MONTHLY ECONOMIC REVIEW
OCTOBER 2007
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
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Overview

Introduction

This Monthly Economic Review highlights recent economic developments through September 2007. It highlights developments in money, credit and banking, inflation, interest rates, the shilling exchange rate, and the real sector. It also highlights Government budgetary operations, public debt and balance of payments developments.

GDP Growth

The economy grew by 6.1 percent in 2006 compared with 5.7 percent in 2005. Leading economic indicators in January - September 2007 point to favourable economic growth as the economy grew by 7.1 percent in the second quarter of 2007 compared with 5.8 percent in the second quarter of 2006.

Inflation

Overall 12-month inflation dropped from 11.7 percent in September 2007 to 10.6 percent in October 2007. Similarly, average annual inflation dropped from 10.6 percent in September 2007 to 10.2 percent in October 2007.

Government Fiscal Operations

The performance of the Government budget in the first two months of 2007/08 improved significantly from that in the previous fiscal year following improved tax revenue collections. Consequently, the budgetary operations of the Government in the period resulted in a budget deficit of Ksh. 3.6 billion or 0.2 percent of GDP on commitment basis compared with a deficit of Ksh. 11.5 billion or 0.7 percent of GDP in a similar period in the previous fiscal year. The budget deficit in the period was also within the target deficit of 0.4 percent of GDP.

Public Debt Developments

Public and publicly guaranteed debt increased from Ksh 801.3 billion in June 2007 to Ksh 825.0 billion in August 2007. Similarly, the overall debt to GDP ratio increased slightly from 43.8 percent in June 2007 to 44.2 percent in August 2007. The proportion of domestic debt to GDP increased slightly from 22.1 percent to 22.3 percent during the period while external debt to GDP ratio increased from 21.7 percent to 21.9 percent.

Monetary Expansion

Money supply, M3[1], grew by 17.7 percent in the year to September 2007 compared with 17.4 percent in the year to September 2006. At 17.7 percent, M3 expansion in September 2007 was slower than 19 percent in August 2007 and was within the target growth of 18.4 percent for the September 2007 quarter.

Interest Rates

Short term interest rates went up in October 2007 as the average 91-day Treasury bill rate increased from 7.4 percent in September 2007 to 7.6 percent in October 2007. The 182-day Treasury bill rate also increased from 7.82 percent in September 2007 to 7.84 percent in October 2007 reflecting the increased amount of bills offered by the Government.

Balance of Payments

The balance of payments reduced from a surplus of US$ 777 million in the year to August 2006 to US$ 350 million in the year to August 2007 reflecting the widening in the current account deficit brought about by increased merchandise imports.

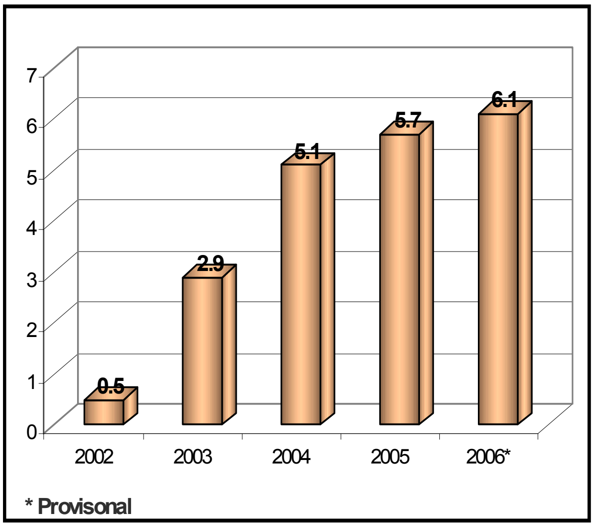
Exchange Rates

The Kenya shilling appreciated against the US dollar and the Japanese Yen in October 2007 but depreciated against the Sterling Pound and the Euro. Against the US dollar, the shilling exchanged at an average of Ksh 66.8 per US dollar in October 2007 compared with Ksh 67.0 per US dollar in September 2007. Against regional currencies, the shilling depreciated against the Uganda and Tanzania shillings

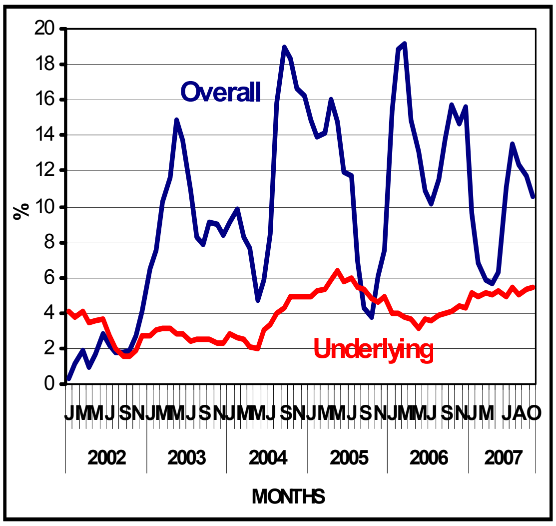
[1] Effective January 2006, the CBK adopted a harmonized definition of monetary aggregates to conform to those of the East African Community (EAC) member countries. Consequently, M3X, the intermediate target of monetary policy in Kenya under the reserve money programme has been renamed broad money M3.

SELECTED ECONOMIC PERFORMANCE INDICATORS

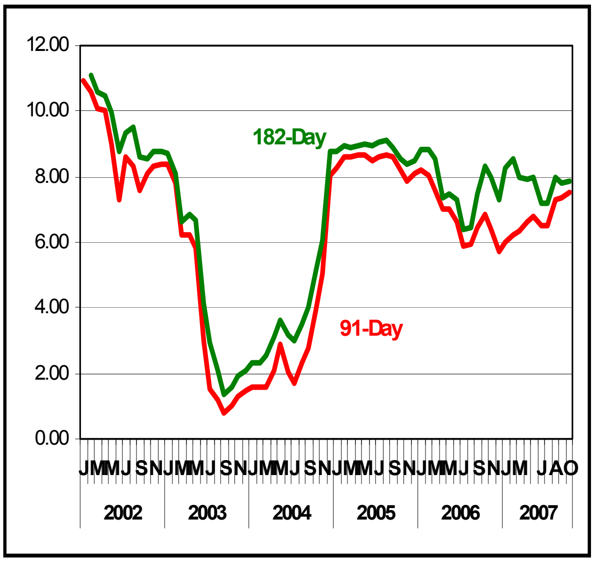
Real GDP Growth



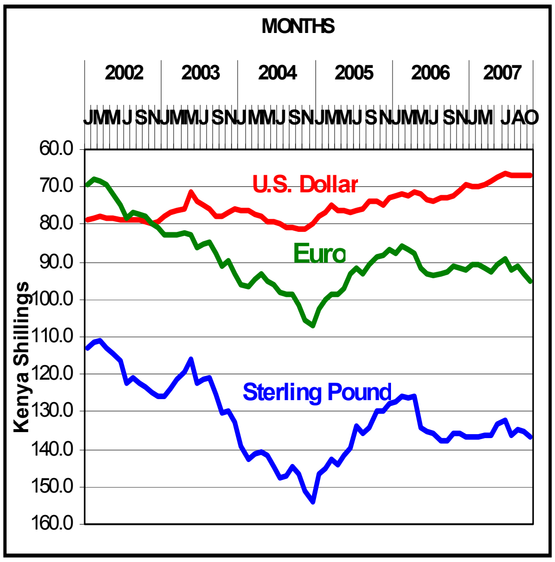
Inflation



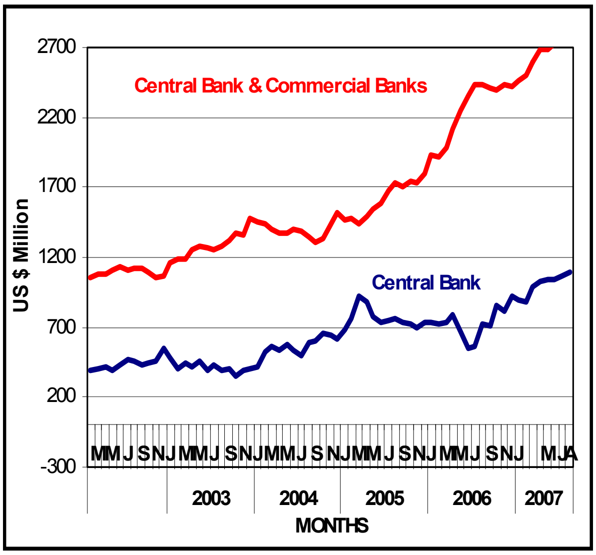
Treasury Bill Rates



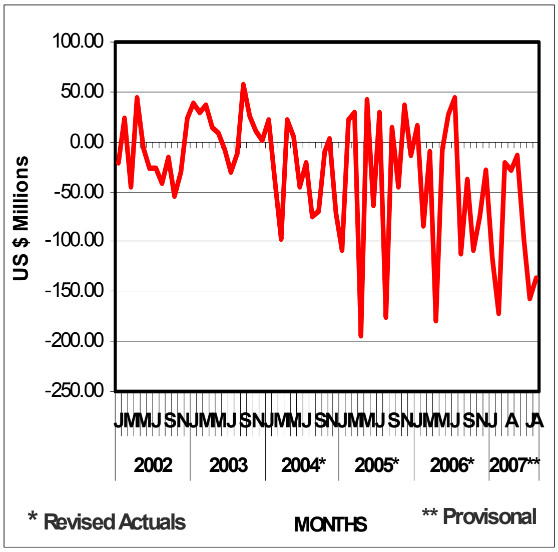
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS, 1998 - 2006

INDICATOR	1998	1999	2000	2001	2002	2003	2004	2005	2006
1. POPULATION*									
People in Millions	28.88	29.54	29.53	30.90	32.20	33.20	34.20	35.10	36.10
Growth (%)	2.31	2.29	3.00	4.64	4.21	3.11	2.54	2.50	2.85
2. NATIONAL ACCOUNTS**									
GDP at Basic Prices (Ksh m)	850.81	906.93	858,919	906,874	918,914	1,012,340	1,140,046	1,276,969	1,456,391
GDP at Market Prices (Kshs m):									
At Current Prices	844.38	867.18	967,838	1,020,022	1,035,374	1,138,061	1,286,462	1,445,477	1,642,405
At Constant 2001 Market Prices	955.18	977.00	982,855	1,020,022	1,025,584	1,055,658	1,109,338	1,172,784	1,244,445
Real GDP Growth (%)	3.30	2.30	0.60	4.50	0.60	3.00	4.90	5.80	6.10
Per Capita Income Real 2001 prices (Ksh)	333.60	296.60	33,283	33,767	31,828	31,825	32,457	33,376	34,435
3. GROSS NATIONAL SAVINGS (%of GDP at mkt prices)[3]	**8.90**	**9.70**	**12.9**	**10.0**	**8.1**	**9.3**	**10.1**	**12.3**	**11.5**
4. GROSS DOMESTIC SAVINGS (%of GDP at mkt prices)[3]	**6.06**	**5.67**	**6.7**	**4.4**	**4.0**	**4.1**	**6.8**	**7.4**	**6.9**
5. GROSS DOMESTIC INVESTMENTS (%of GDP at mkt prices)	**17.30**	**16.20**	**17.4**	**18.8**	**14.9**	**15.9**	**16.3**	**17.5**	**21.1**
6. CONSUMER PRICE INFLATION (URBAN) 1997 BASE									
Average Annual Inflation	6.70	5.60	10.01	5.87	1.96	9.82	11.62	10.31	14.45
Twelve-month Inflation (Dec-Dec) * Revised	0.67	10.43	11.89	1.78	4.10	8.35	16.25	7.56	15.59
7. STOCK MARKET									
Nairobi Stock Exchange Price Index (1966=100)	2,963.10	2,303.20	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65
Trade Turnover (%)	0.40	0.23	0.17	0.17	0.50	0.89	0.92	0.88	0.83
8. GOVERNMENT BUDGET (Ksh bn) ***									
Revenue and Grants	184.87	201.18	182.69	216.39	203.44	228.16	270.92	303.85	331.21
Expenditure	194.97	197.34	175.12	232.92	225.76	255.28	289.54	298.13	368.65
Budget Deficit (-) / Surplus (+)	-10.10	3.84	7.57	-16.53	-22.32	-27.11	-18.62	5.72	-37.44
Budget Deficit (% of GDP)	-1.25	0.44	0.81	-1.66	-2.19	-2.51	-1.54	0.42	-2.39
9. MONEY AND CREDIT (Ksh bn)(end period)									
Liquidity (L)[1]	381.35	414.43	435.47	462.13	521.20	569.43	633.92	712.32	834.16
Money Supply (M3)[2]	328.32	345.73	360.01	368.39	406.01	453.35	513.16	565.49	666.84
Reserve Money	74.99	78.99	77.73	79.12	88.45	87.52	101.05	106.23	124.16
Total Domestic Credit	**350.60**	**358.48**	**331.29**	**334.00**	**364.93**	**405.20**	**473.61**	**498.66**	**575.76**
Government	91.10	84.13	76.45	89.08	108.61	133.85	132.34	122.16	137.81
Private sector and other public sector	260.60	274.35	254.85	244.93	256.33	271.41	341.27	376.50	437.94
10. BALANCE OF PAYMENTS (US$ m)**									
Overall Balance	**-4.80**	**5.80**	**108.20**	**166.38**	**3.26**	**413.33**	**38.85**	**280.12**	**616.43**
Current Account	-475.10	-89.60	-237.50	-383.39	-117.69	146.20	-137.04	-260.57	-525.67
Capital and Financial Account	617.50	263.80	416.22	348.20	-31.67	537.82	239.52	765.90	884.62
11. FOREIGN EXCHANGE RESERVES (US$ m) END PERIOD	**1,100.00**	**1,104.00**	**1,398.72**	**1,459.35**	**1,612.69**	**1,888.04**	**2,078.40**	**2,534.16**	**3,331.30**
Official	782.00	789.00	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27
*Months of imports**** *	*(2.5)*	*(2.9)*	*(2.8)*	*(3.2)*	*(3.3)*	*(4.2)*	*(3.4)*	*(3.2)*	*(3.5)*
Commercial Banks	328.00	315.00	501.30	395.53	545.70	408.28	559.67	735.34	916.03
12. PUBLIC DEBT (US$ bn) END PERIOD***	**8.45**	**8.00**	**7.58**	**7.85**	**8.09**	**9.39**	**9.14**	**9.84**	**10.68**
Domestic	3.00	2.60	2.50	2.80	3.30	3.90	3.85	4.14	4.84
As % of GDP	*22.01*	*21.84*	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*
External	5.45	5.40	5.08	5.05	4.79	5.49	5.29	5.70	5.84
As % of GDP	*39.99*	*45.36*	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*
13. EXCHANGE RATE (Ksh/US$) (ANNUAL AVERAGE)	**60.40**	**70.30**	**76.20**	**78.60**	**78.70**	**75.93**	**79.28**	**75.55**	**72.10**

* Provisional.

** Revised to reflect data in Economic Survey 2007.

*** Fiscal year to June 30th.

**** Figures in parentheses refer to official reserves in 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

	2006				2007									
INDICATOR	Jun	Sep	Oct	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
1. INFLATION (%)														
CPI	**202.45**	**204.22**	**208.04**	**214.05**	**220.72**	**223.59**	**225.30**	**222.61**	**221.83**	**224.93**	**226.57**	**225.79**	**228.15**	**229.99**
Overall Inflation														
12-month overall inflation	10.93	13.85	15.69	15.59	9.67	6.81	5.87	5.66	6.33	11.10	13.56	12.37	11.72	10.55
Average annual overall inflation	11.12	12.13	13.11	14.45	13.94	12.88	11.73	10.92	10.33	10.35	10.64	10.72	10.57	10.19
Underlying Inflation*														
12-month underlying inflation	3.68	4.02	4.11	4.32	5.15	4.92	5.13	5.03	5.22	4.90	5.46	5.06	5.34	5.41
Average annual underlying inflation	4.44	4.09	3.95	3.88	3.98	4.06	4.17	4.29	4.46	4.56	4.72	4.81	4.92	5.03
2. INTEREST RATES (%)														
91-day Treasury bill interest rate	6.60	6.45	6.83	5.73	6.00	6.22	6.32	6.65	6.77	6.53	6.52	7.3	7.3	7.55
Overdraft interest rate	13.78	13.42	13.94	13.91	14.11	14.05	13.95	13.58	13.35	13.20	13.34	13.39	13.26	
3. STOCK MARKET														
Nairobi Stock Exchange Price Index	4,260.49	4,879.86	5,314.36	5,645.65	5,774.24	5,387.28	5,133.67	5,199.44	5,001.77	5,146.73	5,340.08	5,371.72	5,146.46	4,971.04
Turnover (%)	1.90	2.24	2.04	0.83	1.38	1.05	1.10	0.72	1.00	1.20	1.34	1.88	2.09	1.39
4. GOVERNMENT BUDGET** (Ksh bn.)														
Revenue	327.80	77.73	107.86	170.16	195.32	221.74	256.71	305.21	331.21	383.59	34.2	66.0		
Expenses	383.00	94.57	128.57	194.39	219.73	255.44	284.20	334.50	368.65	405.20	29.3	69.6		
Budget Deficit (-) / Surplus (+)	**(55.20)**	**(16.84)**	**(20.71)**	**(24.23)**	**(24.41)**	**(33.69)**	**(27.49)**	**(29.29)**	**(37.44)**	**(21.61)**	**4.90**	**(3.65)**		
5. MONEY AND CREDIT (Ksh bn.)														
Liquidity (L)¹	765.38	796.15	804.57	826.91	832.09	831.91	858.80	866.11	880.42	894.60	902.18	920.50	927.11	
Money Supply (M3)²	605.51	632.01	642.81	659.59	662.15	665.98	684.97	690.44	701.52	719.52	723.32	741.05	743.99	
Reserve Money	107.68	112.29	113.93	124.16	118.85	119.90	122.17	126.08	124.57	126.47	128.42	132.44	131.33	
Total Domestic Credit	**521.72**	**540.82**	**557.08**	**571.48**	**577.62**	**579.65**	**591.25**	**595.70**	**606.03**	**606.75**	**616.37**	**632.66**	**638.06**	
Government	117.89	130.08	139.69	137.81	137.24	134.25	137.80	132.52	134.30	157.17	156.03	163.22	160.41	
Private sector and other public sector	463.18	410.74	417.39	433.67	440.38	445.40	453.45	463.18	471.72	449.97	460.34	469.44	477.65	
6. MONEY AND CREDIT (Annual % Change)														
Liquidity (L)¹	16.25	16.63	16.00	16.99	17.11	15.60	17.29	15.07	16.65	16.88	16.01	17.02	16.45	
Money Supply (M3)²	16.14	17.44	17.03	17.78	17.75	16.74	17.84	14.99	17.32	18.83	16.72	19.02	17.72	
Reserve Money	14.01	17.06	13.62	16.88	16.01	18.37	18.89	17.80	21.58	17.45	17.87	18.98	16.96	
Total Domestic Credit	**12.61**	**13.03**	**14.09**	**15.40**	**16.78**	**15.64**	**14.39**	**13.72**	**16.38**	**16.30**	**13.51**	**17.79**	**17.98**	
Government	4.98	9.49	14.34	12.81	16.20	14.87	9.45	7.10	10.33	33.32	15.69	24.21	23.32	
Private and other public sector	14.95	13.33	12.85	14.99	15.85	15.01	14.77	14.48	18.23	11.33	12.78	15.65	16.29	
7. BALANCE OF PAYMENTS (US$ m)														
Overall Balance	**103.70**	**(24.10)**	**3.93**	**(21.24)**	**51.55**	**44.18**	**92.97**	**101.34**	**(54.33)**	**44.56**	**85.66**	**(19.64)**		
Current Account	26.84	(37.35)	(108.85)	(27.71)	(115.15)	(172.59)	(21.15)	(27.79)	(14.32)	(96.36)	(157.05)	(135.63)		
Trade Balance	(275.56)	(305.84)	(382.78)	(360.09)	(392.31)	(469.73)	(322.03)	(337.18)	(393.71)	(411.37)	(439.94)	(428.90)		
Capital and Financial Account	76.85	13.25	112.78	6.47	166.70	216.77	114.12	129.13	(40.01)	140.92	242.70	115.99		
8. FOREIGN EXCHANGE RESERVES (US$ m)	2,909.42	3,113.30	3,252.44	3,331.30	3,284.30	3,381.13	3,570.40	3,717.17	3,719.22	3,767.46	3,869.52	3,871.43	3,869.69	
Official***	2,352.99	2,402.41	2,399.37	2,415.27	2,462.82	2,500.95	2,589.91	2,684.19	2,682.59	2,723.15	2,804.80	2,779.07	2,820.04	
Months of imports cover	*3.90*	*3.77*	*3.68*	*3.53*	*3.54*	*3.48*	*3.57*	*3.71*	*3.63*	*3.61*	*3.62*	*3.54*	*3.60*	
Commercial banks	556.42	710.89	853.07	916.03	821.48	880.18	980.49	1,032.98	1,036.63	1,044.31	1,064.72	1,092.37	1,049.66	
9. PUBLIC DEBT (US$ bn)	**9.99**	**10.38**	**10.47**	**10.94**	**10.72**	**10.94**	**11.26**	**11.87**	**12.10**	**12.04**	**12.16**	**12.32**		
Domestic	4.84	5.16	5.21	5.46	5.36	5.53	5.64	5.72	5.84	6.08	6.08	6.21		
As % of GDP	22.83	23.02	23.04	24.55	24.90	24.62	23.97	21.89	21.66	22.14	22.21	22.28		
External	5.15	5.22	5.26	5.48	5.36	5.41	5.62	6.15	6.27	5.96	6.09	6.11		
As % of GDP	27.51	26.18	26.04	24.55	24.90	24.62	23.97	23.60	23.26	21.69	22.24	21.92		
10. GROSS DOMESTIC DEBT (Ksh bn)*****	**357.84**	**371.59**	**375.52**	**385.10**	**378.10**	**385.80**	**386.29**	**390.49**	**390.80**	**404.70**	**410.2**	**415.9**	**426.8**	
11. AVERAGE EXCHANGE RATE														
Ksh/US$	73.41	72.87	72.29	69.63	69.88	69.62	69.29	68.58	67.19	66.57	67.07	66.95	67.02	66.85
Ksh/Pound Sterling	135.37	137.59	135.58	136.79	136.91	136.40	134.91	136.40	133.31	132.25	136.41	134.57	135.19	136.52
Ksh/ 100 Yen	64.03	62.26	60.95	59.47	58.09	57.76	59.08	57.73	55.65	54.27	55.17	57.38	58.25	57.76
Ksh/Euro	92.96	92.86	91.26	92.03	90.87	91.04	91.77	92.68	90.82	89.33	91.99	91.15	93.06	95.09

* Overall inflation excluding food, energy and transport and communications

** Data on Government budget remain provisional until the books for the fiscal year are audited.
Cumulative fiscal year 2002/03 budget out-turn: deficit including grants and on commitment basis.

