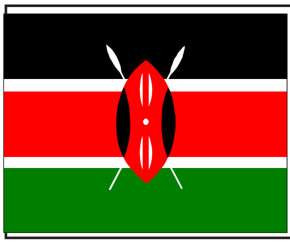


MONTHLY ECONOMIC REVIEW

APRIL 2009

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

email: info@centralbank.go.ke

CONTENTS

OVERVIEW

Introduction

This Monthly Economic Review highlights recent economic developments through March and April 2009. It highlights developments in money, credit and banking, inflation, interest rates and the shilling exchange rate. It also highlights developments in the real sector, Government budgetary operations, public debt and balance of payments.

Real GDP Growth

The economy grew by 7.1 percent in 2007 compared with 6.4 percent in 2006. In 2008, the economy declined to1.7 percent due to post-election violence, external shocks including the global financial crisis and high fuel and food prices, and inadequate rainfall in various parts of the country.

Inflation

Overall 12-month inflation went up slightly in April 2009 due to increasing prices of food, especially for maize and potatoes. Similarly, 12-month underlying inflation increased mainly due to the effect of a weak Kenya shilling exchange rate.

Government Fiscal Operations

The central Government budgetary operations in the first eight months of the fiscal year 2008/09 resulted in a budget deficit of Ksh 40.5 billion on commitment basis. The budget deficit, however, remained within the budget target of Ksh 77.7 billion or 3.4 percent of GDP for the period.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by 14.1 percent in the first eight months of the fiscal year 2008/09 to stand at Ksh 992.9 billion in February 2009 from Ksh 870.6 billion in June 2008. Specifically, public domestic debt increased by 11.1 percent during the period from Ksh 430.6 billion in June 2008 to Ksh 478.2 billion in February 2009, while Kenya's external debt increased by 17.0 percent from Ksh 440.0 billion (USD 6.8 billion) to Ksh 514.7 billion (USD 6.6 billion) over the same period, on account of depreciation of the Kenya Shilling against major currencies.

Cumulative Government expenditure on interest and other charges on domestic debt increased from Ksh 27.9 billion in the first eight months of the fiscal year 2007/08 to Ksh 30.5 billion in a similar period of the fiscal year 2008/09.

Monetary Expansion

Money supply, M3, grew by 11.7 percent in the year to March 2009 compared with 19.8 percent growth a year ago.

Interest Rates

Short term interest rates had mixed performance in April 2009. The average 91-day Treasury bills rate increased from 7.31 percent in March 2009 to 7.33 percent in April 2009 while the average 182-day Treasury bills rate edged up from 7.9 percent in March 2009 to 8.3 percent in April 2009.

Balance of Payments

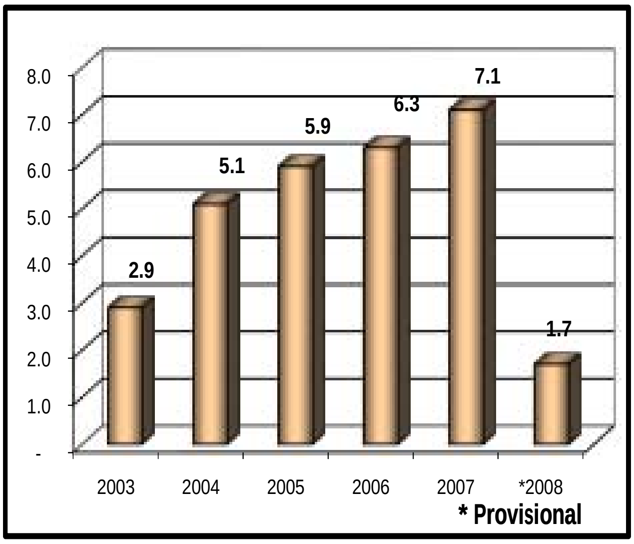
The balance of payments position declined to a deficit of US$ 677 million in the year to March 2009 from a surplus of US$ 747 million in the year to March 2008 due to a faster widening in the current account deficit coupled with a decline in the capital and financial inflows.

Exchange Rates

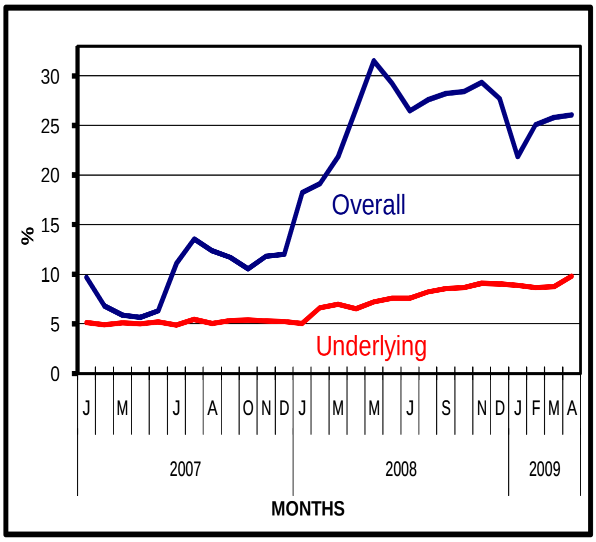
The Kenya Shilling depicted mixed performance against major world currencies in April 2009; weakening against the Sterling Pound and the Euro but strengthening against the US dollar and the Japanese Yen. Against the US dollar, the Shilling strengthened to exchange at an average of Ksh 79.63 per US dollar in April 2009 compared with Ksh 80.26 per US dollar in March 2009.

SELECTED ECONOMIC PERFORMANCE INDICATORS

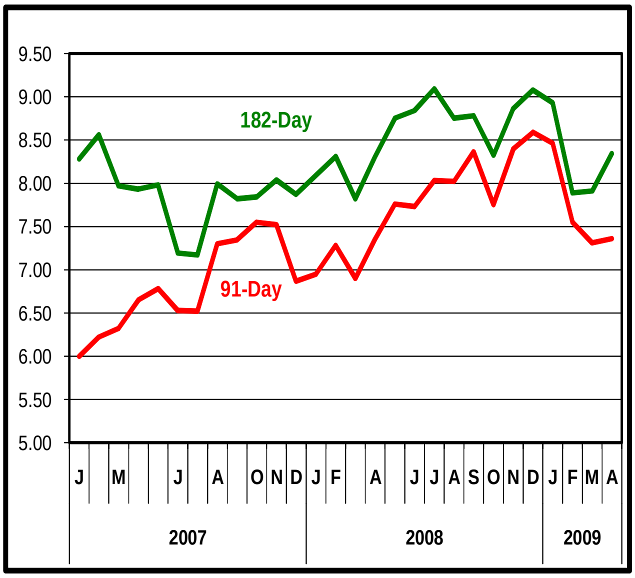
Real GDP Growth



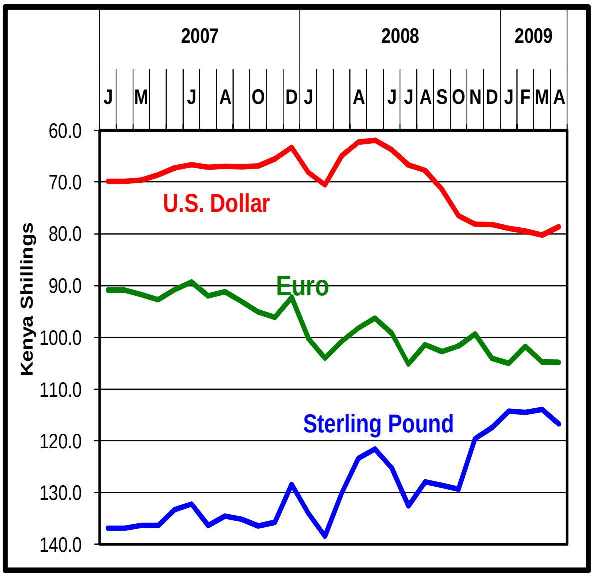
Inflation



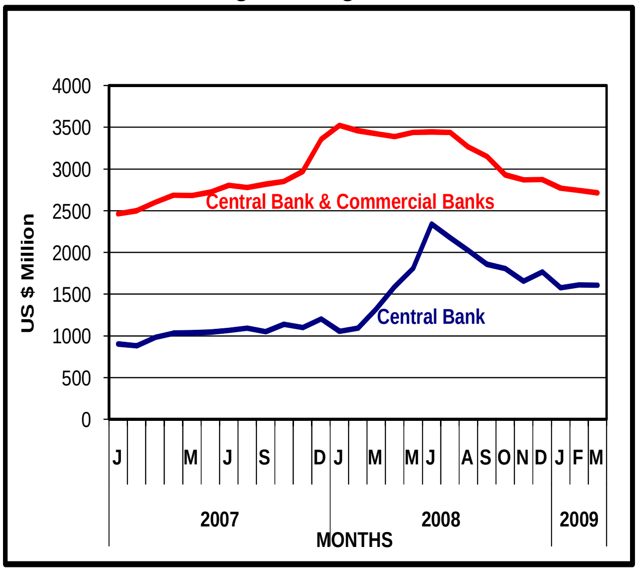
Treasury Bill Rates



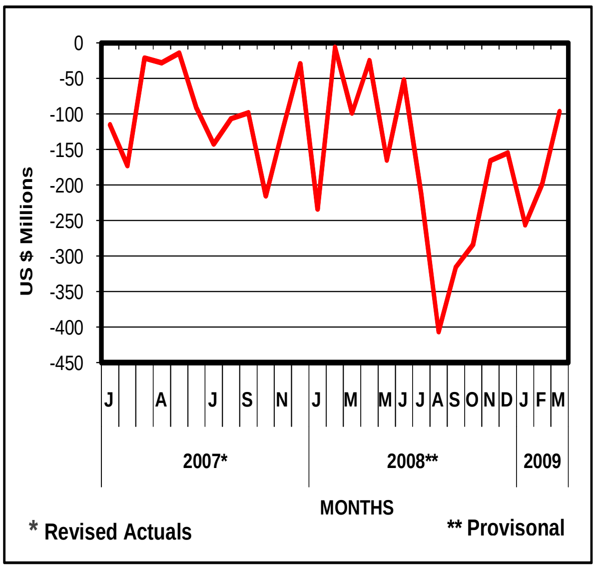
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007*
1.	POPULATION*								
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05
2.	NATIONAL ACCOUNTS**								
	GDP at Basic Prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,497	1,261,183	1,440,460	1,603,176
	GDP at Market Prices (Ksh m):								
	At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,273,975	1,418,071	1,620,732	1,814,243
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,373	1,173,727	1,248,833	1,335,763
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.80	6.40	7.00
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,457	33,402	34,556	35,939
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]	12.9	10.0	8.1	10.1	12.2	13.6	16.0	13.6
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]	6.7	4.4	4.0	4.8	6.6	7.4	8.3	6.5
5.	GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	20.2
6.	CONSUMER PRICE INFLATION (URBAN) 1997 BASE								
	Average Annual Inflation	10.01	5.87	1.96	9.82	11.62	10.31	14.45	9.76
	Twelve-month Inflation (Dec-Dec) * Revised	11.89	1.78	4.10	8.35	16.25	7.56	15.59	12.03
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
	Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29
8.	GOVERNMENT BUDGET (Ksh bn) ***								
	Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20
	Budget Deficit (-) / Surplus (+)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)
	Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(1.54)	0.42	(2.39)	(1.18)
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
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62
	Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49
10.	BALANCE OF PAYMENTS (US$ m)**								
	Overall Balance	108.20	166.38	3.26	413.33	38.85	280.12	616.44	939.60
	Current Account	(237.50)	(383.39)	(117.69)	146.20	-131.76	-252.32	-478.83	-1,101.77
	Capital and Financial Account	416.22	348.20	(31.67)	537.82	239.52	765.90	884.59	2,364.12
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
	Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85
	*Months of imports**** *	*(2.8)*	*(3.2)*	*(3.3)*	*(4.2)*	*(3.4)*	*(3.2)*	*(3.5)*	*(4.0)*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12
12.	PUBLIC DEBT (US$ bn) END PERIOD***	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09
13.	EXCHANGE RATE (Ksh/US$) (ANNUAL AVERAGE)	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32

* Provisional.
** Revised to reflect data in Economic Survey 2008.
*** Fiscal year to June 30th.
**** Figures in parentheses refer to official reserves in terms of 12-months of imports of goods and non-factor services.
1 Previously M3XT
2 Previously M3X
3 Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2008 Jan	Feb	Mar	Apr	Dec	2009 Jan	Feb	Mar	Apr
1. INFLATION (%)									
CPI	260.94	266.37	274.49	281.88	306.28	318.02	333.21	**345.3**	**355.36**
Overall Inflation									
12-month overall inflation	18.22	19.13	21.83	26.63	27.72	21.87	25.09	25.80	26.07
Average annual overall inflation	10.51	11.59	12.98	14.79	26.24	26.47	26.92	27.21	27.15
Underlying Inflation*									
12-month underlying inflation	5.08	6.64	6.98	6.54	9.04	8.89	8.67	8.77	9.83
Average annual underlying inflation	5.17	5.32	5.48	5.60	7.63	7.94	8.11	8.26	8.53
2. INTEREST RATES (%)									
91-day Treasury bill interest rate	6.95	7.28	6.90	7.35	8.59	8.46	7.55	7.31	7.33
Overdraft interest rate	13.41	13.26	13.48	13.46	14.39	13.84	13.46	13.78	
3. STOCK MARKET									
Nairobi Stock Exchange Price Index	4,712.71	5,072.41	4,843.17	5,336.03	3,521.18	3,198.90	2,474.75	2,805.03	2,800.10
Turnover (%)	1.34	1.33	1.21	1.21	0.29	0.30	0.26	0.33	0.35
4. GOVERNMENT BUDGET** (Ksh bn.)									
Revenue	253.90	282.67	322.58	362.36	236.60	277.42	318.85		
Expenses	284.50	314.95	341.79	393.93	241.70	301.54	359.38		
Budget Deficit (-) / Surplus (+)	(30.60)	(32.28)	(19.21)	(31.57)	(5.10)	(24.12)	(40.53)		
5. MONEY AND CREDIT (Ksh bn.)									
Liquidity (L)[1]	992.49	1,001.39	1,005.83	1,051.52	1,091.93	1,089.21	1,103.41	1,107.96	
Money Supply (M3)[2]	801.25	810.21	811.21	864.10	901.05	895.40	900.03	906.07	
Reserve Money	155.32	149.97	153.00	146.98	163.59	152.49	151.82	155.40	
Total Domestic Credit	681.39	692.45	692.14	746.61	808.50	809.82	816.44	830.27	
Government	149.84	157.37	160.51	155.39	155.32	156.74	153.91	168.03	
Private sector and other public sector	531.55	535.08	531.63	591.22	653.18	653.08	662.53	662.24	
6. MONEY AND CREDIT (Annual % Change)									
Liquidity (L)[1]	20.34	21.84	19.27	24.26	12.38	9.75	10.19	10.15	
Money Supply (M3)[2]	21.89	22.77	19.76	26.67	15.88	11.75	11.09	11.69	
Reserve Money	29.30	22.62	24.02	15.44	4.24	(1.82)	1.24	1.57	
Total Domestic Credit	18.57	20.04	17.97	26.37	23.22	18.85	17.90	19.96	
Government	9.18	16.43	16.48	17.26	13.01	4.60	(2.20)	4.68	
Private and other public sector	21.51	21.15	18.42	29.01	25.93	22.86	23.82	24.57	
7. BALANCE OF PAYMENTS (US$ m)									
Overall Balance	169.27	(58.30)	(36.71)	(26.71)	7.86	(104.89)	(20.91)	(29.25)	
Current Account	(234.10)	(6.03)	(98.58)	(24.73)	(154.47)	(253.55)	(200.63)	(96.37)	
Trade Balance	(596.16)	(364.90)	(401.78)	(411.19)	(502.62)	(491.67)	(400.93)	(371.62)	
Capital and Financial Account	403.36	(52.26)	61.87	(1.98)	162.34	148.66	179.73	67.12	
8. FOREIGN EXCHANGE RESERVES (US$ m)	4,577.50	4,552.30	4,742.80	4,977.25	4,640.78	4,348.12	4,354.38	4,320.41	
Official***	3,522.39	3,460.18	3,421.74	3,390.05	2,875.46	2,768.85	2,744.85	2,713.87	
Months of imports cover	*4.11*	*4.03*	*3.92*	*3.77*	*2.90*	*2.73*	*2.72*	*2.72*	
Commercial banks	1,055.10	1,092.13	1,321.06	1,587.20	1,765.32	1,579.27	1,609.52	1,606.54	
9. PUBLIC DEBT (US$ bn)	12.14	12.48	13.84	13.90	12.50	12.15	12.46		
Domestic	6.12	6.30	7.08	7.05	5.87	5.71	6.00		
As % of GDP	22.71	22.52	22.73	22.09	20.60	20.24	21.03		
External	6.01	6.18	6.76	6.86	6.63	6.44	6.46		
As % of GDP	22.29	22.07	21.73	21.48	23.27	22.83	22.63		
10. GROSS DOMESTIC DEBT (Ksh bn)****	432.18	434.55	444.75	437.94	456.20	454.27	478.20		
11. AVERAGE EXCHANGE RATE									
Ksh/US$	68.08	70.50	64.92	62.26	78.22	78.95	79.53	80.26	78.66
Ksh/Pound Sterling	134.01	138.46	130.08	123.37	117.42	114.28	114.54	113.98	116.70
Ksh/ 100 Yen	63.16	65.80	64.04	60.83	85.37	87.45	86.18	82.22	80.84
Ksh/Euro	100.16	103.96	100.79	98.08	104.07	105.02	101.71	104.77	104.80

* Underlying inflation excluding food, energy and transport and communications

** 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 12 months of 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

3 December 2008 figures are the average between 1 - 23 December, 2008 (Provisional)

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

Trends in Various Measures of Inflation

Overall Inflation

Overall 12-month inflation increased from 25.80 in March 2009 to 26.07 percent in April 2009.

For three months running since February 2009, prices of basic foodstuffs have continued to rise. For example, prices of potatoes, maize grain, onions, sugar and other food items continued to rise in April 2009 over the previous month of March 2009. Above all, increase in potato prices reached 17.19 percent between March 2009 and April 2009, followed by onion prices with an increase of 16.77 percent.

Underlying Inflation

The 12 month underlying inflation increased from 8.77 percent in March 2009 to 9.83 percent in April 2009. This increase has largely been attributed to the depreciation of the Kenya shilling and the general increase in inflation of clothing and footwear, personal goods, and education and recreation basket categories whose average prices went up by more than 1 percent in April, 2009.

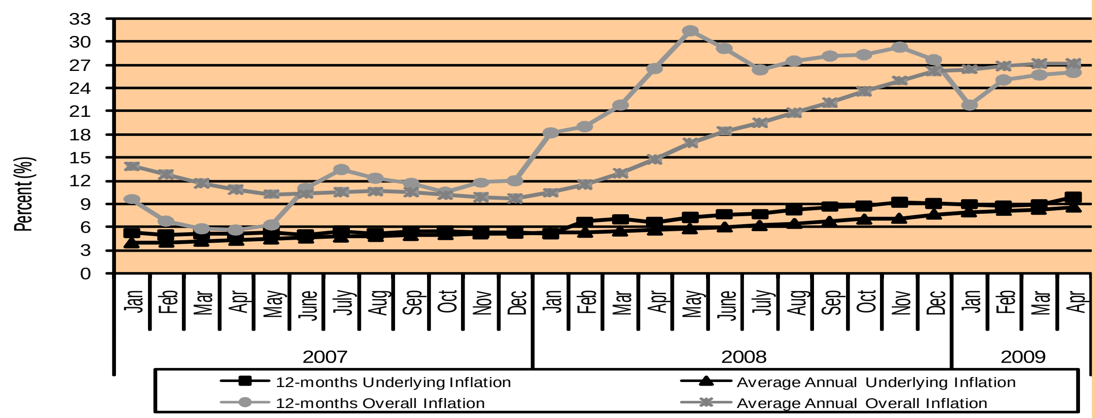
Table 1.1 and Chart 1A depict trends in overall and underlying inflation between December 2008 and April 2009.

