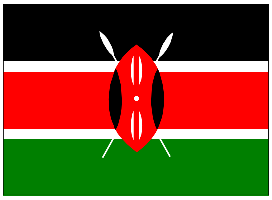


MONTHLY ECONOMIC REVIEW

April 2007

The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at:

http://www.centralbank.go.ke

email: info@centralbank.go.ke

CONTENTS

Overview

Introduction

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

GDP Growth

Leading economic indicators in January-February 2007 suggests favourable economic growth. The economy is estimated to have grown by over 6 percent in 2006 compared with 5.8 percent in 2005.

Inflation

Overall inflation decelerated to 5.7 percent for the year to April 2007 from 5.9 percent for the year to March 2007 mainly on account of lower prices of the Food and Non-alcoholic Drinks, and Alcohol and Tobacco categories of the CPI basket of goods and services.

Government Fiscal Operations

Due to an increase in tax revenue, Central Government budgetary operations in the first eight months of the fiscal year 2006/07 resulted in a budget deficit of Ksh 27.2 billion or 1.6 percent of GDP on commitment basis compared with Ksh 29.7 billion or 2.0 percent of GDP in a similar period in the previous fiscal year. The deficit was within the target of 2.9 percent of GDP for the period.

Public Debt Developments

Kenya's overall debt stock decreased from 50.3 percent of GDP at the end of June 2006 to 47.4 percent at the end of February 2007. During the period, external debt to GDP ratio declined from 27.5 percent to 24.6 percent while the proportion of domestic debt to GDP remained unchanged at 22.8 percent as at the end of June 2006.

Monetary Expansion

Money supply, M3[1], increased by 17.8 percent in the year to March 2007 compared with 12.5 percent in a similar period in 2006. The expansion in M3 in March 2007 resulted from increased net foreign assets (NFA) and net domestic assets (NDA) of the banking system which grew by 28.4 percent and 13.2 percent, respectively.

Interest Rates

Short-term interest rates increased faster in March and April 2007 than in February 2007. The average 91-day Treasury bill rate rose from 6.2 percent in February 2007 to 6.3 percent in March and 6.7 in April 2007, while the interbank rate increased from 6.5 percent in February 2007 to 6.7 percent in March and 6.8 percent in April 2007.

Balance of Payments

The surplus in the overall balance of payments increased from US$ 516 million in the year to February 2006 to US$ 657 million in the year to February 2007, reflecting higher surplus in the capital and financial account which more than financed the wider current account deficit.

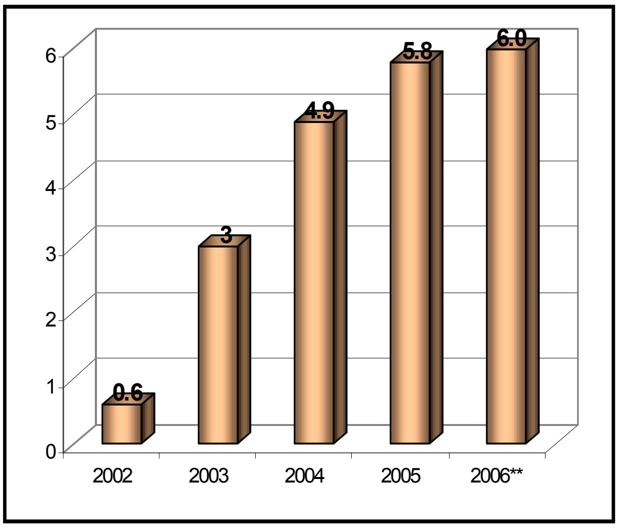
Exchange Rates

The Kenya shilling gained against the US dollar in April 2007 to exchange at Ksh 68.6 compared with Ksh 69.3 in March 2007. The shilling also gained against the Japanese Yen but depreciated against the Sterling Pound and the Euro. Against regional currencies, the Kenya shilling lost against the Uganda shilling but gained against the Tanzania shilling.

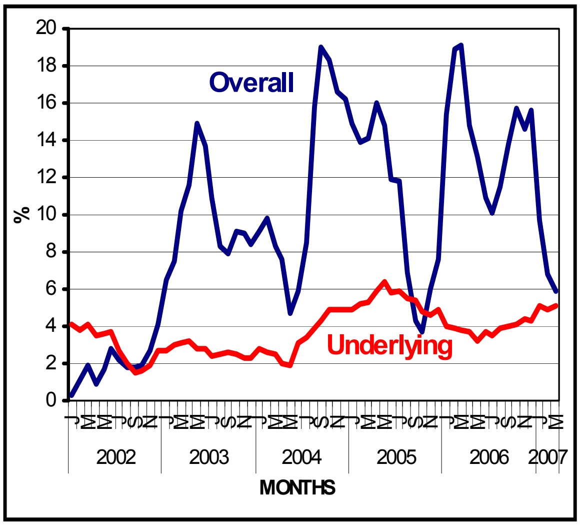
[1] Effective January 2006, the CBK adopted a harmonized definition of monetary aggregates to conform to those of the East African Community (EAC) member countries. Consequently, M3X, the intermediate target of monetary policy in Kenya under the reserve money programme has been renamed broad money M3.

