MONTHLY ECONOMIC REVIEW
SEPTEMBER 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

CONTENTS

Information in the Monthly Economic Review is provided for public information and may be reproduced with due acknowledgment. Enquiries concerning this publication should be addressed to: The Director, Research and Policy Analysis Department, Central Bank of Kenya, P. O. Box 60000-00200, Nairobi.
email: Researchstat@centralbank.go.ke

OVERVIEW

Introduction

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

Monetary Expansion

Money supply, M3, increased by 26.0 percent in the year to September 2010 compared with 14.8 percent in a corresponding period in 2009 and was slightly above the projected 25.7 percent growth rate for September 2010. The expansion in money supply in September 2010 was supported by an increase in bank lending to the private sector and government, and accumulation of net foreign assets (NFA) held by the Central Bank.

Interest Rates

The Monetary Policy Committee in its meeting of 23rd September, 2010 retained the Central Bank Rate (CBR) at the level of 6.00 percent to consolidate the gains of the prevailing monetary policy stance and to ensure that the banking sector continued to provide adequate and affordable credit. The average interbank rate declined to 1.18 percent in September 2010 from 1.66 percent in August 2010.

Real GDP Growth

The economy registered a real GDP growth of 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. Similarly, agriculture improved in 2009 despite the drought, reducing the margin of decline from 4.1 percent in 2008 to 2.6 percent in 2009. The growth momentum in the economy was sustained in the first two quarters of 2010 with growth rates equivalent to 4.8 percent (revised) and 5.4 percent in Quarter one and Quarter two, respectively.

Inflation

Over the last twelve months, overall 12-month inflation more than halved, falling from 6.7 percent in September 2009 to 3.2 percent in September 2010. The decline was largely reflected in food prices and cost of communication. Overall food inflation fell from 14.5 percent in September 2009 to 5.7 percent in September 2010, and communication's deflation increased from 1.4 percent in September 2009 to 24.6 percent in September 2010. Between August 2010 and September 2010, however, food inflation rose while communication deflation dipped further to 24.6 percent from 24.2 percent.

Government Fiscal Operations

The central Government budgetary operations in the first quarter of the fiscal year 2010/11 resulted in a deficit of Ksh 36.0 billion on a commitment basis compared with a deficit of Ksh 30.4 billion in a similar period of 2009/10. The ratio of budget deficit (on a commitment basis) to GDP increased to 1.4 percent but remained within the 2.2 percent for the first quarter of final year 2010/11.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by Ksh 68.7 billion during the first quarter of the fiscal year 2010/11 to stand at Ksh 1,294.4 billion or 51.8 percent of GDP from Ksh 1,225.7 billion or 48.1 percent of GDP in June 2010. The external debt to GDP ratio increased from 22.2 percent in June 2009 to 23.6 percent in September 2010, while the domestic debt to GDP ratio increased from 53.9 percent to 54.4 percent during the period

Balance of Payments

Kenya's overall balance of payments improved from a deficit of US$ 131 million in the year to August 2009 to a surplus of US$ 362 million in the year to August 2010. The improvement reflects a relatively narrow deficit in the current account and a complementary increase in the capital and financial account's surplus.

Exchange Rates

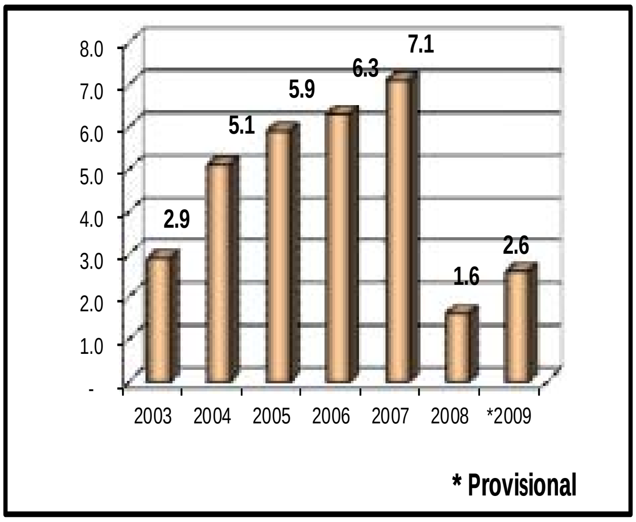
The Kenya Shilling depicted mixed performance in September 2010 against major world currencies. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 80.91 per US dollar in September 2010 compared with Ksh 80.44 per US dollar in August 2010.

Banking Sector Developments

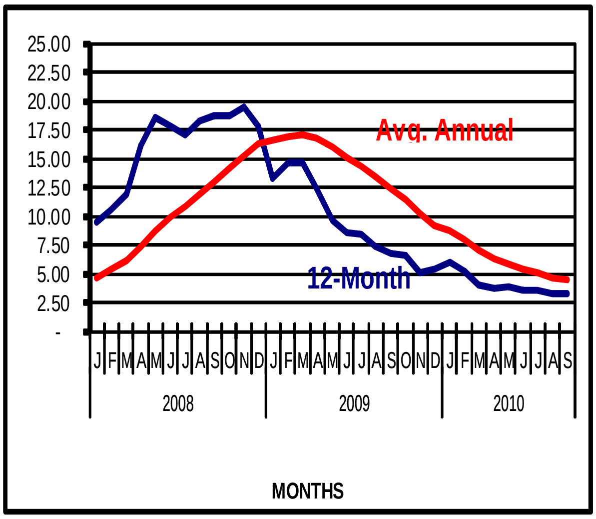
During the period ended September 30, 2010, the Kenyan Banking sector registered significant growth in assets driven by growth in deposits, injection of capital and retention of profits. The level of non-performing loans increased by 1.0 percent, while the quality of assets from 3.5 percent in the year to September 2009 to 2.5 percent in the period under review.

SELECTED ECONOMIC PERFORMANCE INDICATORS

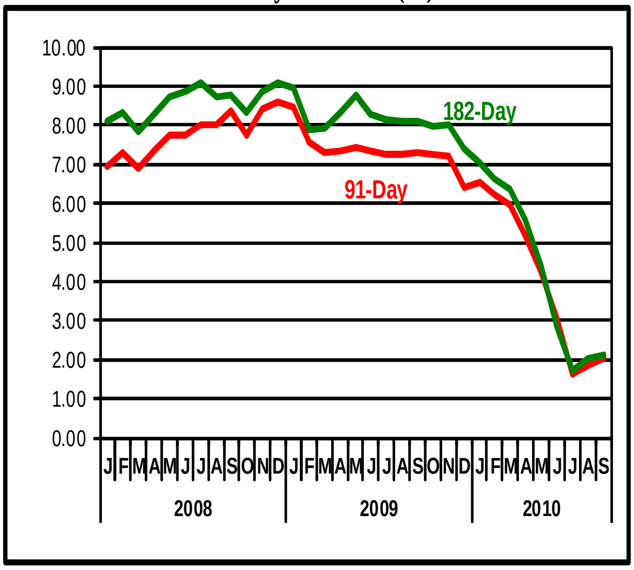
Real GDP Growth (%)



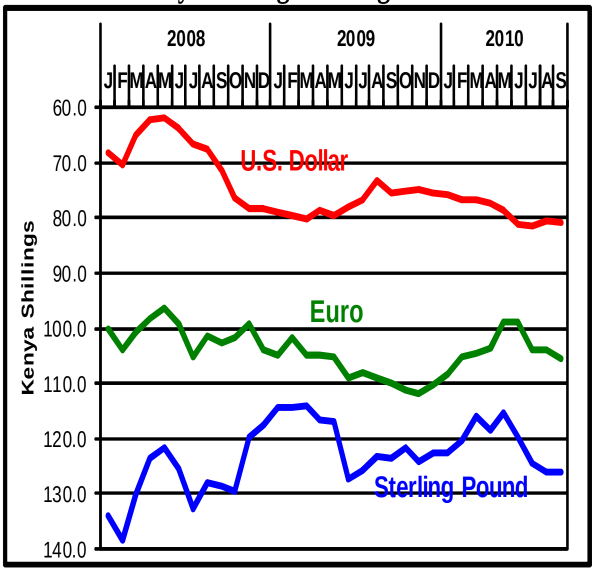
Inflation (%)



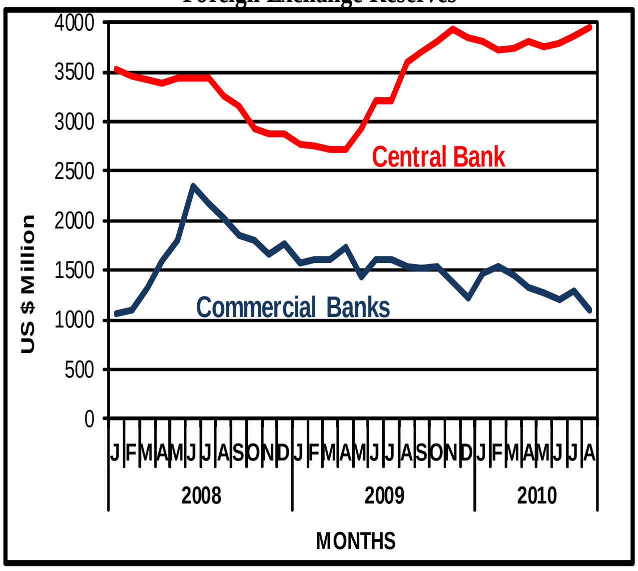
Treasury Bill Rates (%)



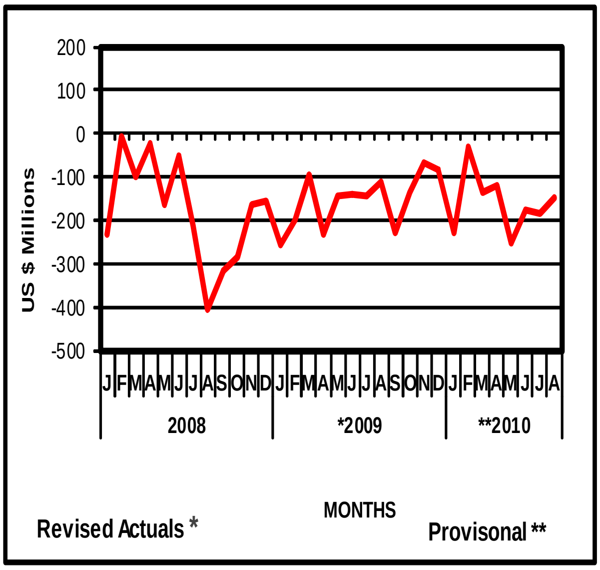
Kenya Shilling Exchange Rate



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

	2009										
INDICATOR	Aug	Sep	Oct	Nov	Dec	April	May	June	July	August	September
1. INFLATION (%)											
CPI	102.94	103.42	103.68	103.87	104.66	105.56	105.79	105.61	**106.00**	106.25	106.74
Overall Inflation											
12-month overall inflation	7.36	6.74	6.62	5.00	5.32	3.65	3.88	3.49	3.57	3.22	3.21
Average annual overall inflation	13.42	12.41	11.42	10.24	9.24	6.32	5.85	5.43	5.03	4.69	4.40
2. INTEREST RATES (%)											
91-day Treasury bill interest rate	7.25	7.29	7.26	7.22	6.82	5.17	4.21	3.06	1.63	1.83	2.04
Overdraft interest rate	13.90	13.76	14.03	14.24	14.13	14.50	14.38	14.23	14.03	13.97	13.81
3. STOCK MARKET											
Nairobi Stock Exchange Price Index	3102.68	3005.41	3083.63	3189.55	3,247.44	4,233.24	4,241.81	4,339.28	4,438.58	4,454.59	4,629.80
Turnover (%)	0.45	0.37	0.49	0.64	0.34	0.64	1.46	0.57	1.08	1.60	1.24
4. GOVERNMENT BUDGET* (Ksh bn.)											
Revenue	74.82	128.90	170.83	208.56	266.08	455.12	502.03	560.79	38.59	83.00	142.43
Expenses	98.61	159.30	210.69	246.75	296.13	561.39	644.54	718.65	35.91	112.20	178.61
Budget Deficit (-) / Surplus (+)	(23.79)	(30.40)	(39.86)	(38.18)	(30.05)	(106.26)	(142.52)	(157.86)	2.68	(29.20)	(36.19)
5. MONEY AND CREDIT (Ksh bn.)											
Liquidity (L)[1]	1,212.12	1,218.18	1,243.84	1,243.50	1,280.02	1,364.57	1,404.54	1,442.85	1,475.23	1,497.27	1,527.38
Money Supply (M3)[2]	982.85	986.90	1,006.01	1,022.30	1,045.21	1,122.79	1,159.59	1,198.93	1,213.21	1,216.83	1,243.60
Reserve Money	156.88	163.49	163.45	178.20	181.96	177.50	194.12	210.25	199.77	200.97	209.89
Total Domestic Credit	871.46	880.65	900.03	931.30	955.29	1,022.76	1,057.78	1,086.75	1,091.13	1,100.48	1,139.10
Government	183.19	187.11	192.34	216.40	205.08	241.89	261.49	277.69	264.03	258.04	278.21
Private sector and other public sector	688.27	693.54	707.69	708.70	738.27	780.87	796.29	809.06	827.10	842.45	860.89
6. MONEY AND CREDIT (Annual % Change)											
Liquidity (L)[1]	15.93	15.88	15.65	14.83	17.27	20.18	23.26	23.65	22.94	23.36	25.38
Money Supply (M3)[2]	14.96	14.85	13.87	14.80	16.00	20.88	24.88	26.17	24.61	23.66	26.01
Reserve Money	3.28	7.11	3.96	10.90	11.20	16.09	21.02	31.46	26.48	28.10	28.39
Total Domestic Credit	17.78	13.84	12.72	15.70	18.50	23.20	25.49	25.75	25.61	24.19	27.90
Government	26.09	24.80	19.62	37.00	32.00	45.01	60.87	59.71	50.00	41.17	48.69
Private and other public sector	15.75	11.21	10.98	10.50	15.50	17.72	17.04	17.20	19.41	19.78	22.37
7. BALANCE OF PAYMENTS (US$ m)											
Overall Balance	377.30	116.95	105.63	123.86	(81.81)	60.77	(50.03)	43.22	69.39	74.31	
Current Account	(111.76)	(228.05)	(136.31)	(66.51)	(84.47)	(120.10)	(251.32)	(175.16)	(183.82)	(146.92)	
Trade Balance	(419.40)	(536.04)	(589.02)	(531.44)	(642.04)	(528.62)	(599.37)	(562.08)	(575.94)	(530.91)	
Capital and Financial Account	489.06	345.00	241.95	190.37	2.66	180.87	201.29	218.38	253.20	221.23	
8. FOREIGN EXCHANGE RESERVES (US$ m)	5,125.34	5,235.15	5,346.66	5320.94	5064.03	5,124.41	5,034.35	5,009.27	5,155.32	5,046.07	
Official**	3,591.02	3,707.96	3,810.42	3934.28	3847.39	3,805.39	3,755.36	3,798.58	3,867.97	3,942.28	
Months of imports cover	3.97	4.06	4.13	4.23	4.09	3.95	3.87	3.89	3.94	4.00	
Commercial banks	1,534.33	1,527.18	1,536.24	1386.66	1216.63	1,319.02	1,279.00	1,210.69	1,287.42	1,103.79	
9. PUBLIC DEBT (US$ bn)	14.1	14.4	14.6	14.6	14.7	15.41	14.95	14.66	15.33	15.59	15.52
Domestic	7.18	7.34	7.54	7.51	7.77	8.46	8.15	8.05	8.32	8.61	8.60
As % of GDP	22.62	22.65	23.20	22.91	23.85	26.06	25.66	25.90	27.40	28.30	28.22
External	6.95	7.00	6.96	7.04	6.94	6.96	6.80	6.90	7.00	6.98	6.92
As % of GDP	21.92	21.59	21.43	21.47	21.29	21.43	21.39	22.20	23.06	22.90	22.69
10. GROSS DOMESTIC DEBT (Ksh bn)***	547.21	550.69	567.13	562.93	588.97	653.6	650.3	659.6	667.8	698.0	704.7
11. AVERAGE EXCHANGE RATE											
Ksh/US$	76.37	75.60	75.24	74.7	75.43	77.25	78.54	81.02	81.43	80.44	80.91
Ksh/Pound Sterling	126.34	123.57	121.65	124.1	122.54	118.51	115.20	119.62	124.34	125.94	125.94
Ksh/ 100 Yen	80.49	82.70	83.38	83.8	84.12	82.76	85.30	89.18	92.90	94.08	95.88
Ksh/Euro	108.83	110.01	111.25	111.7	110.27	103.71	98.80	98.99	103.90	103.79	105.61

* 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 by 250 basis points during the last twelve months, falling from 6.7 percent in September 2009 to 3.2 percent in September 2010. This decline was largely reflected in food prices and cost of communication, with the overall food inflation declining from 14.5 percent in September 2009 to 5.7 percent in September 2010, while the deflation in the communication category increased from 1.1 percent in September 2009 to 24.6 percent in September 2010. Between August 2010 and September 2010, however, food inflation rose, while communication deflation dipped even further to 24.6 percent from 24.1 percent.