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

**** Excludes the current value of Ksh 1,948m IMF disbursements on-lent to the Govt. by the CBK, which is included in external public debt.

¹ Previously M3XT

² Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

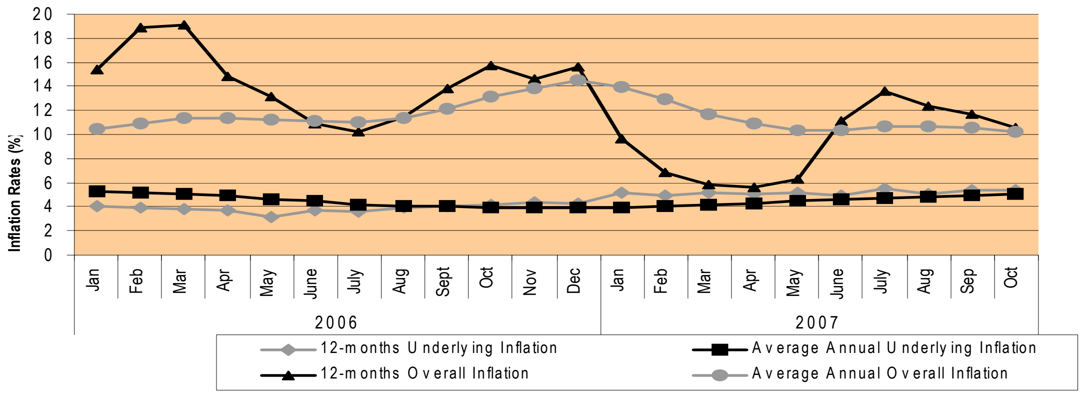
Overall 12-month inflation dropped from 11.7 percent in September 2007 to 10.6 percent in October 2007. Similarly, average annual inflation dropped from 10.6 percent in September 2007 to 10.2 percent in October 2007. The drop in overall inflation was mainly on account of a lower inflation for the food, alcohol and tobacco and the fuel and power categories of goods and services in the 12-months to October 2007 compared to the 12-months to September 2007.

Underlying Inflation

The 12-month underlying inflation rose from 5.3 percent in September 2007 to 5.4 percent in October 2007. The annual average underlying inflation rose from 4.9 percent in September 2007 to 5.0 percent in October 2007. The rise in the 12-month underlying inflation was largely as a result of increased prices of medical goods and services, and recreation and education.

Table 1.1 and Chart 1A depict trends in overall and underlying inflation between January 2006 and October 2007. Overall inflation has been recording double digit inflation since June 2007 as a result of high food prices. Overall inflation is, however, on the decline as a result of stabilizing food inflation.

CHART 1A: UNDERLYING AND OVERALL INFLATION



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

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2006			2007								
	Oct	Nov	Dec	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct
Underlying Inflation												
12-month	4.11	4.39	4.32	4.92	5.13	5.03	5.22	4.90	5.46	5.06	5.34	5.41
Average annual	3.95	3.93	3.88	4.06	4.17	4.29	4.46	4.56	4.72	4.81	4.92	5.03
Growth over one month	0.22	0.29	0.48	0.05	0.37	0.23	0.19	0.80	0.64	0.15	0.59	0.29
Growth over 3 months	1.09	0.84	0.99	1.74	1.63	0.65	0.79	1.22	1.64	1.60	1.40	1.04
Overall Inflation												
12-month	15.69	14.64	15.59	6.81	5.87	5.66	6.33	11.10	13.56	12.37	11.72	10.55
Average annual	13.11	13.81	14.45	12.88	11.73	10.92	10.33	10.35	10.64	10.72	10.57	10.19
Growth over one month	1.90	0.30	2.60	1.30	0.80	-1.20	-0.40	1.40	0.70	-0.30	1.00	0.80
Growth over 3 months	4.30	3.80	4.80	7.20	5.30	0.90	-0.80	-0.20	1.80	1.80	1.40	1.50

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

Inflation by Income Groups

All income groups experienced lower 12-month inflation during the year to October 2007 than in the year to September 2007, except for the Nairobi Middle/Upper income group. Inflation for this group rose from 10.1 percent in September 2007 to 10.2 percent in October 2007. The Nairobi Lower income group had a inflation of 9.5 percent in October 2007 compared with 12.3 percent in September 2007. The combined Nairobi inflation dropped from 11.9 percent in September 2007 to 9.6 percent in October 2007. Inflation for the "Rest of Kenya" income group recorded a drop in the 12-month inflation from 11.6 percent in September 2007 to 11.2 percent in October 2007.

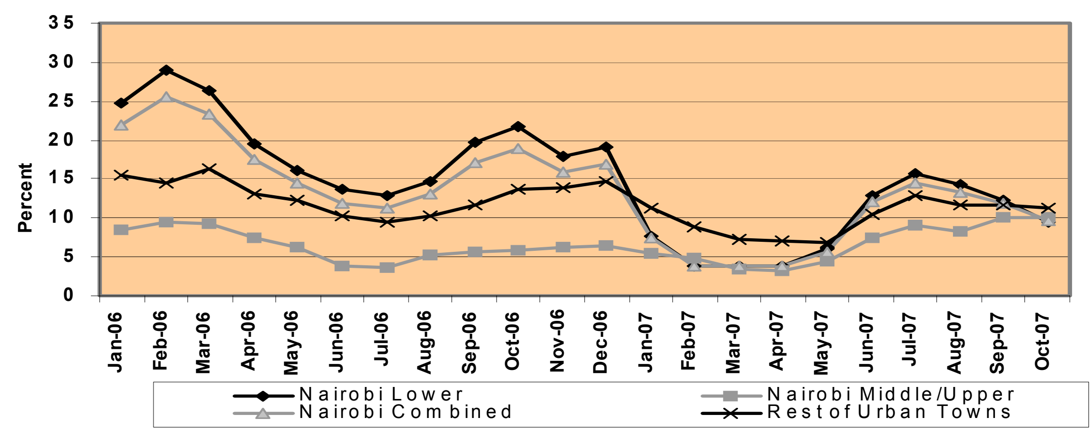
Details on inflation by income groups are shown in Table 1.2 and Chart 1 B.

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

	2006		2007									
	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct
Nairobi Lower	17.86	19.20	7.73	3.75	3.88	3.86	5.95	12.93	15.65	14.34	12.27	9.48
Nairobi Middle/Upper	6.33	6.44	5.34	4.76	3.43	3.14	4.51	7.44	9.04	8.27	10.10	10.15
Nairobi Income \[1]	15.83	16.99	7.35	3.90	3.81	3.75	5.72	12.04	14.56	13.34	11.92	9.60
Rest of Urban Towns	13.82	14.67	11.32	8.90	7.32	6.96	6.75	10.50	12.90	11.72	11.59	11.18

[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

Four of the ten categories of goods and services recorded lower 12-month inflation in the month of October 2007 than in September 2007. Food inflation, which continues to be the major contributor to the overall inflation, dropped from 16.1 percent in the 12-months to September 2007 to 14.0 percent in the 12-months to October 2007.

The 12-month inflation for all the other categories of goods and services remained within single digit. Inflation for alcohol and tobacco dropped to 7.8 percent in October 2007. Similarly, inflation for fuel and power dropped to 5.9 percent, while inflation for personal goods and services dropped to 3.7 percent in October 2007. On the other hand, inflation for medical goods and services, and transport and communication, increased to 4.4 percent and 3.1 percent respectively in the year to October 2007. Inflation for clothing and footwear, housing, and household goods and services, remained unchanged at 2.8 percent, 7.5 percent and 6.2 percent respectively in October 2007.

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

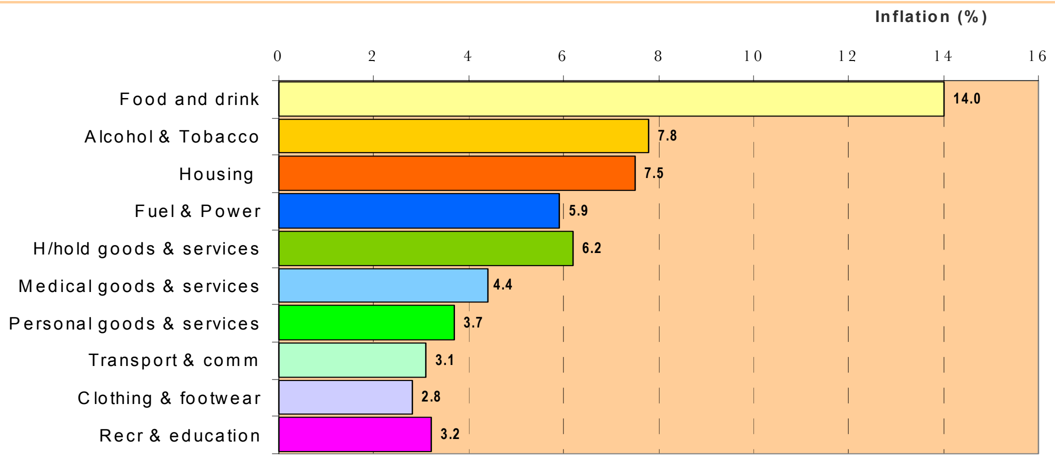
TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES - OCTOBER 2006 TO OCTOBER 2007

	Income Groups*													
Goods and Services	Nairobi Lower	Middle/Upper	Rest of Urban Towns	Combined weights	2006			2007						
Weight	*(31.9)*	*(8.0)*	*(60.1)*	*(100)*	Oct	Nov	Dec	Apr	May	June	July	Aug	Sep	Oct
Food and drink	55.70	31.90	50.20	50.50	22.99	21.10	22.60	5.50	6.70	15.00	18.90	17.20	16.10	14.00
Housing	11.90	31.70	9.00	11.70	5.07	5.90	6.00	7.20	7.10	5.80	7.20	6.50	7.50	7.50
Recr & education	4.60	7.30	6.60	6.00	2.16	2.00	2.10	3.30	3.20	3.10	2.90	2.70	2.80	3.20
H/hold goods & services	5.00	4.70	6.40	5.80	3.95	4.40	4.70	5.20	5.70	5.90	6.00	6.30	6.20	6.20
Clothing & footwear	9.20	7.40	9.10	9.00	2.84	2.80	3.00	3.80	4.00	3.30	3.00	2.70	2.80	2.80
Transport & comm	5.10	10.20	5.50	5.70	8.24	7.10	6.50	5.80	5.50	3.10	3.20	3.80	2.80	3.10
Fuel & Power	3.50	2.20	4.80	4.20	13.52	13.00	13.50	10.50	8.60	8.50	8.70	7.00	6.30	5.90
Medical goods & services	0.90	1.30	2.00	1.60	3.36	4.10	3.10	4.10	3.50	4.70	4.80	4.90	4.10	4.40
Personal goods & services	2.30	1.90	2.60	2.40	1.99	1.80	2.00	2.60	3.00	3.60	3.80	4.10	3.90	3.70
Alcohol & Tobacco	1.80	1.40	3.80	3.00	9.33	8.80	7.00	5.10	6.60	8.00	9.80	8.10	8.10	7.80

* 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 IN OCTOBER 2007



Source: Kenya National Bureau of Statistics

Inflation Outlook

Inflation will continue to hinge largely on food prices and international oil prices.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Money supply, M3[1], grew by 17.7 percent in the year to September 2007 compared with 17.4 percent in the year to September 2006 as shown in Table 2.1 and Chart 2A. At 17.7 percent, M3 expansion in September 2007 was slower than 19.0 percent in August 2007 and was within the target growth of 18.4 percent for the September 2007 quarter. Money supply, M2, grew by 17.4 percent in September 2007 compared with 18.5 percent in September 2006. The slowdown in M2 growth was in quasi deposits which increased by 2.7 percent in the year to September 2007 compared with a 16.9 percent increase in a similar period in 2006.

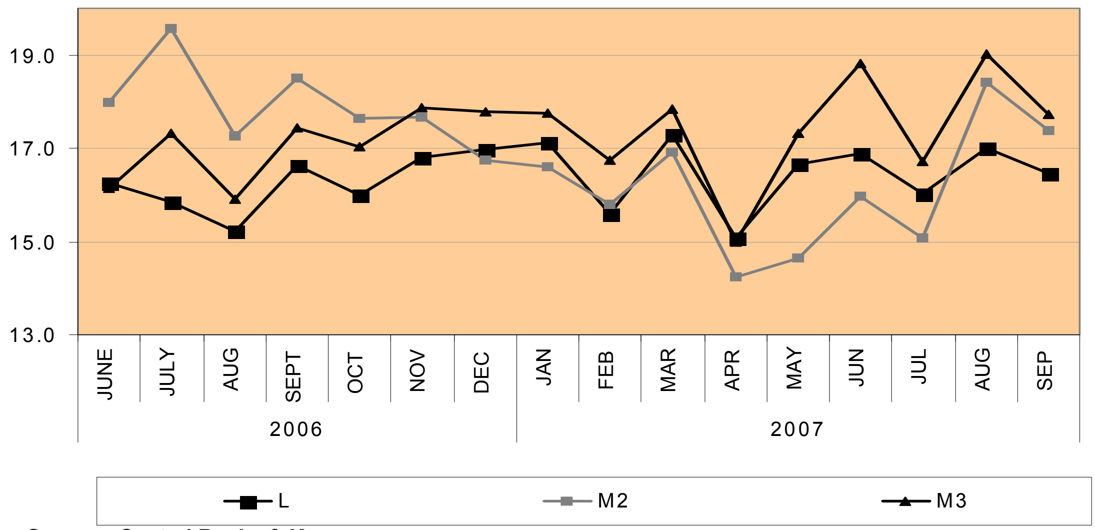
TABLE 2.1: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

Monetary Aggregates	2006			2007			
	Jun	Sep	Dec	Mar	Jun	Aug	Sep
Currency outside banks	13.3	15.8	15.3	19.2	16.2	18.4	16.6
M1	16.4	21.0	26.2	21.3	31.1	33.6	30.9
M2	18.0	18.5	16.7	16.9	16.0	18.4	17.4
M3	16.0	17.4	17.9	17.8	18.8	19.0	17.7
L*	16.2	16.6	17.1	17.3	16.9	17.0	16.4

* 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

[1] Effective July 2006, 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.

M3 growth in the year to September 2007 originated mainly from increased net domestic assets (NDA) of the banking system. NDA of the banking system grew by 18.0 percent in the year to September 2007 compared with 13.7 percent in a similar period in 2006, mainly reflecting increased credit to the private sector. Growth in net foreign assets (NFA) of the banking system, however, slowed down to 17.2 percent in the year to September 2007 compared with 26.2 percent increase in the year to September 2006 as shown in Table 2.2.

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

	2005 September	2006 September	2007 September	Sep-06 12 months %age change	Sep-07 12 months %age change
1. Money Supply, M3 (2+3) 2/	**538.2**	**632.0**	**744.0**	**17.4**	**17.7**
1.1 Money supply, M2 3/	453.8	537.7	631.1	18.5	17.4
1.2 Money supply, M1	220.8	267.2	349.7	21.0	30.9
1.3 Currency outside banks	59.3	68.7	80.1	15.8	16.6
2. Net Foreign Assets 4/	**162.4**	**204.9**	**240.1**	**26.2**	**17.2**
Central Bank	114.2	162.1	179.7	42.0	10.8
Banking Institutions	48.2	42.8	60.4	-11.2	41.2
3. Net Domestic Assets (3.1+3.2)	**375.8**	**427.1**	**503.9**	**13.7**	**18.0**
3.1 Domestic Credit (3.1.1+3.1.2)	**478.5**	**540.8**	**638.1**	**13.0**	**18.0**
3.1.1 Government (net)	118.8	130.1	160.4	9.5	23.3
3.1.2 Private sector and other public sector	359.7	410.7	477.6	14.2	16.3
3.2 Other Assets Net (3-3.1)	-102.7	-113.7	-134.2	10.7	18.0
Memorandum items					
1. Overall Liquidity, L 1/	**682.6**	**796.2**	**927.1**	**16.6**	**16.4**
2. Reserve Money	**95.9**	**112.3**	**131.3**	**17.1**	**17.0**
Currency outside banks	59.3	68.7	80.1	15.8	16.6
Bank reserves	36.6	43.6	51.3	19.1	17.5

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.

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 constant exchange rate of Ksh 73.88 to the US dollar (June 30th, 2006).

Source: Central Bank of Kenya

Net foreign assets contributed 5.6 percent of the growth in money supply, M3, in September 2007 from 8.4 percent in September 2006 as shown in Table 2.3. Meanwhile, growth in net domestic assets of the banking system accounted for 12.1 percent of the expansion in M3 in September 2007 from 9.0 percent in September 2006.

TABLE 2.3: CONTRIBUTION TO M3 GROWTH (%)

	2006			2007			
	Jun	Sep	Dec	Mar	Jun	Aug	Sep
Annual growth in M3	**16.1**	**17.4**	**17.8**	**17.8**	**18.8**	**19.0**	**17.7**
Net Foreign Assets	**7.1**	**8.4**	**8.8**	**8.4**	**8.0**	**5.6**	**5.6**
Net Domestic Assets	**9.0**	**9.0**	**9.0**	**9.4**	**10.9**	**13.4**	**12.1**
Domestic Credit	**11.2**	**12.0**	**13.6**	**12.8**	**14.0**	**15.3**	**15.4**
Government (net)	1.1	1.5	2.8	2.0	6.5	5.1	4.8
Rest of Economy	10.1	10.5	10.8	10.8	7.6	10.2	10.6
Other public sector	0.4	1.2	1.2	1.1	0.0	-0.5	-0.4
Private Sector	9.8	9.4	9.7	9.6	7.5	10.7	11.0
Other items (net)	**-2.2**	**-4.6**	**-4.6**	**-3.4**	**-3.2**	**-1.9**	**-3.2**

Source: Central Bank of Kenya

Credit Developments

Domestic credit grew by 18 percent in the year to September 2007 compared with 13 percent in the year to September 2006. Credit to Government increased by 23.3 percent in the year to September 2007 compared with 9.5 percent increase in a similar period in 2006. Growth in private sector credit accelerated from 13.3 percent in September 2006 to 17.5 percent in the year to September 2007. Credit to the private sector was in line with recent economic performance. Overall, credit to Government accounted for 25.1 percent of total domestic credit while that to private sector was 72.9 percent (Table 2.4).

TABLE 2.4: BANKING SYSTEM NET DOMESTIC CREDIT

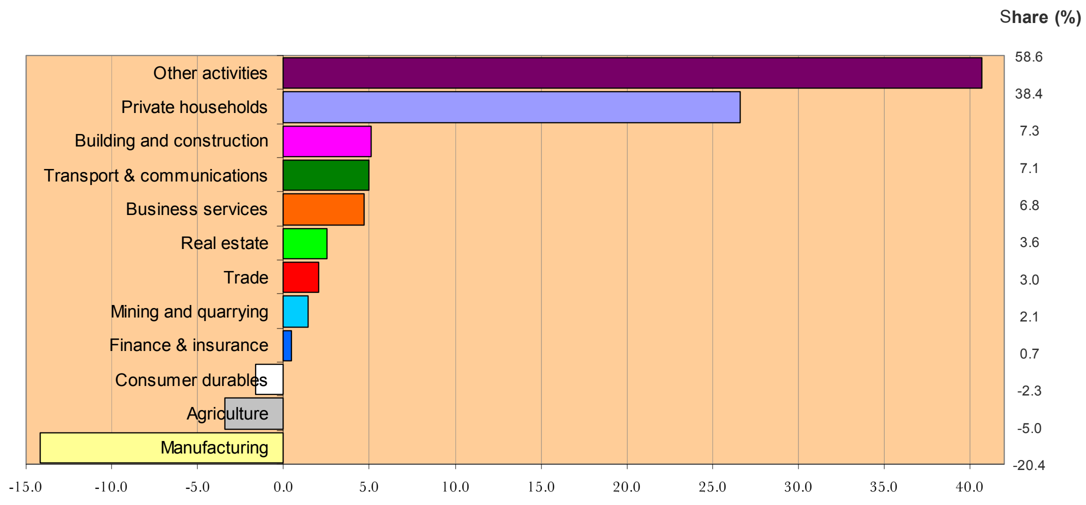
	2006 September		2007 September		Annual % Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2005/2006	2006/2007
1. Credit to Government	**130.1**	**24.1**	**160.4**	**25.1**	**9.5**	**23.3**
Central Bank	-10.4	-1.9	-3.0	-0.5	-266.9	-71.2
Commercial Banks & NBFIs	140.5	26.0	163.4	25.6	24.9	16.3
2. Credit to other public sector	**15.1**	**2.8**	**12.6**	**2.0**	**42.5**	**-16.6**
Local government	-1.1	-0.2	-1.1	-0.2	19.4	-0.7
Parastatals	16.2	3.0	13.7	2.2	40.6	-15.5
3. Credit to private sector	**395.6**	**73.1**	**465.0**	**72.9**	**13.3**	**17.5**
Agriculture	31.8	5.9	28.4	4.4	2.4	-10.8
Manufacturing	72.7	13.4	58.6	9.2	10.6	-19.5
Trade	55.2	10.2	57.3	9.0	12.1	3.8
Building and construction	31.2	5.8	36.3	5.7	18.4	16.3
Transport & communications	37.2	6.9	42.1	6.6	44.6	13.3
Finance & insurance	25.4	4.7	25.9	4.1	-20.3	1.9
Real estate	23.4	4.3	26.0	4.1	1.7	10.8
Mining and quarrying	3.2	0.6	4.6	0.7	18.7	44.3
Private households	47.1	8.7	73.8	11.6	0.0	56.5
Consumer durables	13.5	2.5	11.9	1.9	50.5	-12.0
Business services	39.1	7.2	43.8	6.9	13.8	12.0
Other activities	15.7	2.9	56.4	8.8	454.1	259.2
4. TOTAL (1+2+3)*	**540.8**	**100.0**	**638.1**	**100.0**	**13.0**	**18.0**

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

Source: Central Bank of Kenya

Most of the credit to private sector in the year to September 2007 was to other activities (58.6 percent), private households (38.4 percent), building and construction (7.3 percent), transport and communication (7.1 percent), and business services (4.7 percent), as shown in Chart 2B.