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2008								2009			
	Jan	Feb	Mar	Apr	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Underlying Inflation												
12-month	5.07	6.64	6.98	6.54	8.59	8.67	9.10	9.04	8.89	8.67	8.77	9.83
Average annual	5.17	5.32	5.48	5.60	6.72	7.00	7.31	7.63	7.94	8.11	8.26	8.53
Growth over one month	1.03	1.54	0.69	-0.18	0.94	0.36	0.58	0.38	0.89	1.33	0.79	0.79
Growth over 3 months	1.66	3.03	3.30	2.06	2.34	2.03	1.89	1.33	1.86	2.63	3.04	2.94
Overall Inflation												
12-month	18.22	19.13	21.83	26.63	28.23	28.43	29.37	27.72	21.87	25.09	25.80	26.07
Average annual	10.51	11.59	12.98	14.79	22.12	23.57	24.98	26.24	26.47	26.92	27.21	27.15
Growth over one month	8.80	2.10	3.00	2.70	1.60	1.00	2.20	1.50	3.80	4.80	3.60	2.90
Growth over 3 months	13.50	14.20	14.50	8.00	0.60	3.10	4.80	4.70	7.70	10.40	12.70	11.70

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

CHART 1A: UNDERLYING AND OVERALL INFLATION (%)



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

Inflation by Income Groups

All income groups experienced lower 12-month inflation in April 2009 except the "Rest of Kenya" income group that recorded a marginal increase. Inflation for the "Nairobi lower" income group decreased from 37.6 percent in March 2009 to 31.5 percent in April 2009. Inflation for the ''Combined Nairobi'' income group declined from 34.7 percent in March 2009 to 29.4 percent in April 2009 while the "Nairobi middle/upper" income group recorded the lowest inflation at 16.3 percent in April 2009 compared with 17.3 percent in March 2009. Details on inflation by income groups are shown in Table 1.2 and Chart 1B below. All income groups recorded higher inflation in April 2009 compared to April 2008.

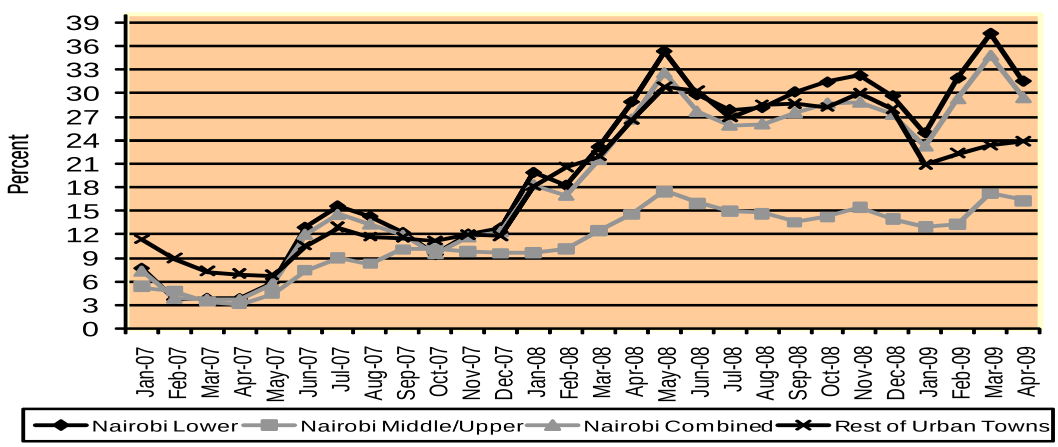
TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)

	2008					2009			
	Jan	Feb	Mar	Apr	Dec	Jan	Feb	Mar	Apr
Nairobi Lower	19.92	18.29	23.18	28.91	29.69	24.97	31.93	37.61	31.55
Nairobi Middle/Upper	9.63	10.14	12.51	14.59	13.97	12.96	13.34	17.28	16.33
Nairobi Income \[1]	18.32	17.01	21.56	26.67	27.27	23.25	29.25	34.74	29.40
Rest of Urban Towns	18.15	20.58	22.02	26.60	28.02	20.93	22.33	23.42	23.85

[1]/ The Nairobi income group combines Nairobi lower and Nairobi middle/upper income groups.

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

CHART 1B: 12-MONTH INFLATION BY INCOME GROUPS



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

Inflation across Goods and Services Categories

The 12 month inflation for three categories of goods and services declined in the month of April 2009. Food, energy, and transportation and telecommunication inflation dropped from 34.8 percent, 6.1 percent, and 4.1 percent in March 2009 to 34.6 percent, 4.3 percent and 3.7 percent in April 2009

The main reason for decline in inflation for these categories is the fall in prices of petroleum product and for some food items.

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

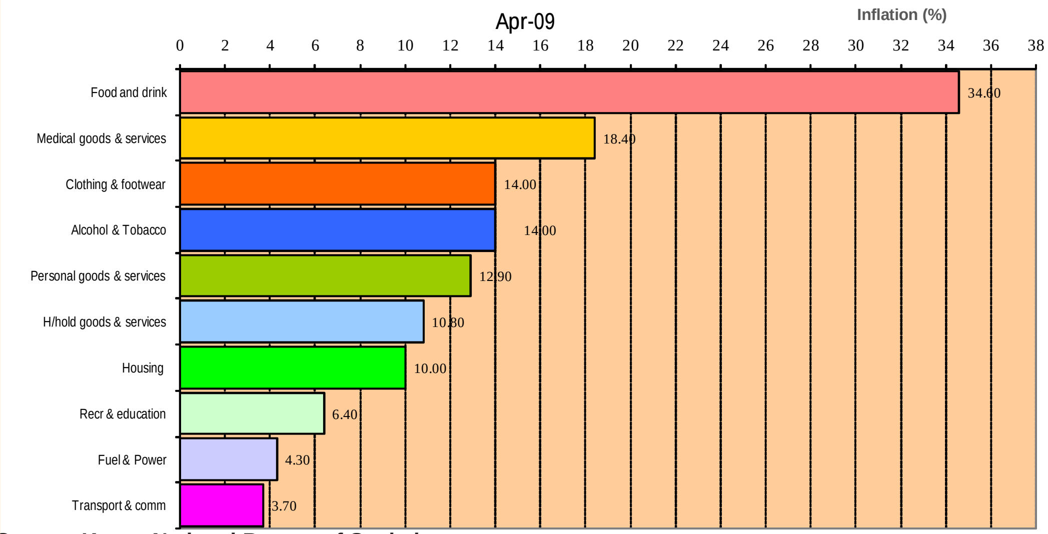
TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES

Goods and Services	Income Groups*				2008							2009			
	Nairobi Lower	Middle/ Upper	Rest of Urban Towns	Combined weights											
Weight	***(31.9)***	***(8.0)***	***(60.1)***	***(100)***	Jan	Feb	Mar	Apr	June	Sep	Dec	Jan	Feb	Mar	Apr
Food and drink	55.70	31.90	50.20	50.50	24.60	24.90	28.80	36.80	40.10	37.20	37.50	28.90	33.90	34.80	34.60
Housing	11.90	31.70	9.00	11.70	5.20	5.90	6.20	5.70	6.60	6.80	7.20	6.80	8.20	9.70	10.00
Recr & education	4.60	7.30	6.60	6.00	2.70	6.70	6.70	5.50	6.90	7.70	7.00	8.30	5.40	5.00	6.40
H/hold goods & services	5.00	4.70	6.40	5.80	5.40	6.90	7.60	7.50	8.60	10.50	12.90	12.30	11.10	10.50	10.80
Clothing & footwear	9.20	7.40	9.10	9.00	3.60	4.40	4.90	4.30	5.30	5.80	6.10	5.80	5.40	4.40	14.00
Transport & comm	5.10	10.20	5.50	5.70	17.80	18.50	19.10	19.50	21.00	19.10	10.90	4.10	3.60	4.10	3.70
Fuel & Power	3.50	2.20	4.80	4.20	10.60	14.10	15.60	15.40	20.10	31.60	18.00	10.20	8.90	6.10	4.30
Medical goods & services	0.90	1.30	2.00	1.60	3.60	7.70	7.90	7.90	10.30	14.00	15.70	16.20	17.00	17.20	18.40
Personal goods & services	2.30	1.90	2.60	2.40	4.40	5.00	5.70	6.20	6.80	9.10	9.90	10.80	10.70	10.50	12.90
Alcohol & Tobacco	1.80	1.40	3.80	3.00	12.80	14.10	14.20	14.00	14.20	15.60	14.60	13.00	12.80	12.30	14.00

* Numbers in parentheses are income group weights

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

Inflation is expected to ease as the weather condition improves with the onset of the long rains. In addition, the international oil price is expected to remain fairly low and stable.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Money supply, M3[1], grew by 11.7 percent in the year to March 2009 compared with 19.8 percent in a corresponding period in 2008 and remained below the projected 16.0 percent growth for the March 2009 quarter. Broad money, M2, that is, M3 excluding foreign currency deposits, grew by 12.0 percent in March 2009 compared with 21.0 percent in March 2008 as shown in Table 2.1 and Chart 2A.

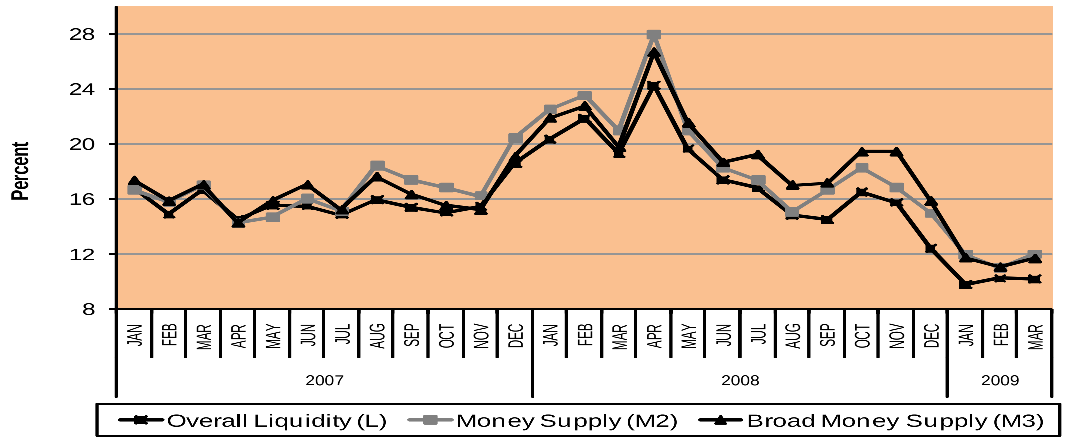
TABLE 2.1: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

Monetary Aggregates	2008				2009		
	Jan	Feb	Mar	Dec	Jan	Feb	Mar
Currency outside banks	23.7	21.4	11.1	-2.3	0.6	0.7	3.5
M2	22.5	23.5	21.0	14.9	11.9	11.0	12.0
M3	21.9	22.8	19.8	15.9	11.8	11.1	11.7
L*	20.0	19.7	17.5	12.4	9.7	10.2	10.2

* Overall liquidity (L): M3 + non-bank public holdings of Government securities.

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The slow down in expansion in money supply in the year to March 2009 followed decelerated growth in the net foreign assets (NFA) and net domestic assets (NDA) of the banking system. NFA increased by 6.7 percent in the year to March 2009 compared with 13.2 percent in a corresponding period in 2008, while NDA grew by 13.9 percent compared with 22.9 percent in a similar period.

[1] Effective March 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.

Reflecting these performance, the contribution of NFA and NDA in money supply growth declined (Table 2.3). For the NFA, the slowdown was in the CBK holdings which declined by 0.9 percent compared with 19.2 percent growth previously (Table 2.2).

TABLE 2.2: MONEY SUPPLY AND ITS SOURCES (Ksh billion)

	2007 Mar	2008 Mar	2009 Mar	Mar-08 12 months %age change	Mar-09 12 months %age change
1. Money supply, M3 (2+3) 2/	**677.3**	**811.2**	**906.1**	**19.8**	**11.7**
1.1 Money supply, M2 3/	576.3	697.1	780.5	21.0	12.0
1.2 Money supply, M1	293.9	380.1	408.3	29.3	7.4
1.3 Currency outside banks	76.5	85.0	87.9	11.1	3.5
2. Net foreign assets 4/	**220.4**	**249.6**	**266.2**	**13.2**	**6.7**
Central Bank	163.6	195.0	193.4	19.2	-0.9
Banking Institutions	56.8	54.5	72.9	-3.9	33.7
3. Net domestic assets (3.1+3.2)	**457.0**	**561.6**	**639.8**	**22.9**	**13.9**
3.1 Domestic credit (3.1.1+3.1.2)	**586.7**	**692.1**	**830.3**	**18.0**	**20.0**
3.1.1 Government (net)	137.8	160.5	168.0	16.5	4.7
3.1.2 Private sector and other public sector	448.9	531.6	662.2	18.4	24.6
3.2 Other assets net (3-3.1)	-129.8	-130.5	-190.4	0.6	45.9
Memorandum items					
1. Overall liquidity, L 1/	**855.7**	**1005.8**	**1108.0**	**17.5**	**10.2**
2. Reserve money	**123.4**	**153.0**	**155.4**	**24.0**	**1.6**
Currency outside banks	76.5	85.0	87.9	11.1	3.5
Bank reserves	46.9	68.0	67.5	45.2	-0.8

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 is comparable to M3XT in the past publications.

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

3/ Broad money, M2, comprises currency outside banking institutions, and all private and other public sector holdings of demand savings and time deposits. It excludes central and local Government deposits with banking institutions. Is comparable to M3 in the past publications.

4/ NFA at current exchange rate to the US dollar.

Source: Central Bank of Kenya

TABLE 2.3: CONTRIBUTION TO M3 GROWTH (%)

	2008								2009		
	Jan	Feb	Mar	Jun	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Annual growth in M3	**21.9**	**22.8**	**19.8**	**18.7**	**17.2**	**19.4**	**19.4**	**15.9**	**11.8**	**11.1**	**11.7**
Net Foreign Assets	**10.4**	**7.6**	**4.3**	**9.7**	**5.1**	**6.1**	**5.3**	**0.5**	**-2.1**	**-1.0**	**2.1**
Net Domestic Assets	**11.5**	**15.1**	**15.5**	**9.0**	**12.1**	**13.3**	**14.2**	**15.4**	**13.9**	**12.1**	**9.6**
Domestic Credit	**16.2**	**17.5**	**15.6**	**14.3**	**19.7**	**21.8**	**20.2**	**19.6**	**16.0**	**15.3**	**17.0**
Government (net)	1.9	3.4	3.4	-3.4	-1.4	-0.5	-1.0	2.3	0.9	-0.4	0.9
Rest of Economy	14.3	14.2	12.2	17.7	21.1	22.3	21.2	17.3	15.2	15.7	16.1
Other public sector	-1.0	-0.3	-0.4	-0.3	-0.1	-0.3	-0.3	-0.3	-0.3	-1.0	-1.2
Private Sector	15.3	14.5	12.6	18.0	21.2	22.6	21.6	17.6	15.5	16.7	17.3
Other items (net)	**-4.7**	**-2.4**	**-0.1**	**-5.3**	**-7.6**	**-8.5**	**-6.0**	**-4.2**	**-2.2**	**-3.2**	**-7.4**

Source: Central Bank of Kenya

Credit Developments

Domestic credit grew by 19.6 percent in the year to March 2009 compared with 18.0 percent in a similar period in 2008, reflecting increased credit to the private sector. Credit extended to the private sector accelerated to 26.7 percent growth in March 2009 from 19.8 percent growth in a similar period of 2008, while growth in credit to Government decelerated to 4.7 percent in the year to March 2009 compared with 16.5 percent in a corresponding period in 2008. In the twelve months to March 2009, other public sector repaid outstanding credit by 61.9 percent compared to a reduction of 14.6 percent a year earlier (Table 2.4).

The additional lending to the private sector was distributed as follows: Trade (28.4 percent), manufacturing (19.4 percent), other activities (16.0 percent), consumer durables (12.3 percent), real estates (11.5 percent) and transport and communication (10.9 percent), as shown in Chart 2B.

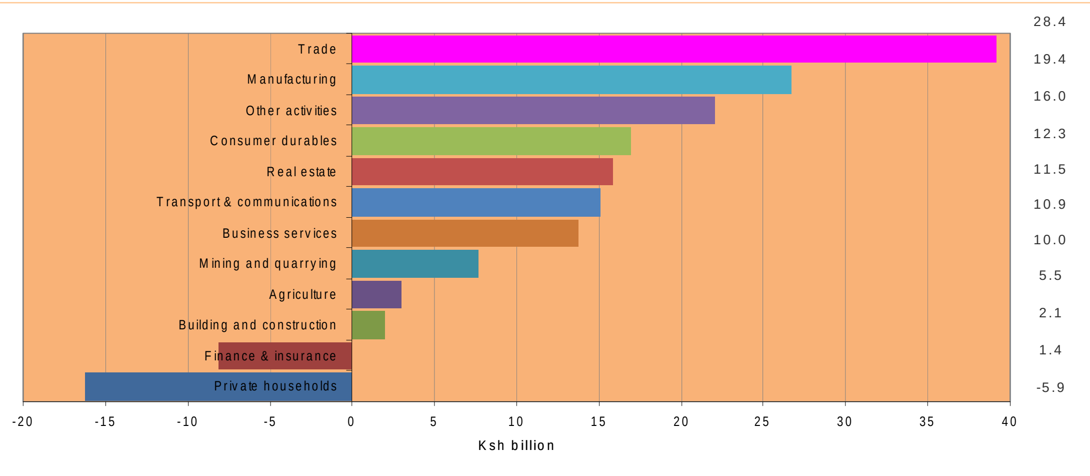
TABLE 2.4: BANKING SYSTEM NET DOMESTIC CREDIT

	2008 March		2009 March		Annual % Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2007/08	2008/09
1. Credit to Government	**160.5**	**23.2**	**168.0**	**20.3**	**16.5**	**4.7**
Central Bank	2.4	0.4	0.9	0.1	-127.4	-64.0
Commercial Banks & NBFIs	158.1	22.8	167.2	20.2	7.8	5.7
2. Credit to other public sector	**15.6**	**2.2**	**5.9**	**0.7**	**-14.6**	**-61.9**
Local government	-2.7	-0.4	-4.1	-0.5	7.5	53.1
Parastatals	18.2	2.6	10.0	1.2	-11.9	-45.0
3. Credit to private sector	**516.1**	**74.6**	**653.8**	**79.0**	**19.8**	**26.7**
Agriculture	29.7	4.3	32.7	3.9	-11.4	9.9
Manufacturing	62.7	9.1	89.4	10.8	-10.7	42.6
Trade	58.2	8.4	97.4	11.8	-1.6	67.3
Building and construction	34.6	5.0	36.6	4.4	-6.0	5.6
Transport & communications	41.1	5.9	56.1	6.8	1.0	36.7
Finance & insurance	25.2	3.6	17.1	2.1	-13.4	-32.3
Real estate	23.1	3.3	39.0	4.7	-10.7	68.6
Mining and quarrying	5.6	0.8	13.2	1.6	74.0	136.4
Private households	101.9	14.7	85.7	10.4	83.2	-15.9
Consumer durables	21.6	3.1	38.6	4.7	44.8	78.5
Business services	52.2	7.5	66.0	8.0	6.6	26.4
Other activities	60.1	8.7	82.2	9.9	379.3	36.7
4. TOTAL (1+2+3) *	**692.1**	**100.0**	**827.8**	**100.0**	**18.0**	**19.6**

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

Source: Central Bank of Kenya

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO MARCH 2009 (Ksh billion)



Source: Central Bank of Kenya

Reserve Money

Reserve money increased by Ksh 2.4 billion to Ksh 155.4 billion in March 2009 from Ksh 153.0 billion in March 2008 as shown in Table 2.5. This represented an annual increase of 1.6 percent by March 2009. The increase in reserve money was in currency outside banks that rose by 3.5 percent while bank reserves declined by 0.8 percent. At Ksh 155.4 billion in March 2009, reserve money was Ksh 8.8 billion below the respective target of Ksh 164.2 billion.

Net foreign assets (NFA) of the Central Bank closed at Ksh 193.4 billion in March 2009, lower than Ksh 195.0 billion in March 2008. The decline in NFA of the Central Bank reflect sale of foreign exchange in the interbank market by the Bank in early 2008 for monetary purposes, use of the forex reserves to meet external debt service for the Government and revaluation losses.