SELECTED ECONOMIC PERFORMANCE INDICATORS

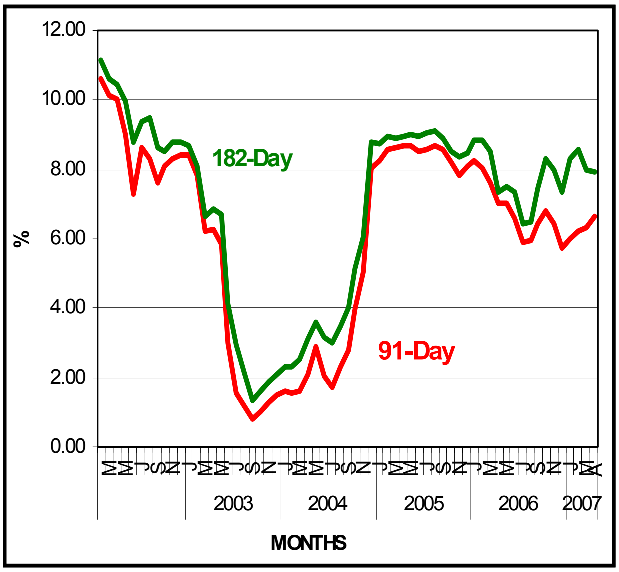
Real GDP Growth



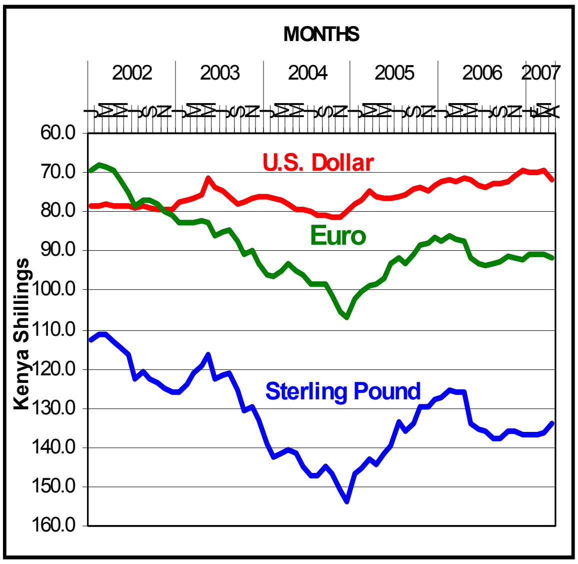
Inflation



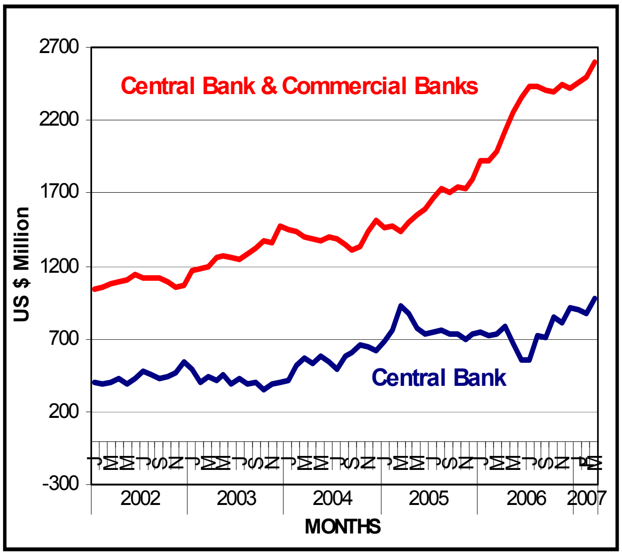
Treasury Bill Rates



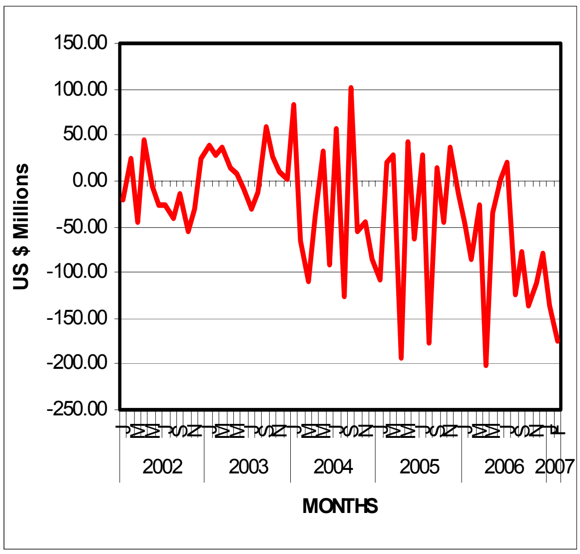
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS, 1998 - 2005

	INDICATOR	1998	1999	2000	2001	2002	2003	2004	2005
1.	**POPULATION***								
	People in Millions	28.88	29.54	29.53	30.90	31.50	32.20	32.80	33.40
	Growth (%)	2.31	2.29	3.00	4.64	1.94	2.22	2.54	2.50
2.	**NATIONAL ACCOUNTS****								
	GDP at Basic Prices (Ksh m)	850.81	906.93	858,919	906,874	905,748	1,010,939	1,142,799	1,291,227
	GDP at Market Prices (Kshs m):								
	At Current Prices	844.38	867.18	967,838	1,020,022	1,022,208	1,136,288	1,282,504	1,415,155
	At Constant 2001 Market Prices	955.18	977.00	982,855	1,020,022	1,025,854	1,056,454	1,107,715	1,172,090
	Real GDP Growth (%)	3.30	2.30	0.60	4.50	0.60	3.00	4.90	5.80
	Per Capita Income Real 2001 prices (Ksh)	333.60	296.60	33,283	33,767	32,549	32,845	33,764	35,045
3.	**GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]**	**8.90**	**9.70**	**12.85**	**9.96**	**8.35**	**10.29**	**10.39**	**11.67**
4.	**GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]**	**6.06**	**5.67**	**6.7**	**4.4**	**4.3**	**5.1**	**7.1**	**6.8**
5.	**GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)**	**17.30**	**16.20**	**17.4**	**18.8**	**15.3**	**16.4**	**16.9**	**16.8**
6.	**CONSUMER PRICE INFLATION (URBAN) 1997 BASE**								
	Average Annual Inflation	6.70	5.60	10.01	5.87	1.96	9.82	11.62	10.31
	Twelve-month Inflation (Dec-Dec)	0.67	10.43	11.89	1.57	4.27	8.35	16.25	18.87
7.	**STOCK MARKET**								
	Nairobi Stock Exchange Price Index (1966=100)	2,963.10	2,303.20	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04
	Trade Turnover (%)	0.40	0.23	0.17	0.17	0.50	0.89	0.92	0.88
8.	**GOVERNMENT BUDGET (Ksh bn) *****								
	Revenue and Grants	184.87	201.18	182.69	216.39	203.44	225.69	270.91	304.71
	Expenditure	194.97	197.34	175.12	232.92	225.76	264.14	282.19	303.71
	Budget Deficit (-) / Surplus (+)	-10.10	3.84	7.57	-16.53	-22.32	-38.45	-11.28	1.00
	Budget Deficit (% of GDP)	-1.25	0.44	0.81	-1.66	-2.19	-3.56	-0.93	0.07
9.	**MONEY AND CREDIT (Ksh bn)(end period)**								
	Liquidity (L)[1]	381.35	414.43	435.47	462.13	521.20	569.43	633.92	712.32
	Money Supply (M3)[2]	328.32	345.73	360.01	368.39	406.01	453.35	513.16	565.49
	Reserve Money	74.99	78.99	77.73	79.12	88.45	87.52	101.05	106.23
	Total Domestic Credit	**350.60**	**358.48**	**331.29**	**334.00**	**364.93**	**405.20**	**473.61**	**498.66**
	Government	91.10	84.13	76.45	89.08	108.61	133.85	132.34	122.16
	Private sector and other public sector	260.60	274.35	254.85	244.93	256.33	271.41	341.27	376.50
10.	**BALANCE OF PAYMENTS (US$ m)****								
	Overall Balance	**-4.80**	**5.80**	**108.20**	**166.38**	**3.26**	**413.33**	**38.85**	**280.12**
	Current Account	-475.10	-89.60	-237.50	-383.39	-117.69	146.20	-137.04	-307.97
	Capital and Financial Account	617.50	263.80	416.22	348.20	-31.67	537.82	239.52	765.90
11.	**FOREIGN EXCHANGE RESERVES (US$ m) END PERIOD**	**1,100.00**	**1,104.00**	**1,398.72**	**1,459.35**	**1,612.69**	**1,888.04**	**2,078.40**	**2,534.16**
	Official	782.00	789.00	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82
	*Months of imports*****	*(2.5)*	*(2.9)*	*(2.8)*	*(3.2)*	*(3.3)*	*(4.2)*	*(3.4)*	*(3.3)*
	Commercial Banks	328.00	315.00	501.30	395.53	545.70	408.28	559.67	735.34
12.	**PUBLIC DEBT (US$ bn) END PERIOD*****	**8.45**	**8.00**	**7.58**	**7.85**	**8.09**	**9.29**	**9.14**	**9.84**
	Domestic	3.00	2.60	2.50	2.80	3.30	3.90	3.85	4.14
	As % of GDP	*22.01*	*21.84*	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*
	External	*5.45*	*5.40*	*5.08*	*5.05*	*4.79*	*5.39*	*5.29*	*5.69*
	As % of GDP	*39.99*	*45.36*	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.17*
13.	**EXCHANGE RATE (Ksh/US$) (ANNUAL AVERAGE)**	**60.40**	**70.30**	**76.20**	**78.60**	**78.70**	**75.93**	**79.28**	**75.55**