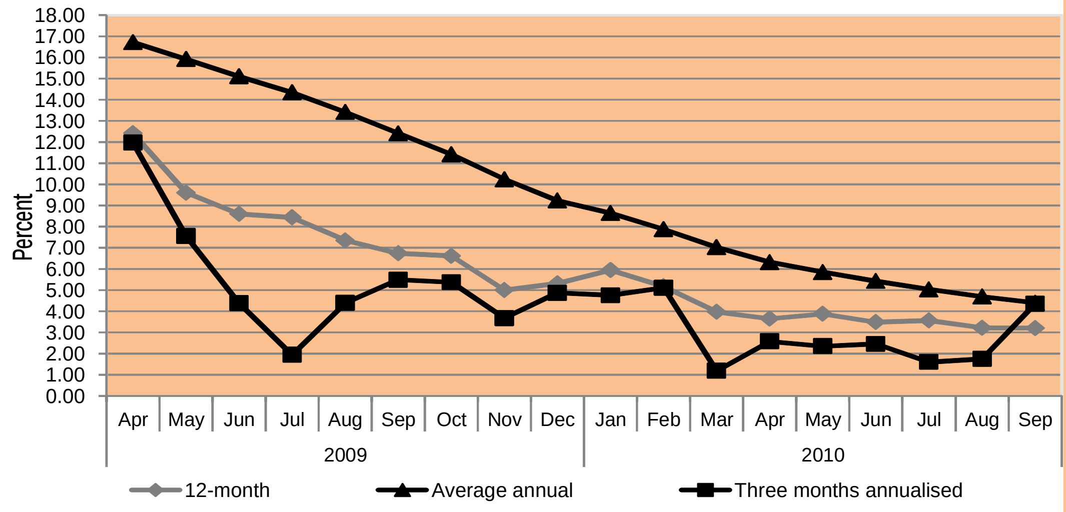
Table 1.1 and Chart 1A depict trends in overall inflation between May 2009 and September 2010.

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

Overall Inflation	2009								2010								
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
12-month	9.61	8.60	8.44	7.36	6.74	6.62	5.00	5.32	5.95	5.18	3.97	3.65	3.88	3.49	3.57	3.22	3.21
Average annual	15.93	15.11	14.35	13.42	12.41	11.42	10.24	9.24	8.64	7.88	7.03	6.32	5.85	5.43	5.03	4.69	4.40
Three months annualised	7.56	4.38	1.95	4.40	5.49	5.37	3.68	4.87	4.76	5.11	1.19	2.58	2.35	2.46	1.60	1.75	4.35

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

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



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

Inflation by Income Groups

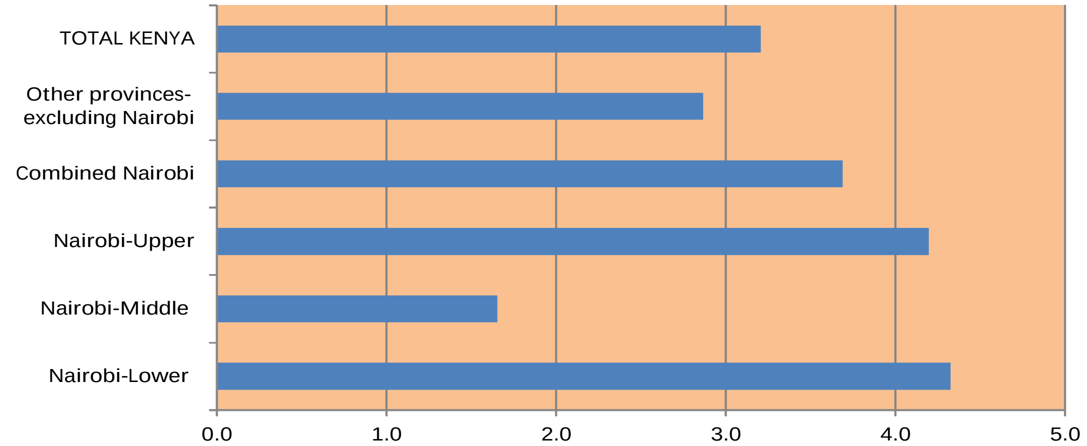
Overall inflation declined by 0.01 percent in September 2010. The decline was reflected in inflation for all income groups except "Nairobi middle" income which recorded a 0.35 basis points increase in 12-month inflation. The decline across the other groups was largely driven by the dip in the cost of communication. The 12-month inflation for the "Nairobi lower", the "Nairobi upper" and the "Rest of Kenya" income groups declined from 4.4 percent, 4.7 percent and 2.9 percent, respectively, in August 2010 to 4.3 percent, 4.2 percent and 2.87 percent, respectively, in September 2010 (Table 1.2 and Chart 1B).

TABLE 1.2: OVERALL INFLATION BY INCOME GROUPS (%)

	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10
Combined Nairobi	5.36	3.91	3.77	3.89	3.54	4.03	3.67	3.69
Lower Income	6.16	4.12	4.04	4.18	3.92	4.64	4.39	4.32
Middle Income	2.95	2.87	2.55	2.45	1.92	1.87	1.30	1.65
Upper Income	5.56	6.32	6.28	7.21	6.56	5.93	4.71	4.20
Other provinces- excluding Nairobi	5.05	4.01	3.58	3.88	3.45	3.24	2.90	2.87
TOTAL KENYA	**5.18**	**3.97**	**3.65**	**3.88**	**3.49**	**3.57**	**3.22**	**3.21**

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

Inflation across goods and services varied according to the income groups and caterogries of goods and services during the month. Food inflation increased by 5.7 percent, the second highest after alcoholic beverages tobacco and narcotics at 7.4 percent. However, food has relatively more weight in the overall CPI basket at 36.0 percent. Food inflation was highest for the "Nairobi lower" income group at 8.4 percent. The "Nairobi lower" income group also recorded the highest inflation, at 3.1 percent, in housing, water, electricity, gas and other fuel category. The communications category, with a weight of 3.8 percent in the overall CPI basket recorded high deflation of 32.8 percent and 17.2 percent for the "Nairobi lower" and "Nairobi upper" income groups, respectively. Despite the small weight of this category, the overall deflation of 24.6 percent dampened the expansionary impact of food inflation.

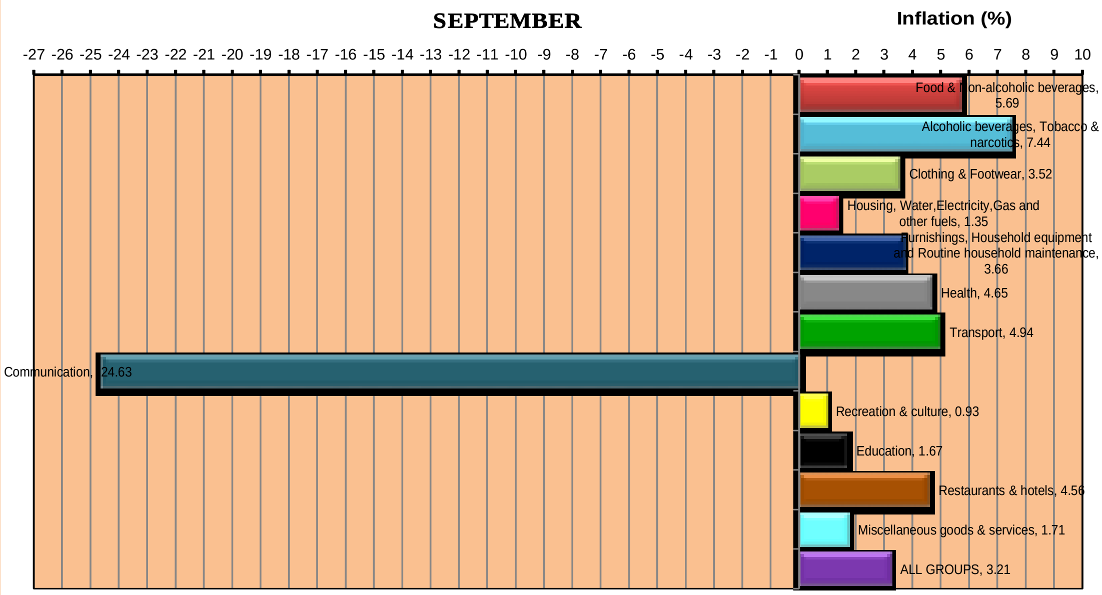
Table 1.3 and Chart 1C show inflation developments across all the categories of goods and services covered in the CPI.

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

SEPTEMBER 2010	Overall CPI Weights (%)	NAIROBI				REST OF URBAN	TOTAL KENYA
		Lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya Combined	
Food & Non-alcoholic beverages	36.0	8.4	4.4	5.0	7.3	4.5	5.7
Alcoholic beverages, Tobacco & narcotics	2.1	6.8	6.8	1.2	6.6	8.0	7.4
Clothing & Footwear	11.4	4.7	1.1	3.8	3.8	3.3	3.5
Housing, Water,Electricity,Gas and other fuels	18.3	3.1	-1.6	-0.3	1.9	1.0	1.3
Routine household maintenance	6.2	4.1	2.2	-0.1	3.5	3.8	3.7
Health	3.1	3.4	3.9	11.8	3.8	5.3	4.6
Transport	8.7	26.0	5.9	11.8	3.7	5.9	4.9
Communication	3.8	-32.8	-9.4	-17.2	-26.5	-23.3	-24.6
Recreation & culture	2.3	0.7	-1.9	8.1	0.4	1.3	0.9
Education	3.1	0.7	4.6	0.5	1.6	1.7	1.7
Restaurants & hotels	4.5	5.4	3.1	2.2	4.7	4.4	4.6
Miscellaneous goods & services	4.5	-0.2	2.9.	1.6	0.6	2.5	1.7
ALL GROUPS	100.0	4.3	1.7	4.2	3.7	2.9	3.2

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

The CPI data available indicate very negligible inflationary pressure emanating from the domestic scene. The impact of the increase in the inflation rate for the food basket has been offset by deflation in communications basket. The rise in food inflation is expected to be gradual, with no significant pressure in the next few months.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Money supply, M3[1], increased by 26.0 percent in the year to September 2010 compared with 14.8 percent in a corresponding period in 2009 and was slightly above the projected 25.7 percent growth rate for September 2010. The expansion in money supply in September 2010 was supported by bank credit to the domestic economy and net foreign assets (NFA) accumulation at the Central Bank. Broad money, M2, that is, M3 excluding foreign currency deposits, grew by 27.0 percent in September 2010 compared with 15.3 percent in September 2009 (Table 2.1 and Chart 2A).

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

	2008 Sept	2009 Sept	2010 Sept	Sep-09 12 months %age change	Sep-10 12 months %age change
1. Money supply, M3 (2+3) 2/	**859.3**	**986.9**	**1,243.6**	**14.85**	**26.01**
1.1 Money supply, M2 3/	736.3	849.2	1,078.3	15.33	26.97
1.2 Money supply, M1	385.0	433.4	536.9	12.56	23.89
1.3 Currency outside banks	85.4	87.6	104.7	2.55	19.52
2. Net foreign assets 4/	**254.1**	**255.3**	**272.7**	**0.46**	**6.82**
Central Bank	208.7	209.4	257.7	0.35	23.05
Banking Institutions	45.4	45.8	15.0	0.96	(67.30)
3. Net domestic assets (3.1+3.2)	**605.2**	**731.6**	**970.9**	**20.89**	**32.71**
3.1 Domestic credit (3.1.1+3.1.2)	**782.0**	**890.6**	**1,139.1**	**13.89**	**27.90**
3.1.1 Government (net)	149.9	187.1	278.2	24.80	48.69
3.1.2 Private sector and other public sector	632.1	703.5	860.9	11.30	22.37
3.2 Other assets net (3-3.1)	**(176.8)**	**(159.0)**	**(168.2)**	**(10.06)**	**5.78**
Memorandum items					
1. Overall liquidity, L 1/	1,051.2	1,218.2	1,527.4	**15.88**	**25.38**
2. Reserve money	152.6	163.5	209.9	**7.11**	**28.39**
Currency outside banks	85.4	87.6	104.7	2.55	19.52
Bank reserves	**67.2**	**75.9**	**105.2**	12.92	38.63

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.

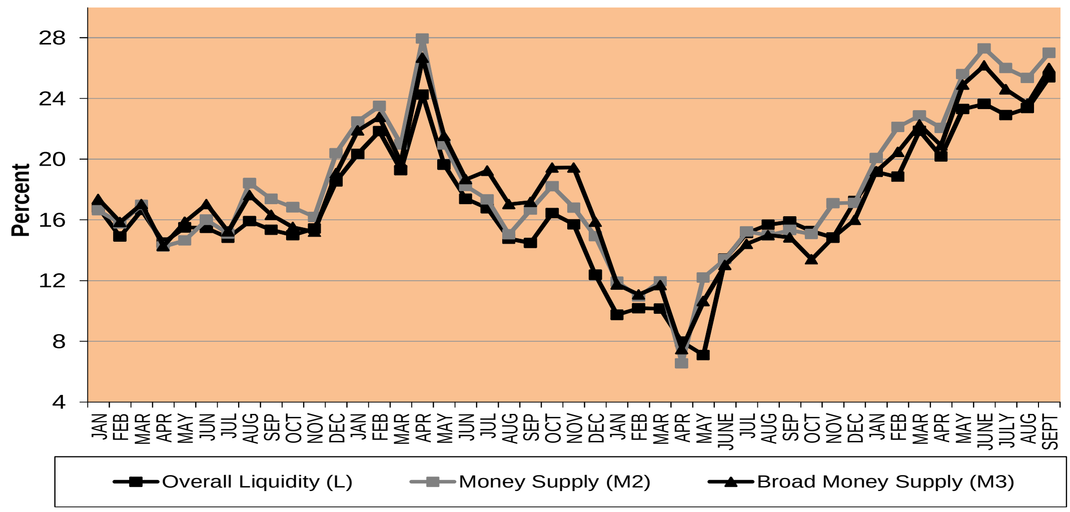
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications.

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.

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

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

Supporting the M3 growth, domestic credit from the bankig system increased by 27.9 percent, twice the increase in previous years (Table 2.1). The NFA of the banking system grew by 6.8 percent in the twelve months to September 2010 compared with a growth of 0.5 percent in a corresponding period in 2009. The increase in the current period reflected holdings of the Central Bank.

TABLE 2.2: BANKING SYSTEM NET DOMESTIC CREDIT (Ksh Billion)

	2009 September		2010 September		Annual %age Change September	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2008/09	2009/10
1. Credit to Government	187.1	21.0	278.2	24.4	24.8	48.7
Central Bank	-18.1	-2.0	-0.6	-0.1	19.7	-96.4
Commercial Banks & NBFIs	205.2	23.0	278.9	24.5	24.3	35.9
2. Credit to other public sector	17.7	2.0	17.9	1.6	44.6	1.5
Local government	-1.5	-0.2	-2.2	-0.2	336.1	48.5
Parastatals	19.1	2.1	20.1	1.8	52.4	5.1
3. Credit to private sector	685.8	77.0	842.9	74.0	10.6	22.9
Agriculture	36.9	4.1	40.5	3.6	37.8	9.8
Manufacturing	88.2	9.9	109.7	9.6	4.6	24.4
Trade	108.5	12.2	139.9	12.3	51.3	29.0
Building and construction	37.9	4.3	31.7	2.8	4.0	-16.3
Transport & communications	58.8	6.6	60.0	5.3	17.9	2.1
Finance & insurance	18.6	2.1	21.3	1.9	-32.5	14.8
Real estate	46.4	5.2	93.0	8.2	57.5	100.4
Mining and quarrying	5.5	0.6	16.1	1.4	19.0	193.9
Private households	102.7	11.5	117.1	10.3	-10.9	14.0
Consumer durables	45.0	5.0	52.5	4.6	41.3	16.9
Business services	71.0	8.0	83.5	7.3	0.6	17.7
Other activities	66.5	7.5	77.5	6.8	-7.0	16.6
4. TOTAL (1+2+3) *	890.6	100.0	1139.1	100.0	13.9	27.9

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

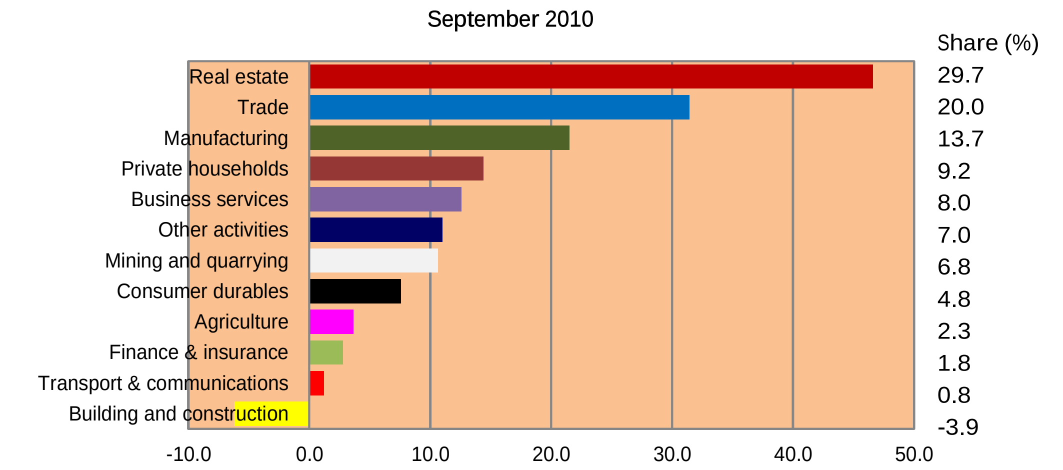
Source: Central Bank of Kenya

Domestic Credit Developments

Domestic credit grew by 27.9 percent in the year to September 2010 compared with 13.9 percent in a similar period in 2009, while credit to Government increased to 48.7 percent in the year to September 2010 compared with a growth of 24.8 percent in a corresponding period in 2009 (Table 2.2.). Credit extended to the private sector increased from 10.6 percent in the year to September 2009 to 22.9 percent in the year to September 2010.