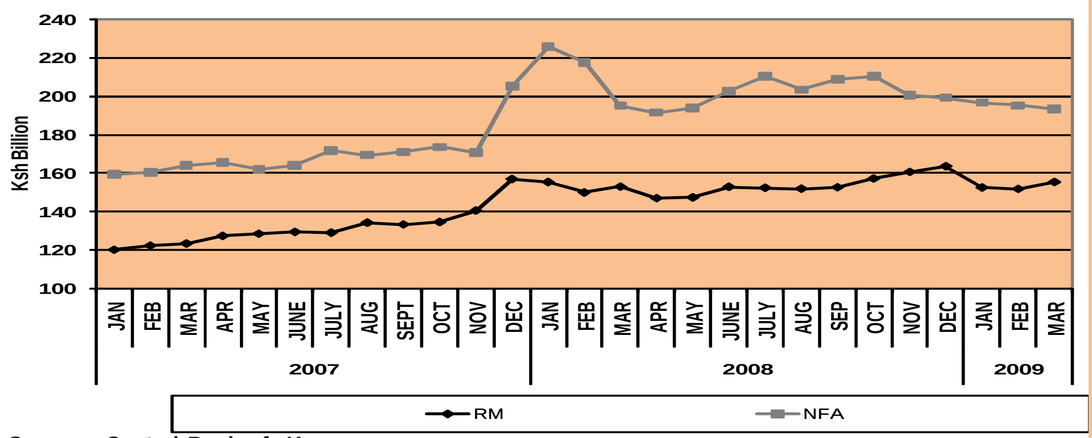
Net domestic assets (NDA) of the Central Bank increased to Ksh -37.9 billion in March 2009 from Ksh -42.0 billion a year earlier. The increase in NDA reflected a drawdown of Government deposits at the Central Bank, as well as reduced indebtedness of Central Bank to commercial banks through net redemptions of repurchase agreement securities to ease liquidity conditions in the interbank market. Other domestic assets net of liabilities of the Central Bank declined to Ksh -38.8 billion in March 2009 from Ksh -19.3 billion in March 2008.

TABLE 2.5: RESERVE MONEY AND ITS SOURCES (Ksh billion)

	2007	2008	2009	Change (%)		2009	
	March	March	March	2007/08	2008/09	March Target	Deviation
1. Net Foreign Assets	163.6	195.0	193.4	19.2	-0.9	247.1	-53.8
2. Net Domestic Assets	-40.3	-42.0	-37.9	4.4	-9.7	-82.9	44.9
2.1 Government Borrowing (net)	-8.8	2.4	0.9	-127.4	-64.0	-5.0	5.9
2.2 Advances & Discounts	-14.6	-27.6	-2.5	89.2	-90.9	-38.1	35.6
2.3 Other Domestic Assets (net)	-19.2	-19.3	-38.8	0.6	101.0	-39.8	1.0
3. Reserve Money	123.4	153.0	155.4	24.0	1.6	164.2	-8.8
3.1 Currency outside banks	76.5	85.0	87.9	11.1	3.5	95.0	-7.0
3.2 Bank reserves	46.9	68.0	67.5	45.2	-0.8	61.0	6.5

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Central Bank rate

The Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) from 8.50 percent to 8.25 percent in March 2009. The reduction signalled to commercial banks the Central Bank desire for interest rates to ease.

Short-term Interest Rates

Short term interest rates had mixed performance in April 2009. The average 91-day Treasury bills rate increased from 7.3 percent in March 2009 to 7.3 percent in April 2009 while the average 182-day Treasury bills rate edged up from 7.9 percent in March 2009 to 8.3 percent in April 2009 (Table 2.6 and Chart 2D). The average interbank rate increased from 5.6 percent in March 2009 to 5.8 percent in April 2009 whereas the average repo rate eased from 4.6 percent to 4.1 percent.

TABLE 2.6: INTEREST RATES (%)

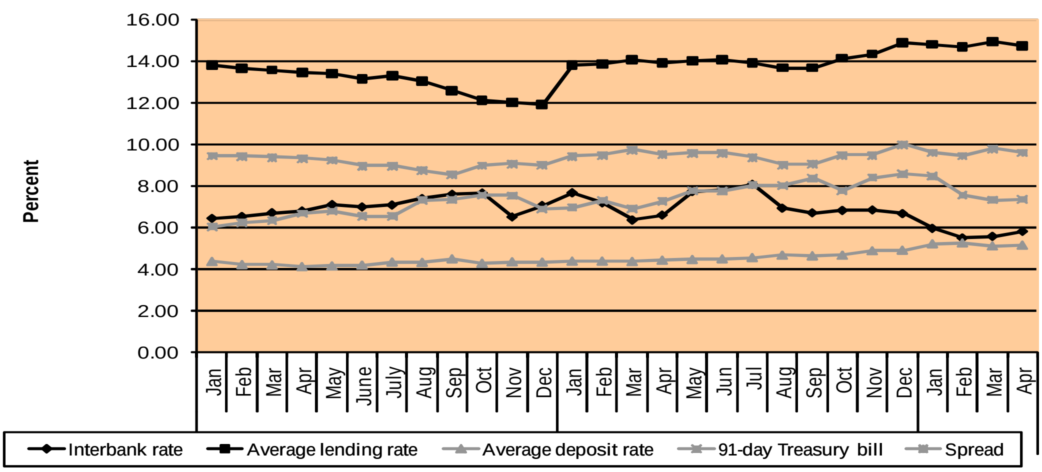
	2008					2009			
	Jan	Feb	Mar	Apr	Dec	Jan	Feb	Mar	Apr
91-day Treasury bill rate	6.95	7.28	6.89	7.35	8.59	8.46	7.55	7.31	7.33
Overdraft rate	13.41	13.26	13.48	13.46	14.40	13.84	13.46	13.78	13.66
Interbank rate	7.66	7.18	6.35	6.59	6.66	5.95	5.49	5.57	5.81
Repo rate	7.45	6.75	6.46	6.67	6.23	5.10	5.08	4.62	4.06
Average lending rate (1)	13.78	13.84	14.06	13.91	14.87	14.78	14.67	14.92	14.71
Average deposit rate (2)	4.37	4.37	4.35	4.41	4.89	5.19	5.23	5.09	5.12
0 to 3 - month deposit	5.10	5.11	5.21	5.10	5.68	6.00	6.11	5.89	5.96
Savings deposits	1.72	1.70	1.72	1.71	1.65	2.10	2.13	1.90	1.91
Spread (1-2)	**9.41**	**9.47**	**9.72**	**9.50**	**9.98**	**9.59**	**9.44**	**9.78**	**9.59**

Source: Central Bank of Kenya

Lending and Deposit Rates

Commercial banks average lending rate declined from 14.9 percent in March 2009 to 14.7 percent in April 2009, while the overall deposit rate rose from 5.09 percent to 5.12 percent. Consequently, the interest rate spread declined to 9.6 percent in April 2009 from 9.8 in March 2009.

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

PERFORMANCE OF THE REAL SECTOR

Overview

During the fourth quarter of 2008, the economy is estimated to have stagnated at 0.03 percent compared with 6.0 percent in the corresponding quarter of 2007 (Chart 3A). The economy recorded subdued performance in all sectors other than building and construction, mining and quarrying and communication sectors. According to the Economic Survey 2009 the real GDP growth rate for 2008 was 1.7 percent down from 7.1 percent in 2007. The factors which combined to slow down growth included the post election violence in early 2008, global financial crisis and high fuel and food prices among others (Table 3.1 and Chart 3B).

CHART 3A: REAL GDP GROWTH IN THE FOURTH QUARTERS

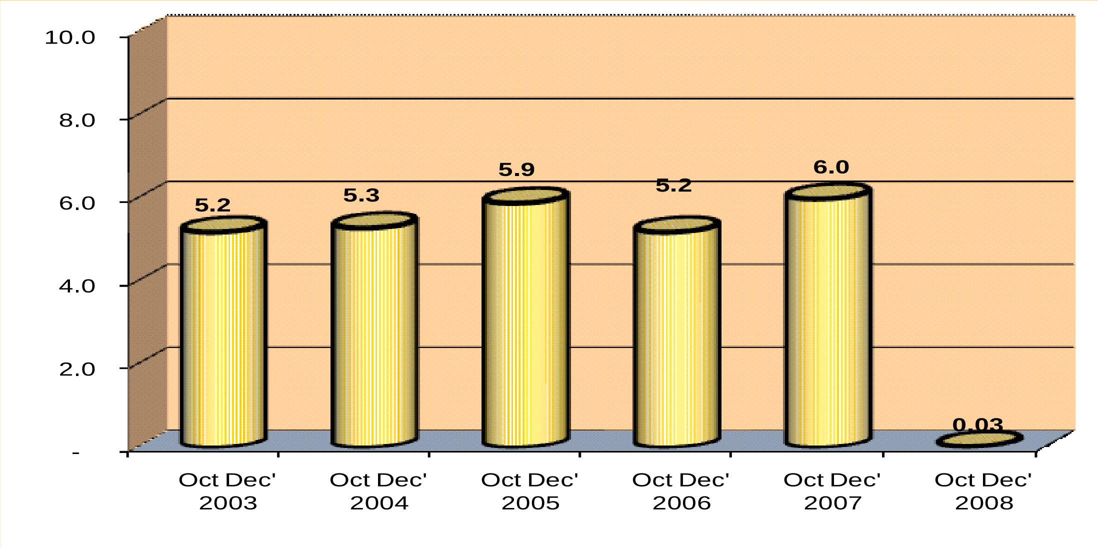


TABLE 3.1 GROWTH RATES FOR REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES (%)

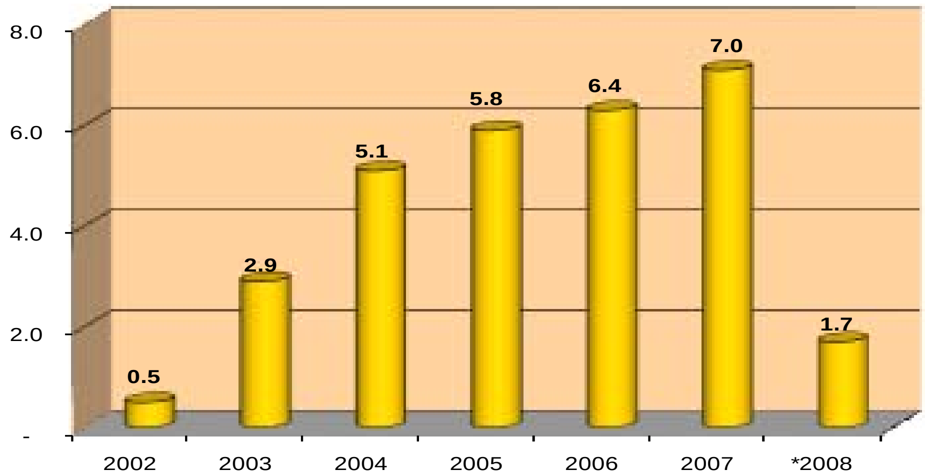
MAIN SECTORS	Share in 2007 Real GDP (%)	Kshs Million					
		2003	2004	2005	2006	*2007	*2008
Agriculture, Forestry & Fishing	***24.34***	280,854	291,461	310,983	319,069	325,742	313,757
Mining	***0.47***	5,213	5,195	5,334	5,554	6,272	6,472
Manufacturing	***9.78***	105,822	110,544	115,699	122,953	130,892	135,802
Electricity and water supply	***2.24***	27,074	27,877	27,862	27,475	29,987	31,556
Wholesale and retail trade, repairs	***9.86***	92,604	100,486	106,091	118,357	131,989	138,677
Hotels & Restaurants	***1.56***	9,899	13,741	15,572	17,895	20,814	13,298
Construction	***3.01***	31,530	32,932	35,401	37,648	40,229	43,572
Transport, Storage & Communications	***11.72***	104,915	112,260	122,316	136,306	156,849	161,721
Financial intermediation	***3.76***	42,064	42,657	45,030	47,170	50,319	51,868
Real estate, renting and business services	***5.30***	61,864	63,740	65,882	68,446	70,860	73,461
Public administration and defense	***3.35***	46,991	47,062	46,460	45,722	44,788	45,074
Education	***5.67***	71,045	72,435	72,963	73,152	75,855	80,277
Health and social work	***2.17***	25,431	26,408	27,249	28,146	29,053	30,106
Other community, social and personal services	***3.69***	42,917	44,514	45,829	47,815	49,422	50,919
Private households with employed persons	***0.31***	3,855	3,932	4,011	4,091	4,173	4,256
Less : Financial services indirectly measured	***(0.91)***	(10,315)	(10,800)	(11,261)	(11,835)	(12,157)	(11,250)
Total GDP at basic 2001 prices	***86.33***	941,763	978,746	1,029,938	1,087,964	1,155,087	1,154,058
Taxes less subsidies on products	***13.67***	113,895	130,795	145,143	161,367	182,952	195,294
Real GDP at 2001 market prices	***100.00***	1,055,658	1,109,541	1,175,081	1,249,331	1,338,039	1,360,626
GDP at Mkt Prices		1,055,658	1,109,541	1,175,081	1,249,331	1,338,039	1,360,626
Overall GDP Deflator		107	115	121	130	136	138

Source: Kenya National Bureau of Statistics (Economic Survey 2009)

Agriculture

The agricultural sector experienced mixed performances in January-March 2009 as a result of unfavourable weather, expensive inputs and the delayed effects of the political crisis, affecting production of crops as shown in Table 3.2.

CHART 3B: REAL GDP GROWTH RATES



Source: Kenya National Bureau of Statistics (Economic Survey 2009) and Central Bank of Kenya

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE						
	2006	2007	2008	Jan-Feb 2008	Jan-Feb 2009	Jan-Mar 2008	Jan-Mar 2009
Tea							
Output (Metric tonnes)	310,578.33	369,606.18	345,818.00	53,839.00	47,020.00	70,755.00	65,801.71
Growth (%)	*-5.5%*	*19.0%*	*-6.44%*	*-29.57%*	*-12.67%*	*-34.91%*	*-7.00%*
Horticulture							
Output (Metric tonnes)	166,736.82	192,147.45	193,117.06	35,454.16	31,950.62	54,381.47	49,476.27
Growth (%)	*2.2%*	*17.7%*	*0.50%*	*21.85%*	*-9.88%*	*20.30%*	*-9.02%*
Coffee							
Output (Metric tonnes)	50,527.91	52,268.00	38,705.00	7,243.00	11,999.00	13,360.00	20,720.00
Growth (%)	*6.0%*	*3.4%*	*-25.95%*	*-25.59%*	*65.66%*	*-19.39%*	*55.09%*
Sugar Cane							
Output (Metric tonnes)	4,933,805.00	5,204,214.00	4,991,097.00	879,334.00	1000,837.50*	1,262,676.00	1,526,718.00
Growth (%)	*5.1%*	*5.48%*	*-4.10%*	*7.73%*	*13.82%*	*-3.78%*	*20.91%*

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

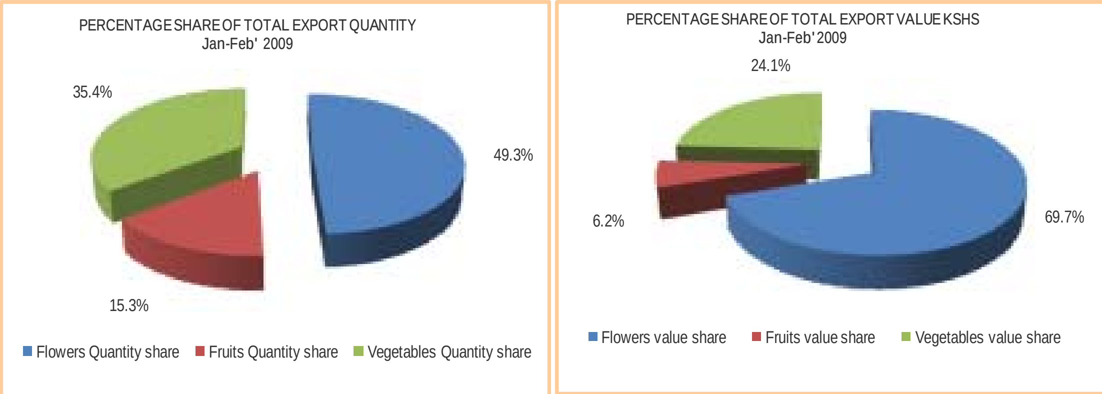
Tea

Cumulative tea production in the period January - March 2009 fell to 65,802 metric tonnes, from 70,755 metric tonnes in the period January – March 2008. The 7.0 percent decline in production is attributed to the persistent hot and dry weather conditions in the tea growing areas. The tea export prices averaged US $ 2.3 per kilogram in March 2009 compared to US $ 2.2 per kilogram in March 2008.

Horticulture

Horticultural export volumes declined by 9.0 percent to 49,476 metric tonnes during the period January – March 2009, from 54,382 metric tonnes in the period January – March 2008. This followed decreases in the production of cut flowers and vegetables as a consequence of depressed demand from Kenya's traditional market for these products. Details on the performance of the horticultural sub-sector are provided in Chart 3C.

CHART 3C: HORTICULTURE EXPORTS



Coffee

Coffee production in the first quarter of 2009 increased by 55.1 percent to 20,720 metric tonnes compared to 13,360 metric tonnes in the same period in 2008. However, the average coffee price decreased from US$ 3.1 per kilogram in February 2008 to US$ 2.2 per kilogram in February 2009.

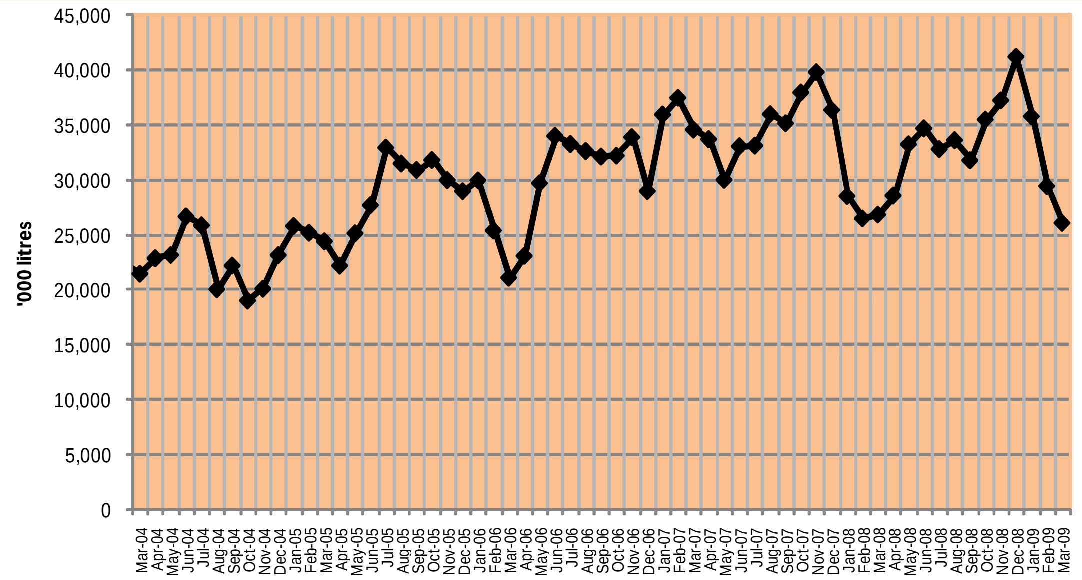
Sugarcane

During the first quarter of 2009, cumulative sugarcane deliveries rose to 1,526,718 metric tonnes, increased by 20.9 percent from 1,262,676 metric tonnes in the same period in 2008. This reflected a return to normalcy from a year that was marred by the post election violence which affected man-hours and availability of raw materials.

Dairy

Although monthly milk intake declined through the first quarter of 2009 (Chart 3D), cumulative milk intake of 91,404,918 litres was 11.5 percent above the respective volume in 2008.

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



Source: Dairy Board

Manufacturing

Cumulative sugar production rose to 153,771 metric tonnes in January – March 2009 from 129,511 metric tonnes in January – March 2008. This represented an 18.7 percent increase. Similarly, beer output increased by 26.3 percent in the first quarter of 2009 compared with 9.6 percent decline in the same period in 2008.

Cigarette production dropped by 14.9 percent, from 4,050,850 milles in January-March 2008 to 3,447,029 milles in January – March 2009 (Table 3.3).

