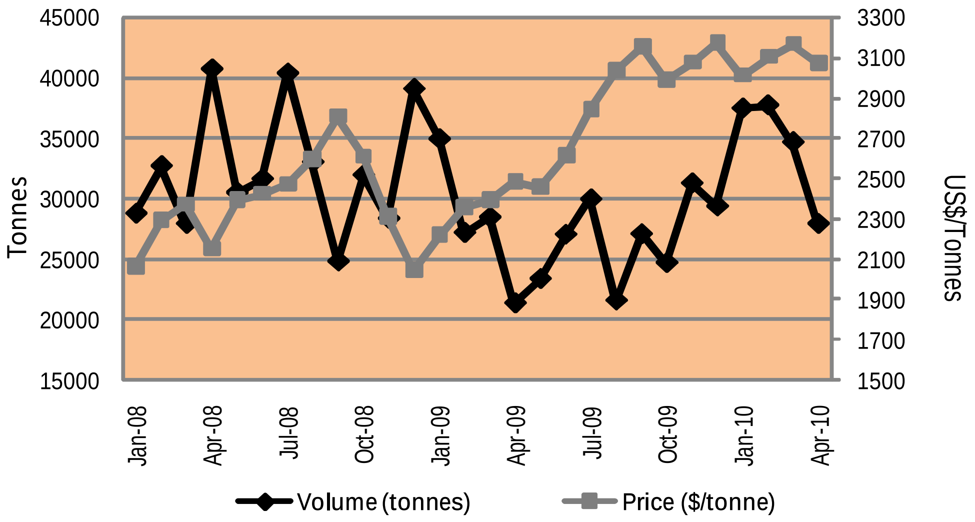
The value of merchandise exported in the year to April 2010 was stable at US$ 4,754 million compared with US$ 4,767 million in 2009. Receipts from tea and coffee exports increased to US$ 1,054 million and US$ 201 million in the year to April 2010 from US$ 898 million and US$ 165 million in 2009 respectively due to favourable commodity prices and increased domestic production. The value of exports of manufactured goods declined from US$ 589 million to US$ 548 million over the same period (Chart 4A and 4B).

CHART 4A: COFFEE EXPORTS: UNIT PRICE AND QUANTITY



Source: Central Bank of Kenya

CHART 4B: TEA EXPORTS: UNIT PRICE AND QUANTITY



Source: Central Bank of Kenya

Services Account

The surplus on the services improved by 24.3 percent from US$ 4,158 milion to US$ 5,170 million in the year to April 2010. The recovery was largely in service related flows, (commercial, insurance and transport activities) which accounted for 69.3 percent of the surplus in the year. Tourism related flows improved by 19.3 percent from US$ 718 million to US$857 million in the year to April 2010, and accounted for 13.7 percent of surplus on services during the period under review.

Direction of Trade

Kenya's exports were mainly to Uganda (11.4 percent), United Kingdom (10.3 percent), Tanzania (7.6 percent) and Netherlands (6.7 percent). The share of exports to African countries accounted for 42 percent. The share of exports to the East African Community (EAC) region were 22.7 percent, while those to COMESA region decreased from 32.1 percent to 29.2 percent in the year to April 2010.

During the period under review, Kenya's imports were mainly from United Arab Emirates (12 percent), India (10 percent), China (9.1 percent), South Africa (7.5 percent), Japan (5.8 percent), United States of America (5 percent) and United Kingdom (4.2 percent). The share of imports from African countries accounted for 11.8 percent. Imports from the EAC region increased from US$ 174 million and US$ 179 million (1.7 percent of total imports). Imports from the COMESA region declined from US$ 361 million to US$ 329 million (3.1 percent of total imports) in the year to April 2010 (Table 4.3).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to April			Year to April		
Country	2008	2009	2010	2008	2009	2010
Africa	1,132	1,295	1,268	11.5	11.7	11.8
Of which						
South Africa	580	762	809	5.9	6.9	7.5
Egypt	141	145	130	1.4	1.3	1.2
Others	411	387	329	4.2	3.5	3.1
EAC	209	174	179	2.1	1.6	1.7
COMESA	435	361	329	4.4	3.3	3.1
Rest of the World	8,711	9,815	9,449	88.5	88.3	88.2
Of which						
India	944	1,272	1,067	9.6	11.5	10.0
United Arab Emirates	1,602	1,256	1,283	16.3	11.3	12.0
China	763	955	973	7.8	8.6	9.1
Japan	663	600	618	6.7	5.4	5.8
USA	363	497	536	3.7	4.5	5.0
United Kingdom	419	408	448	4.3	3.7	4.2
Singapore	177	391	289	1.8	3.5	2.7
Germany	363	361	278	3.7	3.3	2.6
Saudi Arabia	319	347	388	3.2	3.1	3.6
Indonesia	318	298	240	3.2	2.7	2.2
Netherlands	154	238	173	1.6	2.1	1.6
France	256	234	174	2.6	2.1	1.6
Bahrain	166	206	45	1.7	1.9	0.4
Italy	194	184	145	2.0	1.7	1.3
Others	2,008	2,567	2,792	20.4	23.1	26.1
Total	9,843	11,110	10,716	100	100	100

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to April			Year to April		
Country	2008	2009	2010	2008	2009	2010
Africa	2,051	2,231	1,995	45	47	42
Of which						
Uganda	563	602	542	12.4	12.6	11.4
Tanzania	354	416	363	7.8	8.7	7.6
Egypt	162	186	172	3.6	3.9	3.6
Sudan	194	177	165	4.3	3.7	3.5
Somalia	164	157	150	3.6	3.3	3.2
DRC	126	150	137	2.8	3.1	2.9
Rwanda	95	133	117	2.1	2.8	2.5
Others	393	411	349	8.6	8.6	7.3
EAC	1,051	1,204	1,081	23.1	25.3	22.7
COMESA	1,412	1,528	1,390	**31.0**	**32.1**	**29.2**
Rest of the World	2,498	2,535	2,759	54.9	53.2	58.0
Of which						
United Kingdom	494	507	489	10.9	10.6	10.3
Netherlands	364	350	319	8.0	7.3	6.7
USA	289	277	199	6.3	5.8	4.2
Pakistan	166	215	196	3.6	4.5	4.1
United Arab Emirates	157	98	163	3.5	2.1	3.4
Germany	98	87	86	2.2	1.8	1.8
India	96	86	71	2.1	1.8	1.5
Afghanistan	42	70	131	0.9	1.5	2.8
Others	792	846	1,105	17.4	17.7	23.3
Total	4,549	4,767	4,754	100	100	100

Source: Kenya Revenue Authority

Capital and Financial Account

The capital and financial account surplus declined by 29.0 percent from US$ 1,692 million to US$ 1,200 million in the year to April 2010. The drop was largely in inflows into the financial account which declined from US$ 1,341 million to US$ 986 million mainly on account of reduced capital flows (Table 4.4) and accounted for 28.1 percent.

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

ITEM	Year to Apr 2009*	Year to April 2010* Q1 May-Jul	Q2 Aug-Oct	Q3 Nov-Jan	Q4 Feb-Apr	Year to Apr 2010*	Absolute Change
3. CAPITAL & FINANCIAL ACCOUNT	1692	547	815	181	-343	1200	***-491***
3.1 Capital Tranfers (net)	351	70	31	84	29	215	*-136*
3.2 Financial Account	1341	477	784	97	-372	986	*-355*
Official, medium & long-term	122	50	-32	68	115	201	*79*
Inflows	367	114	39	117	189	459	*92*
Outflows	-244	-65	-71	-48	-74	-258	*-14*
Private, medium & long-term (net)	30	62	325	-45	119	460	*430*
Commercial Banks (net)	41	57	342	-32	104	470	*430*
Other private medium & long-term (net)	-11	5	-17	-13	15	-10	*0*
Short-term (net) incl. errors & omissions	1188	365	491	74	-606	324	*-864*

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The Kenya's banking system total foreign exchange holdings increased from US$ 4,620 million in May 2009 to US$ 5,034 million in May 2010. The increase was in the gross official foreign exchange reserves held by the Central Bank which rose from US$ 2,929 million or 3.3 months of import cover in May 2009 to US$ 3,755 million or 3.9 months of import cover in May 2010 (Table 4.5 and Chart 4C). The accumulation of official reserves comprised interbank purchases, balance of payments support under the exogenous shock facility and additional special drawing rights allocation from the IMF to mitigate adverse effects of the global economic recession.