Increased bank credit to private sector was channeled to real estate (29.7 percent), trade (20.0 percent), manufacturing (13.7 percent), private households (9.2 percent), business services (8.0 percent) , mining and quarrying (6.8 percent), consumer durables (4.8 percent), agriculture (2.3 percent) and finance and insurance (1.8 percent) (Chart 2B).

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



Source: Central Bank of Kenya

Reserve Money

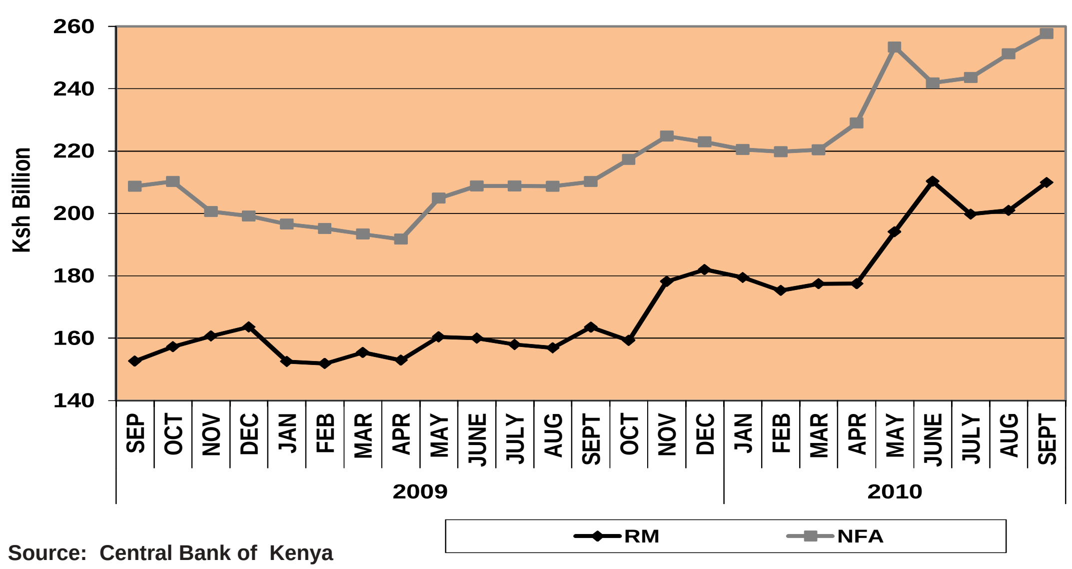
Reserve money increased by 28.4 percent to Ksh 209.9 billion in September 2010 from Ksh 163.5 billion in September 2009 (Table 2.3). The increase in reserve money reflected 38.6 percent growth in bank reserves and 19.5 percent increase in currency outside banks. At Ksh 209.9 billion in September 2010, reserve money was Ksh 23.5 billion above target.

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

	2008 Sept	2009 Sept	2010 Sept	Change (%) 2008/09	Change (%) 2009/10	2010 Sept Target	Deviation
1. Net Foreign Assets	208.7	209.4	257.7	0.3	23.0	254.0	3.7
2. Net Domestic Assets	-56.1	-46.0	-47.8	-18.1	4.0	-67.6	19.8
2.1 Government Borrowing (net)	-15.1	-18.1	-0.6	19.7	-96.4	-19.6	18.9
2.2 Advances & Discounts	2.4	3.6	2.9	47.7	-18.1	2.3	0.7
2.3 Other Domestic Assets (net)	-43.4	-31.4	-50.1	-27.6	59.5	-50.3	0.2
3. Reserve Money	152.6	163.5	209.9	7.1	28.4	186.4	23.5
3.1 Currency outside banks	85.4	87.6	104.7	2.5	19.5	102.2	2.5
3.2 Bank reserves	67.2	75.9	105.2	12.9	38.6	84.2	21.0

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The reserve money growth in the year to September 2010 was supported by increases in NFA of the Central Bank which rose by 23.0 percent to Ksh 257.7 billion in the year to September 2010, reflecting interbank purchases of foreign exchange to boost the level of gross reserves.

The NDA of the Central Bank increased to Ksh -47.8 billion in the year to September 2010, up from Ksh -46.0 billion in the previous year. Among the components of the NDA, the Government's net position improved from Ksh -18.1 billion deposits in September 2009 to Ksh -0.6 billion deposits, advances and discounts to commercial banks reduced to Ksh 2.9 billion in September 2010. Other domestic assets net of other liabilities (ODA) increased by 59.5 percent from Ksh -31.4 billion in September 2009 to Ksh -50.1 billion in September 2010.

The Central Bank Rate

The Monetary Policy Committee in its meeting of 23rd September, 2010 retained the Central Bank Rate (CBR) at 6.00 percent, to consolidate the gains of the prevailing monetary policy stance and to ensure that the banking sector continued to provide adequate and affordable credit. The CBR had previously been lowered in July 2010 to 6.00 percent from 6.75 percent in March 2010.

Interbank Interest Rate

The average interbank rate declined to 1.18 percent in September 2010 from 1.66 percent in August 2010 (Table 2.4). The 91-day Treasury bill rate increased to 2.04 percent in September 2010 from 1.83 percent in August 2010.

Lending and Deposit Rates

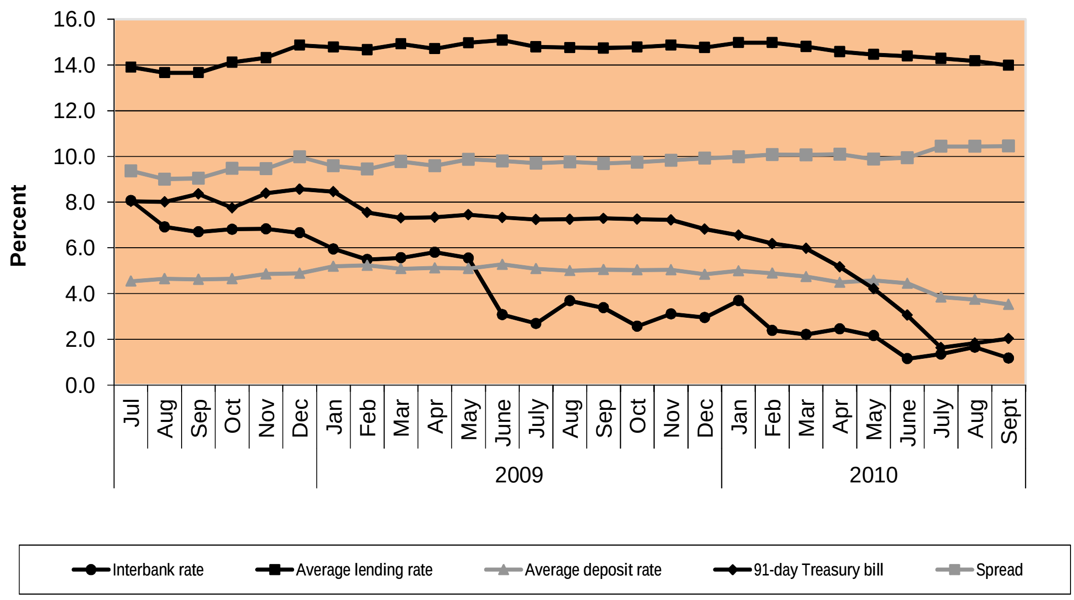
Commercial banks average lending rates declined to 13.98 percent in September 2010 from 14.18 percent in August 2010. The average deposit rate declined from 3.74 percent in August 2010 to 3.53 percent in September 2010. The interest rate spread stabilised at 10.45 percent for the third consecutive month in September 2010.

TABLE 2.4: INTEREST RATES (%)

	2009						2010				
	July	Aug	Sept	Oct	Nov	Dec	May	June	July	Aug	Sept
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
Overdraft rate	13.94	13.90	13.76	14.03	14.24	14.13	14.38	14.23	14.03	13.97	13.81
Interbank rate	2.69	3.68	3.38	2.57	3.11	2.95	2.16	1.15	1.35	1.66	1.18
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
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
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
Savings deposits	1.67	1.65	1.65	1.85	1.71	1.73	1.76	1.75	1.55	1.50	1.47
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**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

Performance of The Real Sector

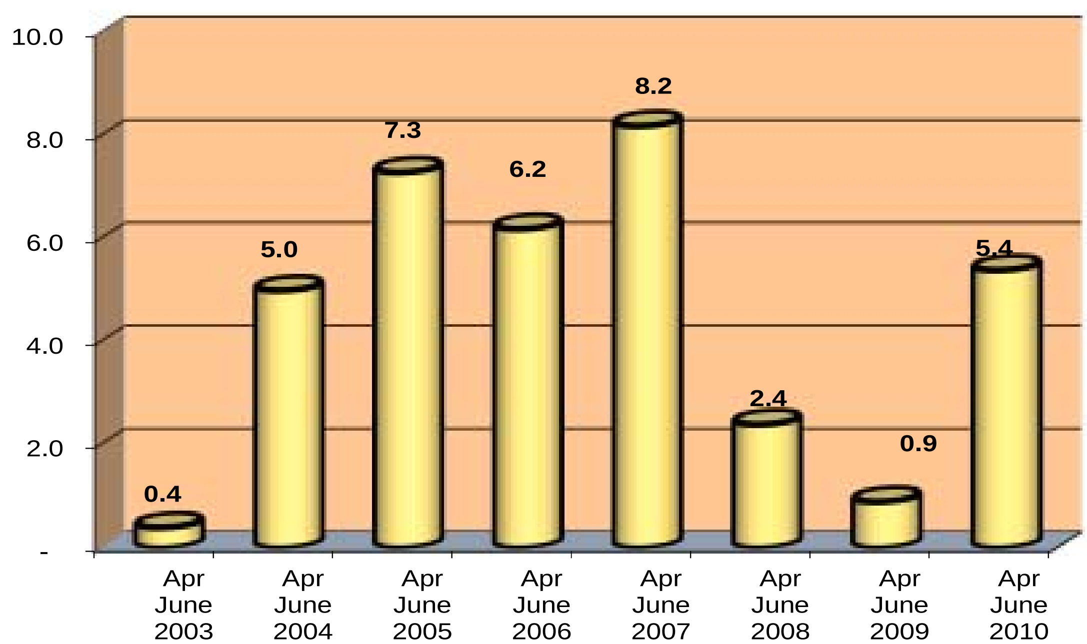
Overview

Real GDP for the year 2009 amounted to Ksh 1.39 trillion and was 2.6 percent above the output of Ksh 1.35 trillion recorded 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. The performance of agriculture, which was the major contributor to GDP in 2009 at 24.4 percent, improved from a decline of 4.1 percent in 2008 to a smaller decline of 2.6 percent in 2009, the persistent drought experienced in 2009 notwithstanding. The services sector, therefore, continued to drive economic growth in 2009 with tourism recording the highest growth rate as indicated above.

The pace of economic expansion was sustained in the first six months of 2010, with a revised actual growth rate of 4.8 percent for the first quarter followed by a 5.4 percent growth in the second quarter. The increase in output was attributed to, among other factors, the rainfall experienced towards the end of 2009, and early 2010, which impacted positively on agriculture and electricity generation. The revised GDP figures indicate growth rates of 6.5 and 5.8 percent, respectively in agriculture for the first and second quarters of 2010, compared with declines of -1.4 and 4.4 percent in the first two 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. The economy is projected to grow between 4.5 - 5.0 percent in 2010.

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 second quarter of 2009. This was attributed to good weather across the country at the end of 2009 and early 2010. Despite the overall increase in agricultural output, the sector still recorded mixed performance between January and August 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 - Aug 2009	Jan-Aug 2010
Tea				
Output (Metric tonnes)	345,818.00	314,193.89	182,024.94	260,590.46
Growth (%)	*-6.44%*	*-9.14%*	*-11.69%*	*43.16%*
Horticulture				
Output (Metric tonnes)	253,730.57	248,162.54	173,073.30	182,976.65
Growth (%)	*-2.72%*	*-2.19%*	*-3.11%*	*5.72%*
Coffee				
Output (Metric tonnes)	38,705.00	48,933.00	41,936.00	28,202.00
Growth (%)	*-25.95%*	*26.43%*	*55.07%*	*-32.75%*
Sugar Cane				
Output (Metric tonnes)	4,979,470.28	5,610,702.00	3,698,593.00	3,670,376.00
Growth (%)	*-4.32%*	*12.68%*	*14.73%*	*-0.76%*

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

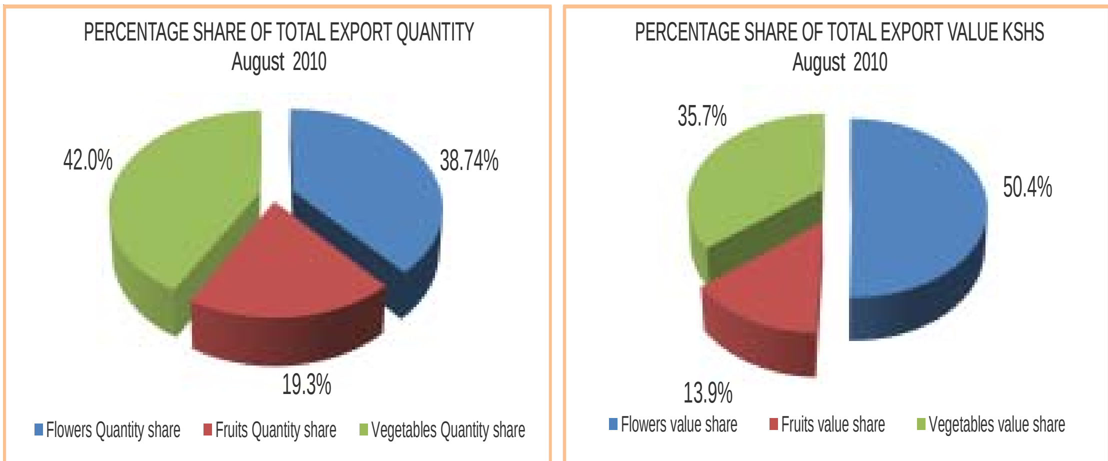
Tea

Tea production continued to out-perform all other agricultural 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. Production for the period January – August 2010 amounted to 260,590.5 metric tonnes compared with 182,024.9 metric tonnes produced in the same period of 2009, an increase of 43.2 percent. The tea production during the period was attributed 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 August 2010, however, international tea prices fell to US$ 2.7 per kilogram from US$ 3.0 per kilogram in August 2009.

Horticulture

Horticultural exports picked up in May, June and July 2010 after declining in April 2010 following flight cancellations due to the volcanic erruption 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 economic recession. Production for the period January to August 2010 amounted to 182,976.7 metric tonnes, equivalent to an increase of 5.7 percent from 173,073.3 metric tonnes produced between January and August 2009. Similarly, the value of horticultural exports increased by Ksh 1.3 billion from Ksh 35.2 billion in January – August 2009 to Ksh 36.5 billion in January – August 2010 following increased exports during the year. Compared with August 2009, vegetable, flower and fruit export volumes grew respectively by 34.2, 7.5 and 8.0 percent in the year to August 2010, while the total volume of horticultural produce grew by 17.4 percent. 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 eight months to August 2010 amounted to 28,202 metric tonnes compared with 41,936 metric tonnes in the first eight months of 2009. The 32.8 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 August 2010, coffee prices almost doubled the previous year's levels, reaching an all time high of US $ 6.63 per kilogram compared with US $ 3.39 per kilogram in August 2009, which partly offset the impact of the lower output.

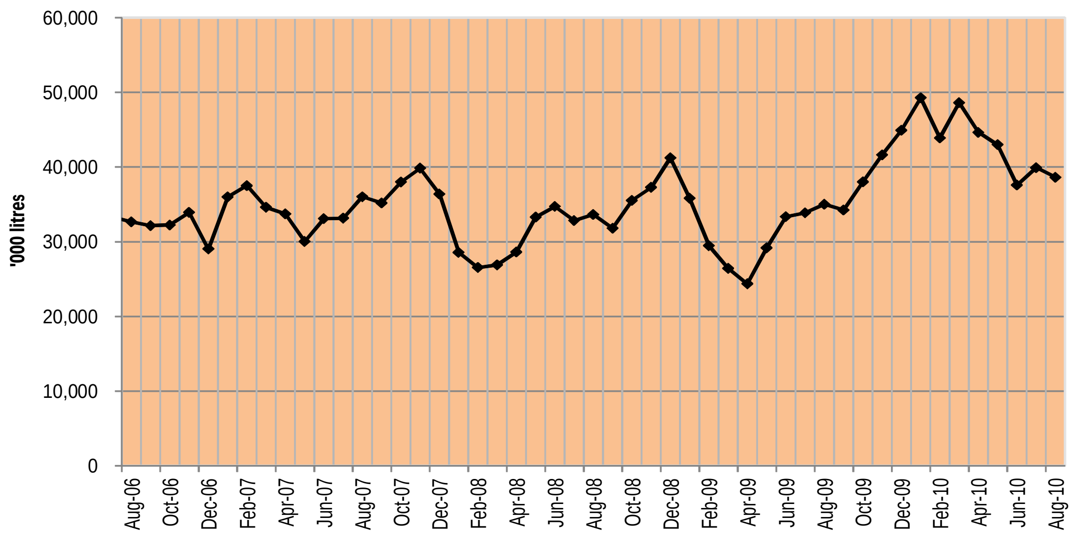
Sugarcane

Sugarcane deliveries declined by 28,217 metric tonnes in the period January -August 2010 compared with the same period of 2009. The 0.8 percent decline was due to reduced cane deliveries in the Muhoroni, Mumias, South Nyanza and Sony ugar zones in August 2010 compared with cane delivered in August 2009.