There was a sharp reduction in soda ash exports due to stiff competition from cheaper synthetic exports from other countries to Kenya's markets in Asia. Magadi Soda Company had to shut down production for two weeks in February 2009 and produced only on demand in March 2009 to cut down the rising costs and storage problems. The output of soda ash fell by 43.8 percent from 113,861 metric tonnes in the period January – March 2008, to 64,006 metric tonnes between January and March 2009.

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE				
	2006	2007	2008	Jan-Mar' 2008	Jan-Mar' 2009
Processed sugar					
Output (MT)	475,660	520,404	507,277	129,511	153,771
Growth %	*-3.1%*	*9.4%*	*-2.5%*	*0.11%*	*18.73%*
Cement production					
Output (MT)	2,174,090	2,545,661	3,134,571	578,929	747,410*
Output Growth %	2.39	17.1%	23.1%	-2.0%	29.10%
Soda ash					
Output (MT)	374,010	386,598	513,415	113,861	64,006
Growth %	*2.7%*	*3.4%*	*32.8%*	*23.0%*	*-43.8%*
Milk					
Output ('000 litres)	356,758	423,111	390,963	82,010	91,405
Growth %	*5.9%*	*17.5%*	*-7.6%*	*-24.2%*	*11.5%*
Beer					
Output ('000 litres)	280,500	379,485	426,733	80,964	102,278
Growth %	*5.3%*	*35.3%*	*12.5%*	*-9.6%*	*26.3%*
Cigarettes					
Output (Milles)	12,303,278	15,475,310	14,786,407	4,050,850	3,447,029
Growth %	*12.2%*	*25.8%*	*-4.5%*	*23.9%*	*-14.9%*

MT = Metric tonnes

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

Energy Sector

Total electricity generated between January and March 2009 amounted to 1,426.92 million Kilowatt hours. This was equivalent to a marginal increase of 0.8 percent from 1,415.32 million Kilowatt hours generated between January and March, 2008 (Table 3.4). Cumulative Geo-Thermal and Thermal power increased by 28.1 percent and 64.5 percent, respectively, in January – March 2009, to compensate for the 20 percent decline in hydro-power generation following inadequate rainfall experienced in areas which feed the hydro-power stations. Consumption of electricity rose by 2.1 percent from 1,280.4 million Kilowatt hours in the first quarter of 2008 to 1,307.4 million Kilowatt hours in the first quarter of 2009, reflecting an upturn in economic activity.

In the fuel sub-sector, average international crude oil prices declined by 52.2 percent from an average of US $ 96.5 per barrel in the period January – March 2008, to US $ 46.1 per barrel in January – March 2009.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE			
	2007	2008	Jan-Mar'2008	Jan-Mar'2009
Electricity Supply (Generation) Output (KWH Millions)	6,287.68	5,694.05	1,415.32	1,426.92
Growth %	*8.0%*	*-9.4%*	*-8.4%*	*0.8%*
Of which:				
Hydro-power Generation (KWH Millions)	3,584.76	3,240.44	854.90	684.02
Growth (%)	*18.9%*	*-9.6%*	*-1.9%*	*-20.0%*
Geo-Thermal Generation (KWH Millions)	991.12	1,038.79	251.60	322.42
Growth (%)	*-5.2%*	*4.8%*	*6.3%*	*28.1%*
Thermal (KWH Millions)	1,711.92	1,414.88	308.80	507.84
Growth (%)	*-2.9%*	*-17.4%*	*-29.2%*	*64.5%*
Consumption of electricity (KWH Millions)	5,125.80	5,300.70	1,280.40	1,307.40
Growth %	*8.1%*	*3.4%*	*4.4%*	*2.1%*
Consumption of Fuels (Metric Tonnes)	3,121,700.00	2,853,900	664,800	575,900
Growth %	*11.2%*	*-8.6%*	*-12.0%*	*-13.4%*
Murban crude oil average price (US $ per barrel)	72.46	97.86	96.52	46.12
Growth %	*11.6%*	*35.0%*	*64.8%*	*-52.2%*

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

The tourism sector which was severely affected by the post election crisis continued to recover, recording an overall growth of 75.1 percent in international arrivals, from 130,585 arrivals in the period January to March 2008, to 228,713 arrivals between January and March 2009. This followed the restoration of peace and stability and the vigorous campaign to sell Kenya as a favourite tourist destination. Arrivals via cruise ships increased from 1,041 people to 10,520 people during the same period, an increase of 910.6 percent. Over 70 percent of the visitors arrived via the Jomo Kenyatta International Airport (JKIA) as shown in the Table 3.5.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2007	2008	Jan-Mar 08	Jan-Mar 09	Jan - Mar 2009 % Share	Jan - Mar 2009 % Growth
CRUISE	2,837	6,877	1,041	10,520	*4.6%*	*910.6%*
MIAM	276,298	112,517	20,749	57,203	*25.0%*	*175.7%*
JKIA	769,597	609,606	108,795	160,990	*70.4%*	*48.0%*
TOTAL	1,048,732	729,000	130,585	228,713	*100.0%*	*75.1%*

Cruise ships - Entry through Port of Mombasa; JKIA - Entry through Jomo Kenyatta International Airport; MIAM - Entry through Moi International Airport Mombasa
N/A Not Available

In the first quarter of 2009, the country experienced the highest inflow of tourists from Europe, numbering 113,995 or 49.8 percent of the total arrivals (Table 3.6). This was equivalent to 119.7 percent growth compared to the number of arrivals in same period in 2008. Arrivals from America, Asia, Africa and Oceanic regions increased by 58.6 percent, 33.0 percent, 25.3 percent and 20.2 percent, respectively. Though the sector is yet to fully recover from the effects of the post election crisis in the previous year, significant gains have been made.

TABLE 3.6: TOTAL ARRIVALS BY CONTINENT

REGION	2007	2008	Jan-Mar 2008	Jan-Mar 2009	Jan - Mar 2009 % Share	Jan- Mar 2009 % Growth
Africa	212,501	207,737	39,116	49,004	21.4%	25.3%
America	132,651	97,771	17,449	27,682	12.1%	58.6%
Asia	103,443	94,496	17,816	23,688	10.4%	33.0%
Europe	578,312	308,123	51,898	113,995	49.8%	119.7%
Oceanic	18,975	13,963	3,174	3,814	1.7%	20.2%
Others	13	123	91	10	0.0%	-89.0%
Sub-Total	**1,045,895**	**722,213**	**129,544**	**218,193**	**95.4%**	**68.4%**
Cruise	2,837	6,877	1,041	10,520	4.6%	910.6%
Total	**1,048,732**	**729,090**	**130,585**	**228,713**	**100.0%**	**75.1%**

Source: Kenya Tourism Board

Transport and Tele-communications

The transport sector performance in January to March 2009 was mixed. The number of passengers who arrived and exited through JKIA (Jomo Kenyatta International Airport) fell less sharply compared to the decline in January-March 2008; growth in cargo throughput at the port of Mombasa declined to 1.5 percent from 10.5 percent; fuel throughput by the Kenya Pipeline Company (KPCL) increased by 11.3 percent compared with 4.4 decline (Table 3.7), while excise tax on airtime declined by 2.7 percent compared with 17.9 percent growth over the same period (Chart 3E).

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

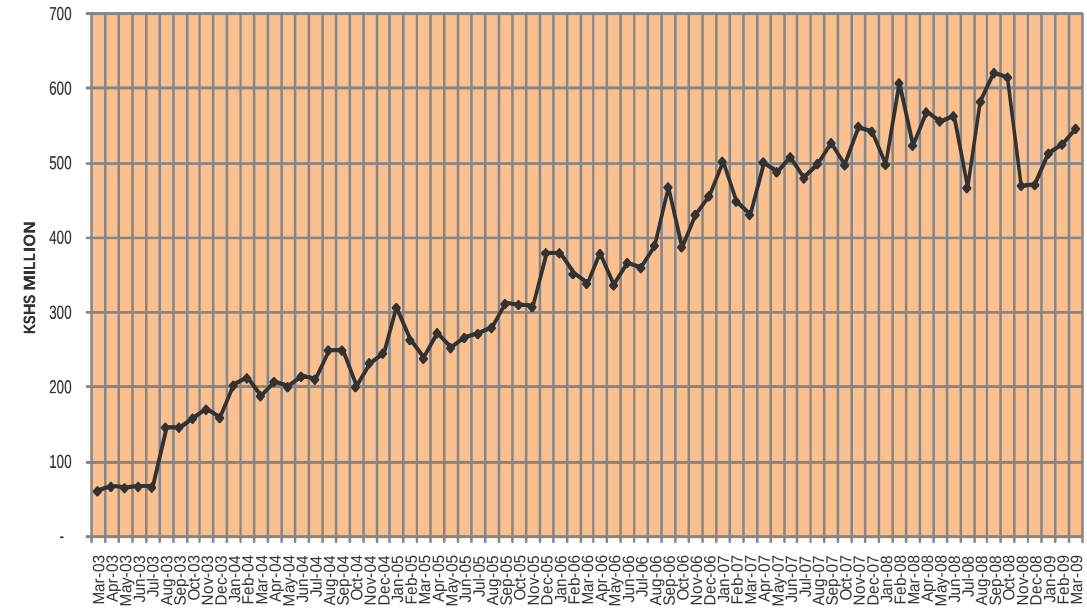
	CUMULATIVE			
	2007	2008	Jan-Mar'2008	Jan-Mar'2009
Mombasa Port Cargo Throughput				
Output (MT) Equivalent	15,960,465	16,414,729	4,202,795	4,264,601 *
Output Growth %	*10.7%*	*2.9%*	*10.5%*	*1.5%*
Number of passengers Thro' JKIA				
Incoming	1,478,849	1,757,475	308,119	278,900
Growth (%)	*-0.7%*	*18.8%*	*-17.3%*	*-9.5%*
Outgoing	1,480,620	1,476,851	289,927	272,729
Growth %	*-1.3%*	*-0.3%*	*-23.6%*	*-5.9%*
Kenya Pipeline oil Throughput				
Output ('000 litres)	3,962,279	3,859,481	956,334	1,064,470
Output Growth %	*3.6%*	*-2.6%*	*-4.4%*	*11.3%*
Kenya Revenue Authority (Excise tax on airtime)				
Kshs million	5,962	6,528	1,625	1,581
Output Growth %	*28.6%*	*9.5%*	*17.9%*	*-2.7%*

MT = Metric tonnes

* Provisional

Sources: Port of Mombasa and Kenya Pipeline

CHART 3E: EXCISE TAX ON AIRTIME



Source: Kenya Revenue Authority (KRA)

Building & Construction Industry

Cement consumption, one of several gauges for measuring level of activity in building and construction industry, grew by 38 percent from 2,020,653 metric tonnes in 2007 to 2,788,910 metric tonnes in 2008. On a quarterly basis, cement consumption grew by 25.0 percent from 556,291 metric tonnes in the first quarter of 2008 to 695,242 metric tonnes in the first quarter of 2009.

DEVELOPMENTS IN BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya's balance of payments declined from a surplus of US$ 747 million in the year to March 2008 to a deficit of US$ 677 million in the year to March 2009 following a faster widening in the current account deficit and a decline in the surplus of the capital and financial account (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Mar 2008*	Year to March 2009* Q1 Apr-Jun	Q2 Jul-Sep	Q3 Oct-Dec	Q4 Jan-Mar	Year to Mar 2009*	Absolute change Mar-08-Mar-09
1. OVERALL BALANCE	747	32	-287	-267	-155	-677	***-1424***
2. CURRENT ACCOUNT	-1151	-241	-935	-604	-551	-2331	***-1179***
2.1 Goods	-5109	-1301	-1881	-1558	-1264	-6004	*-894*
Exports (fob)	4353	1281	1293	1172	1099	4846	*493*
Coffee	173	51	35	30	47	163	*-10*
Tea	693	238	256	229	210	933	*240*
Horticulture	687	208	159	170	177	714	*27*
Oil products	162	28	20	28	19	95	*-67*
Manufactured Goods	543	153	188	137	131	609	*66*
Raw Materials	281	86	73	57	62	278	*-3*
Re-exports	187	65	85	85	65	299	*113*
Other	1628	453	478	436	388	1756	*128*
Imports (cif)	9462	2582	3174	2730	2363	10850	*1387*
Oil	2227	739	1081	540	400	2759	*532*
Chemicals	1247	363	384	339	353	1439	*192*
Manufactured Goods	1492	379	409	445	301	1533	*42*
Machinery & Transport Equipment	2693	666	862	825	801	3154	*461*
Other	1803	434	439	582	509	1964	*161*
2.2 Services	3958	1059	946	954	714	3673	*-285*
Non-factor services (net)	1887	432	488	512	395	1828	*-60*
of which tourism	831	198	211	190	144	743	*-88*
Income (net)	-102	18	11	1	-15	15	*117*
of which official interest	-142	-26	-16	-20	-23	-84	*58*
Current Transfers	2173	609	446	441	334	1830	*-343*
Private (net)	1971	609	446	441	334	1830	*-141*
Public (net)	202	0	0	0	0	0	*-202*
3. CAPITAL & FINANCIAL ACCOUNT	1898	273	648	337	396	1653	***-245***
3.1 Capital Tranfers (net)	267	178	47	37	101	363	*97*
3.2 Financial Account	1631	95	601	299	294	1290	*-341*
Official, medium & long-term	40	73	-18	45	17	118	*78*
Inflows	285	137	52	103	74	365	*81*
Outflows	-245	-63	-71	-58	-57	-248	*-3*
Private, medium & long-term (net)	443	-523	629	-47	-145	-85	*-528*
Commercial Banks (net)	-51	-504	636	-35	-136	-39	*12*
Other private medium & long-term (net)	493	-19	-6	-12	-9	-46	*-539*
Short-term (net) incl. errors & omissions	1149	545	-10	301	422	1258	*109*
memo:							
Gross Reserves	4743	5786	5012	4641	4320	4320	***-422***
Official	3422	3445	3151	2875	2714	2714	*-708*
*imports cover***	*3.9*	*3.8*	*3.2*	*2.8*	*2.7*	*2.7*	*-1.2*
*imports cover****	*4.7*	*4.5*	*3.9*	*3.4*	*3.1*	*3.1*	*-1.5*
Commercial Banks	1321	2341	1861	1765	1607	1607	*285*

* 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 widened from US$ 1,151 million in the year to March 2008 to US$ 2,331 million in the year to March 2009. This deterioration, which reflected growth in merchandise imports that surpassed the growth in exports of both goods and services is attributed to the global financial crisis through lower exports and declining capitl flows.

Merchandise Account

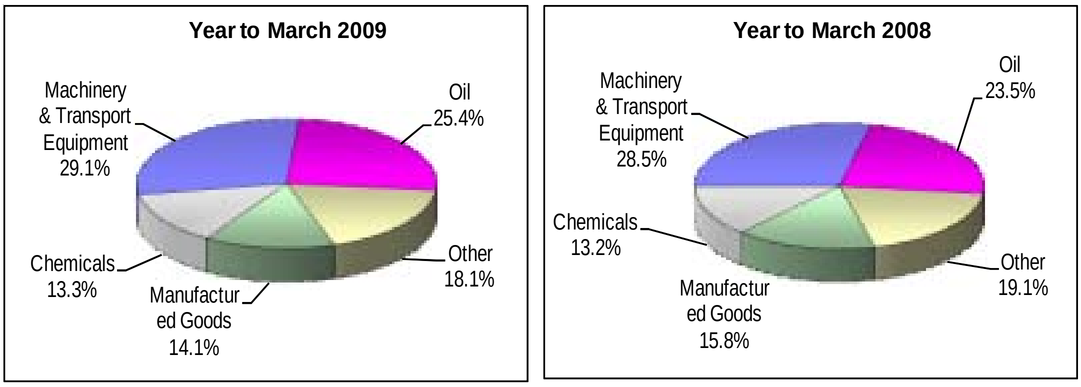
The trade deficit deteriorated by 17.5 percent to US$ 6,004 million in the year to March 2009 compared with US$ 5,109 million in the year to March 2008. This was attributed to sustained demand for merchandise imports, which rose by US$ 1,388 million to US$ 10,850 million in the year to March 2009. Merchandise exports also improved during the period in review but by a lesser margin of US$ 493 million to US$ 4,846 million.

Imports

The increase in the total value of merchandise imports during the year to March 2009 reflected increased imports of oil, machinery and transport equipment, and chemicals. The increase in the value of oil imports was mainly in crude oil, diesel oil and jet fuel, and largely reflected increased import prices. The increase in the import value of machinery and transport equipment was mainly in road vehicles, electrical machinery, industrial machinery and equipment, and power generating machinery while the increase in the value of chemicals imported was mainly in medicinal and pharmaceutical products, plastics and manufactured fertilisers. The higher import values in the major import categories reflected both import volume and price increases.

The share of oil products and machinery and transport equipment in total imports increased, respectively, from 23.5 percent and 28.5 percent in the year to March 2008 to 25.4 percent and 29.1 percent in the year to March 2009 (Chart 4A). However, the contribution of manufactured goods and other miscellaneous imports in the total value of imports declined respectively from 15.8 percent and 19.1 percent in the year to March 2008 to 14.1 percent and 18.1 percent in the year to March 2009.

CHART 4A: COMPOSITION OF KENYA'S IMPORTS



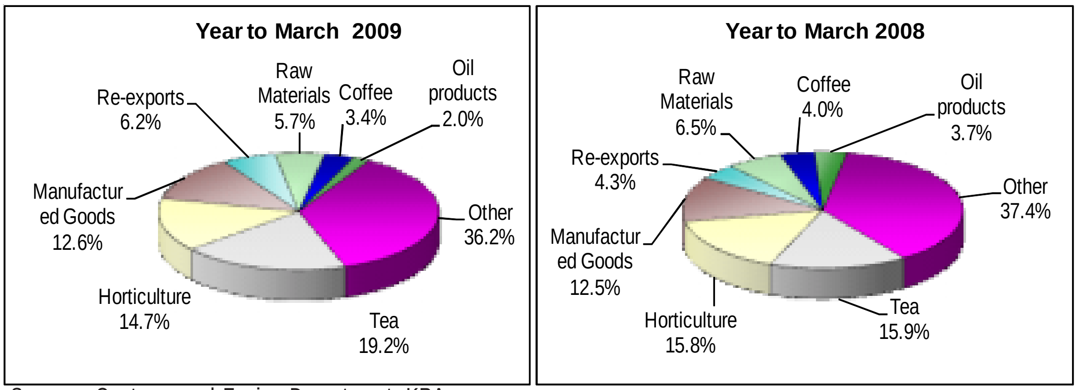
Source: Customs and Excise Department.

Exports

The total value of merchandise exports increased by 11.3 percent in the year to March 2009. The export growth was largely reflected in tea, manufactured goods and re- exports. Exports of other categories declined in the year to March 2009 compared with the previous period. Despite decline in export volumes, improvement in horticulture exports was attributed to increased export prices while tea export benefited from both increased volume and prices. The increase in the value of manufactured goods exports was mainly in processed leather, cement and metal manufactures. The value of oil exports declined following a drop in the export quantity of diesel.

Coffee, tea and horticulture made up 37.3 percent of the total value of exports in the year to March 2009 compared with 35.7 percent a year earlier while manufactured goods and oil, respectively, contributed 12.6 percent and 2.0 percent of the total value of exports in the year to March 2009 compared with 12.5 percent and 3.7 percent in the year to March 2008 (Chart 4B).

CHART 4B: COMPOSITION OF KENYA'S EXPORTS



Source: Customs and Excise Department, KRA

Direction of Trade

In terms of bilateral trade in goods, the main destination countries for Kenya's merchandise exports in the period under review were Uganda (12.6 percent), United Kingdom (10.8 percent), Tanzania (8.7 percent), the Netherlands (7.5 percent), United States of America (6.0 percent), Pakistan (4.4 percent), Egypt (4.3 percent), Sudan (3.9 percent) and Somalia (3.6 percent) as shown in Table 4.2. Overall, African countries absorbed 47.5 percent of Kenya's merchandise exports. In terms of regional trade, Kenya's exports to EAC countries increased from US$ 966 million in the year to March 2008 to US$ 1,240 million (24.0 percent of total exports) in the year to March 2009. Exports to the COMESA region also rose from US$ 1,328 million in the year to March 2008 to US$ 1,673 million (32.3 percent of total exports) in the year to March 2009, with the increase largely attributed to exports to Uganda, Egypt and Sudan.