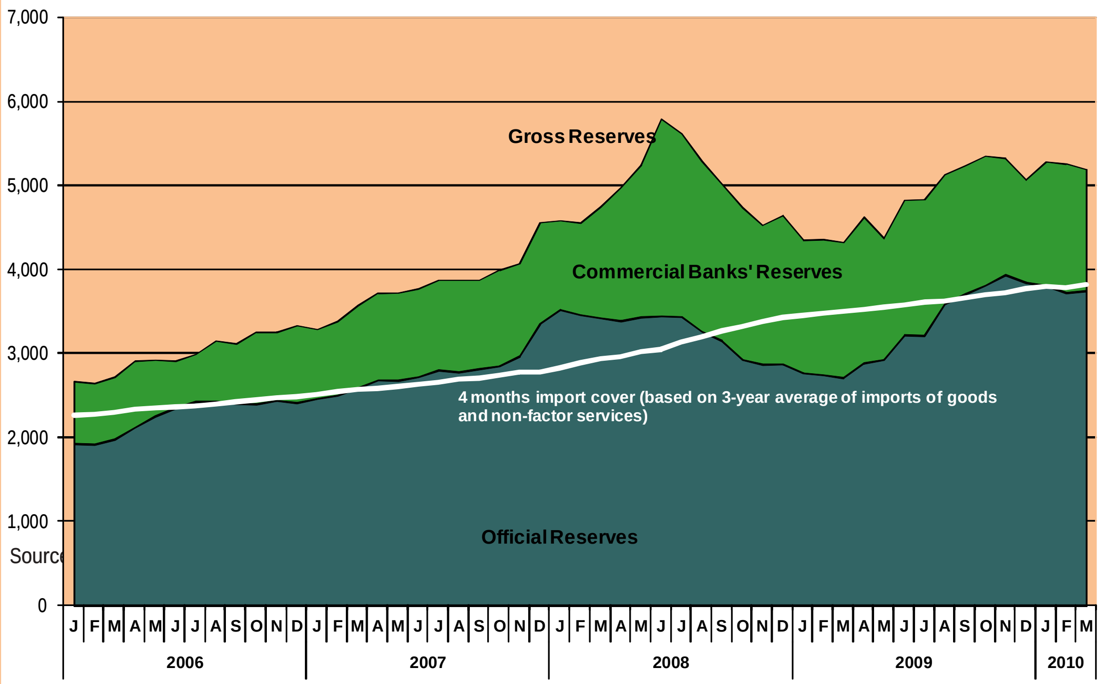
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Apr 09	Jun 09	Sep 09	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10
1. Gross Foreign Exchange Reserves	**4,620**	**4,822**	**5,235**	**5,062**	**5,279**	**5,254**	**5,188**	**5,124**
of which:								
Official	2,888	3,219	3,708	3,847	3,810	3,723	3,745	3,805
*imports cover**	*3.3*	*3.6*	*4.1*	*4.1*	*4.0*	*3.9*	*3.9*	*4.0*
Commercial Banks	1,733	1,602	1,527	1,215	1,470	1,532	1,443	1,319
2. Residents' foreign currency deposits	**1,702**	**1,912**	**1,920**	**2,036**	**2,065**	**2,013**	**2,025**	**2,100**

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

Source: Central Bank of Kenya

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



Exchange Rates

The Kenya Shilling depicted mixed performance in May 2010 against major world currencies, weakening against both the US dollar and the Japanese Yen but strengthening against the Euro and the Sterling Pound. The depreciation of the shilling during the month reflected increased global demand for dollars. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 78.54 per US dollar in May 2010 compared with Ksh 77.25 per US dollar in April 2010. The shilling, however, appreciated against the Euro and the Sterling Pound to exchange at Ksh 98.79 per Euro and Ksh 115.20 per Sterling Pound in May 2010, respectively, compared with Ksh 103.71 per Euro and Ksh 118.51 per Sterling Pound in April 2010 (Table 4.6 and Chart 4D).

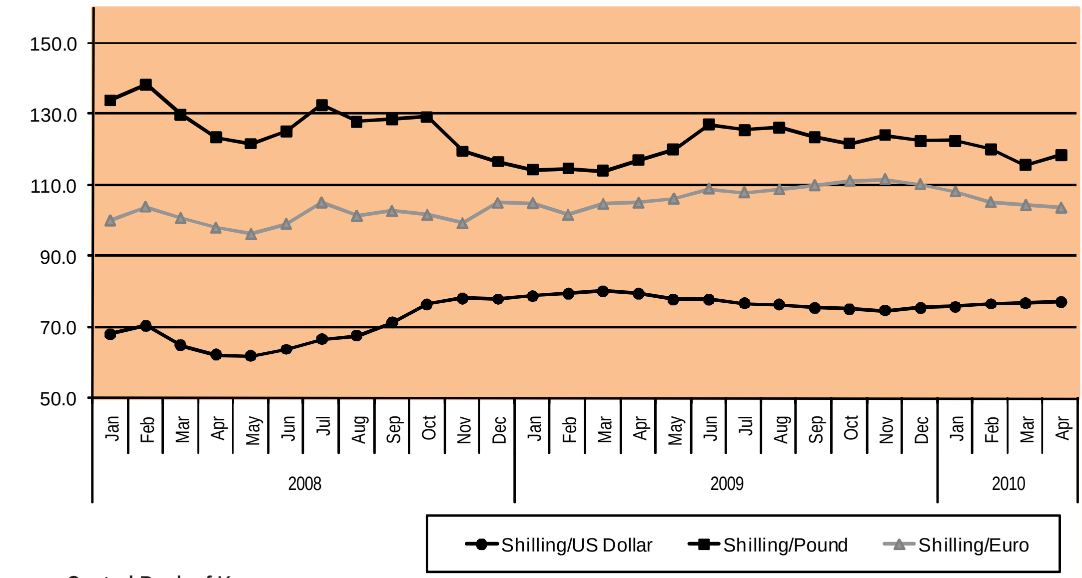
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2009					2010					% change Apr 10 - May10
	Jan	Feb	May	June	Dec	Jan	Feb	Mar	Apr	May	
US Dollar	78.95	79.53	77.86	77.85	75.43	75.79	76.69	76.95	77.25	78.54	**1.67**
Pound Sterling	114.28	114.54	120.03	127.22	122.54	122.53	120.21	115.78	118.51	115.20	**-2.79**
100 Japanese Yen	87.45	86.18	80.63	80.61	84.12	83.11	84.99	85.04	82.76	85.25	**3.01**
Uganda Shilling*	25.05	24.73	28.84	27.47	25.20	25.53	25.97	27.10	26.96	27.66	**2.61**
Tanzania Shilling*	16.99	16.61	17.07	16.86	17.65	17.71	17.58	17.63	17.75	18.20	**2.58**
Euro	105.02	101.71	106.23	109.03	110.27	108.27	105.25	104.46	103.71	98.79	**-4.74**
Euro per US dollar	0.752	0.782	0.733	0.714	0.684	0.700	0.729	0.737	0.745	0.795	**6.73**

* Units of currency per Kenya shilling

Source: Central Bank of Kenya

CHART 4D: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Against the regional currencies, the Kenya shilling strengthened in relation to the Uganda Shilling and appreciated against the Tanzania Shilling, respectively, to trade at Ush 27.66 per Kenya shilling and Tsh 18.20 per Kenya shilling in May 2010 compared with Ush 26.96 per Kenya shilling and Tsh 17.75 per Kenya shilling in April 2010.

Developments in The Banking Sector

Overview

During the period ended May 31, 2010, the Kenyan Banking sector registered significant growth in assets driven by growth in deposits, injection of capital and retention of profits. Similarly, the level of non-performing loans declined compared to May 2009 position.

The sector comprised 43 commercial banks, 1 mortgage finance company, 2 deposit taking microfinance institutions and 129 foreign exchange bureaus.

Structure of the Balance Sheet

The banking sector aggregate balance sheet grew by 24.7 percent from Ksh 1,219.7 billion in May 2009 to Ksh 1,520.6 billion in May 2010. The major components of the balance sheet were loans and advances, government securities and placements, which accounted for 51.0 percent, 25.0 percent and 7.4 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances grew from Ksh 707.5 billion in May 2009 to Ksh 816.2 billion in May 2010, translating to a growth of 15.4 percent. The growth was attributed to increased economic activities in the households, trade and manufacturing sectors. Loans and advances net of provisions stood at Ksh 773.9 billion in May 2010, up from Ksh 663.2 billion registered in a similar period in 2009 (Table 5.1).

Deposit Liabilites

Deposits from customers were the main source of funding for the banking sector, accounting for 77.8 percent of total funding liabilities. The deposit base increased by 26.5 percent from Ksh 935.0 billion in May 2009 to Ksh 1,183.0 billion in May 2010 mainly due to branch expansion, remittances and receipts from exports.

Capital & Reserves

The banking sector registered strong capital levels in May 2010 with total capital increasing by 18.5 percent from Ksh 161.2 billion in May 2009 to Ksh 191.0 billion in May 2010, whereas shareholders' funds increased by 24.8 percent from Ksh 172.4 billion in May 2009 to Ksh 215.2 billion. Similarly, the ratios of total and core capital to total risk-weighted assets increased from 19.7 percent and 17.5 percent to 19.9 percent and 17.8 percent respectively mainly due to capital injection and retention of profits.

Non-performing Loans

The stock of gross non-performing loans (NPLs) eased by 10.9 percent from Ksh 69.9 billion in May 2009 to Ksh 62.3 billion in May 2010. However, the coverage ratio which is measured as a percentage of specific provisions to total NPLs increased to 50.7 percent from 47.5 percent in May 2009 mainly due to increase in provisions. The quality of assets, measured as a proportion of net non-performing loans to gross loans improved from 4.2 percent to 3.1 percent in May 2010 as shown in Table 5.1. On the other hand the ratio of gross NPLs to gross loans improved from 9.9 percent in May 2009 to 7.6 percent in May 2010.