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO AUGUST 2007 (Ksh billion)



Source: Central Bank of Kenya

Reserve Money

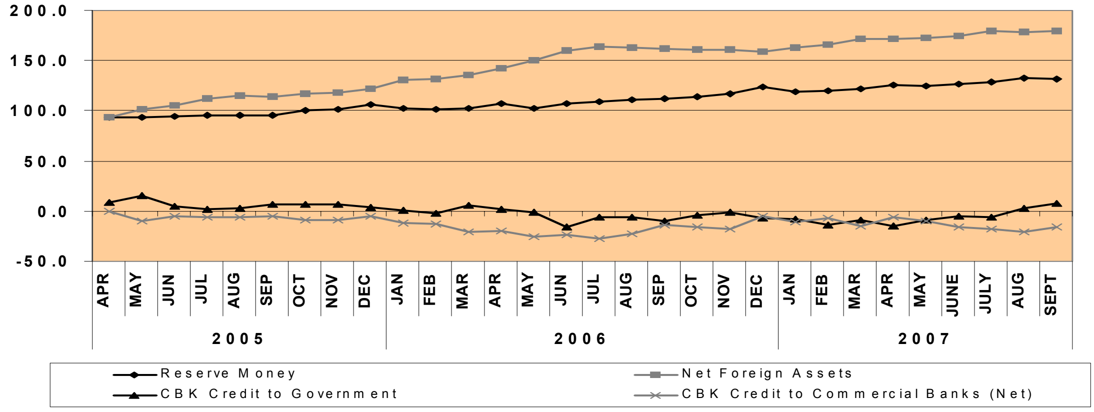
Reserve money grew by 17.0 per cent in the year to September 2007 compared with 17.1 per cent annual growth in the year to September 2006 as shown in Table 2.5. The increase in reserve money was in currency outside banks and bank reserves which grew by 19.0 percent and 13.7 percent, respectively. Reserve money was Ksh 131.3 billion in September 2007 and met the Ksh 131.3 billion target for the period.

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

	2006 Sept	2007 Sept	Change Absolute	Change %	2007 Sept Target	Deviation
1. Net Foreign Assets	155.9	179.7	23.8	15.2	179.3	0.4
2. Net Domestic Assets	-43.6	-48.4	-4.7	10.8	-48.0	-0.4
2.1 Government Borrowing (net)	-10.4	7.9	18.4	-176.1	-10.3	18.2
2.2 Advances & Discounts	-13.9	-15.9	-1.9	13.9	-27.9	12.0
2.3 Other Domestic Assets (net)	-19.3	-40.4	-21.1	109.7	-9.8	-30.6
3. Reserve Money	112.3	131.3	19.0	17.0	131.3	0.0
3.1 Currency outside banks	68.7	81.8	13.1	19.0	82.0	-0.3
3.2 Bank reserves	43.6	49.6	6.0	13.7	49.3	0.3

Source: Central Bank of Kenya

CHART 2C: TRENDS IN RESERVE MONEY (Ksh billion)



Source: Central Bank of Kenya

The increase in reserve money in the year to September 2007 was supported by growth in net foreign assets (NFA) of the Central Bank as net domestic assets (NDA) declined. NFA increased by Ksh 23.8 billion or 15.2 per cent in the year to September 2007 due to interbank forex purchases by the Bank. Usable NFA of the Central Bank averaged Ksh 179.7 billion or Ksh 0.4 billion above the target in September 2007.

Meanwhile, NDA of the Central Bank declined to Ksh –48.4 billion in September 2007 from Ksh -43.6 billion in September 2006. The decline in NDA of the Central Bank was due to build up in Government deposits at the Central Bank, increased mop up operations by Central Bank and decline in other domestic assets net of liabilities.

Government deposits increased by Ksh 1.5 billion from Ksh 52.0 billion in September 2006 to Ksh 53.5 billion in September 2007. At the same time, Government borrowing from CBK increased by Ksh 8.9 billion to Ksh 50.5 billion in September 2007. As a result, Government borrowing on a net basis was Ksh 7.4 billion in September 2007.

As a result of enhanced open market operations by the Bank, net indebtedness of commercial banks from Central Bank increased by Ksh 1.9 billion from Ksh 13.9 billion in September 2006 to Ksh 15.9 billion in September 2007.

Other domestic assets of the Central Bank net of liabilities declined to Ksh – 40.4 billion in September 2007 from Ksh – 19.3 billion in September 2006.

Central Bank rate

The Central Bank Rate (CBR) remained unchanged at 8.75 percent in October 2007.

Short-term interest rates

Short term interest rates went up in October 2007 as the average 91-day Treasury bill rate increased from 7.4 percent in September 2007 to 7.6 percent in October 2007. The 182-day Treasury bill rate also increased from 7.8 percent in September 2007 to 7.8 percent in October 2007 reflecting the increased amount of bills offered by the government.

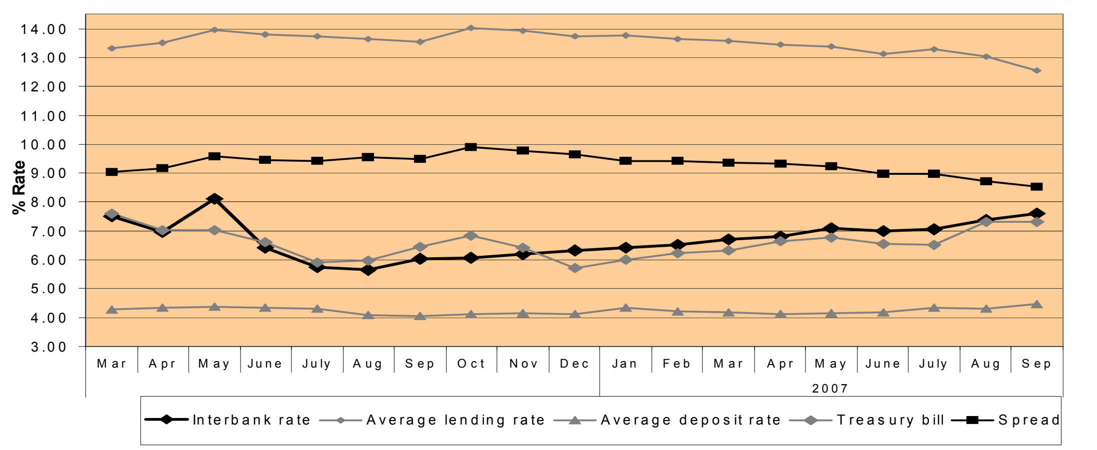
The average interbank rate increased from 7.59 percent in September 2007 to 7.65 percent in October while the Repo rate declined from 7.70 percent to 7.25 percent in October 2007. Table 2.6 provides a summary of various interest rates for selected months in 2006 and 2007 while Chart 2D depicts trends in domestic interest rates.

TABLE 2.6: INTEREST RATES (%)

	2007									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
91-day Treasury bill rate	6.00	6.22	6.32	6.65	6.77	6.53	6.52	7.30	7.32	7.55
Overdraft rate	14.11	14.05	13.95	13.58	13.35	13.20	13.35	13.39	13.26	
Interbank rate	6.43	6.52	6.70	6.79	7.10	6.98	7.07	7.38	7.59	7.65
Repo rate	6.43	6.60	6.70	6.84	7.03	7.08	7.19	7.49	7.70	7.25
Average lending rate (1)	13.78	13.64	13.56	13.44	13.38	13.14	13.29	13.04	12.56	
Average deposit rate (2)	4.35	4.21	4.19	4.11	4.14	4.18	4.33	4.31	4.48	
0 to 3 - month deposit	5.15	5.09	5.23	5.14	5.06	5.10	5.24	5.34	5.28	
Savings deposits	1.42	1.41	1.43	1.35	1.57	1.54	1.65	1.60	1.67	
Spread (1-2)	**9.43**	**9.42**	**9.37**	**9.32**	**9.23**	**8.96**	**8.96**	**8.73**	**8.53**	

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES (%)



Source: Central Bank of Kenya

Lending and Deposit Rates

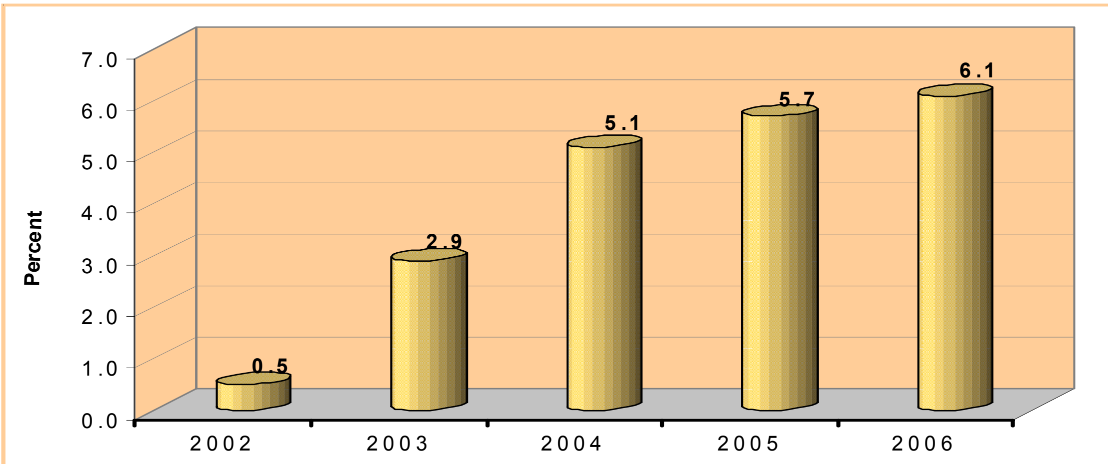
The commercial banks average lending rate declined in September 2007 from 13.04 percent in September 2007 to 12.56 percent in October 2007. The overdraft rate declined from 13.39 percent to 13.26 percent over the same period while the overall deposit rate increased from 4.31 percent in September 2007 to 4.48 percent in October 2007. Consequently, the interest rate spread declined to 8.53 percent in October 2007.

PERFORMANCE OF THE REAL SECTOR

Overview

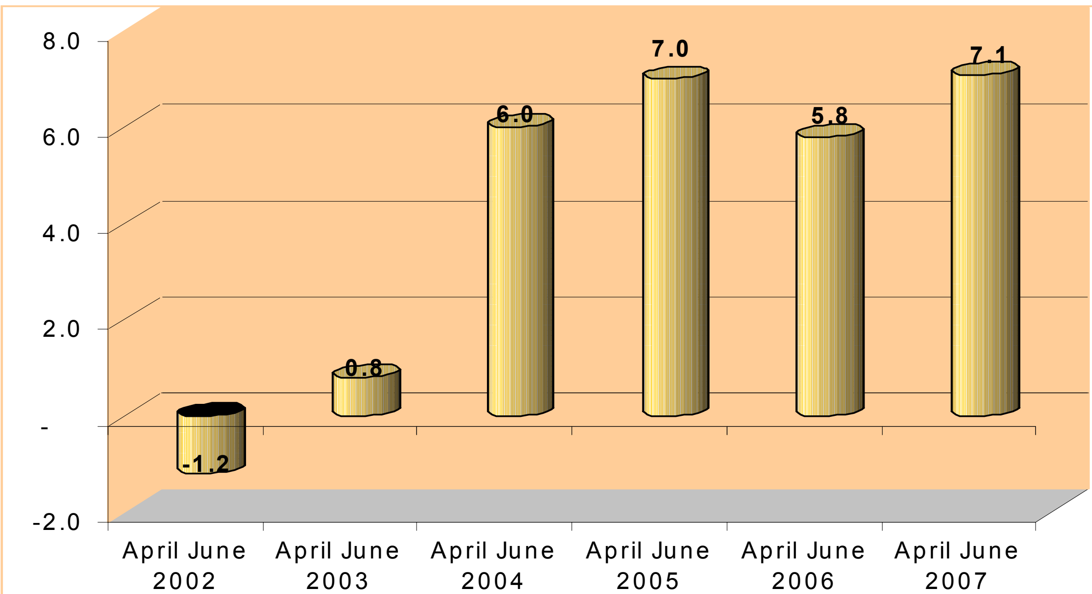
The Real GDP expansion rate is expected to exceed 6.1 percent in 2007. The first eight months performance indicators of 2007 in tourism, agriculture, transport and telecommunication and manufacturing sectors show better performance when evaluated against the indicators for a similar period in 2006. Besides the indicators, Kenya National Bureau of Statistics (KNBS) released the second quarter Gross Domestic Product results, indicating among other past second quarters, a 5.8 and 7.1 percent GDP growth for the second quarter of 2006 and 2007 respectively (Chart 3B).

CHART 3A: REAL GDP ANNUAL GROWTH RATES, 2002 - 2006



Source: Kenya National Bureau of Statistics (Economic Survey 2007) and Central Bank of Kenya

CHART 3B: REAL GDP GROWTH RATES IN THE SECOND QUARTERS OF 2002-2007



Source: Kenya National Bureau of Statistics (Economic Survey 2007) and Central Bank of Kenya

TABLE 3.1: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

MAIN SECTORS	Share in Real GDP (%)	Kshs Million			
	2006	2003	2004	2005	2006
Agriculture, Forestry & Fishing	25.88	281,077	285,905	305,226	322,074
Manufacturing	9.93	105,822	110,544	115,699	123,626
Wholesale and retail trade, repairs	9.44	92,604	100,481	106,009	117,524
Hotels & Restaurants	1.44	9,899	13,741	15,572	17,895
Financial Services	3.72	42,064	42,657	43,869	46,265
Construction	3.03	31,530	32,932	35,446	37,665
Transport, Storage & Communications	10.89	104,915	112,251	122,243	135,466
Government	11.84	143,467	145,738	146,618	147,359
Others of which	11.37	130,608	134,457	137,740	141,514
Domestic Services	*0.33*	*3,855*	*3,932*	*4,011*	*4,091*
Real estate, renting & Business service	*5.50*	*61,864*	*63,740*	*65,882*	*68,402*
Other-Financial services indirectly measured	*-0.96*	*-10,315*	*-10,801*	*-11,261*	*-11,989*
Electricity & Water supply	*2.22*	*27,074*	*27,877*	*27,898*	*27,635*
Mining & Quarrying	*0.45*	*5,213*	*5,195*	*5,334*	*5,554*
Community, social & personal services	*3.84*	*42,917*	*44,514*	*45,876*	*47,821*
Total GDP at basic 2001 prices	**87.54**	**941,763**	**978,565**	**1,028,696**	**1,089,386**
Taxes less subsidies on products	12.46	113,895	130,772	144,088	155,059
Real GDP at 2001 market prices	**100.00**	**1,055,658**	**1,109,338**	**1,172,784**	**1,244,445**
GDP at Mkt Prices		1,055,658	1,109,338	1,172,784	1,244,445
Overall GDP Deflator		108	116	123	132

Source: Kenya National Bureau of Statistics (Economic Survey 2007)

TABLE 3.2 GROWTH RATES IN REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES (%)

	Share in Real GDP in 2006 (%)	2003	2004	2005	2006
Agriculture, Forestry & Fishing	25.88	2.5	1.7	6.8	5.5
Manufacturing	9.93	6.0	4.5	4.7	6.9
Wholesale and retail trade, repairs	9.44	1.2	9.5	10.5	11.5
Hotels & Restaurants	1.44	-20.3	15.1	16.1	17.1
Financial Services	3.72	1.5	1.4	2.8	5.5
Building & Construction	3.03	1.0	4.4	7.6	6.3
Transport & Communications	10.89	3.5	7.0	8.9	10.8
Government	11.84	2.6	1.8	2.8	3.8
Others	11.37	4.3	2.6	3.6	4.6
Domestic Services	*0.33*	2.0	2.0	2.0	2.0
Real estate, renting & Business service	*5.50*	2.3	3.0	3.4	3.8
Other-Financial services indirectly measured	*-0.96*	-3.3	4.7	4.3	6.5
Electricity & Water supply	*2.22*	14.0	3.0	0.1	-0.9
Mining & Quarrying	*0.45*	3.5	-0.3	2.7	4.1
Community, social & personal services	*3.84*	-0.0	3.7	3.1	4.2
Real GDP Growth		**2.9**	**5.1**	**5.7**	**6.1**

***Provisional**

Source: Kenya National Bureau of Statistics (Economic Survey 2007)

TABLE 3.3: OUTPUT GROWTH OF MAJOR CROPS

	2005	2006	Jan-August' 2006	Jan-August' 2007
Tea				
Output (Metric tonnes)	328,503.00	310,578.33	181,099.33	244,275.55
Growth (%)	*1.2%*	*-5.5%*	*-13.50%*	*34.90%*
Horticulture				
Output (Metric tonnes)	163,153.82	166,736.82	110,316.21	122,389.48
Growth (%)	*12.0%*	*2.2%*	*-3.90%*	*10.90%*
Sugar Cane				
Output (Metric tonnes)	4,693,292.00	4,933,805.00	3,380,910.00	3,497,226.00
Growth (%)	*22.1%*	*5.1%*	*14.10%*	*3.40%*

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

Agriculture

Table 3.3 highlights the relative performance of the selected leading crops in the first eight months of 2006 and 2007. The agriculture output got bigger by 5.4 percent in 2006 and there are high expectations of a better harvest in 2007 following extended favorable weather conditions.

Tea

Tea processed in the first eight months of 2006 amounted to 181,099.33 metric tonnes compared with 244,273.55 metric tonnes in the first eight months of 2007 (Table 3.3), which is a 34.88 percent top up. However, the average eight month price decreased by 20.3 percent from US $ 2,165.56 per metric tonne in 2006 to US $ 1,726.25 per metric tonne in 2007.

Horticulture

The horticultural sector was also adversely affected by drought in the first half of 2006. Using export volume as a yardstick for measuring productivity, the sector has however managed to overcome the harsh conditions to increase by 10.94 percent from 110,316.21 metric tonnes of exports in the first eight months of 2006 to a sum of 122,389.43 metric tonnes of exports in the first eight months of 2007.

At the same time, the value of total exports increased by 68.5 percent from Kenya shillings 27.2 billion to Kenya shillings 45.8 billion with flower export value increasing by 93.1 percent from Kenya shillings 14.9 billion to Kenya shillings 28.7 billion, carving up a pie of 63 percent of total export value.

Sugarcane

In the first eight months of 2006, a total of 3,380,910 metric tonnes of sugarcane was delivered to the sugar factories. In a similar period of 2007, cane deliveries increased by 3.4 percent to 3,497,226 metric tonnes while processed sugar, increased by 1.1 percent from 337,611 metric tonnes in January to August period of 2006 to 341,311 metric tonnes in January to August period of 2007 (Table 3.3 and Table 3.4).

Sugar sales dropped by 2.1 percent from 344,439 metric tonnes in the first eight months of 2006 to 337,208 metric tonnes in the first eight months of 2007 while sugar stocks eased down from 7,080 metric tonnes in July 2007 to 5,913 metric tonnes in August 2007.

It is expected that the increase of price for cane deliveries will motivate more production. In parallel, the millers are expected to lower production costs and possibly pass some costs to sugar consumers leading to higher retail sugar prices.

Manufacturing

A view at selected manufactured products data in the first eight months of 2007 gives a picture of healthy and dynamic sector. The selected few lead indicators, beer, cigarettes and soda ash grew by 33.78, 17.28 and 1.39 percentages from 181,034,460 litres, 8,538,435.40 milles and 244,970 metric tonnes respectively in the first eight months of 2006 to 242,183,690 litres, 10,014,217 milles and 248,386 metric tonnes respectively, in the same period of 2007. Similarly, in related periods, cement, galvanized sheets and mineral water production increased by 10, 12.4 and 11.6 percentages respectively from 1,383,799, 110,734 and 186,849 metric tonnes to 1,521,949, 124,470 and 208,569 metric tonnes. In food agro-processing, milk increased by 19.5 percent from 229.423 million litres in the first eight months of 2006 to 274.132 million litres in the first eight months 2007 as shown in Table 3.4.