Bilaterally, imports of goods to Kenya during the period under review were mainly from the United Arab Emirates (13.1 percent), India (11.6 percent), China (8.5 percent), South Africa (6.8 percent), Japan (5.6 percent), United States of America (4.5 percent), United Kingdom (3.6 percent), Germany (3.4 percent), Saudi Arabia (3.3 percent), Singapore (3.2 percent), Indonesia (2.9 percent) and Netherlands (2.2 percent). Regionally, Kenya's imports from the EAC decreased from US$ 210 million in the year to March 2008 to US$ 171 million (1.6 percent of total imports) in the year to March 2009. Imports from the COMESA region also decreased from US$ 427 million in the year to March 2008 to US$ 379 million (3.5 percent of total imports) in the year to March 2009 with the decrease attributed to imports from Uganda, Malawi and Djibouti.

Services

The surplus in the services account decreased by 7.2 percent to US$ 3,673 million in the year to March 2009 from US$ 3,958 million in the year to March 2008, mainly due to a decline in net receipts on non-factor services and current transfers (Table 4.1).

TABLE 4.2: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year toMarch			Year to March		
Country	2007	2008	2009	2007	2008	2009
Africa	920	1,123	1,288	11.7	11.9	11.9
Of which						
South Africa	445	579	736	5.7	6.2	6.8
Egypt	141	146	150	1.8	1.6	1.4
Others	334	398	401	4.3	4.2	3.7
EAC	97	210	171	1.2	2.7	2.2
COMESA	296	427	379	3.8	5.5	4.8
Rest of the World	6,913	8,283	9,562	88.3	88.1	88.1
Of which						
United Arab Emirates	1,100	1,467	1,420	14.0	15.6	13.1
India	601	934	1,263	7.7	9.9	11.6
China	481	749	920	6.1	8.0	8.5
Japan	457	651	611	5.8	6.9	5.6
United Kingdom	408	424	386	5.2	4.5	3.6
USA	705	342	493	9.0	3.6	4.5
Germany	274	355	371	3.5	3.8	3.4
Indonesia	202	298	316	2.6	3.2	2.9
Saudi Arabia	358	293	356	4.6	3.1	3.3
France	157	260	231	2.0	2.8	2.1
Singapore	291	159	346	3.7	1.7	3.2
Italy	164	199	181	2.1	2.1	1.7
Netherlands	133	145	234	1.7	1.5	2.2
Korea (South)	112	135	120	1.4	1.4	1.1
Others	2,391	2,994	3,601	30.5	31.8	33.2
Total	7,833	9,406	10,850	100	100	100

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to March			Year to March		
Country	2007	2008	2009	2007	2008	2009
Africa	1,605	1,937	2,455	44.1	44.9	47.5
Of which						
Uganda	406	535	654	11.2	12.4	12.6
Tanzania	272	338	448	7.5	7.8	8.7
Sudan	153	181	201	4.2	4.2	3.9
Somalia	111	148	184	3.0	3.4	3.6
Egypt	151	131	225	4.1	3.0	4.3
DRC	111	124	161	3.0	2.9	3.1
Others	402	480	583	11.0	11.1	11.3
EAC	749	966	1,240	20.6	26.5	34.0
COMESA	**1,115**	**1,328**	**1,673**	**30.6**	**36.5**	**45.9**
Rest of the World	2,036	2,381	2,718	55.9	55.1	52.5
Of which						
United Kingdom	388	476	559	10.6	11.0	10.8
Netherlands	282	357	387	7.7	8.3	7.5
USA	290	284	309	8.0	6.6	6.0
Pakistan	210	166	227	5.8	3.9	4.4
United Arab Emirates	67	146	113	1.9	3.4	2.2
India	55	95	98	1.5	2.2	1.9
Germany	65	95	93	1.8	2.2	1.8
France	51	64	76	1.4	1.5	1.5
Others	628	697	856	20.4	19.8	19.8
Total	3,641	4,318	5,173	100	100	100

Source: Customs and Excise Department, KRA

Net non-factor service receipts declined by US$ 59 million to US$ 1,828 million in the year to March 2009 reflecting increased payments for transportation services, royalties and licence fees and decreased income from foreign travel. Gross receipts from non-factor services decreased during the period under review and this was mainly due to transportation and travel services. Gross receipts from foreign travel declined by10.6 percent to US$ 743 million in the year to March 2009.

Capital and Financial Account

The capital and financial account declined by 12.9 percent to a surplus of US$ 1,653 million in the year to March 2009 compared with a surplus of US$ 1,898 million in the year to March 2008 (Table 4.1). The decline was wholly in the financial account as the capital account recorded a relatively smaller expansion in absolute terms.

Net private medium and long-term financial inflows declined from a surplus of US$ 443 million in the year to March 2008 to a deficit of US$ 85 million in the year to March 2009. The decline comprised foreign direct investment and other private medium and long-term financial outflows. Other changes in the year to March 2009 included decreased capital repatriation and increased net foreign loan repayments and commercial banks' holding of net foreign assets. Net short term financial inflows, including errors and omissions in recorded transactions, increased by 9.5 percent to US$ 1,258 million in the year to March 2009.

Total foreign exchange holdings by the banking system declined from US$ 4,743 million at the end of March 2008 to US$ 4,320 million at end of March 2009. This decline was attributed to reduced official foreign exchange reserves holdings which more than offset the build up in commercial banks' foreign exchange reserves.

Foreign Exchange Reserves

Gross official foreign exchange reserves held by the Central Bank decreased by US$ 708 million from US$ 3,422 million (4.7 months of import cover) at end of March 2008 to US$ 2,714 million (3.1 months of import cover) at end of March 2009 (Table 4.3 and Chart 4C). The stock of official reserves is subject to exchange rate variations given that reserves are reported in US dollar while a significant portion of reserves are also held in Sterling Pounds and Euros. Thus, changes in these currencies' rate of exchange vis-à-vis the US dollar in the year to March 2009 resulted in revaluation losses, as the US dollar weakened on average against the Sterling Pound and the Euro.

Foreign exchange holdings of commercial banks rose by US$ 285 million, from US$ 1,321 million at the end of March 2008 to US$ 1,607 million at end of March 2009, with most of the assets held as balances with banks abroad in the amount of US$ 1,285 million.

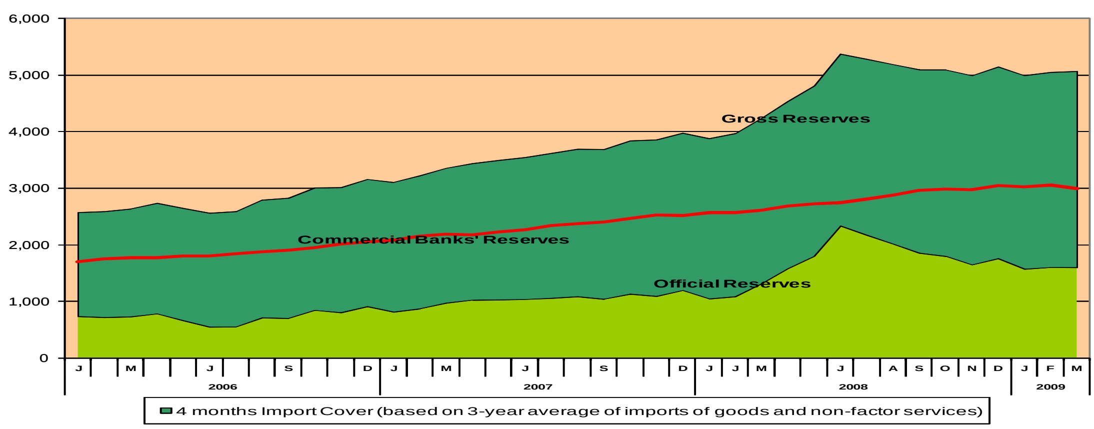
TABLE 4.3: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Mar 08	Apr 08	Jul 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09
1. Gross Foreign Exchange Reserves	**4,743**	**4,977**	**5,616**	**4,735**	**4,524**	**4,641**	**4,349**	**4,355**	**4,320**
of which:									
Official	3,422	3,390	3,439	2,928	2,869	2,875	2,769	2,745	2,714
*imports cover**	*3.9*	*3.8*	*3.6*	*2.9*	*2.9*	*2.9*	*2.8*	*2.7*	*2.7*
*imports cover***	*4.7*	*4.6*	*4.4*	*3.6*	*3.4*	*3.4*	*3.2*	*3.2*	*3.1*
Commercial Banks	1,321	1,587	2,177	1,807	1,655	1,766	1,580	1,610	1,607
2. Residents' foreign currency deposits	**1,813**	**1,923**	**2,045**	**1,714**	**1,867**	**1,810**	**1,728**	**1,654**	**1,561**

*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

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling depicted mixed performance against major world currencies in April 2009; weakening against the Sterling Pound and the Euro but strengthening against the US dollar and the Japanese Yen. Against the Sterling Pound and the Euro, the Shilling weakened to exchange at an average of Ksh 116.98 and Ksh 105.08 in April 2009 compared with Ksh 113.98 and Ksh104.77 in March 2009 respectively. However, the Shilling strengthened against the US dollar and the Japanese Yen to trade, respectively, at an average of Ksh 79.63 and Ksh 80.76 in April 2009 compared with Ksh 80.26 per US dollar and Ksh 82.22 per 100 Japanese Yen in March 2009. The Shilling strengthened against the US dollar due to an excess supply of the dollars. Commercial banks held excess position on the expectation that the local currency would continue to depreciate (Table 4.4 and Chart 4D).

In the regional scene, the Kenya Shilling strengthened against both the Uganda Shilling and the Tanzania Shilling in April 2009 to exchange at an average of Ush 25.59 and Tsh16.32, respectively, compared with Ush 27.29 and Tsh 16.75 as shown in Table 4.4.

TABLE 4.4: KENYA SHILLING EXCHANGE RATE

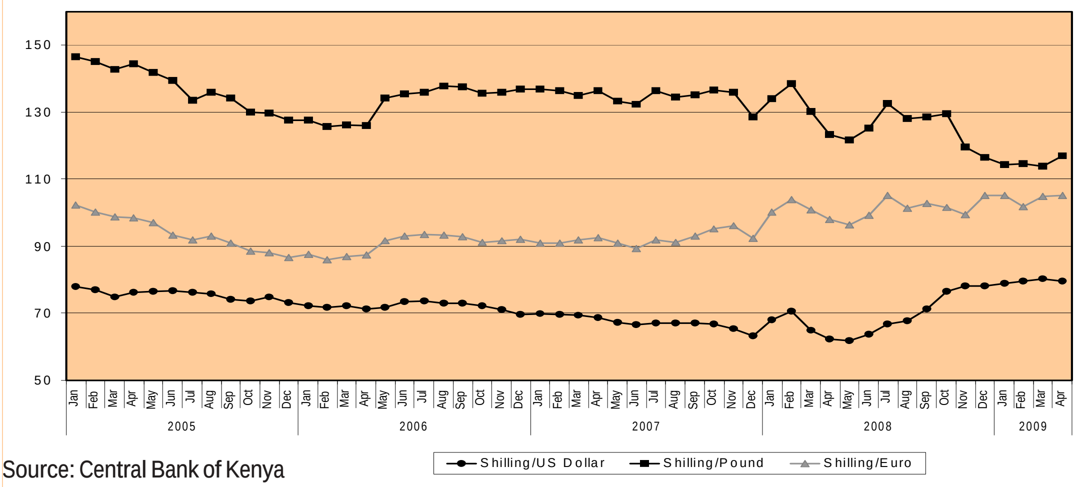
	2008									2009				% change Mar 09-Feb 09
	Mar	Apr	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
US Dollar	64.92	62.26	63.78	66.70	67.68	71.41	76.66	78.18	78.04	78.95	79.53	80.26	79.63	**-0.64**
Pound Sterling	130.08	123.37	125.27	132.62	127.97	128.58	129.38	119.59	116.53	114.28	114.54	113.98	116.98	**3.01**
100 Japanese Yen	64.04	60.83	59.60	62.43	61.92	67.00	76.77	80.71	85.42	87.45	86.18	82.22	80.76	**-1.46**
Uganda Shilling*	25.87	27.05	25.14	24.36	24.00	23.07	23.89	24.49	25.07	25.05	24.73	25.59	27.29	**1.70**
Tanzania Shilling*	18.19	19.57	18.64	17.65	18.00	16.27	16.12	16.05	16.64	16.99	16.61	16.32	16.75	**0.44**
Euro	100.79	98.08	99.21	105.18	101.40	102.73	101.67	99.33	105.56	105.02	101.71	104.77	105.08	**0.31**
Euro per US dollar	0.644	0.635	0.643	0.634	0.667	0.695	0.754	0.787	0.739	0.752	0.782	0.766	0.758	**-0.01**

* Units of currency per Kenya shilling

Source :Central Bank of Kenya

Source: Central Bank of Kenya

CHART 4D: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

For the period ended March 31, 2009 the Kenyan banking sector, on an overall basis, was adequately capitalised, with total shareholders' funds increasing by 28.8 percent from Ksh 134.8 billion in March 2008 to Ksh 173.6 billion in March 2009. The sector recorded improved earnings on account of increased interest income on loans and advances and fees and commissions income. Total assets rose by 20.9 percent to Ksh 1,201.6 billion, supported by an increase in the deposit base of 16.7 percent to Ksh 926.8 billion as at March 2009.

Structure of the banking sector

As at March 31, 2009, the Kenyan banking sector comprised 43 commercial banks, 2 mortgage finance companies and 123 foreign exchange bureaus.

Structure of the Balance Sheet

The total balance sheet of the banking sector increased by 20.9 percent, or Ksh 207.9 billion from Ksh 993.6 billion in March 2008 to Ksh 1,202 billion as at March 2009. The increase in assets was driven by deposits, retained profits and capital injections. The main components of the balancce sheet of the banking sector as at March 2009 were, loans and advances, investments in government securities and placements constituting 45.0 percent, 19.0 percent and 10.0 percent of total assets, respectively.

Loans & Advances

Gross loans and advances for the banking sector amounted to Ksh 694.4 billion as at March 2009, an increase of 25.3 percent from Ksh 554.29.4 billion in March 2008. The banks channeled the loans and advances to various sectors of the economy including private households, manufacturing, trade, business services and other sectors. The income in gross advances was allocated to both existing and new customers. Total loans and advances, net of provisions increased by 26.4 percent to Ksh 681.9 billion in March 2009 from Ksh 539.4 billion in March 2008.

Deposit Liabilites

The banking sector's total deposits in the period under review remained the major source of funding, accounting for 77.14 percent of total liabilities and capital. The deposits increased by 16.8 percent from Ksh793.9 billion in March 2008 to Ksh 926.8 billion as at end of March 2009. Branch expansion and aggressive marketing strategies for fresh deposits accounted for the bulk of the increase in deposits.

Capital & Reserves

Total capital increased by 27.0 percent to Ksh 162.9 billion in March 2009 up from Ksh 128.3 billion in March 2008. Similarly, the total shareholders' funds rose by 28.8 percent from Ksh 134.8 billion in March 2008 to Ksh 173.6 billion as at March 2009. Consequently, the ratio of total capital to risk-weighted assets increased from 19.5 percent as at March 2008 to 20.3 percent as at March 2009. The increase in capital levels is attributed to fresh capital injections in some institutions and retention of profits.

Non-performing Loans

The stock of non-performing loans (NPLs) expanded by 7.8 per cent from Ksh 58.3 billion to Ksh 64.9 billion as at March 31, 2009. As a result, asset quality which is measured by the proportion of net non-performing loans (NPLs) to gross loans deteriorated to 3.7 per cent from 3.6 percent as at March 2008 (Tablel 5.1).

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

		Mar-09	Mar-08
1	Gross loans and advances	694.4	554.2
2	Loans and advances (net of interest suspended)	681.9	539.4
3	Gross non-performing loans	64.9	58.3
4	Specific Provisions	26.9	23.6
5	General Provisions	4.1	4.3
6	Total Provisions (4+5)	31.0	27.9
7	Net Advances (2-6)	650.9	511.5
8	Total Non-Performing Loans and advances	52.4	43.6
9	Net Non-Performing Loans and advances(8-4)	25.5	20.0
10	Total NPLs as % of total advances (8/2)	7.7	8.0
11	Net NPLs as % of gross advances (9/1)	3.7	3.6
12	Specific Provisions as % of Total NPLs (4/8)	51.3	54.1

Source: Central Bank of Kenya

Profitability

The profit before tax for the banking sector increased by 13.8 percent from Ksh 11.2 billion in March 2008 to Ksh 12.8 billion as at March 2009. Interest on advances at Ksh 23.6 billion accounted for 54 percent of total income, which improved by 27.9 percent from Ksh 34.2 billion in March 2008 to Ksh 43.8 billion as at March 2009. Total expenses went up by Ksh 8 billion from Ksh 23.0 billion in March 2008 to Ksh 31.0 billion as at March 2009. Despite the increase in profits, annualized return on assets and shareholder's funds declined from 3.6 percent and 33.3 percent in a similar period last year to 3.3 percent and 29.5 percent in March 2009, respectively, owing to the more than proportionate increase in assets and equity.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.32 percent in March 2009 compared with 5.28 percent in February 2009 and the 5.0 percent statutory level as shown in Table 5.2 and Chart 5A. Commercial banks held excess reserves at the Central Bank averaging Ksh 22.7 billion in March 2009 compared with Ksh 2.3 billion in February 2009.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2008					2009		
	Jan	Feb	Mar	Apr	Dec	Jan	Feb	Mar
Commercial Banks								
Actual Average Liquidity	40.9	40.6	40.6	40.1	37.2	38.3	38.75	40.03
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio - All Banks	6.4	6.4	6.6	6.6	5.6	5.4	5.3	5.3
Minimum Cash Ratio Requirement**	6.0	6.0	6.0	6.0	5.0	5.0	5.0	5.0
NBFIs								
Actual Average Liquidity Ratio	25.1	21.6	22.5	21.2	26.8	24.6	22.72	23.89
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio	6.0	6.0	6.0	6.0	5.0	5.0	5.0	5.0
Minimum Cash Ratio Requirement***	6.0	6.0	6.0	6.0	5.0	5.0	5.0	5.0

* Monthly average liquidity and cash ratios

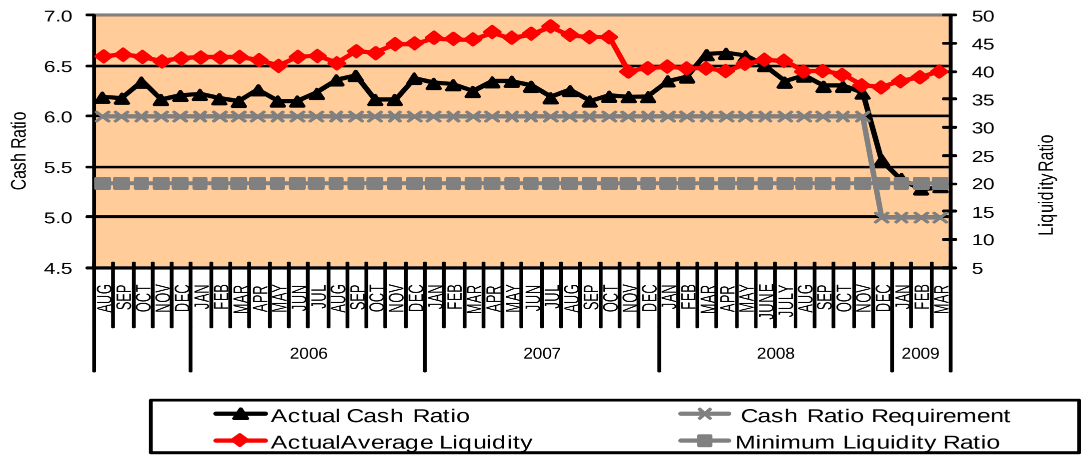
** Commercial banks and NBFIs observed a daily minimum of 6% cash ratio effective from 1st July 2003 to 30th Nov 2008.

** Commercial banks and NBFIs observed a daily minimum of 5% cash ratio effective 1st Dec 2008

*** Ratio includes NBFIs and Mortgage companies

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

Liquidity Ratio Requirement

Liquidity which represents the ability to fund increases in assets and meet obligations as they fall due is crucial to the sustained viability of any banking institution. The importance of liquidity transcends the individual bank as a liquidity shortfall at an individual bank can have systemic repercussions.

