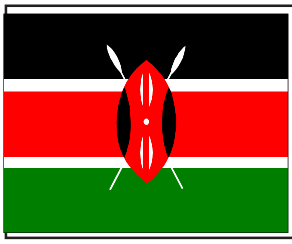

MONTHLY ECONOMIC REVIEW

OCTOBER 2010

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 October 2010. This includes developments in money, credit and banking, inflation, interest rates and the exchange rates. It also highlights developments in the real sector, Government budgetary operations, public debt and balance of payments.

Money Supply

Money supply, M3, increased by 24.1 percent in the year to October 2010 compared with 13.9 percent in a corresponding period in 2009 and compared with the projected 24.6 percent growth rate for October 2010. The expansion in money supply in the year to October 2010 was supported by increase in credit to private and government sectors build up in Central Bank's net foreign assets (NFA).

Monetary Policy Stance

The Monetary Policy Committee in their meeting of 25th November, 2010 retained the Central Bank Rate (CBR) at 6.00 percent. The average interbank rate declined to 0.98 percent in October 2010 from 1.18 percent in September 2010, while lending rates declined to 13.85 percent in October 2010 from 13.98 percent in September 2010.

Real GDP Growth

The economy grew at 2.6 percent in 2009 compared with a revised growth of 1.6 percent in 2008, reflecting recovery from the effects of the post election violence of 2008. Tourism, which was most affected bounced back in 2009 recording a growth rate of 42.8 percent from a decline of 36.1 percent in 2008. Agriculture declined by 2.6 percent on account of the drought in 2009, compared with 4.1 percent fall in 2008. The growth momentum in 2009 was sustained in the first two quarters of 2010 with growth rates of 4.8 percent (revised) and 5.4 percent, respectively.

Inflation

Over the last twelve months, overall 12-month inflation more than halved, falling from 6.6 percent in October 2009 to 3.1 percent in October 2010. The decline was largely reflected in the food, communication and health baskets. Overall food inflation fell from 13.6 percent in October 2009 to 5.6 percent in October 2010, communication deflation increased from 0.8 percent in October 2009 to 24.9 percent in October 2010, while inflation for the health basket declined from 8.6 percent in October 2009 to 3.9 percent in October 2010.

Public Debt Developments

The central Government budgetary operations in the first four months of the fiscal year 2010/11 resulted in a deficit of Ksh 50.1 billion on commitment basis compared with a deficit of Ksh 39.9 billion in a similar period of 2009/10.

Government Fiscal Operations

Kenya's public and publicly guaranteed debt increased by Ksh 64.0 billion during the first four months of the fiscal year 2010/11 to Ksh 1289.7 billion, equivalent to 51.0 percent of GDP, from Ksh 1225.7 billion which was equivalent to 48.1 percent of GDP in June 2010. The external debt to GDP ratio increased from 22.2 percent in June 2010 to 23.5 percent in October 2010, while the domestic debt to GDP ratio increased from 25.9 percent to 27.5 percent during the period.

Balance of Payments

Kenya's overall balance of payments surplus stabilised at US$ 365 million in the year to September 2010 compared with a surplus of US$ 360 million in the year to September 2009. The improvement reflects a relatively larger reduction in the current account deficit compared with the decline in the capital and financial account balance.

Exchange Rates

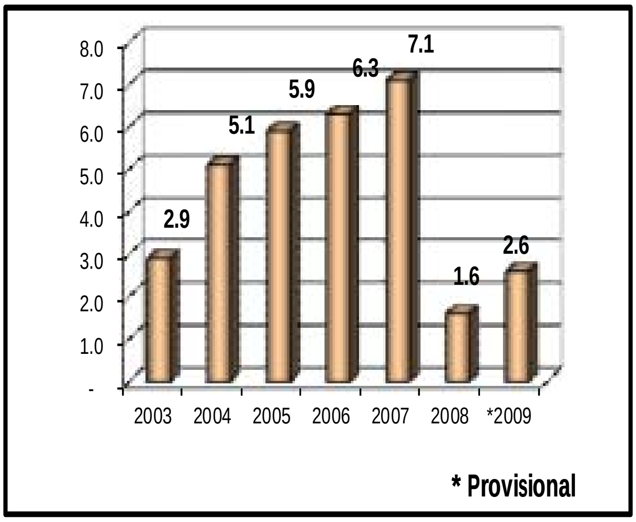
The Kenya Shilling depicted mixed performance in October 2010 against major world currencies. Against the US dollar, the shilling appreciated to exchange at an average of Ksh 80.71 per US dollar in October 2010 compared with Ksh 80.91 per US dollar in September 2010.

Banking Sector Developments

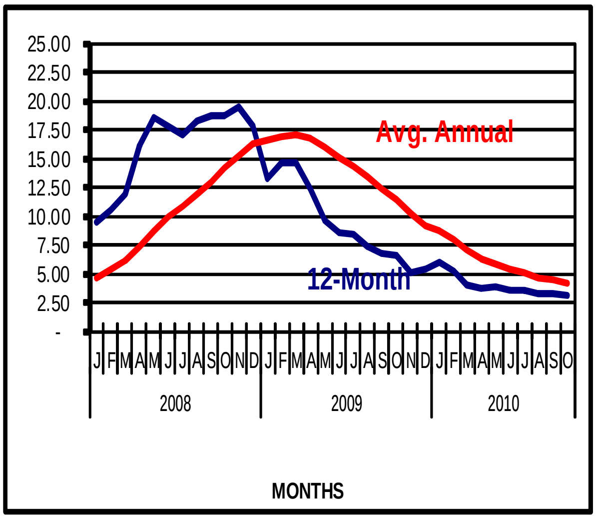
During the period ended October 31, 2010, the Kenyan Banking sector registered significant growth in assets driven by growth in deposits, injection of capital and retention of profits. The level of non-performing loans decreased compared to a similar period in October 2009.

SELECTED ECONOMIC PERFORMANCE INDICATORS

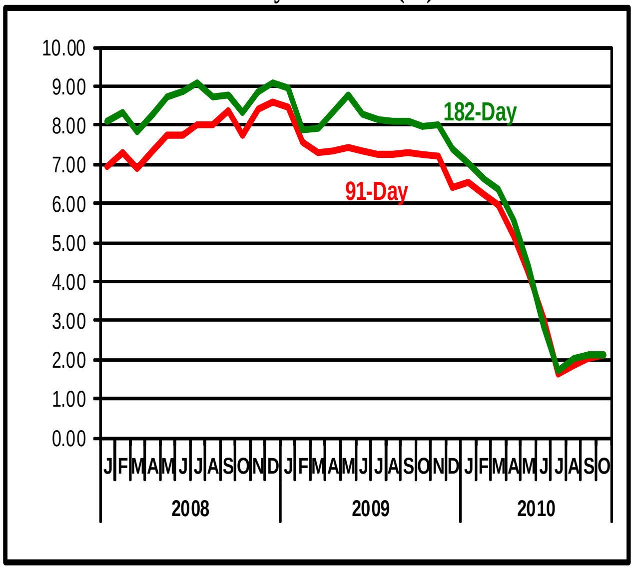
Real GDP Growth (%)



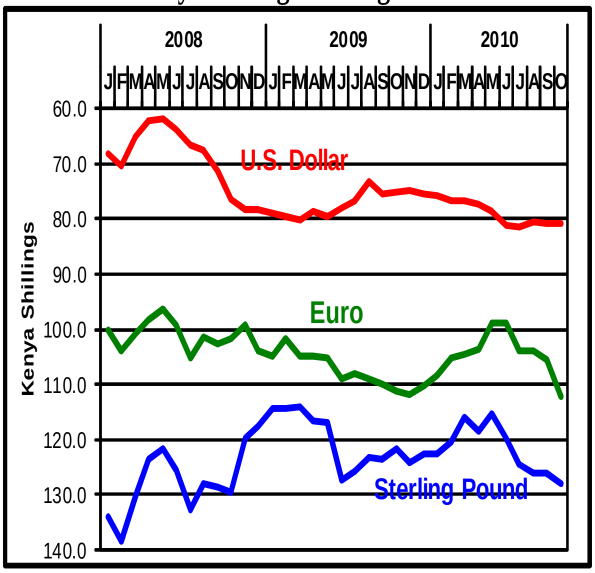
Inflation (%)



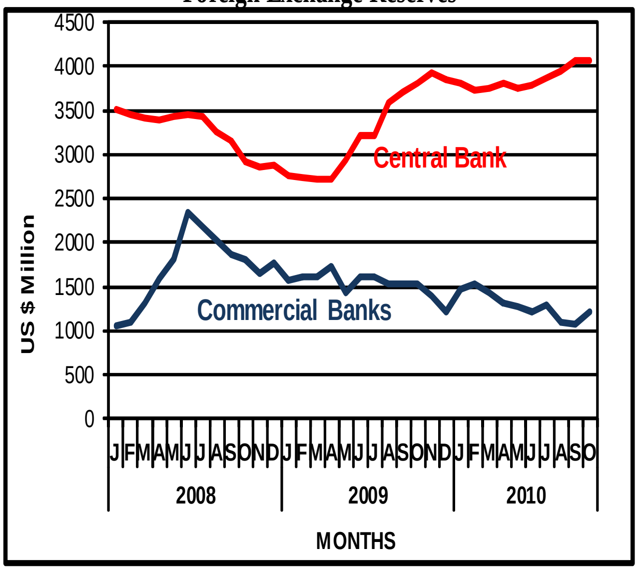
Treasury Bill Rates (%)



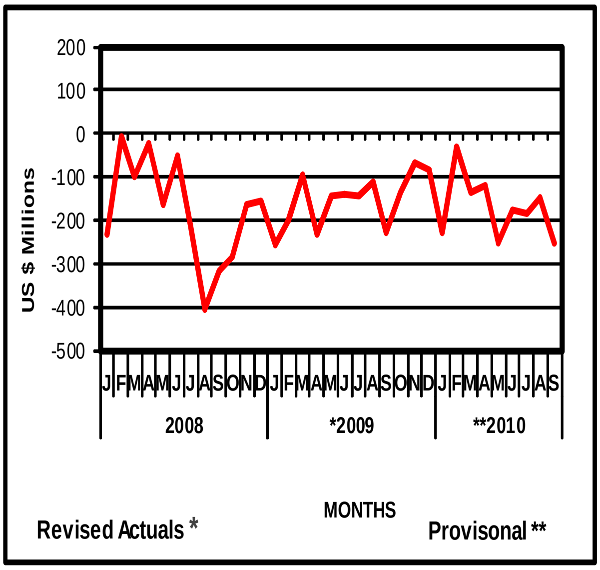
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
1.	POPULATION*										
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	39.40
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	2.87
2.	NATIONAL ACCOUNTS**										
	Gross value added at basic prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,625	1,444,139	1,615,214	1,833,646	2,048,485
	GDP at Market Prices (Ksh m):										
	At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,591	1,828,788	2,077,433	2,273,685
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,133	1,249,459	1,336,874	1,357,640	1,392,832
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.32	7.00	1.55	2.59
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,480	34,611	35,937	35,448	35,351
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]	12.9	10.0	8.1	10.1	12.2	13.4	14.9	13.7	15.5	11.1
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]	6.7	4.4	4.0	4.8	6.6	5.7	8.9	8.5	12.6	6.1
5.	GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	19.1	19.2	23.4
6.	OVERALL INFLATION BASE PERIOD= FEB 2009										
	Annual Average Inflation	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27	9.24
	12-Month Inflation	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32
7.	STOCK MARKET										
	Nairobi Stock Exchange Price Index (1966=100)	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44
	Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64
8.	GOVERNMENT BUDGET (Ksh bn) ***										
	Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67	511.36
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91
	Budget Deficit (-) / Surplus (+)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)
	Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(1.54)	0.42	(2.39)	(1.18)	(3.68)	(4.79)
9.	MONEY AND CREDIT (Ksh bn)(end period)										
	Liquidity (L)[1]	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,091.93	1,280.47
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.06	1,045.66
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96
	Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	827.41	978.32
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	162.78	218.53
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	664.64	759.79
10.	BALANCE OF PAYMENTS (US$ m)**										
	Overall Balance	217.00	372.00	59.00	365.00	117.00	306.00	675.00	854.00	(469.00)	780.53
	Current Account	(240.00)	(385.00)	(117.69)	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,609.28
	Capital and Financial Account	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00	2,389.81
11.	FOREIGN EXCHANGE RESERVES (US$ m) End Period	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78	5,064.03
	Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46	3,847.39
	*Months of imports**** *	*(2.8)*	*3.2*	*3.3*	*4.4*	*4.1*	*4.0*	*3.9*	*4.8*	*3.4*	*4.1*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63
12.	PUBLIC DEBT (US$ bn) End Period***	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	13.46	13.66
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15	21.67
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61	22.36
13.	EXCHANGE RATE (Ksh/US$) (Annual Average)	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18	77.35

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

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2009 Sep	Oct	Nov	Dec	2010 Jun	Jul	Aug	Sept	Oct
1. INFLATION (%)									
CPI	103.42	103.68	103.87	104.66	105.61	**106.00**	106.25	106.74	106.88
Overall Inflation									
12-month overall inflation	6.74	6.62	5.00	5.32	3.49	3.57	3.22	3.21	3.11
Average annual overall inflation	12.41	11.42	10.24	9.24	5.43	5.03	4.69	4.40	4.11
2. INTEREST RATES (%)									
91-day Treasury bill interest rate	7.29	7.26	7.22	6.82	3.06	1.63	1.83	2.04	2.12
Overdraft interest rate	13.76	14.03	14.24	14.13	14.23	14.03	13.97	13.81	13.64
3. STOCK MARKET									
Nairobi Stock Exchange Price Index	3005.41	3083.63	3189.55	3,247.44	4,339.28	4,438.58	4,454.59	4,629.80	4,659.56
Turnover (%)	0.37	0.49	0.64	0.34	0.57	1.08	1.60	1.24	0.77
4. GOVERNMENT BUDGET* (Ksh bn.)									
Revenue	128.90	170.83	208.56	266.08	560.79	38.59	83.00	142.43	193.09
Expenses	159.30	210.69	246.75	296.13	718.65	35.91	112.20	178.61	243.14
Budget Deficit (-) / Surplus (+)	(30.40)	(39.86)	(38.18)	(30.05)	(157.86)	2.68	(29.20)	(36.19)	(50.05)
5. MONEY AND CREDIT (Ksh bn.)									
Liquidity (L)[1]	1,218.18	1,243.84	1,243.50	1,280.02	1,442.85	1,475.23	1,497.27	1,527.38	1,531.80
Money Supply (M3)[2]	986.90	1,006.01	1,022.30	1,045.21	1,198.93	1,213.21	1,216.83	1,243.60	1,248.50
Reserve Money	163.49	163.45	178.20	181.96	210.25	199.77	200.97	209.89	211.00
Total Domestic Credit	880.65	900.03	931.30	955.29	1,086.75	1,091.13	1,100.48	1,139.10	1,162.80
Government	187.11	192.34	216.40	205.08	277.69	264.03	258.04	278.21	279.80
Private sector and other public sector	693.54	707.69	708.70	738.27	809.06	827.10	842.45	860.89	883.00
6. MONEY AND CREDIT (Annual % Change)									
Liquidity (L)[1]	15.88	15.65	14.83	17.27	23.65	22.94	23.36	25.38	23.20
Money Supply (M3)[2]	14.85	13.87	14.80	16.00	26.17	24.61	23.66	26.01	24.10
Reserve Money	7.11	3.96	10.90	11.20	31.46	26.48	28.10	28.39	29.10
Total Domestic Credit	13.84	12.72	15.70	18.50	25.75	25.61	24.19	27.90	27.10
Government	24.80	19.62	37.00	32.00	59.71	50.00	41.17	48.69	45.50
Private and other public sector	11.21	10.98	10.50	15.50	17.20	19.41	19.78	22.37	22.20
7. BALANCE OF PAYMENTS (US$ m)									
Overall Balance	116.95	105.63	123.86	(81.81)	43.22	69.39	74.31	**120.49**	
Current Account	(228.05)	(136.31)	(66.51)	(84.47)	(175.16)	(183.82)	(146.92)	-251.57	
Trade Balance	(536.04)	(589.02)	(531.44)	(642.04)	(562.08)	(575.94)	(530.91)	-662.41	
Capital and Financial Account	345.00	241.95	190.37	2.66	218.38	253.20	221.23	372.06	
8. FOREIGN EXCHANGE RESERVES (US$ m)	5,235.15	5,346.66	5,320.94	5,064.03	5,009.27	5,155.32	5,046.07	5,140.85	5,269.66
Official**	3,707.96	3,810.42	3,934.28	3,847.39	3,798.58	3,867.97	3,942.28	4,062.77	4,053.95
Months of imports cover	4.06	4.13	4.23	4.09	3.89	3.94	4.00	4.08	4.08
Commercial banks	1,527.18	1,536.24	1,386.66	1,216.63	1,210.69	1,287.42	1,103.79	1,078.08	1,215.72
9. PUBLIC DEBT (US$ bn)	14.4	14.6	14.6	14.7	14.66	15.33	15.59	15.52	
Domestic	7.34	7.54	7.51	7.77	8.05	8.32	8.61	8.60	
As % of GDP	22.65	23.20	22.91	23.85	25.90	27.40	28.30	28.22	
External	7.00	6.96	7.04	6.94	6.90	7.00	6.98	6.92	
As % of GDP	21.59	21.43	21.47	21.29	22.20	23.06	22.90	22.69	
10. GROSS DOMESTIC DEBT (Ksh bn)***	550.69	567.13	562.93	588.97	659.6	667.8	698.0	704.7	
11. AVERAGE EXCHANGE RATE									
Ksh/US$	75.60	75.24	74.7	75.43	81.02	81.43	80.44	80.91	80.71
Ksh/Pound Sterling	123.57	121.65	124.1	122.54	119.62	124.34	125.94	125.94	127.98
Ksh/ 100 Yen	82.70	83.38	83.8	84.12	89.18	92.90	94.08	95.88	98.60
Ksh/Euro	110.01	111.25	111.7	110.27	98.99	103.90	103.79	105.61	112.20

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

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

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

1 Previously M3XT

2 Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

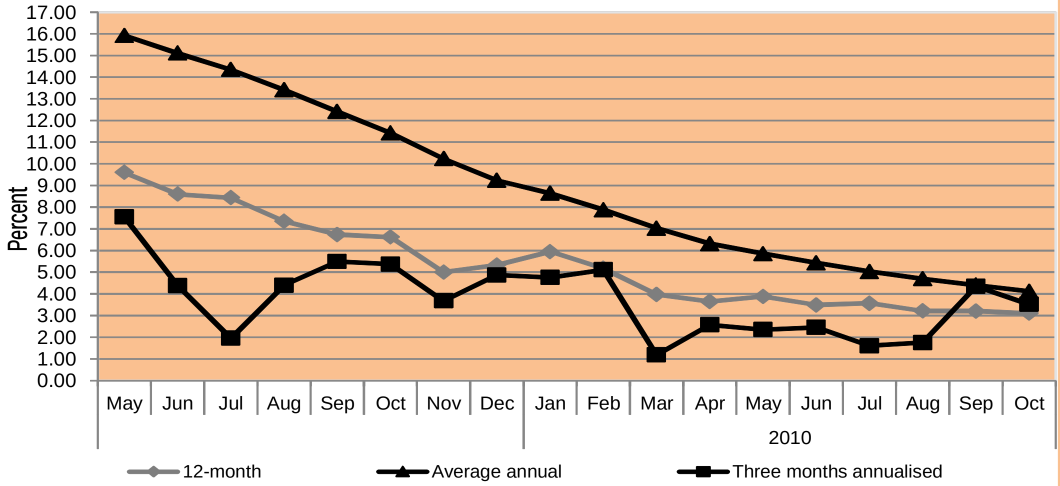
Overall 12-month inflation declined to 3.1 percent in October 2010 from 3.2 percent in September 2010 and 6.7 percent in September 2009. The general downward trend over the last eighteen months was mainly attributed to declining cost of food and communication services. In addition, the 12-month inflation remained low and stable, between 3.0 and 4.0 percent over the last eight months (Table 1.1 and Chart 1A). During the last twelve months, 12-month inflation declined by more than half from 6.6 percent in October 2009 to 3.1 percent in October 2010, largely due to declining food prices, cost of communication and cost of health. Overall food inflation declined from 13.6 percent in October 2009 to 5.6 percent in October 2010. The deflation in communication services increased from 0.8 percent in October 2009 to 24.9 percent in October 2010. Health inflation declined from 8.6 percent to 3.9 percent over the same period.