TABLE 3.4: PRODUCTION OF SELECTED MANUFACTURED GOODS

	2005	2006	Jan-August'2006	Jan-August'2007
Processed sugar				
Output (MT)	491,001	475,660	337,611	341,311
Growth %	*-5.0%*	*-3.1%*	*7.7%*	*1.1%*
Soda ash				
Output (MT)	364,301	374,010	244,970	248,386
Growth %	*2.5%*	*2.7%*	*1.40%*	*1.40%*
Milk				
Output ('000 litres)	336,979	356,758	229,423	274,133
Growth %	*25.0%*	*5.9%*	*6.60%*	*19.50%*
Beer				
Output ('000 litres)	266,419	280,500	181,034	242,184
Growth %	*11.3%*	*5.3%*	*7.40%*	*33.80%*
Cigarettes				
Output (Milles)	10,962,727	12,303,278	8,538,435	10,014,217
Growth %	*22.1%*	*12.2%*	*21.30%*	*17.30%*

* MT = Metric tonnes

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

Energy Sector

Total generated electric power increased by 10 percent from 3,790.32 million Kilowatts Hours in the first eight months of 2006 to 4,167.78 million Kilowatt hours in the first eight months of 2007 (Table 3.5). This is mainly attributable to relatively higher amounts of rainfall received in this period supportd by increasing demand for electric power

TABLE 3.5: ENERGY SECTOR PERFORMANCE

	2005	2006	Jan-August 2006	Jan-August 2007
Electricity Supply (Generation)				
Output (KWH Millions)	5,518.94	5,823.03	3,790.32	4,167.78
Growth %	*9.7%*	*5.5%*	*4.60%*	*9.96%*
Of which:				
Hydro-power Generation (KWH Millions)	3,009.44	3,013.96	1,998.07	2,375.36
Growth (%)	*0.1%*	*0.2%*	*1.00%*	*18.88%*
Geo-Thermal Generation (KWH Millions)	1,001.58	1,045.69	690.77	661.72
Growth (%)	*1.5%*	*4.4%*	*0.10%*	*-4.21%*
Thermal (KWH Millions)	1,507.83	1,762.59	1,101.48	1,130.82
Growth (%)	*45.2%*	*16.9%*	*15.20%*	*2.66%*
Consumption of electricity (KWH Millions)	4,505.10	4,743.10	3,086.90	3,365.00
Growth %	*6.8%*	*5.3%*	*5.20%*	*9.01%*
Consumption of Fuels (Metric Tonnes)	2,710,000	2,866,700	1,847,700	1,802,900
Growth %	*16.0%*	*5.8%*	*2.3%*	*-2.42%*
Murban crude oil 8-month average price (US $ per barrel)	53.65	64.57	66.81	65.29
Growth %	*45.3%*	*20.3%*	*29.50%*	*-2.30%*

* Average in May 2007

** Average in June 2007

Source: Kenya National Bureau of Statistics

Hydroelectric power generation increased by 18.9 percent to 2,375.36 million Kilowatts Hours, while geothermal power generation shrunk by 4.2 percent to 661.72 million Kilowatts Hours in the first eight months of 2007 over a similar period in 2006. Meanwhile, thermal electric power generation increased by 2.7 percent to 1,130.82 million Kilowatts Hours in the first eight months of 2007 over a similar period in 2006.

In line with increased economic activity, during the first eight months in 2007 consumption of electricity increased by 9 percent to 3,365 million Kilowatts Hours.

Consumption of fuels dropped by 2.4 percent to 1,802,900 metric tonnes in the first eight months of 2007 from 1,847,700 metric tonnes over a similar period of 2006.

Tourism

Tourism revenue values increased by 31.4 percent from US $ 415.85 million in the first eight months of 2006 to US $ 546.5 million in equal span of time in 2007 (Consolidated Commercial Banks reported tourism earnings).

Tourist arrivals in the first eight months of 2006 were 611,740 people increasing by 12.7 percent in a similar period of 2007 to 689,260 visitors. Total arrivals through Jomo Kenyatta International Airport (JKIA) (72 % share) and Moi International Airport Mombasa (MIAM), increased by 16.1 and 4.8 percent respectively, from 439,109 and 168,898 people in the first eight months of 2006 to 509,656 and 176,941 people respectively, in comparable period of 2007 (Table 3.6)

TABLE 3.6: TOURIST ARRIVALS BY POINT OF ENTRY

	2005	2006	Jan-Aug' 2006	Jan-Aug' 2007	Share in Jan-July 08	% Growth Jan-July 08
CRUISE	4,533	6,161	3,733	2,663	0.4%	-28.7%
MIAM	231,979	263,699	168,898	176,941	25.7%	4.8%
JKIA	615,268	684,475	439,109	509,656	73.9%	16.1%
TOTAL	**851,780**	**954,335**	**611,740**	**689,260**	100.0%	12.7%

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

Source: Kenya Tourism Board

A glimpse at arrivals by continent of origin shows Europe as number one source of Kenyan tourists (54 percent of total). That number increased by 9.1 percent from 341,645 tourists in the first eight months of 2006 to 372,898 tourists in a matching period of 2007.

TABLE 3.7: TOURIST ARRIVALS BY CONTINENT OF ORIGIN

TABLE 3.7: TOTAL ARRIVALS BY CONTINENT

REGION	2005	2006	Jan-July 2006	Jan-July 2007	Share in Jan-July 07	% Growth Jan-July 07
Africa	161,304	188,872	102,603	120,949	20.9%	17.9%
America	93,902	110,967	64,898	77,601	13.4%	19.6%
Asia	86,005	93,518	53,093	58,066	10.0%	9.4%
Europe	473,637	537,195	283,092	311,369	53.7%	10.0%
Oceanic	13,682	15,529	7,669	9,200	1.6%	20.0%
Others	14	2,093	1	9	0.0%	800.0%
Sub-Total	***828,544***	***948,174***	***511,356***	***577,194***	99.6%	12.9%
Cruise	4,680	6,161	2,786	2,474	0.4%	-11.2%
Total	**833,224**	**954,335**	**514,142**	**579,668**	100.0%	12.7%

Source: Kenya Tourism Board

Transport

The volume of fuel products transported through the Kenya Pipeline Company (KPC) pipeline system, swelled by 6.4 percent from 2,514,160.03 cubic metres in the first eight months of 2006 to 2,675,240.84 cubic metres in a similar period of 2007. In a similar span of time, the volume of cargo through the Kenya Ports Authority (KPA) increased by 2.54 percent from 9,417,166.25 metric tonnes to 9,656,192.46 metric tonnes (Table 3.8).

In the road transport sub-sector, the number of newly registered motor vehicles increased by 64.38 percent from a total of 32,580 in the first eight months of 2006 to 53,555 in the first eight months of 2007.

In the Air transport sub-sector, the flight traffic through Jomo Kenyatta International Airport (JKIA) increased as measured by the number of leaving and arriving passengers. In the first eight months of 2006 and the first eight months of 2007 period, the number of leaving passengers increased by 0.5 percent from 970,984 people to 976,171 people while passenger arrivals increased by 0.7 percent from 961,070 people to 967,923 people (Table 3.8).

TABLE 3.8: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2005	2006	Jan-August' 06	Jan-August' 07
Mombasa Port Cargo Throughput				
Output (MT) Equivalent	13,280,747	14,418,901	9,417,166	9,656,192
Output Growth %	*2.8%*	*8.6%*	*5.80%*	*2.50%*
Number of passengers Thro' JKIA				
Incoming	1,350,676	1,489,615	961,070	967,923
Growth (%)	11.8	10.3	8.0	0.7
Outgoing	1,360,881	1,499,876	970,984	976,171
Growth %	10.4	10.2	7.1	0.5
Kenya Pipeline oil Throughput				
Output ('000 litres)	3,527,662	3,826,154	2,514,160	2,675,241
Output Growth %	*8.2%*	*8.5%*	*7.90%*	*6.4%*

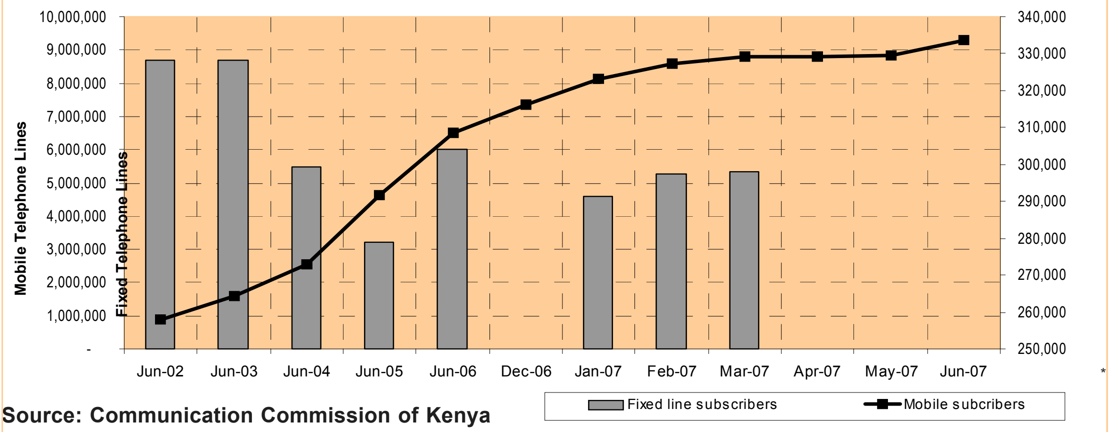
* MT = Metric tonnes

Sources: Port of Mombasa, Kenya and Kenya Pipeline

Telecommunications

In the telecommunications sub- sector, growth momentum continued in 2007 as depicted in Chart 3C. The mobile telephone subscribers increased by 20.4 percent from 7,340,317 in December 2006 to 8,839,422 in May 2007. In June 2006, the mobile phone subscribers stood at 6,484,791 and by June 2007, the subscribers had increased by 43.5 percent to 9,304,818. Similarly, fixed telephone lines rose from 286,729 in June 2006 to 297,888 by March 2007, an increase of 3.9 percent.

CHART 3C: GROWTH OF FIXED AND MOBILE TELEPHONE SUBSCRIBERS, JUNE 1999 - JUNE 2007



Source: Communication Commission of Kenya

Building & Construction Industry

Cement consumption increased by 12.3 percent from 1,572,500 metric tonnes in 2005 to 1,765,800 metric tonnes in 2006. The continued prosperity in the sector has been boosted up by increased budgetary allocation to physical infrastructure and constituency development fund (CDF) projects. Total cement consumption increased by 14.1 percent from 1,137,459 metric tonnes in the first eight months of 2006 to 1,297,960 metric tonnes in similar period of 2007.

Developments in Balance of Payments and Exchange Rates

Overview

The surplus in Kenya's balance of payments decreased to US$ 350 million in the year to August 2007 compared with US$ 777 million in the year to August 2006 due to the widening of the current account deficit (Table 4.1). The balance in the capital and financial account however increased to a surplus of US$ 1,318 million.

TABLE 4.1: KENYA'S BALANCE OF PAYMENTS (US$ MILLION)

ITEM	Year to Aug 2006	Year to August 2007* Q1 Sep-Nov	Q2 Dec-Feb	Q3 Mar-May	Q4 Jun-Aug	Year to Aug 2007*	Absolute change Aug 07 - Aug 06
1. OVERALL BALANCE	777	25	74	140	111	350	*(427)*
2. CURRENT ACCOUNT	(309)	(207)	(309)	(63)	(389)	(968)	*(659)*
2.1 Goods	(3270)	(1054)	(1222)	(1053)	(1280)	(4609)	*(1339)*
Exports (fob)	3392	911	934	1011	1053	3908	*517*
Coffee	139	25	24	46	58	153	*14*
Tea	637	168	186	184	176	714	*76*
Horticulture	484	133	139	166	139	578	*93*
Oil products	94	44	29	54	46	174	*80*
Manufactured Goods	396	109	112	128	139	488	*92*
Raw Materials	162	56	66	46	57	225	*64*
Re-exports	410	42	59	40	40	182	*(228)*
Other	1070	333	319	345	397	1394	*325*
Imports (cif)	6662	1965	2156	2063	2333	8518	*1856*
Oil	1703	405	348	464	514	1732	*29*
Chemicals	934	277	251	311	276	1116	*182*
Manufactured Goods	930	291	282	347	386	1306	*376*
Machinery & Transport Equipment	1784	675	929	538	675	2816	*1032*
Other	1311	316	347	403	482	1548	*237*
2.2 Services	2961	847	913	990	891	3641	*680*
Non-factor services (net)	1436	429	463	488	469	1849	*413*
of which tourism	674	167	218	252	218	855	*181*
Income (net)	(93)	(2)	(7)	(12)	(42)	(63)	*30*
of which official interest	(125)	(15)	(24)	(15)	(28)	(83)	*42*
Current Transfers	1618	420	457	513	464	1855	*237*
Private (net)	1483	426	459	513	464	1862	*380*
Public (net)	135	(6)	(2)	0	0	(7)	*(143)*
3. CAPITAL & FINANCIAL ACCOUNT	1086	232	384	203	500	1318	*233*
3.1 Capital Tranfers (net)	199	50	21	68	83	221	*23*
3.2 Financial Account	887	182	363	135	417	1097	*210*
Official, medium & long-term	(274)	(33)	(27)	(31)	11	(79)	*194*
Inflows	102	18	41	21	81	160	*58*
Outflows	(375)	(50)	(68)	(51)	(70)	(239)	*136*
Private, medium & long-term (net)	149	(106)	81	(102)	(41)	(167)	*(317)*
Commercial Banks (net)	90	(64)	(134)	(75)	8	(265)	*(355)*
Other private medium & long-term (net)	60	(42)	216	(28)	(49)	98	*38*
Short-term (net) incl. errors & omissions	1011	320	309	268	447	1344	*332*
memo:							
Gross Reserves	3149	3250	3381	3719	3871	3871	*722*
Official	2431	2441	2501	2683	2779	2779	*349*
*imports cover***	*3.9*	*3.6*	*3.5*	*3.6*	*3.5*	*3.5*	*(0.3)*
*imports cover****	*4.7*	*4.4*	*4.3*	*4.4*	*4.3*	*4.3*	*(0.4)*
Commercial Banks	719	810	880	1037	1092	1092	*374*

* Provisional

** In months of goods and non-factor services (based on current year's imports of goods & non-factor services

*** In months of goods and non-factor services (based on 36 months average of imports of goods & non-factor services

Source: Central Bank of Kenya

Current Account

The balance on the current account worsened to a deficit of US$ 968 million in the year to August 2007 compared with a deficit of US$ 309 million in the year to August 2006 reflecting sustained growth in merchandise imports. The trade deficit thus widened to US$ 4,609 million in the year to August 2007 as the surplus in the services account increased to US$ 3,641 million.

Merchandise Account

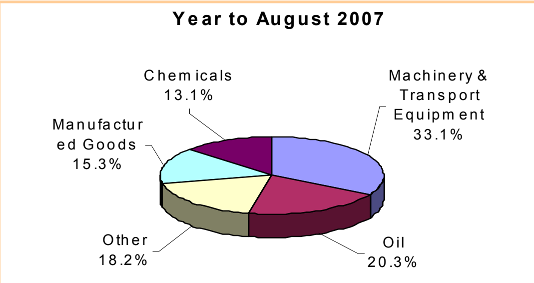
The widening of the trade deficit by US$ 1,339 million in the year to August 2007 was due to growth in the value of merchandise imports by US$ 1,856 million, which surpassed the increase in the value of merchandise exports of US$ 517 million.

Imports

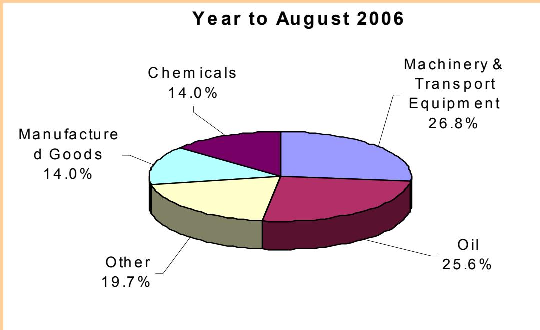
The total value of merchandise imports rose during the year to August 2007 mainly on account of increases in import values of machinery and transport equipment, manufactured goods, chemicals, and oil. The value of machinery and transport equipment imports rose by US$ 1,032 million reflecting increased imports of road vehicles, electrical machinery, industrial machinery, telecommunication and sound recording equipment, office machines and an aircraft. The value of imports of manufactured goods rose by US$ 376 million largely due to increased imports of iron, steel, non-ferrous metals (copper wire, aluminum and zinc), paper products, textiles and rubber tyres. Imports of chemicals rose by US$ 182 million, reflecting increase in import values of industrial chemicals, medicinal and pharmaceutical products, and plastics, while the value of oil imports increased by US$ 29 million reflecting higher imports of crude oil, kerosene, diesel oil, gas oil and jet fuel. Other miscellaneous imports, which comprise wheat, sugar, palm oil, crude materials, and miscellaneous manufactured articles, rose by US$ 237 million.

Machinery and transport equipment and petroleum products made up 33.1 percent and 20.3 percent of the total value of merchandise imports, respectively, in the year to August 2007 compared with 26.8 percent and 25.6 percent in the previous year (Chart 4A). The share of manufactured goods and chemicals in the import bill in the year to August 2007 was 15.3 percent and 13.1 percent, respectively.

CHART 4A: COMPOSITION OF KENYA'S IMPORTS



Source: Customs and Excise Department.

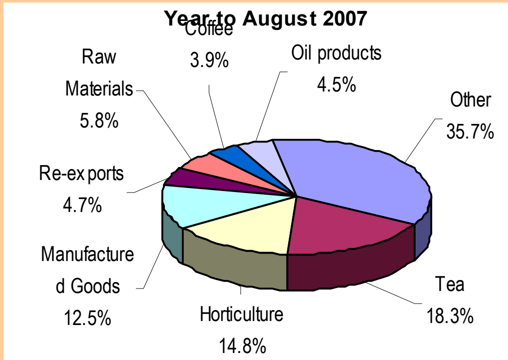


Exports

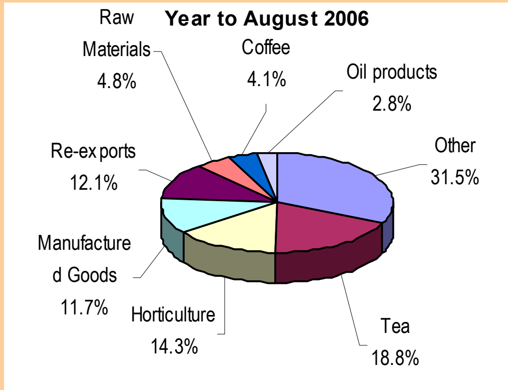
Merchandise exports increased to US$ 3,908 million reflecting increased export values of coffee, tea, horticulture, oil, manufactured goods and raw materials. The values of coffee and tea exports rose by US$ 14 million and US$ 76 million, respectively, on account of improved export volumes. The average export price for coffee also improved during the year to August 2007 while the average export price for tea declined. The increase in the value of horticulture exports by US$ 93 million was largely attributed to increased export volume as the average export price for horticulture products also improved albeit marginally. The increase in the export value of manufactured goods by US$ 92 million largely reflected increased exports of cement and metal manufactures while the export value of oil products rose by US$ 80 million following increased exports of lubricating oils and grease. The value of re-exports however declined during the period in review as the value of other miscellaneous exports, mainly chemical products, clothing accessories, beverages, tobacco products and machinery, rose by US$ 325 million.

Chart 4B shows that coffee, tea and horticulture collectively accounted for 37.0 percent of the total value of exports in the year to August 2007 while manufactured goods made up 12.5 percent of the total value of exports.

CHART 4B: COMPOSITION OF KENYA'S EXPORTS



Source: Customs and Excise Department, KRA



Direction of Trade

Table 4.2 shows that the main destination countries for Kenya's merchandise exports during the year to August 2007 were Uganda (11.8%), United Kingdom (10.2%), Netherlands (8.0%), Tanzania (7.8%), United States of America (7.3%), Pakistan (5.7%), Sudan (4.4%), Egypt (3.4%), and the Democratic Republic of Congo (3.1%). Overall, African countries absorbed 44.6% of Kenya's merchandise exports.

During the review period, Kenya sourced merchandise imports mainly from United Arab Emirates (14.5%), India (8.7%), United States of America (8.0%), China (7.3%), Japan (6.3%), South Africa (5.5%), United Kingdom (5.3%), Germany (3.6%), Singapore (3.1%) and Saudi Arabia (2.9%).

TABLE 4.2: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)	Year to August		
Country	2005	2006	2007
Africa	**850**	**739**	**1,012**
Of which			
South Africa	606	451	470
Egypt	81	100	154
Others	164	188	388
Rest of the World	**4,812**	**5,923**	**7,505**
Of which			
United Arab Emirates	689	1,006	1,235
India	285	436	737
USA	567	265	682
China	223	319	621
Japan	306	354	539
United Kingdom	622	613	449
Germany	179	247	310
Singapore	60	230	266
Saudi Arabia	468	362	250
Indonesia	87	174	243
France	147	179	219
Italy	98	153	183
Bahrain	113	103	138
Netherlands	113	135	132
Others	854	1,346	1,501
Total	**5,662**	**6,662**	**8,518**

EXPORTS (in millions of US dollars)	Year to August		
Country	2005	2006	2007
Africa	**1,525**	**1,465**	**1,745**
Of which			
Uganda	557	403	460
Tanzania	238	258	306
Sudan	85	118	171
Egypt	93	146	133
DRC	133	100	121
Somalia	58	88	108
Others	361	350	446
Rest of the World	**1,776**	**1,927**	**2,163**
Of which			
United Kingdom	305	352	400
Netherlands	238	253	312
USA	58	168	286
Pakistan	174	200	221
United Arab Emirates	47	58	100
Germany	65	67	76
India	52	53	71
Switzerland	19	35	53
Others	818	740	644
Total	**3,301**	**3,392**	**3,908**

Source: Customs and Excise Department, KRA

Services

The services account improved by US$ 680 million to a surplus of US$ 3,641 million in the year to August 2007 reflecting increased receipts from non-factor services, income and private current transfers.