Dairy

The dairy sector continued to out-perform all the other sampled sectors in 2010, with a 39.6 percent growth for the period January –August 2010, compared with a 1.0 percent growth for the same period the previous year. Growth in 2010 was propelled by the glut experienced earlier in the year. Total milk intake for the first eight months of 2010 amounted to 345.5 million litres compared with a total output of 247.5 million litres over a similar period in 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, down from 9.8 percent in 2008. An analysis 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 – August 2010 selected manufactured commodities experienced mixed performance compared with a similar period in 2009. The volume of processed milk grew by 39.6 percent, while that of processed sugar declined by 9.8 percent.

Cement production for the period January to August 2010 amounted to 2.4 million metric tonnes, a 8.9 percent growth compared with a production of 2.2 million metric tonnes in a similar period in 2009. The industry has maintained a fairly stable growth rate over the years with the highest monthly production, amounting to 320,058.0 metric tonnes in August 2010 (Table 3.3 and Chart D). The expansion of the industry over the last year was due to new entrants and increased economic activity.

Total beer production rose by 4.3 percent, during the period January – August 2010 from 269.7 million litres produced between January and August 2009 to 281.3 million litres. Similarly, cigarette production rose by 0.5 percent, to 9.5 million milles during the first eight months of 2010. Soda ash mined in the first eight months of 2010 amounted to 292,493.0 metric tonnes, or 8.4 percent above the cumulative output of 269,923.0 metric tonnes mined in a similar period of 2009.

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE			
	2008	2009	Jan-Aug 2009	Jan-Aug 2010
Processed sugar				
Output (MT)	512,192.3	548,207.0	363,250.0	327,713.3
Growth %	*-1.6%*	*7.0%*	*9.9%*	*-9.8%*
Cement production				
Output (MT)	2,828,799.0	3,320,282.0	2,162,463.0	2,353,878.0
Output Growth %	11.1%	17.4%	18.6%	8.9%
Soda ash				
Output (MT)	513,415.0	404,904.0	269,923.0	292,493.0
Growth %	*32.8%*	*-21.1%*	*-17.9%*	*8.4%*
Milk				
Output ('000 litres)	390,963.0	406,276.5	247,469.7	345,542.5
Growth %	*-7.6%*	*3.9%*	*1.0%*	*39.6%*
Beer				
Output ('000 litres)	426,733.3	421,208.4	269,677.9	281,309.0
Growth %	*12.5%*	*-1.3%*	*-0.3%*	*4.3%*
Cigarettes				
Output (Milles)	14,786,407	14,000,486	9,425,208	9,473,324
Growth %	*-4.5%*	*-5.3%*	*-2.6%*	*0.5%*

MT = Metric tonnes

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

Energy Sector

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 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 13.4 percent in the year to August 2010 compared with a similar period in 2009. Hydro-power generation increased by 23.9 percent, from 1,599.5 million kilowatt hours in the period January to August 2009, to 1,981.1 million kilowatt hours produced during the same period in 2010. Thermal power production that complements hydro power production increased by 12.3 percent during the period. Geo-thermal power production, however, declined by 2.5 percent (Table 3.4) as hydro-power generation picked up. During the year to August 2010, electricity consumption increased by 10.7 percent to 3,897.3 million Kilowatt hours, from 3,520.2 million Kilowatt hours consumed during a similar period in 2009.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE			
	2008	2009	Jan-Aug 2009	Jan-Aug 2010
Electricity Supply (Generation)				
Output (KWH Millions)	5,694.1	5,331.5	3,599.8	4,082.3
Growth %	*-9.4%*	*-6.4%*	*-6.0%*	*13.4%*
Of which:				
Hydro-power Generation (KWH Millions)	3,240.4	2,105.4	1,599.5	1,981.1
Growth (%)	*-9.6%*	*-35.0%*	*-27.3%*	*23.9%*
Geo-Thermal Generation (KWH Millions)	1,038.8	1,478.1	973.5	948.8
Growth (%)	*4.8%*	*42.3%*	*42.6%*	*-2.5%*
Thermal (KWH Millions)	1,414.9	1,747.0	1,026.9	1,153.5
Growth (%)	*-17.4%*	*23.5%*	*8.6%*	*12.3%*
Consumption of electricity (KWH Millions)	5,286.4	5,320.9	3,520.2	3,897.3
Growth %	*3.1%*	*0.7%*	*0.0%*	*10.7%*
Consumption of Fuels (Metric Tonnes)	2,860.3	3,190.0	2,076.6	2,064.5
Growth %	*-8.4%*	*11.5%*	*8.5%*	*-0.6%*
Murban crude oil average price (US $ per barrel)	97.9	62.6	57.3	68.3
Growth %	*35.0%*	*-36.0%*	*-49.8%*	*19.2%*

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. This 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. Of the total arrivals during the period, 339,229 visitors, equivalent to 48.4 percent came from Europe. Other source regions including Africa, America, Asia, and the Oceanic regions accounted for 23.2 percent, 13.7 percent, 12.8 percent and 1.8 percent, respectively. There were, however, no cruise arrivals for the period under review following cancellations due to fear of pirate kidnappings off the Kenyan coast (Table 3.5 and 3.6). Revised cumulative tourism earnings for January – August 2010 increased by 28.3 percent to US$ 443.2 million from US$ 345.4 million received during 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 the growth over a similar period in 2009 by over 89,508 visitors. Arrivals from Asia grew by 28.3 percent from 70,023 visitors to 89,858 visitors, while those from Europe grew 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

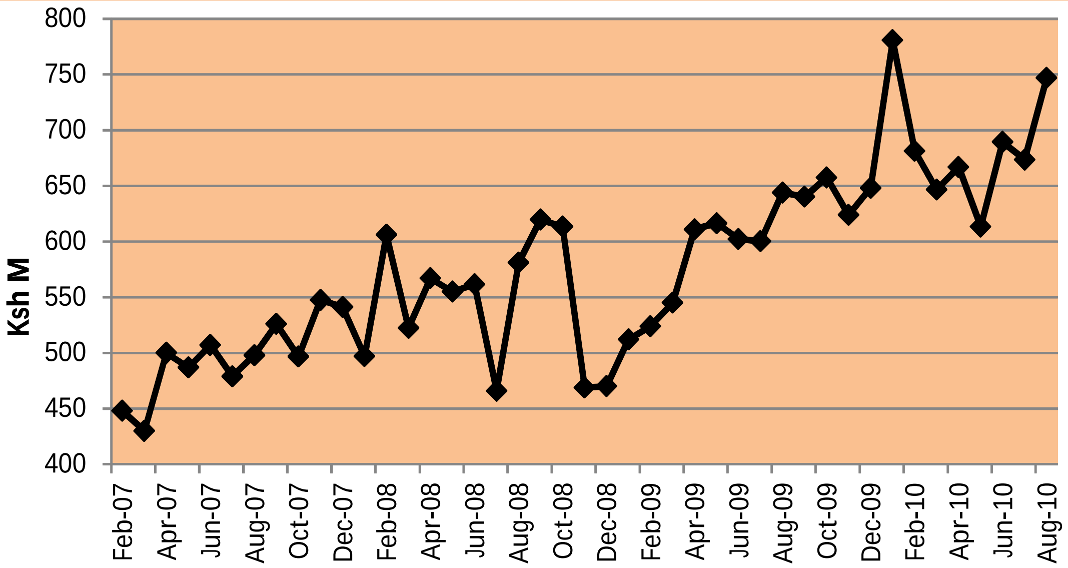
REGION	2008	2009	Jan-August 2009	Jan-August 2010	Jan - August 2010 % Share	Jan-August 2010 % Growth
Africa	207,770	228,827	144,775	162,982	23.2%	12.6%
America	97,771	128,658	88,210	96,211	13.7%	9.1%
Asia	94,496	108,524	70,023	89,858	12.8%	28.3%
Europe	308,123	456,427	285,994	339,229	48.4%	18.6%
Oceanic	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 transport and telecommunications sector has performed well in the recent past, growing by 10.2 percent in the fourth quarter of 2009 from 6.9 percent in 2008. The sector grew by 2.1 percent in the second quarter of 2010, but recorded mixed performance across activities during the first eight months of 2010. In the telecommunication subsector, excise duty on airtime rose by 18.1 percent in January-August 2010, from Ksh 4.7 billion between January and August 2009, to Ksh 5.5 billion. During the review period, the total number of passengers embarking and disembarking at JKIA grew by 9.8 and 1.3 percent, respectively. The volume of cargo throughput handled by Kenya Ports Authority (KPA) at the port of Mombasa declined marginally by 1.8 percent from 12.3 million metric tonnes to 12.0 million metric tonnes. This cargo throughput comprised 85.5 percent imports, 13.7 percent exports and 0.8 percent transit shipments. Similarly, cargo transported via Kenya Pipeline Company (KPC) for the same period declined by 1.5 percent to 2.77 billion litres from 2.81billion litres transported between January and August 2009.

CHART 3D: EXCISE TAX ON AIRTIME



Source: Kenya Revenue Authority

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	CUMULATIVE 2008	2009	Jan-Aug 2009	Jan-Aug 2010
Mombasa Port Cargo Throughput				
Output (MT) Equivalent	16,414,729	19,061,631	12,254,232	12,030,816.162*
Output Growth %	*2.8%*	*16.1%*	*16.0%*	*-1.8%*
Number of passengers Thro' JKIA				
Incoming	1,468,814	1,291,278	867,549	952,654
Growth (%)	*-0.7%*	*-12.1%*	*-8.2%*	*9.8%*
Outgoing	1,476,851	1,334,482	909,731	921,916
Growth %	*-0.3%*	*-9.6%*	*-4.7%*	*1.3%*
Kenya Pipeline oil Throughput				
Output ('000 litres)	3,859,481	4,323,370	2,814,777	2,773,634
Output Growth %	*-2.6%*	*12.0%*	*10.0%*	*-1.5%*
Kenya Revenue Authority (Excise tax on airtime)				
Kshs million	6,528	7,225	4,655	5,499
Output Growth %	*9.5%*	*10.7%*	*6.9%*	*18.1%*

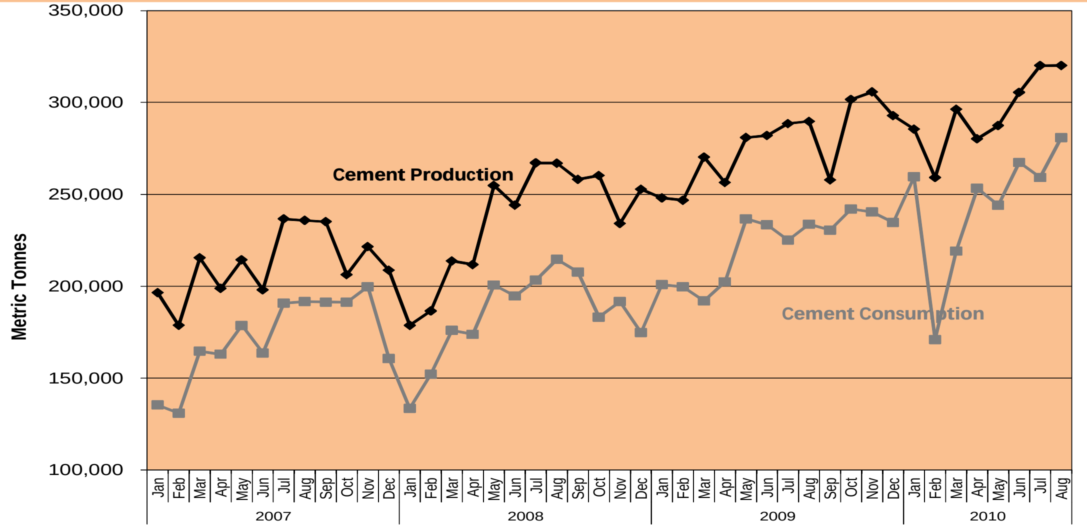
MT = Metric tonnes
* Provisional

Source: Kenya Ports Authority and Kenya Pipeline Company Ltd.

Building & Construction Industry

Cement consumption rose by 13.4 percent from 1.7 million metric tonnes in January-August 2009 to 2.0 million metric tonnes in January-August 2010, reflecting increased economic activity.

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

Developments in the Balance of Payments and Exchange Rates

Overview

Kenya's overall balance of payments improved from a deficit of US$ 131 million in the year to August 2009 to a surplus of US$ 362 million in the year to August 2010 (Table 4.1 and 4.2). The improvement reflects a relatively narrow deficit in the current account and a complementary increase in the capital and financial account surplus. Kenya's balance of payments outcome reflected the fragile recovery of the global economy (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Aug 2009*	Year to August 2010* Q1 Sep-Nov	Q2 Dec-Feb	Q3 Mar-May	Q4 Jun-Aug	Year to Aug 2010*	Absolute Change
1. OVERALL BALANCE	131	346	-205	33	187	362	***231***
2. CURRENT ACCOUNT	-1966	-431	-345	-505	-506	-1787	***179***
2.1 Goods	-5842	-1656	-1529	-1654	-1669	-6509	*-667*
Exports (fob)	4520	1171	1243	1280	1206	4900	*380*
Imports (cif)	10362	2828	2772	2934	2875	11408	*1047*
2.2 Services	3876	1226	1184	1149	1163	4722	*846*
Non-factor services (net)	1801	640	652	599	631	2521	*721*
Income (net)	-72	-30	2	53	45	69	*141*
Current Transfers	2147	616	530	497	488	2131	*-16*
3. CAPITAL & FINANCIAL ACCOUNT	2097	777	140	538	693	2149	***52***
3.1 Capital Tranfers (net)	249	32	78	35	14	159	*-91*
3.2 Financial Account	1848	745	63	504	678	1990	*142*
memo:							
Gross Reserves	5125	5321	5254	5034	5046	5046	***-79***
Official	3591	3934	3723	3755	3942	3942	*351*
*imports cover***	*3.8*	*4.2*	*3.9*	*3.8*	*3.8*	*3.8*	*-0.0*
*imports cover****	*4.0*	*4.2*	*3.9*	*3.9*	*4.0*	*4.0*	*0.0*
Commercial Banks	1534	1387	1532	1279	1104	1104	*-431*

* 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$ 1,966 million in the year to August 2009 to US$ 1,787 million in the year to August 2010. This mainly reflects a 21.8 percent or US$ 846 million improvement in the services account surplus. The improvement in the services account mainly reflect increased net receipts on non-factor services due to improved earnings from tourism and transportation services (Table 4.2).

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

ITEM	Year to Aug 2009*	Year to August 2010* Q1 Sep-Nov	Q2 Dec-Feb	Q3 Mar-May	Q4 Jun-Aug	Year to Aug 2010*	Absolute Change
2. CURRENT ACCOUNT	-1966	-431	-345	-505	-506	-1787	***179***
2.1 Goods	-5842	-1656	-1529	-1654	-1669	-6509	*-667*
Exports (fob)	4520	1171	1243	1280	1206	4900	*380*
Coffee	193	40	35	62	56	193	*-0*
Tea	842	256	323	297	282	1158	*316*
Horticulture	673	170	190	186	163	709	*37*
Oil products	91	32	22	22	34	110	*20*
Manufactured Goods	525	143	139	149	159	589	*64*
Raw Materials	223	45	71	60	39	214	*-8*
Re-exports	308	65	72	78	67	282	*-26*
Other	1666	421	390	426	407	1644	*-22*
Imports (cif)	10362	2828	2772	2934	2875	11408	*1047*
Oil	2142	651	623	810	563	2647	*506*
Chemicals	1363	340	352	402	403	1497	*135*
Manufactured Goods	1417	424	395	429	453	1701	*284*
Machinery & Transport Equipment	3043	828	809	777	959	3373	*329*
Other	2397	584	594	517	496	2190	*-207*
2.2 Services	3876	1226	1184	1149	1163	4722	*846*
Non-factor services (net)	1801	640	652	599	631	2521	*721*
of which tourism	641	227	175	157	185	743	*102*
Income (net)	-72	-30	2	53	45	69	*141*
of which official interest	-96	-18	-22	-18	-13	-72	*24*
Current Transfers	2147	616	530	497	488	2131	*-16*
Private (net)	1869	537	507	502	492	2038	*169*
Public (net)	278	79	23	-5	-5	93	*-185*

* Provisional.

Source: Central Bank of Kenya

The merchandise account deficit worsened from a deficit of US$ 5,842 million in the year to August 2009 to a deficit of US$ 6,509 million in the year to August 2010 largely due to an increase in the value of imports.