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

Overall Inflation	2009						2010									
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct
12-month	8.44	7.36	6.74	6.62	5.00	5.32	5.95	5.18	3.97	3.65	3.88	3.49	3.57	3.22	3.21	3.11
Average annual	14.35	13.42	12.41	11.42	10.24	9.24	8.64	7.88	7.03	6.32	5.85	5.43	5.03	4.69	4.40	4.11
Three months annualised	1.95	4.40	5.49	5.37	3.68	4.87	4.76	5.11	1.19	2.58	2.35	2.46	1.60	1.75	4.35	3.52

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

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



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

Inflation by Income Groups

Across income groups, the decline in overall 12-month inflation was reflected in inflation for the "Nairobi lower" income group from 4.3 percent in September 2010 to 3.6 percent in October 2010 and the "Nairobi middle" income group (declined by 10 basis points). The above declines offset increases in inflation rates for the "Nairobi upper" and the "Rest of Kenya" income groups which had increased from 4.2 percent to 4.7 percent and from 2.9 percent to 3.0 percent, respectively (Table

1.2 and Chart 1B). The food category recorded the largest decline in inflation for the "Nairobi lower" income group.

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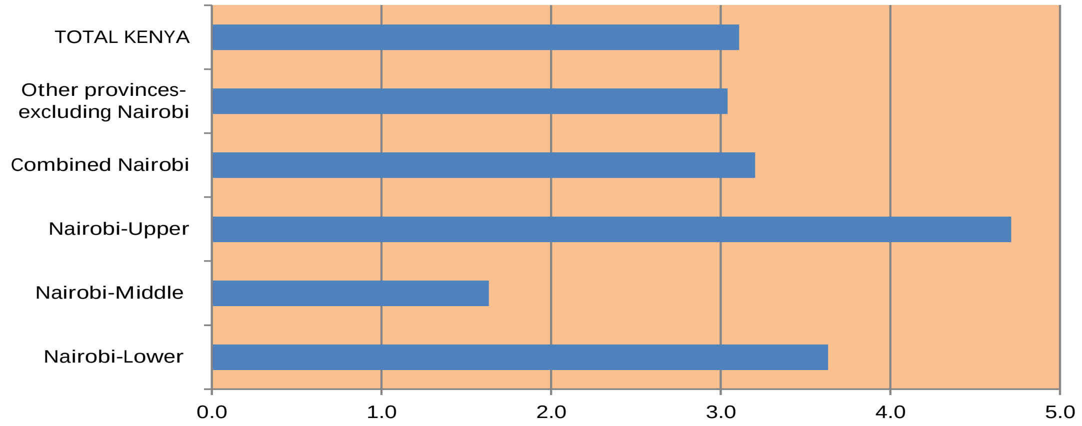
TABLE 1.2: OVERALL INFLATION BY INCOME GROUPS (%)

	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10
Combined Nairobi	5.4	3.9	3.8	3.9	3.5	4.0	3.7	3.7	3.2
Lower Income	6.2	4.1	4.0	4.2	3.9	4.6	4.4	4.3	3.6
Middle Income	3.0	2.9	2.5	2.5	1.9	1.9	1.3	1.7	1.6
Upper Income	5.6	6.3	6.3	7.2	6.6	5.9	4.7	4.2	4.7
Other provinces- excluding Nairobi	5.1	4.0	3.6	3.9	3.5	3.2	2.9	2.9	3.0
TOTAL KENYA	**5.2**	**4.0**	**3.7**	**3.9**	**3.5**	**3.6**	**3.2**	**3.2**	**3.1**

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

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



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

Inflation Across Categories of Goods & Services

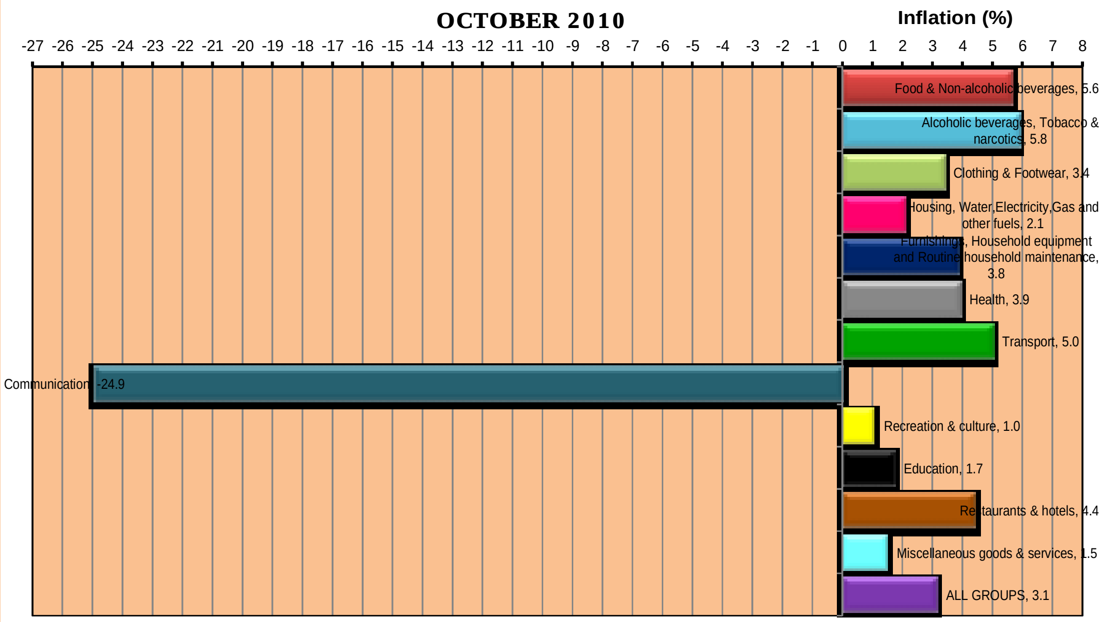
Overall inflation across goods and services for October 2010 varied across the different baskets of goods and services with that for the communications basket, the food basket and the health basket declining respectively by 24.1 percent, 8.0 percent and 4.7 percent from October 2009 inflation levels. Between September and October 2010, however the most significant decline was in the alcoholic beverages basket which declined by 160 basis points from 7.4 percent inflation in September 2010. The alcoholic beverages baskets inflation declined in the "Nairobi lower", "Nairobi middle", and the "rest of urban" income groups by 2.1 percent, 3.7 percent and 1.1 percent, respectively. In October 2010, food inflation declined only for the "Nairobi lower" income group (from 8.4 percent in September 2010 to 6.6 percent). The significant decline in health inflation, equivalent to 390 basis points affected the "Nairobi middle" income group in October 2010. The cost of housing rose for the "Nairobi upper" and "rest of urban" income groups, while the clothing and footwear basket's inflation increased for the "Nairobi upper" income group (from 3.8 percent in September 2010 to 4.8 percent in October 2010). The rest of the goods and services categories remained fairly stable during the month (Table 1.3 and Chart 1C).

TABLE 1.3: OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (OCTOBER 2010)

OCTOBER 2010	NAIROBI				REST OF URBAN	TOTAL KENYA
	Lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya Combined	
Food & Non-alcoholic beverages	6.6	5.1	5.0	6.2	5.3	5.6
Alcoholic beverages, Tobacco & narcotics	4.7	3.1	1.6	4.2	7.0	5.8
Clothing & Footwear	4.7	0.6	4.8	3.7	3.1	3.4
Housing, Water,Electricity,Gas and other fuels	3.5	-1.3	0.9	2.3	1.9	2.1
Furnishings, Household equipment and Routine household maintenance	4.5	1.7	0.4	3.7	3.9	3.8
Health	3.3	0.0	12.1	2.9	4.6	3.9
Transport	3.0	6.1	12.3	4.1	5.7	5.0
Communication	-33.2	-9.4	-17.2	-26.9	-23.6	-24.9
Recreation & culture	0.8	-2.0	8.1	0.4	1.5	1.0
Education	0.8	4.5	0.5	1.7	1.7	1.7
Restaurants & hotels	5.8	2.2	2.2	4.8	4.1	4.4
Miscellaneous goods & services	-0.4	2.7	1.5	0.4	2.2	1.5
ALL GROUPS	3.6	1.6	4.7	3.2	3.0	3.1

Source: Kenya National Bureau of Statistics

CHART 1C: OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES



Source: Kenya National Bureau of Statistics

Inflation Outlook

Inflation is expected to remain low and stable. Upside risks may emanate from the poor weather condition in the last quarter of 2010 and the rescent high fuel pump prices.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Money supply, M3[1], increased by 24.1 percent in the year to October 2010 compared with 13.9 percent in a corresponding period in 2009 and was slightly above the projected 24.6 percent growth rate for October 2010. Broad money, M2, that is, M3 excluding foreign currency deposits, grew by 24.0 percent in October 2010 compared with 15.6 percent in October 2009(Table 2.1 and Chart 2A). The expansion in money supply in October 2010 was supported by increases in credit to the private and government sectors and build up of Central Bank's net foreign assets (NFA).

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

	2008 Oct	2009 Oct	2010 Oct	Oct-09 12 months %age change	Oct-10 12 months %age change
1. Money supply, M3 (2+3) 2/	**883.5**	**1,006.0**	**1,248.5**	**13.87**	**24.11**
1.1 Money supply, M2 3/	753.8	871.6	1,080.5	15.62	23.96
1.2 Money supply, M1	398.5	447.4	547.4	12.27	22.34
1.3 Currency outside banks	88.6	94.0	105.8	6.14	12.52
2. Net foreign assets 4/	**263.3**	**253.9**	**274.4**	**(3.58)**	**8.09**
Central Bank	210.2	216.6	256.4	3.04	18.35
Banking Institutions	53.1	37.3	18.1	(29.79)	(51.49)
3. Net domestic assets (3.1+3.2)	**620.1**	**752.1**	**974.1**	**21.28**	**29.51**
3.1 Domestic credit (3.1.1+3.1.2)	**807.2**	**915.0**	**1,162.8**	**13.35**	**27.08**
3.1.1 Government (net)	160.8	192.3	279.8	19.62	45.47
3.1.2 Private sector and other public sector	646.4	722.6	883.0	11.79	22.19
3.2 Other assets net (3-3.1)	**(187.1)**	**(162.9)**	**(188.7)**	**(12.94)**	**15.86**
Memorandum items					
1. Overall liquidity, L 1/	1,075.6	1,243.8	1,531.8	**15.65**	**23.15**
2. Reserve money	157.2	163.4	211.0	**3.96**	**29.10**
Currency outside banks	88.6	94.0	105.8	6.14	12.52
Bank reserves	**68.6**	**69.4**	**105.2**	1.14	51.57

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

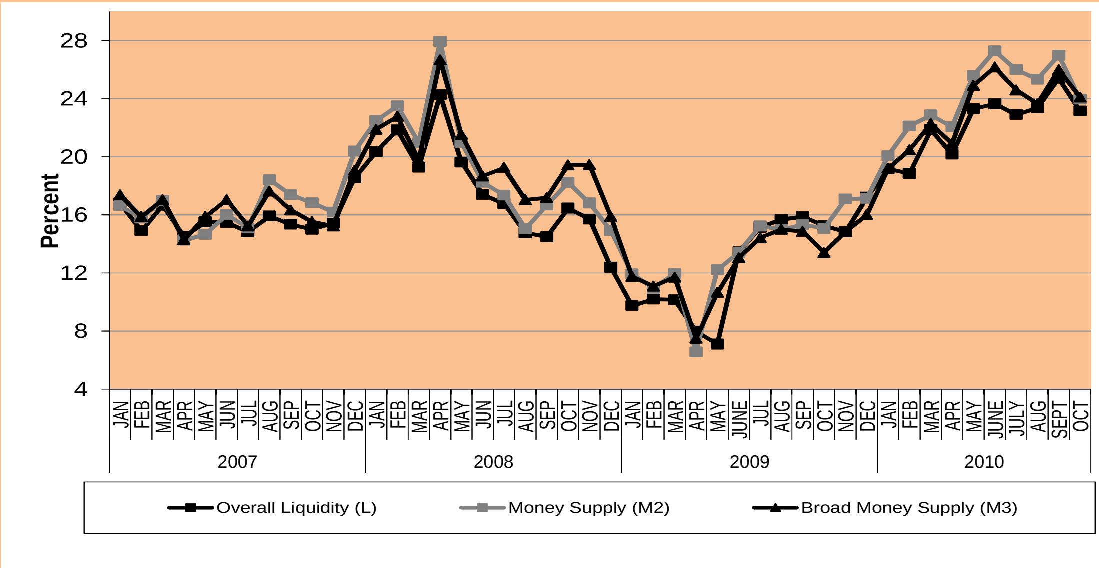
1/ Overall liquidity, L, comprises M3 and non banking public holding of Government securities. It is comparable to M3XT in the past publications.

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

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY JAN '07 - OCT '10



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

Reflecting largely the increase in bank credit to domestic economic agents, the net domestic assets (NDA) of the banking sector grew by 29.5 percent in the year to October 2010 compared with 21.3 percent a year earlier (Table 2.1 and Table 2.2). NFA of the banking system also increased by 8.1 percent in the twelve months to October 2010 compared with a decline of 3.6 percent in a corresponding period in 2009. The NFA accumulation was recorded at the Central Bank largely from purchases of foreign exchange from the domestic interbank market.

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

	2009 October		2010 October		Annual %age Change October	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2008/09	2009/10
1. Credit to Government	192.3	21.0	279.8	24.1	19.6	45.5
Central Bank	-27.3	-3.0	9.7	0.8	-1009.0	-135.7
Commercial Banks & NBFIs	219.6	24.0	270.1	23.2	39.2	23.0
2. Credit to other public sector	11.0	1.2	18.3	1.6	-9.8	66.3
Local government	-4.2	-0.5	-0.6	0.0	1174.0	-86.5
Parastatals	15.3	1.7	18.9	1.6	21.6	23.9
3. Credit to private sector	711.6	77.8	864.6	74.4	11.8	21.5
Agriculture	36.7	4.0	41.4	3.6	38.5	12.7
Manufacturing	85.8	9.4	112.7	9.7	-3.2	31.4
Trade	111.1	12.1	143.7	12.4	37.4	29.4
Building and construction	42.6	4.7	31.5	2.7	10.9	-26.2
Transport & communications	58.0	6.3	59.0	5.1	7.4	1.8
Finance & insurance	39.4	4.3	22.6	1.9	99.1	-42.8
Real estate	50.3	5.5	95.9	8.3	52.2	90.6
Mining and quarrying	6.1	0.7	18.7	1.6	17.6	206.0
Private households	104.0	11.4	118.7	10.2	-12.8	14.1
Consumer durables	42.0	4.6	55.3	4.8	70.5	31.6
Business services	65.2	7.1	85.1	7.3	-8.7	30.5
Other activities	70.3	7.7	80.0	6.9	-6.0	13.8
4. TOTAL (1+2+3) *	915.0	100.0	1162.8	100.0	13.0	27.1

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

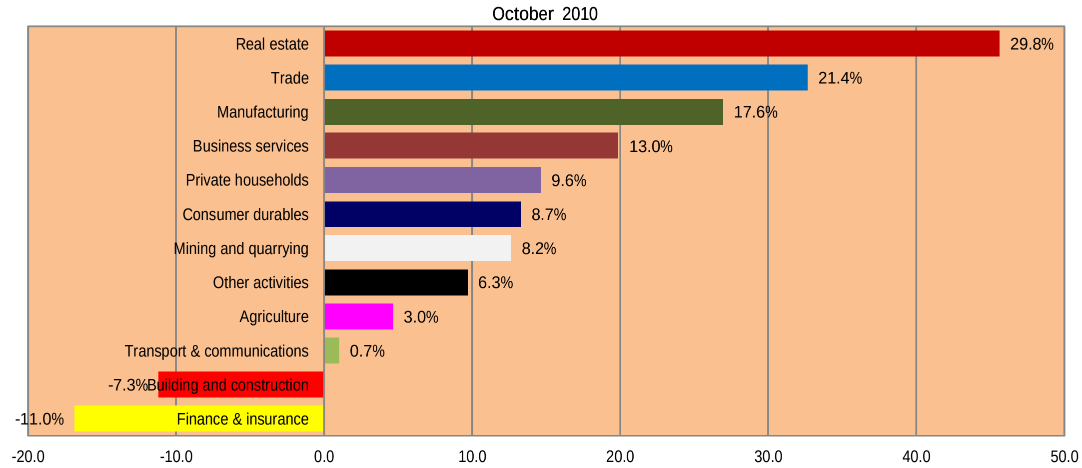
Source: Central Bank of Kenya

Domestic Credit Developments

Bank lending to the domestic economic agents grew by 27.1 percent in the year to October 2010 compared with 13.0 percent in a similar period in 2009. Credit to Government increased to 45.5 percent in the year to October 2010 compared with a growth of 19.6 percent in a corresponding period in 2009. Credit extended to the private sector increased from 11.8 percent in the year to October 2009 to 21.5 percent in the year to October 2010. The private sector was the largest beneficiary of bank credit, accounting for 74.4 percent of total outstanding credit by October 2010

Increased bank credit to the private sector was channeled to real estate (29.8 percent), trade (21.4 percent), manufacturing (17.6 percent), business services (13.0 percent), private households (9.6 percent), consumer durables (8.7 percent), mining and quarrying (8.2 percent), agriculture (3.0 percent), Transport and communication (0.7 percent) and other activities (6.3 percent) (Chart 2B).