* Provisional.

** Revised to reflect data reported in Economic Survey 2005.

*** Fiscal year to June 30th.

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

[1] Previously M3XT

[2] Previously M3X

[3] Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

	2006					2007			
INDICATOR	**Jan**	**Feb**	**Mar**	**Apr**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
1. INFLATION (%)									
CPI	**201.25**	**209.33**	**212.80**	**210.69**	**214.05**	**220.72**	**223.59**	**225.30**	**225.30**
Overall Inflation									
12-month overall inflation	15.39	18.87	19.14	14.85	15.59	9.67	6.81	5.87	5.66
Average annual overall inflation	10.41	10.88	11.36	11.31	14.45	13.94	12.88	11.73	10.92
Underlying Inflation*									
12-month underlying inflation	4.00	3.94	3.82	3.66	4.32	5.15	4.92	5.13	5.03
Average annual underlying inflation	5.31	5.08	4.89	4.89	3.88	3.98	4.06	4.17	4.29
2. INTEREST RATES (%)									
91-day Treasury bill interest rate	8.23	8.02	7.60	7.02	5.73	6.00	6.22	6.32	6.65
Overdraft interest rate	13.81	13.34	13.26	13.81	13.91	14.11	14.05	13.95	
3. STOCK MARKET									
Nairobi Stock Exchange Price Index	4,171.80	4,056.63	4,101.64	4,025.20	5,645.65	5,774.24	5,387.28	5,133.67	
Turnover (%)	2.74	1.18	1.31	1.08	0.83	1.38	1.05	1.10	
4. GOVERNMENT BUDGET (Ksh bn.)**									
Revenue	182.99	203.94	229.95	253.12	170.16	201.48	224.85		
Expenses	209.79	235.26	268.55	292.60	194.39	219.73	252.08		
Budget Deficit (-) / Surplus (+)	**(26.80)**	**(31.32)**	**(38.60)**	**(39.48)**	**(24.23)**	**(18.24)**	**(27.23)**		
5. MONEY AND CREDIT (Ksh bn.)									
Liquidity (L)[1]	716.36	725.59	738.22	758.95	834.16	839.31	839.14		
Money Supply (M3)[2]	568.15	576.42	587.56	606.67	666.84	669.37	673.21		
Reserve Money	102.45	101.29	102.76	107.04	124.16	118.85	119.90		
Total Domestic Credit	**498.03**	**504.77**	**520.17**	**527.52**	**575.76**	**581.97**	**584.11**		
Government	118.11	116.87	126.20	123.74	137.81	137.25	134.25		
Private sector and other public sector	379.93	387.90	382.24	403.79	437.94	444.72	449.86		
6. MONEY AND CREDIT (Annual % Change)									
Liquidity (L)[1]	13.20	13.69	13.91	16.66	17.11	17.16	15.65		
Money Supply (M3)[2]	11.22	12.00	12.46	16.82	17.92	17.82	16.79		
Reserve Money	7.24	6.50	9.77	14.23	16.88	16.01	18.37		
Total Domestic Credit	**5.91**	**7.23**	**9.02**	**12.95**	**15.46**	**16.85**	**15.72**		
Government	(6.60)	(5.95)	(0.75)	7.09	12.81	16.21	14.87		
Private and other public sector	10.51	11.96	12.81	14.86	16.32	17.05	15.98		
7. BALANCE OF PAYMENTS (US$ m)									
Overall Balance	**132.47**	**0.48**	**67.54**	**143.75**	**(19.91)**	**52.88**	**45.51**		
Current Account	(47.42)	(84.71)	(26.83)	(200.96)	(90.90)	(125.07)	(175.02)		
Trade Balance	(310.91)	(285.54)	(270.80)	(411.85)	(364.63)	(392.31)	(469.73)		
Capital and Financial Account	179.89	85.19	94.37	344.71	71.00	177.96	220.53		
8. FOREIGN EXCHANGE RESERVES (US$ m)	2,666.93	2,643.50	2,718.44	2,910.54	3,331.30	3,284.30	3,381.13	3,570.40	
Official***	1,925.96	1,919.15	1,981.35	2,119.76	2,415.27	2,462.82	2,500.95	2,589.91	
Months of imports cover	*3.49*	*3.39*	*3.44*	*3.68*	*3.63*	*3.63*	*3.56*	*3.69*	
Commercial banks	740.97	724.35	737.09	790.78	916.03	821.48	880.18	980.49	
9. PUBLIC DEBT (US$ bn)	**10.30**	**10.19**	**10.48**	**10.61**	**10.94**	**10.72**	**10.94**		
Domestic	4.64	4.63	4.81	4.89	5.46	5.36	5.53		
As % of GDP	*23.90*	*24.12*	*24.53*	*24.56*	23.19	22.56	22.80		
External	*5.66*	*5.56*	*5.66*	*5.71*	5.48	5.36	5.41		
As % of GDP	*29.17*	*29.00*	*28.85*	*28.67*	*24.55*	*24.90*	*24.62*		
10. GROSS DOMESTIC DEBT (Ksh bn)******	**333.95**	**338.61**	**346.06**	**348.22**	**385.10**	**378.10**	**385.80**	**386.29**	
11. AVERAGE EXCHANGE RATE									
Ksh/US$	72.21	71.80	72.28	71.30	69.63	69.88	69.62	69.29	68.58
Ksh/Pound Sterling	127.51	125.61	126.13	125.84	136.79	136.91	136.40	134.91	136.40
Ksh/ 100 Yen	62.55	60.94	61.63	60.94	59.47	58.09	57.76	59.08	57.73
Ksh/Euro	87.53	85.84	86.90	87.45	92.03	90.87	91.04	91.77	92.68