In the year ended March 2009, Kenya's banking system average monthly liquidity ratio of 40.0 percent exceeded the minimum statutory requirement of 20 percent.

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 23,752 transaction messages worth Ksh 1,235 billion in March 2009 compared with a volume of 20,710 transaction messages valued at Ksh 1,236 billion moved in February 2009, representing 0.1 percent decrease in value and 14.7 percent increase in volume. The value moved in March 2009 grew by 38.6 percent from Ksh 891 billion moved in March 2008.

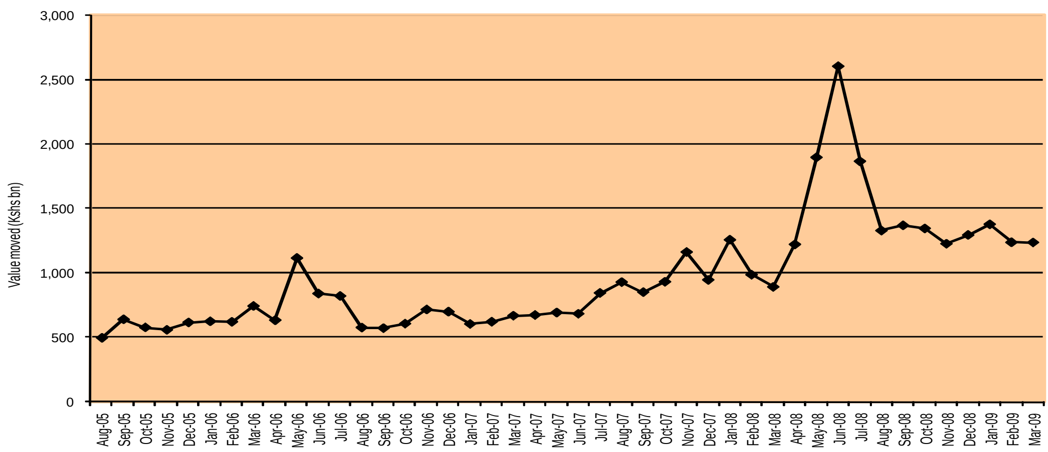
During the twelve month period to March 31, 2009 the value moved averaged Ksh 65.9 million per transaction while the average value moved per day was approximately Ksh 72.1 billion (Table 5.3 and Chart 5B). Direct settlements through KEPSS in March 2009, averaged 93.4 percent of the total settlements, while indirect payments (ACH Net settlement) averaged 6.6 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
Jun-07	682	61	13,924	0.05	20	34	696
Jul-07	844	59	14,633	0.06	22	38	665
Aug-07	928	68	17,527	0.05	23	40	762
Sep-07	851	73	14,770	0.06	20	43	739
Oct-07	930	62	16,638	0.06	22	42	756
Nov-07	1,161	74	19,613	0.06	22	53	892
Dec-07	945	48	14,563	0.06	14	67	1,040
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

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 (MT102) increased by 25.5 percent from 740 transaction messages in February 2009 to 929 transaction messages in March 2009. Similarly, single third party Message Type (MT103) increased by 15.5 percent from 9,376 transaction messages to 10,832 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 16.3 percent from 10,116 transaction messages in February 2009 to 11,761 transaction messages in March 2009.

Compared with March 2008, multiple third parties messages (MT102) increased by 35.8 percent from 684 transaction messages to 929 transaction messages in March 2009 while in the same period single third party message (MT103) increased by 63.2 percent from 6,637 transaction messages to 10,832 transaction messages (Table 5.4 and Chart 5C).

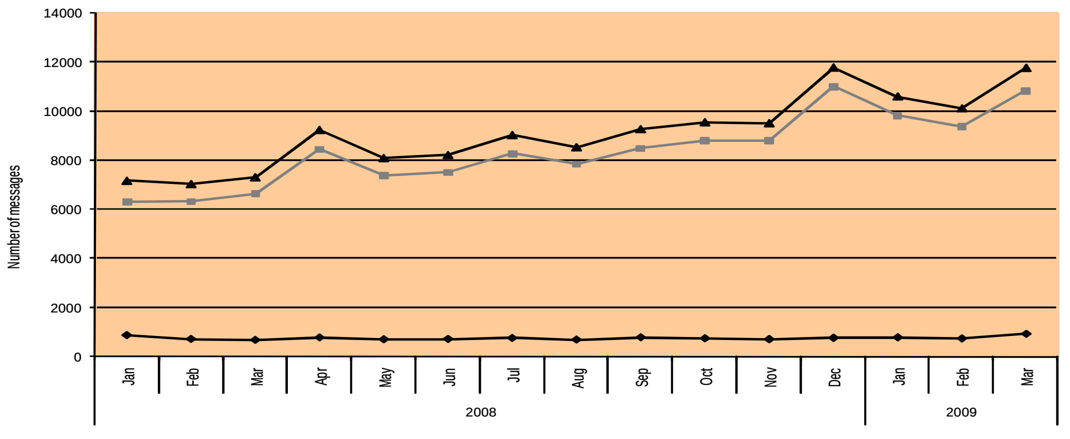
Inter-bank transfers (MT202) accounted for 69.8 percent on average of the total value moved through KEPSS in March 2009 while third party messages accounted for 30.2 percent. The total number of third party messages (MT 102 and MT 103) grew by 60.6 percent from 7,321 messages in March 2008 to 11,761 messages in March 2009.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2008	Jan	877	6,300	7,177
	Feb	724	6,318	7,042
	Mar	684	6,637	7,321
	Apr	781	8,457	9,238
	May	708	7,393	8,101
	Jun	718	7,503	8,221
	Jul	764	8,268	9,032
	Aug	696	7,839	8,535
	Sep	791	8,481	9,272
	Oct	751	8,803	9,554
	Nov	711	8,804	9,515
	Dec	766	11,009	11,775
2009	Jan	786	9,815	10,601
	Feb	740	9,376	10,116
	Mar	929	10,832	11,761

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

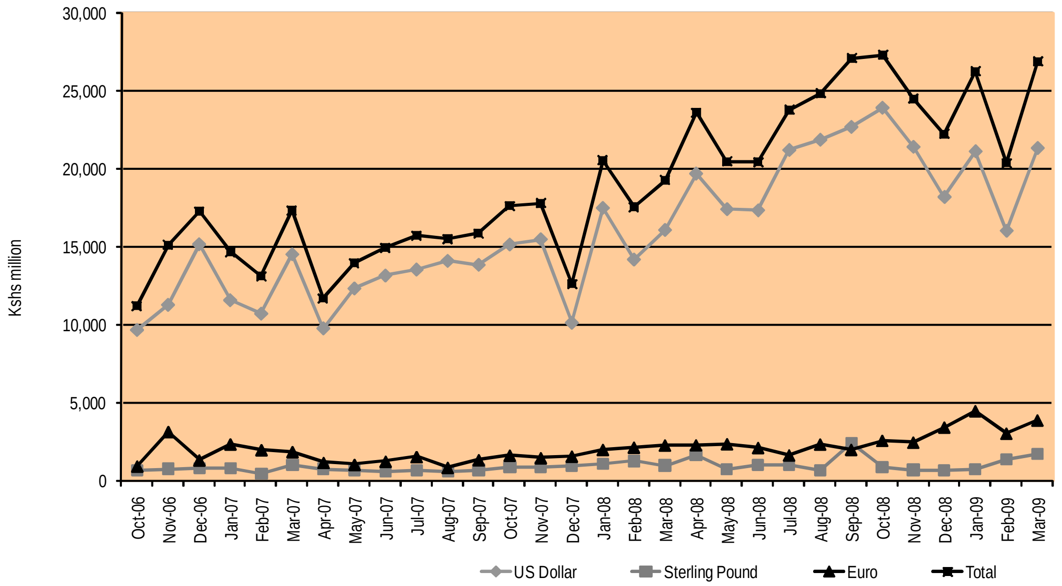


Source: Central Bank of Kenya

Domestic Foreign Currency Flows

Domestic Foreign Currency messages through KEPSS increased by 14.0 percent from 2,198 transaction messages in February 2009 to 2,505 transaction messages in March 2009. The corresponding value in Kenya Shillings equivalent moved in this period also increased by 31.9 percent from Ksh 20.38 billion to Ksh 26.9 billion. The US dollar accounted for 79.4 percent of the value moved (Chart 5D).

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



Source: Central Bank of Kenya

Government Budget Performance

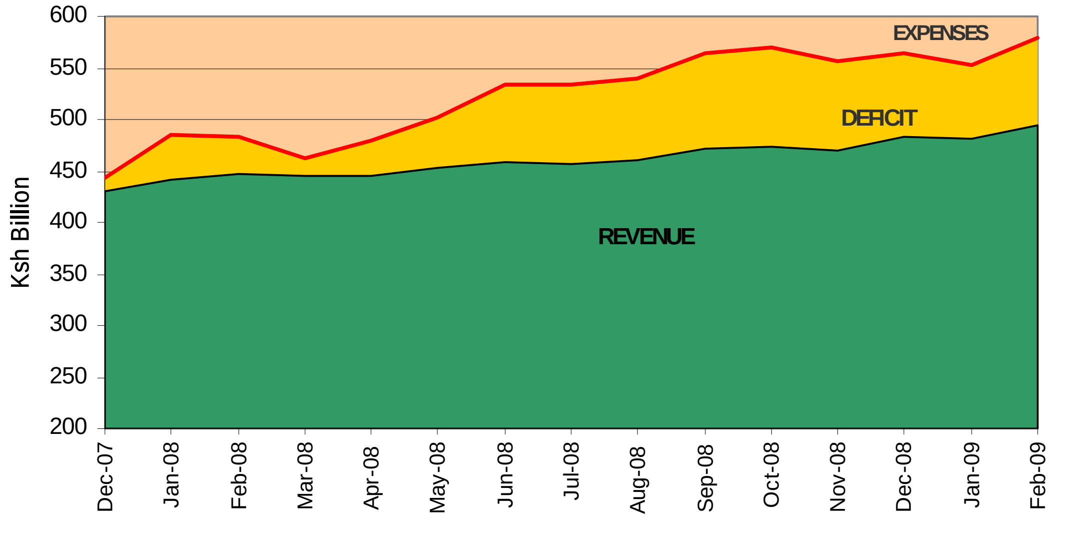
The performance of the Government budgetary operations in the first eight months of the fiscal year 2008/09 resulted in a budget deficit of Ksh 40.5 billion or 1.8 percent of GDP on a commitment basis which was higher than the deficit of Ksh 32.3 billion or 1.7 percent of GDP in a similar period in the fiscal year 2007/08 (Table 6.1). Similarly, the budget deficit on cash basis increased from 1.6 percent to 2.2 percent of GDP during the period. The deficit in the first eight months of fiscal year 2008/09 remained within the 3.4 percent of GDP target for the period, since the Government expenditure also remained in line with the budget. The 12-month cumulative budget outturn shows a wider deficit in February 2009 as Government expenditures grew faster than revenues (Chart 6A).

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

	FY 2007/08	FY 2008/09		
	Feb Actual	Feb Provisional	Target	Over (+) / Below (-) Target
1. TOTAL REVENUE	282.7	318.8	342.6	-23.8
Revenue	269.3	309.2	321.8	-12.5
Tax Revenue	249.4	274.1	284.8	-10.7
Non Tax Revenue	8.8	11.7	11.8	-0.1
Appropriations-in-Aid	11.1	23.5	25.2	-1.7
External Grants	13.4	9.6	20.9	-11.3
2. TOTAL EXPENSES	315.0	359.4	420.3	-60.9
Recurrent Expenses	247.0	278.9	304.8	-25.9
Development Expenses	68.0	80.5	115.5	-35.0
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-32.3	-40.5	-77.7	-37.1
As % of GDP	-1.7	-1.8	-3.4	
4. ADJUSTMENT TO CASH BASIS	1.9	-10.4	0.0	-10.4
5. DEFICIT ON A CASH BASIS	-30.4	-51.0	-77.7	-26.7
As % of GDP	-1.6	-2.2	-3.4	
6. DISCREPANCY:Exp. (+) / Rev. (-)	5.0	-10.6	0.0	
7. FINANCING	34.4	40.3	77.8	-37.5
Domestic (Net)	11.8	18.6	10.6	8.0
External (Net)	2.2	3.2	10.4	-7.2
Capital Receipts (privatisation)	26.4	0.0	8.0	-8.0
Others	-6.0	18.6	48.8	-30.2
Financing gap	0.0	0.0	0.0	0.0

Sources: Treasury

CHART 6A: 12-MONTH CUMULATIVE BUDGET OUT-TURN



Revenue

During the first eight months of the fiscal year 2008/09, Government revenue (including grants) amounted to Ksh 318.8 billion, an increase of Ksh 36.2 billion or 12.8 percent compared with the Ksh 282.6 billion in the first eight months of fiscal year 2007/08 (Table 6.2). The growth in revenue during the period was attributed to increased efficiency resulting from improved tax administration by the Kenya Revenue Authority. The revenue was however below target by Ksh 12.5 billion. The total government receipts fell below the Ksh 342.6 billion target for the period by Ksh 23.8 billion or 6.9 percent. This shortfall was both in the tax revenue and external grants.

Tax revenue increased from Ksh 249.4 billion in the first eight months of the fiscal year 2007/08 to Ksh 274.1 billion in the current period, representing a growth of Ksh 24.7 billion or 9.9 percent in the tax proceeds during the period. Similarly, Appropriation in Aid (AIA) increased by Ksh 12.4 billion while the non-tax revenue increased by Ksh 2.9 billion. However, external grants decreased by Ksh 3.8 billion during the period.

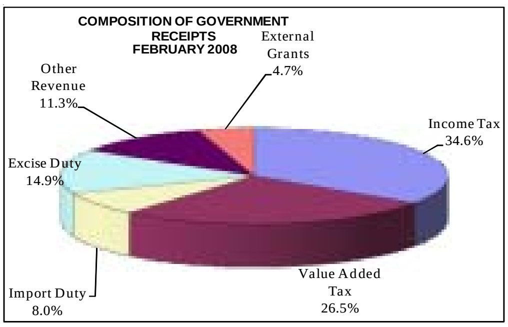
Following these developments, the percentage of tax revenue in total revenue decreased from 88.3 percent in the first eight months of the fiscal year 2007/08 to 86.0 percent in a similar period in the fiscal year 2008/09 (Chart 6B). However, the percentage of AIA increased from 3.9 percent to 7.4 percent during the same period. The proportion of non-tax revenue also increased from 3.1 percent to 3.7 percent while that of external grants in total revenue decreased from 4.7 percent to 3.0 percent during the same period.

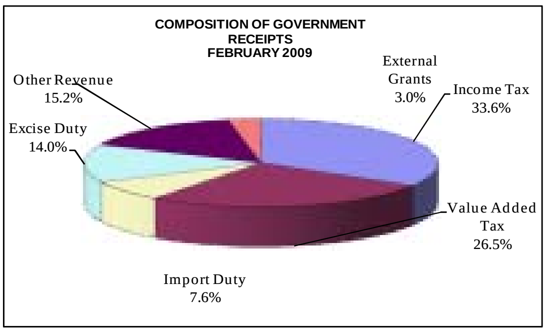
TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Feb-08 Ksh bn	Feb-09 Ksh bn	Change
1. Revenue (2+3+4)	**269.3**	**309.2**	**40.0**
2. Tax Revenue	249.4	274.1	24.7
Income Tax	97.7	107.3	9.6
Value Added Tax	75.0	84.6	9.6
Import Duty	22.5	24.1	1.6
Excise Duty	42.0	44.8	2.7
Others	12.2	13.4	1.2
3. Appropriations-in-Aid	11.1	23.5	12.4
4. Other Revenue	8.8	11.7	2.9
5. External Grants	**13.4**	**9.6**	**-3.8**
TOTAL RECEIPTS (1+5)	**282.6**	**318.8**	**36.2**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT RECEIPTS





Source: Treasury

Expenditure and Net Lending

During the first eight months of the fiscal year 2008/09, Government expenditure and net lending increased by 14.1 percent, from Ksh 315.0 billion in a similar period in the fiscal year 2007/08 to Ksh 359.4 billion (Table 6.3). The rise in the overall expenditure during the period comprised increases of 12.9 percent and 18.4 percent in recurrent and development expenditures, respectively.

TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Feb-08 Ksh bn	Feb-09 Ksh bn	Movement
1.Recurrent	**247.0**	**278.9**	**31.9**
Salaries & Wages	91.1	103.6	**12.4**
Total Interest	31.0	34.4	**3.4**
of which			
Domestic*	27.9	30.5	**2.5**
Foreign interest due	3.0	3.9	**0.9**
Others	124.9	140.9	**16.0**
2. Development	**68.0**	**80.5**	**12.5**
TOTAL EXPENSES	**315.0**	**359.4**	**44.4**

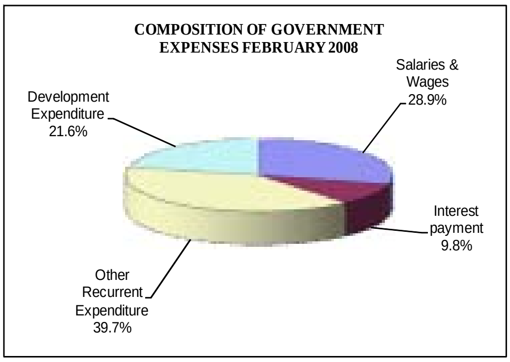
*Includes commission and other charges paid to CBK and other agencies

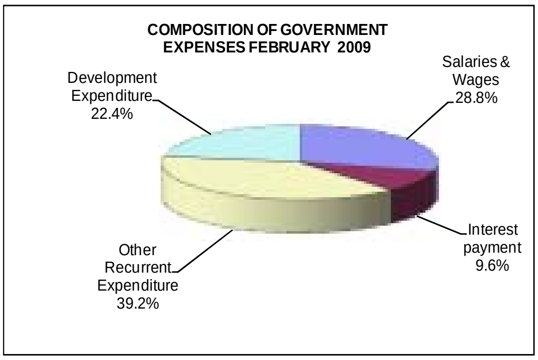
Source: Treasury

The recurrent expenditure increased by Ksh 31.9 billion, from Ksh 247.0 billion to Ksh 278.9 billion during the period. The increase in recurrent expenditure comprised increases of Ksh 12.4 billion in wages and salaries, interest payments of Ksh 3.4 billion and Ksh 16.0 billion in other expenses. Expenditures on domestic interest increased by Ksh 2.5 billion while foreign interest expenditure increased by Ksh 0.9 billion during the period. Development expenditure increased from Ksh 68.0 billion to Ksh 80.5 billion in the period largely due to increased expenditure towards infrastructure development.

Following these developments, the percentage of development expenditure in total expenditure increased from 21.6 percent in the first eight months of the fiscal year 2007/08 to 22.4 percent in a similar period in the fiscal year in 2008/09 while recurrent expenditure declined from 78.4 percent to 77.6 percent (Chart 6C). The development expenditure was Ksh 35 billion below target. The shortfall was due to delayed realization of programmed financing, especially the deferred issuance of a sovereign bond worth US$ 500 million that was targeted to finance flagship projects under Vision 2030.

CHART 6C: COMPOSITION OF GOVERNMENT EXPENDITURE





Source: Treasury

Financing

The budgetary operations of the Central Government in the first eight months of the fiscal year 2008/09 resulted in a financing requirement of Ksh 40.3 billion compared with Ksh 46.5 billion in a similar period in the fiscal year 2007/08 (Table 6.4). The financing requirement was wholly to finance the budget deficit. The financing requirement was sourced through net domestic borrowing of Ksh 31.4 billion (from Central Bank, commercial banks and non-bank sources), foreign borrowing of Ksh 3.2 billion, and draw down of Government deposits at the Central bank of Kenya by Ksh 5.8 billion.