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



Source: Central Bank of Kenya

Reserve Money

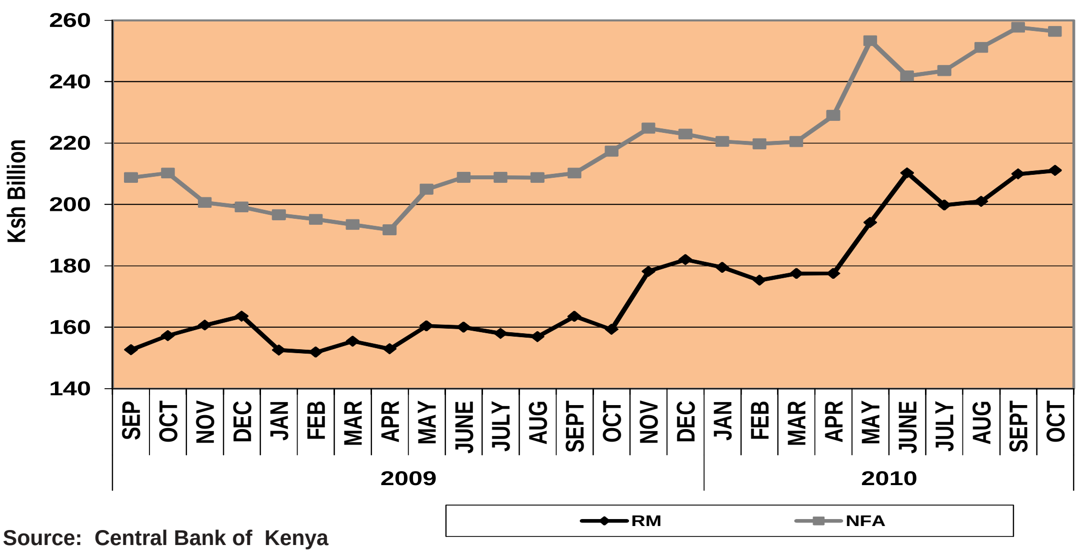
Reserve money which comprises of liabilities of the Central Bank (currency in circulation and commercial bank's deposit increased by 21.5 percent to Ksh 211.0 billion in October 2010 from Ksh 163.4 billion in October 2009 (Table 2.3). The increase in reserve money reflected 51.6 percent growth in deposits of commercial banks and 12.5 percent increase in currency held by the non-bank public. At Ksh 211.0 billion in October 2010, reserve money was Ksh 21.5 billion above target.

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

	2008 Oct	2009 Oct	2010 Oct	Change (%) 2008/09	Change (%) 2009/10	2010 Oct Target	Deviation
1. Net Foreign Assets	210.2	216.6	256.4	3.0	18.3	258.1	-1.7
2. Net Domestic Assets	-53.0	-53.2	-45.3	0.3	-14.7	-68.6	23.3
2.1 Government Borrowing (net)	3.0	-27.3	9.7	-1009.0	-135.7	-17.4	27.2
2.2 Advances & Discounts	-7.3	9.0	2.9	-223.7	-67.4	1.9	1.1
2.3 Other Domestic Assets (net)	-48.7	-34.9	-58.0	-28.4	66.2	-53.1	-5.0
3. Reserve Money	157.2	163.4	211.0	4.0	29.1	189.5	21.5
3.1 Currency outside banks	88.6	94.0	105.8	6.1	12.5	104.4	1.4
3.2 Bank reserves	68.6	69.4	105.2	1.1	51.6	85.1	20.2

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The growth in reserve money in the year to October 2010 was supported by increase in the NFA of the Central Bank. NFA of the Central Bank rose by 18.3 percent to Ksh 256.4 billion in the year to October 2010 reflecting interbank purchases of foreign exchange to boost the level of gross foreign exchange reserves held by the Bank. The Central Bank is required by Law to hold a minimum of foreign exchange reserves equivalent to the value of 4 months imports of goods and non factor services averaged over the last three years.

The NDA of the Central Bank rose to Ksh -45.3 billion in the year to October 2010, from Ksh -53.2 billion in the previous year. Among the components of NDA, Government borrowing net of deposits at the Central Bank increased to Ksh 9.7 billion from Ksh -27.3 billion in October 2009, while commercial banks repaid 6.1 billion of outstanding credit from the Central Bank in the year to October 2010. Other domestic assets net of other liabilities increased by 66.2 percent from Ksh -34.9 billion in October 2009 to Ksh -58.0 billion in October 2010. The increase is due to improvement in profitability of the Bank.

The Central Bank Rate

The Monetary Policy Committee (MPC) at its meeting of 25th November, 2010 retained the Central Bank Rate (CBR) at 6.00 percent to underscore the importance of maintaining stability in the broader economic environment at a time when the growth momentum was accelerating and confidence in the economy on the rise. To amplify on the latter, the Committee observed that the country's credit rating had improved to B+ which enhances the strong economic recovery underway. The CBR rate was lowered to 6.00 percent in July 2010 from the previous level of 6.75 percent set in March 2010.

Interbank Interest Rate

The average interbank rate declined to 0.98 percent in October 2010 from 1.18 percent in September 2010 (Table 2.4). The 91-day Treasury bill rate increased to 2.12 percent in October 2010 from 2.04 percent in September 2010. The increase was largely on account of aggresive bidding behaviour by investors coupled by undersubscription in some auctions which forced the Government to accept relatively expensive bids.

Lending and Deposit Rates

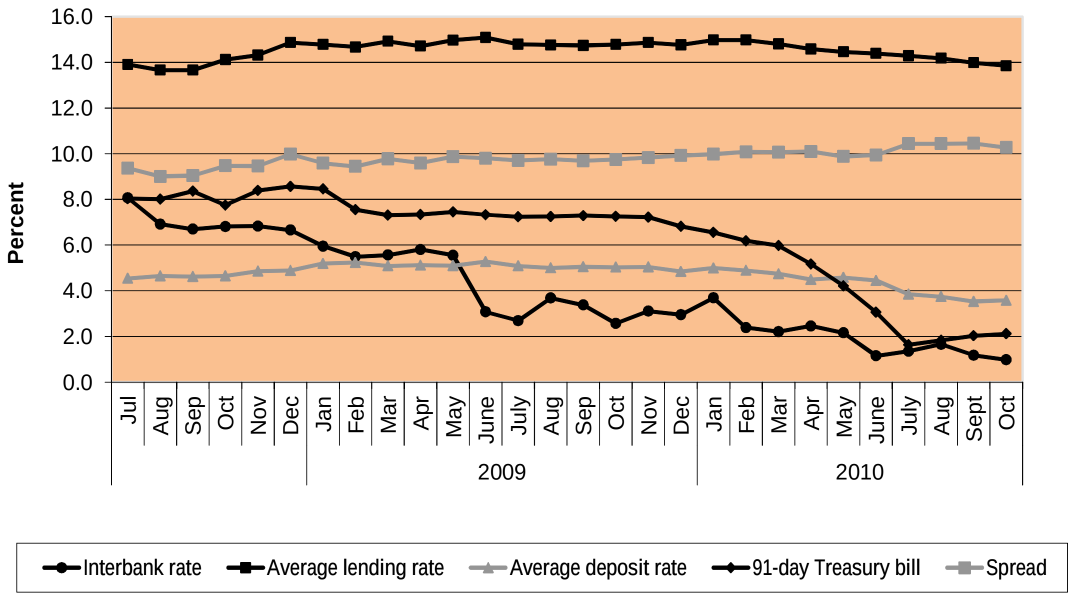
Commercial banks average lending rates declined to 13.85 percent in October 2010 from 13.98 percent in September 2010. The average deposit rate rose from 3.53 percent in September 2010 to 3.58 percent in October 2010. Consequently, the interest rate spread declined to 10.45 percent in October 2010 (Table 2.4 and Chart 2D).

TABLE 2.4: INTEREST RATES (%)

	2009						2010					
	July	Aug	Sept	Oct	Nov	Dec	May	June	July	Aug	Sept	Oct
91-day Treasury bill rate	7.24	7.25	7.29	7.26	7.22	6.82	4.21	2.98	1.63	1.83	2.04	2.12
Overdraft rate	13.94	13.90	13.76	14.03	14.24	14.13	14.38	14.23	14.03	13.97	13.81	13.64
Interbank rate	2.69	3.68	3.38	2.57	3.11	2.95	2.16	1.15	1.35	1.66	1.18	0.98
Repo rate	6.18	6.18	6.18	6.18	6.18	-	-	-	-	-	-	-
Reverse Repo rate	3.31	4.29	4.01	3.17	4.36	3.62	2.41	1.95	1.72	1.81	-	-
Average lending rate (1)	14.79	14.76	14.74	14.78	14.85	14.76	14.46	14.39	14.29	14.18	13.98	13.85
Average deposit rate (2)	5.09	5.00	5.05	5.03	5.06	4.84	4.58	4.45	3.85	3.74	3.53	3.58
0 to 3 - month deposit	5.98	5.93	6.05	5.83	5.98	5.90	5.26	5.11	4.21	3.89	3.59	3.65
Savings deposits	1.67	1.65	1.65	1.85	1.71	1.73	1.76	1.75	1.55	1.50	1.47	1.46
Spread (1-2)	**9.70**	**9.76**	**9.69**	**9.75**	**9.79**	**9.92**	**9.88**	**9.94**	**10.44**	**10.44**	**10.45**	**10.45**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

Performance of The Real Sector

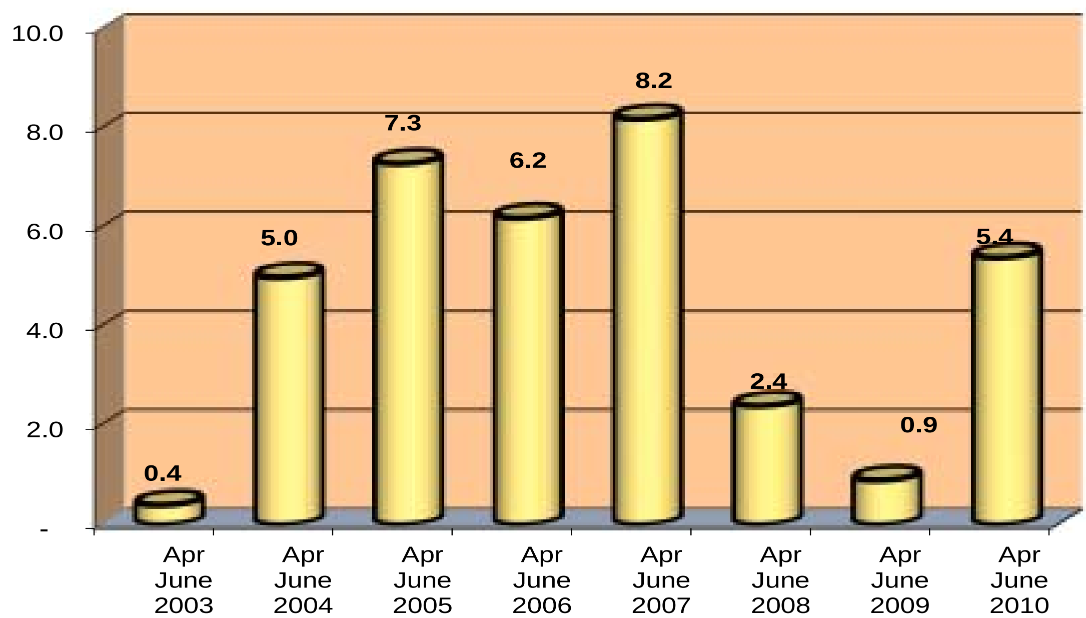
Overview

Real GDP for the year 2009 amounted to Ksh 1.39 trillion and was equivalent to 2.6 percent growth compared with an output of Ksh 1.35 trillion in 2008 (Table 3.1 and Chart 3A). The performance across key sectors of the economy was mixed with the tourism sector, the transport and communication sector and the building and construction sector recording the most significant growth rates of 42.8 percent, 6.4 percent and 14.1 percent, respectively. Agriculture which accounted for 24.4 percent of GDP remained a major contributor to GDP in 2009. Despite the drought in 2009, the sector's performance improved from a decline of 4.1 percent in 2008 to -2.6 percent in 2009. The services sectors, therefore, continued to drive economic growth in 2009 with tourism recording the highest growth rate as indicated above.

The momentum of economic expansion recorded in 2009 was sustained in the first six months of 2010, with a revised actual growth rate of 4.8 percent in the first quarter followed by a 5.4 percent growth in the second quarter. The increase in output was attributed to, amongst other factors, the rainfall experienced towards the end of 2009, and early 2010, which impacted positively on agriculture and electricity generation. The performance of agriculture improved to a growth rate of 6.5 and 5.8 percent for the first and second quarter of 2010, respectively compared with 1.4 and 4.4 percent declines in the first two successive quarters of 2009. The construction sector grew most rapidly at 18.0 percent during the second quarter of 2010.

The outlook for 2010 is positive due to the good performance in the first half of 2010. GDP growth in 2010 is currently projected at between 4 percent and 5 percent.

CHART 3A: REAL GDP TREND IN THE SECOND QUARTERS



Source: Kenya National Bureau of Statistics

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

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

* Provisional

Source: Economic Survey, 2009

Agriculture

Agriculture contributed an estimated 24.4 percent of GDP in 2009. The sector declined in 2009 with a smaller margin of 2.6 percent compared with the 4.1 percent decline in 2008. Agriculture picked up well in the first six months of the year 2010, with total output for the second quarter growing at 5.8 percent, from a decline of 4.4 percent in the same quarter of the previous year. This was attributed to good weather across the country at the end of 2009 and in early 2010. Despite the overall increase in agricultural output, the sector still recorded mixed performance between January and September 2010, with some cash crops performing better than others partly due to the rainfall distribution pattern.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE 2008	2009	Jan - Sep 2009	Jan-Sep 2010
Tea				
Output (Metric tonnes)	345,818.00	314,193.89	209,454.94	289,473.10
Growth (%)	*-6.44%*	*-9.14%*	*-12.06%*	*38.20%*
Horticulture				
Output (Metric tonnes)	253,730.57	248,162.54	238,806.11	254,766.30
Growth (%)	*-2.72%*	*-2.19%*	*-17.23%*	*6.68%*
Coffee				
Output (Metric tonnes)	38,705.00	48,933.00	44,073.00	33,342.00*
Growth (%)	*-25.95%*	*26.43%*	*42.53%*	*-24.35%*
Sugar Cane				
Output (Metric tonnes)	4,979,470.28	5,610,702.00	4,139,822.00	4,126,133.00
Growth (%)	*-4.32%*	*12.68%*	*14.49%*	*-0.33%*

* Provisional

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

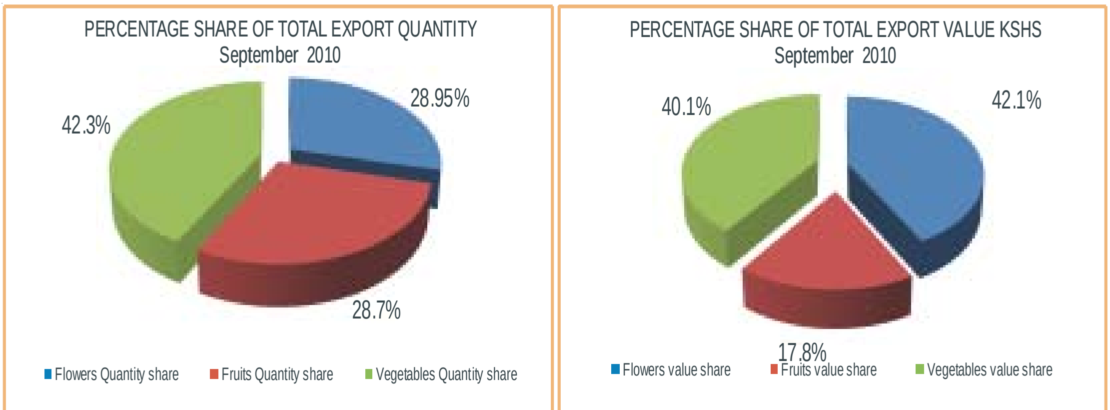
Tea

Tea production continued to perform well through most of 2010 compared to the other sampled cash crops following rains experienced in the country towards the end of 2009 and early 2010 which favoured the tea growing areas in the Rift Valley region. Production in the first nine months amounted to 289,473.1 metric tonnes compared with 209,454.9 metric tonnes produced in the first nine months of 2009, equivalent to 38.2 percent increase. The growth in tea production was due to wet weather conditions in the tea growing areas in the east and west rift regions, especially during the first two months of 2010 which under normal circumstances are dry months, and thereafter the normal March – April 2010 long-rains season. Monthly tea production peaked at 39,175 metric tonnes in March 2010. In September 2010, however, international tea prices fell to US$ 2.8 per kilogram from US$ 3.2 per kilogram in September 2009.

Horticulture

Horticultural exports picked in May, June and July 2010 after declining in April 2010 following flight cancellations due to the volcanic ash tragedy in Iceland, in addition to various other shocks in 2010, which included insufficient rainfall and depressed demand from Kenya's traditional flower markets aggravated by the global financial crisis. Production for the period January to September 2010 amounted to 254,766.3 metric tonnes, equivalent to an increase of 6.7 percent from 238,806.1 metric tonnes produced between January and September 2009. Similarly, the value of horticultural exports increased by Ksh 3.0 billion from Ksh 43.3 billion in January – September 2009 to Ksh 46.3 billion in January – September 2010 following increasing exports during the year. Compared with September 2009, vegetable and fruit export volumes grew respectively by 64.2 percent and 32.5 percent, while flower exports declined by 7.6 percent in September 2010. Overall, the total volume of horticultural produce grew by 26.9 percent, during the same period. Details on the performance of the horticultural sub-sector are provided in Chart 3B.

CHART 3B: HORTICULTURE EXPORTS



Source: Horticultural Crops Development Authority

Coffee

Coffee production in the nine months to September 2010 amounted to 33,342 metric tonnes compared with 44,073 metric tonnes in the first nine months of 2009. The 24.3 percent decline was attributed to excessive drought in 2009 and unpredictable rainfall patterns in the coffee growing areas in 2010, which made crop management and disease control difficult and costly. In September 2010, coffee prices almost doubled the previous year's levels, reaching US $ 6.63 per kilogram compared with US $ 3.34 per in September 2009, which partly offset the impact of the lower output.

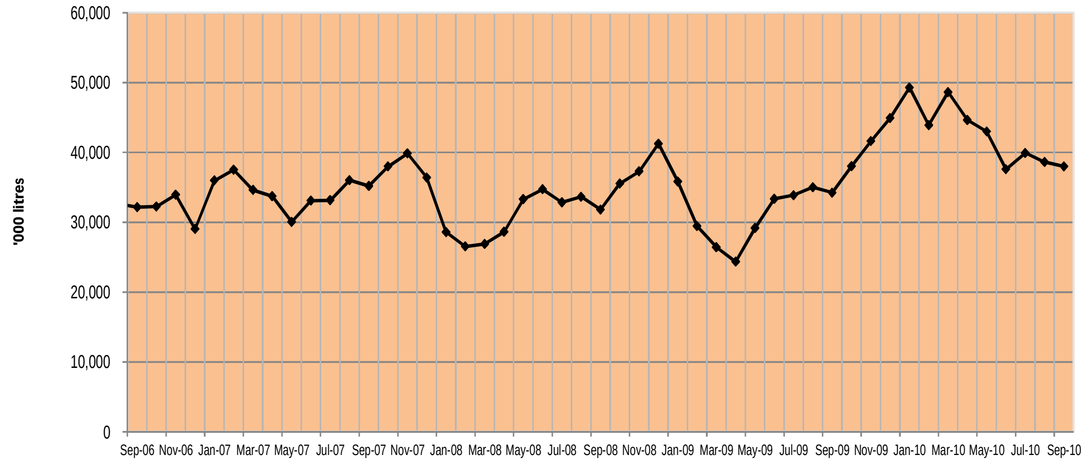
Sugarcane

Sugarcane deliveries declined by 13,689 metric tonnes in the period January - September 2010 compared with the same period of 2009. The 0.3 percent decline constitutes reduced cane deliveries in the Muhoroni, Mumias, South Nyanza and Soin sugar zones.