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

		May-10	May-09
1	Gross loans and advances	816.20	707.50
2	Loans and advances (net of interest suspended)	805.90	694.00
3	Gross non-performing loans	62.30	69.90
4	Specific Provisions	26.30	26.80
5	General Provisions	5.70	4.00
6	Total Provisions (4+5)	32.00	30.80
7	Net Advances (2-6)	773.90	663.20
8	Total Non-Performing Loans and advances	51.90	56.40
9	Net Non-Performing Loans and advances(8-4)	25.60	29.60
10	Total NPLs as % of total advances (8/2)	6.40	8.10
11	Net NPLs as % of gross advances (9/1)	3.10	4.20
12	Specific Provisions as % of Total NPLs (4/8)	50.70	47.50

Source: Central Bank of Kenya

Profitability

In the five months to May 2010, the sector registered a 41.5 percent growth in pre-tax profits, from 18.8 billion in May 2009 to Ksh 26.6 billion as at end of May 2010. As a result, the annualised return on assets improved from 2.9 percent to 3.3 percent in May 2010 while the return on equity increased from 26.1 percent to 29.7 percent. Total income went up by 23.1 percent from Ksh 66.8 billion in May 2009 to Ksh 82.2 billion in May 2010, while total expenses increased by 15.8 percent from Ksh 48.0 billion in May 2009 to Ksh 55.6 billion in May 2010. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 51.3 percent, 25.4 per cent and 16.2 percent of total income respectively. On the other hand, staff costs, other expenses and interest on deposits were the key components of expenses, accounting for 33.8 percent, 27.3 percent and 25.7 percent respectively.

Liquidity Ratio Requirement

As at end of May 2010, liquid assets amounted to Ksh 500.7 billion while total liquid liabilities stood at Ksh 1,134.4 billion, resulting to an average liquidity ratio of 44.1 percent, against 40.6 percent registered in May 2009. The ratio of gross loans to deposits ratio stood at 69.0 percent, down from 75.7 percent in May 2009.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.34 percent in May 2010 compared with 5.14 percent in April 2010 and 4.5 percent statutory level (Table 5.2 and Chart 5A). Commercial banks held excess reserves at the Central Bank averaging Ksh 9.00 billion in May 2010 compared with Ksh 6.69 billion in April 2010.

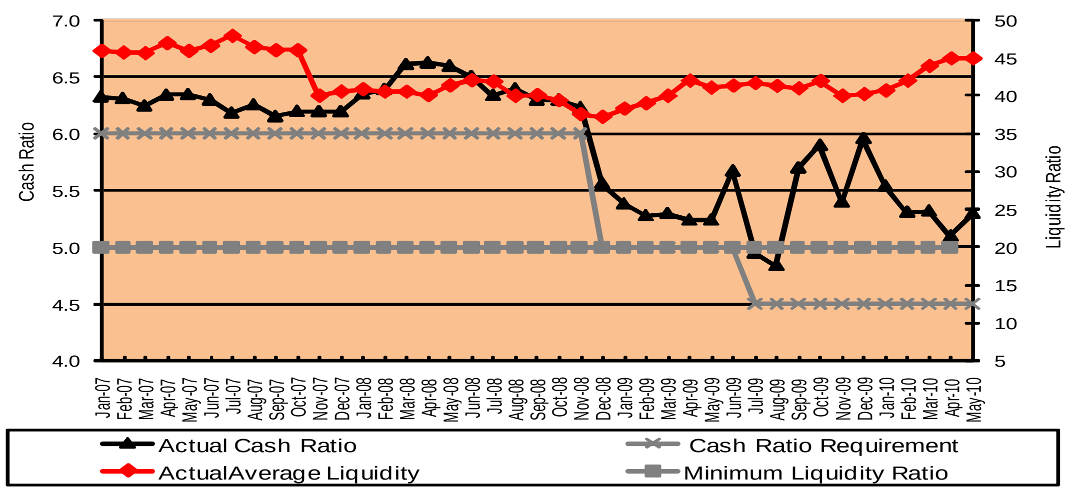
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2009							2010				
	Jan	Feb	Mar	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Commercial Banks												
Actual Average Liquidity	38.30	38.75	40.03	41.34	41.60	40.19	40.25	40.71	42.02	43.99	44.60	44.80
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.38	5.28	5.32	5.40	5.15	5.40	5.96	5.54	5.31	5.32	5.14	5.34
Minimum Cash Ratio Requirement	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.51	4.51	4.51	4.51
NBFIs												
Actual Average Liquidity Ratio	24.63	22.72	23.89	23.38	22.89	24.61	23.96	26.24	30.43	29.70	29.00	32.40
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Minimum Cash Ratio Requirement	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50

* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 72,588 transaction messages worth Ksh 1,587 billion in May 2010 compared with a volume of 69,634 transaction messages valued at Ksh 1,436 billion moved in April 2010 representing 10.50 percent and 4.24 percent increase in value and volume, respectively.

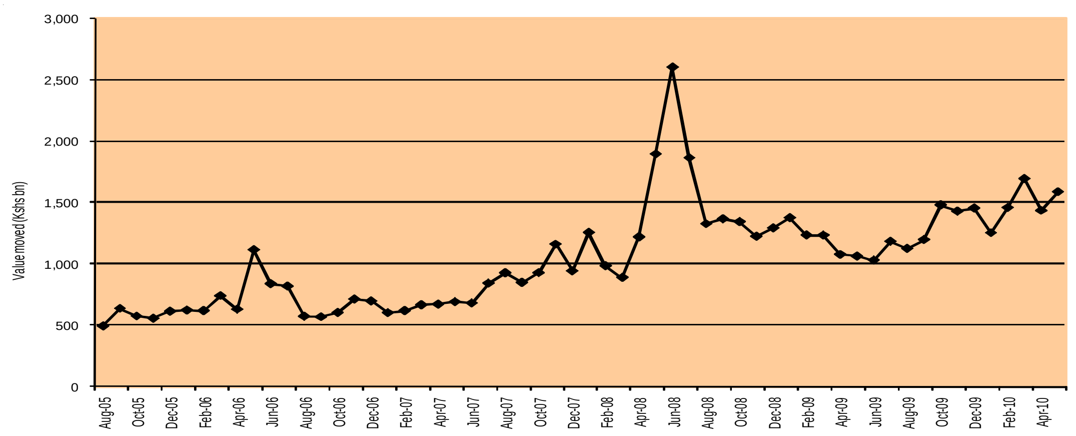
During the twelve months period to May 31, 2010, the value moved averaged Ksh 31.12 million per transaction. On average 2,433 transaction messages valued at approximately Ksh 64.40 billion per message were moved daily (Table 5.3 and Chart 5B below). Direct settlements through KEPSS accounted for 98.6 percent of the total settlements while indirect payments (ACH Net settlement) averaged 1.4 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-08	1,256	78	23,773	0.05	22	57	1,081
Feb-08	985	62	23,278	0.04	21	47	1,108
Mar-08	891	60	20,920	0.04	18	49	1,162
Apr-08	1,220	107	24,684	0.05	22	55	1,122
May-08	1,895	94	19,730	0.10	21	90	940
Jun-08	2,601	115	22,387	0.12	20	130	1,119
Jul-08	1,864	75	24,599	0.08	23	81	1,070
Aug-08	1,327	59	20,593	0.06	21	63	981
Sep-08	1,367	76	23,494	0.06	22	62	1,068
Oct-08	1,344	85	23,635	0.06	20	67	1,182
Nov-08	1,225	57	22,718	0.05	21	58	1,082
Dec-08	1,293	94	24,131	0.05	20	65	1,207
Jan-09	1,376	68	25,330	0.05	21	66	1,206
Feb-09	1,236	64	20,710	0.06	19	65	1,090
Mar-09	1,235	82	23,752	0.05	22	56	1,080
Apr-09	1,077	80	22,485	0.05	20	54	1,124
May-09	1,064	70	24,024	0.04	20	53	1,201
Jun-09	1,032	80	21,977	0.05	21	49	1,047
Jul-09	1,185	75	25,650	0.05	23	52	1,115
Aug-09	1,127	69	23,001	0.05	21	54	1,095
Sep-09	1,198	90	24,552	0.05	21	57	1,169
Oct-09	1,481	27	55,440	0.03	21	71	2,640
Nov-09	1,430	21	56,900	0.03	21	68	2,710
Dec-09	1,454	29	66,916	0.02	22	66	3,042
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

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third party Messages

Multiple third parties Message Type (MT 102) increased by 2.34 percent from 9,345 transaction messages in April 2010 to 9,564 transaction messages in May 2010. Similarly single third party Message Type (MT 103) increased by 2.07 percent from 63,396 transaction messages to 64,707 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 2.10 percent from 72,741 transaction messages in April 2010 to 74,271 transaction messages in May 2010.

Compared with May 2009, multiple third parties messages (MT 102) increased by 1,022.54 percent from 852 transaction messages to 9,564 transaction messages in May 2010 while single third party messages (MT 103) increased by 525.13 percent from 10,351 transaction messages to 64,707 transaction messages (Table 5.4 and Chart 5C).