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

I. FINANCING REQUIREMENTS	Feb-08 Ksh bn	Feb-09 Ksh bn
1. Budget deficit	34.4	40.3
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	9.7	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	9.7	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	2.3	0.0
TOTAL	**46.5**	**40.3**
II. FINANCING SOURCES	**Feb-08 Ksh bn**	**Feb-09 Ksh bn**
1. Budget surplus	0.0	0.0
2. External debt increase	2.2	3.2
3. Increase in domestic debt	23.9	31.4
3.1 Central Bank	6.2	5.2
3.2 Commercial banks	0.0	13.9
3.3 Non-bank sources	17.7	12.3
4. Reduction in GoK deposits at CBK	0.0	5.8
5. Privatisation proceeds	20.4	0.0
TOTAL	**46.5**	**40.3**

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank increased by Ksh 8.3 billion, from Ksh 43.8 billion in February 2008 to Ksh 52.1 billion in February 2009 (Table 6.5). The increase in the Government indebtedness during the period was as a result of increases of Ksh 9.9 billion and Ksh 0.3 billion in the overdraft at the Central Bank and the rediscounted securities, respectively. However, this increase was partially offset by repayments of Ksh 1.1 billion in the Pre-1997 Government overdraft at CBK, Ksh 0.4 billion in the IMF funds on-lent to Government and Ksh 0.4 billion in cleared items in transit.

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

	2008 Feb	2009 Feb	Movement
Total Credit	**43.8**	**52.1**	**8.3**
1. Overdraft	7.0	16.9	9.9
2. Rediscounted securities	0.0	0.3	0.3
Treasury bills	0.0	0.3	0.3
Treasury bonds	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	35.0	33.9	-1.1
4. IMF funds onlent to Government	1.3	1.0	-0.4
5. Cleared items in transit	0.5	0.1	-0.4
Memorandum			
Authorised overdraft limit	**14.8**	**16.9**	**5.6**
Amount utilised to date	7.0	16.9	16.8
Amount available	7.8	0.0	-11.3

Source: Central Bank of Kenya

Outlook for FY 2008/09

The projections for the main aggregates of government revenues, expenditures and financing for financial year 2008/09 are as follows: Total revenue (excluding grants) - Ksh 512.8 billion (21.4 percent of GDP), External grants - Ksh 33.8 billion (1.4 percent of GDP) and total Government expenditure of Ksh 673.5 billion (28.1 percent of GDP) that comprise Ksh 474.7 billion (19.8 percent of GDP) in recurrent expenditure and Ksh 198.8 billion (8.3 percent of GDP) in development expenditure.

The overall budget deficit (including grants) is projected at Ksh 127.0 billion (5.3 percent of GDP). The financing of the deficit comprises; net external borrowing of Ksh 25.2 billion (1.1 percent of GDP); net domestic borrowing of Ksh 54.5 billion (2.3 percent of GDP) including Ksh 18.8 billion in long term domestic infrastructure bonds; privatization receipts totalling Ksh 8 billion (0.3 percent of GDP); Ksh 33.6 billion from issuance of a sovereign bond to finance infrastructure development (recently deferred) and Ksh 5.7 billion additional financing for TELKOM Kenya and Kenya Petroleum Refineries. Due to changes in the key components, the fiscal framework is under review.

Developments in Public Debt

Overall Debt Kenya's public and publicly guaranteed debt increased by 14.1 percent in the first eight months of the fiscal year 2008/09 to Ksh 992.9 billion in February 2009 from Ksh 870.6 billion in June 2008 (Table 7.1). The overall Government debt stock increased in absolute terms during the period following a rise of Ksh 37.2 billion in domestic debt and Ksh 74.7 billion in external debt. The percentage of domestic debt in total debt decreased from 49.5 percent to 48.2 percent during the period while external debt increased from 50.5 percent to 51.8 percent.

However, as a percentage of GDP, overall public debt stock increased from 42.8 percent in June 2008 to 43.6 percent in February 2009 following a slower growth in GDP. In particular, the proportion of external debt in GDP rose from 21.6 percent to 22.6 percent, while domestic debt decreased from 21.1 percent of GDP to 21.0 percent during the period. Since June 2003, the overall debt-to-GDP ratio has been on downward trend which is indicative of a sustainable debt stock in the medium term (Chart 7A).

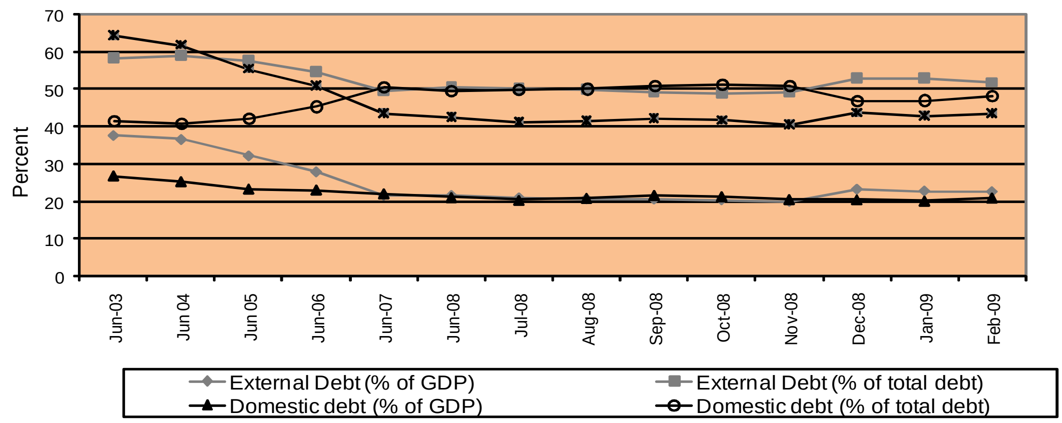
TABLE 7.1: KENYA'S PUBLIC DEBT (Ksh billion)

	Jan-08	Feb-08	Mar-08	Jun-08	Sept-08*	Dec-08*	Jan-09**	Feb-09**	Change 2008/09
EXTERNAL									
Bilateral	145.5	146.3	149.0	153.2	165.2	187.2	186.1	187.2	34.0
Multilateral***	260.1	261.1	257.7	268.2	290.4	305.9	304.0	305.2	37.0
Commercial Banks	0.5	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	18.0	18.0	18.0	18.5	21.0	22.3	22.3	22.3	3.7
Sub-Total	424.2	426.0	425.1	440.0	476.6	515.4	512.4	514.7	74.7
(As a % of GDP)	21.6	21.5	21.2	21.6	22.7	23.3	22.8	22.6	
(As a % of total debt)	49.5	49.5	48.9	50.5	51.5	53.0	53.0	51.8	
DOMESTIC\[1]									
Banks	223.7	222.9	226.1	228.8	243.2	254.1	252.4	266.0	37.2
Central Bank	43.7	41.1	46.2	46.4	40.4	49.4	39.4	51.3	4.9
Commercial Banks	180.0	181.7	179.8	182.5	202.8	204.7	213.0	214.7	32.3
Non-banks	206.7	209.6	215.8	199.2	202.8	198.9	199.6	209.7	10.4
Non-bank Financial Inst.	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.0
Other Non-bank Sources	206.0	208.9	215.1	198.5	202.1	198.2	198.8	208.9	10.4
Non-residents	1.8	2.1	2.8	2.6	3.2	3.2	2.3	2.5	0.0
Sub-Total	432.2	434.6	444.7	430.6	449.3	456.2	454.3	478.2	47.6
(As a % of GDP)	22.0	21.9	22.2	21.1	21.7	20.6	20.2	21.0	
(As a % of total debt)	50.5	50.5	51.1	49.5	48.5	47.0	47.0	48.2	
GRAND TOTAL	856.4	860.5	869.8	870.6	925.8	971.6	966.7	992.9	122.3
(As a % of GDP)	43.6	43.4	43.5	42.8	44.5	43.9	43.1	43.6	

* External Debt Revised
** External Debt Provisional
***Includes IMF Loans.
[1]/ Domestic Debt is reported on gross basis

Sources: Treasury and Central Bank of Kenya

CHART 7A:TRENDS IN KENYA'S PUBLIC AND PUBLICLY GUARANTEED DEBT



Sources: Treasury and CBK

Domestic Debt

Public domestic debt increased by 11.1 percent in the first eight months of the fiscal year 2008/09 from Ksh 430.6 billion in June 2008 to Ksh 478.2 billion in February 2009 (Table 7.2). The rise in domestic debt during the period followed an increase of Ksh 20.1 billion in Treasury bills (excluding Repos), Ksh 15.0 billion in Treasury bonds and Ksh 13.1 billion in other domestic debt. Government overdraft at CBK, which is the main component of other domestic debt, increased by Ksh 16.9 billion which was within the legal limit of Ksh 16.9 billion. Similarly, as shown in Table 7.1, domestic debt owed to commercial banks increased from Ksh 182.5 billion in June 2008 to Ksh 214.7 billion in February 2009. Consequently, the percentage of domestic debt owed to commercial banks increased from 42.4 percent to 44.9 percent during the period.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2008										2009				Change Jun-08- Feb-09
	Jan	%	Feb	%	Jun	%	Sept	%	Dec	%	Jan	%	Feb	%	
Total stock of Domestic Debt (A+B)	432.2	100.0	434.6	100.0	430.6	100.0	449.3	100.0	456.2	100.0	454.3	100.0	478.2	100.0	47.6
A. Government Securities	427.1	98.8	433.5	99.8	427.2	98.5	443.3	98.7	440.7	96.6	449.0	98.8	461.7	96.6	34.5
1. Treasury Bills (excluding Repo Bills)	83.2	19.2	87.9	20.2	76.8	17.7	93.4	20.8	87.5	19.2	93.7	20.6	96.9	20.3	20.1
Banking institutions	31.1	7.2	31.5	7.2	27.2	6.3	46.0	10.2	42.1	9.2	48.5	10.7	51.0	10.7	23.8
Others	52.1	12.1	56.4	13.0	49.6	11.5	47.3	10.5	45.3	9.9	45.2	10.0	46.0	9.6	-3.7
2. Treasury Bonds	308.1	71.3	309.9	71.3	315.2	72.7	314.7	70.1	318.6	69.8	320.6	70.6	330.2	69.0	15.0
Banking institutions	151.4	35.0	156.8	36.1	156.1	36.0	155.6	34.6	162.6	35.6	164.5	36.2	163.7	34.2	7.6
Others	156.8	36.3	153.1	35.2	159.1	36.7	159.1	35.4	156.0	34.2	156.2	34.4	166.5	34.8	7.3
3. Long term Stocks	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	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	0.0	0.0	0.0	0.0
Others	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.0
4. Pre-1997 Government Overdraft at CBK	35.0	8.1	35.0	8.1	34.4	7.9	34.4	7.7	33.9	7.4	33.9	7.5	33.9	7.1	-0.6
Of which: Repo T/Bills	35.0	8.1	35.0	8.1	34.4	8.1	34.4	7.7	33.9	7.4	33.9	7.5	33.9	7.1	-0.6
B. Others:	5.1	1.2	1.1	0.2	6.3	1.5	6.0	1.3	15.5	3.4	5.3	1.2	16.5	3.4	13.1
Of which CBK overdraft to Government	7.0	1.6	8.1	1.9	0.0	0.0	4.4	1.0	15.1	3.3	4.7	1.0	16.9	3.5	16.9

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

Source: Central Bank of Kenya

Treasury Bills

During the first eight months of the fiscal year 2008/09, Government domestic financing was entirely through Treasury bills and drawdown of its deposits at CBK. As a result, Treasury bills increased from Ksh 76.8 billion in June 2008 to Ksh 96.9 billion in February 2009 (Table 7.2). Similarly, the share of Treasury bills in total domestic debt increased from 17.7 percent to 20.3 percent during the period (Table 7.3 and Chart 7B). Treasury bills held by commercial banks rose from Ksh 26.4 billion (34.4 percent) to Ksh 51.0 billion (52.6 percent) during the period. In terms of maturity, the percentage of 91-day Treasury bills in total Government securities increased from 4.6 percent to 6.3 percent while 182-day Treasury bills increased from 15.0 percent to 16.4 percent in the period (Table 7.5).

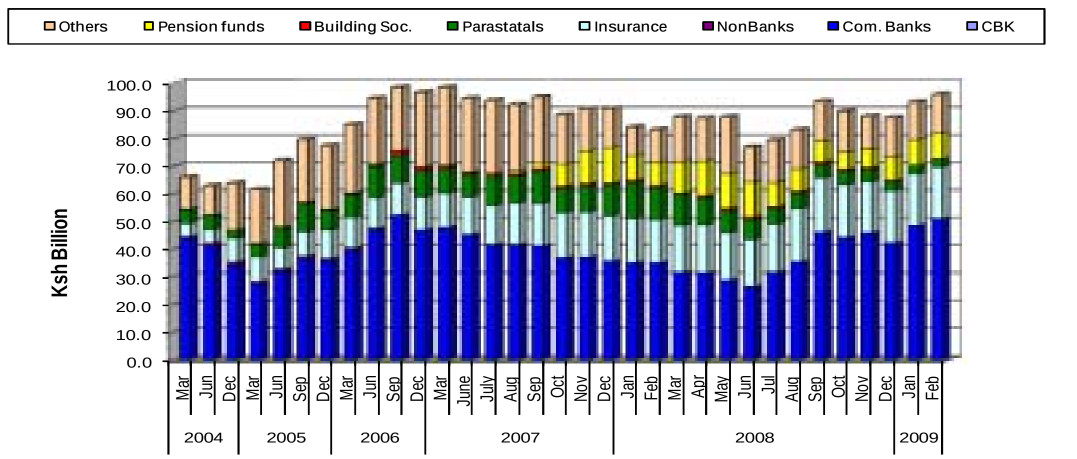
TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

	2008												2009			
Holders	Jan	%	Feb	%	Mar	%	Jun	%	Sept	%	Dec	%	Jan	%	Feb	%
Banking Institutions	35.0	41.7	35.0	42.1	31.5	35.8	26.4	34.4	46.0	49.3	42.1	48.2	48.5	51.7	51.0	52.6
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	35.0	41.7	35.0	42.1	31.5	35.8	26.4	34.4	46.0	49.3	42.1	48.2	48.5	51.7	51.0	52.6
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	16.0	19.0	15.6	18.7	17.1	19.5	17.0	22.1	19.7	21.1	18.9	21.7	18.7	20.0	18.7	19.3
Parastatals	13.0	15.4	11.5	13.8	11.0	12.5	7.1	9.3	4.7	5.1	3.2	3.6	3.0	3.2	2.9	3.0
Of which: NSSF	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Building Societies	0.8	1.0	0.8	1.0	0.5	0.6	1.1	1.4	1.1	1.1	0.5	0.6	0.6	0.6	1.0	1.0
Pension Funds	8.9	10.5	8.5	10.2	11.4	13.0	12.5	16.3	7.3	7.9	8.5	9.7	9.2	9.8	9.3	9.6
Others	10.4	12.3	11.8	14.2	16.4	18.6	12.7	16.5	14.5	15.6	14.2	16.2	13.6	14.5	14.1	14.5
Total*	84.0	100.0	83.2	100.0	87.9	100.0	76.8	100.0	93.4	100.0	87.5	100.0	93.7	100.0	96.9	100.0

* Excludes repurchase order bills

Source: Central Bank of Kenya

CHART 7B: OUTSTANDING TREASURY BILLS BY HOLDER



Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds increased from Ksh 315.2 billion in June 2008 to Ksh 330.2 billion in February 2009 (Table 7.4 and Chart 7C). However, as shown in Table 7.2, the percentage of Treasury bonds in total domestic debt decreased from 72.7 percent to 69.0 percent during the period while commercial banks holdings of Treasury bonds stabilised around 49.6 percent in February 2009, unchanged from June 2008.

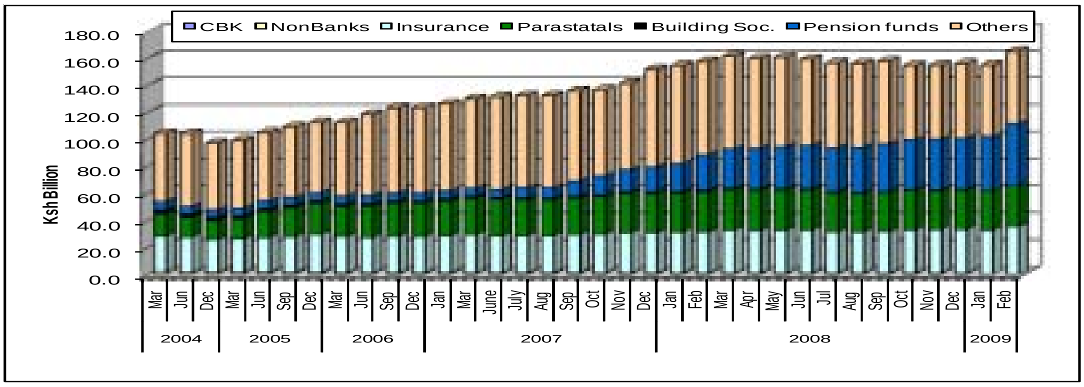
The 5-year Treasury bonds accounted for the largest proportion of outstanding Government securities during the period having increased from 11.1 percent to 12 percent. The percentage of Treasury bonds with maturities of between 10-years and 15-years increased from 20.7 percent to 24.8 percent during the period following successful issuance of longer dated Treasury bonds. Despite the increase in outstanding Treasury bonds during the period, the average maturity profile of domestic debt (by days to maturity) declined from 3 years and 8 months in June 2008 to 3 years and 7 months in February 2009.

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

	2008												2009			
Holders	Jan	%	Feb	%	Mar	%	Jun	%	Sept	%	Dec	%	Jan	%	Feb	%
Banking Institutions	149.8	49.3	151.4	49.1	149.1	48.1	156.8	49.8	157.5	50.1	163.3	51.3	165.2	51.5	164.5	49.8
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	0.0	0.0	0.0	0.0
Comm. Banks	149.0	49.1	150.6	48.9	148.4	47.9	156.1	49.5	156.8	49.8	162.6	51.0	164.5	51.3	163.7	49.6
NBFIs	0.7	0.2	0.7	0.2	0.7	0.2	0.7	0.2	0.7	0.2	0.7	0.2	0.7	0.2	0.8	0.2
Insurance Companies	30.5	10.0	30.6	9.9	31.8	10.3	31.9	10.1	30.9	9.8	32.4	10.2	32.6	10.2	35.3	10.7
Parastatals	28.8	9.5	29.7	9.6	29.5	9.5	29.9	9.5	29.0	9.2	29.5	9.2	29.8	9.3	30.0	9.1
Of which: NSSF	10.1	3.3	10.6	3.5	10.9	3.5	11.7	3.7	12.0	3.8	12.5	3.9	12.9	4.0	12.5	3.8
Building Societies	1.2	0.4	1.2	0.4	1.2	0.4	0.9	0.3	0.6	0.2	0.6	0.2	0.6	0.2	0.6	0.2
Pensions Fund	20.7	6.8	26.4	8.6	29.2	9.4	31.8	10.1	35.5	11.3	37.6	11.8	40.0	12.5	46.3	14.0
Others	72.7	23.9	68.9	22.4	69.1	22.3	63.9	20.3	61.2	19.4	55.2	17.3	52.4	16.4	53.4	16.2
Total	303.6	100.0	308.1	100.0	309.9	100.0	315.2	100.0	314.7	100.0	318.6	100.0	320.6	100.0	330.2	100.0