* Overall inflation excluding food, energy and transport and communications

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

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

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

[1] Previously M3XT

[2] Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

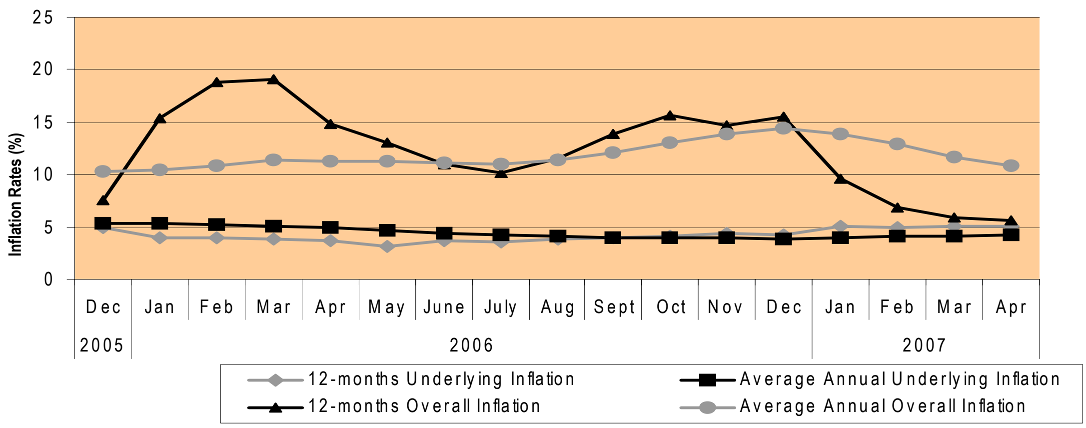
Overall annual inflation eased from 5.9 percent in March 2007 to 5.7 percent in April 2007 while average annual inflation decreased from 11.7 percent in March 2007 to 10.9 percent in April 2007. This means that although the cost of living in Kenya increased over the year to April 2007, the rate of increase was lower than it was for the year to March 2007. Inflation has been easing over the last four successive months, from 15.6 percent in December 2006 to the current level of 5.7 percent.

The slow-down in the 12-month overall inflation reflects a drop of 2.1 percent in the price index for the Food and Non-alcoholic Drinks category and a drop of 0.4 percent in the price index of Alcohol and Tobacco category during the month of April 2007 from their March 2007 levels.

Underlying Inflation

The 12-month underlying annual inflation eased from 5.1 percent in the previous month to 5.0 percent in April 2007. The average annual underlying inflation increased to 4.3 percent from 4.2 percent in March 2007. The decrease in the 12-month underlying inflation was as a result of a fall in the price level of alcohol and tobacco by 0.4 percent from the March 2007 levels and zero or marginal monthly inflation for the other six categories of the underlying inflation index.

CHART 1A: UNDERLYING AND OVERALL INFLATION



Sources: Central Bureau of Statistics & Central Bank of Kenya

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2006								2007		
	Feb	Mar	Apr	June	Sept	Oct	Nov	Dec	Feb	Mar	Apr
Underlying Inflation											
12-month	3.94	3.82	3.66	3.68	4.02	4.11	4.39	4.32	4.92	5.13	5.03
Average annual	5.20	5.08	4.89	4.44	4.01	3.95	3.93	3.88	4.06	4.17	4.29
Growth over one month	0.26	0.17	0.32	1.10	0.32	0.22	0.29	0.48	0.05	0.37	0.23
Growth over 3 months	1.22	0.85	0.76	1.44	0.98	1.09	0.84	0.99	1.74	1.63	0.65
Overall Inflation											
12-month	18.87	19.14	14.85	10.93	13.85	15.69	14.64	15.59	6.81	5.87	5.66
Average annual	10.88	11.36	11.31	11.12	12.13	13.11	13.81	14.45	12.88	11.73	10.92
Growth over one month	4.00	1.70	-1.00	-3.00	1.60	1.90	0.30	2.60	1.30	0.80	-1.20
Growth over 3 months	15.00	14.90	4.70	-4.90	0.90	4.30	3.80	4.80	7.20	5.30	0.90

Sources: Central Bureau of Statistics & Central Bank of Kenya

Chart 1A and Table 1.1 depicts trends in overall and underlying inflation between February 2006 and April 2007 over which underlying inflation oscillated around the 5 percent inflation objective. Overall inflation has been on a declining trend over the last four months from a high of 15.6 percent in December 2006 to 5.7 percent in April 2007.

Inflation by Income Groups

All income groups experienced lower annual inflation over the year to April 2007 than in the year to March 2007 except the Nairobi Lower Income Group whose inflation of 3.8 percent was the same as in March 2007 but higher than its level in February 2007. Inflation for Nairobi Lower income group stood at 3.9 percent in April 2007; for Nairobi Middle/Upper income group it was 3.1 percent down from 3.4 percent in March. The Nairobi combined group inflation was 3.7 percent, down from 3.8 percent in the previous month. Annual inflation for the rest of the country was 7.0 percent, down from 7.4 percent in the previous month but well above the national overall inflation of 5.7. Details on inflation by income groups are provided in Table 1.2 and Chart 1 B.