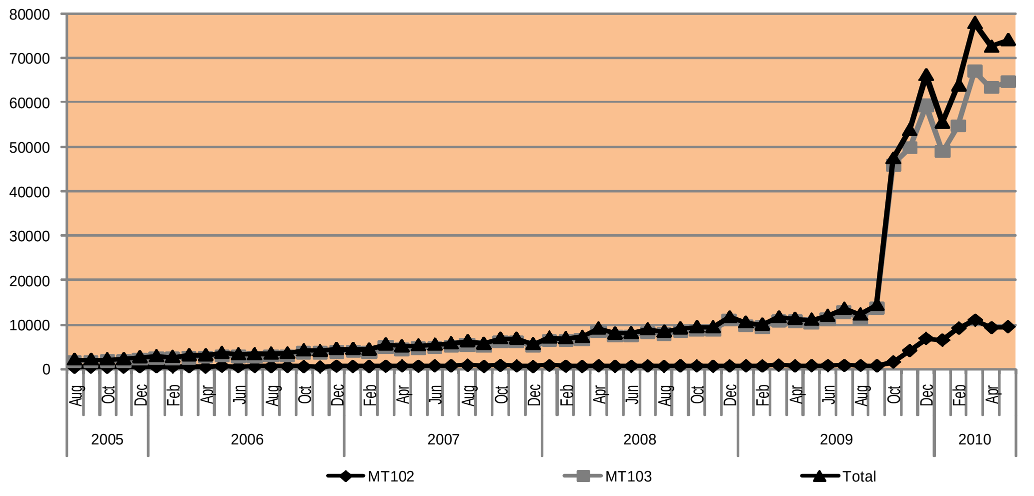
Inter-bank transfers (MT 202) accounted for 53.87 percent on average of the total value moved through KEPSS in May 2010, while third party messages accounted for 46.13 percent. The total number of third party messages (MT 102 & MT 103) grew by 562.96 percent from 11,203 messages in May 2009 to 74,271 messages in May 2010.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2009	January	786	9,815	10,601
	February	740	9,376	10,116
	March	929	10,832	11,761
	April	758	10,671	11,429
	May	852	10,351	11,203
	Jun	866	11,194	12,060
	Jul	879	12,778	13,657
	Aug	875	11,511	12,386
	Sep	813	13,740	14,553
	Oct	1639	45,940	47,579
	Nov	4214	49,759	53,973
	Dec	6928	59,418	66,346
2010	Jan	6570	49,061	55,631
	Feb	9238	54,747	63,985
	Mar	11038	67,052	78,090
	Apr	9345	63,396	72,741
	May	9564	64,707	74,271

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

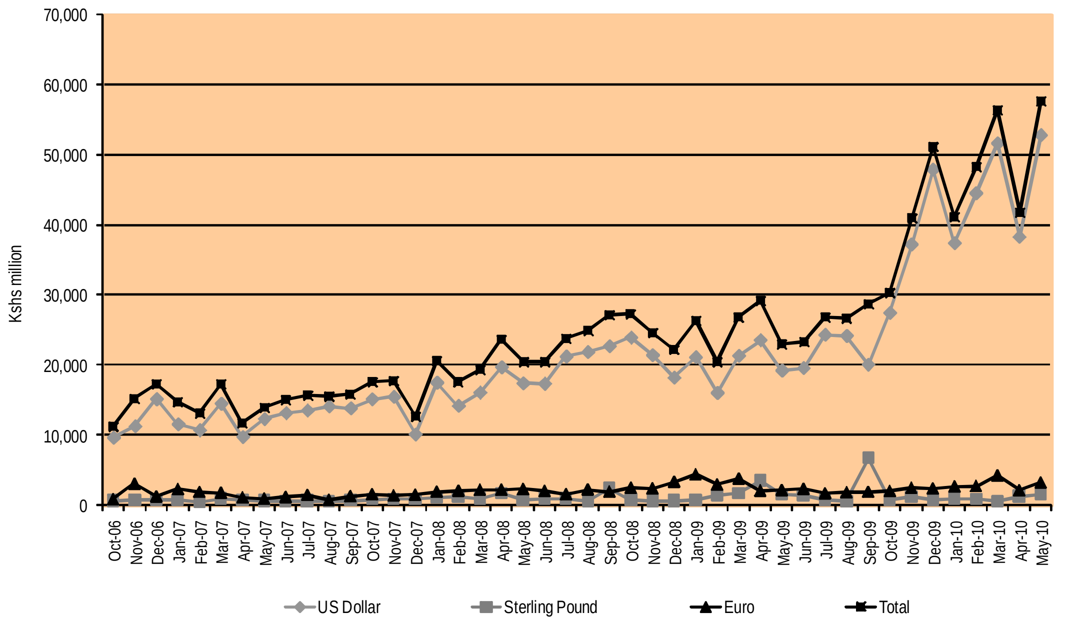


Source: Central Bank of Kenya

Domestic Foreign Currency Flows

Domestic Foreign Currency messages through KEPSS increased by 4.44 percent from 5,000 transaction messages in April 2010 to 5,222 transaction messages in May 2010. The corresponding value in Kenya Shillings equivalent moved in this period similarly increased by 38.06 percent from Ksh 41.76 billion to Ksh 57.66 billion. The US dollar accounted for 91.52 percent of the value moved (See Chart 5D) while the Sterling Pound and the Euro accounted for 2.73 percent and 5.71 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 in the eleven month of the fiscal year 2009/10 resulted in a deficit of Ksh 142.5 billion on commitment basis compared with a deficit of Ksh 66.1 billion in a similar period of 2008/09 (Table 6.1). The deficit-to-GDP ratio increased from 2.8 percent to 5.6 percent on commitment basis, while the budget deficit on cash basis increased from 2.8 percent to 6.0 percent of GDP during the period. The budget deficit during the period was within the programmed target of 6.4 percent of GDP on commitment basis.

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

	FY 2008/09	FY 2009/10		
	May Actual	May Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE	**449.6**	**502.0**	**544.5**	**-42.5**
Revenue	432.4	485.2	511.9	-26.7
Tax Revenue	390.2	434.6	449.9	-15.3
Non Tax Revenue	14.5	13.0	19.8	-6.8
Appropriations-in-Aid	27.8	37.6	42.2	-4.6
External Grants	17.2	16.8	32.6	-15.8
2. TOTAL EXPENSES & NET LENDING	**515.7**	**644.5**	**708.3**	**-63.8**
Recurrent Expenses	393.5	468.9	466.7	2.2
Development Expenses	122.2	175.6	241.6	-66.0
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-66.1**	**-142.5**	**-163.8**	**-21.3**
As percent of GDP	-2.8	-5.6	-6.4	
4. ADJUSTMENT TO CASH BASIS	**-0.9**	**-10.1**	**0.0**	**-10.1**
5. DEFICIT ON A CASH BASIS	**-67.0**	**-152.7**	**-163.8**	**-11.1**
As percent of GDP	-2.8	-6.0	-6.4	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**-1.9**	**-4.1**	**0.0**	
7. FINANCING	**65.8**	**148.6**	**163.8**	**-15.2**
Domestic (Net)	37.0	136.7	111.6	25.1
External (Net)	10.2	11.9	43.7	-31.8
Capital Receipts (privatisation)	0.0	0.0	6.0	-6.0
Others	18.6	0.0	2.5	-2.5
Financing gap	0.0	0.0	0.0	0.0

Source: Treasury

Revenue

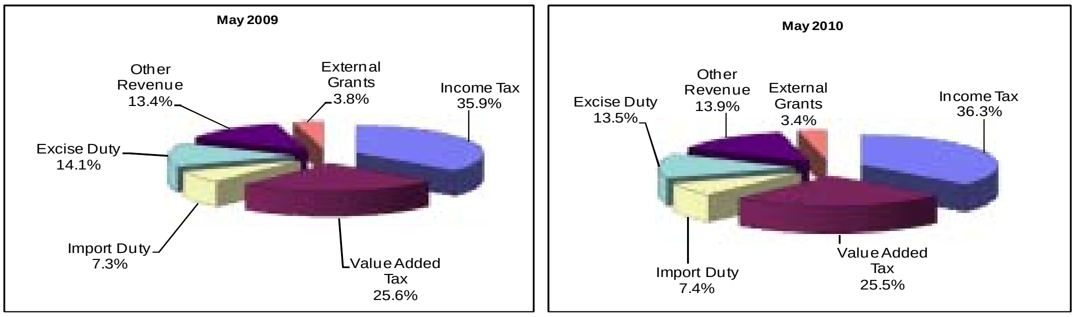
Government revenue and grants increased from Ksh 449.6 billion in the eleventh month of fiscal year 2008/09 to Ksh 502.0 billion in the same period of fiscal year 2009/10 but fell short of the target by Ksh 42.5 billion. Government revenue missed the target by Ksh 26.7 billion, while external grants fell short of target by Ksh 15.8 billion.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	May-09 Ksh bn	May-10 Ksh bn	Change
1. Revenue (2+3+4)	**432.4**	**485.2**	**52.8**
2. Tax Revenue	390.2	434.6	44.4
Income Tax	161.3	182.1	20.8
Value Added Tax	115.0	128.2	13.2
Import Duty	32.6	37.4	4.8
Excise Duty	63.4	67.7	4.3
Others	17.8	19.2	1.3
3. Appropriations-in-Aid	27.8	37.6	9.8
4. Other Revenue	14.5	13.0	-1.4
5. External Grants	**17.2**	**16.8**	**-0.4**
TOTAL RECEIPTS (1+5)	**449.6**	**502.0**	**52.4**

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue increased by Ksh 44.4 billion from Ksh 390.2 billion in the eleventh month of the fiscal year 2008/09 to Ksh 434.6 in the same period of the financial year 2009/10. All revenue sources except other revenue and external grants registered improved performance compared to same period of the year 2008/09 fiscal year.