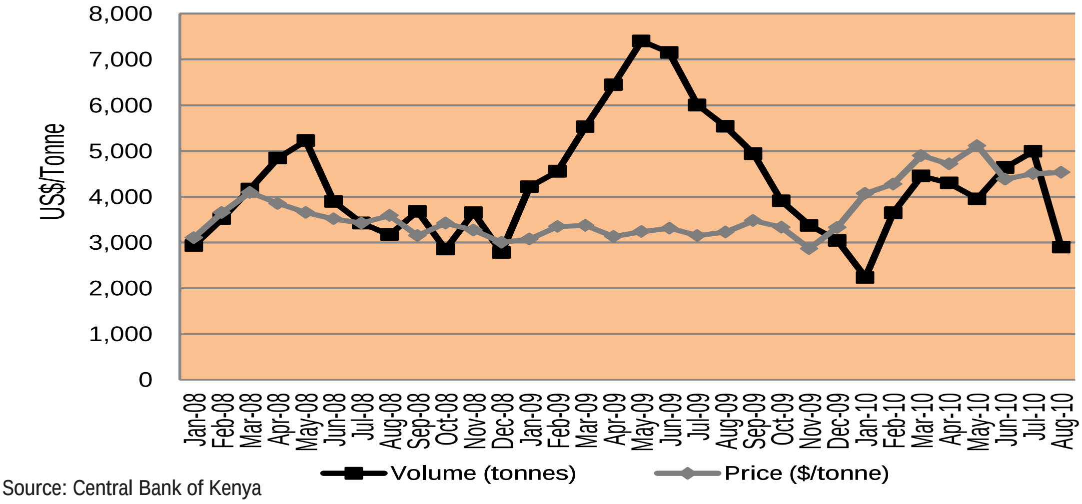
Exports

The value of exports increased by 8.4 percent from US$ 4,520 million in August 2009 to US$ 4,900 million in August 2010. The improvement in export performance was in tea exports which increased by 37.5 percent. Improved commodity prices in the international markets and domestic production led to this favorable development. Receipts from horticultural exports also increased from US$ 673 million to US$ 709 million. Oil products increased by 21.7 percent from US$ 91 million in August 2009 to US$ 110 million in August 2010.

Imports

The value of imports increased to US$ 11,408 million over the same period, on account of increased value of oil and manufactured goods imports. Oil imports which accounted for 23.6 percent of total imports increased from US$ 2,142 million to US$ 2,647 million in the period. Imports of machinery and transport equipment accounted for 10.8 percent of the import bill and increased from US$ 3,043 million to US$ 3,373 million. Manufactured goods accounted for 20.0 percent of the import bill and increased from US$ 1,417 million to US$ 1,701 million (Chart 4A and 4B).

CHART 4A: COFFEE EXPORTS: UNIT PRICE AND QUANTITY

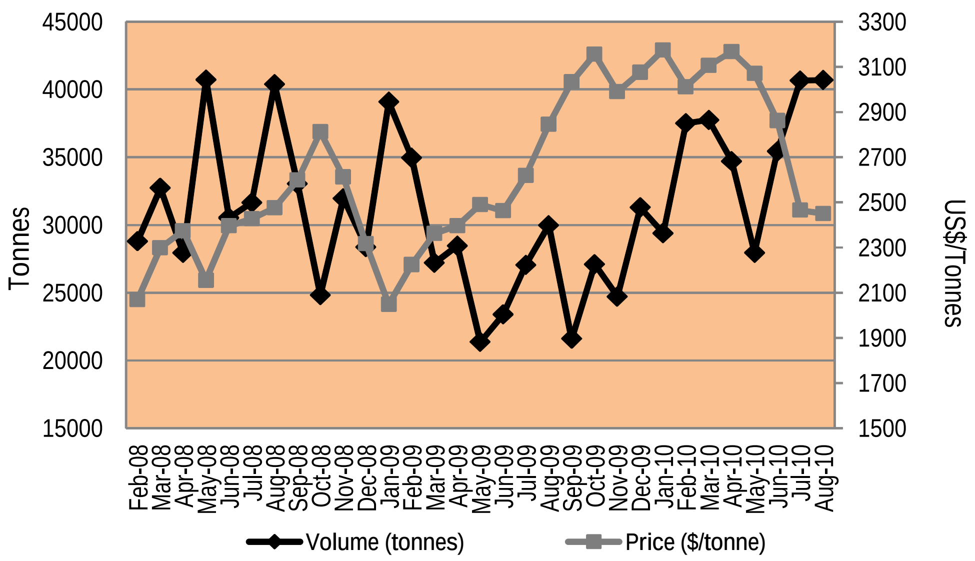


Source: Central Bank of Kenya

Services Account

The surplus on the services account improved from US$ 3,876 million to US$ 4,722 million in the year to August 2010. Earnings from non-factor services which mainly include tourism, transport and financial services increased by 40.0 percent from US$ 1,801million to US$ 2,521 million in the year to August 2010. This reflected improved inflows from foreigners travelling to Kenya which recovered by 16 percent from US$ 641million in the year to August 2009 to US$ 743 million in the year to August 2010. Similarly, net receipts from transportation services increased from US$ 999 million to US$ 1,389 million. Net receipts on the current transfer account decreased from US$ 2,147 million to US$ 2,131 million in the year to August 2010, a decrease of 0.8 percent. Remittance transfers which proved resilient to adverse global shocks also rose by 3.6 percent.

CHART 4B: TEA EXPORTS: UNIT PRICE AND QUANTITY



Source: Central Bank of Kenya

Direction of Trade

Kenya's exports were mainly to Uganda (12.4 percent), United Kingdom (10.7 percent), Tanzania (8.4 percent) and Netherlands (6.9 percent). The share of exports to African countries accounted for 46 percent. The share of exports to the East African Community (EAC) region were 24.8 percent, while those to COMESA region were at 33.0 percent compared with 32.4 percent in the year to August 2010.

During the period under review, Kenya's imports were mainly from United Arab Emirates (13.7 percent), India (11.0 percent), China (10.7 percent), South Africa (6.9 percent), Japan (6.1 percent), United States of America (5.0 percent) and United Kingdom (4.0 percent). The share of imports from African countries accounted for 12.2 percent. Imports from the EAC region increased from US$ 162 million to US$ 232 million (2.0 percent of total imports). Imports from the COMESA region increased from US$ 320 million to US$ 442 million (3.9 percent of total imports) in the year to August 2010 (Table 4.3).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to August			Year to August		
Country	2008	2009	2010	2008	2009	2010
Africa	1,197	1,324	1,395	11.2	12.8	12.2
Of which						
South Africa	612	874	782	5.7	8.4	6.9
Egypt	154	118	194	1.4	1.1	1.7
Others	431	332	419	4.0	3.2	3.7
EAC	188	162	232	1.8	1.6	2.0
COMESA	442	320	442	4.1	3.1	3.9
Rest of the World	9,473	9,037	10,013	88.8	87.2	87.8
Of which						
India	1,217	1,084	1,252	11.4	10.5	11.0
United Arab Emirates	1,715	1,022	1,561	16.1	9.9	13.7
China	815	954	1,222	7.6	9.2	10.7
Japan	678	585	690	6.4	5.6	6.1
USA	392	495	565	3.7	4.8	5.0
United Kingdom	397	461	456	3.7	4.5	4.0
Singapore	294	328	352	2.8	3.2	3.1
Germany	367	331	326	3.4	3.2	2.9
Saudi Arabia	328	341	434	3.1	3.3	3.8
Indonesia	343	260	295	3.2	2.5	2.6
Netherlands	172	240	206	1.6	2.3	1.8
France	214	233	196	2.0	2.2	1.7
Bahrain	120	177	81	1.1	1.7	0.7
Italy	173	191	165	1.6	1.8	1.4
Others	2,249	2,334	2,211	21.1	22.5	19.4
Total	10,670	10,362	11,408	100	100	100

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to August			Year to August		
Country	2008	2009	2010	2008	2009	2010
Africa	2,215	2,136	2,269	46	47	46
Of which						
Uganda	592	591	609	12.3	13.1	12.4
Tanzania	386	394	411	8.0	8.7	8.4
Egypt	183	175	220	3.8	3.9	4.5
Sudan	204	162	212	4.2	3.6	4.3
Somalia	192	153	153	4.0	3.4	3.1
DRC	136	146	152	2.8	3.2	3.1
Rwanda	117	123	132	2.4	2.7	2.7
Others	404	392	380	8.4	8.7	7.8
EAC	1,140	1,162	1,216	23.6	25.7	24.8
COMESA	1,518	1,466	1,616	**31.4**	**32.4**	**33.0**
Rest of the World	2,620	2,384	2,631	54.2	52.7	53.7
Of which						
United Kingdom	541	478	523	11.2	10.6	10.7
Netherlands	375	336	338	7.8	7.4	6.9
USA	291	254	221	6.0	5.6	4.5
Pakistan	184	186	221	3.8	4.1	4.5
United Arab Emirates	144	112	218	3.0	2.5	4.4
Germany	90	93	93	1.9	2.1	1.9
India	102	71	95	2.1	1.6	1.9
Afghanistan	56	70	162	1.2	1.5	3.3
Others	836	784	760	17.3	17.3	15.5
Total	4,835	4,520	4,900	100	100	100

Source: Kenya Revenue Authority

Capital and Financial Account

The capital and financial account surplus increased from US$ 2,097 million in the year to August 2009 to US$ 2,149 million in the year to August 2010. This increase was largely in the financial account. Medium and long-term flows to Government declined from US$ 403 million to US$ 274 million after additional allocation of SDR in 2009 from the IMF to mitigate adverse effects of the global recession reduced from US$ 349 million to US$ 34 million. The Banking sector increased its deposits held abroad by US$ 160 million to US$ 394 million in the year to August 2010 compared with US$ 234 million in the year to August 2009.

Net short term financial inflows, including errors and omissions in recorded transactions, increased to US$ 1,287 million in the year to August 2010 compared with US$ 1,189 million in the year to August 2009 (Table 4.4).

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

ITEM	Year to Aug 2009*	Year to August 2010* Q1 Sep-Nov	Q2 Dec-Feb	Q3 Mar-May	Q4 Jun-Aug	Year to Aug 2010*	Absolute Change
3. CAPITAL & FINANCIAL ACCOUNT	2097	777	140	538	693	2149	***52***
3.1 Capital Tranfers (net)	249	32	78	35	14	159	*-91*
3.2 Financial Account	1848	745	63	504	678	1990	*142*
Official, medium & long-term	403	58	22	146	48	274	*-129*
Inflows	646	110	90	202	96	498	*-149*
Outflows	-243	-53	-68	-55	-47	-223	*20*
Private, medium & long-term (net)	256	260	-164	337	-4	429	*173*
Commercial Banks (net)	234	261	-182	346	-31	394	*160*
Other private medium & long-term (net)	22	-1	18	-9	27	34	*12*
Short-term (net) incl. errors & omissions	1189	428	204	20	635	1287	*99*

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings declined from US$ 5,235 million in September 2009 to US$ 5,141 million in September 2010. Gross official foreign exchange reserves held by the Central Bank increased from US$ 3,708 million or 4.1 months of import cover in September 2009 to US$ 4,063 million (4.0 months of import cover) in September 2010 (Table 4.5). The accumulation of official reserves comprised of interbank purchases, balance of payments support under the exogenous shock facility and additional special drawing rights allocation from the IMF to mitigate adverse effects of the global economic recession. However, gross reserves held in commercial banks declined more than proportionately during the period under review and wholly displaced the build-up in the Central Bank's gross reserves.

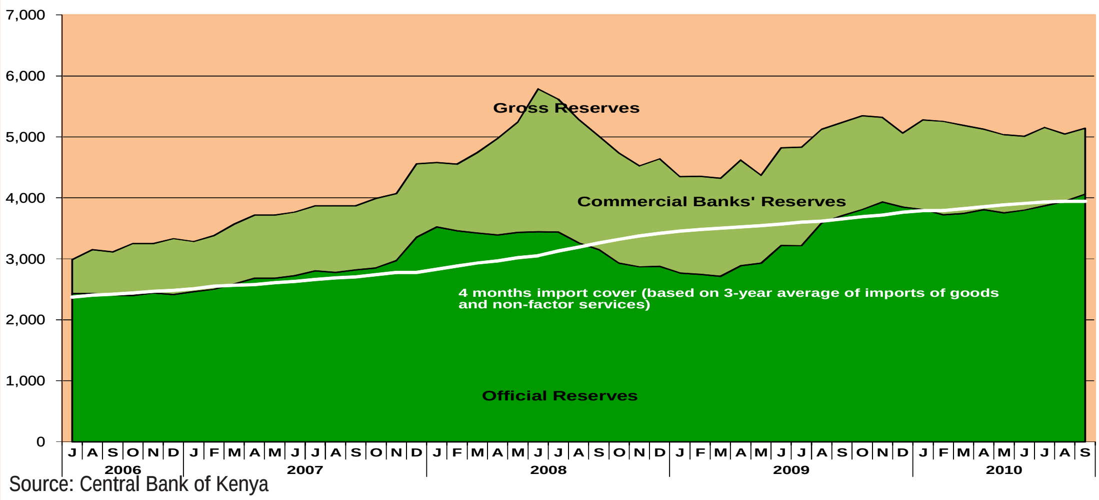
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Sep 09	**Dec 09**	**Apr 10**	**May 10**	**Jun 10**	**Jul 10**	**Aug 10**	**Sep 10**
1. Gross Foreign Exchange Reserves	**5,235**	**5,062**	**5,124**	**5,034**	**5,009**	**5,155**	**5,046**	**5,141**
of which:								
Official	3,708	3,847	3,805	3,755	3,799	3,868	3,942	4,063
*imports cover**	*4.1*	*4.1*	*4.0*	*3.9*	*3.9*	*3.9*	*4.0*	*4.0*
Commercial Banks	1,527	1,215	1,319	1,279	1,211	1,287	1,104	1,078
2. Residents' foreign currency deposits	**1,920**	**2,036**	**2,100**	**2,114**	**2,140**	**2,221**	**2,250**	**2,191**

*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 September 2010 against major world currencies. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 80.91 per US dollar in September 2010 compared with Ksh 80.44 per US dollar in August 2010. The shilling also depreciated against the Euro and the Japanese Yen to exchange at Ksh 105.61 per Euro and Ksh 95.88 per 100 Japanese Yen in September 2010, compared with Ksh 103.79 per Euro and Ksh 94.08 per 100 Japanese Yen in August 2010. Against the Sterling Pound the shilling remained stable at Ksh 125.94 per Sterling Pound (Table 4.6 and Chart 4D).

TABLE 4.6: KENYA SHILLING EXCHANGE RATE

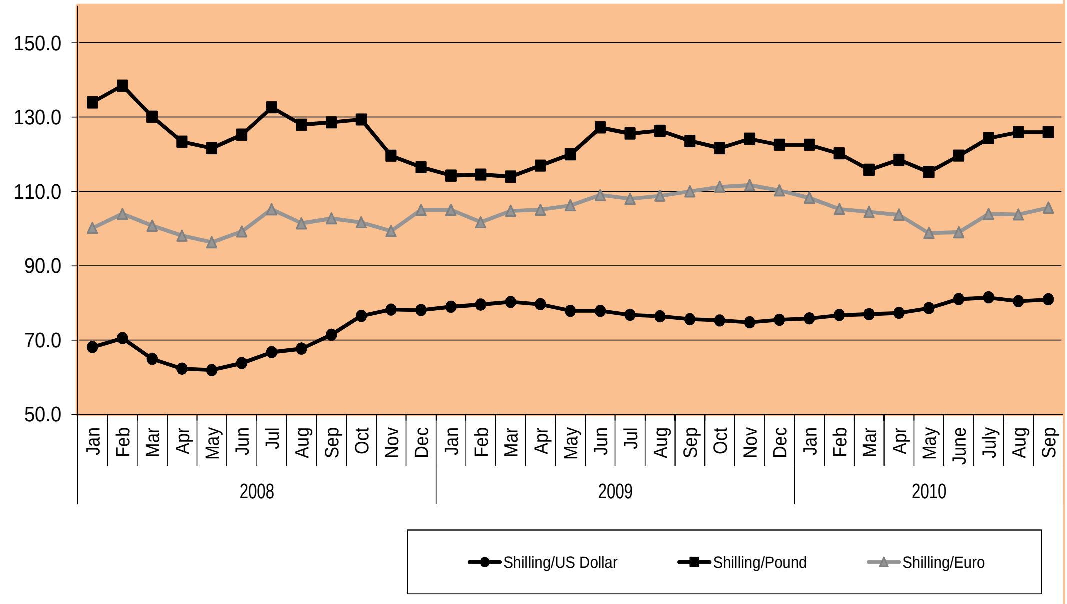
	2009		2010							
	Aug	Dec	Jan	Feb	Mar	June	July	August	September	% change August 10 -September10
US Dollar	76.37	75.43	75.79	76.69	76.95	81.02	81.43	80.44	80.91	**0.59**
Pound Sterling	126.34	122.54	122.53	120.21	115.78	119.62	124.34	125.94	125.94	**0.00**
100 Japanese Yen	80.49	84.12	83.11	84.99	85.04	89.18	92.90	94.08	95.88	**1.92**
Uganda Shilling*	27.14	25.20	25.53	25.97	27.10	27.91	27.73	27.71	27.83	**0.43**
Tanzania Shilling*	17.28	17.65	17.71	17.58	17.63	17.99	18.40	18.89	18.76	**-0.67**
Euro	108.83	110.27	108.27	105.25	104.46	98.99	103.90	103.79	105.61	**1.75**
Euro per US dollar	0.702	0.684	0.700	0.729	0.737	0.818	0.784	0.775	0.766	**-1.15**

* 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 27.83 per Kenya shilling and Tsh 18.76 per Kenya shilling in September 2010 compared with Ush 27.71 per Kenya shilling and Tsh 18.89 per Kenya shilling in August 2010.