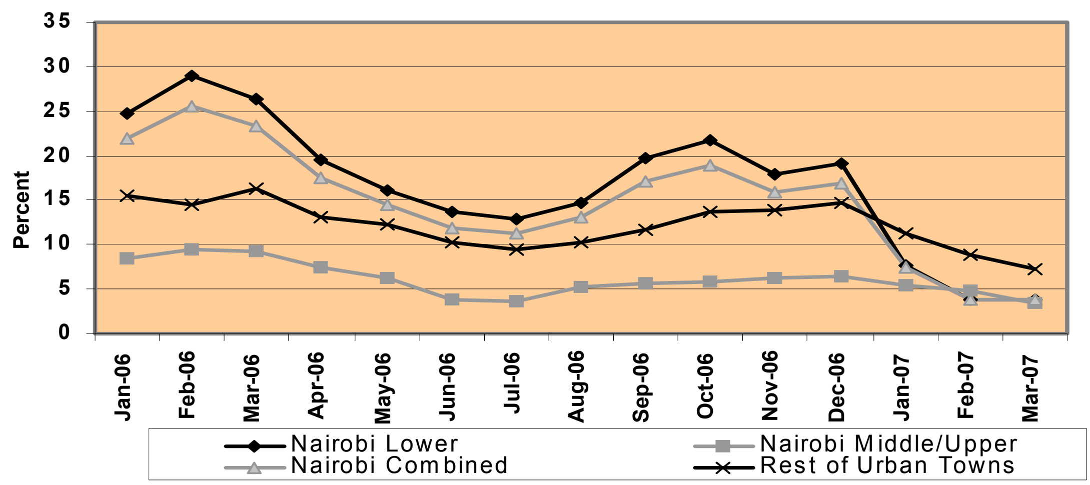
TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)

	2006									2007		
	Jan	Feb	Mar	Apr	May	Aug	Sept	Nov	Dec	Jan	Feb	Mar
Nairobi Lower	24.74	29.04	26.27	19.51	16.10	14.75	19.67	17.86	19.20	7.73	3.75	3.88
Nairobi Middle/Upper	8.43	9.48	9.25	7.44	6.25	5.14	5.68	6.33	6.44	5.34	4.76	3.43
Nairobi Income \[1]	21.85	25.61	23.32	17.43	14.41	13.05	17.15	15.83	16.99	7.35	3.90	3.81
Rest of Urban Towns	11.21	14.45	16.38	13.15	12.21	10.35	11.73	13.82	14.67	11.32	8.90	7.32

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

Source: Central Bureau of Statistics and Central Bank of Kenya

CHART 1B: 12-MONTH INFLATION BY INCOME GROUPS



Source: Central Bureau of Statistics and Central Bank of Kenya

Inflation Across Goods and Services Categories

Inflation in each category of the CPI basket was within single digits, except for Fuel and Power whose inflation was 10.5 percent in April 2007 down from 10.9 percent in March, and has remained at double-digit levels over the last three years. Inflation rates in all the other categories ranged between 2.6 percent (for Personal Goods and Services), to 7.2 percent (for Housing category). Inflation rates for the other categories for the year to April 2007 were as follows: Food and Non-Alcoholic Drink, 5.5 percent from 5.7 percent for the year to March, Alcohol and Tobacco, 5.1 percent down from 5.6 percent, Clothing and Footwear 3.8 percent from 3.7 percent, Household Goods and Services, 5.2 percent from 5.4 percent, Medical Goods and Services, 4.1 percent from 4.0 percent, Transport and Communication, 5.8 percent from 6.7 percent, Recreation and Education, 3.3 percent from 3.2 percent.

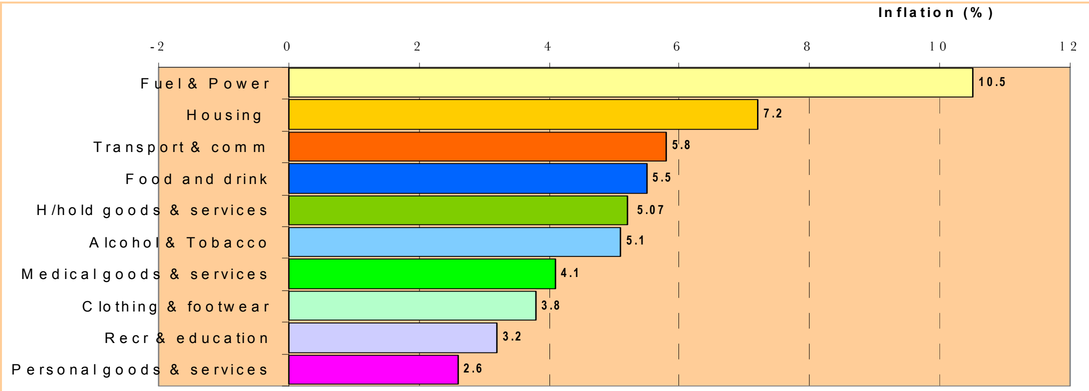
Table 1.3 and Chart 1C provides information on inflation developments across all the ten categories of goods and services covered in the Consumer Price Index (CPI).

TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES - SEPTEMBER 06 TO APRIL 07

	Income Groups*				12-Month inflation							
Goods and Services	Nairobi Lower	Middle/Upper	Rest of Urban Towns	Combined weights	2006				2007			
Weight	*(31.9)*	*(8.0)*	*(60.1)*	*(100)*	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Food and drink	55.70	31.90	50.20	50.50	19.97	22.99	21.10	22.60	11.80	7.20	5.7	5.5
Housing	11.90	31.70	9.00	11.70	4.73	5.07	5.90	6.00	7.30	6.90	7.3	7.2
Recr & education	4.60	7.30	6.60	6.00	2.15	2.16	2.00	2.10	3.60	3.00	3.3	3.2
H/hold goods & services	5.00	4.70	6.40	5.80	3.78	3.95	4.40	4.70	5.10	5.30	5.4	5.2
Clothing & footwear	9.20	7.40	9.10	9.00	3.10	2.84	2.80	3.00	3.40	3.60	3.8	3.8
Transport & comm	5.10	10.20	5.50	5.70	8.50	8.24	7.10	6.50	6.50	7.20	6.7	5.8
Fuel & Power	3.50	2.20	4.80	4.20	11.92	13.52	13.00	13.50	12.80	11.50	11	10.5
Medical goods & services	0.90	1.30	2.00	1.60	3.35	3.36	4.10	3.10	4.90	4.00	4	4.1
Personal goods & services	2.30	1.90	2.60	2.40	2.04	1.99	1.80	2.00	2.60	2.70	2.8	2.6
Alcohol & Tobacco	1.80	1.40	3.80	3.00	9.19	9.33	8.80	7.00	6.00	5.60	5.6	5.1

* Numbers in parentheses are income group weights

CHART 1C: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES IN APRIL 2007



Source: Central Bureau of Statistics

Inflation Outlook

Going forward, inflation developments will hinge on international oil prices, the movements in shilling exchange rate to the US dollar, and success of the reserve money program.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Money supply, M3[1], grew by 17.8 percent in the year to March 2007 compared with 12.5 percent in a similar period in 2006. At 17.8 percent, M3 growth was higher than the 16.8 percent growth in February 2007, and above the projected 14 percent growth for the March 2007 quarter. Broad money, M2, that is, M3 excluding foreign currency deposits, grew by 16.9 percent in March 2007 compared with 13.3 percent in March 2006 as shown in Table 2.1 and Chart 2a. M2 growth in the year to March 2007 was mainly in currency as well as time and savings deposits.