Gross receipts from non-factor services rose by US$ 468 million to US$ 2,744 million during the year to August 2007 reflecting higher receipts from transportation services, travel and other Government and private sector services. Gross payments for non-factor services also rose by US$ 55 million to US$ 895 million mainly reflecting increased payments for foreign travel. On a net basis therefore, non-factor service receipts increased by US$ 413 million to US$ 1,849 million during the year to August 2007. The balance on the income account also improved to a net outflow of US$ 63 million in the year to August 2007 compared with a net outflow of US$ 93 million in the year to August 2006. This improvement was attributed to increased interest earned on official foreign exchange reserves and increased income earned on foreign investments by the private sector. Gross payments from the income account also increased during the review period reflecting increased payments by the private sector as interest payments on official foreign debt declined. Net current transfers received rose to US$ 1,855 million in the year to August 2007 and this was largely through the private sector.

Capital and Financial Account

The surplus in the capital and financial account increased by US$ 233 million in the year to August 2007 to US$ 1,318 million following increased short term private financial inflows and reduced repayment of official foreign debt.

Private short term financial flows increased by US$ 332 million to US$ 1,344 million in the year to August 2007 while private medium and long-term financial flows worsened to a net outflow of US$ 167 million. The decline in private medium and long-term flows reflected increase in net foreign assets of commercial banks by US$ 265 million. Other private medium and long-term flows however improved during the review period due mainly to net increase in receipts of foreign loans, which offset the net increase in direct investment outflows.

Official medium and long-term financial flows improved by US$ 194 million in the year to August 2007 to a net outflow of US$ 79 million reflecting reduced repayment of official foreign loans by US$ 136 million to US$ 239 million and increased foreign loans to the Government by US$ 58 million to US$ 160 million. In the capital account, project related grants to the Government increased by US$ 23 million to US$ 221 million during the year in review.

Foreign Exchange Reserves

Official foreign exchange reserves held by the Central Bank increased from US$ 2,402 million (4.5 months of import cover) at the end of September 2006 to US$ 2,820 million (4.3 months of import cover) at the end of September 2007 (Table 4.3 and Chart 4C). During the year to September 2007, the Central Bank purchased foreign exchange from the domestic foreign exchange market equivalent to US$ 504 million and received US$ 401 million as interest earned on official foreign exchange reserves and foreign aid to the Government. The Bank however spent US$ 35 million on its own operations during the year to September 2007, and US$ 522 million on behalf of the Government to cover expenses related to Government imports and to service official foreign debt.

Foreign exchange assets of commercial banks also rose from US$ 711 million at the end of September 2006 to US$ 1,050 million at end of September 2007. Most of the assets were held as balances with banks abroad in the amount of US$ 843 million. Other foreign assets of commercial banks included cash, foreign loans and foreign bills discounted.

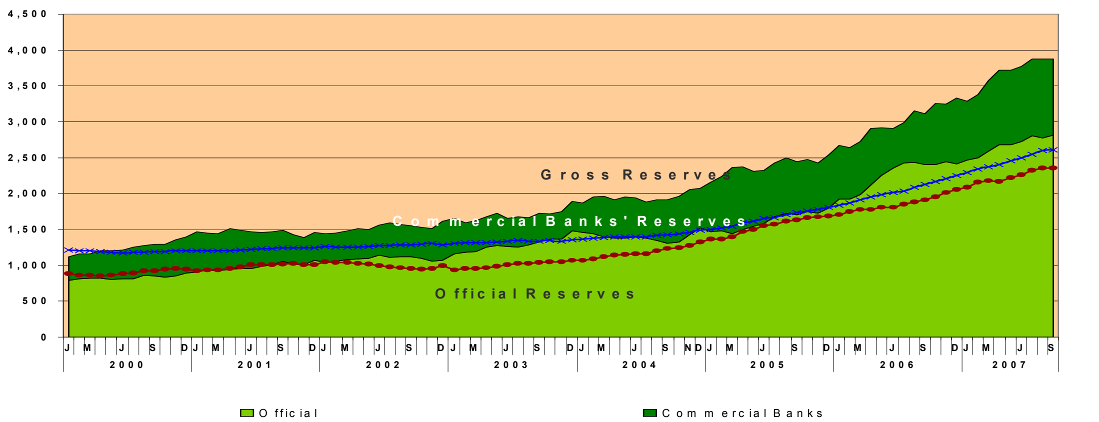
Total foreign exchange held by the entire banking system therefore rose from US$ 3,113 million at the end of September 2006 to US$ 3,870 million at end of September 2007. Besides these holdings, foreign currency deposits held locally by residents increased by US$ 250 million to US$ 1,524 million at the end of September 2007.

TABLE 4.3: FOREIGN EXCHANGE RESERVES (END OF PERIOD, US$ MILLION)

	Sep 06	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07
1. Gross Foreign Exchange Reserves	**3,113**	**3,717**	**3,719**	**3,767**	**3,870**	**3,871**	**3,870**
of which:							
Official	2,402	2,684	2,683	2,723	2,805	2,779	2,820
*imports cover**	*3.8*	*3.7*	*3.6*	*3.6*	*3.6*	*3.5*	*3.6*
*imports cover***	*4.5*	*4.5*	*4.4*	*4.4*	*4.4*	*4.3*	*4.3*
Commercial Banks	711	1,033	1,037	1,044	1,065	1,092	1,050
2. Residents' foreign currency deposits	**1,275**	**1,467**	**1,558**	**1,544**	**1,494**	**1,513**	**1,524**

*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 had mixed performance against major world currencies in October 2007 as shown in Table 4.4 and Charts 4D, 4E and 4F. The shilling gained against the US dollar to exchange at an average of Ksh 66.8 per US dollar in October 2007 compared with Ksh 67.0 per US dollar in September 2007. The shilling also appreciated against the Japanese Yen to trade at an average Ksh 57.8 per 100 Japanese Yen in October 2007 compared with Ksh 58.2 per 100 Japanese Yen in September 2007.

The Kenya shilling however depreciated against the Sterling Pound and the Euro to trade at Ksh 136.5 per Sterling Pound and Ksh 95.1 per Euro in October 2007 compared with Ksh 135.2 per Sterling Pound and Ksh 93.1 per Euro in the previous month.

The Kenya shilling depreciated against regional currencies in October 2007. Against the Uganda shilling, it traded at Ush 26.1 per Kenya shilling in October 2007 compared with Ush 26.2 per Kenya shilling in September 2007, and against the Tanzania shilling at Tsh 17.6 per Kenya shilling in October 2007 compared with Tsh 18.8 per Kenya shilling in September 2007.

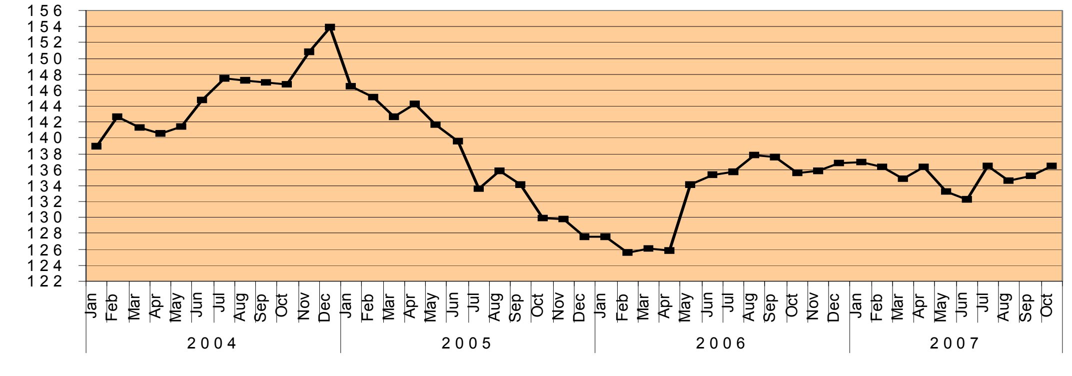
TABLE 4.4: KENYA SHILLING EXCHANGE RATE

	2006		2007										%change Oct 07 - Sep 07
	Oct	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	
US Dollar	72.29	69.63	69.88	69.62	69.29	68.58	67.19	66.57	67.07	66.95	67.02	66.85	-0.27
Pound Sterling	135.58	136.79	136.91	136.40	134.91	136.40	133.31	132.25	136.41	134.57	135.19	136.52	0.98
100 Japanese Yen	60.95	59.47	58.09	57.76	59.08	57.73	55.65	54.27	55.17	57.38	58.25	57.76	-0.84
Uganda Shilling*	25.52	26.07	25.97	25.44	25.26	25.20	25.33	24.97	24.24	25.80	26.24	26.13	-0.45
Tanzania Shilling*	17.58	18.62	18.55	18.49	18.13	18.40	18.90	18.97	18.82	19.09	18.79	17.60	-6.34
Euro	91.26	92.03	90.87	91.04	91.77	92.68	90.82	89.33	91.99	91.15	93.06	95.09	2.18
Euro per US dollar	0.792	0.757	0.769	0.765	0.755	0.740	0.740	0.745	0.729	0.734	0.720	0.703	-2.39

* Units of currency per Kenya shilling

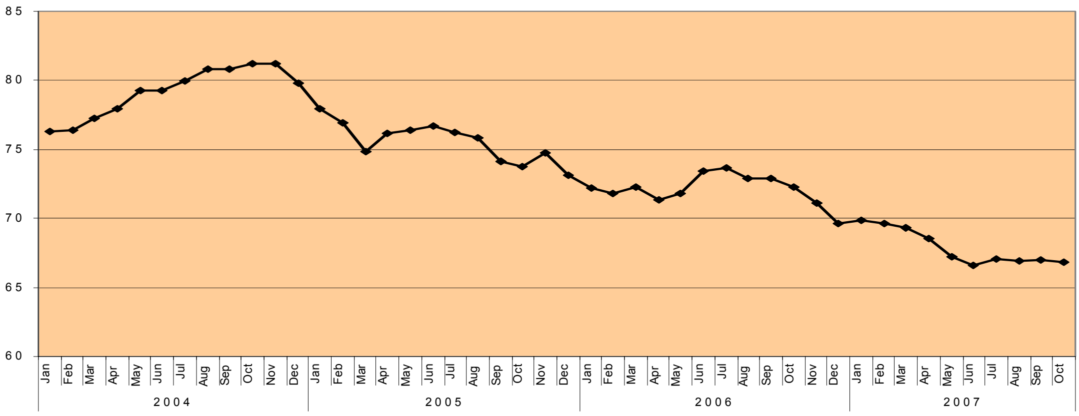
Source: Central Bank of Kenya

CHART 4D: KENYA SHILLING EXCHANGE RATE (Ksh/ Stg Pound)



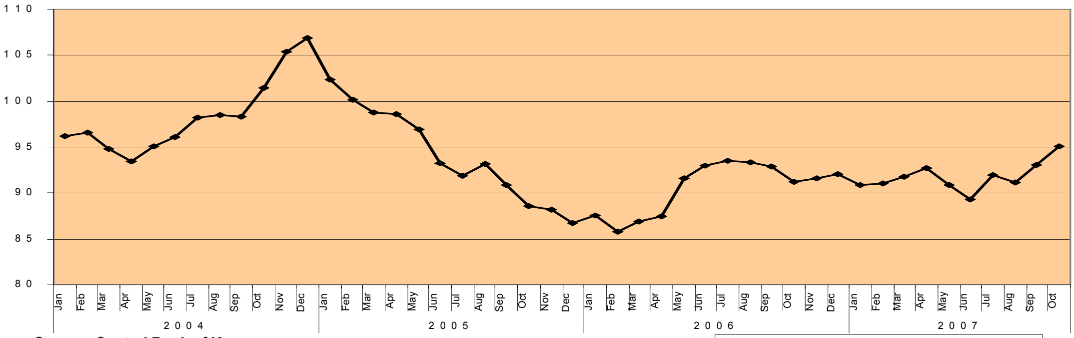
Source: Central Bank of Kenya

CHART 4E: KENYA SHILLING EXCHANGE RATE (Ksh/ US Dollar)



Source: Central Bank of Kenya

CHART 4F: KENYA SHILLING EXCHANGE RATE (Ksh/ Euro)



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

The banking sector remained stable during the period ending September 2007. With the good economic prospects, the banking sector improved its asset portfolio, deposits, profitability and retained high capital adequacy ratios. The improved performance resulted from higher income on loans and advances and a significant inflow of foreign deposits into the local banking system.

Structure of the Banking Sector

The number of financial institutions remained at 45, with 42 commercial banks, 2 mortgage finance companies and one non-bank financial institution. The period was characterised by rapid expansion of branch network of banking institutions. Over 60 branches for banks have been approved during the twelve-month period to September 2007, The number of forex bureaus remained at 96, and number of forex bureaus are expected to increase following the lifting of moratorium on licensing of new forex bureaus in July, 2007.

Structure of the Balance Sheet

The balance sheet of the banking industry expanded with total assets increasing by 19.9 per cent or Ksh. 145.9 billion from Ksh. 734.1 billion as at September 2006 to Ksh. 880.0 billion as at September 2007. The assets were mainly held 51 per cent in loans and advances, 21 per cent in government securities and 8.6 per cent in cash and balances with the Central Bank.

Loans and Advances

Government Securities

Total loans and advances, net of provisions stood at Ksh 448.9 billion in September 2007 compared with Ksh 374.3 billion in September 2006. Local currency loans and advances expanded by 22.6 per cent from Ksh 309.3 billion as at September 2006 to Ksh 379.1 billion as at September 2007 while foreign currency loans and advances increased by 7.4 per cent from Ksh 65.0 billion in September 2006 to Ksh 69.8 billion in September 2007. The increase in loans and advances was attributed to lending to private households, transport and communications, building and construction and manufacturing sector. Investment in Government securities increased by 17.9 per cent from Ksh. 156.6 billion in September 2006 to Ksh. 184.7 billion in September 2007.

Deposit Liabilities

Deposit liabilities including accrued interest increased by 17.5 per cent from Ksh 604.1 billion in September 2006 to Ksh 709.9 billion as at the end of September 2007. Local currency deposits expanded by 18.6 per cent from Ksh. 504.4 billion as at September 2006 to Ksh 598.2 billion as at September 2007, while foreign currency deposits rose by 12 per cent or Ksh 12 billion from Ksh. 99.7 billion to Ksh. 111.7 billion over the same period. This increase in deposit base was attributed to aggressive marketing campaigns by some banks to attract deposits from the public, external donor inflows and earnings from tourism and exports.

Capital and Reserves

Capital and reserves of the banking sector increased by 22.0 per cent from Ksh 91.2 billion in 2006 to Ksh. 111.1 billion in September 2007. The increase in capital and reserves in the sector was a result of fresh capital injection by some institutions and retention of profits. Capital adequacy in the sector, as measured by the ratio of total capital to total risk weighted assets ratio increased from 16.2 per cent in 2006 to 16.6 per cent in 2007 and was above the minimum statutory requirement of 12 per cent.

Non-performing loans

The stock of non - performing loans was estimated at Ksh 59.1 billion or 12 per cent of gross loans, compared with Ksh. 103.8 billion or 22.7 per cent of gross loans at the end of September 2006. The reduction in the level of non-performing loans was attributed mainly to write-offs against provisions held and recoveries by some of the banks during the period under review. During the period under review, the level of non-performing loans net of loan loss provisions stood at Ksh 20.4 billion and accounted for 4.1 per cent of gross loans. Consequently, asset quality which is measured by the ratio of net non-performing loans to gross loans improved from 5.7 per cent to 4.1 per cent over the period as shown in table 5.1.

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

		Sep-06	Sep-07
1	Gross loans and advances	456.5	492.4
2	Loans and Advances (net of interest suspended)	419.3	476.4
3	Gross non-performing loans	103.8	59.1
4	Specific Provisions	40.8	22.8
5	General Provisions	4.3	4.7
6	Total Provisions (4+5)	45.1	27.5
7	Net Advances (2-6)	374.2	448.9
8	Total Non-Performing Loans and Advances	66.7	43.1
9	Net Non-Performing Loans and advances (8-4)	25.9	20.3
10	Total NPLs as % of total advances (8/2)	15.9	9.0
11	Net NPLs as % of gross advances (9/1)	5.7	4.1
12	Specific Provisions as % of Total NPLs (4/8)	61.2	52.9

Source: Central Bank of Kenya

Profitability

Gross operating profit of the banking system increased by 36 per cent or Ksh. 7.0 billion from Ksh 19.5 billion as at September 2006 to Ksh. 26.6 billion as at September 2007. The increase in profits reflected increase in interest income on advances which rose by 17% or Ksh. 5.9 billion from Ksh. 34.0 billion in September 2006 to Ksh. 39.9 billion in September 2007. Similarly, non-funded income in terms of fees and commission charges contributed significantly to the increase in profitability and comprised 25% of total income. However, the banking system continues to rely heavily on interest income on advances and as at end of September 2007, this source of income accounted for 48 per cent of total income.

Liquidity Ratio Requirement

The average liquidity ratio of the banking sector remained high and stood at 43.3 per cent as at August 2007 compared with 42.5 per cent in August 2006. The high liquidity is attributed to the sector's preference for liquid assets due to high risk associated with other forms of assets.

Cash Ratio Requirement

Commercial banks maintained an average 6.2 percent reserve ratio with the Central Bank in September 2007 against the 6 percent reserve ratio requirements, as shown in Table 5.3 and Chart 5A. The ratio maintained by NBFIs averaged 6.0 percent during the period. In addition to reserve requirements, commercial banks held on average Ksh 944 million in September 2007 as excess reserves compared with Ksh 1,545 million in August 2007.

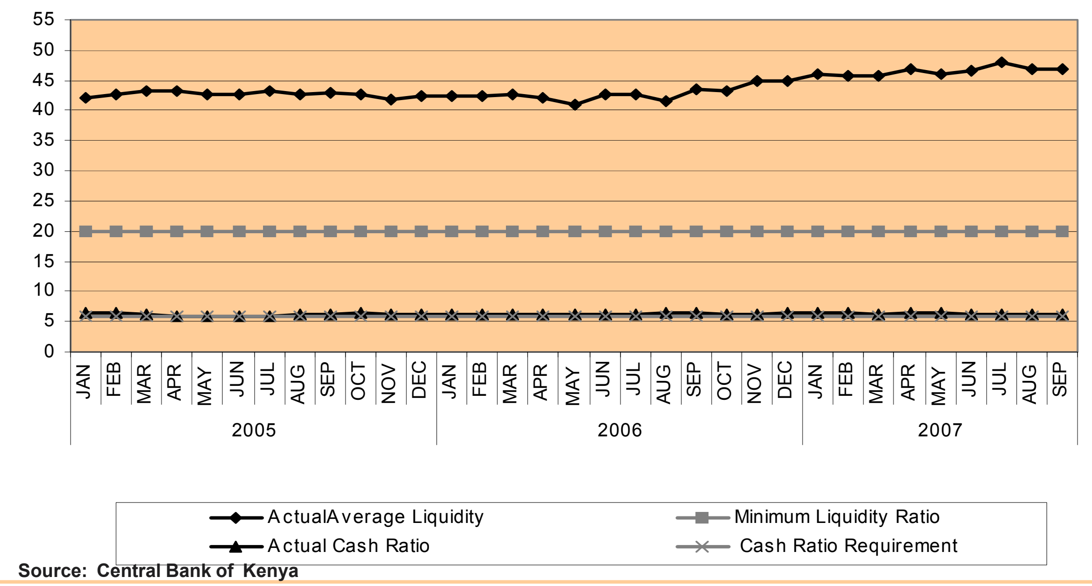
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2006				2007								
	Jul	Aug	Sep	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept
Commercial Banks													
Actual Average Liquidity	42.8	41.5	43.6	45.0	46.0	45.8	45.7	47.1	46.1	46.7	47.6	46.5	46.9
Minimum Liquidity Ratio	20	20	20	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio - All Banks	6.2	6.4	6.4	6.4	6.3	6.3	6.2	6.3	6.3	6.3	6.2	6.3	6.2
Minimum Cash Ratio Requirement**	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
NBFIs													
Actual Average Liquidity Ratio	29.5	29.0	28.9	32.0	28.0	34.7	40.7	33.8	31.4	26.2	24.4	25.2	28.2
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	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	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Minimum Cash Ratio Requirement***	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

* Monthly average liquidity and cash ratios
** Commercial banks and NBFIs must observe a daily minimum of 6% cash ratio.
The requirement became effective from 1st July 2003
*** Ratio includes NBFIs and Mortgage companies

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

KEPPS Kenya shillings flows

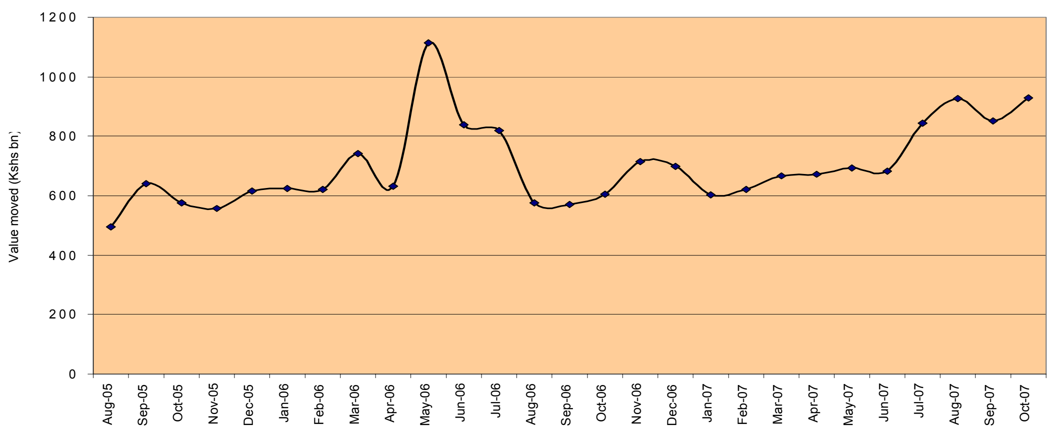
Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 16,410 transactions worth Ksh 930 billion in October 2007 representing 12.02 percent increase from September 2007. The amount moved increased from Ksh 606 billion in October 2006 to Ksh 930 billion in October 2007 corresponding to an increase of 53.48 percent. Generally, flows through KEPSS have increased consistently since January 2007. The increased activity is attributed to several factors among them; redemption of government securities, payments for primary auctions, open market operations, and increased economic activities.