Dairy

The dairy sector continued to out-perform all the other sampled sectors under manufacturing in 2010, with a 36.1 percent growth for the period January–September 2010, compared with a 1.7 percent growth for the same period in the previous year. Growth in 2010 was propelled by the glut experienced earlier in the year. Total milk intakes for the first nine months of 2010 amounted to 383.5 million litres compared with a total output of 281.7 million litres in the same period of 2009. This increase was attributed to availability of more fodder due to good weather conditions (Chart 3C).

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



Source: Dairy Board of Kenya

Manufacturing

Manufacturing constituted 9.5 percent of total GDP in 2009, compared with 9.8 percent in 2008. Analyses of the quarterly GDP indicate a 6.8 percent growth in total manufacturing in the second quarter of 2010 compared with a decline of 0.4 percent for the second quarter of 2009. In the period January – September 2010 selected manufactured commodities experienced mixed performance compared with a similar period in 2009.

The volume of processed milk grew by 36.1 percent, while that of processed sugar declined by 8.0 percent. Cement production for the period January to September 2010 amounted to 2.8 million metric tonnes, a 10.5 percent growth compared with production of 2.4 million metric tonnes in a similar period in 2009. The industry has maintained a fairly stable growth path over the years with the highest monthly production, amounting to 320,058.0 metric tonnes in August 2010. The expansion of the industry in the period under review was due to new entrants and increased economic activity.

Total beer production rose by 15.9 million litres, equivalent to 5.2 percent, during the period January – September 2010 from 305.4 million litres produced between January and September 2009. Cigarette production rose by 9.3 percent, during the first nine months of 2010. In terms of actual output, this was equivalent to a production of 10.6 million milles. Soda ash mined in the first nine months of 2010 amounted to 332,874.0 metric tonnes, or 12.5 percent above the cumulative output of 295,967.0 metric tonnes mined over the same period of 2009.

Local generation of electricity picked up in April 2010 after fourteen consecutive months of decline caused by the drought conditions experienced in 2009. The onset

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE			
	2008	2009	Jan-Sep 2009	Jan-Sep 2010
Processed sugar				
Output (MT)	512,192.3	548,207.0	405,836.0	373,309.3
Growth %	*-1.6%*	*7.0%*	*9.3%*	*-8.0%*
Cement production				
Output (MT)	2,828,799.0	3,320,282.0	2,420,243.0	2,673,936*
Output Growth %	11.1%	17.4%	16.3%	10.5%
Soda ash				
Output (MT)	513,415.0	404,904.0	295,967.0	332,874*
Growth %	*32.8%*	*-21.1%*	*-20.8%*	*12.5%*
Milk				
Output ('000 litres)	390,963.0	406,276.5	281,708.6	383,542.46*
Growth %	*-7.6%*	*3.9%*	*1.7%*	*36.1%*
Beer				
Output ('000 litres)	426,733.3	421,208.4	305,380.1	321,309.0
Growth %	*12.5%*	*-1.3%*	*-2.5%*	*5.2%*
Cigarettes				
Output (Milles)	14,786,407	14,000,486	9,736,428	10,642,285
Growth %	*-4.5%*	*-5.3%*	*-11.6%*	*9.3%*

MT = Metric tonnes
* Provisional

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

Energy Sector

of rains towards the end of 2009 which continued into 2010 filled the water dams thus boosting hydro-power production. As a result, total generation of electricity increased by 15.1 percent in the year to September 2010 compared with a similar period in 2009. Hydro-power production increased by 33.9 percent, from 1,714.8 million kilowatt hours in the period January to September 2009, to 2,295.4 million kilowatt hours produced during the same period in 2010. Thermal power production increased by 12.8 percent during the period. Geo-thermal power production, however, reduced by 8.5 percent (Table 3.4) as hydro-power generation picked up. During the year to September 2010, electricity consumption increased by 11.7 percent to 4,418.0 million Kilowatt hours, from 3,954.2 million Kilowatt hours consumed during the same period in the previous year.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE			
	2008	2009	Jan-Sep 2009	Jan-Sep 2010
Electricity Supply (Generation)				
Output (KWH Millions)	5,694.1	5,331.5	4,027.9	4,653.6
Growth %	*-9.4%*	*-6.4%*	*-6.0%*	*15.5%*
Of which:				
Hydro-power Generation (KWH Millions)	3,240.4	2,105.4	1,714.8	2,295.4
Growth (%)	*-9.6%*	*-35.0%*	*-30.2%*	*33.9%*
Geo-Thermal Generation (KWH Millions)	1,038.8	1,478.1	1,172.8	1,073.5
Growth (%)	*4.8%*	*42.3%*	*54.0%*	*-8.5%*
Thermal (KWH Millions)	1,414.9	1,747.0	1,140.3	1,285.9
Growth (%)	*-17.4%*	*23.5%*	*6.9%*	*12.8%*
Consumption of electricity (KWH Millions)	5,286.4	5,320.9	3,954.2	4,418.0
Growth %	*3.1%*	*0.7%*	*-0.4%*	*11.7%*
Consumption of Fuels (Metric Tonnes)	2,860.3	3,190.0	2,379.6	2,328.8
Growth %	*-8.4%*	*11.5%*	*11.4%*	*-2.1%*
Murban crude oil average price (US $ per barrel)	97.9	62.6	58.6	68.7
Growth %	*35.0%*	*-36.0%*	*-47.8%*	*17.1%*

Source: Kenya National Bureau of Statistics

Tourism

Tourist arrivals via Mombasa International Airport and the Jomo-Kenyatta International Airport in the first eight months of 2010 numbered 701,182, or 14.6 percent above arrivals in the previous year. The performance reflects confidence in the country as a tourist destination and vigorous campaigns by Kenya Tourists' Board to market the country as an attractive tourist destination abroad. Of the total arrivals during the period, 339,229 visitors, equivalent to 48.4 percent came from Europe. The rest were 23.2 percent, 13.7 percent, 12.8 percent and 1.8 percent from Africa, America, Asia, and the Oceanic regions, respectively (Table 3.5 and 3.6). There were, however, no cruise arrivals for the period under review following cancellations due to fear of pirate kidnappings off the Kenyan coast . Revised cumulative tourism earnings for January – August 2010 amounted to US$ 443.2 million from US$ 345.4 million earned over a similar period in 2009.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2008	2009	Jan-August 2009	Jan-August 2010	Jan - August 2010 % Share	Jan - August 2010 % Growth
CRUISE	6,877	12,096	11,809	-	*0.0%*	*-100.0%*
MIAM	112,517	176,469	106,900	143,529	*20.5%*	*34.3%*
JKIA	609,606	763,916	492,965	557,653	*79.5%*	*13.1%*
TOTAL	729,000	952,481	611,674	701,182	*100.0%*	*14.6%*

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

Source: Kenya Tourism Board

Despite there being no cruise arrivals so far in 2010, growth in the period January – August 2010 surpassed 2009 by over 89,508 visitors. Arrivals from Asia grew by 28.3 percent and those from Europe increased by 18.6 percent during the period. In January – August 2010, arrivals from Africa, America and the oceanic regions grew by 12.6 percent, 9.1 percent and 18.8 percent, respectively (Table 3.6). Europe and Africa were the dominant source regions.

TABLE 3.6: TOTAL ARRIVALS BY CONTINENT

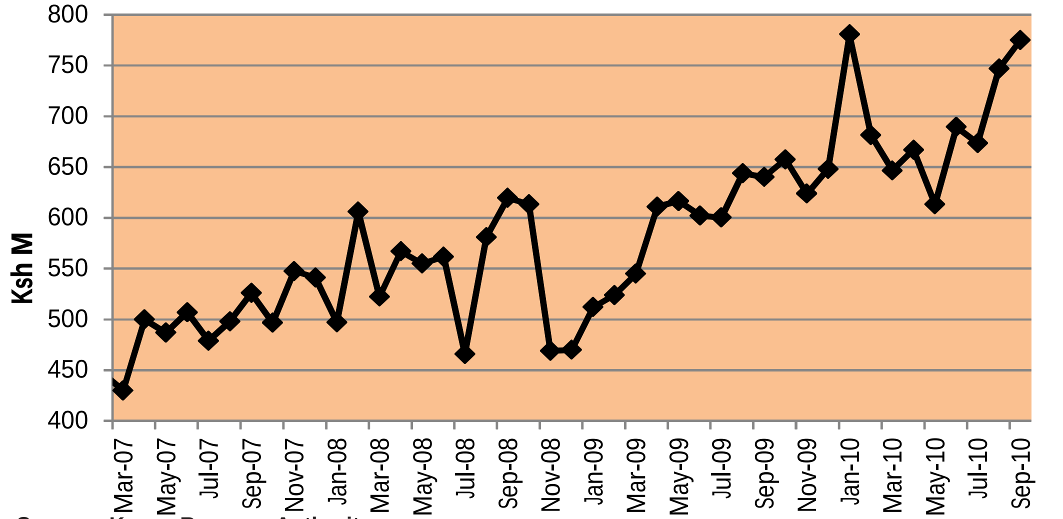
REGION	**2008**	**2009**	Jan-August 2009	Jan-August 2010	**Jan - August 2010 % Share**	**Jan- August 2010 % Growth**
Africa	207,770	228,827	144,775	162,982	23.2%	12.6%
America	97,771	128,658	88,210	96,211	13.7%	9.1%
Asia	94,496	108,524	70,023	89,858	12.8%	28.3%
Europe	308,123	456,427	285,994	339,229	48.4%	18.6%
Oceanic	13,963	17,949	10,863	12,902	1.8%	18.8%
Cruise	6,877	12,096	11,809	-	0.0%	-100.0%
Total	**729,000**	**952,481**	**611,674**	**701,182**	100.0%	**14.6%**

Source: Kenya Tourism Board

Transport and Tele-communications

The sector has performed well in recent years, growing by 10.2 percent in the fourth quarter of 2009 from 6.9 percent in 2008. The sector grew by 2.1 percent, equivalent to Ksh 787 million, in the second quarter of 2010. However, experienced mixed performance across activities in the sector was recorded in the first nine months of 2010. In the telecommunications subsector, excise duty on airtime rose by Ksh 978.9 million, equivalent to 18.5 percent in January-September 2010, from Ksh 5,296 million between January and September 2009, to Ksh 6,274 million in January – September 2010. During the same period, the total number of passengers embarking and disembarking at JKIA grew by 12.4 and 4.5 percent, respectively. The volume of cargo throughput handled by Kenya Ports Authority (KPA) at the port of Mombasa rose marginally by 1.9 percent from 13.8 million metric tonnes to 14.0 million metric tonnes. This cargo throughput comprised 12.0 million metric tonnes of imports, equivalent to 85.6 percent, 1.9 million metric tonnes of exports representing 13.6 percent and 0.1 million metric tonnes of transit shipments, equivalent to 0.8 percent. Similarly, cargo transported via Kenya Pipeline Company (KPC) for the same period declined by a marginal 1.8 percent to 3.1 billion litres from 3.2 billion litres transported between January and September 2009 (Table 3.7 and Chart 3D).

CHART 3D: EXCISE TAX ON AIRTIME



Source: Kenya Revenue Authority

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	CUMULATIVE			
	2008	2009	Jan-Sep 2009	Jan-Sep 2010
Mombasa Port Cargo Throughput				
Output (MT) Equivalent	16,414,729	19,061,631	13,717,261	13,971,112
Output Growth %	*2.8%*	*16.1%*	*13.8%*	*1.9%*
Number of passengers Thro' JKIA				
Incoming	1,468,814	1,291,278	987,484	1,110,007*
Growth (%)	*-0.7%*	*-12.1%*	*-8.9%*	*12.4%*
Outgoing	1,476,851	1,334,482	1,026,977	1,072,770*
Growth %	*-0.3%*	*-9.6%*	*-5.1%*	*4.5%*
Kenya Pipeline oil Throughput				
Output ('000 litres)	3,859,481	4,323,370	3,186,131	3,130,337
Output Growth %	*-2.6%*	*12.0%*	*10.5%*	*-1.8%*
Kenya Revenue Authority (Excise tax on airtime)				
Kshs million	6,528	7,225	5,296	6,274
Output Growth %	*9.5%*	*10.7%*	*6.4%*	*18.5%*

MT = Metric tonnes

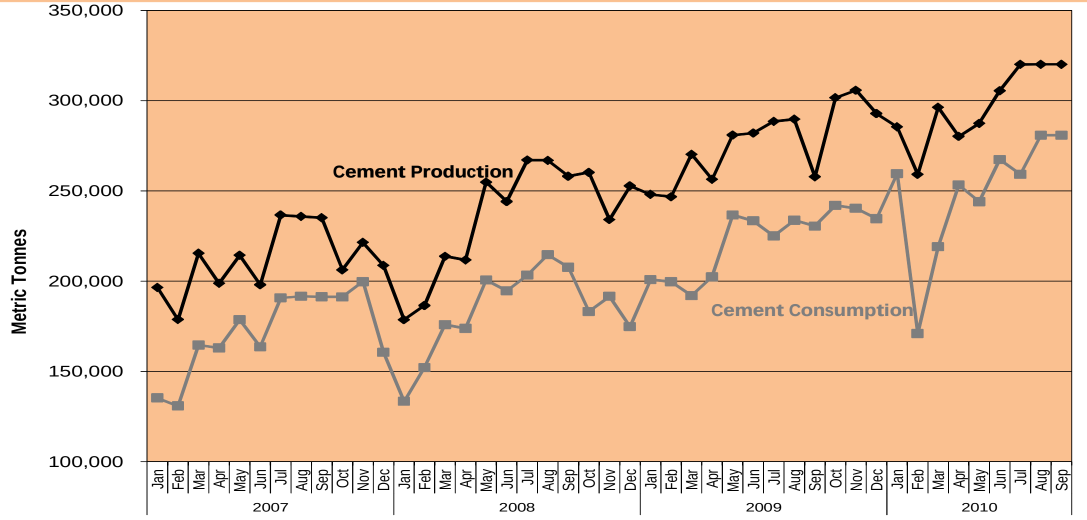
* Provisional

Source: Kenya Ports Authority and Kenya Pipeline Company Ltd.

Building & Construction Industry

Cement consumption increased by 14.4 percent from 2.0 million metric tonnes in January- September 2009 to 2.2 million metric tonnes in January- September 2010, on account of increased economic activity. However, a leveling of in the two activities is evident in the third quarter of 2010.

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya’s overall balance of payments stabilised at a surplus of US$ 360 million in the year to September 2009 compared with a surplus of US$ 365 million in the year to September 2010 (Table 4.1 and 4.2). The improvement reflects a relatively narrow deficit in the current account following an increase in the services account surplus(Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Sept 2009*	Year to September 2010* Q1 Oct-Dec	Q2 Jan-Mar	Q3 Apr-June	Q4 Jul-Sept	Year to Sept 2010*	Absolute Change
1. OVERALL BALANCE	360	148	-101	54	264	365	**5**
2. CURRENT ACCOUNT	-1899	-287	-395	-547	-582	-1811	**88**
2.1 Goods	-5702	-1763	-1413	-1690	-1769	-6635	*-933*
Exports (fob)	4503	1188	1290	1244	1223	4945	*442*
Imports (cif)	10205	2950	2703	2934	2993	11580	*1375*
2.2 Services	3803	1475	1019	1143	1187	4825	*1021*
Non-factor services (net)	1753	793	558	615	622	2587	*835*
Income (net)	-77	-6	20	23	79	116	*194*
Current Transfers	2128	688	441	506	486	2121	*-7*
3. CAPITAL & FINANCIAL ACCOUNT	2259	435	294	601	846	2176	**-83**
3.1 Capital Tranfers (net)	245	82	19	34	15	149	*-96*
3.2 Financial Account	2014	353	275	566	832	2026	*13*
memo:							
Gross Reserves	5235	5064	5188	5009	5141	5141	**-94**
Official	3708	3847	3745	3799	4063	4063	*355*
*imports cover***	*4.0*	*4.1*	*3.9*	*3.8*	*3.9*	*3.9*	*-0.1*
*imports cover****	*4.1*	*4.1*	*3.9*	*3.9*	*4.1*	*4.1*	*0.0*
Commercial Banks	1527	1217	1443	1211	1078	1078	*-449*

* Provisional.

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

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

Source: Central Bank of Kenya

Current Account

The current account deficit improved from US$ 1,899 million in year to September 2009 to US$ 1,811 million in year to September 2010. This mainly reflects a 26.8 percent or US$ 1,021 million improvement in the services account surplus. The improvement in the services account mainly reflects improved earnings from tourism and transportation services (Table 4.2).

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

ITEM	Year to Sept 2009*	Year to September 2010* Q1 Oct-Dec	Q2 Jan-Mar	Q3 Apr-June	Q4 Jul-Sept	Year to Sept 2010*	Absolute Change
2. CURRENT ACCOUNT	-1899	-287	-395	-547	-582	-1811	**88**
2.1 Goods	-5702	-1763	-1413	-1690	-1769	-6635	*-933*
Exports (fob)	4503	1188	1290	1244	1223	4945	*442*
Coffee	199	33	47	61	59	199	*1*
Tea	858	263	340	287	261	1152	*294*
Horticulture	674	188	187	175	163	713	*38*
Oil products	101	22	20	23	31	96	*-5*
Manufactured Goods	513	151	145	143	159	598	*85*
Raw Materials	219	50	74	50	41	216	*-3*
Re-exports	299	63	79	81	74	297	*-2*
Other	1641	418	399	423	435	1675	*34*
Imports (cif)	10205	2950	2703	2934	2993	11580	*1375*
Oil	2040	692	612	763	561	2628	*588*
Chemicals	1314	348	384	380	416	1528	*213*
Manufactured Goods	1420	435	390	448	446	1719	*299*
Machinery & Transport Equipment	3061	829	761	849	990	3430	*369*
Other	2370	646	556	493	580	2275	*-95*
2.2 Services	3803	1475	1019	1143	1187	4825	*1021*
Non-factor services (net)	1753	793	558	615	622	2587	*835*
of which tourism	635	244	157	165	182	749	*113*
Income (net)	-77	-6	20	23	79	116	*194*
of which official interest	-95	-22	-17	-14	-20	-73	*22*
Current Transfers	2128	688	441	506	486	2121	*-7*
Private (net)	1841	609	446	510	491	2056	*216*
Public (net)	287	79	-5	-5	-5	65	*-223*

* Provisional.