Source: Central Bank of Kenya

CHART 7C: STOCK OF TREASURY BONDS



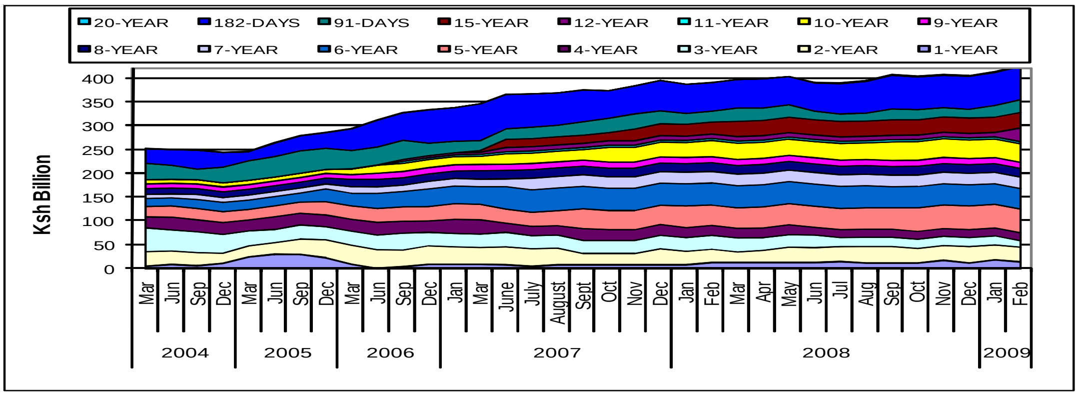
Source: Central Bank of Kenya

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

	2008												2009			
	Jan	%	Feb	%	Mar	%	Jun	%	Sept	%	Dec	%	Jan	%	Feb	%
91-Day	23.1	6.0	23.0	5.9	27.8	7.0	18.0	4.6	23.1	5.7	18.5	4.6	24.6	5.9	27.0	6.3
182-Day	60.9	15.7	60.1	15.4	60.1	15.1	58.9	15.0	70.3	17.2	68.9	17.0	69.2	16.7	69.9	16.4
1-Year	8.7	2.3	13.2	3.4	13.2	3.3	13.2	3.4	12.1	3.0	12.5	3.1	19.3	4.6	14.8	3.5
2-Year	28.3	7.3	28.3	7.2	22.7	5.7	31.7	8.1	35.4	8.7	34.5	8.5	31.2	7.5	31.2	7.3
3-Year	29.7	7.7	29.7	7.6	29.7	7.5	26.7	6.8	19.8	4.8	19.8	4.9	19.8	4.8	14.0	3.3
4-Year	20.6	5.3	20.6	5.3	20.6	5.2	16.5	4.2	16.5	4.1	16.5	4.1	16.5	4.0	16.5	3.9
5-Year	45.0	11.6	42.1	10.8	42.1	10.6	43.5	11.1	44.3	10.9	48.7	12.0	48.7	11.8	48.7	11.4
6-Year	47.6	12.3	47.6	12.2	47.6	12.0	47.6	12.1	45.6	11.2	45.6	11.2	44.2	10.7	44.2	10.3
7-Year	24.2	6.2	24.2	6.2	24.2	6.1	24.2	6.2	24.2	5.9	24.2	5.9	24.2	5.8	24.2	5.7
8-Year	17.9	4.6	17.9	4.6	17.9	4.5	17.9	4.6	17.9	4.4	17.9	4.4	17.9	4.3	17.9	4.2
9-Year	12.6	3.3	12.6	3.2	12.6	3.2	12.6	3.2	12.6	3.1	12.6	3.1	12.6	3.0	12.6	3.0
10-Year	31.4	8.1	34.4	8.8	34.4	8.7	34.4	8.8	39.4	9.7	39.4	9.7	39.4	9.5	39.4	9.2
11-Year	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0	4.0	1.0	4.0	0.9
12-Year	8.8	2.3	8.8	2.2	8.8	2.2	8.8	2.2	8.8	2.1	8.8	2.2	8.8	2.1	28.5	6.7
15-Year	24.7	6.4	24.7	6.3	32.1	8.1	32.1	8.2	32.1	7.9	32.1	7.9	32.1	7.7	32.1	7.5
20-Year	24.7	6.4	24.7	6.3	0.0	0.0	1.9	0.5	1.9	0.5	1.9	0.5	1.9	0.5	1.9	0.4
Total	387.6	100.0	391.3	100.0	397.7	100.0	392.0	100.0	408.1	100.0	406.1	100.0	414.4	100.0	427.1	100.0

Source: Central Bank of Kenya

CHART 7D: OUTSTANDING TREASURY BILLS AND BONDS



Source: Central Bank of Kenya

Long-term Stocks

During the first eight months of the fiscal year 2008/09, Government long term stocks remained unchanged at Ksh 0.8 billion or 0.2 percent of total domestic debt as there were neither new issues nor redemptions of the instrument. The National Social Security Fund (NSSF) held 54.2 percent of the outstanding stocks while insurance companies, other public enterprises and individuals held the balance.

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Government securities in March to May of the fiscal year 2008/09 will comprise Ksh 60.4 billion in Treasury bills and Ksh 15.0 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 27.0 billion and Ksh 33.3 billion in 91-days and 182-days Treasury bills respectively. Treasury bonds maturities in the period will consist of Ksh 4.4 billion, Ksh 3.6 billion, Ksh 1.5 billion and Ksh 5.4 billion in 2-year, 4-year, 5-year and 6-year bonds, respectively.

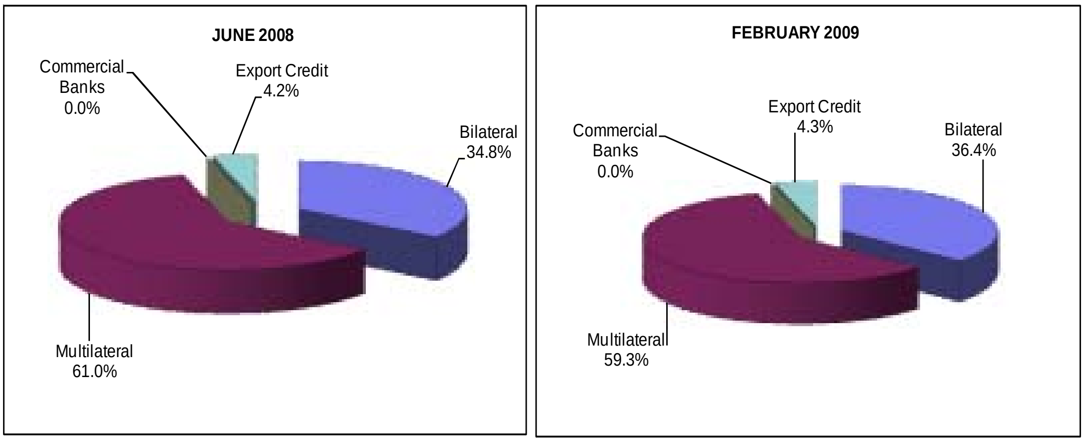
External Debt

Kenya's external debt increased by 17.0 percent from Ksh 440.0 billion (USD 6.8 billion) in June 2008 to Ksh 514.7 billion (USD 6.5 billion) in February 2009 following weakening of the shilling against the Euro, dollar and the Sterling Pound (Table 7.1). The increase in the debt during the period followed external loans disbursement of Ksh 14.1 billion and revaluation loss of Ksh 72.4 billion which more than offset repayment of Ksh 11.7 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to bilateral creditors and contracted through export credits increased from 34.8 percent and 4.2 percent in June 2008 to 36.4 percent and 4.3 percent, respectively, in February 2009 (Chart 7E). However, multilateral external loans (including loans from the IMF) decreased from 61.0 percent of total external debt to 59.3 percent during the period.

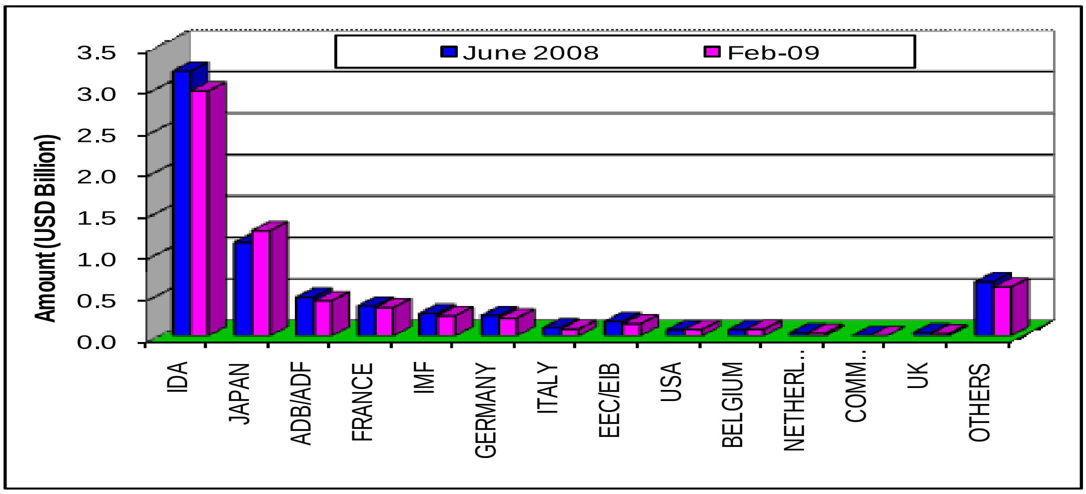
CHART 7E: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

As shown in Chart 7F, external debt owed to International Development Assistance (IDA) decreased from USD 3.2 billion in June 2008 to USD 3.0 billion in February 2009, while debt owed to Japan increased from USD 1.1 billion in June 2008 to USD 1.3 billion in February 2009. However, the two remained the largest multilateral and bilateral creditors to Kenya during the period.

CHART 7F: EXTERNAL DEBT BY CREDITOR

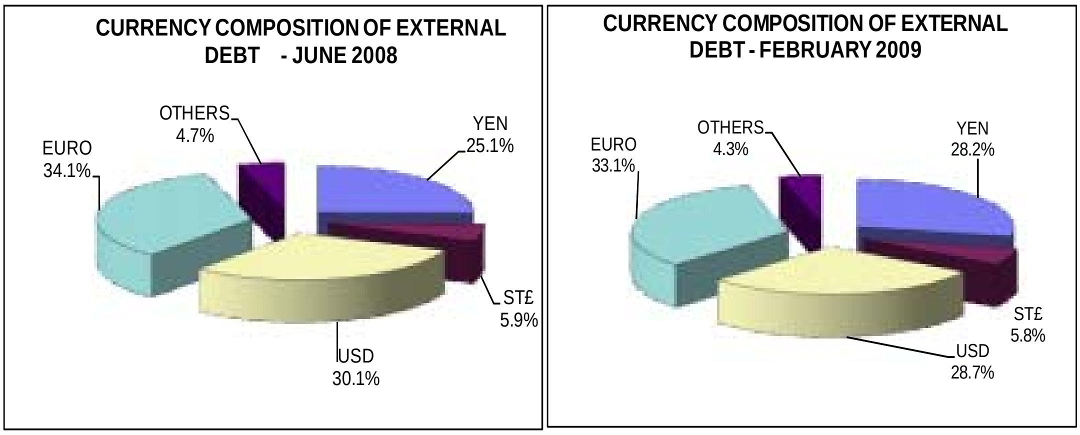


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in US dollars, Sterling Pound, the Euro and of other currencies including SDRs decreased from 30.1 percent, 5.9 percent, 34.1 percent and 4.7 percent in June 2008 to 28.7 percent, 5.8 percent, 33.1 percent and 4.3 percent in February 2009, respectively. However, the external debt proportion held in Yen increased from 25.1 percent to 28.2 percent during the period. (Chart 7G).

CHART 7G: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt increased from Ksh 27.9 billion in the first eight months of the fiscal year 2007/08 to Ksh 30.5 billion in a similar period of the fiscal year 2008/09. Consequently, the percentage of domestic interest in ordinary Government revenue increased from 10.4 percent to 10.6 percent during the period. During the period, external debt service increased from Ksh 13.7 billion or 5.1 percent of ordinary revenue to Ksh 15.9 billion or 5.6 percent of ordinary revenue following weakening of the shilling against the major currencies. The external debt service in the period comprised Ksh 11.9 billion in principal repayments and Ksh 3.9 billion in interest payment.

Outlook for the FY 2008/09

Government domestic and external borrowings during the fiscal year 2008/09 are projected at Ksh 25.2 billion and Ksh 54.5 billion respectively. However, as indicated in the Budget Strategy Paper for 2008/09 to 2010/11, gross domestic debt-to-GDP ratio is projected to fall from 22.0 percent in June 2008 to 21.0 percent in June 2009 as GDP is expected to increase at a faster rate compared with domestic debt. However, the Government plans to issue a sovereign bond in the international market totalling Ksh 33.6 billion in addition to the expected external borrowing. Consequently, external debt-to-GDP ratio is expected to increase from 19.5 percent to 21.9 percent during the period, which will however be lower than the 23.1 percent in June 2008.

Activity in the Stock Market

Equity Market

The stock market experienced mixed performance in the month of April 2009 as reflected by key market indicators (Table 8.1). The number of shares traded increased by 3.9 percent from 207.4 million in March 2009 to 215.6 million in April 2009.

Equity turnover increased by 5.6 percent or Ksh 135 million, from Ksh 2,414.1 million in March 2009 to Ksh 2,549.1 million in April 2009. The market capitalization declined by 0.8 percent or Ksh 5.6 billion, from Ksh 688.7 billion in February 2009 to Ksh 683.0 billion in April 2009. The decrease in market capitalization is attributed to the decline in price of most counters. The NSE 20 Share Index declined by 4.93 points to close at 2,800.1 points in April, 2009. Market liquidity ratio increased to 0.35 percent in April 2009 from 0.33 percent in March 2009 reflecting an increase in the number of shares traded.

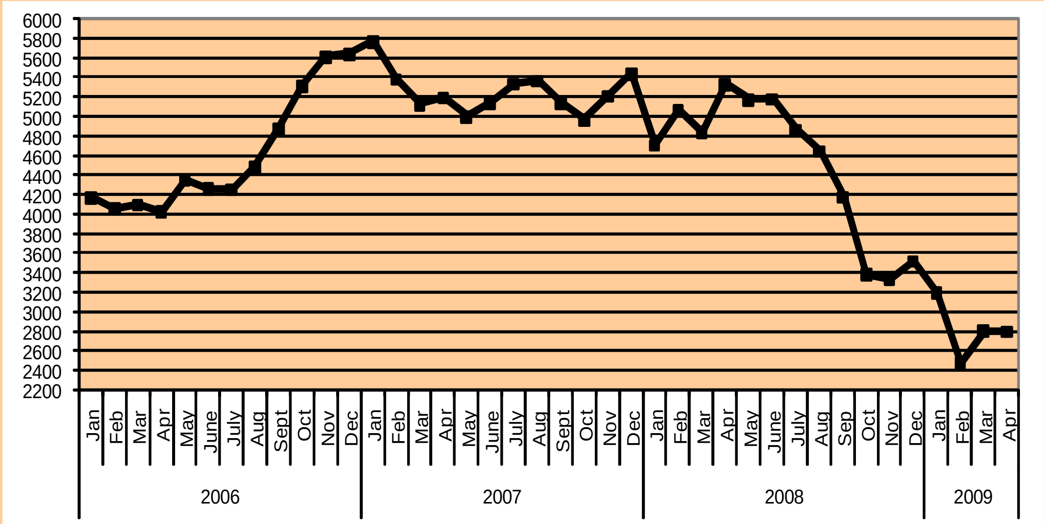
TABLE 8.1: SELECTED STOCK MARKET INDICATORS

Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
January 07	5,774.24	136.31	10,482.89	824.29	1,601.75
February 07	5,387.28	109.08	7,763.86	723.66	6,234.20
March 07	5,133.67	114.27	6,955.35	696.92	7,789.26
April 07	5,199.44	87.45	4,342.38	701.98	6,266.30
May 07	5,001.77	123.72	6,224.92	709.69	9,555.15
Jun 07	5,146.73	151.11	6,079.43	743.91	10,077.70
July 07	5,340.08	168.57	6,442.34	780.72	8,242.80
August 07	5,371.72	248.14	9,251.20	811.23	10,829.55
September 07	5,146.46	275.7	9,902	791.7	9,523.20
October 07	4,971.04	183.60	7,214.02	745.50	3,486.95
November 07	5,215.36	177.95	7,522.12	798.15	4,695.70
December 07	5,444.83	140.80	6,017.99	851.13	7,007.20
January 08	4,712.71	197.04	7,046.14	775.20	5,937.90
February 08	5,072.41	198.83	8,011.26	830.65	3,212.55
March 08	4,843.17	180.64	7,320.55	781.66	14,345.35
April 08	5,336.03	141.76	5,635.56	907.90	2,145.10
May 08	5,175.83	168.03	6,840.00	916.74	3,040.00
June 08	5,185.56	2,154.90	22,130.01	1,230.67	4,910.00
July 08	4,868.27	983.75	14,280.00	1,120.08	2,397.93
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	2800.10	215.56	2549.12	683.03	1,370.00

Source: Nairobi Stock Exchange

The Commercial and Services sector dominated the market trading 118.8 million shares during the month of April 2009. The most traded share in the sector was Safaricom which traded 104 million shares. The Industrial and Allied sector traded 22.1 million shares with Kengen trading 6.2 million shares. The Finance and Investment sector traded 70.7 million shares. The most active stock was Equity Bank which traded 39.1 million shares. The agricultural sector traded 3.9 million shares in the same period.

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



Source: Nairobi Stock Exchange

Bond Market The bond turnover declined by 17percent, with bonds worth Ksh 1.37 million traded in April 2009, up from Ksh 18.5 million traded in March 2009.

Balance Sheet of the Central Bank of Kenya
(Kenya shillings million)

	Mar-09	Mar-08	Mar 08/Mar 09 Movement
ASSETS	264,523	268,476	(3,953)
Foreign Exchange	217,444	216,034	1,410
Advances and Discounts to Banks	0	0	0
Investment in Government Securities	174	0	174
Government Accounts	41,200	47,386	(6,186)
Overdraft to Government	6,199	8,142	(1,943)
Clearing Account	159	3,011	(2,852)
IMF funds on-lent to Government	958	1,239	(281)
Non-interest Bearing Government Debt	33,884	34,994	(1,110)
Other assets	5,705	5,056	649
Debtors	3,941	3,973	(32)
Retirement Benefits	55	240	(185)
Property and Equipment	1,433	564	869
Prepaid Leases	276	279	(3)
			0
LIABILITIES	264,523	268,476	(3,953)
Currency in Circulation	108,714	101,591	7,123
Repo Securities	2,510	27,589	(25,079)
Deposits	119,715	126,892	(7,177)
Commercial Banks			0
Kenya	46,695	51,416	(4,721)
External	89	21	68
Non-Bank Financial Institutions	0	0	0
Other Public Entities and Project A/Cs	8,427	9,529	(1,102)
IMF	21,827	19,529	2,298
Government	40,502	44,961	(4,459)
Local Banks Forex Settlement Fund	2,175	1,436	739
Other Liabilities and Provisions	4,997	1,458	3,539
Capital and Reserves	28,587	10,946	17,641
Capital	5,000	1,500	3,500
General Reserve Fund	9,254	7,759	1,495
Period's Surplus	14,333	1,687	12,646
Dividend payable	0	0	0

Source: Central Bank of Kenya

NOTES ON THE BALANCE SHEET

Asset

Foreign exchange reserves of the Bank declined by Ksh 1,410 million in March 2009, from Ksh 216,034 million in March 2008 to Ksh 217,444 million.

Advances and discounts to commercial banks remained at zero in the year to March 2009.

Government accounts declined by Ksh 6,186 million, from Ksh 47,386 million in March 2008 to Ksh 41,200 million in March 2009. The decline reflected Ksh 1,943 million decline in utilisation of the overdraft facility. The decrease is also attributed to a repayment of Ksh 1,110 million in non-interest bearing Government debt, a repayment of Ksh 2,852 million in the clearing account balances and a repayment in the IMF funds on-lent to Government by Ksh 281 million.

Other assets rose by Ksh 649 million in the year to March 2009 on account of an increase of Ksh 869 million in the value of property and equipment. This increase was, however, partially offset by a decline in the value of retirement benefits by Ksh 185 million, and by Ksh 32 million decline in the value of debtors.

Liabilites

Currency in circulation rose by 7.0 percent or Ksh 7,123 million in March 2009, from Ksh 101,591 million in March 2008 to Ksh 108,714 million.

The **stock of repo securities** declined by 90.9 percent or Ksh 25,079 million, from Ksh 27,589 million in March 2008 to Ksh 2,510 million in March 2009.

Deposits declined by Ksh 7,177 million, from Ksh 126,892 million in March 2008 to Ksh 119,715 million in March 2009, reflecting declines in Commercial Banks' deposits at the Central Bank of Ksh 4,721 million, an increase in IMF deposits liabilities with the Bank of Ksh 2,298 million and an increase in Local banks forex settlement funds of Ksh 739 million. The increases were however offset by a decline in Government of Kenya deposits of Ksh 4,459 million and a decline in other Public Entities and Project account deposits of Ksh 1,102 million.

Other liabilities and provisions rose by Ksh 3,539 million, from Ksh 1,458 million in March 2008 to Ksh 4,997 million in the year to March 2009.

Capital and reserves rose by 161.2 percent or Ksh 17,641 million, from Ksh 10,946 million in March 2008 to Ksh 28,587 million in the year to March 2009, due to an increase in the surplus of the year to March 2009 of Ksh 12,646 million, an increase of Ksh 1,495 million in the general reserve fund and an increase of Ksh 3,500 in the capital reserves.