On average the amount moved through the system per transaction has remained at about Ksh 60 million but the amount moved per day has increased to approximately Ksh 35 billion as indicated in Table 5.3 and Chart 5B below. Direct settlements through KEPSS in October 2007 accounted for 93.3 percent of the total flows while indirect payments accounted to 6.7 percent of the total flows.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per	No. of Transaction	Average value per transaction	Days worke	Per day	
					Value (bn)	Transactions
Aug-05	496	8,999	0.06	23	22	391
Sep-05	639	11,729	0.05	22	29	533
Oct-05	577	9,522	0.06	19	30	501
Nov-05	558	9,715	0.06	19	29	511
Dec-05	615	10,733	0.06	21	29	511
Jan-06	625	10,575	0.06	20	31	529
Feb-06	620	10,696	0.06	20	31	535
Mar-06	743	11,951	0.06	23	32	520
Apr-06	633	10,484	0.06	17	37	617
May-06	1,115	13,487	0.08	22	51	613
Jun-06	839	12,360	0.07	21	40	589
Jul-06	820	11,859	0.07	21	39	565
Aug-06	576	11,863	0.05	23	25	516
Sep-06	571	11,744	0.05	21	27	559
Oct-06	606	11,554	0.05	19	32	608
Nov-06	716	12,834	0.06	22	33	583
Dec-06	699	12,641	0.06	18	39	702
Jan-07	604	13,139	0.05	22	27	597
Feb-07	621	12,742	0.05	20	31	637
Mar-07	668	14,545	0.05	22	30	661
Apr-07	673	13,029	0.05	22	31	592
May-07	693	15,311	0.05	22	31	696
Jun-07	682	13,874	0.05	20	34	694
Jul-07	844	14,408	0.06	22	38	655
Aug-07	928	17,744	0.05	23	40	771
Sep-07	851	14,649	0.06	20	43	732
Oct-07	930	16,410	0.06	22	42	746

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

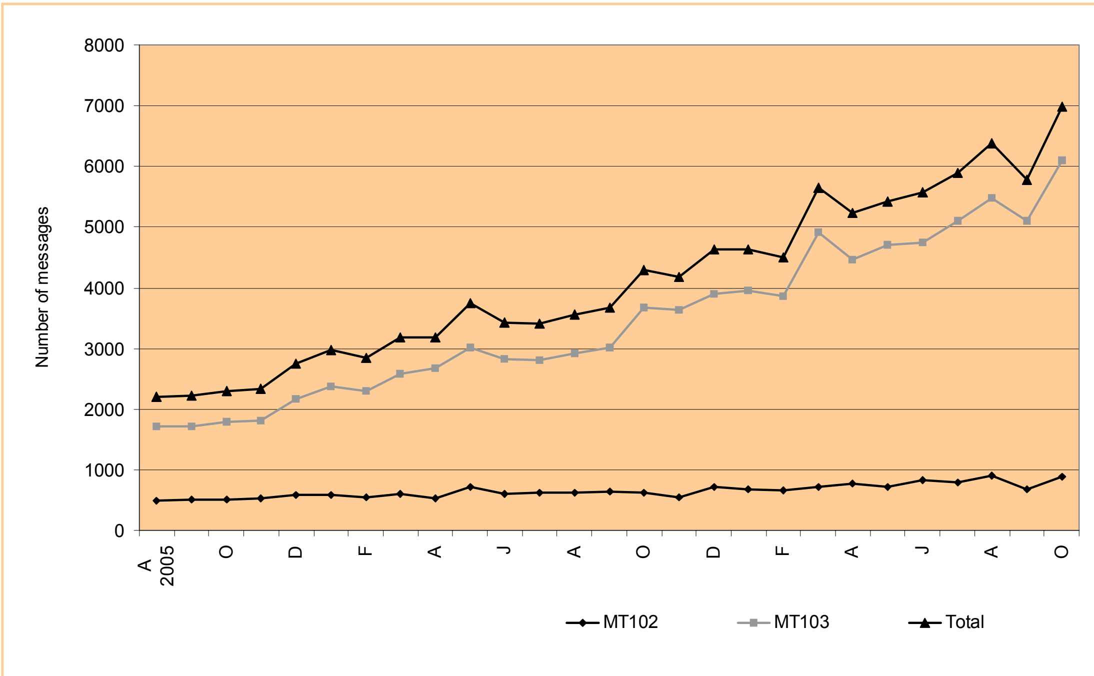


Multiple 3rd party messeages

Compared with September 2007, Multiple third party Message Type (MT) 102 increased by 37.37 percent from 679 messages in September 2007 to 892 messages in October 2007 while single third party Message Type (MT) 103 increased by 19.48 percent in the same period from 5,097 messages to 6,090 messages. Overall total third party messages through KEPSS increased by 20.88 percent from 5,776 messages in September 2007 to 6,982 messages in October 2007.

Compared with October 2006, multiple third party messages increased by 45.04 percent while single third party messages increased by 65.53 percent in October 2007 Chart C . This growth may be attributed to the continuous awareness initiatives by both CBK and the commercial banks. In value terms, Inter-bank transfers account for 56.85 percent of the total value moved through KEPSS while third party messages account for 43.15 percent.

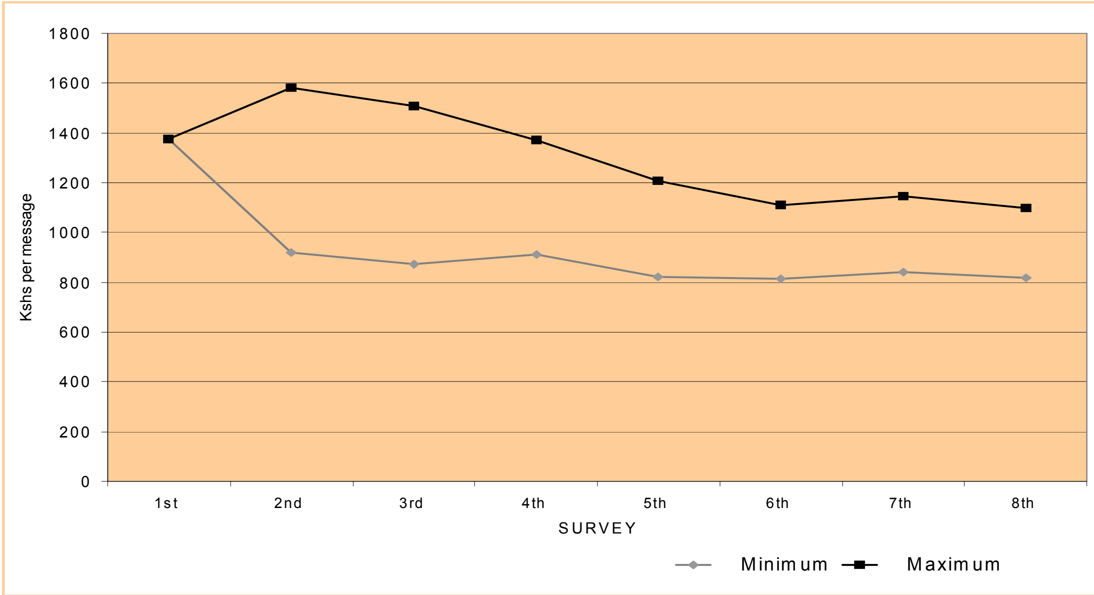
CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS



KEPPS Charges

The minimum and maximum KEPSS charges by commercial banks maintained a down wards trend from Ksh 921 and Ksh 1,581 respectively in the 2nd survey conducted in March 2006 to Ksh 820 and Ksh 1,099 respectively in the 8th survey conducted in Sep 2007. This trend may be indicative of the competitiveness in provision of KEPSS services by the commercial banks (Chart 5D).

CHART 5D: TRENDS IN AVERAGE OUTGOING KEPSS CHARGES



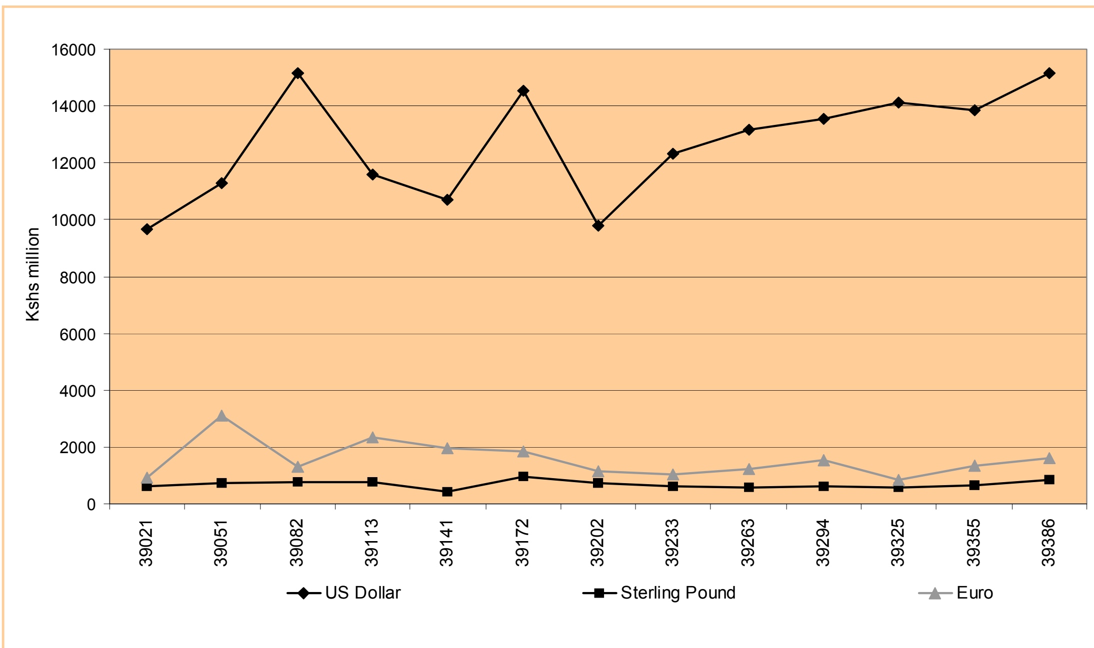
It is expected that this decline may continue in future since activity through KEPSS has increased since inception.

Domestic Foreign Currency Flows

Domestic Foreign Currency flows through KEPSS increased by 123.40 percent from 791 messages in October 2006 to 1,766 messages in October 2007 owing mainly to the introduction of third party inter-bank transfers. The US dollar remained increasingly the most commonly used foreign currency in the domestic foreign exchange market over this period as shown in Chart 5E.

The total amount in Kenya Shilling equivalent moved through KEPSS over this period increased by 57.07 percent from Ksh 11,208 million to Ksh 17,605 million.

CHART 5E: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Government Budget Performance

Following improved tax revenue collections, the performance of the Government budget in the first two months of the fiscal year 2007/08 improved significantly compared with the first two months of the previous fiscal year. The Government budgetary operations in July and August 2007 resulted in a budget deficit of Ksh 3.6 billion or 0.2 percent of GDP on commitment basis which was much lower than the deficit of Ksh 11.5 billion or 0.7 percent of GDP in a similar period in the fiscal year 2006/07 (Table 6.1). Similarly, the budget deficit on cash basis decreased from 1.3 percent to 0.5 percent of GDP during the period.

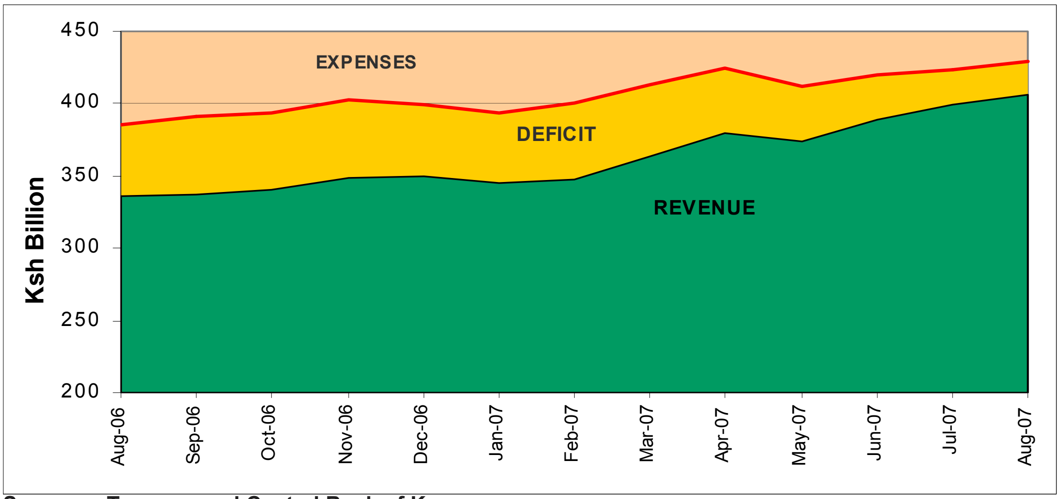
The deficit in the first two months of the fiscal year 2007/08 remained within the 0.4 percent of GDP target for the period, since the Government expenditure also remained in line with the budget. The 12-month cumulative budget outturn shows a progressively narrowing deficit since April 2007 with revenues growing faster than Government expenditure (Chart 6A).

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

	FY 2006/07	FY 2007/08		
	August Actual	August Prov.	Revised Target	Over (+) / Below (-) Target
1. TOTAL REVENUE	**47.9**	**66.0**	**64.5**	**1.5**
Revenue	46.5	64.8	62.6	2.2
Tax Revenue	42.2	55.9	54.0	1.9
Non Tax Revenue	1.9	4.8	4.4	0.3
Appropriations-in-Aid	2.4	4.1	4.2	-0.1
External Grants	1.4	1.2	1.8	-0.7
2. TOTAL EXPENSES	**59.4**	**69.6**	**71.4**	**-1.8**
Recurrent Expenses	50.5	56.2	55.0	1.2
Development Expenses	8.8	13.4	16.4	-3.0
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-11.5**	**-3.6**	**-7.0**	**3.3**
As % of GDP	-0.7	-0.2	-0.4	
4. ADJUSTMENT TO CASH BASIS	**-9.7**	**-6.5**	**0.6**	**-7.1**
5. DEFICIT ON A CASH BASIS	**-21.2**	**-10.1**	**-6.4**	**-3.8**
As % of GDP	-1.3	-0.5	-0.3	
6. DISCREPANCY:Exp. (+) / Rev. (-)	**-3.3**	**-1.6**	**0.0**	
7. FINANCING	**17.9**	**8.5**	**6.4**	**2.2**
Domestic (Net)	17.8	10.4	2.8	7.6
External (Net)	0.1	-1.9	3.5	-5.4
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Sources: Treasury

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



Sources: Treasury and Central Bank of Kenya

Revenue

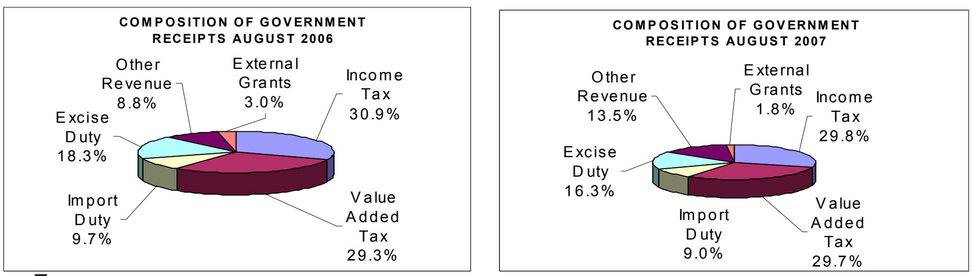
During the first two months of the fiscal year 2007/08, Government revenue (including grants) amounted to Ksh 66.0 billion, an increase of Ksh 18.1 billion or 37.7 percent compared with the Ksh 47.9 billion of the first two months of the fiscal year 2006/07 (Table 6.2). Furthermore, the revenue surpassed the target of Ksh 64.5 billion for the period by Ksh 1.5 billion or 2.3 percent. The Government receipts increased from 3.0 percent to 3.5 percent of GDP during the period reflecting a faster growth in revenue as the amount of external grants received declined.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Aug-06 Ksh bn	Aug-07 Ksh bn	Change
1. Revenue (2+3+4)	**46.5**	**64.8**	**18.3**
2. Tax Revenue	42.2	55.9	13.7
Income Tax	14.8	19.7	4.9
Value Added Tax	14.0	19.6	5.6
Import Duty	4.7	5.9	1.3
Excise Duty	8.8	10.7	2.0
3. Appropriations-in-Aid	2.4	4.1	1.7
4. Other Revenue	1.9	4.8	2.9
5. External Grants	**1.4**	**1.2**	**-0.3**
TOTAL RECEIPTS (1+5)	**47.9**	**66.0**	**18.1**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue increased from Ksh 42.2 billion in July and August 2006 to Ksh 55.9 billion in a similar period in 2007. Tax revenue therefore increased by Ksh 13.7 billion or 32.4 percent. The good economic performance recorded in the recent past was a significant driving factor in the increased tax revenue collection. The increased collection was also supported by improved administrative efficiencies and recruitment of new tax payers by the Kenya Revenue Authority (KRA).

Despite the significant growth in tax revenue in the first two months of 2007/08, the proportion of tax revenue in total Government receipts dropped from 88.2 percent in the first two months of the fiscal year 2006/07 to 84.8 percent. This was due to a significant increase in revenue from appropriations in aid (AIA) and other revenue. The ratio of tax revenue to GDP increased from 2.7 percent to 3.0 percent during the period. As shown in Table 6.2 and Chart 6B, the increase in tax revenue in the period was mainly in income tax and VAT which increased by Ksh 4.9 billion and Ksh 5.6 billion respectively. Similarly, collections of import duty and excise duty increased by Ksh 1.3 billion and Ksh 2.0 billion respectively during the period.

During the period Government receipts of external grants amounted to Ksh 1.2 billion, representing a decline of Ksh 0.3 billion or 19.0 percent from the Ksh 1.4 billion received in a similar period of the previous fiscal year. The grants also fell short of the Ksh 1.8 billion target for the period by Ksh 0.7 billion or 3.6 percent. As a result of this development the ratio of external grants in total Government receipts declined from 3 percent in July and August 2006 to 1.8 percent in July and August 2007, a development that signifies the diminishing role of external support in Government budgetary operations.

Expenditure and Net Lending

Government expenditure and net lending, which amounted to Ksh 59.4 billion in the first two months of the fiscal year 2006/07, increased to Ksh 69.6 billion in a similar period of the fiscal year 2007/08. This was an increase of Ksh 10.3 billion or growth of 17.3 percent in Government expenditure during the period. As shown in Table 6.3 and Chart 6C, recurrent and development expenditures increased by Ksh 5.6 billion and Ksh 4.6 billion respectively during the period. Development expenditure increased during the period largely due to increased activities on infrastructure rehabilitation and development.

Despite the rise in Government expenditure during the first two months of 2007/08, the proportion of the expenditure in GDP remained unchanged at 3.7 percent. However, recurrent expenditure dropped from 3.2 percent to 3.0 percent of GDP during the period which was almost on the target of 2.9 percent of GDP in the first two months of 2007/08. Development expenditure, on the other hand, increased from 0.6 percent to 0.7 percent of GDP during the period.

Development expenditure increased from Ksh 8.8 billion in the first two months of the fiscal year 2006/07 to Ksh 13.4 billion in a similar period of the fiscal year 2007/08. Consequently, the share of development expenditure in total Government expenditure increased from 14.9 percent to 19.3 percent during the period while the share of recurrent expenditure dropped from 85.1 percent to 80.7 percent of total expenditure. This is a positive development consistent with the Government objective of progressively increasing the proportion of expenses on development projects in order to support increased public investment activities and hence sustain high economic growth.

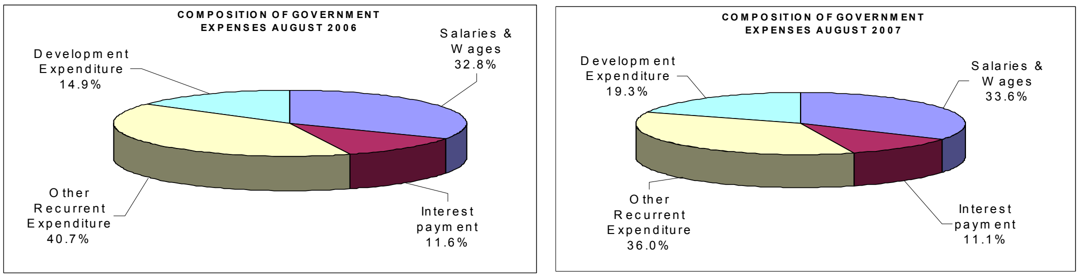
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Aug-06 Ksh bn	Aug-07 Ksh bn	Movement
1.Recurrent	**50.5**	**56.2**	**5.6**
Compensation of employees	19.5	23.4	**3.9**
Total Interest	6.9	7.7	**0.8**
of which			
Domestic*	6.0	7.0	**1.1**
Foreign interest due	0.9	0.7	**-0.2**
Others	24.2	25.1	**0.9**
2. Development	**8.8**	**13.4**	**4.6**
TOTAL EXPENSES	**59.4**	**69.6**	**10.3**

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

Source: Treasury

CHART 6C: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

Due to a lower budget deficit in the first two months of the fiscal year 2007/08 compared with that in a similar period of 2006/07, Government budgetary operations resulted in a lower financing requirement of Ksh 12.7 billion compared with Ksh 17.86 billion in a similar period of the previous fiscal year. As shown in Table 6.4, the financing requirement comprised Ksh 8.52 billion to finance the budget deficit, Ksh 1.89 billion to finance external debt repayments, Ksh 0.04 billion to repay domestic debt owed to commercial banks and Ksh 2.25 billion to build up Government deposits at the Central Bank of Kenya. The entire financing requirement of Ksh 12.7 billion was sourced through domestic borrowing comprising of Ksh 8.41 billion from the Central Bank of Kenya and Ksh 4.29 billion from non-bank sources.