Source: Central Bank of Kenya

The merchandise account deficit worsened from US$ 5,702 million in the year to September 2009 to US$ 6,635 million in the year to September 2010 largely due to an increase in the value of imports.

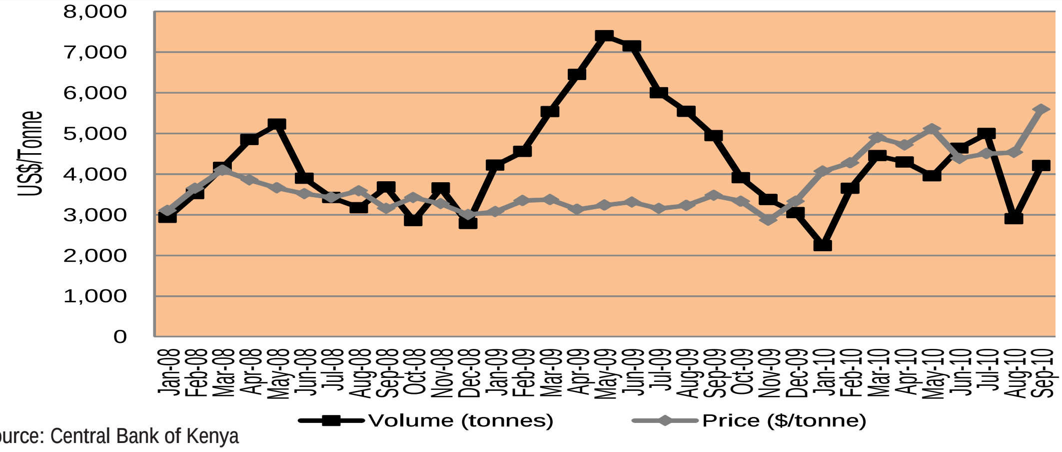
Exports

The value of exports increased by 9.8 percent from US$ 4,503 million in September 2009 to US$ 4,945 million in September 2010. The improvement in export performance was in exports of tea which increased by 34.3 percent. Improved commodity prices in the international markets led to this favorable development. Receipts from horticultural exports also increased from US$ 674 million to US$ 713 million. Exports of manufactured goods increased by 16.6 percent from US$ 513 million in September 2009 to US$ 598 million in September 2010 (Chart 4A and 4B).

Imports

The value of imports increased to US$ 11,580 million over the same period, on account of increased value of oil and manufactured goods imports. Oil imports which accounted for 23 percent of total imports increased from US$ 2,040 million to US$ 2,628 million in the period. Imports of machinery and transport equipment accounted for 30 percent of the import bill and increased from US$ 3,061 million to US$ 3,430 million. Manufactured goods accounted for 15 percent of the import bill and increased from US$ 1,420 million to US$ 1,719 million.

CHART 4A: COFFEE EXPORTS: UNIT PRICE AND QUANTITY



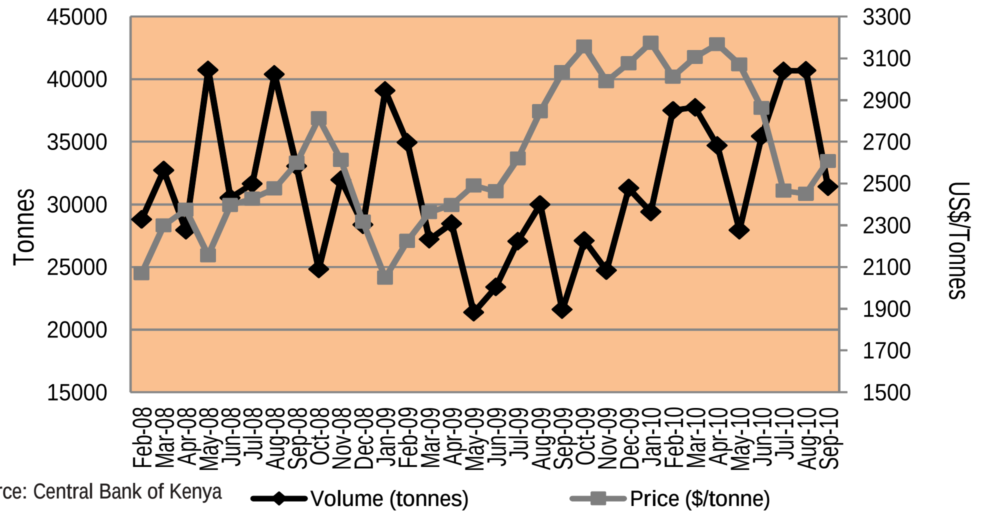
Source: Central Bank of Kenya

Services Account

The surplus on the services account improved from US$ 3,803 million to US$ 4,825 million in the year to September 2010. Earnings from non-factor services which mainly include tourism, transport and financial services increased from US$ 1,753 million to US$ 2,587 million in the year to September 2010. This reflected improved inflows from foreigners travelling to Kenya which recovered by 17.8 percent from US$ 635 million in the year to September 2009 to US$ 749 million in the year to September 2010. Similarly, net receipts from transportation services increased from US$ 972 million to US$ 1,455 million.

Net receipts on the current transfers account were resilient at US$ 2,128 million compared with US$ 2,121 million in the year to September 2010. The resilience was reflected in remittance transfers which rose by 3.7 percent, in spite of the adverse global shocks.

CHART 4B: TEA EXPORTS: UNIT PRICE AND QUANTITY



Source: Central Bank of Kenya

Direction of Trade

Kenya's exports in the year to September 2010 were mainly to Uganda (12.7 percent), United Kingdom (10.5 percent), Tanzania (8.4 percent) and Netherlands (6.8 percent). The share of exports to African countries accounted for 47 percent. The share of exports to the East African Community (EAC) region were 25.0 percent, while those to COMESA region were at 33.3 percent compared with 32.3 percent in the year to September 2010.

During the period under review, Kenya sourced imports from United Arab Emirates (13.3 percent), India (10.8 percent), China (11.3 percent), South Africa (6.7 percent), Japan (6.1 percent), United States of America (5.0 percent) and United Kingdom (3.7 percent). The share of imports from African countries accounted for 12.3 percent. Imports from the EAC region increased from US$ 163 million to US$ 245 million (2.1 percent of total imports). Imports from the COMESA region increased from US$ 318 million to US$ 476 million (4.1 percent of total imports) in the year to September 2010 (Table 4.3).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to September			Year to September		
Country	2008	2009	2010	2008	2009	2010
Africa	1,196	1,343	1,429	10.9	13.2	12.3
Of which						
South Africa	622	897	774	5.6	8.8	6.7
Egypt	150	122	209	1.4	1.2	1.8
Others	424	324	446	3.8	3.2	3.9
EAC	179	163	245	1.6	1.6	2.1
COMESA	427	318	476	3.9	3.1	4.1
Rest of the World	9,826	8,862	10,151	89.1	86.8	87.7
Of which						
India	1,262	1,055	1,251	11.5	10.3	10.8
United Arab Emirates	1,784	1,010	1,537	16.2	9.9	13.3
China	830	976	1,310	7.5	9.6	11.3
Japan	668	599	684	6.1	5.9	5.9
USA	406	512	569	3.7	5.0	4.9
United Kingdom	377	491	431	3.4	4.8	3.7
Singapore	297	327	386	2.7	3.2	3.3
Germany	373	312	332	3.4	3.1	2.9
Saudi Arabia	384	311	408	3.5	3.0	3.5
Indonesia	351	254	308	3.2	2.5	2.7
Netherlands	171	240	212	1.6	2.4	1.8
France	219	227	203	2.0	2.2	1.8
Bahrain	136	160	81	1.2	1.6	0.7
Italy	173	184	160	1.6	1.8	1.4
Others	2,395	2,203	2,279	21.7	21.6	19.7
Total	11,022	10,205	11,580	100	100	100

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to September			Year to September		
Country	2008	2009	2010	2008	2009	2010
Africa	2,268	2,119	2,300	46	47	47
Of which						
Uganda	598	585	626	12.1	13.0	12.7
Tanzania	399	390	414	8.1	8.7	8.4
Egypt	191	175	220	3.9	3.9	4.4
Sudan	204	162	220	4.1	3.6	4.5
Somalia	192	153	155	3.9	3.4	3.1
DRC	139	145	156	2.8	3.2	3.1
Rwanda	121	123	133	2.5	2.7	2.7
Others	424	386	377	8.6	8.6	7.6
EAC	1,163	1,154	1,238	23.6	25.6	25.0
COMESA	1,551	1,453	1,645	**31.5**	**32.3**	**33.3**
Rest of the World	2,651	2,383	2,644	53.9	52.9	53.5
Of which						
United Kingdom	547	481	520	11.1	10.7	10.5
Netherlands	378	337	335	7.7	7.5	6.8
USA	298	245	232	6.1	5.4	4.7
Pakistan	185	189	218	3.8	4.2	4.4
United Arab Emirates	139	125	214	2.8	2.8	4.3
Germany	93	94	94	1.9	2.1	1.9
India	101	72	96	2.0	1.6	2.0
Afghanistan	55	77	160	1.1	1.7	3.2
Others	855	765	775	17.4	17.0	15.7
Total	4,919	4,503	4,945	100	100	100

Source: Kenya Revenue Authority

Capital and Financial Account

The capital and financial account surplus decreased from US$ 2,259 million in the year to September 2009 to US$ 2,176 million in the year to September 2010 reflecting a decline in net capital transfers. Financial inflows improved to US$ 2,026 million compared with US$ 2,014 million in the year to September 2009. This reflected a drawdown on deposits held abroad by commercial banks amounting to US$ 500 million, which was partly offset by a reduction in medium and long term official flows.

Net short term financial inflows, including errors and omissions in recorded transactions, decreased to US$ 1,215 million in the year to September 2010 compared with US$ 1,566 million in the year to September 2009.(Table 4.4).

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

ITEM	Year to Sept 2009*	Year to September 2010* Q1 Oct-Dec	Q2 Jan-Mar	Q3 Apr-June	Q4 Jul-Sept	Year to Sept 2010*	Absolute Change
3. CAPITAL & FINANCIAL ACCOUNT	2259	435	294	601	846	2176	**-83**
3.1 Capital Tranfers (net)	245	82	19	34	15	149	*-96*
3.2 Financial Account	2014	353	275	566	832	2026	*13*
Official, medium & long-term	445	66	88	70	28	252	*-193*
Inflows	694	111	164	99	101	474	*-220*
Outflows	-248	-45	-76	-29	-72	-222	*27*
Private, medium & long-term (net)	2	484	-357	200	166	493	*491*
Commercial Banks (net)	-9	468	-371	191	204	492	*500*
Other private medium & long-term (net)	11	16	14	9	-38	1	*-10*
Short-term (net) incl. errors & omissions	1566	-196	543	297	638	1281	*-285*

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings declined from US$ 5,347 million in October 2009 to US$ 5,270 million in October 2010. Gross official foreign exchange reserves held by the Central Bank were US$ 3,810 million or 4.1 months of import cover in October 2009 compared with US$ 4,054 million (4.1 months of import cover) in October 2010 (Table 4.5). The accumulation of official reserves during the period comprised of interbank purchases.

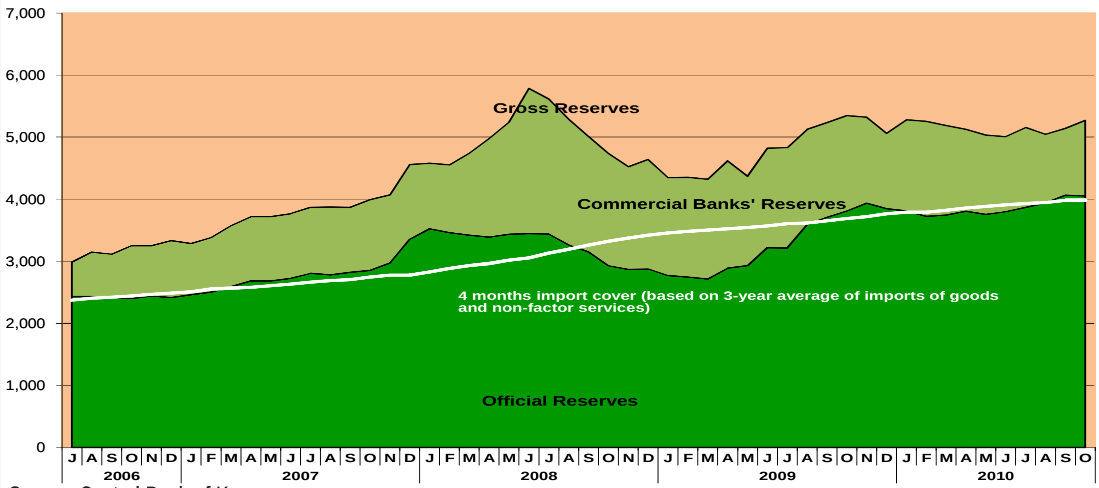
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Oct 09	Dec 09	Apr 10	May 10	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10
1. Gross Foreign Exchange Reserves	**5,347**	**5,062**	**5,124**	**5,034**	**5,009**	**5,155**	**5,046**	**5,141**	**5,270**
of which:									
Official	3,810	3,847	3,805	3,755	3,799	3,868	3,942	4,063	4,054
*imports cover**	*4.1*	*4.1*	*4.0*	*3.9*	*3.9*	*3.9*	*4.0*	*4.1*	*4.1*
Commercial Banks	1,536	1,215	1,319	1,279	1,211	1,287	1,104	1,078	1,216
2. Residents' foreign currency deposits	**1,917**	**2,036**	**2,100**	**2,114**	**2,140**	**2,221**	**2,250**	**2,191**	**2,221**

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling depicted mixed performance in October 2010 against major world currencies. Against the US dollar, the shilling stabilized to exchange at an average of Ksh 80.71 per US dollar in October 2010 compared with Ksh 80.91 per US dollar in September 2010. The shilling depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange at Ksh 127.98 per Sterling Pound, Ksh 112.20 per Euro and Ksh 98.60 per 100 Japanese Yen in October 2010, compared with Ksh 125.94 per Sterling Pound, Ksh 105.61 per Euro and Ksh 95.88 per 100 Japanese Yen in September 2010. Against the shilling remained stable at (Table 4.6 and Chart 4D).

TABLE 4.6: KENYA SHILLING EXCHANGE RATE

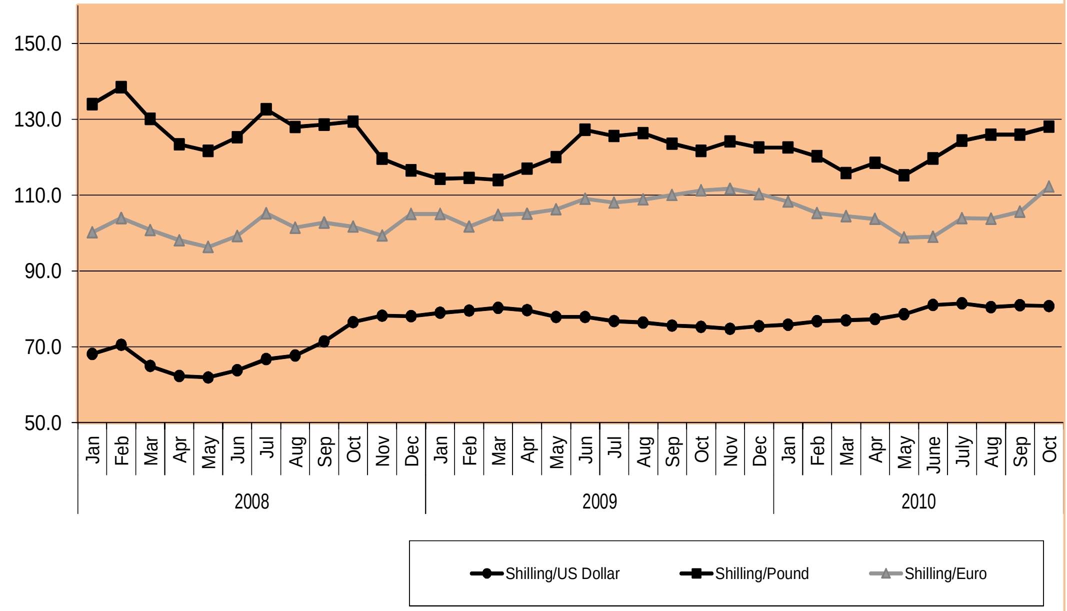
	2009		2010							% change September 10 - October 10
	Aug	Dec	Jan	Feb	June	July	August	September	October	
US Dollar	76.37	75.43	75.79	76.69	81.02	81.43	80.44	80.91	80.71	**-0.24**
Pound Sterling	126.34	122.54	122.53	120.21	119.62	124.34	125.94	125.94	127.98	**1.63**
100 Japanese Yen	80.49	84.12	83.11	84.99	89.18	92.90	94.08	95.88	98.60	**2.84**
Uganda Shilling*	27.14	25.20	25.53	25.97	27.91	27.73	27.71	27.83	28.05	**0.77**
Tanzania Shilling*	17.28	17.65	17.71	17.58	17.99	18.40	18.89	18.76	18.52	**-1.29**
Euro	108.83	110.27	108.27	105.25	98.99	103.90	103.79	105.61	112.20	**6.23**
Euro per US dollar	0.702	0.684	0.700	0.729	0.818	0.784	0.775	0.766	0.719	**-6.10**

* Units of currency per Kenya shilling

Source: Central Bank of Kenya

Against the regional currencies, the Kenya shilling appreciated against the Uganda Shilling and weakened against the Tanzania Shilling, respectively, to trade at Ush 28.05 per Kenya shilling and Tsh 18.52 per Kenya shilling in October 2010 compared with Ush 27.83 per Kenya shilling and Tsh 18.76 per Kenya shilling in September 2010.

CHART 4D: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

DEVELOPMENTS IN THE BANKING SECTOR

Overview

During the period ended October 31, 2010, the Kenyan Banking sector registered significant growth in assets driven by growth in deposits, injection of capital and retention of profits. The level of non-performing loans decreased compared to a similar period in October 2009.

The sector comprised 43 commercial banks, 1 mortgage finance company, 2 deposit taking microfinance institutions and 126 foreign exchange bureaus.

Structure of the Balance Sheet

The banking sector's aggregate balance sheet expanded by 26.5 percent from Ksh 1,324.6 billion in October 2009 to Ksh 1,675.4 billion in October 2010. The major components of the balance sheet were loans and advances, government securities and placements, which accounted for 51 percent, 26 percent and 7 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances increased from Ksh 755.0 billion in October 2009 to Ksh 900.0 billion in October 2010, translating to a growth of 19.2 percent. The growth was attributed to increased lending to households, trade and manufacturing sectors. Loans and advances net of provisions stood at Ksh 889.2 billion in October 2010, up from Ksh 744.9 billion registered in a similar period in 2009.

Deposit Liabilites

Deposits from customers were the main source of funding for the banking sector, accounting for 76 percent of total funding liabilities. The deposit base increased by 26.5 percent from Ksh 1,014.5 billion in October 2009 to Ksh 1,283.5 billion in October 2010 mainly due to branch expansion, remittances and receipts from exports.