CHART 4D: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

During the period ended September 30, 2010, the Kenyan Banking sector registered significant growth in assets driven by growth in deposits, injection of capital and retention of profits. However, the level of non-performing loans increased compared to a similar period in September 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 25.1 percent from Ksh 1,309.0 billion in September 2009 to Ksh 1,638.2 billion in September 2010. The major components of the balance sheet were loans and advances, government securities and placements, which accounted for 51 percent, 27 percent and 6 percent of total assets respectively.

Loans & Advances

The banking sector gross loans and advances increased from Ksh 736.0 billion in September 2009 to Ksh 878.8 billion in September 2010, translating to a growth of 19.4 percent. The growth was attributed to increased lending to households, trade and manufacturing sectors. Loans and advances net of provisions stood at Ksh 868.7 billion in September 2010, up from Ksh 720.4 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 78 percent of total funding liabilities. The deposit base increased by 26.7 percent from Ksh 1,002.9 billion in September 2009 to Ksh 1,270.6 billion in September 2010 mainly due to branch expansion, remittances and receipts from exports.

Capital & Reserves

The banking sector registered strong capital levels in September 2010 with total capital growing by 23.3 percent from Ksh 170.2 billion in September 2009 to Ksh 209.9 billion in September 2010, whereas shareholders' funds increased by 33.3 percent from Ksh 186.1 billion in September 2009 to Ksh 248.1 billion in September 2010. Similarly, the ratios of total and core capital to total risk-weighted assets increased from 20.0 percent and 17.6 percent to 20.6 percent and 18.6 percent, respectively, mainly due to a more than proportionate increase in core and total capital relative to the increase in total risk weighted assets.

Non-performing Loans

The stock of gross non-performing loans (NPLs) rose by 1.0 percent from Ksh 60.6 billion in September 2009 to Ksh 61.2 billion in September 2010 (Table 5.1). However, the coverage ratio which is measured as a percentage of specific provisions to total NPLs increased to 57 percent from 43 percent in September 2009 mainly due to an increase in provisions. The quality of assets, measured as a proportion of net non-performing loans to gross loans improved from 3.5 percent to 2.5 percent in September 2010 as shown in Table 5.1. Similarly, the ratio of gross NPLs to gross loans improved from 8.2 percent in September 2009 to 7.0 percent in September 2010.

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

		Sep-10	Sep-09
1	Gross loans and advances	878.80	736.00
2	Interest in Suspence	10.10	15.50
3	Loans and advances (net of interest suspended)	868.70	720.50
4	Gross non-performing loans	61.20	60.60
5	Specific Provisions	28.90	19.40
6	General Provisions	5.40	5.40
7	Total Provisions (4+5)	34.30	24.80
8	Net Advances (2-6)	834.40	695.70
9	Total Non-Performing Loans and advances	51.10	45.10
10	Net Non-Performing Loans and advances(8-4)	22.20	25.70
11	Total NPLs as % of total advances (8/2)	5.9	6.30
12	Net NPLs as % of gross advances (9/1)	2.50	3.50
13	Specific Provisions as % of Total NPLs (4/8)	56.60	43.00

Source: Central Bank of Kenya

Profitablility

In the nine months to September 2010, the banking sector registered a 44.2 percent growth in pre-tax profits, from 36.9 billion in September 2009 to Ksh 53.2 billion as at end of September 2010. As a result, the annualised return on assets improved from 2.9 percent to 3.4 percent in September 2010, while the return on equity increased from 26.5 percent to 28.6 percent. Total income increased by 25.6 percent from Ksh 125.1 billion in September 2009 to Ksh 157.1 billion in September 2010, while total expenses increased by 17.9 percent from Ksh 88.1 billion in September 2009 to Ksh 103.9 billion in September 2010. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 49 percent, 28 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 30th September ,2010, average liquid assets amounted to Ksh 568.7 billion, while total average liquid liabilities stood at Ksh 1,219.0 billion, resulting in an average liquidity ratio of 46.7 percent, against 40.8 percent registered in September 2009. The ratio of gross loans to deposits was 69.2 percent, compared with 73.4 percent in September 2009.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 6.68 percent in September 2010 compared with 6.07 percent in August 2010 and 4.5 percent statutory level (Table 5.2 and Chart 5A). Commercial banks held excess reserves at the Central Bank averaging Ksh 25.6 billion in September 2010 compared with Ksh 18.2 billion in August 2010.

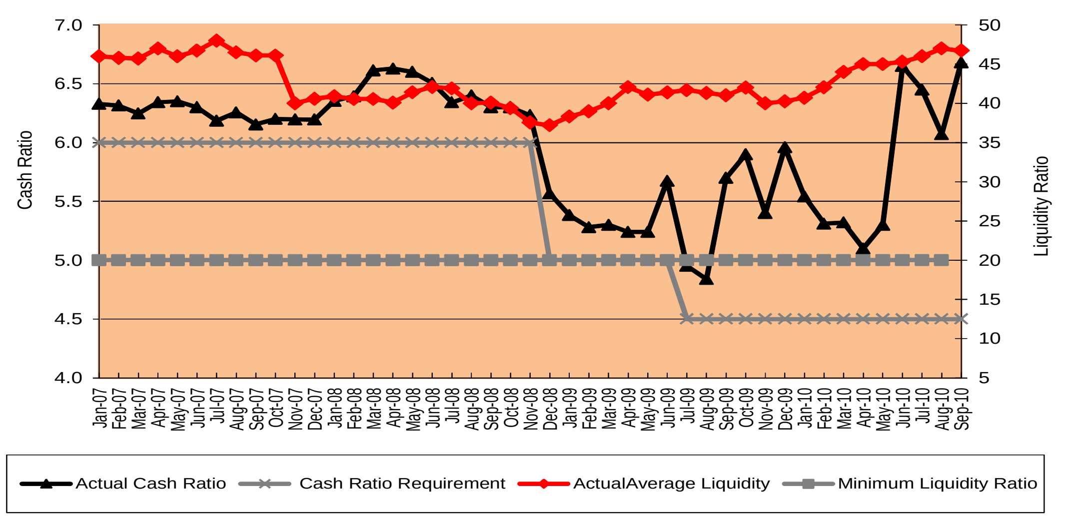
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	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 82,770 transaction messages worth Ksh 1,256 billion in September 2010 compared with a volume of 70,771 transaction messages valued at Ksh 1,280 billion moved in August 2010 representing 1.87 percent decrease in value and 16.9 percent increase in volume. The increase in KEPSS messages reflect increased uptake of the system.

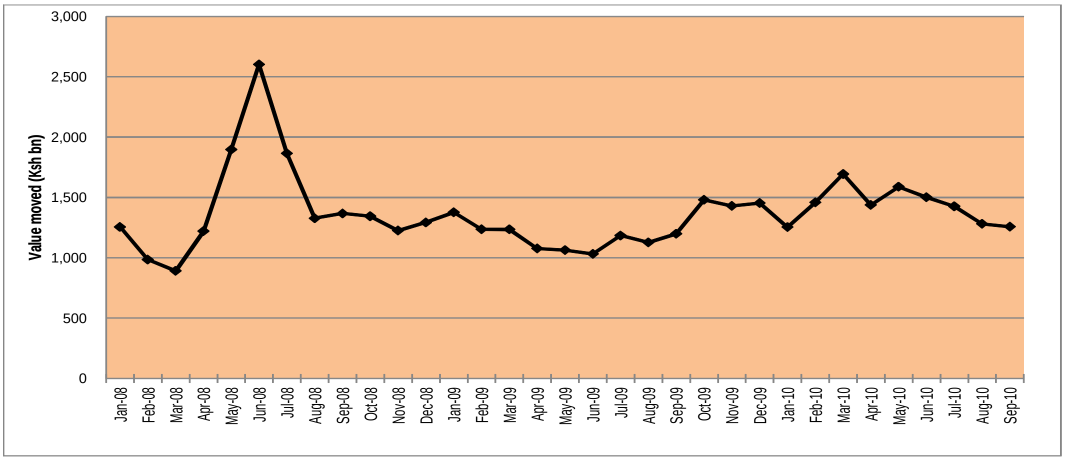
During the twelve months period to September 30, 2010, the value moved averaged Ksh 21.1 million per transaction. On average 3,275 transaction messages valued at approximately Ksh 69.1 billion per message were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS accounted for 98.0 percent of the total settlements, while indirect payments (ACH Net settlement) averaged 2.0 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-08	1,256	78	23,773	0.05	22	57	1,081
Feb-08	985	62	23,278	0.04	21	47	1,108
Mar-08	891	60	20,920	0.04	18	49	1,162
Apr-08	1,220	107	24,684	0.05	22	55	1,122
May-08	1,895	94	19,730	0.10	21	90	940
Jun-08	2,601	115	22,387	0.12	20	130	1,119
Jul-08	1,864	75	24,599	0.08	23	81	1,070
Aug-08	1,327	59	20,593	0.06	21	63	981
Sep-08	1,367	76	23,494	0.06	22	62	1,068
Oct-08	1,344	85	23,635	0.06	20	67	1,182
Nov-08	1,225	57	22,718	0.05	21	58	1,082
Dec-08	1,293	94	24,131	0.05	20	65	1,207
Jan-09	1,376	68	25,330	0.05	21	66	1,206
Feb-09	1,236	64	20,710	0.06	19	65	1,090
Mar-09	1,235	82	23,752	0.05	22	56	1,080
Apr-09	1,077	80	22,485	0.05	20	54	1,124
May-09	1,064	70	24,024	0.04	20	53	1,201
Jun-09	1,032	80	21,977	0.05	21	49	1,047
Jul-09	1,185	75	25,650	0.05	23	52	1,115
Aug-09	1,127	69	23,001	0.05	21	54	1,095
Sep-09	1,198	90	24,552	0.05	21	57	1,169
Oct-09	1,481	27	55,440	0.03	21	71	2,640
Nov-09	1,430	21	56,900	0.03	21	68	2,710
Dec-09	1,454	29	66,916	0.02	22	66	3,042
Jan-10	1,254	18	56,862	0.02	20	63	2,843
Feb-10	1,458	22	65,010	0.02	20	73	3,251
Mar-10	1,694	26	77,058	0.02	23	74	3,350
Apr-10	1,436	23	69,634	0.02	20	72	3,482
May-10	1,587	22	72,588	0.02	21	76	3,457
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

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third party Messages

Multiple third party Message Type (MT 102) increased by 38.8 percent from 7,787 transaction messages in August 2010 to 10,806 transaction messages in September 2010. Similarly, single third party Message Type (MT 103) increased by 19.4 percent from 64,385 transaction messages to 76,910 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 21.5 percent from 72,172 transaction messages in August 2010 to 87,716 transaction messages in September 2010.

Compared with September 2009, multiple third parties messages (MT 102) increased by 1,229.1 percent from 813 transaction messages to 10,806 transaction messages in September 2010 while single third party messages (MT 103) increased by 459.7 percent from 13,740 transaction messages to 76,910 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, and increased awareness of KEPSS as a safe and efficient means of sending funds.

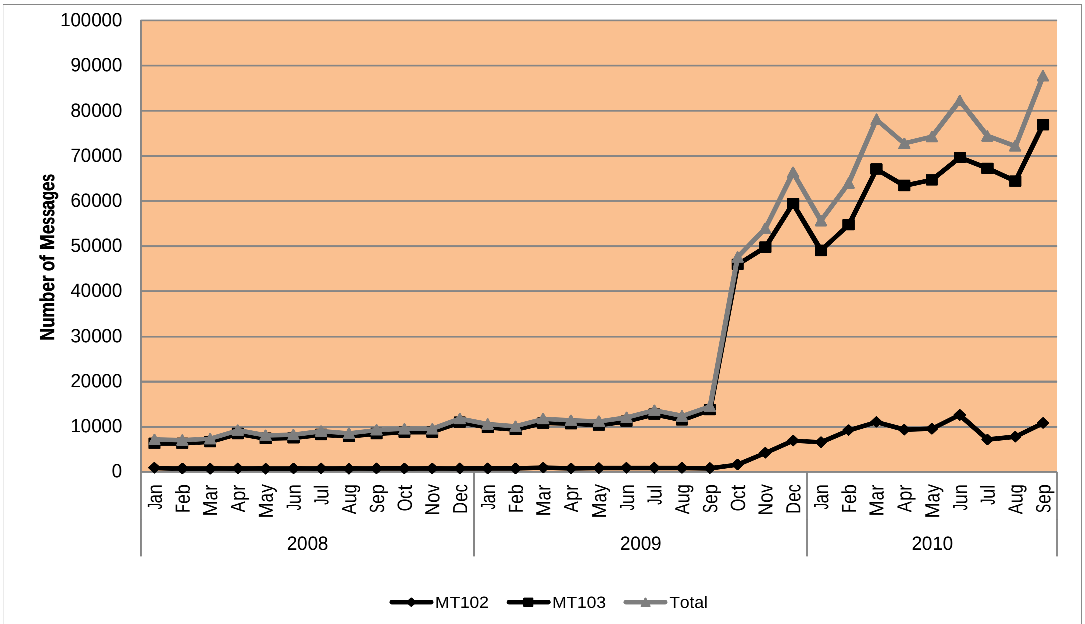
Inter-bank transfers (MT 202) accounted for 51.5 percent of the total value moved through KEPSS as at end of September 2010, while third party messages accounted for 48.4 percent. The total number of third party messages (MT 102 and MT 103) grew by 502.7 percent from 14,553 messages in September 2009 to 87,716 messages in September 2010.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-08	1,256	78	23,773	0.05	22	57	1,081
Feb-08	985	62	23,278	0.04	21	47	1,108
Mar-08	891	60	20,920	0.04	18	49	1,162
Apr-08	1,220	107	24,684	0.05	22	55	1,122
May-08	1,895	94	19,730	0.10	21	90	940
Jun-08	2,601	115	22,387	0.12	20	130	1,119
Jul-08	1,864	75	24,599	0.08	23	81	1,070
Aug-08	1,327	59	20,593	0.06	21	63	981
Sep-08	1,367	76	23,494	0.06	22	62	1,068
Oct-08	1,344	85	23,635	0.06	20	67	1,182
Nov-08	1,225	57	22,718	0.05	21	58	1,082
Dec-08	1,293	94	24,131	0.05	20	65	1,207
Jan-09	1,376	68	25,330	0.05	21	66	1,206
Feb-09	1,236	64	20,710	0.06	19	65	1,090
Mar-09	1,235	82	23,752	0.05	22	56	1,080
Apr-09	1,077	80	22,485	0.05	20	54	1,124
May-09	1,064	70	24,024	0.04	20	53	1,201
Jun-09	1,032	80	21,977	0.05	21	49	1,047
Jul-09	1,185	75	25,650	0.05	23	52	1,115
Aug-09	1,127	69	23,001	0.05	21	54	1,095
Sep-09	1,198	90	24,552	0.05	21	57	1,169
Oct-09	1,481	27	55,440	0.03	21	71	2,640
Nov-09	1,430	21	56,900	0.03	21	68	2,710
Dec-09	1,454	29	66,916	0.02	22	66	3,042
Jan-10	1,254	18	56,862	0.02	20	63	2,843
Feb-10	1,458	22	65,010	0.02	20	73	3,251
Mar-10	1,694	26	77,058	0.02	23	74	3,350
Apr-10	1,436	23	69,634	0.02	20	72	3,482
May-10	1,587	22	72,588	0.02	21	76	3,457
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

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

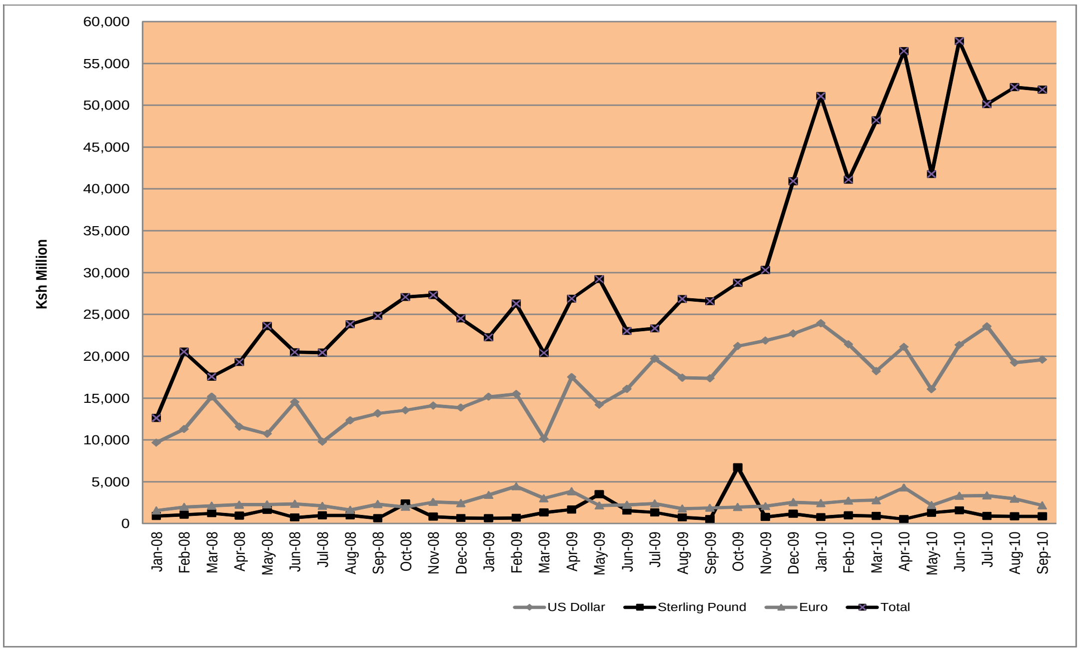


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 14.1 percent from 5,546 transaction messages in August 2010 to 6,331 transaction messages in September 2010. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period increased by 21.1 percent from Ksh 51.85 billion to Ksh 62.78 billion. The US dollar accounted for 91.9 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.2 percent and 6.9 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 quarter of fiscal year 2010/11 resulted in a deficit of Ksh 36.2 billion on commitment basis compared with a deficit of Ksh 30.4 billion in a similar period of 2009/10 (Table 6.1). The deficit-to-GDP ratio increased from 1.2 percent to 1.4 percent on commitment basis, while the budget deficit remained constant at 1.6 percent of GDP during the period. The budget deficit during the period was within the programmed target of 2.2 percent of GDP on commitment basis.