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

I. FINANCING REQUIREMENTS	Aug-06	Aug-07
1. Budget deficit	17.9	8.5
2. External debt reduction	0.0	1.9
3. Domestic debt reduction	0.0	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	2.2
TOTAL	**17.9**	**12.7**
II. FINANCING SOURCES	**Aug-06 Ksh bn**	**Aug-07 Ksh bn**
1. Budget surplus	0.0	0.0
2. External debt increase	0.1	0.0
3. Increase in domestic debt	9.7	12.7
3.1 Central Bank	1.5	8.4
3.2 Commercial banks	4.6	0.0
3.3 Non-bank sources	3.6	4.3
4. Reduction in GoK deposits at CBK	8.1	0.0
5. Privatisation proceeds	0.0	0.0
TOTAL	**17.9**	**12.7**

Sources: Treasury & Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank of Kenya decreased from Ksh 44.7 billion in August 2006 to Ksh 37.6 billion in June 2007 before rising to Ksh 46.0 billion by the end of August 2007. The increase in indebtedness during the period was attributed to an increase of Ksh 2.1 billion in cleared items in transit which was partly offset by a decrease of Ksh 0.4 billion in Government overdraft at the Central Bank of Kenya and revaluation gains amounting to Ksh 0.5 billion on the IMF funds on-lent to the Government. The level of Government overdraft at the Central Bank of Kenya remained within the legal limits during the period.

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

	2006	2007		Movement
	August	June	August	August 06-August 07
Total Credit	**44.7**	**37.6**	**46.0**	**1.3**
1. Overdraft	7.9	0.0	7.5	-0.4
2. Rediscounted securities	0.0	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.0	0.0
Treasury bonds	0.0	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	35.5	35.5	35.5	0.0
4. IMF funds onlent to Government	1.9	1.4	1.4	-0.5
5. Cleared items in transit	-0.7	0.6	1.5	2.1
Memorandum				
Authorised overdraft limit	**11.3**	**13.3**	**13.3**	**1.9**
Amount utilised to date	7.9	0.0	7.5	-0.4
Amount available	3.4	13.2	5.7	2.3

Source: Central Bank of Kenya

Outlook of FY 2007/08

During the fiscal year 2007/08, Government revenue excluding grants is projected to amount to Ksh 428.9 billion or 20.8 percent of GDP. The growth in revenue will be driven by better economic performance and implementation of tax administration reforms by Kenya Revenue Authority. Similarly, external grants are projected to rise to Ksh 40.3 billion or 2.0 percent of GDP during the fiscal year. Government expenditure is projected at Ksh 580.4 billion or 28.2 percent of GDP during the fiscal year and will comprise Ksh 411.2 billion or 20.0 percent of GDP in recurrent expenditure and Ksh 169.2 billion or 8.2 percent of GDP in development expenditure.

Consequently, overall budget deficit including grants is projected at Ksh 109.8 billion or 5.3 percent of GDP in the fiscal year 2007/08. The higher deficit compared with that in the previous fiscal year largely reflects the substantial rise in development expenditure mainly to finance the rehabilitation of the road infrastructure in the country. The deficit will be financed through net external borrowing of Ksh 39.8 billion, net domestic borrowing totalling Ksh 33.9 billion and net privatization receipts amounting to Ksh 36.0 billion. The net domestic borrowing requirement of 1.6 percent of GDP in the fiscal year 2007/08 is lower than the 1.9 percent of GDP in the fiscal year 2006/07 and is consistent with the medium-term target of 1.5 percent of GDP.

Developments in Public Debt

Overall Debt

The Government remained within its borrowing programme in the first two months of the fiscal year 2007/08. Public and publicly guaranteed debt, therefore, increased from Ksh 801.3 billion in June 2007 to Ksh 825.0 billion in August 2007 (Table 7.1). This means that public debt grew by Ksh 23.7 billion or 3.0 percent during the period. The rise in public debt in July and August 2007 came from an increase of Ksh 12.5 billion in external debt and another increase of Ksh 11.2 billion in domestic debt. External debt increased mainly due to weakening of the Kenya shilling while domestic debt increased due to programmed domestic borrowing to finance the budgetary operations.

The share of domestic debt in the total stock of public and publicly guaranteed debt decreased from 50.5 percent in June 2007 to 50.4 percent in August 2007 while that of external debt increased from 49.5 percent to 49.6 percent of total debt during the period.

Furthermore, as shown in Chart 7A, the overall debt to GDP ratio increased from 43.8 percent in June 2007 to 44.2 percent in August 2007. The proportion of domestic debt to GDP increased slightly from 22.1 percent to 22.3 percent during the period while external debt to GDP ratio increased from 21.7 percent to 21.9 percent. The overall debt to GDP ratio has remained stable in the last three years due to improved economic performance.

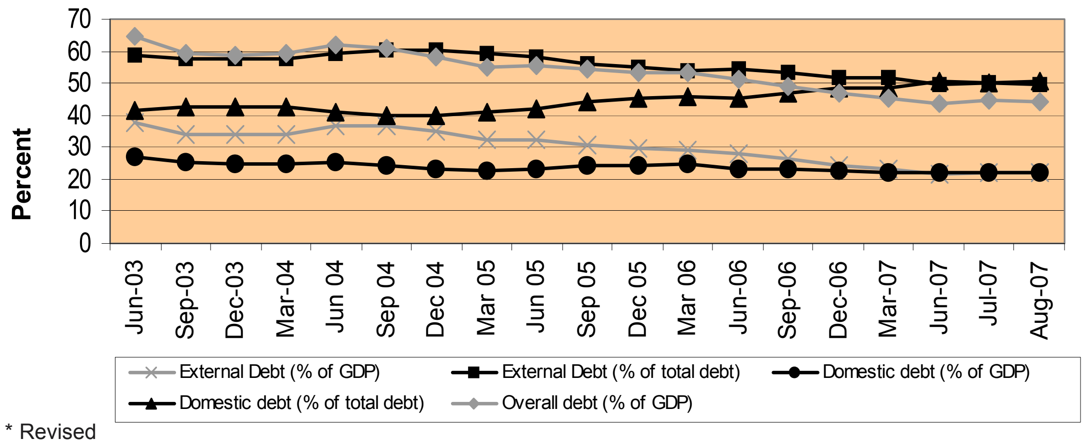
TABLE 7.1: KENYA'S PUBLIC DEBT (Ksh billion)

	Aug-06	Sep-06	Dec-06	Mar-07	June-07	July-07*	August**	Change 2007/08
EXTERNAL								
Bilateral	155.0	150.3	145.3	145.4	137.9	137.8	137.1	-0.8
Multilateral***	255.3	251.9	242.7	244.0	240.3	254.8	253.6	13.3
Commercial Banks	1.3	1.3	0.9	0.9	0.3	0.3	0.3	0.0
Export Credit	19.5	19.2	18.8	18.8	18.0	18.0	18.0	0.0
Sub-Total	**431.1**	**422.6**	**407.7**	**409.1**	**396.6**	**410.9**	**409.1**	**12.5**
(As a % of GDP)	27.1	26.2	24.2	23.3	21.7	22.2	21.9	
(As a % of total debt)	54.0	53.2	51.4	51.4	49.5	50.0	49.6	
DOMESTIC\[1]								
Banks	**197.3**	**200.8**	**211.0**	**204.8**	**223.0**	**224.7**	**229.7**	**6.7**
Central Bank	42.8	39.6	47.1	35.9	36.2	40.8	44.6	8.4
Commercial Banks	154.5	161.2	163.9	169.0	186.8	183.9	185.1	-1.7
Non-banks	**165.1**	**164.6**	**167.7**	**177.1**	**180.6**	**184.6**	**185.3**	**4.6**
Non-bank Financial Inst.	0.9	0.9	0.9	1.2	1.1	1.1	1.0	-0.1
Other Non-bank Sources	164.2	163.7	166.9	176.0	179.5	183.5	184.2	4.7
Non-residents	5.6	6.2	6.4	4.3	1.1	1.0	1.0	-0.1
Sub-Total	**368.0**	**371.6**	**385.1**	**386.3**	**404.7**	**410.2**	**415.9**	**11.2**
(As a % of GDP)	23.1	23.0	22.8	22.0	22.1	22.2	22.3	
(As a % of total debt)	46.0	46.8	48.6	48.6	50.5	50.0	50.4	
GRAND TOTAL	**799.1**	**794.2**	**792.9**	**795.3**	**801.3**	**821.1**	**825.0**	**23.7**
(As a % of GDP)	50.2	49.2	47.0	45.3	43.8	44.4	44.2	

* Revised
** 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



* Revised
** Provisional
Sources: Treasury and Central Bank of Kenya

Domestic Debt

Following the success of the Government domestic borrowing programme in July and August 2007, the Government gross domestic debt increased from Ksh 404.7 billion in June 2007 to Ksh 415.9 billion in August 2007. As shown in Table 7.2, the rise in domestic debt during the period followed increases of Ksh 5.1 billion in Treasury bonds and Ksh 8.4 billion in other domestic debt. These increases were, however, partly offset by a decrease of Ksh 2.3 billion in Treasury bills. The Government overdraft at the Central Bank of Kenya, which accounted for the largest proportion of other domestic debt, amounted to Ksh 7.5 billion in August 2007. This was within the current legal limit of Ksh 13.3 billion. It is worth noting that since the fiscal year 2006/07, the Government has minimised the use of the overdraft facility and has only been resorting to it to smooth out temporary mismatches between revenue and expenditures. It is, therefore, not used as a borrowing instrument for meeting the programmed domestic borrowing requirements.

During the first two months of the fiscal year 2007/08, Treasury bonds auctions realized average over subscriptions of 62.0 percent while Treasury bills auctions were oversubscribed by 24.7 percent. The better performance of the Treasury bonds auctions compared with the Treasury bills indicates a strong investor preference for longer dated securities.

As shown in Table 7.1, domestic debt owed to commercial banks decreased by Ksh 1.7 billion from Ksh 186.8 billion in June 2007 to Ksh 185.1 billion in August 2007. Consequently, the share of domestic debt held by commercial banks decreased from 46.2 percent to 44.5 percent during the period.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2006				2007								Change June 07- August 07
	Aug	%	Sep	%	Mar	%	June	%	July	%	Aug	%	
Total stock of Domestic Debt (A+B)	**368.0**	**100.0**	**371.6**	**100.0**	**386.3**	**100.0**	**404.7**	**100.0**	**410.2**	**100.0**	**415.9**	**100.0**	**11.2**
A. Government Securities	**358.3**	**97.4**	**365.1**	**98.3**	**383.2**	**99.2**	**402.9**	**99.6**	**403.9**	**98.5**	**405.7**	**97.6**	**2.8**
1. Treasury Bills (excluding Repo Bills)	**98.2**	**26.7**	**98.6**	**26.5**	**98.3**	**25.5**	**94.4**	**23.3**	**93.9**	**22.9**	**92.1**	**22.2**	**-2.3**
Banking institutions	49.6	13.5	52.2	14.0	47.5	12.3	45.3	11.2	41.6	10.1	40.7	9.8	-4.6
Others	48.5	13.2	46.4	12.5	50.8	13.2	49.1	12.1	52.3	12.7	51.4	12.4	2.3
2. Treasury Bonds	**223.5**	**60.7**	**230.0**	**61.9**	**248.6**	**64.4**	**272.2**	**67.3**	**273.7**	**66.7**	**277.3**	**66.7**	**5.1**
Banking institutions	102.5	27.9	106.7	28.7	118.8	30.8	141.5	35.0	142.3	34.7	144.3	34.7	2.8
Others	121.0	32.9	123.3	33.2	129.8	33.6	130.7	32.3	131.4	32.0	133.0	32.0	2.3
3. Long term Stocks	**1.1**	**0.3**	**1.1**	**0.3**	**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
Others	1.1	0.3	1.1	0.3	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	**35.5**	**9.7**	**35.5**	**9.6**	**35.5**	**9.2**	**35.5**	**8.8**	**35.5**	**8.7**	**35.5**	**8.5**	**0.0**
Of which: Repo T/Bills	35.5	9.7	35.5	9.6	35.5	9.2	35.5	8.8	35.5	8.7	35.5	8.5	0.0
B. Others:	**9.6**	**2.6**	**6.5**	**1.7**	**3.1**	**0.8**	**1.8**	**0.4**	**6.3**	**1.5**	**10.2**	**2.4**	**8.4**
Of which CBK overdraft to Government	7.9	2.1	3.7	1.0	0.0	0.0	0.0	0.0	4.8	1.2	7.5	1.8	7.5

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

As a result of the decline in outstanding Treasury bills (excluding Repos) from Ksh 94.4 billion in June 2007 to Ksh 92.1 billion in August 2007, the share of Treasury bills in total domestic debt decreased from 23.3 percent to 22.2 percent during the period (Table 7.2). As shown in Table 7.3 and Chart 7B, Treasury bills holdings by commercial banks decreased from Ksh 45.1 billion or 47.7 percent of outstanding Treasury bills in June 2007 to Ksh 41.4 billion or 44.9 percent in August 2007. The proportion of 182-day Treasury bills in outstanding Government securities also declined from 19.7 percent in June 2007 to 18.3 percent in August 2007 (Table 7.5). However, 91-day Treasury bills increased from 6.0 percent of outstanding Government securities in June 2007 to 6.7 percent in August 2007.

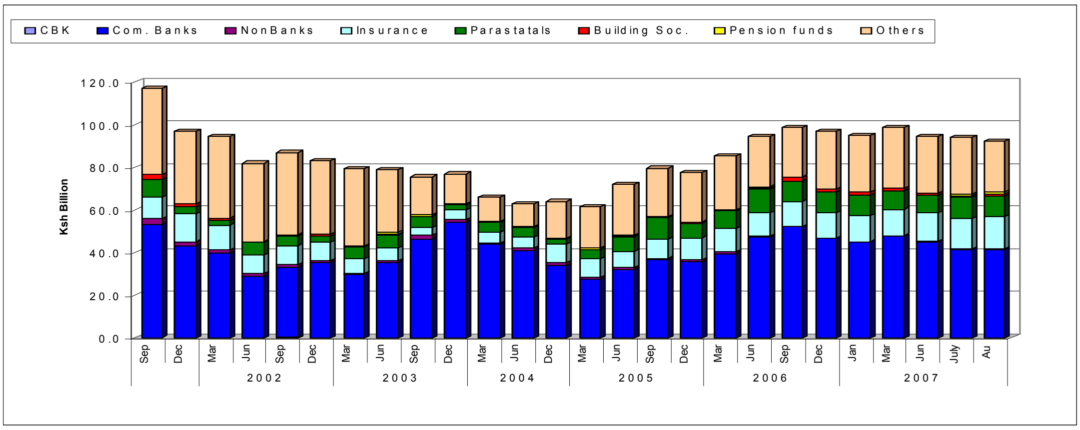
TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

	2006						2007													
Holders	**Jun**	**%**	**Aug**	**%**	**Dec**	**%**	**Mar**	**%**	**Apr**	**%**	**May**	**%**	**Jun**	**%**	**July**	**%**	**Aug**	**%**
Banking Institutions	47.6	50.2	49.7	50.6	46.8	48.5	47.8	48.6	47.2	46.9	43.9	44.8	45.3	48.0	41.6	44.3	41.6	45.1
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	0.0	0.0
Comm. Banks	47.0	49.6	49.6	50.5	46.8	48.4	47.5	48.3	46.9	46.6	43.5	44.4	45.1	47.7	41.4	44.1	41.4	44.9
NBFIs	0.5	0.6	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2
Insurance Companies	11.0	11.6	11.1	11.3	11.9	12.3	12.4	12.6	12.6	12.5	13.1	13.3	13.5	14.2	14.1	15.0	15.1	16.4
Parastatals	11.2	11.9	11.1	11.3	9.5	9.8	8.8	8.9	9.6	9.6	9.1	9.3	8.3	8.7	10.3	10.9	9.7	10.5
Of which: NSSF	0.6	0.6	0.8	0.8	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Building Societies	0.5	0.6	1.5	1.5	1.4	1.5	1.1	1.1	0.9	0.9	0.5	0.5	0.6	0.7	0.7	0.8	0.8	0.9
Pension Funds	0.6	0.6	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.7	0.8	1.0	1.1
Others	23.8	25.1	24.5	24.9	26.9	27.9	28.3	28.7	30.2	30.0	31.2	31.9	26.7	28.3	26.5	28.2	23.9	26.0
Total*	**94.8**	**100.0**	**98.2**	**100.0**	**96.7**	**100.0**	**98.3**	**100.0**	**100.6**	**100.0**	**97.9**	**100.0**	**94.4**	**100.0**	**93.9**	**100.0**	**92.1**	**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

The outstanding Treasury bonds increased from Ksh 272.2 billion in June 2007 to Ksh 277.3 billion in August 2007, as shown in Table 7.2 and Chart 7C. However, the proportion of Treasury bonds in total domestic debt dropped from 67.3 percent to 66.7 percent during the period, mainly due to an increase in other domestic debt.

Treasury bonds holdings by commercial banks increased from Ksh 140.7 billion in June 2007 to Ksh 143.5 billion in August 2007 (Table 7.4). Similarly, Treasury bonds holdings by non-bank institutions and individuals increased from Ksh 131.5 billion in June 2007 to Ksh 133.8 billion during the period. However, the proportion of Treasury bonds holdings by commercial banks remained unchanged from the position in June 2007, which was 51.7 percent. Consequently, the proportion of Treasury bonds held by non-banks remained unchanged at 48.3 percent during the period.

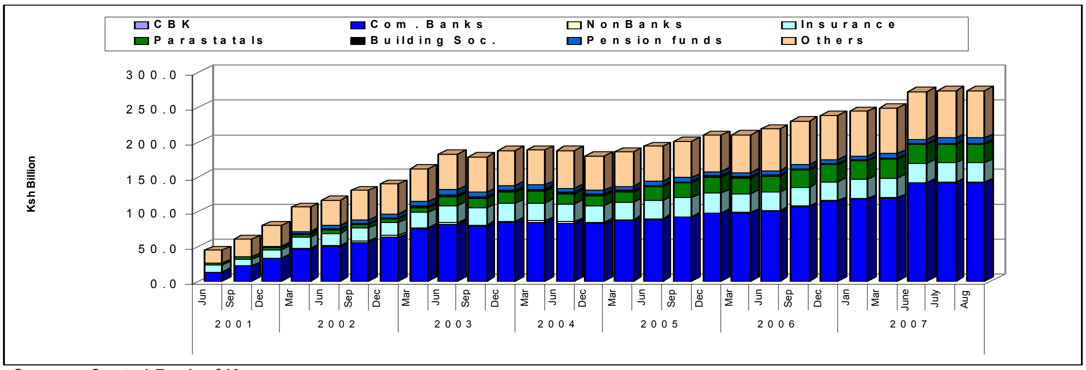
In terms of maturity profile, the largest share of Treasury bonds was in 6-year bonds between June and August 2007. However, the proportion of 6-year bonds in outstanding Government securities dropped from 13.2 percent in June 2007 to 13.1 percent in August 2007. Furthermore, following successful issuance of 5-year and 7-year bonds during the period, the share of 5-year bonds in total Government securities increased from 7.9 percent in June 2007 to 8.5 percent in August 2007 while the proportion of 7-year bonds increased from 4.3 percent to 6.5 percent during the period. As a result, the average maturity profile of domestic debt increased from 3.07 years in June 2007 to 3.14 years in August 2007. This trend is expected to continue as the Government issues more of the longer dated Treasury bonds such as the 15-year bond earmarked for issuance in November 2007.