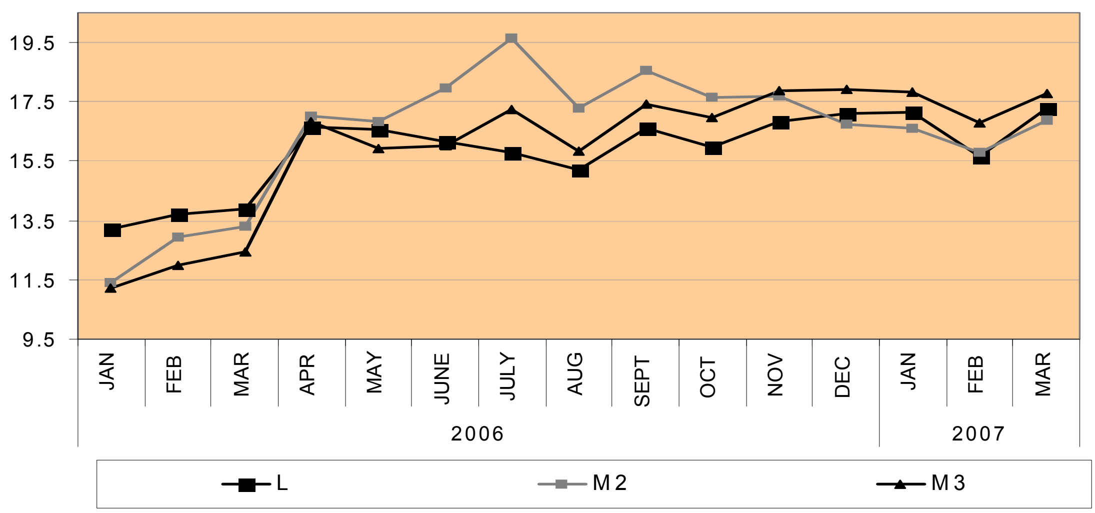
TABLE 2.1: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

Monetary Aggregates	2006					2007		
	Feb	Mar	June	Sep	Dec	Jan	Feb	Mar
Currency outside banks	8.2	10.7	13.3	15.8	15.3	14.9	16.4	19.2
M1	17.4	17.5	16.5	21.0	26.2	22.9	21.6	21.3
M2	12.9	13.3	18.0	18.5	16.7	16.6	15.8	16.9
M3	12.0	12.5	16.0	17.4	17.9	17.8	16.8	17.8
L*	13.7	13.9	16.2	16.6	17.1	17.2	15.6	17.3

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The expansion in money supply in the year to March 2007 reflected increased net foreign assets (NFA) and net domestic assets (NDA) of the banking system. NFA grew by 28.4 percent compared with 23.3 percent in a corresponding period in 2006, while NDA grew by 13.2 percent compared with 8.3 percent over a similar period in 2006 as shown in Table 2.2.

[1] Effective January 2006, the CBK adopted a harmonized definition of monetary aggregates to conform to those of the East Africa partner states. Consequently, M3X has now been renamed M3 denoting extended broad money.

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

	2005 March	2006 March	2007 March	Mar-06 12 months %age change	Mar-07 12 months %age change
1. Money Supply, M3 (2+3) 2/	**522.5**	**587.6**	**692.4**	**12.5**	**17.8**
1.1 Money supply, M2 3/	422.6	481.1	564.8	13.9	17.4
1.2 Money supply, M1	206.2	242.3	293.9	17.5	21.3
1.3 Currency outside banks	58.0	64.2	76.5	10.7	19.2
2. Net Foreign Assets 4/	**145.1**	**179.0**	**229.8**	**23.3**	**28.4**
Central Bank	81.0	127.3	164.6	57.1	29.3
Banking Institutions	64.1	51.7	65.2	-19.4	26.3
3. Net Domestic Assets (3.1+3.2)	**377.3**	**408.6**	**462.6**	**8.3**	**13.2**
3.1 Domestic Credit (3.1.1+3.1.2)	**477.1**	**519.9**	**595.7**	**9.0**	**14.6**
3.1.1 Government (net)	127.2	125.9	137.8	-1.0	9.4
3.1.2 Private sector and other public sector	350.0	394.0	457.9	12.6	16.2
3.2 Other Assets Net (3-3.1)	-99.8	-111.3	-133.1	11.5	19.6
Memorandum items					
1. Overall Liquidity, L 1/	**648.1**	**738.5**	**866.3**	**14.0**	**17.3**
2. Reserve Money	**93.6**	**102.8**	**122.2**	**9.8**	**18.9**
Currency outside banks	57.9	64.2	76.5	10.8	19.2
Bank reserves	35.7	38.6	45.7	8.0	18.4

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

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

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

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

4/ NFA at constant exchange rate of shs 78.95 to the US dollar (Sept. 30th, 2001).

Source: Central Bank of Kenya

As shown in Table 2.3 banking systems' NFA contributed 8.7 percent to money supply expansion in March 2007 compared with 6.5 percent in March 2006, reflecting higher private sector financial inflows, transfers to non-governmental organizations as well as remittances. NDA of the banking system contributed 9.2 percent to M3 expansion from 6 percent in March 2006. The main contribution to the growth in banking system's NDA was domestic credit whose contribution at 12.9 percent in March 2007 was higher than 8.2 percent in March 2006, reflecting faster growth in credit to the private sector.