Expenditure and Net Lending

During the eleventh month of the fiscal year 2009/10, Government expenditure and net lending increased by Ksh 128.8 billion from Ksh 515.7 billion in the fiscal year 2008/09 to Ksh 644.5 billion in the fiscal year 2009/10(Table 6.3). This rise was due to increases of Ksh 75.4 billion and Ksh 53.4 billion in recurrent and development expenditures, respectively.

The increase in recurrent expenditure reflects increases of Ksh 13.2 billion in salaries and wages, Ksh 8.8 bilion in interest payments and Ksh 53.5 billion in other expenses. In terms of the composition of Government expenditures, Chart 6B shows that 73 percent (18.4 percent of GDP) of total expenditure is government consumption in the fiscal year 2009/10 while 27 percent (6.9 percent of GDP) is Government investment.

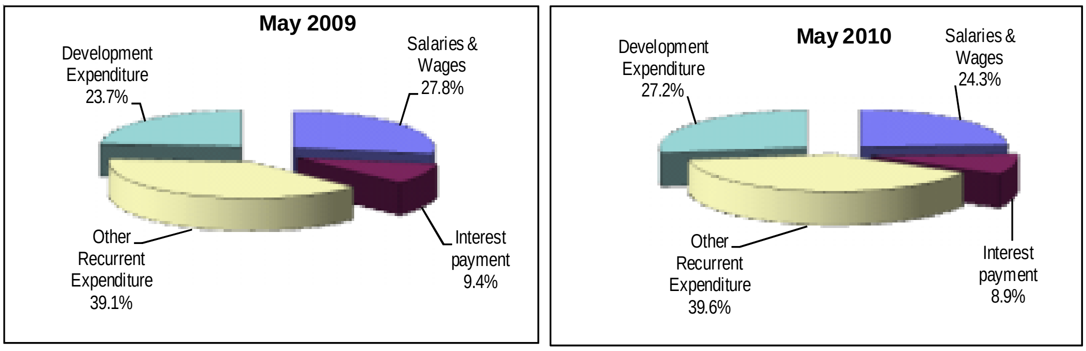
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	May-09 Ksh bn	May-10 Ksh bn	Movement
1.Recurrent	**393.5**	**468.9**	**75.4**
Salaries & Wages	143.3	156.5	**13.2**
Total Interest	48.4	57.1	**8.8**
of which			
Domestic*	42.1	51.9	9.8
Foreign interest due	6.3	5.2	-1.1
Others	201.8	255.3	53.5
2. Development	**122.2**	**175.6**	**53.4**
TOTAL EXPENSES	**515.7**	**644.5**	128.8

* Includes commissions and other charges

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

During the eleventh month of 2009/10 fiscal year, budgetary operations of the Government resulted in a financing requirement of Ksh 150.9 billion compared with Ksh 71.1 billion in a similar period of 2008/09 (Table 6.4). The financing requirement was largely to finance the budget deficit amounting to Ksh 148.6 billion and repayment of domestic debt at the Central Bank of Ksh 2.3 billion. The sources of financing include net domestic borrowing amounting to Ksh 126.8 billion, net external debt borrowing of Ksh 11.9 billion and a draw down in Government deposit at the central bank of Ksh 12.1 billion.

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

I. FINANCING REQUIREMENTS	May-09	May-10
1. Budget deficit	65.8	148.6
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	5.3	2.3
3.1 Central Bank (incl. items in transit)	5.3	2.3
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0
TOTAL	**71.1**	**150.9**
II. FINANCING SOURCES	**May-09**	**May-10**
1. Budget surplus	0.0	0.0
2. External debt increase	10.2	11.9
3. Increase in domestic debt	43.6	126.8
3.1 Central Bank	0.0	0.0
3.2 Commercial banks	20.8	96.8
3.3 Non-bank sources	22.8	30.0
4. Reduction in GoK deposits at CBK	17.3	12.1
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	**71.1**	**150.9**

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank decreased by Ksh 3.3 billion from Ksh 41.6 billion in May 2009 to Ksh 38.4 billion in May 2010. The decrease resulted from a reduction in the utilization of the Government overdraft by Ksh 1.5 billon and a partial repayment of pre-1997 overdraft amounting Ksh 1.1 billion.

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

	2009	2010	Movement
	May	May	
Total Credit	**41.6**	**38.4**	**-3.3**
1. Overdraft	6.7	5.2	-1.5
2. Rediscounted securities	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.0
Treasury bonds	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	33.9	32.8	-1.1
4. IMF funds onlent to Government	0.7	0.2	-0.5
5. Cleared items in transit	0.3	0.1	-0.2
Memorandum			
Authorised overdraft limit	**16.9**	**21.0**	**9.7**
Amount utilised to date	6.7	5.2	5.2
Amount available	10.2	15.8	4.5

Source: Central Bank of Kenya

Outlook for FY 2009/10

In the budget estimates for the fiscal year 2009/10, Government revenue excluding external grants is estimated at Ksh 568.9 billion (22.4 percent of GDP). External grants are estimated at Ksh 35.3 billion (1.4 percent of GDP) during the fiscal year. Similarly, Government expenditure is estimated at Ksh 772.4 billion or 30.3 percent of GDP which will comprise Ksh 509.1 billion (19.9 percent of GDP) in recurrent expenditure, Ksh 261.3 billion (10.3 percent of GDP) in development expenditure and Ksh 2.0 billion (0.08 percent) in civic contingency fund .

The overall budget deficit including grants is therefore estimated at Ksh 168.2 billion (6.6 percent of GDP) in 2009/10. The deficit will be financed through net external borrowing of Ksh 50.2 billion (2.0 percent of GDP), net domestic borrowing of Ksh 109.5 billion (4.3 percent of GDP), privatization proceeds of Ksh 6.0 billion and net refinancing costs of Telkom totalling Ksh 2.5 billion.

Developments in Public Debt

Overall Debt

Kenya's public and publicly guaranteed debt increased by Ksh 138.6 billion in the first eleven months of fiscal year 2009/10 to Ksh 1,192.2 billion or 47.1 percent of GDP in May 2010 from Ksh 1,053.7 billion or 44 percent of GDP in June 2009 (Table 7.1). In terms of main components, the external debt to GDP ratio decreased from 22.4 percent in June 2009 to 21.4 percent in May 2010, while the domestic debt to GDP ratio increased from 21.7 percent to 25.7 percent during the period.

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

	Jun-09	Sep-09	Dec-09	Mar-10*	Apr-10	May-10	Change 2009/10
EXTERNAL***							
Bilateral	185.9	188.7	185.3	187.3	187.5	189.5	3.6
Multilateral	327.1	312.6	316.5	333.7	332.7	335.3	8.2
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	22.1	23.7	23.7	17.1	17.1	17.1	-5.0
Sub-Total	**535.1**	**525.0**	**525.5**	**538.2**	**537.4**	**542.0**	**6.8**
(As a % of GDP)	22.4	21.6	21.3	21.46	21.43	21.39	
(As a % of total debt)	50.8	48.8	47.2	45.7	45.1	45.5	
DOMESTIC							
Banks	**290.8**	**310.5**	**343.0**	**384.5**	**399.1**	**392.8**	**102.0**
Central Bank	40.1	41.6	44.7	39.6	34.4	39.1	**-0.9**
Commercial Banks	250.7	268.9	298.3	345.0	364.7	353.7	**102.9**
Non-banks	**225.1**	**237.7**	**243.0**	**251.2**	**251.3**	**254.7**	**29.6**
Non-bank Financial Institutions	1.0	0.8	1.1	2.0	3.0	3.0	**1.9**
Other Non-bank Sources	224.1	236.9	241.9	249.2	248.4	251.7	**27.6**
Non-residents	**2.6**	**2.5**	**2.9**	**3.3**	**3.2**	**2.8**	**0.2**
Sub-Total	**518.5**	**550.7**	**589.0**	**639.1**	**653.6**	**650.3**	**131.8**
(As a % of GDP)	21.7	22.6	23.8	25.5	26.1	25.7	
(As a % of total debt)	49.2	51.2	52.8	54.3	54.9	54.5	
GRAND TOTAL	**1053.7**	**1075.7**	**1114.5**	**1177.2**	**1191.0**	**1192.2**	**138.6**
(As a % of GDP)	44.0	44.2	45.1	46.9	47.5	47.1	