Capital & Reserves

The banking sector registered strong capital levels in October 2010 with total capital growing by 25.9 percent from Ksh 171.6 billion in October 2009 to Ksh 216.0 billion in October 2010, whereas shareholders' funds increased by 34.8 percent from Ksh 189.2 billion in October 2009 to Ksh 255.1 billion. Similarly, the ratios of total and core capital to total risk-weighted assets increased from 19.9 percent and 17.5 percent to 20.7 percent and 18.5 percent, respectively mainly due to a more than proportionate increase in core and total capital than the increase in total risk weighted assets.

Non-performing Loans

The stock of gross non-performing loans (NPLs) decreased by 0.5 percent from Ksh 61.6 billion in October 2009 to Ksh 61.3 billion in October 2010. Over the same period, the coverage ratio which is measured as a percentage of specific provisions to total NPLs increased to 57.2 percent from 47.1 percent in October 2009 mainly due to increase in provisions. The quality of assets, measured as a proportion of net non-performing loans to gross loans improved from 3.6 percent to 2.4 percent in October 2010 (Table 5.1). Similarly, the ratio of gross NPLs to gross loans improved from 8.2 percent in October 2009 to 6.8 percent in October 2010.

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

		Oct-10	Oct-09
1	Gross loans and advances	900	755
2	Interest in Suspence	10.8	10.2
3	Loans and advances (net of interest suspended)	889.2	744.9
4	Gross non-performing loans	61.3	61.6
5	Specific Provisions	28.9	24.2
6	General Provisions	5.4	5.7
7	Total Provisions (4+5)	34.3	29.9
8	Net Advances (2-6)	854.9	715
9	Total Non-Performing Loans and advances	50.5	51.4
10	Net Non-Performing Loans and advances(8-4)	21.6	27.2
11	Total NPLs as % of total advances (8/2)	5.7	6.9
12	Net NPLs as % of gross advances (9/1)	2.4	3.6
13	Specific Provisions as % of Total NPLs (4/8)	57.2	47.1

Source: Central Bank of Kenya

Profitablility

In the ten months to October 2010, the sector registered a 49.8 percent growth in pre-tax profits, from Ksh 41.8 billion in October 2009 to Ksh 62.6 billion as at end of October 2010. As a result, the annualised return on assets improved from 3.0 percent to 3.6 percent in October 2010, while return on equity increased from 26.5 percent to 29.5 percent. Total income rose by 26.5 percent from Ksh 140.5 billion in October 2009 to Ksh 177.7 billion in October 2010, while total expenses increased by 16.5 percent from Ksh 98.7 billion in October 2009 to Ksh 115.0 billion in October 2010. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 49 percent, 29 percent and 16 percent of total income, respectively. On the other hand, staff costs, other expenses and interest on deposits were the key components of expenses, accounting for 34 percent, 28 percent and 23 percent, respectively.

Liquidity Ratio Requirement

For the month ended 31st October ,2010, average liquid assets amounted to Ksh 564.2 billion, while total average liquid liabilities stood at Ksh 1,227.6 billion, resulting to an average liquidity ratio of 46.0 percent, against 41.1 percent registered in October 2009. The ratio of gross loans to deposits was 70.1 percent from 74.4 percent in October 2009.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 6.61 percent in October 2010 compared with 6.68 percent in September 2010 and 4.5 percent statutory level (Table 5.2 and Chart 5A). Commercial banks held excess reserves at the Central Bank averaging Ksh 24.96 billion in October 2010 compared with Ksh 25.62 billion in September 2010.

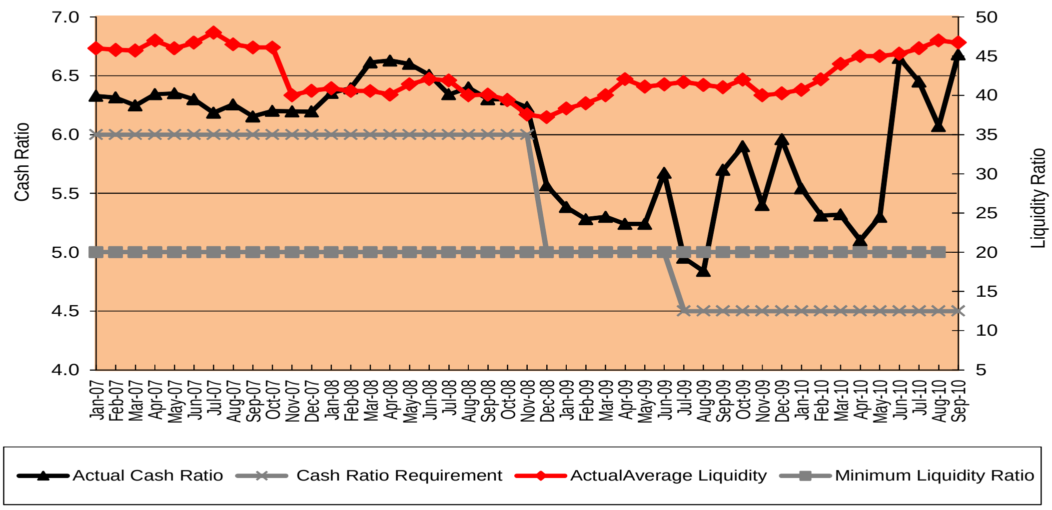
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2009				2010			
	June	Aug	Sept	Dec	June	July	Aug	Sept
Commercial Banks								
Actual Average Liquidity	41.37	41.33	41.34	40.25	45.30	45.8	46.7	46.70
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.67	4.84	5.40	5.96	6.65	6.45	6.07	6.68
Minimum Cash Ratio Requirement	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50
NBFIs								
Actual Average Liquidity Ratio	24.59	23.93	23.38	23.96	35.30	33.8	30.5	30.70
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Minimum Cash Ratio Requirement	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50

* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 76,415 transaction messages worth Ksh 1,376 billion in October 2010 compared with a volume of 82,770 transaction messages valued at Ksh 1,256 billion moved in September 2010 representing 9.5 percent increase in value and 7.7 percent decrease in volume. The decrease in KEPSS messages may be attributed to the fewer days that the system operated in October 2010 compared to September 2010.

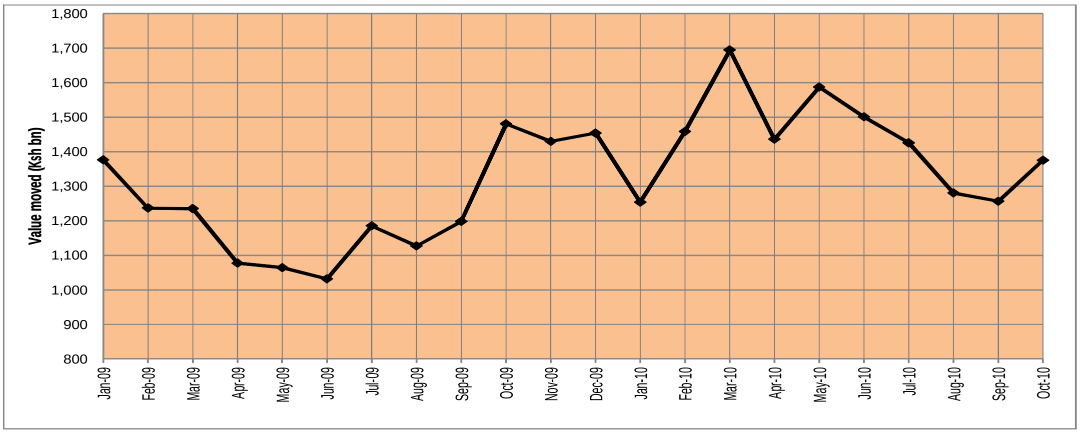
During the twelve months period to October 31, 2010, the value moved averaged Ksh 20.4 million per transaction. On average 3,373 transaction messages valued at approximately Ksh 68.1 billion per message were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS accounted for 97.9 percent of the total settlements while indirect payments (ACH Net settlement) averaged 2.1 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-09	1,376	68	25,330	0.05	21	66	1,206
Feb-09	1,236	64	20,710	0.06	19	65	1,090
Mar-09	1,235	82	23,752	0.05	22	56	1,080
Apr-09	1,077	80	22,485	0.05	20	54	1,124
May-09	1,064	70	24,024	0.04	20	53	1,201
Jun-09	1,032	80	21,977	0.05	21	49	1,047
Jul-09	1,185	75	25,650	0.05	23	52	1,115
Aug-09	1,127	69	23,001	0.05	21	54	1,095
Sep-09	1,198	90	24,552	0.05	21	57	1,169
Oct-09	1,481	27	55,440	0.03	21	71	2,640
Nov-09	1,430	21	56,900	0.03	21	68	2,710
Dec-09	1,454	29	66,916	0.02	22	66	3,042
Jan-10	1,254	18	56,862	0.02	20	63	2,843
Feb-10	1,458	22	65,010	0.02	20	73	3,251
Mar-10	1,694	26	77,058	0.02	23	74	3,350
Apr-10	1,436	23	69,634	0.02	20	72	3,482
May-10	1,587	22	72,588	0.02	21	76	3,457
Jun-10	1,501	23	79,760	0.02	21	71	3,798
Jul-10	1,426	21	75,289	0.02	22	65	3,422
Aug-10	1,280	23	70,771	0.02	20	64	3,539
Sep-10	1,256	25	82,770	0.02	22	57	3,762
Oct-10	1,376	29	76,415	0.02	23	60	3,322

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third party Messages

Multiple third parties Message Type (MT 102) decreased by 12.4 percent from 10,806 transaction messages in September 2010 to 9,470 transaction messages in October 2010. Similarly, single third party Message Type (MT 103) decreased by 6.7 percent from 76,910 transaction messages to 71,779 transaction messages in the same period. Overall, total third party messages through KEPSS decreased by 7.4 percent from 87,716 transaction messages in September 2010 to 81,249 transaction messages in October 2010.

Compared with October 2009, multiple third parties messages (MT 102) increased by 477.8 percent from 1,639 transaction messages to 9,470 transaction messages in October 2010 while single third party messages (MT 103) increased by 56.2 percent from 45,940 transaction messages to 71,779 transaction messages (Table 5.4 and Chart 5C). This may be attributed to the implementation of value capping and G-Pay policies in October 2009 as well as increased awareness of KEPSS by the public as a safe and efficient means of sending funds.

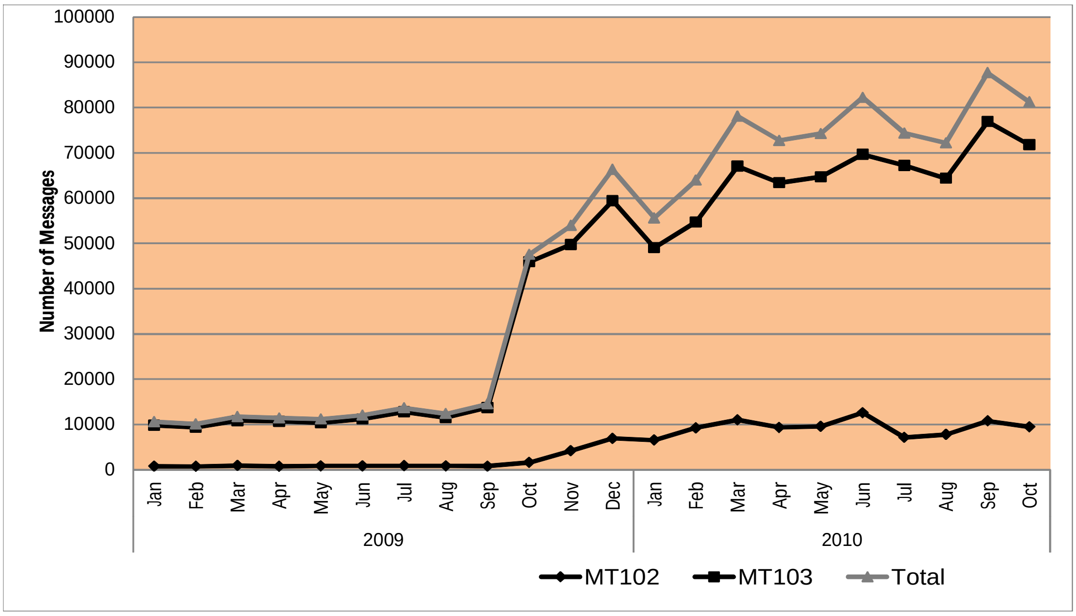
Inter-bank transfers (MT 202) accounted for 45.7 percent of the total value moved through KEPSS as at end of October 2010, while third party messages accounted for 54.3 percent. The total number of third party messages (MT 102 and MT 103) grew by 70.8 percent from 47,579 messages in October 2009 to 81,249 messages in October 2010.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2009	January	786	9,815	10,601
	February	740	9,376	10,116
	March	929	10,832	11,761
	April	758	10,671	11,429
	May	852	10,351	11,203
	Jun	866	11,194	12,060
	Jul	879	12,778	13,657
	Aug	875	11,511	12,386
	Sep	813	13,740	14,553
	Oct	1639	45,940	47,579
	Nov	4214	49,759	53,973
	Dec	6928	59,418	66,346
2010	Jan	6570	49,061	55,631
	Feb	9238	54,747	63,985
	Mar	11038	67,052	78,090
	Apr	9345	63,396	72,741
	May	9564	64,707	74,271
	Jun	12601	69,659	82,260
	Jul	7165	67,216	74,381
	Aug	7787	64,385	72,172
	Sep	10806	76,910	87,716
	Oct	9470	71,779	81,249

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

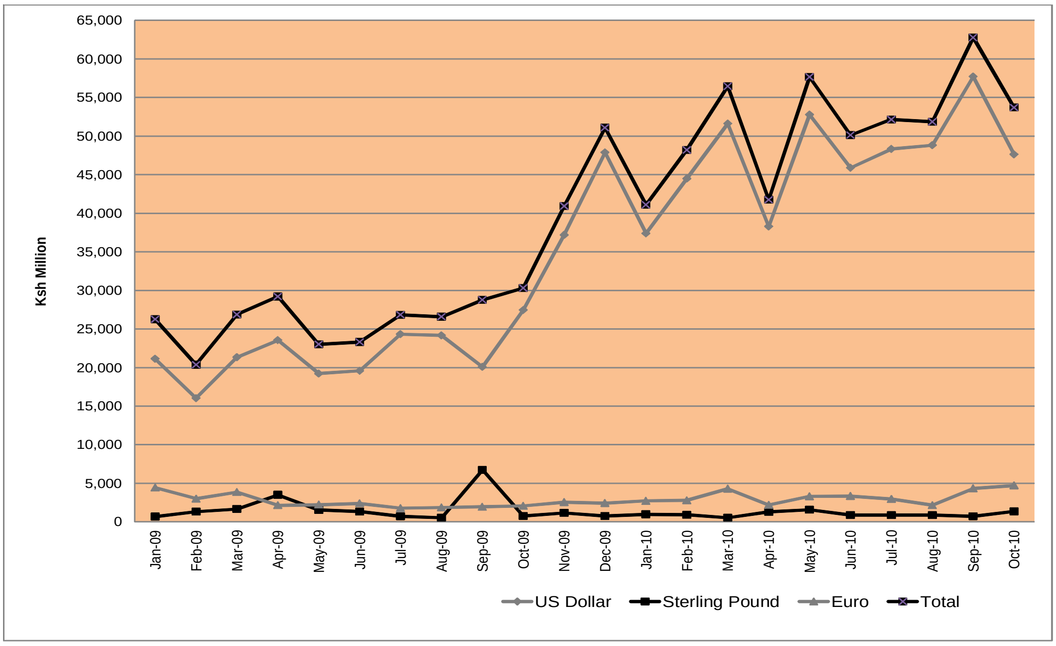


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS decreased by 10.5 percent from 6,331 transaction messages in September 2010 to 5,668 transaction messages in October 2010. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period decreased by 14.5 percent from Ksh 62.8 billion to Ksh 53.7 billion. The US dollar accounted for 88.7 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 2.5 percent and 8.8 percent, respectively.

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



Source: Central Bank of Kenya

Government Budget Performance

Central Government budgetary operations in the first four months of fiscal year 2010/11 resulted in a deficit of Ksh 50.1 billion on commitment basis compared with a deficit of Ksh 39.9 billion in a similar period of 2009/10 (Table 6.1). The deficit-to-GDP ratio increased from 1.6 percent to 2.0 percent on commitment basis while the budget deficit declined from 1.9 percent to 1.6 percent of GDP during the period. The budget deficit during the period was half the programmed target of 3.2 percent of GDP on commitment basis.

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

	FY 2009/10	FY 2010/11		
	Oct Actual	Oct Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE	**170.8**	**193.1**	**215.5**	**-22.5**
Revenue	167.3	187.9	206.1	-18.2
Tax Revenue	148.5	170.2	180.3	-10.1
Non Tax Revenue	5.5	4.7	2.6	2.1
Appropriations-in-Aid	13.3	13.0	23.2	-10.2
External Grants	3.5	5.2	9.4	-4.2
2. TOTAL EXPENSES & NET LENDING	**210.7**	**243.1**	**295.5**	**-52.3**
Recurrent Expenses	164.8	180.9	199.3	-18.3
Development Expenses	45.9	62.2	96.2	-34.0
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-39.9	-50.1	-79.9	**-29.9**
As percent of GDP	**-1.6**	**-2.0**	**-3.2**	
4. ADJUSTMENT TO CASH BASIS	**-5.4**	**9.4**	**0.0**	**9.4**
5. DEFICIT ON A CASH BASIS	-45.2	-40.7	-79.9	**-39.3**
As percent of GDP	**-1.9**	**-1.6**	**-3.2**	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**-8.4**	**6.2**	**0.0**	
7. FINANCING	38.3	42.4	79.9	**-37.5**
Domestic (Net)	42.1	32.8	63.7	-30.9
External (Net)	-3.9	9.6	16.3	-6.6
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: Treasury

Revenue

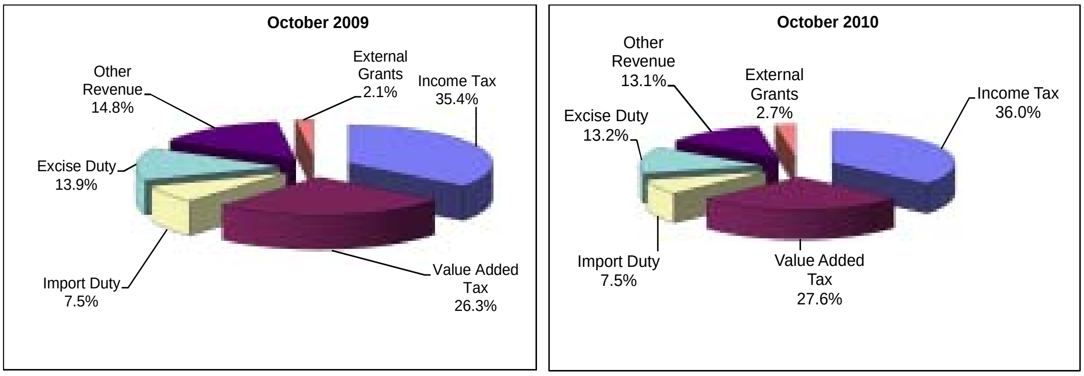
In the first four months of the fiscal year 2010/11, government revenue and grants increased to Ksh 193.1 billion compared with Ksh 170.8 billion in a similar period of the fiscal year 2009/10 but fell short of the target by Ksh 22.5 billion (or 10.4 percent of the revenue target). The underperformance was both in government revenue by 18.2 billion (or 8.8 percent) and grants by Ksh 4.2 billion (or 45.0 percent). External grants receipts amounted to Ksh 5.2 billion against a target of Ksh 9.4 billion (or 80.8 percent below the target).