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

	FY 2009/10	FY 2010/11		
	Sep Actual	Sep Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE	**128.9**	**142.4**	**159.0**	**-16.5**
Revenue	125.4	141.2	154.9	-13.7
Tax Revenue	111.4	124.9	135.8	-10.8
Non Tax Revenue	5.3	4.5	1.9	2.6
Appropriations-in-Aid	8.7	11.8	17.3	-5.4
External Grants	3.5	1.2	4.0	-2.9
2. TOTAL EXPENSES & NET LENDING	**159.3**	**178.6**	**214.1**	**-35.5**
Recurrent Expenses	120.5	138.9	151.8	-12.9
Development Expenses	38.7	39.8	62.4	-22.6
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-30.4	-36.2	-55.2	**-19.0**
As percent of GDP	**-1.2**	**-1.4**	**-2.2**	
4. ADJUSTMENT TO CASH BASIS	**-9.5**	**-0.2**	**0.0**	**-0.2**
5. DEFICIT ON A CASH BASIS	-39.8	-36.4	-55.2	**-18.8**
As percent of GDP	**-1.6**	**-1.5**	**-2.2**	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**-3.0**	**0.9**	**0.0**	
7. FINANCING	36.8	32.4	55.2	**-22.8**
Domestic (Net)	39.7	30.2	50.8	-20.6
External (Net)	-2.9	2.2	4.4	-2.2
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

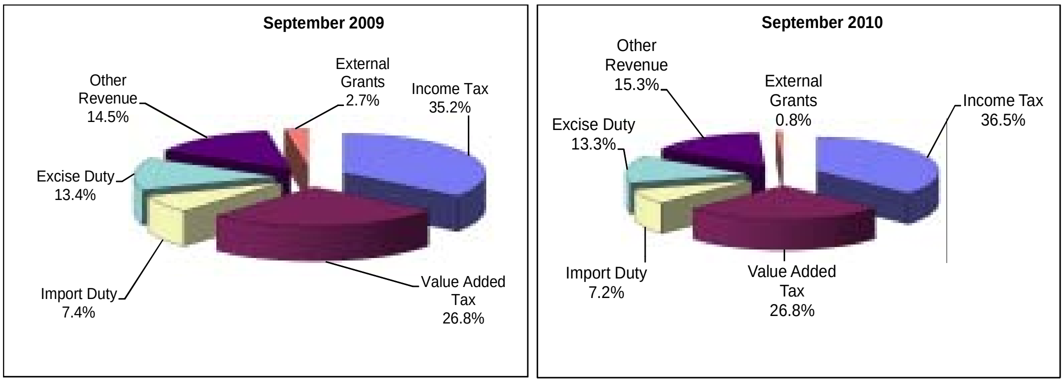
In the first quarter of the fiscal year 2010/11, government revenue and grants increased to Ksh 142.4 billion compared to Ksh 128.9 billion in a similar period of the fiscal year 2009/10 but fell short of the revenue target by Ksh 16.5 billion (or 10.4 percent). The government revenue and grants were below by 13.7 billion (or 8.8 percent) and Ksh 2.9 billion (or 70.8 percent), respectively.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Sep-09 Ksh bn	Sep-10 Ksh bn	Change Ksh bn
1. Revenue (2+3+4)	**125.4**	**141.2**	**15.8**
2. Tax Revenue	111.4	124.9	13.5
Income Tax	45.4	52.0	6.6
Value Added Tax	34.5	38.2	3.7
Import Duty	9.5	10.3	0.8
Excise Duty	17.3	19.0	1.7
Others	4.7	5.5	0.8
3. Appropriations-in-Aid	8.7	11.8	3.1
4. Other Revenue	5.3	4.5	-0.8
5. External Grants	**3.5**	**1.2**	**-2.3**
TOTAL RECEIPTS (1+5)	**128.9**	**142.4**	**13.5**

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Despite the missed revenue targets, the Tax revenue expanded by 12.6 percent from Ksh 125.4 billion in the fiscal year 2009/10 to Ksh 141.2 in the fiscal year 2010/11. All revenue sources recorded improved performance compared to same period of 2009/10 fiscal year. As the main components of tax revenue, income tax and value added tax (VAT) grew by 14.5 percent and 10.6 percent, respectively during the period. External grants receipts amounted to Ksh 1.2 billion against a target of Ksh 4 billion (or 70.4 percent below the target).

Expenditure and Net Lending

Government expenditure and net lending in the first quarter of fiscal year 2010/11 increased by Ksh 19.2 billion (or a growth of 12.0 percent) to Ksh 178.4 billion (Table 6.3). This rise was due to increases of Ksh 18.3 billion and Ksh 0.9 billion in recurrent and development expenditures, respectively.

The increase in recurrent expenditure reflects increases of Ksh 4.5 billion in salaries and wages and Ksh 12.3 billion in other expenses. Interest payments also increased by Ksh 1.4 billion (Chart 6B). Expenditure and net lending targets were however missed by Ksh 37.5 billion, and the development expenditure performance was Ksh 22.8 billion below the target.

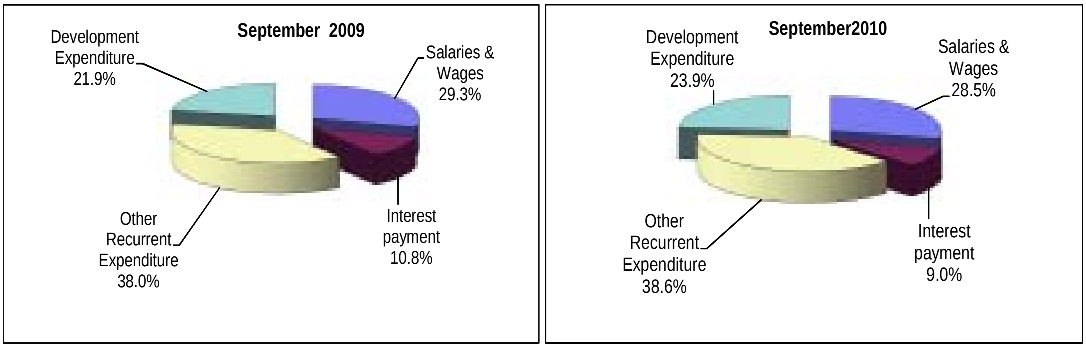
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Sep-09 Ksh bn	Sep-10 Ksh bn	Movement
1.Recurrent	**120.5**	**138.9**	**18.3**
Salaries & Wages	43.4	47.9	**4.5**
Total Interest	14.7	16.1	**1.4**
of which			
Domestic*	13.2	14.5	**1.3**
Foreign interest due	1.5	1.6	**0.1**
Others	62.5	74.9	**12.3**
2. Development	**38.7**	**39.8**	**1.0**
TOTAL EXPENSES	**159.3**	**178.6**	**19.3**

*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 quarter of the fiscal year 2010/11, budgetary operations of the Government resulted in a financing requirement of Ksh 42.6 billion compared with Ksh 39.7 billion in a similar period of fiscal year 2009/10. The Government sourced the funds through net domestic borrowing amounting to 40.4 billion and net external debt borrowing of Ksh 2.2 billion. The financing was in respect of Ksh 32.4 billion budget deficit and Ksh 10.2 billion build up of Government deposits at the Central Bank.

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

I. FINANCING REQUIREMENTS	Sep-09	Sep-10
1. Budget deficit	36.8	32.4
2. External debt reduction	2.9	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	0.0	10.2
TOTAL	**39.7**	**42.6**
II. FINANCING SOURCES	**Sep-09**	**Sep-10**
1. Budget surplus	0.0	0.0
2. External debt increase	0.0	2.2
3. Increase in domestic debt	35.2	40.4
3.1 Central Bank	2.5	2.7
3.2 Commercial banks	20.2	10.1
3.3 Non-bank sources	12.5	27.6
4. Reduction in GoK deposits at CBK	4.5	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	**39.7**	**42.6**

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank increased by Ksh 11.0 billion from Ksh 42.2 billion in September 2009 to Ksh 53.2 billion in September 2010. The increase in Government indebtedness to the Central Bank reflected an increase of Ksh 12.5 billion in the Government overdraft and partially offset Ksh 1.1 billion amortization of pre-1997 overdraft and repayment of IMF funds on-lent to Government by Ksh 0.5 billion (Table 6.5). However, exposure to Government overdraft remained within statutory limit of Ksh 22.6 billion.

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

	2009	2010	Movement
	Sep	Sep	
Total Credit	**42.16**	**53.15**	**11.00**
1. Overdraft	8.01	20.56	12.55
2. Rediscounted securities	0.02	0.03	0.01
Treasury bills	0.01	0.01	0.00
Treasury bonds	0.01	0.02	0.01
3. Pre-1997 Government Overdraft at CBK	33.33	32.22	-1.11
4. IMF funds onlent to Government	0.71	0.25	-0.46
5. Cleared items in transit	0.09	0.09	0.00
Memorandum			
Authorised overdraft limit	**16.88**	**22.93**	**11.60**
Amount utilised to date	8.01	20.56	20.52
Amount available	8.87	2.36	-8.92

Source: Central Bank of Kenya

Outlook for FY 2009/10

In the budget estimates for fiscal year 2010/11, Government revenue excluding external grants is estimated at Ksh 698.6 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 323.5 billion or 11.7 percent of GDP 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 68.7 billion during the first quarter of the fiscal year 2010/11 to stand at Ksh 1,294.4 billion or 51.8 percent of GDP from Ksh 1,225.7 billion or 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 23.6 percent in September 2010 while the domestic debt to GDP ratio increased from 25.9 percent to 28.2 percent during the period. The proportion of domestic debt in total public debt increased from 53.9 percent in June 2010 to 54.4 percent in September 2010.

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

	Jun-09	Sep-09	Dec-09	Mar-10*	Jun-10**	Jul-10**	Aug-10	Sep-10	Change 2010/11
EXTERNAL***									
Bilateral	185.9	188.7	185.3	187.3	196.3	195.2	196.7	211.2	14.9
Multilateral	327.6	312.6	316.5	333.7	348.6	346.3	348.4	356.9	8.3
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	23.8	23.7	23.7	17.1	20.5	20.5	20.5	21.6	1.1
Sub-Total	**537.4**	**525.0**	**525.5**	**538.2**	**565.5**	**562.0**	**565.6**	**589.7**	**24.3**
(As a % of GDP)	22.5	21.6	21.3	21.5	22.2	23.1	22.9	23.6	
(As a % of total debt)	50.9	48.8	47.2	45.7	46.1	45.7	44.8	45.6	
DOMESTIC/[1]									
Banks	**290.8**	**310.5**	**343.0**	**384.5**	**401.8**	**405.9**	**420.8**	**420.4**	**18.6**
Central Bank	40.1	41.6	44.7	39.6	51.9	49.6	57.0	54.6	2.7
Commercial Banks	250.7	268.9	298.3	345.0	350.0	356.3	363.8	365.8	15.8
Non-banks	**225.1**	**237.7**	**243.0**	**251.2**	**255.3**	**258.5**	**272.7**	**279.7**	**24.4**
Non-bank Financial Institutions	1.0	0.8	1.1	2.0	3.0	3.0	2.9	2.8	-0.2
Other Non-bank Sources	224.1	236.9	241.9	249.2	252.4	255.5	269.7	276.9	24.6
Non-residents	**2.6**	**2.5**	**2.9**	**3.3**	**3.1**	**3.4**	**4.6**	**4.6**	1.5
Sub-Total	**518.5**	**550.7**	**589.0**	**639.1**	**660.3**	**667.8**	**698.0**	**704.7**	**44.4**
(As a % of GDP)	21.7	22.6	23.8	25.5	25.9	27.4	28.3	28.2	
(As a % of total debt)	49.1	51.2	52.8	54.3	53.9	54.3	55.2	54.4	
GRAND TOTAL	**1055.9**	**1075.7**	**1114.5**	**1177.2**	**1225.7**	**1229.8**	**1263.7**	**1294.4**	**68.7**
(As a % of GDP)	44.1	44.2	45.1	46.9	48.1	50.5	51.2	51.8	

* 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 44.4 billion during the first quarter of the fiscal year 2010/11 from Ksh 660.3 billion in June 2010 to Ksh 704.7 billion in September 2010 (Table 7.2). The rise in domestic debt during the period followed increases of Ksh 52.6 billion in Treasury bonds and Ksh 2.7 billion in other domestic debt and partially offsetting Ksh 10.1 billion net redemptions of Treasury bills.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2009				2010								Change
	June	%	Dec	%	June	%	July	%	August	%	Sept	%	Jun-09 -Sept-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**	**44.4**
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**	**41.7**
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**	**-10.1**
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	**-11.2**
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	**1.1**
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**	**52.6**
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	**30.8**
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	**21.9**
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**	**-0.8**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Others	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.0	0.0	**-0.8**
4. Non-Interest Bearing Debt	**33.3**	**6.4**	**33.3**	**5.9**	32.2	**4.9**	32.2	**4.8**	32.2	**4.6**	32.2	**4.6**	**0.0**
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	**0.0**
B. Others:	**6.89**	**1.3**	**11.37**	**2.0**	**19.63**	**3.0**	**17.35**	**2.6**	**24.79**	**3.6**	**22.33**	**3.2**	**2.7**
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	**2.9**

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

Source: Central Bank of Kenya

Treasury Bills

Treasury bills decreased from Ksh 159.0 billion in June 2010 to Ksh 148.9 billion in September 2010 (Table 7.3). The proportion of Treasury bills in total domestic debt decreased from 24.1 percent of total domestic debt to 21.1 percent during the period. Commercial banks holding in Treasury bills declined from Ksh 133.8 billion to Ksh 122.6 billion. The proportion of the 364 day treasury bills in total Government securities declined to 6.5 percent from 7.7 percent in June 2010 following a maturity of the first issue of 364-day Treasury bill issued in August 2009(Table 7.5).

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

	2009						2010							
Holders	June	%	Aug	%	Dec	%	Jun	%	Jul	%	Aug	%	Sep	%
Banking Institutions	74.6	63.9	83.9	65.8	110.8	78.7	134.0	84.3	138.6	87.6	131.8	86.8	122.6	82.3
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	83.9	65.8	110.8	78.7	133.8	84.1	138.4	87.5	131.6	86.7	122.6	82.3
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.2	0.1	0.2	0.1	0.0	0.0
Insurance Companies	17.0	14.6	15.9	12.4	11.6	8.2	8.8	5.5	8.6	5.5	6.9	4.5	6.7	4.5
Parastatals	2.3	2.0	3.2	2.5	3.3	2.4	1.9	1.2	1.3	0.8	1.1	0.7	1.1	0.7
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	7.1	5.6	7.5	5.3	4.6	2.9	4.6	2.9	4.9	3.2	5.0	3.3
Others	15.8	13.6	17.5	13.7	7.6	5.4	9.7	6.1	5.1	3.2	7.2	4.7	13.6	9.1
Total*	116.8	100.0	127.6	100.0	140.8	100.0	159.0	100.0	158.2	100.0	151.8	100.0	148.9	100.0

*** Excludes repurchase order bills**

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds outstanding amount increased from Ksh 448.6 billion in June 2010 to Ksh 501.2 billion in September 2010 (Table 7.4). Similarly, as shown in Table 7.2, the percentage of Treasury bonds in total domestic debt increased from 69.6 percent to 71.1 percent over the period.

The 5-year Treasury bonds accounted for the largest proportion of outstanding Government securities during the period. The percentage of Treasury bonds with maturities of between 10-years and 25-years increased from 28.5 percent to 30.1

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) increased to 5 years in September 2010 from 4 years 3months in June 2010.