* External Debt Revised
** External Debt Provisional
*** 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 Govt. 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 131.8 billion during the first eight months of the fiscal year 2009/10 from Ksh 518.5 billion (21.7 percent of GD) in June 2009 to Ksh 650.3 billion in May 2010 (25.7 percent of GD) (Table 7.2). The rise in domestic debt during the period followed increases of Ksh 50.2 billion in Treasury bills (excluding Repos) and Ksh 82.7 billion in Treasury bonds, and Ksh 0.6 billion repayment of other domestic debt. Government overdraft at Central bank which is the main component of other domestic debt, increased from Ksh 5.1 billion in June 2009 to Ksh 5.2 billion in May 2010.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2009						2010				Change
	June	%	Sep	%	Dec	%	Apr	%	May	%	Jun-09 - Jan-10
Total Stock of Domestic Debt (A+B)	**518.5**	**100.0**	**550.7**	**100.0**	**562.9**	**100.0**	**653.6**	**100.0**	**650.3**	**100.0**	**131.8**
A. Government Securities	**511.6**	**98.7**	**542.4**	**98.5**	**577.6**	**102.6**	**652.0**	**99.8**	**643.9**	**99.0**	**132.3**
1. Treasury Bills (excluding Repo Bills)	**116.8**	**22.5**	**122.2**	**22.2**	**140.8**	**25.0**	**176.1**	**26.9**	**167.0**	**25.7**	**50.2**
Banking institutions	74.6	14.4	81.3	14.8	110.8	19.7	153.6	23.5	144.7	22.2	**70.0**
Others	42.2	8.1	40.9	7.4	30.0	5.3	22.5	3.4	22.3	3.4	**-19.9**
2. Treasury Bonds	**360.7**	**69.6**	**386.1**	**70.1**	**402.7**	**71.5**	**442.4**	**67.7**	**443.4**	**68.2**	**82.7**
Banking institutions	176.0	33.9	187.5	34.1	187.5	33.3	211.1	32.3	209.0	32.1	**33.0**
Others	184.8	35.6	198.5	36.1	215.2	38.2	231.3	35.4	234.4	36.1	**49.7**
3. Long Term Stocks	**0.8**	**0.1**	**0.8**	**0.1**	**0.8**	**0.1**	**0.8**	**0.1**	**0.8**	**0.1**	**0.0**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Others	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	**0.0**
4. Non-Interest Bearing Debt	**33.3**	**6.4**	**33.3**	**6.1**	**33.3**	**5.9**	**32.8**	**5.0**	32.8	**5.0**	**-0.6**
Of which: Repo T/Bills	33.3	6.4	33.3	6.1	33.3	5.9	32.8	5.0	32.8	5.0	**-0.6**
B. Others:*	**6.89**	**1.3**	**8.33**	**1.5**	**11.37**	**2.0**	**1.60**	**0.2**	**6.33**	**1.0**	**-0.6**
Of which CBK overdraft to Government	5.1	1.0	8.0	1.5	11.1	2.0	1.1	0.2	5.2	0.8	0.1

Source: Central Bank of Kenya

Treasury Bills

Treasury bills increased from Ksh 116.8 billion in June 2009 to Ksh 167.0 billion in May 2010 (Table 7.3). The proportion of Treasury bills in total domestic debt increased from 22.5 percent of total domestic debt to 25.7 percent during the period which was within the Government domestic debt strategy of lengthening the maturity of domestic debt in the ratio of 30 percent for short term debt and 70 percent in long term securities. Commercial banks holding in Treasury bills rose from Ksh 74.6 billion to Ksh 144.7 billion. The proportion of the 364 day treasury bills in total Government securities was 6.6 percent up from 1.9 percent in the first issue of August 2009. Meanwhile, the share of 91-day Treasury bills in total Government securities decreased from 4.9 percent to 4.8 percent in May 2010, while that of the 182-day treasury bills decreased from 19.5 percent to 16.0 percent during the period (Table 7.5).

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

	2009						2010					
Holders	June	%	Sep	%	Dec	%	Mar	%	Apr	%	May	%
Banking Institutions	74.6	63.9	81.3	66.6	110.8	78.7	138.1	85.6	153.8	92.1	144.9	86.8
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
Comm. Banks	74.6	63.9	81.3	66.6	110.8	78.7	137.9	85.5	153.6	92.0	144.7	86.6
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.2	0.1	0.2	0.1
Insurance Companies	17.0	14.6	15.1	12.3	11.6	8.2	9.3	5.7	8.5	5.1	8.8	5.2
Parastatals	2.3	2.0	3.7	3.0	3.3	2.4	2.8	1.7	3.2	1.9	2.0	1.2
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
Pension Funds	7.0	6.0	6.5	5.3	7.5	5.3	9.3	5.7	7.2	4.3	5.0	3.0
Others	15.8	13.6	15.6	12.8	7.6	5.4	1.9	1.2	-5.7	-3.4	6.4	3.8
Total*	**116.8**	**100.0**	**122.2**	**100.0**	**140.8**	**100.0**	**161.3**	**100.0**	**167.0**	**100.0**	**167.0**	**100.0**

* Excludes repurchase order bills

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds outstanding increased from Ksh 360.7 billion in June 2009 to Ksh 443.4 billion in May 2010 (Table 7.4). Similarly, as shown in Table 7.2, the percentage of Treasury bonds in total domestic debt increased from 69.6 percent to 68.2 percent during the period, while commercial banks holdings of Treasury bonds increased from Ksh 176.0 billion to Ksh 209.0 billion. However, as a share of treasury bonds outstanding, commercial banks holding edged down 1.7 percentage points to 47.1 percent in May 2010.

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

Holders	2009		2010					
	June	%	Mar	%	Apr	%	May	%
Banking Institutions	176.8	49.0	204.7	46.8	212.9	48.1	211.8	47.8
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	176.0	48.8	202.9	46.4	211.1	47.7	209.0	47.1
NBFIs	0.8	0.2	1.8	0.4	1.8	0.4	2.8	0.6
Insurance Companies	38.3	10.6	52.4	12.0	52.4	11.8	54.4	12.3
Parastatals	31.4	8.7	36.4	8.3	36.4	8.2	37.3	8.4
Of which: NSSF	15.8	4.4	18.3	4.2	18.3	4.1	19.5	4.4
Building Societies	0.5	0.1	0.4	0.1	0.4	0.1	0.4	0.1
Pension Funds	54.2	15.0	78.8	18.0	78.8	17.8	81.5	18.4
Others	59.6	16.5	64.8	14.8	61.5	13.9	58.1	13.1
Total	**360.7**	**100.0**	**437.5**	**100.0**	**442.4**	**100.0**	**443.4**	**100.0**

Source: Central Bank of Kenya

The 5-year Treasury bonds accounted for the largest proportion of outstanding Government securities during the period, with its increasing from 11.1 percent in June 2009 to 14.5 percent in May 2010, while the 10-year Treasury bonds accounted for 11.3 percent of outstanding Government securities. The percentage of Treasury bonds with maturities of between 10-years and 20-years increased from 27.0 percent to 28.7 percent during the period following successful issuance of longer dated Treasury bonds. Following the increase in outstanding Treasury bonds during the period, the average maturity profile of domestic debt (by days to maturity) stood at 4 years and 3 month in May 2010 from 3 years 7 months in June 2009.

TABLE 7.5: OUTSTANDING TREASURY BILLS AND BONDS (Ksh billion)

	2009						2010										Change Jun-09 to Apr 10
	June	%	Sep	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%	May	%	
91-Day	23.5	4.9	22.8	4.5	24.8	4.6	21.1	3.9	23.0	4.1	26.7	4.4	34.8	5.7	29.2	4.8	5.7
182-Day	93.3	19.5	89.9	17.7	87.4	16.1	92.0	17.1	93.9	16.7	105.1	17.2	103.7	17.0	97.7	16.0	4.4
364-Day	0.0	0.0	9.4	1.9	28.6	5.3	28.6	5.3	37.4	6.6	29.5	4.8	37.6	6.2	40.1	6.6	40.1
1-Year	14.8	3.1	12.6	2.5	6.7	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-14.8
2-Year	45.2	9.5	53.2	10.5	43.8	8.1	43.3	8.1	50.5	9.0	56.7	9.3	53.4	8.8	46.6	7.6	1.4
3-Year	12.8	2.7	5.8	1.1	5.8	1.1	5.8	1.1	5.8	1.0	5.8	0.9	5.8	0.9	1.8	0.3	-11.0
4-Year	12.9	2.7	12.9	2.5	7.3	1.3	7.3	1.4	7.3	1.3	7.3	1.2	3.4	0.6	3.4	0.6	-9.5
5-Year	52.8	11.1	66.7	13.1	66.7	12.3	66.7	12.4	76.5	13.6	76.5	12.5	76.5	12.5	88.4	14.5	35.6
6-Year	38.8	8.1	38.8	7.6	37.1	6.8	37.1	6.9	32.7	5.8	59.3	9.7	59.1	9.7	59.1	9.7	20.3
7-Year	24.2	5.1	24.2	4.8	24.2	4.4	24.2	4.5	24.2	4.3	21.4	3.5	21.4	3.5	21.4	3.5	-2.8
8-Year	17.9	3.8	17.9	3.5	17.9	3.3	17.9	3.3	17.9	3.2	27.6	4.5	29.6	4.8	29.6	4.8	11.6
9-Year	12.6	2.6	12.6	2.5	12.6	2.3	12.6	2.3	12.6	2.2	15.3	2.5	17.8	2.9	17.8	2.9	5.1
10-Year	44.4	9.3	57.0	11.2	57.0	10.5	57.0	10.6	57.0	10.1	57.0	9.3	69.1	11.3	69.1	11.3	24.7
11-Year	4.0	0.8	4.0	0.8	4.0	0.7	4.0	0.8	4.0	0.7	4.0	0.7	4.0	0.7	4.0	0.7	0.0
12-Year	28.5	6.0	28.5	5.6	47.4	8.7	47.4	8.8	47.4	8.4	24.4	4.0	20.1	3.3	20.1	3.3	-8.4
15-Year	42.3	8.9	42.3	8.3	51.7	9.5	51.7	9.6	51.7	9.2	61.9	10.1	61.9	10.1	61.9	10.1	19.6
20-Year	9.5	2.0	9.5	1.9	20.4	3.7	20.4	3.8	20.4	3.6	20.4	3.3	20.4	3.3	20.4	3.3	10.8
Total	477.5	100.0	508.3	100.0	543.5	100.0	537.2	100.0	562.3	100.0	598.8	98.1	618.5	101.3	610.4	100.0	