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Oct-09 Ksh bn	Oct-10 Ksh bn	Change Ksh bn
1. Revenue (2+3+4)	**167.3**	**187.9**	**15.8**
2. Tax Revenue	148.5	170.2	13.5
Income Tax	60.4	69.5	6.6
Value Added Tax	44.9	53.2	3.7
Import Duty	12.9	14.4	0.8
Excise Duty	23.7	25.6	1.7
Others	6.6	7.6	0.8
3. Appropriations-in-Aid	13.3	13.0	3.1
4. Other Revenue	5.5	4.7	-0.8
5. External Grants	**3.5**	**5.2**	**-2.3**
TOTAL RECEIPTS (1+5)	**170.8**	**193.1**	**13.5**

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Despite the missed revenue targets, tax revenue expanded by 14.6 percent from Ksh 148.5 billion in the fiscal year 2009/10 to Ksh 170.2 in the fiscal year 2010/11. All revenue sources recorded improved performance compared to a similar period of the year 2009/10 fiscal year. The main component of tax revenue, income tax and value added tax (VAT) grew by 14.9 percent and 18.6 percent respectively during the period.

Expenditure and Net Lending

Government expenditure and net lending in the first four months of fiscal year 2010/11 increased by Ksh 32.4 billion or 15.4 percent to Ksh 243.1 billion (Table 6.3). The increment comprised increases of Ksh 16.2 billion and Ksh 16.3 billion in recurrent and development expenditures, respectively.

The increase in recurrent expenditure reflects increases of Ksh 7.0 billion in salaries and wages, Ksh 2.4 billion in interest expenses and Ksh 6.7 billion in other expenses (Chart 6B). Expenditure and net lending targets were, however, missed by Ksh 52.3 billion, with the shortfall largely in the development expenditure at Ksh 34.0 billion or 65 percent of total deviation.

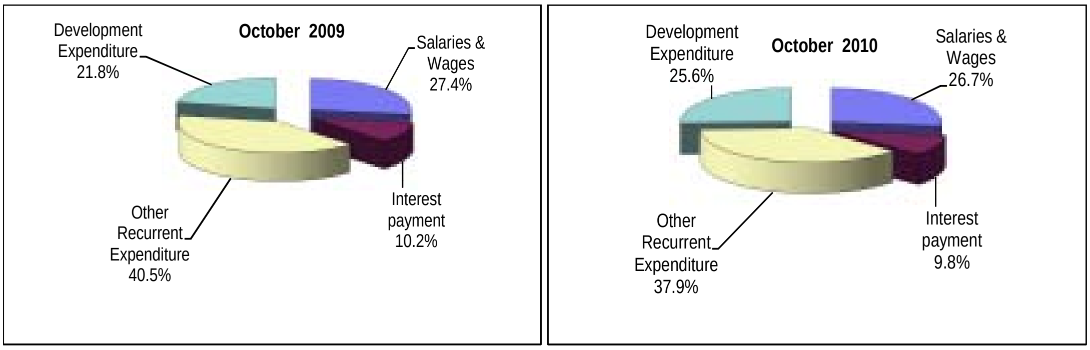
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Oct-09 Ksh bn	Oct-10 Ksh bn	Movement
1.Recurrent	**164.8**	**180.9**	**16.2**
Salaries & Wages	57.8	64.9	**7.0**
Total Interest	21.5	23.9	**2.4**
of which			
Domestic*	19.6	21.6	**2.0**
Foreign interest due	1.9	2.3	**0.4**
Others	85.4	92.1	**6.7**
2. Development	**45.9**	**62.2**	**16.3**
TOTAL EXPENSES	**210.7**	**243.1**	**32.4**

*Includes commission and other charges paid to Central Bank and other agencies

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

During the first four months of the fiscal year 2010/11, budgetary operations of the Government resulted in a financing requirement of Ksh 42.4 billion compared with Ksh 48.7 billion in a similar period of 2009. To meet the financing requirements, the Government sourced the funds through net domestic borrowing Ksh 31.8 billion, net external debt borrowing of Ksh 9.6 and Ksh 1 billion drawdown of own deposits at the Central Bank.

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

I. FINANCING REQUIREMENTS	Oct-09	Oct-10
1. Budget deficit	38.3	42.4
2. External debt reduction	3.9	0.0
3. Domestic debt reduction	0.0	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	6.6	0.0
TOTAL	**48.7**	**42.4**
II. FINANCING SOURCES	**Oct-09**	**Oct-10**
1. Budget surplus	0.0	0.0
2. External debt increase	0.0	9.6
3. Increase in domestic debt	48.7	31.8
3.1 Central Bank	2.9	1.9
3.2 Commercial banks	32.4	2.9
3.3 Non-bank sources	13.5	27.0
4. Reduction in GoK deposits at CBK	0.0	1.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	**48.7**	**42.4**

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank increased by Ksh 8.8 billion from Ksh 43.5 billion in October 2009 to Ksh 52.3 billion in October 2010. The increase in Government indebtedness to Central Bank reflect in the increase in the overdraft by Ksh 10.6 billon. However, borrowing via the overdraft, was within the statutory limit of Ksh 22.6 billion. The overdraft facility is a short term cash management tool for the Government which smoothens out volatility in government receipts from taxes, grants and domestic securitized borrowing (under domestic borrowing programme). The Government also amortized pre-1997 overdraft by Ksh 1.1 billion and repaid Ksh 0.5 billion of IMF funds on-lent by the Central Bank.

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

	2009	2010	Movement
	Oct	Oct	
Total Credit	**43.49**	**52.31**	**8.81**
1. Overdraft	9.33	19.96	10.63
2. Rediscounted securities	0.03	0.03	0.00
Treasury bills	0.02	0.01	0.00
Treasury bonds	0.01	0.01	0.01
3. Pre-1997 Government Overdraft at CBK	33.33	32.22	-1.11
4. IMF funds onlent to Government	0.72	0.00	-0.72
5. Cleared items in transit	0.08	0.10	0.01
Memorandum			
Authorised overdraft limit	**16.88**	**22.93**	**11.60**
Amount utilised to date	9.33	19.96	19.92
Amount available	7.55	2.96	-8.32

Source: Central Bank of Kenya

Outlook for FY 2009/10

In the budget estimates for the fiscal year 2010/11, Government revenue excluding external grants is estimated at Ksh 689.6 billion (24.9 percent of GDP), while external grants are estimated at Ksh 40.4 billion (1.5 percent of GDP). Government expenditure is estimated at Ksh 918.0 billion or 33.1 percent of GDP. The main components of expenditure includes Ksh 592.5 billion (21.3 percent of GDP) in recurrent expenditure and Ksh 323.6 billion or 11.7 percent of GDP in development expenditure (Table 6.6).

TABLE 6.6: BUDGET ESTIMATES FOR THE FISCAL YEAR 2010/11 (Ksh Billion)

	Ksh (B)	% of GDP
1. TOTAL REVENUE	730.0	26.4
Revenue	689.6	24.9
Tax Revenue	586.8	21.2
Non Tax Revenue	22.8	0.8
Appropriations-in-Aid	80.0	2.9
External Grants	40.4	1.5
2. TOTAL EXPENSES & NET LENDING	**918.0**	**33.2**
Recurrent Expenses	592.5	21.4
Development Expenses	323.6	11.7
Civil Contigency Fund	2.0	0.1
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-188.0**	**-6.8**
4. ADJUSTMENT TO CASH BASIS	0.0	0.0
5. DEFICIT ON A CASH BASIS	**-188.0**	**-6.8**
6. DISCREPANCY: Expenditure (+) / Revenue (-	0.0	0.0
7. FINANCING	**188.0**	**6.8**
Domestic (Net)	105.3	3.8
External (Net)	82.7	3.0

Source: Central Bank of Kenya

The overall budget deficit including grants is therefore estimated at Ksh 188.0 billion (6.8 percent of GDP) in 2010/11. The deficit will be financed through net external borrowing of Ksh 82.7 billion (3.0 percent of GDP) and net domestic borrowing of Ksh 105.3 billion (3.8 percent of GDP).

Developments in Public Debt

Overall Debt Kenya's public and publicly guaranteed debt increased by Ksh 64.0 billion between July and October 2010 to Ksh 1,289.7 billion, equivalent to 50.9 percent of GDP from Ksh 1,225.7 billion which was equivalent to 48.1 percent of GDP in June 2010 (Table 7.1). The external debt to GDP ratio increased from 22.2 percent in June 2010 to 23.5 percent in October 2010, while the domestic debt to GDP ratio increased from 25.9 percent to 27.5 percent during the period. The proportion of domestic debt in total public debt as at end October 2010 amounted to Ksh 696.1 billion or 54.0 percent of total debt.

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

	June-08	Sep-09	Dec-09	Mar-10	Jun-10	Jul-10	Aug-10	Sep-10*	Oct-10**	Change 2010/11
EXTERNAL* **										
Bilateral	153.2	188.7	185.3	187.3	196.3	195.2	196.7	211.2	212.9	16.5
Multilateral	268.2	312.6	316.5	333.7	348.6	346.3	348.4	356.9	359.1	10.5
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	18.5	23.7	23.7	17.1	20.5	20.5	20.5	21.6	21.6	1.1
Sub-Total	**440.0**	**525.0**	**525.5**	**538.2**	**565.5**	**562.0**	**565.6**	**589.7**	**593.6**	**28.1**
(As a % of GDP)	21.6	21.6	21.3	21.5	22.2	23.1	22.9	23.6	23.5	
(As a % of total debt)	50.5	48.8	47.2	45.7	46.1	45.7	44.8	45.6	46.0	
DOMESTIC/[1]										
Banks	**228.8**	**310.5**	**343.0**	**384.5**	**401.8**	**405.9**	**420.8**	**420.4**	**412.4**	**10.6**
Central Bank	46.4	41.6	44.7	39.6	51.9	49.6	57.0	54.6	53.8	2.0
Commercial Banks	182.5	268.9	298.3	345.0	350.0	356.3	363.8	365.8	358.6	8.6
Non-banks	**199.2**	**237.7**	**243.0**	**251.2**	**255.3**	**258.5**	**272.7**	**279.7**	**279.2**	**23.9**
Non-bank Financial Institutions	0.7	0.8	1.1	2.0	3.0	3.0	2.9	2.8	2.6	-0.3
Other Non-bank Sources	198.5	236.9	241.9	249.2	252.4	255.5	269.7	276.9	276.6	24.2
Non-residents	**2.6**	**2.5**	**2.9**	**3.3**	**3.1**	**3.4**	**4.6**	**4.6**	**4.5**	1.4
Sub-Total	**430.6**	**550.7**	**589.0**	**639.1**	**660.3**	**667.8**	**698.0**	**704.7**	**696.1**	**35.9**
(As a % of GDP)	21.1	22.6	23.8	25.5	25.9	27.4	28.3	28.2	27.5	
(As a % of total debt)	49.5	51.2	52.8	54.3	53.9	54.3	55.2	54.4	54.0	
GRAND TOTAL	**870.6**	**1075.7**	**1114.5**	**1177.2**	**1225.7**	**1229.8**	**1263.7**	**1294.4**	**1289.7**	**64.0**
(As a % of GDP)	42.8	44.2	45.1	46.9	48.1	50.5	51.2	51.8	51.0	

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

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

Sources: Treasury and Central Bank of Kenya

Domestic Debt Total domestic debt increased by Ksh 35.9 billion during the first four months of the fiscal year 2010/11, from Ksh 660.3 billion in June 2010 to Ksh 696.1 billion in October 2010 (Table 7.2). The increment to domestic debt comprised wholly in increases of Ksh 49.2 billion in Treasury bonds and Ksh 2.0 billion in other domestic debt, and partially offsetting net redemptions of Ksh 14.9 billion in Treasury bills (excluding repos) and Ksh 0.8 billion in long term stocks.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2009				2010										Change
	Jun	%	Dec	%	June	%	July	%	Aug	%	Sept	%	Oct	%	Jun-10 - Oct-10
Total stock of Domestic Debt (A+B)	518.5	100.0	562.9	100.0	660.3	100.0	667.8	100.0	698.0	100.0	704.7	100.0	696.1	100.0	**35.86**
A. Government Securities	511.6	98.7	577.6	102.6	640.6	97.0	650.5	97.4	673.3	96.4	682.4	96.8	674.5	96.9	**33.88**
1. Treasury Bills (excluding Repo Bills)	116.8	22.5	140.8	25.0	159.0	24.1	158.2	23.7	151.8	21.7	148.9	21.1	144.2	20.7	**-14.89**
Banking institutions	74.6	14.4	110.8	19.7	133.8	20.3	138.4	20.7	131.6	18.9	122.6	17.4	116.6	16.7	-17.24
Others	42.2	8.1	30.0	5.3	25.3	3.8	19.8	3.0	20.2	2.9	26.3	3.7	27.6	4.0	2.36
2. Treasury Bonds	360.7	69.6	402.7	71.5	448.6	67.9	459.3	68.8	488.5	70.0	501.2	71.1	498.1	71.6	**49.52**
Banking institutions	176.0	33.9	187.5	33.3	212.5	32.2	218.0	32.6	232.2	33.3	243.2	34.5	242.0	34.8	29.54
Others	184.8	35.6	215.2	38.2	236.1	35.8	241.3	36.1	256.3	36.7	258.0	36.6	256.1	36.8	19.98
3. Long term Stocks	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.0	0.0	0.0	0.0	**-0.75**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00
Others	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.0	0.0	0.0	0.0	-0.75
4. Pre-1997 Government Overdraft at CBK	33.3	6.4	33.3	5.9	32.2	4.9	32.2	4.8	32.2	4.6	32.2	4.6	32.2	4.6	**0.00**
Of which: Repo T/Bills	33.3	6.4	33.3	5.9	32.2	4.9	32.2	4.8	32.2	4.6	32.2	4.6	32.2	4.6	0.00
B. Others:	6.9	1.3	11.4	2.0	19.6	3.0	17.4	2.6	24.8	3.6	22.3	3.2	21.6	3.1	**1.98**
Of which CBK overdraft to Government	5.1	1.0	11.1	2.0	17.6	2.7	15.5	2.3	22.9	3.3	20.6	2.9	20.0	2.9	2.31

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

Treasury bills declined persistently from the beginning of the financial year 2010/11, recording a net decline of Ksh 14.9 billion at the end of October 2010 from the Ksh 159.0 billion held at the end of June 2010. (Table 7.3).Consequently, the proportion of Treasury bills in total domestic debt decreased from 24.1 percent of total domestic debt to 20.7 percent during the period. The decline was largely in commercial bank holdings of Treasury bills (from Ksh 133.8 billion to Ksh 116.6 billion). In addition, the proportion of the 364 day and 182 day Treasury bills in total Government securities declined from 8.2 percent and 14.1 percent to 6.2 percent and 11.7 percent, respectively, during the period while that of 91 day Treasury bills increased from 3.9 percent in June 2010 to 4.6 percent in October 2010 (Table 7.5).

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

	2009				2010									
Holders	June	%	Dec	%	Jun	%	Jul	%	Aug	%	Sept	%	Oct	%
Banking Institutions	74.6	63.9	110.8	78.7	134.0	84.3	138.6	87.6	131.8	86.8	122.6	82.3	116.6	80.9
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	74.6	63.9	110.8	78.7	133.8	84.1	138.4	87.5	131.6	86.7	122.6	82.3	116.6	80.8
NBFIs	0.0	0.0	0.0	0.0	0.2	0.1	0.2	0.1	0.2	0.1	0.0	0.0	0.0	0.0
Insurance Companies	17.0	14.6	11.6	8.2	8.8	5.5	8.6	5.5	6.9	4.5	6.7	4.5	6.6	4.6
Parastatals	2.3	2.0	3.3	2.4	1.9	1.2	1.3	0.8	1.1	0.7	1.1	0.7	2.6	1.8
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	7.0	6.0	7.5	5.3	4.6	2.9	4.6	2.9	4.9	3.2	5.0	3.3	5.0	3.5
Others	15.8	13.6	7.6	5.4	9.7	6.1	5.1	3.2	7.2	4.7	13.6	9.1	13.3	9.2
Total*	116.8	100.0	140.8	100.0	159.0	100.0	158.2	100.0	151.8	100.0	148.9	100.0	144.2	100.0

*** Excludes repurchase order bills**

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds outstanding increased from Ksh 448.6 billion in June 2010 to Ksh 498.1 billion in October 2010 (Table 7.4). Reflecting this increase, the percentage of Treasury bonds in total domestic debt rose from 67.9 percent in June 2010 to 71.6 percent in October 2010 (Table 7.2).

The 5-year Treasury bonds accounted for the largest proportion of outstanding Government securities during the period, equivalent to 13.5 percent in October

2010 (Table 7.5). The percentage of Treasury bonds with maturities of between 10-years and 25-years increased from 30.1 percent to 30.5 percent during the period following successful issuance of longer maturity Treasury bonds. Following the increase in outstanding Treasury bonds during the period, the average maturity profile of domestic debt (by days to maturity) stood at 5 years in September 2010 from 4 years 3months in June 2010.