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

	2006		2007											
Holders	Aug	%	Mar	%	Apr	%	May	%	June	%	July	%	Aug	%
Banking Institutions	103.4	46.3	119.7	48.1	120.5	48.4	122.8	48.4	141.5	52.0	142.3	52.0	144.3	52.1
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	102.5	45.9	118.8	47.8	119.7	48.1	121.9	48.1	140.7	51.7	141.4	51.7	143.5	51.7
NBFIs	0.9	0.4	0.9	0.3	0.9	0.3	0.9	0.3	0.9	0.3	0.9	0.3	0.9	0.3
Insurance Companies	27.1	12.1	28.5	11.5	28.4	11.4	28.6	11.3	27.5	10.1	27.5	10.0	27.9	10.1
Parastatals	23.8	10.6	27.0	10.9	27.1	10.9	26.7	10.5	27.3	10.0	26.8	9.8	27.8	10.0
Of which: NSSF	5.1	2.3	6.5	2.6	6.4	2.6	6.4	2.5	6.8	2.5	6.9	2.5	8.0	2.9
Building Societies	1.6	0.7	1.5	0.6	1.5	0.6	1.5	0.6	1.3	0.5	1.2	0.5	1.2	0.4
Pensions Fund	5.9	2.6	6.0	2.4	6.0	2.4	6.1	2.4	5.9	2.2	8.0	2.9	9.5	3.4
Others	61.8	27.6	65.9	26.5	65.2	26.2	68.1	26.8	68.7	25.2	67.9	24.8	66.5	24.0
Total	**223.5**	**100.0**	**248.6**	**100.0**	**248.8**	**100.0**	**253.7**	**100.0**	**272.2**	**100.0**	**273.7**	**100.0**	**277.3**	**100.0**

Source: Central Bank of Kenya

CHART 7C: STOCK OF TREASURY BONDS



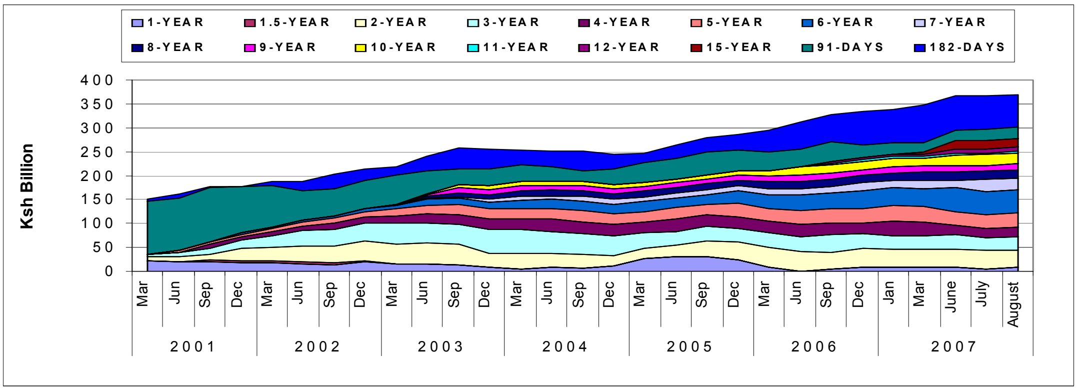
Source: Central Bank of Kenya

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

	2006				2007										Change Jun-07 to August-07
	Aug	%	Dec	%	Apr	%	May	%	June	%	July	%	Aug	%	
91-Day	38.1	11.8	26.1	7.8	21.5	6.1	22.2	6.3	22.0	6.0	24.2	6.6	24.6	6.7	2.6
182-Day	60.1	18.7	70.6	21.1	79.1	22.6	75.6	21.5	72.4	19.7	69.7	19.0	67.5	18.3	-4.9
1-Year	4.6	1.4	9.7	2.9	9.7	2.8	9.7	2.8	8.7	2.4	5.2	1.4	8.4	2.3	-0.3
2-Year	35.6	11.1	39.3	11.7	37.7	10.8	37.7	10.7	37.7	10.3	37.7	10.2	35.4	9.6	-2.2
3-Year	32.5	10.1	28.6	8.5	27.2	7.8	27.2	7.7	31.2	8.5	27.9	7.6	27.9	7.6	-3.2
4-Year	24.3	7.5	23.4	7.0	24.0	6.9	24.0	6.8	19.3	5.3	19.3	5.2	19.3	5.2	0.0
5-Year	31.0	9.6	30.0	9.0	31.8	9.1	31.8	9.0	28.8	7.9	28.8	7.8	31.4	8.5	2.6
6-Year	33.1	10.3	38.1	11.4	43.3	12.4	43.3	12.3	48.3	13.2	48.3	13.1	48.3	13.1	0.0
7-Year	13.6	4.2	15.9	4.7	15.9	4.5	15.9	4.5	15.9	4.3	24.2	6.6	24.2	6.5	8.3
8-Year	15.3	4.8	15.3	4.6	17.9	5.1	17.9	5.1	17.9	4.9	17.9	4.9	17.9	4.9	0.0
9-Year	12.6	3.9	12.6	3.8	12.6	3.6	12.6	3.6	12.6	3.4	12.6	3.4	12.6	3.4	0.0
10-Year	17.1	5.3	17.1	5.1	17.1	4.9	17.1	4.9	22.1	6.0	22.1	6.0	22.1	6.0	0.0
11-Year	0.0	0.0	4.0	1.2	4.0	1.2	4.0	1.1	4.0	1.1	4.0	1.1	4.0	1.1	0.0
12-Year	3.9	1.2	3.9	1.2	3.9	1.1	8.8	2.5	8.8	2.4	8.8	2.4	8.8	2.4	0.0
15-Year			0.0	0.0	3.7	1.0	3.7	1.0	16.9	4.6	16.9	4.6	16.9	4.6	0.0
Total	**321.7**	**100.0**	**334.7**	**100.0**	**349.4**	**100.0**	**351.5**	**100.0**	**366.6**	**100.0**	**367.6**	**100.0**	**369.4**	**100.0**	

Source: Central Bank of Kenya

CHART 7D: OUTSTANDING TREASURY BILLS AND BONDS



Source: Central Bank of Kenya

Long-term Stocks

Outstanding Government long term stocks stood at Ksh 0.8 billion or 0.2 percent of overall domestic debt in August 2007 which was the same position as that at the end of June 2007. The National Social Security Fund (NSSF) held 54.2 percent of the outstanding stocks while insurance companies, other public enterprises and individuals held the remaining 45.8 percent.

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Treasury bills and bonds from September to November 2007 will amount to Ksh 58.9 billion and Ksh 9.9 billion respectively. The Treasury bills maturities during the period will comprise Ksh 24.6 billion and Ksh 34.3 billion in 91-day and 182-day Treasury bills respectively. Treasury bonds maturities in the period will comprise Ksh 5.6 billion, Ksh 2.4 billion, Ksh 1.1 billion and Ksh 0.7 billion in 2-year, 4-year, 5-year and 6-year Treasury bonds respectively.

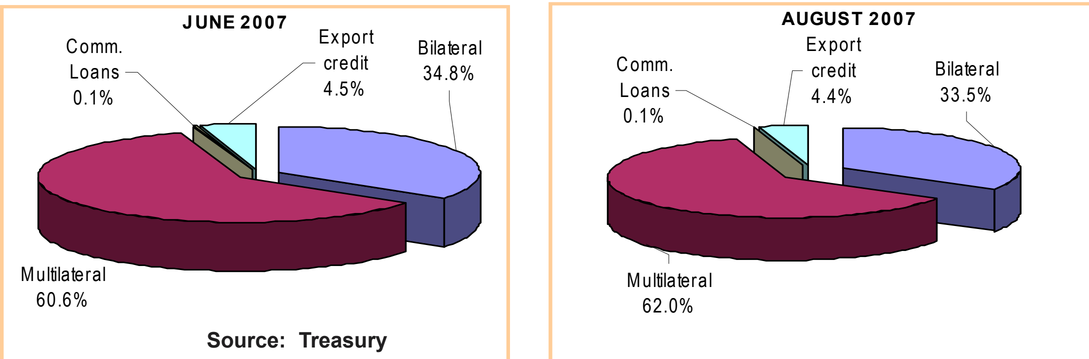
External Debt

External public and publicly guaranteed debt increased from Ksh 396.6 billion in June 2007 to Ksh 409.1 billion in August 2007. This means an increase of 3.2 percent in external debt during the period. Expressed in foreign currency terms, the debt increased only slightly from USD 6.0 billion to USD 6.1 billion during the period. The rise in external debt (in shillings) during the period was attributed to revaluation losses on the debt totalling Ksh 14.5 billion and disbursements totalling Ksh 1.5 billion. These increases in the debt were, however, partly offset by principal repayments of external debt totalling Ksh 3.5 billion. The entire amount of external loans disbursements during the period was through project financing.

Composition of External Debt by Creditor

The share of external debt owed to multilateral creditors increased from 60.6 percent in June 2007 to 62.0 percent in August 2007. However, as shown in Chart 7E, the proportion of the debt owed to bilateral creditors and that contracted through export credits dropped from 34.8 percent and 4.5 percent respectively in June 2007 to 33.5 percent and 4.4 percent respectively in August 2007. The share of external debt owed to commercial banks remained unchanged from the 0.1 percent in June 2007.

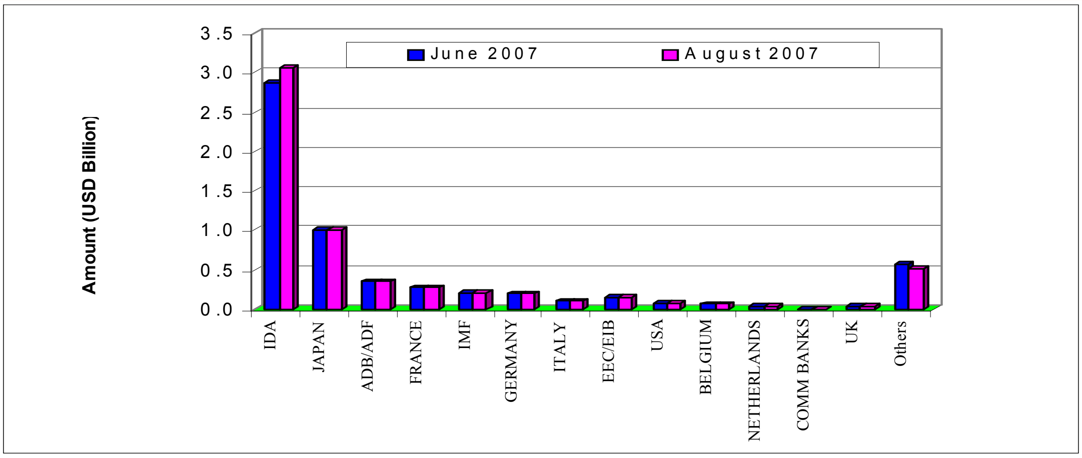
CHART 7E: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

As shown in Chart 7F, the largest external creditors to Kenya as at the end of August 2007 were International Development Association (IDA) and Japan. The debt owed to IDA increased from USD 2.9 billion in June 2007 to USD 3.1 billion in August 2007 while that owed to Japan remained unchanged from the position at the end of June 2007 which was USD 1.0 billion. Japan, therefore, remains Kenya's single largest external bilateral creditor.

CHART 7F: EXTERNAL DEBT BY CREDITOR

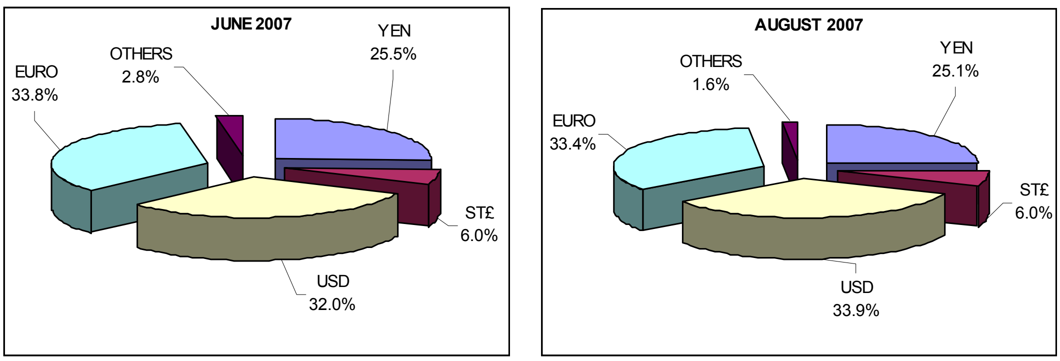


Source: Treasury

Currency Composition of External Debt

As shown in Chart 7G, the proportion of external debt held in US dollars increased from 32.0 percent in June 2007 to 33.9 percent in August 2007. However, the proportion of external debt held in Euros, Japanese Yen and other currencies including SDR dropped from 33.8 percent, 25.5 percent and 2.8 percent respectively to 33.4 percent, 25.1 percent and 1.6 percent respectively during the period. The share of external debt held in Sterling pounds remained unchanged at 6.0 percent during the period.

CHART 7G: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt during the first two months of 2007/08 amounted to Ksh 7.0 billion compared with Ksh 6.0 billion in a similar period of the previous fiscal year. However, the ratio of domestic interest payments to ordinary revenue dropped from 12.8 percent to 10.9 percent due to rapid growth in revenue during the period. This is an indication that the Government's capacity to service the debt is increasing due to improved revenue collection following better performance of the economy.

External debt service (including repayments to IMF) increased from Ksh 2.2 billion or 4.8 percent of ordinary revenue in the first two months of 2006/07 to Ksh 4.2 billion or 6.5 percent of ordinary revenue in a similar period of 2007/08. The increase in external debt service during the period is attributed to end of the consolidation period in December 2006 for the Paris Club debt re-scheduling under the 2004 agreement, which means that the Government is now servicing the debts. The external debt service during the first two months of 2007/08 comprised Ksh 3.5 billion in principal repayments and Ksh 0.7 billion in interest payments.

Outlook for the Fiscal Year 2007/08

During the fiscal year 2007/08, Government domestic and external borrowings are projected at Ksh 34.0 billion and Ksh 39.8 billion respectively. However, as stated in the Budget Strategy Paper for 2007/08 to 2009/10, gross domestic debt to GDP ratio at the end of June 2008 is projected to remain unchanged from the end of June 2007 position of 22.4 percent. This is attributed to an expected faster growth rate in GDP in the period. The proportion of external debt in GDP is projected to increase slightly from 21.9 percent of GDP at the end of June 2007 to 22.0 percent at the end of June 2008.

ACTIVITY IN THE STOCK MARKET

Equity Market Year 2006 Review

Subdued performance was recorded at the equities market during the month of October 2007 as reflected by key market indicators. Turnover decreased by Ksh 2.7 billion from Ksh 9.9 billion in September 2007 to Ksh 7.2 billion in October 2007 following the decline in the number of shares traded. The number of shares traded fell by 54.6 percent from 275.7 million in September to 183.6 million in October 2007, while market capitalization dropped by Ksh 46 million from Ksh 791.7 billion in September 2007 to Ksh 745.5 billion in October 2007 reflecting declined trading and price drops. Consequently, the NSE 20 Share Index decreased from 5146.5 points in September 2007 to 4971.04 points in October 2007. Market liquidity ratio declined from 2.1 percent in September to 1.4 percent in October 2007 following the drop in the number of shares traded.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS, 2006 - 2007

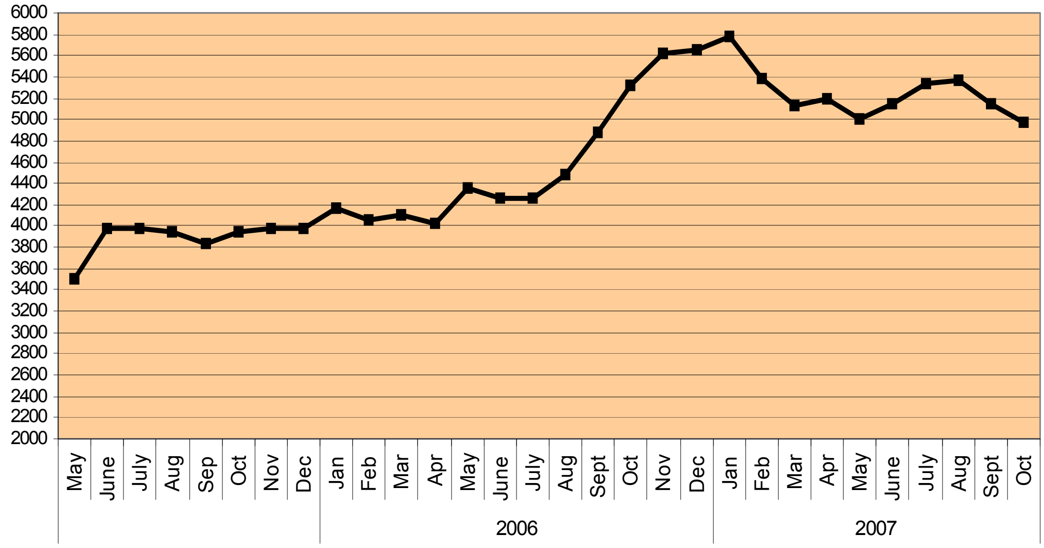
Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Ksh Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
Jan 06	4,171.80	143.50	6,146.38	481.29	1,054.90
Feb 06	4,056.63	61.95	3,392.49	469.66	4,696.25
Mar 06	4,101.64	69.20	3,692.22	484.18	2,859.70
Apr 06	4,025.21	57.28	2,861.62	486.78	6,002.15
May 06	4,349.75	183.46	11,437.33	614.90	4,783.25
June 06	4,260.49	142.02	8,441.65	623.20	8,128.35
July 06	4,258.54	93.45	5,593.89	615.09	7,383.50
August 06	4,486.07	117.80	8,497.88	668.67	6,440.40
September 06	4,879.86	177.42	12,377.72	726.78	1,497.00
October 06	5,314.36	161.25	13,089.36	771.70	1,872.06
November 06	5,615.20	169.47	13,648.68	806.23	2,847.80
December 06	5,645.65	77.42	5,770.67	791.58	1,009.50
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

Source: Nairobi Stock Exchange

Bond Market

Bond market trading declined steeply in October 2007 as bond turnover fell by 73.2 percent with bonds worth Ksh 3.5 billion traded compared with Ksh 9.5 billion traded in September 2007.

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



Source: Nairobi Stock Exchange

The Finance and Investment sector continued to be the most active in the Main Investment Market Segment as it traded 93.7 billion shares representing 51 percent of the traded volume in October 2007. The most traded stocks in the sector were KCB (40.5 million) and Kenya Re (23.9 million) shares. The Industrial and Allied sector traded 57.98 billion shares and contributed 31.6 percent to total market trading in October 2007. Actively traded stocks in the sector included Mumias (22.9 million) and KenGen (18.3 million) shares, respectively. The Commercial and Services sector traded 29.8 billion shares traded and accounted for 16.2 percent of traded volume; Access Kenya traded 9.6 million shares while Kenya Airways traded 5.4 million shares to be the most traded stocks in the sector. The Agricultural sector traded 1.5 billion shares with Sasini trading 0.98 million shares.

The Alternative Investment Market Segment (AIMS) had 0.7 million shares traded with Express Kenya contributing 0.5 million to the traded volume.

Balance Sheet of the Central Bank of Kenya

(Kenya shillings million)

	Sep-07	Sep-06	Sep 06/Sep 07 Movement
ASSETS	**246,677**	**221,463**	**25,214**
Foreign Exchange	188,562	174,039	**14,523**
Advances and Discounts to Banks	2,490	0	**2,490**
Investment in Government Securities	4	15	**-11**
Government Accounts	50,474	41,523	**8,951**
Overdraft to Government	13,269	3,669	**9,600**
Clearing Account	200	371	**-171**
IMF funds on-lent to Government	1,456	1,934	**-478**
Non-interest Bearing Government Debt	35,549	35,549	**0**
Other assets	5,147	5,887	**-740**
Debtors	4,009	4,574	**-565**
Retirement Benefits	240	394	**-154**
Property and Equipment	617	634	**-17**
Prepaid Leases	281	285	**-4**
			0
LIABILITIES	**246,677**	**221,463**	**25,214**
Currency in Circulation	92,648	78,792	**13,856**
Repo Securities	18,352	13,921	**4,431**
Deposits	120,194	113,009	**7,185**
Commercial Banks			**0**
Kenya	40,547	34,992	**5,555**
External	24	26	**-2**
Non-Bank Financial Institutions	118	117	**1**
IMF	16,113	13,341	**2,772**
Government	53,487	51,974	**1,513**
Other Public Entities and Project A/Cs	8,278	11,524	**-3,246**
Local Banks Forex Settlement Fund	1,627	1,035	**592**
Other Liabilities and Provisions	1,182	2,887	**-1,705**
Capital and Reserves	14,301	12,854	**1,447**
Capital	1,500	1,500	**0**
General Reserve Fund	7,759	10,145	**-2,386**
Period's Surplus	5,042	1,209	**3,833**
Dividend payable	0	0	**0**

Source: Central Bank of Kenya

NOTES ON THE BALANCE SHEET

Assets

Foreign exchange reserves of the Bank increased by Ksh 14,523 million to Ksh 188,562 million in September 2007 from Ksh 174,039 million in September 2006 due to interbank purchases of foreign exchange by the Bank.

Investment in Government securities declined to Ksh 4 million in September 2007 from Ksh 15 million in September 2006.

Balances in Government accounts at CBK increased by Ksh 8,951 million to Ksh 50,474 million in September 2007 from Ksh 41,523 million in September 2006. The increase was largely in the utilization of the overdraft facility from Ksh 3,669 million in September 2006 to Ksh 13,269 million in September 2007. However, the balances in the clearing account declined by Ksh 171 million while IMF funds on-lent to Government declined by Ksh 478 million. The value of non interest bearing Government debt remained unchanged.

Other assets declined by Ksh 740 million due to a reduction of Ksh 565 million in debtors of the Bank, decline in retirement benefits of Ksh 154 million, decline of Ksh 17 million and Ksh 4 million, respectively in the value of property and equipment and prepaid leases.

Liabilities

Currency in circulation increased by Ksh 13,856 million to Ksh 92,648 million in September 2007 from Ksh 78,792 million in September 2006.

The stock of **repo securities** increased by Ksh 4,431 million to Ksh 18,352 million in September 2007 from Ksh 13,921 million in September 2006.

Deposits increased by Ksh 7,185 million to Ksh 120,194 million in September 2007 from Ksh 113,009 million in September 2006 largely due to increased deposits of Commercial Banks at Central Bank by Ksh 5,555 million, increased deposits of Government at the Central Bank by Ksh 1,513 million, an increase of Ksh 2,772 million in IMF liabilities as well as Ksh 592 million increase in deposits of local banks forex settlement fund. The increases in deposits were partially offset by reduction in deposits of other public and project entities of Ksh 3,246 million.

Other liabilities and provisions declined by Ksh 1,705 million to Ksh 1,182 million in September 2007 from Ksh 2,887 million in September 2006.

Capital and reserves increased by Ksh 1,447 million to Ksh 14,301 million in September 2007 from Ksh 12,854 million in September 2006 due to improved profitability of the Bank to Ksh 5,042 million in September 2007 from Ksh 1,209 million in September 2006. This increase was partially offset by a decline of Ksh 2,386 million in the level of General Reserve Fund to Ksh 7,759 million in September 2007.