Source: Central Bank of Kenya

Government Long-term Stocks

During the first eleven months of the fiscal year 2009/10, Government long term stocks remained unchanged at Ksh 0.8 billion or 0.1 percent of total domestic debt as there were neither new issues nor redemptions of the instrument.

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Government securities from June 2010 to August 2010 will comprise Ksh 70.3 billion in Treasury bills and Ksh 8.0 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 29.2 billion and Ksh 41.1 billion in 91-days and 182-days Treasury bills, respectively. The Treasury bonds maturing during this period comprise of Ksh 3.7 billion, Ksh 1.8 billion and Ksh 2.5 billion in the 2-year, 5-year and 6-year tenure, respectively.

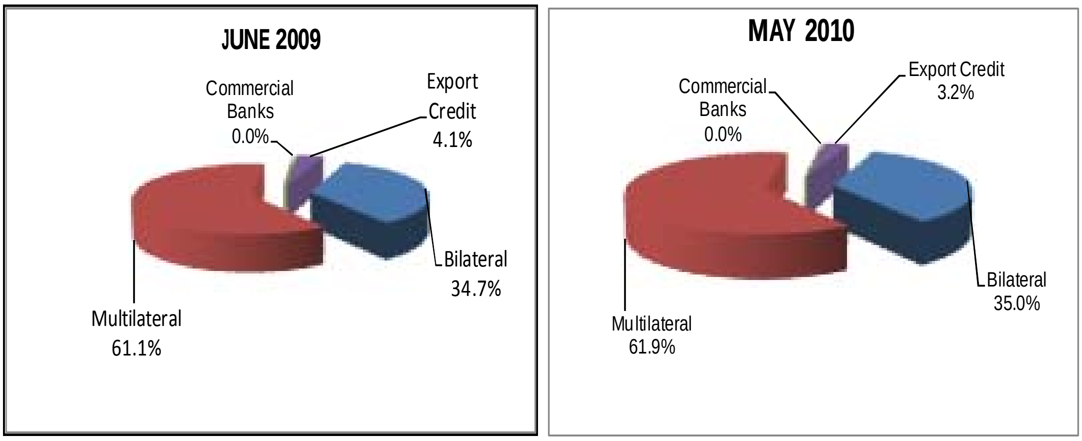
External Debt

Kenya's external debt increased by 1.3 percent from Ksh 535.1 billion (US $ 6.94 billion) in June 2009 to Ksh 542.0 billion (US $ 6.92 billion) in May 2010 (Table 7.1). The rise in external debt followed external loans disbursement of Ksh 288 billion and revaluation losses of Ksh 3.7 billion and debt repayments of Ksh 18.2 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to multilateral creditors (including IMF), bilateral creditors and that which is contracted through export credits increased from, 61.1 percent , 34.7 percent and 4.1 percent, respectively, in June 2009 to 61.9 percent, 35.0 percent and 3.2 percent in May 2010 (Chart 7A).

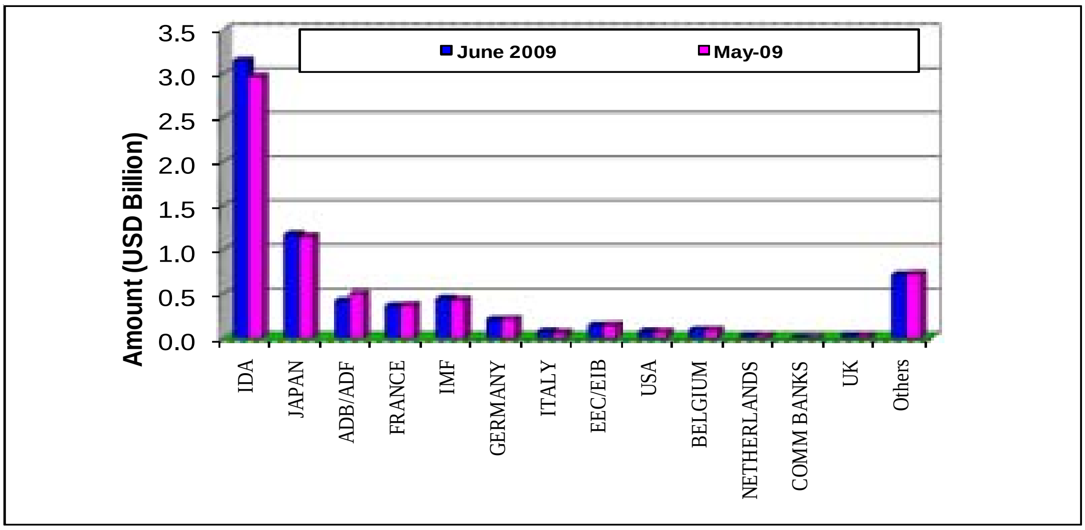
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

Chart 7B shows external debt owed to IDA and Japan remained unchanged at US $ 3.2 billion and US $ 1.2 billion, respectively, in May 2010. The two were the largest multilateral and bilateral creditors to Kenya during the period.

CHART 7B: EXTERNAL DEBT BY CREDITOR

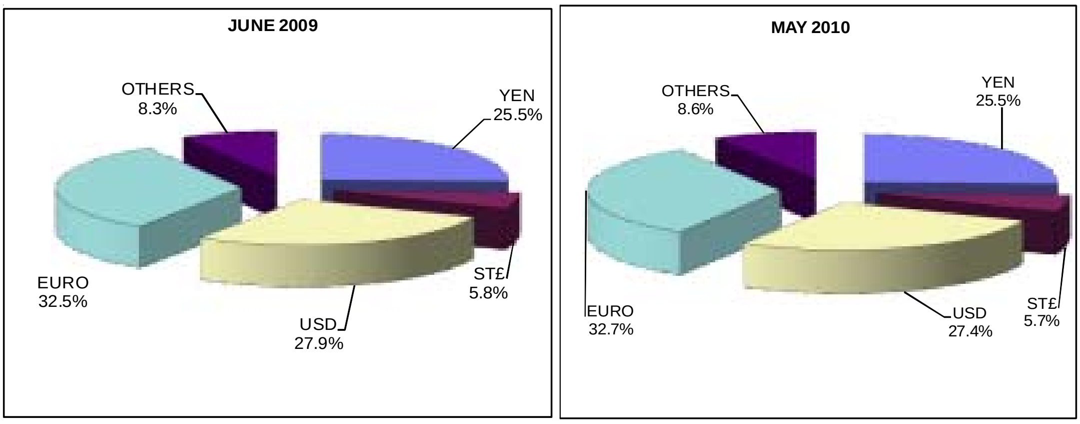


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in US dollars, Euro and Japanese Yen increased from 27.9 percent, 32.5 percent and 25.5 percent in June 2009, respectively, to 27.4 percent, 32.7 percent and 25.5 percent in May 2010. However the external debt proportion held in Sterling Pounds and other currencies including SDRs decreased from 5.8 percent and 8.3 percent to 5.7 percent and 8.6 percent, respectively, 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 increased from Ksh 42.1 billion in the first eleven months of fiscal year 2008/09 to Ksh 51.9 billion in a similar period of the fiscal year 2009/10. The external debt service in the period comprised Ksh 18.2 billion in principal repayments and Ksh 5.4 billion in interest payments.

Outlook for the FY 2009/10

The budget estimates for 2009/10 has Government domestic borrowing projected at Ksh 124.5 billion (4.9 percent of GDP), while external borrowing is estimated at Ksh 50.2 billion (2.0 percent of GDP. However, as indicated in the Budget Strategy Paper for 2009/10 to 2011/12, gross domestic debt-to-GDP ratio is projected to increase from 22.7 percent in June 2009 to 24.2 percent in June 2010. Consequently, external debt-to-GDP ratio is expected to increase from 22.0 percent to 23.9 percent during the period, which will however be lower than the 24.1 percent in June 2009.

Activity in the Stock Market

Equity Market

Performance at the equities market improved in May 2010 as reflected by key market indicators (Table 8.1). The number of shares traded increased by 134.2 percent from 398.5 million in April 2010 to 933.5 million in May 2010.