TABLE 2.3: CONTRIBUTION TO M3 GROWTH (%)

	2006					2007		
	Feb	Mar	Jun	Sep	Dec	Jan	Feb	Mar
Annual growth in M3	**12.0**	**12.5**	**16.0**	**17.4**	**17.9**	**17.8**	**16.8**	**17.8**
Net Foreign Assets	**7.7**	**6.5**	**7.1**	**8.1**	**9.0**	**7.2**	**8.4**	**8.7**
Net Domestic Assets	**4.3**	**6.0**	**8.9**	**9.4**	**8.9**	**10.7**	**8.4**	**9.2**
Domestic Credit	**6.6**	**8.2**	**11.3**	**11.7**	**13.6**	**14.8**	**13.8**	**12.9**
Government (net)	-1.4	-0.2	1.1	2.2	2.8	3.4	3.0	2.0
Rest of Economy	8.0	8.4	10.2	9.5	10.9	11.4	10.8	10.9
Other public sector	0.5	0.1	0.4	0.8	1.2	1.1	0.9	1.1
Private Sector	7.6	8.3	9.9	8.7	9.7	10.3	9.8	9.8
Other items (net)	**-2.3**	**-2.3**	**-2.4**	**-2.4**	**-4.7**	**-4.1**	**-5.3**	**-3.7**

Source: Central Bank of Kenya

Credit Developments

Domestic credit grew by 14.6 percent in the year to March 2007 compared with 9 percent a year earlier, reflecting increased credit to both Government and private sector. Credit to Government increased by 9.4 per cent in the year to March 2007 compared with a 1 percent decline in a corresponding period in 2006 (Table 2.4 and Chart 2B).

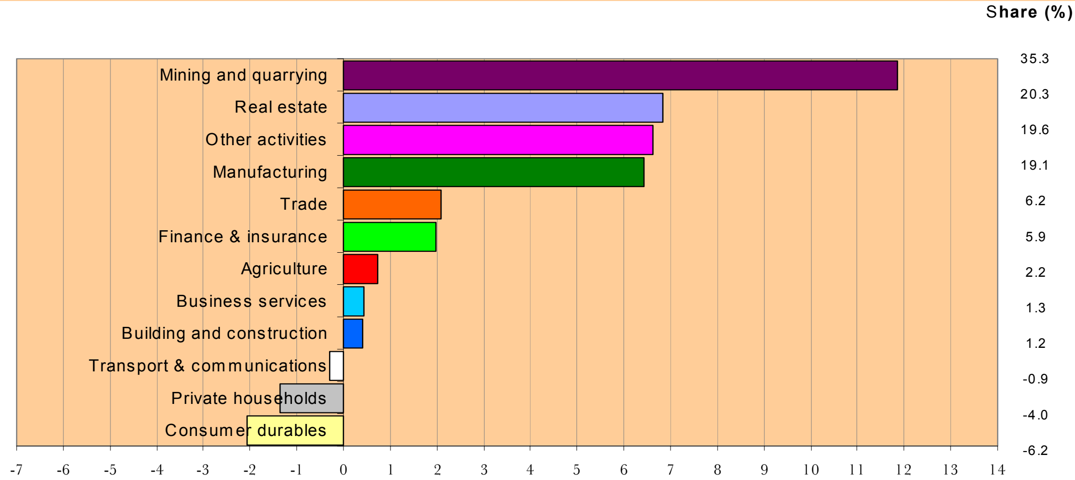
Credit to private sector increased by 15 percent in March 2007 compared with 12.8 percent increase in a similar period in 2006. Most of the expansion in credit to private sector was to mining and quarrying (41.1 percent), real estate (24.5 percent), manufacturing (9.7 percent), other activities (14 percent), finance and insurance (3.8 percent), Trade (3.8 percent) and agriculture (2.3 percent).

TABLE 2.4: BANKING SYSTEM NET DOMESTIC CREDIT

	2006 March		2007 March		Annual % Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2005/2006	2006/2007
1. Credit to Government	**125.9**	**24.2**	**137.8**	**23.1**	**-1.0**	**9.4**
Central Bank	5.4	1.0	-8.8	-1.5	-73.5	-263.1
Commercial Banks & NBFIs	120.5	23.2	146.6	24.6	12.9	21.7
2. Credit to other public sector	**11.7**	**2.3**	**18.2**	**3.1**	**5.2**	**55.4**
Local government	-2.2	-0.4	-2.5	-0.4	112.0	15.3
Parastatals	13.9	2.7	20.7	3.5	14.1	49.2
3. Credit to private sector	**382.2**	**73.5**	**439.7**	**73.8**	**12.8**	**15.0**
Agriculture	32.6	6.3	33.4	5.6	5.8	2.3
Manufacturing	66.3	12.7	72.7	12.2	7.7	9.7
Trade	55.4	10.7	57.5	9.7	13.4	3.8
Building and construction	1.4	0.3	1.8	0.3	-51.5	29.4
Transport & communications	1.4	0.3	1.1	0.2	31.5	-21.5
Finance & insurance	52.7	10.1	54.7	9.2	17.1	3.8
Real estate	27.9	5.4	34.7	5.8	32.0	24.5
Mining and quarrying	28.9	5.6	40.8	6.8	39.2	41.1
Private households	30.4	5.9	29.1	4.9	-2.1	-4.4
Consumer durables	26.0	5.0	23.9	4.0	22.0	-8.0
Business services	2.8	0.5	3.2	0.5	26.7	15.3
Other activities	47.4	9.1	54.0	9.1	25.2	14.0
4. TOTAL (1+2+3) *	**519.9**	**100.0**	**595.7**	**100.0**	**9.0**	**14.6**

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

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



Source: Central Bank of Kenya

Reserve Money

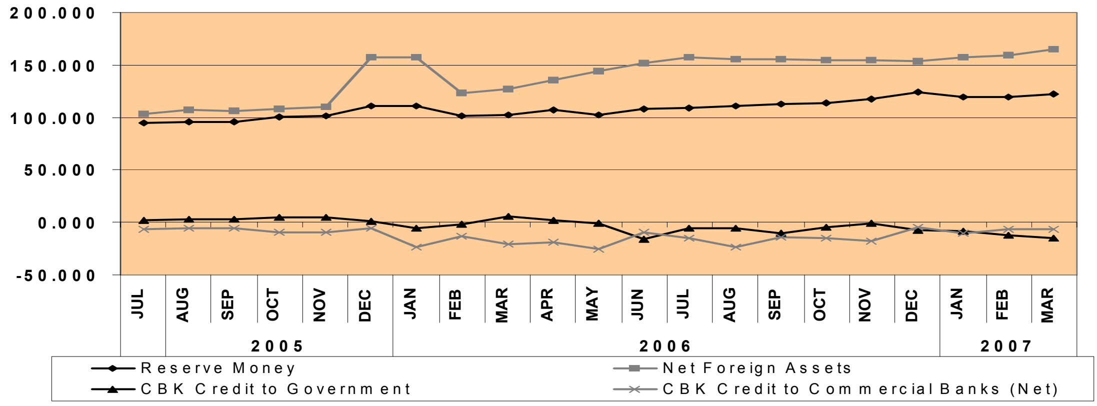
Reserve money increased by Ksh 19.6 billion or 19.1 per cent in the year to March 2007 compared with Ksh 9.1 billion or 9.7 per cent annual growth in the year to March 2006 as shown in Table 2.5 and Chart 2C. The increase in reserve money was in currency outside banks of Ksh 11.9 billion or 18.3 per cent and bank reserves of Ksh 7.7 billion or 20.4 per cent. Average reserve money in March 2007 at Ksh 122.4 billion was above target by Ksh 6.9 billion. The excess reserve money was held in currency outside banks of Ksh 5.8 billion and bank reserves of Ksh 1.1 billion.