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

	2009						2010							
Holders	June	%	Aug	%	Dec	%	Jun	%	Jul	%	Aug	%	Sept	%
Banking Institutions	176.8	49.0	182.9	48.3	188.6	46.8	215.3	48.0	220.7	48.1	234.9	48.1	246.0	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	182.1	48.1	187.5	46.6	212.5	47.4	218.0	47.5	232.2	47.5	243.2	48.5
NBFIs	0.8	0.2	0.8	0.2	1.1	0.3	2.8	0.6	2.7	0.6	2.7	0.6	2.7	0.5
Insurance Companies	38.3	10.6	41.6	11.0	48.5	12.1	54.8	12.2	57.3	12.5	62.0	12.7	62.1	12.4
Parastatals	31.4	8.7	31.0	8.2	33.6	8.4	38.2	8.5	40.4	8.8	44.6	9.1	44.2	8.8
Of which: NSSF	15.8	4.4	16.5	4.4	17.0	4.2	20.2	4.5	20.2	4.4	21.4	4.4	21.0	4.2
Building Societies	0.5	0.1	0.5	0.1	0.4	0.1	0.4	0.1	0.4	0.1	0.4	0.1	0.4	0.1
Pensions Fund	54.2	15.0	59.2	15.6	68.2	16.9	80.1	17.8	83.7	18.2	89.3	18.3	89.3	17.8
Others	59.6	16.5	63.3	16.7	63.3	15.7	59.9	13.4	56.8	12.4	57.2	11.7	59.2	11.8
Total	**360.7**	**100.0**	**378.5**	**100.0**	**402.7**	**100.0**	**448.6**	**100.0**	**459.3**	**100.0**	**488.5**	**100.0**	**501.2**	**100.0**

Source: Central Bank of Kenya

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

	2009				2010							
	June	%	Dec	%	Jun	%	Jul	%	Aug	%	Sep	%
91-Day	23.523	4.926	24.784	4.56	23.663	3.8977	24.278	3.9317	28.259	4.4135	30.702	4.7223
182-Day	93.271	19.532	87.414	16.083	85.337	14.056	84.433	13.674	81.368	12.708	76.049	11.697
364-Day	0	0	28.621	5.266	49.494	8.1523	49.494	8.0154	42.169	6.586	42.169	6.486
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	46.577	7.5431	42.924	6.7038	55.665	8.5618
3-Year	12.798	2.6799	5.7808	1.0636	1.7808	0.2933	1.7808	0.2884	1.7808	0.2781	1.7808	0.2739
4-Year	12.914	2.7043	7.3069	1.3444	3.3837	0.5573	3.3837	0.548	3.3837	0.5285	3.3837	0.5204
5-Year	52.787	11.054	66.698	12.272	86.582	14.261	86.582	14.022	86.582	13.522	86.582	13.317
6-Year	38.77	8.1188	37.076	6.8217	59.114	9.737	56.589	9.1645	70.789	11.056	70.789	10.888
7-Year	24.154	5.0579	24.154	4.444	21.353	3.5171	21.353	3.4581	30.053	4.6936	30.053	4.6224
8-Year	17.944	3.7576	17.944	3.3016	29.573	4.8712	29.573	4.7894	29.573	4.6188	29.573	4.5487
9-Year	12.615	2.6417	12.615	2.3211	17.76	2.9254	17.76	2.8763	27.732	4.3312	27.732	4.2654
10-Year	44.415	9.3008	57.038	10.494	69.09	11.38	69.09	11.189	69.09	10.79	69.09	10.627
11-Year	4.0314	0.8442	4.0314	0.7417	4.0314	0.664	4.0314	0.6529	4.0314	0.6296	4.0314	0.6201
12-Year	28.492	5.9665	47.39	8.7193	20.066	3.3052	20.066	3.2497	20.066	3.1339	20.066	3.0864
15-Year	42.303	8.8585	51.723	9.5166	61.935	10.202	61.935	10.03	61.935	9.6729	61.935	9.5261
20-Year	9.5262	1.9948	20.361	3.7462	20.361	3.3538	20.361	3.2974	20.361	3.18	20.361	3.1317
25-Year					7.0082	1.1543	20.193	3.2702	20.193	3.1537	20.193	3.1058
Total	477.54	100	543.51	100	607.11	100	617.48	100	640.29	100	650.15	100

Source: Central Bank of Kenya

Government Long-term Stocks

The entire Government long term stocks matured in the first quarter of the fiscal year 2009/10.

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Government securities in the three months to December 2010 will comprise Ksh 89.3 billion in Treasury bills and Ksh 13.5 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 30.7 billion, Ksh 39.4 billion and Ksh 19.2 billion in 91-days, 182-days and 364-days Treasury bills, respectively. The Treasury bonds maturing during this period comprise Ksh 3.2 billion, Ksh 1.2 billion, Ksh 5.9 billion and Ksh 3.1 billion in the 2-year, 3-year, 5-year and 7-year tenure, respectively.

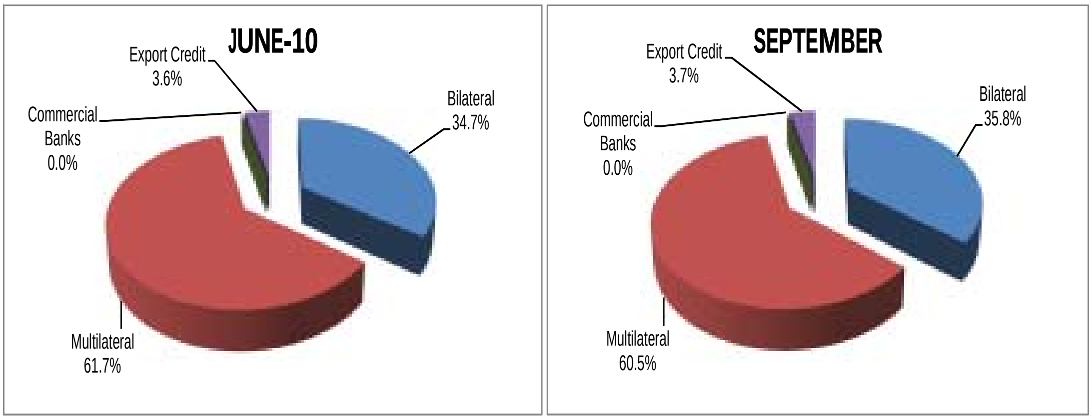
External Debt

Kenya's external debt increased in local currency terms by Ksh 24.2 billion from Ksh 565.5 billion (US$ 6.9 billion) in June 2010 to Ksh 589.7 billion (US$ 7.3 billion) in September 2010 (Table 7.1). The rise in external debt followed external loans disbursement of Ksh 8.1 billion, revaluation losses of Ksh 23.0 billion on external debts and debt repayments of Ksh 6.9 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to multilateral creditors (including IMF), decreased from 61.7 percent in June 2010 to 60.5 percent in September, 2010, while that contracted through bilateral creditors and export credit increased from 34.7 percent and 3.6 percent to 35.8 percent and 3.7 percent, respectively during the period (Chart 7A).

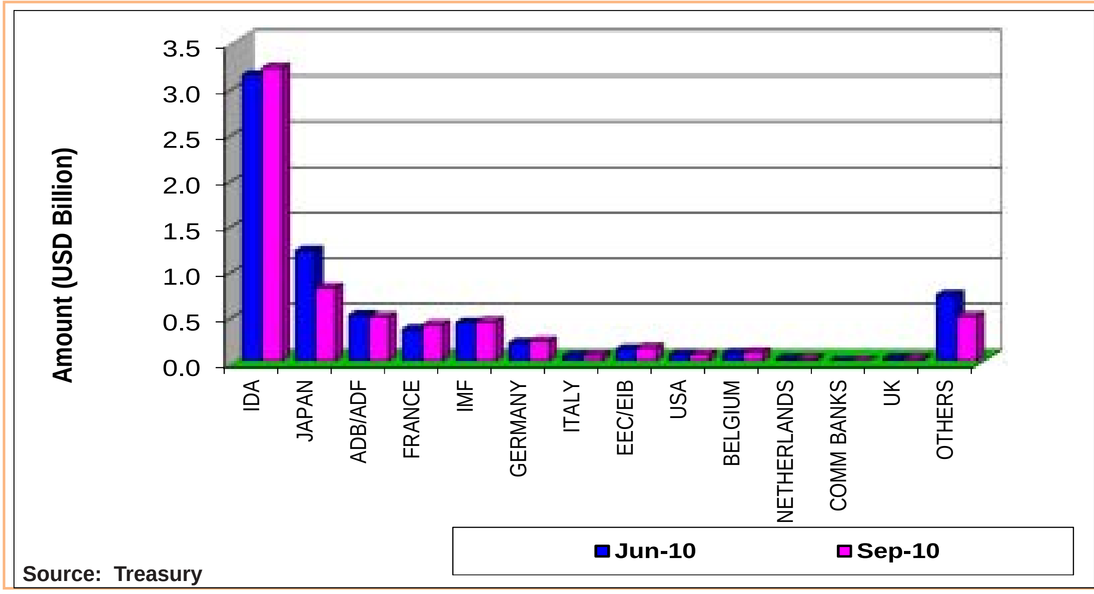
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

As shown in Chart 7B, external debt owed to IDA increased to US$ 3.2 billion in September 2010 from US$ 3.1 billion in June 2010, while the debt owed to Japan decreased from US$ 1.2 billion in June 2010 to US$ 0.8 billion in September 2010. The two remained the largest multilateral and bilateral creditors to Kenya during the period.

CHART 7B: EXTERNAL DEBT BY CREDITOR

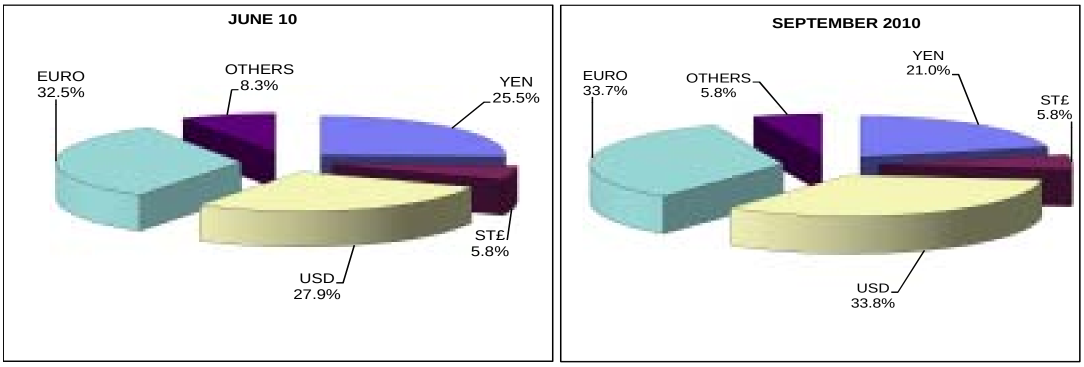


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in US dollars and the Euro increased from 27.9 percent and 8.3 percent in June 2010, respectively, to 33.7 percent and 33.8 percent in September 2010. However the external debt proportion held in the Japanese Yen and other currencies including SDRs decreased from 25.5 percent and 8.3 percent to 5.8 percent and 21.0 percent . The Sterling pound maintained its propotion at , 5.8 percent as in June 2010 (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 14.1 billion in the first quarter of the fiscal year 2009/10 to Ksh 16.2 billion in the first quarter 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 declined in September 2010 as reflected by key market indicators (Table 8.1). The number of shares traded declined by 21.9 percent from 1,030.5 million in August 2010 to 804.4 million in September 2010. Equity turnover decreased by Ksh 8,442 million (52.2 percent), from Ksh 16,173 million in August 2010 to Ksh 7,740 million in September 2010. However, share prices increased with the NSE 20 Share Index increasing by 175 points (3.9 percent) to 4,629.8 in September 2010 (Chart 8A). Reflecting the improvement in prices the market capitalization increased by Ksh 37.6 billion (3.3 percent), from Ksh 1,136 billion in August 2010 to Ksh 1,173 billion in September 2010. Market liquidity ratio decreased by 36 basis points to 1.24 percent in September 2010 from 1.60 percent in August 2010.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

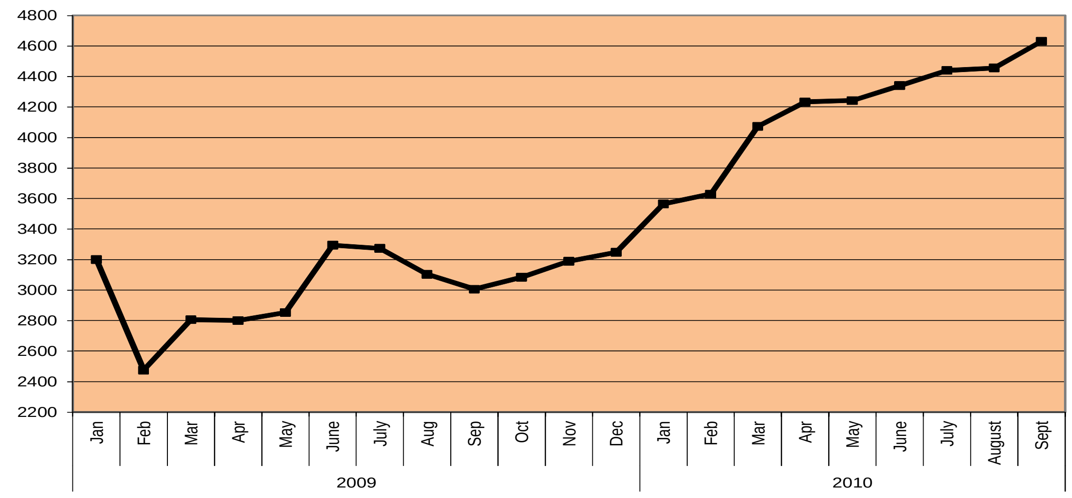
Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
August 08	4,648.78	490.81	7,490.20	1,081.86	18,490.36
September 08	4,180.40	485.30	6,787.80	972.30	22,611.94
October-08	3,386.65	393.50	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

Source: Nairobi Stock Exchange

The Commercial and Services sector dominated the market trading 432.1 million shares during the month. The most traded shares in the sector were Safaricom which traded 399.1 million shares. The Finance and Investment sector traded 211.1 million shares, with Equity Bank being the most active trading 65.1 million shares. The

Industrial and Allied sector traded 155.2 million shares with Mumias Sugar Co. trading 71.2 million shares. In the agricultural sector 4.3 million shares were traded and Sasini Ltd was the most active counter trading 3.0 million shares.

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



Source: Nairobi Stock Exchange

Bond Market

The bond turnover increased by 33.1 percent, with bonds worth Ksh 30,875 million traded in September 2010, compared with Ksh 23,190 million worth of bonds traded in August 2010.

Statement of Financial Position Of The Central Bank of Kenya

(Kenya shillings million)

	Sep-10	Sep-09	Sep 10/Sep 09 Movement
ASSETS	391,120	301,365	89,755
Foreign Assets	327,497	250,002	77,495
Advances and Discounts to Banks	0	0	0
Discounted Government Securities	31	1,018	(987)
Government Accounts	53,122	42,138	10,984
Government of Kenya Overdraft	20,563	8,013	12,550
Clearing Account	90	87	3
IMF funds on-lent to Government	250	709	(459)
Frozen Government Accounts	32,219	33,329	(1,110)
Other assets	10,470	8,207	2,263
Debtors	6,429	5,060	1,369
Retirement Benefits Assets	1,894	1,425	469
Building and Equipment	1,010	1,286	(276)
Prepaid Leases	270	274	(4)
Intangible assets	867	162	705
LIABILITIES	391,120	301,365	89,755
Foreign Liabilities	28,792	0	28,792
Currency in Circulation	130,672	108,946	21,726
Repo Securities	0	0	0
Deposits	189,923	162,987	26,936
Banks - Kenya	79,227	54,545	24,682
External	90	94	(4)
Other Public Entities and Project A/Cs	15,902	8,329	7,573
International Monetary Fund	36,977	36,881	96
Government of Kenya	53,799	60,294	(6,495)
Local Banks Forex Settlement Fund	3,928	2,844	1,084
Other Liabilities	5,656	1,669	3,987
Capital and Reserves	36,077	27,763	8,314
Capital	5,000	5,000	0
General Reserve Fund	23,104	26,805	(3,701)
Surplus b/f from previous year	7,973	(7,183)	15,156
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 77,495 million to Ksh 327,497 million in September 2010 from Ksh 250,002 million in September 2009 reflecting forex purchases from the interbank market.

Government accounts rose by Ksh 10,987 million to Ksh 53,122 million in September 2010 from Ksh 42,138 million in September 2009. The increase is attributed to Ksh 12,550 million increase in the outstanding overdraft and an increase of Ksh 3 million in clearing account balances due. These increases were partially offset by the repayment of Ksh 459 million on IMF funds on-lent to government. The Government also amortized Ksh 1,110 million of its non-interest bearing debt to Central Bank.

Other assets rose by Ksh 2,263 million in the year to September 2010 on account of an increase in retirement benefit assets of Ksh 469 million, an increase of Ksh 1,369 million in debtors and an increase of Ksh 705 million in intangible assets. These increases were offset by a decline of Ksh 276 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 21,726 million to Ksh 130,672 million in September 2010 from Ksh 108,946 million in September 2009.

Deposits increased by Ksh 26,936 million to Ksh 189,923 million in September 2010 on account of increases of Ksh 24,682 million in commercial banks' deposits at the Central Bank, Ksh 96 million in liability to the IMF, Ksh 1,084 million in local banks forex settlement balances and Ksh 7,573 million in other public entities and project accounts. These increases were offset by a drawdown of Ksh 6,495 million in Government of Kenya deposits.

Other liabilities and provisions increased by Ksh 3,987 million to Ksh 5,656 million in the year to September 2010.