Equity turnover increased by Ksh 3,587.1 million (53.2 percent), from Ksh 6,754.9 million in April 2010 to Ksh 10,342.0 million in May 2010. The market capitalization improved by Ksh 11.0 billion (1.0 percent), from Ksh 1,062 billion in April 2010 to Ksh 1,073 billion in May 2010. The NSE 20 Share Index rose by 8.57 points (0.20 percent) to close at 4,241.81 in May 2010 (Chart 8A). Market liquidity ratio increased by 82 basis points to 1.46 percent in May 2010 from 0.64 percent in April 2010 reflecting an increase in the number of shares traded. The improvement in performance in the equities market is attributed to a shift in investor's interest in government paper at the primary auction (on account of falling returns) to better prospects in the equity market.

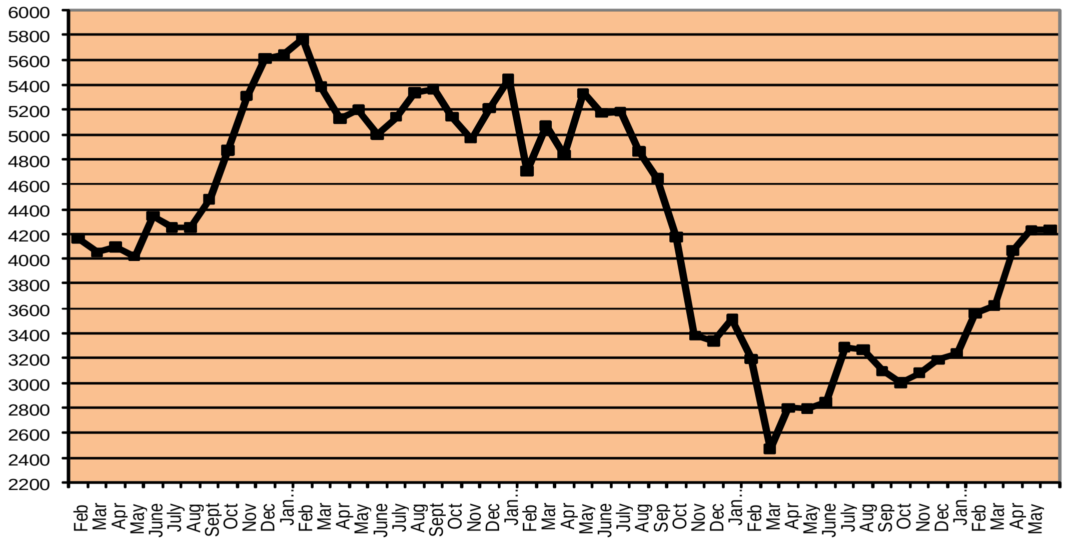
TABLE 8.1: SELECTED STOCK MARKET INDICATORS 2008 -2010

Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
August 08	4,648.78	490.81	7,490.20	1,081.86	18,490.36
September 08	4,180.40	485.30	6,787.80	972.30	22,611.94
October-08	3,386.65	393.50	3,642.40	764.90	4,344.11
November-08	3,341.00	290.94	3,723.72	791.60	6,319.71
December-08	3,521.18	170.86	4,617.11	853.67	7,473.44
January-09	3,198.90	177.55	2,624.39	777.45	12,458.82
February-09	2,474.75	150.64	1,645.28	611.49	12,555.25
March-09	2,805.03	207.39	2,414.12	688.67	18,520.00
April-09	2,800.10	215.56	2,549.12	683.03	1,370.00
May-09	2,852.57	308.00	3,087.67	693.44	22,310.00
June-09	3,294.56	377.56	4,126.87	821.78	21,600.00
July-09	3,273.10	296.19	3,261.63	826.75	16,650.00
August-09	3,102.68	280.89	3,149.21	785.28	12,890.00
September-09	3,005.41	231.69	3,547.59	771.63	20,930.00
October-09	3,083.63	303.30	4,520.97	783.97	22,380.00
November-09	3,189.55	396.36	4,646.57	825.84	9,210.00
December-09	3,247.44	214.90	2,591.19	831.83	15,940.00
January-10	3,565.28	603.91	6,358.02	910.02	26,750.00
February-10	3,629.41	369.76	4,214.87	922.10	41,638.70
March-10	4,072.93	627.00	8,325.6	983.12	50,411.00
April-10	4,233.24	398.53	6,754.90	1,062.00	23,241.00
May-10	4,241.81	933.53	10,342.00	1,073.00	37,204.50

Source: Nairobi Stock Exchange

Commercial and Services sector dominated the market trading 754.4 million shares during the month. The most traded share in the sector was Safaricom which traded 738.5 million shares. The Finance and Investment sector traded 115.1 million shares, with Equity Bank's being the most active trading 46.4 million shares. The Industrial and Allied sector traded 60.0 million shares with Mumias Sugar trading 30.7 million shares. In the agricultural sector 3.7 million shares were traded and the most active stock was Sasini Ltd, which traded 3.5 million shares.

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



Source: Nairobi Stock Exchange

Bond Market The bond turnover increased by 60 percent, with bonds worth Ksh 37,204 million traded in May 2010, compared with Ksh 23,241 million worth of bonds traded in April 2010. This increase was attributed to the shift of investors' appetite from the primary market to the secondary market which has continued to record impressive performance.

Statement of Financial Position Of The Central Bank of Kenya

(Kenya shillings million)

	May-10	May-09	May 10/May 09 Movement
ASSETS	313,451	283,047	30,404
Foreign Assets	261,368	228,578	32,790
Advances and Discounts to Banks	0	0	0
Discounted Government Securities	5,018	6,715	-1,697
Government Accounts	38,331	41,639	-3,308
Government of Kenya Overdraft	5,237	6,703	-1,466
Clearing Account	85	331	-246
IMF funds on-lent to Government	235	721	-486
Frozen Government Accounts	32,774	33,884	-1,110
Other assets	8,734	6,115	2,619
Debtors	5,397	4,360	1,037
Retirement Benefits Assets	1,425	55	1,370
Building and Equipment	877	1,425	-548
Prepaid Leases	272	275	-3
Intangible assets	763		763
LIABILITIES	313,653	283,047	30,606
Foreign Liabilities	-8,074	0	-8,074
Currency in Circulation	121,501	105,020	16,481
Repo Securities	0	105	-105
Deposits	174,231	139,128	35,103
Banks - Kenya	72,626	55,385	17,241
External	86	87	-1
Non-Bank Financial Institutions	0	0	0
Other Public Entities and Project A/Cs	10,294	9,916	378
International Monetary Fund	35,725	21,658	14,067
Government of Kenya	52,025	50,187	1,838
Local Banks Forex Settlement Fund	3,475	1,895	1,580
Other Liabilities	3,967	4,535	-568
Capital and Reserves	22,028	34,259	-12,231
Capital	5,000	5,000	0
General Reserve Fund	26,804	9,254	17,550
Period's Surplus	-12,417	20,005	-32,422
Dividend payable	2,641	0	2,641

Source: Central Bank of Kenya

Notes on the Financial Positon

Assets

Foreign exchange reserves of the Bank increased by Ksh 32,790 million to Ksh 261,368 million in May 2010 from Ksh 228,578 million in May 2009 reflecting purchases of foreign exchange from the interbank market.

Government accounts declined by Ksh 3,308 million to Ksh 38,331 million in May 2010 from Ksh 41,639 million in May 2009. The decline is attributed to a decrease Ksh 246 million in clearing account balances due and the repayment of Ksh 486 million on IMF funds on-lent to government. The Government amortized Ksh 1,110 million of its non-interest bearing debt to Central Bank. The outstanding overdraft was also repaid by Ksh 1,466 million.

Other assets increased by Ksh 2,619 million in the year to May 2010 on account of increased debtors of Ksh 1,037 million as well as increases in the retirement benefit assets of Ksh 1.370 million. These increases were partially offset by a decline of Ksh 548 million in the value of building and equipment and a decline of Ksh 3 million in prepaid leases.

Liabilites

Currency in circulation increased by Ksh 16,481 million to Ksh 121,501 million in May 2010 from Ksh 105,020 million in May 2009.

There were no outstanding **repo securities** in the year to May 2010, after maturity of Ksh 105 million held in May 2009

Deposits increased by Ksh 35,103 million to Ksh 174,231 million in May 2010 on account of Ksh 17,241 million increase in commercial banks' deposits at the Central Banks, Ksh 1,580 million increase in local banks forex settlement balances and Ksh 378 million in other public entities and project accounts. Government of Kenya deposits similarly increased by Ksh 1,838 million, while IMF depostis increased by Ksh 14,067 million.

Other liabilities and provisions declined by Ksh 568 million to Ksh 3,967 million in the year to May 2010.

Capital and reserves declined by Ksh 12,231 million to Ksh 22,028 million in the year to May 2010, mainly due to a decline of Ksh 32,422 million in the surplus during the period. The fall in surplus is attributed to low interest earnings on the Bank's foreign assets. This decline was partially offset by an increase of Ksh 17,550 million in the value of general reserve as well as an increase of Ksh 2,641 million in dividends payable.