By category of institutions, commercial banks held the largest share of outstanding Treasury bonds (at 48.6 percent) followed by pensions funds (18.2 percent) and insurance companies (12.3 percent) (Table 7.4)

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

	2009				2010									
Holders	June	%	Dec	%	Jun	%	Jul	%	Aug	%	Sept	%	Oct	%
Banking Institutions	176.8	49.0	188.6	46.8	215.3	48.0	220.7	48.1	234.9	48.1	246.0	49.1	244.7	49.1
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	176.0	48.8	187.5	46.6	212.5	47.4	218.0	47.5	232.2	47.5	243.2	48.5	242.0	48.6
NBFIs	0.8	0.2	1.1	0.3	2.8	0.6	2.7	0.6	2.7	0.6	2.7	0.5	2.6	0.5
Insurance Companies	38.3	10.6	48.5	12.1	54.8	12.2	57.3	12.5	62.0	12.7	62.1	12.4	61.5	12.3
Parastatals	31.4	8.7	33.6	8.4	38.2	8.5	40.4	8.8	44.6	9.1	44.2	8.8	44.1	8.9
Of which: NSSF	15.8	4.4	17.0	4.2	20.2	4.5	20.2	4.4	21.4	4.4	21.0	4.2	23.1	4.6
Building Societies	0.5	0.1	0.4	0.1	0.4	0.1	0.4	0.1	0.4	0.1	0.4	0.1	0.3	0.1
Pensions Fund	54.2	15.0	68.2	16.9	80.1	17.8	83.7	18.2	89.3	18.3	89.3	17.8	90.7	18.2
Others	59.6	16.5	63.3	15.7	59.9	13.4	56.8	12.4	57.2	11.7	59.2	11.8	56.9	11.4
Total	**360.7**	**100.0**	**402.7**	**100.0**	**448.6**	**100.0**	**459.3**	**100.0**	**488.5**	**100.0**	**501.2**	**100.0**	**498.1**	**100.0**

Source: Central Bank of Kenya

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

	2009				2010							
	June	%	Dec	%	Jun	%	Aug	%	Sept	%	Oct	%
91-Day	23.523	4.926	24.784	4.56	23.663	3.8977	28.259	4.4135	30.702	4.7801	29.709	4.6254
182-Day	93.271	19.532	87.414	16.083	85.337	14.056	81.368	12.708	76.049	11.84	74.98	11.674
364-Day	0	0	28.621	5.266	49.494	8.1523	42.169	6.586	42.169	6.5653	39.474	6.1457
1-Year	14.789	3.097	6.7271	1.2377	0	0	0	0	0	0	0	0
2-Year	45.205	9.4664	43.843	8.0667	46.577	7.672	42.924	6.7038	55.665	8.6664	55.665	8.6664
3-Year	12.798	2.6799	5.7808	1.0636	1.7808	0.2933	1.7808	0.2781	1.7808	0.2773	1.7808	0.2773
4-Year	12.914	2.7043	7.3069	1.3444	3.3837	0.5573	3.3837	0.5285	3.3837	0.5268	3.3837	0.5268
5-Year	52.787	11.054	66.698	12.272	86.582	14.261	86.582	13.522	86.582	13.48	86.582	13.48
6-Year	38.77	8.1188	37.076	6.8217	59.114	9.737	70.789	11.056	70.789	11.021	70.789	11.021
7-Year	24.154	5.0579	24.154	4.444	21.353	3.5171	30.053	4.6936	30.053	4.6789	26.957	4.197
8-Year	17.944	3.7576	17.944	3.3016	29.573	4.8712	29.573	4.6188	29.573	4.6043	29.573	4.6043
9-Year	12.615	2.6417	12.615	2.3211	17.76	2.9254	27.732	4.3312	27.732	4.3176	27.732	4.3176
10-Year	44.415	9.3008	57.038	10.494	69.09	11.38	69.09	10.79	69.09	10.757	69.09	10.757
11-Year	4.0314	0.8442	4.0314	0.7417	4.0314	0.664	4.0314	0.6296	4.0314	0.6276	4.0314	0.6276
12-Year	28.492	5.9665	47.39	8.7193	20.066	3.3052	20.066	3.1339	20.066	3.1241	20.066	3.1241
15-Year	42.303	8.8585	51.723	9.5166	61.935	10.202	61.935	9.6729	61.935	9.6426	61.935	9.6426
20-Year	9.5262	1.9948	20.361	3.7462	20.361	3.3538	20.361	3.18	20.361	3.17	20.361	3.17
25-Year					7.0082	1.1543	20.193	3.1537	20.193	3.1438	20.193	3.1438
Total	477.54	100	543.51	100	607.11	100	640.29	100	650.15	101.22	642.3	100

Source: Central Bank of Kenya

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Government securities in the three months to January 2011 will comprise Ksh 75.9 billion in Treasury bills and Ksh 13.6 billion in Treasury bonds. Treasury bills maturities in the period will include Ksh 29.7 billion, Ksh 37.0 billion and Ksh 9.2 billion in 91-days, 182-days and 364-days Treasury bills, respectively while Treasury bonds maturing during this period will comprise of Ksh 9.1 billion, Ksh 2.7 billion and Ksh 1.8 billion in the 5-year and 7 year fixed rate bonds and 3 year special bond, respectively.

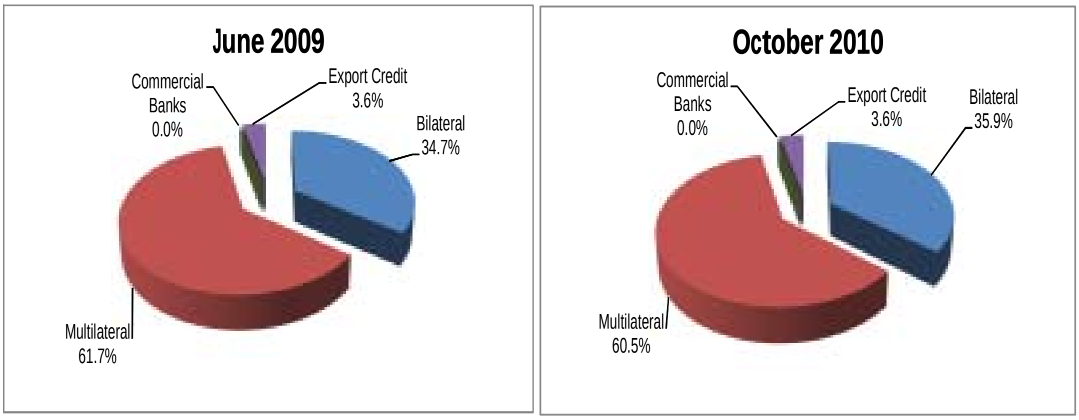
External Debt

Kenya's external debt increased by Ksh 28.1 billion from Ksh 565.5 billion (USD 6.9 billion) in June 2010 to Ksh 593.6 billion (USD 7.3 billion) in October 2010 (Table 7.1). During the first four months of the financial year 2010/11 external loans disbursements amounted to Ksh 15.9 billion the revaluation losses on debts amounted to Ksh 3.7 billion and debt repayments amounted to Ksh 10.1 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to multilateral creditors (including IMF) declined marginally from 61.7 percent to 60.5 percent, that owed to bilateral creditors increased from 34.7 percent to 35.9 percent while that is contracted through export credits remained constant at 3.6 percent, in October 2010 compared to June 2010 (Chart 7A).

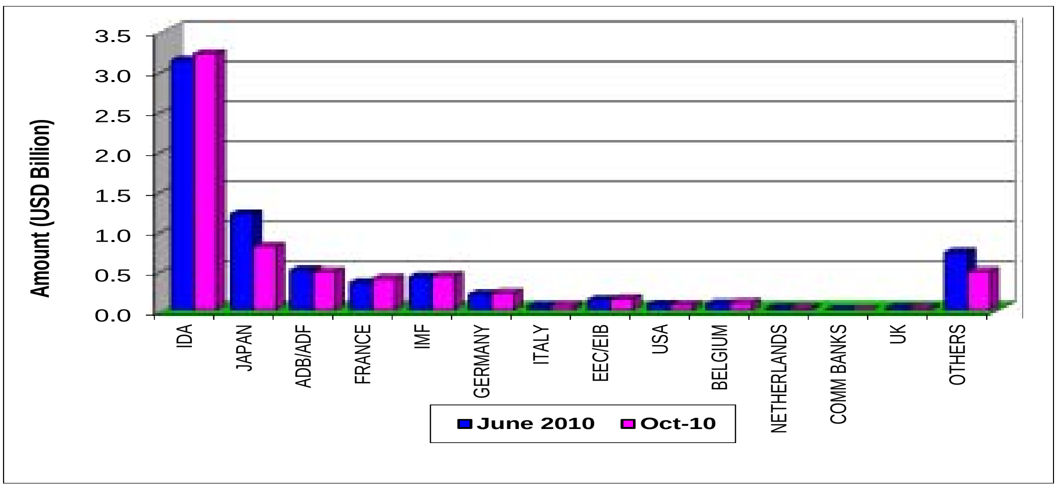
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

External debt owed to IDA increased to USD 3.2 billion in October 2010 from USD 3.1 billion in June 2010 while the debt owed to Japan declined from USD 1.2 billion in June 2010 to USD 0.8 billion in October 2010 (Chart 7B). The two remained the largest multilateral and bilateral creditors to Kenya during the period.

CHART 7B: EXTERNAL DEBT BY CREDITOR

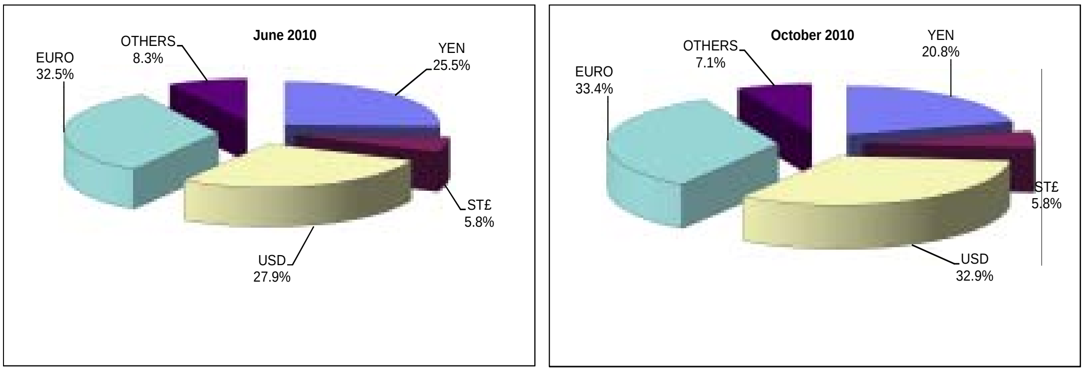


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in US dollars and Euros in October 2010 increased to 32.9 percent and 33.4 percent from 27.9 percent and 32.5 percent, respectively held in June 2010. Conversely, that held in Japanese Yen and other currencies including SDRs declined from 25.5 percent and 8.3 in June 2010 to 20.8 percent and 7.1 percent, respectively in October 2010. Holdings in Sterling Pounds remained constant at 5.8 percent during the period (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt increased from Ksh 19.6 billion in the first four months of the fiscal year 2009/10 to Ksh 21.6 billion in the first four months of the fiscal year 2010/11. The external debt service in the period comprised Ksh 6.9 billion in principal repayments and Ksh 1.6 billion in interest payments.

Outlook for the FY 2010/11

The budget estimates for 2010/11 has Government domestic borrowing projected at Ksh 105.3 billion (3.8 percent of GDP), while external borrowing is estimated at Ksh 82.7 billion (3.0 percent of GDP). However, as indicated in the Budget Strategy Paper for 2009/10 to 2012/13, gross domestic debt-to-GDP ratio is projected to increase from 24.2 percent in June 2010 to 27.1 percent in June 2011 as a percentage of GDP. Consequently, external debt-to-GDP ratio is expected to decrease from 24.3 percent to 23.2 percent during the period.

Activity in the Stock Market

Equity Market

Performance at the equities market was mixed in October 2010 as reflected by the trends in key market indicators (Table 8.1).

The number of shares traded decreased by 37.7 percent from 804.4 million in September 2010 to 500.96 million in October 2010. The NSE 20 Share Index rose by 29.8 points (0.6 percent) to close at 4,659.6 in October 2010 (Chart 8A). Increased equity and share index reflects improved prices in some actively traded counters. Equity turnover increased by Ksh 2,493 million (32.2 percent), from Ksh 7,740 million in September 2010 to Ksh 10,233 million in October 2010 The market capitalization improved by Ksh 48.15 billion (4.10 percent), from Ksh 1,173.7 billion in September 2010 to Ksh 1,221.9 billion in October 2010. Market liquidity ratio decreased by 47 basis points to 0.8 percent in October 2010 from 1.2 percent in September 2010 reflecting a decrease in the number of shares traded.

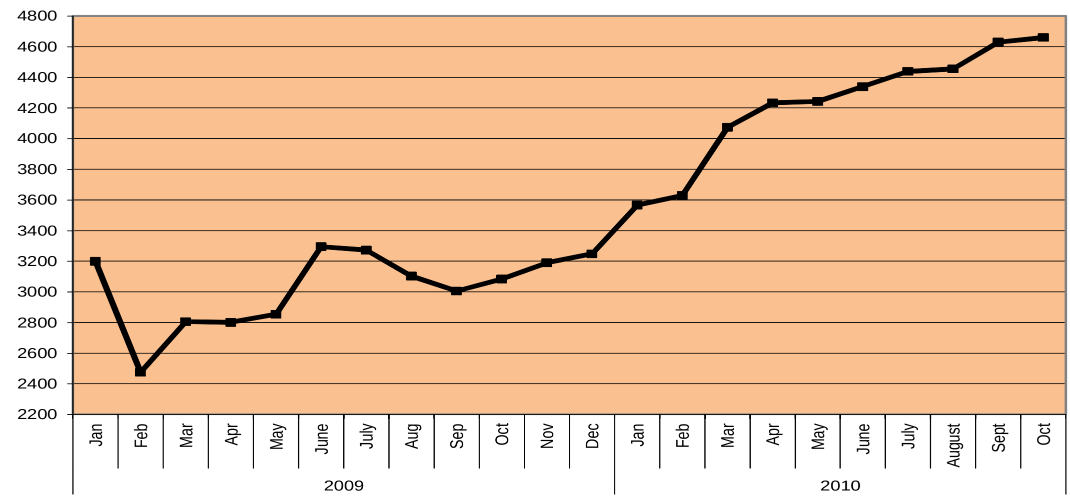
TABLE 8.1: SELECTED STOCK MARKET INDICATORS

Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
August 08	4,648.78	490.81	7,490.20	1,081.86	18,490.36
September 08	4,180.40	485.30	6,787.80	972.30	22,611.94
October-08	3,386.65	393.50	3,642.40	764.90	4,344.11
November-08	3,341.00	290.94	3,723.72	791.60	6,319.71
December-08	3,521.18	170.86	4,617.11	853.67	7,473.44
January-09	3,198.90	177.55	2,624.39	777.45	12,458.82
February-09	2,474.75	150.64	1,645.28	611.49	12,555.25
March-09	2,805.03	207.39	2,414.12	688.67	18,520.00
April-09	2,800.10	215.56	2,549.12	683.03	1,370.00
May-09	2,852.57	308.00	3,087.67	693.44	22,310.00
June-09	3,294.56	377.56	4,126.87	821.78	21,600.00
July-09	3,273.10	296.19	3,261.63	826.75	16,650.00
August-09	3,102.68	280.89	3,149.21	785.28	12,890.00
September-09	3,005.41	231.69	3,547.59	771.63	20,930.00
October-09	3,083.63	303.30	4,520.97	783.97	22,380.00
November-09	3,189.55	396.36	4,646.57	825.84	9,210.00
December-09	3,247.44	214.90	2,591.19	831.83	15,940.00
January-10	3,565.28	603.91	6,358.02	910.02	26,750.00
February-10	3,629.41	369.76	4,214.87	922.10	41,638.70
March-10	4,072.93	627.00	8,325.6	983.12	50,411.00
April-10	4,233.24	398.53	6,754.90	1,062.00	23,241.00
May-10	4,241.81	933.53	10,342.00	1,073.00	37,204.50
June-10	4,339.28	364.71	6,804.00	1,108.65	95,241.75
July-10	4,438.58	691.34	11,383.00	1,142.60	63,517.00
August-10	4,454.59	1,030.54	16,173.55	1,136.10	23,189.80
September-10	4,629.80	804.41	7,731.50	1,173.70	30,875.50
October-10	4,659.56	500.96	10,233.33	1,221.85	34,110.00

Source: Nairobi Stock Exchange

The Commercial and Services sector dominated the market and traded 254.9 million shares during the month. The most traded share in the sector was Safaricom which traded 209.9 million shares. The Finance and Investment sector traded 152 million shares, with Equity Bank being the most active trading 70.5 million shares. The Industrial and Allied sector traded 91.3 million shares with Mumias Sugar Company trading 38.4 million shares. In the agricultural sector 2.2 million shares were traded and Sasini Ltd was the most active counter trading 1.5 million shares.

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



Source: Nairobi Stock Exchange

Bond Market The bond turnover increased by 11.3 percent, with bonds worth Ksh 34,110 million traded in October 2010, compared with Ksh 30,875 million worth of bonds traded in September 2010.

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

	Oct-10	Oct-09	Oct 10/Oct 09 Movement
ASSETS	390,987	316,557	74,430
Foreign Assets	328,064	258,365	69,699
Advances and Discounts to Banks	0	1,415	(1,415)
Discounted Government Securities	29	5,027	(4,998)
Government Accounts	52,275	43,465	8,810
Government of Kenya Overdraft	19,961	9,335	10,626
Clearing Account	98	85	13
IMF funds on-lent to Government	(3)	716	(719)
Frozen Government Accounts	32,219	33,329	(1,110)
Other assets	10,619	8,285	2,334
Debtors	6,383	5,185	1,198
Retirement Benefits Assets	1,894	1,425	469
Building and Equipment	1,143	1,223	(80)
Prepaid Leases	270	274	(4)
Intangible assets	929	178	751
LIABILITIES	390,987	316,557	74,430
Foreign Liabilities	30,360	0	30,360
Currency in Circulation	136,646	115,204	21,442
Repo Securities	0	0	0
Deposits	180,374	168,642	11,732
Banks - Kenya	80,351	48,251	32,100
External	88	91	(3)
Non-Bank Financial Institutions	0	0	0
Other Public Entities and Project A/Cs	16,099	8,619	7,480
International Monetary Fund	37,084	37,230	(146)
Government of Kenya	42,575	70,762	(28,187)
Local Banks Forex Settlement Fund	4,177	3,689	488
Other Liabilities	4,911	2,307	2,604
Capital and Reserves	38,696	30,404	8,292
Capital	5,000	5,000	0
General Reserve Fund	23,103	26,805	(3,702)
Surplus b/f from previous year	10,593	0	10,593
Period's Surplus	0	(4,542)	4,542
Dividend payable	0	3,141	(3,141)

Source: Central Bank of Kenya

Notes on the Financial Positon

Assets

Foreign exchange reserves of the Bank increased by Ksh 66,699 million to Ksh 328,064 million in October 2010 from Ksh 258,365 million in October 2009 reflecting forex purchases from the interbank market.

Government accounts rose by Ksh 8,810 million to Ksh 52,275 million in October 2010 from Ksh 43,465 million in October 2009. The increase comprised largely in of Ksh 10,629 million in the outstanding overdraft which was partly of Ksh 13 million in clearing account balances due. However, the repayment of Ksh 719 million on IMF funds on-lent to government and Ksh 1,110 million of its non-interest bearing debt to Central Bank.

Other assets rose by Ksh 2,334 million in the year to October 2010 on account of an increase in retirement benefit assets of Ksh 469 million, an increase of Ksh 1,198 million in debtors and an increase of Ksh 751 million in intangible assets. This increases were partly offset by a decline of Ksh 80 million in the value of building and equipment and a decline of Ksh 4 million in prepaid leases.

Liabilites

Currency in circulation increased by Ksh 21,442 million to Ksh 136,646 million in October 2010 from Ksh 115,204 million in October 2009.

Deposits increased by Ksh 11,732 million to Ksh 180,374 million in October 2010 on account of increases of, Ksh 32,100 million in commercial banks' deposits at the Central Banks, Ksh 488 million in local banks forex settlement balances and Ksh 7,480 million in other public entities and project accounts. These increases were partly offset by a decline of Ksh 28,187 million in Government of Kenya deposits and a decline of Ksh 146 million in liquidity to the IMF deposits.

Other liabilities and provisions increased by Ksh 2,604 million to Ksh 4,911 million in the year to October 2010.