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

	2006	2007	Change		2007	
	Mar	Mar	Absolute	%	Mar Target	Deviation
1. Net Foreign Assets	127.5	164.6	37.1	29.1	162.7	1.9
2. Net Domestic Assets	-24.8	-42.2	-17.4	70.4	-47.2	5.0
2.1 Government Borrowing (net)	11.5	-8.0	-19.5	-169.1	-10.3	2.3
2.2 Advances & Discounts	-20.7	-14.6	6.1	-29.6	-24.0	9.4
2.3 Other Domestic Assets (net)	-15.6	-19.6	-4.1	26.1	-12.9	-6.7
3. Reserve Money	102.8	122.4	19.6	19.1	115.5	6.9
3.1 Currency outside banks	64.8	76.7	11.9	18.3	70.9	5.8
3.2 Bank reserves	37.9	45.6	7.7	20.4	44.6	1.1

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The increase in reserve money of Ksh 19.6 billion in the year to March 2007 was supported by increased net foreign assets (NFA) of the Central Bank as net domestic assets (NDA) declined. NFA increased by Ksh 37.1 billion or 29.1 per cent in the year to March 2007 largely due to interbank forex purchases by the Bank for purposes of reserves build up.

NDA of the Central Bank declined by Ksh 17.4 billion or 70.4 percent, to Ksh –42.2 billion in March 2007 from Ksh -24.8 billion in March 2006. The decline in NDA of the Central Bank was due to build up in Government deposits at the Central Bank, reduction in Government borrowing from the Central Bank which was offset by a reduction in repos held by commercial Banks in March 2007.

Government deposits increased by Ksh 1.4 billion, from Ksh 44.1 billion in March 2006 to Ksh 45.5 billion in March 2007. During the same period, Government borrowing from the Bank declined by Ksh 12.0 billion, from Ksh 49.5 billion in March 2006 to Ksh 37.6 billion in March 2007 after Government reduced its utilisation of the overdraft facility.

At the same time, net indebtedness of Central Bank to commercial banks declined by Ksh 6.1 billion, from Ksh 20.7 billion in March 2006 to Ksh 14.6 billion in March 2007, following redemptions of maturing repos previously held by the Bank for purposes of Open Market Operations. Other domestic assets of the Central Bank net of liabilities declined by Ksh 4.1 billion, from Ksh -15.6 billion in March 2006 to Ksh -19.6 billion in March 2007, partly due improved profitability of the Bank.

Interest rates

Short-term interest rates increased in April 2007 with the average 91-day Treasury bill rate increasing from 6.32 percent in March 2007 to 6.64 percent in April. The 182-day Treasury bill rate however, declined from 7.97 percent in March 2007 to 7.93 percent in April 2007.

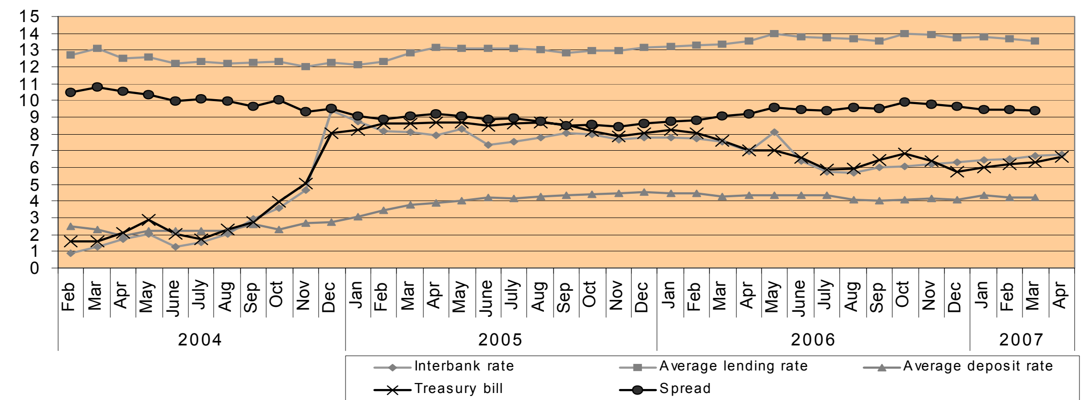
The average inter-bank rate increased from 6.70 percent in March 2007 to 6.79 percent in April while the Repo rate increased from 6.70 percent to 6.84 percent in April 2007 as liquidity in the short end of the market was tight. Table 2.6 provides a summary of various interest rates for selected months in 2006 and 2007 while Chart 2D depicts trends in domestic interest rates from February 2004 to April 2007.

TABLE 2.6: INTEREST RATES (%)

	2006								2007			
	Feb	Mar	Apr	May	June	Oct	Nov	Dec	Jan	Feb	Mar	Apr
91-day Treasury bill rate	8.02	7.60	7.02	7.01	6.60	6.83	6.41	5.73	6.00	6.22	6.32	6.65
Overdraft rate	13.34	13.26	13.81	14.02	13.78	13.94	13.96	13.91	14.11	14.05	13.95	
Interbank rate	7.73	7.52	6.97	8.12	6.41	6.08	6.18	6.34	6.43	6.52	6.70	6.79
Average lending rate (1)	13.27	13.33	13.51	13.95	13.79	14.01	13.93	13.74	13.78	13.64	13.56	
Average deposit rate (2)	4.48	4.33	4.35	4.36	4.35	4.11	4.15	4.11	4.35	4.21	4.19	
0 to 3 - month deposit	5.49	5.74	5.28	5.04	5.05	4.88	4.93	5.13	5.15	5.09	5.23	
Savings deposits	1.36	1.34	1.33	1.31	1.27	1.35	1.37	1.35	1.42	1.41	1.43	
Spread (1-2)	8.78	9.05	9.16	9.59	9.44	9.90	9.78	9.63	9.43	9.42	9.37	

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES (%)



Source: Central Bank of Kenya

Lending and Deposit Rates

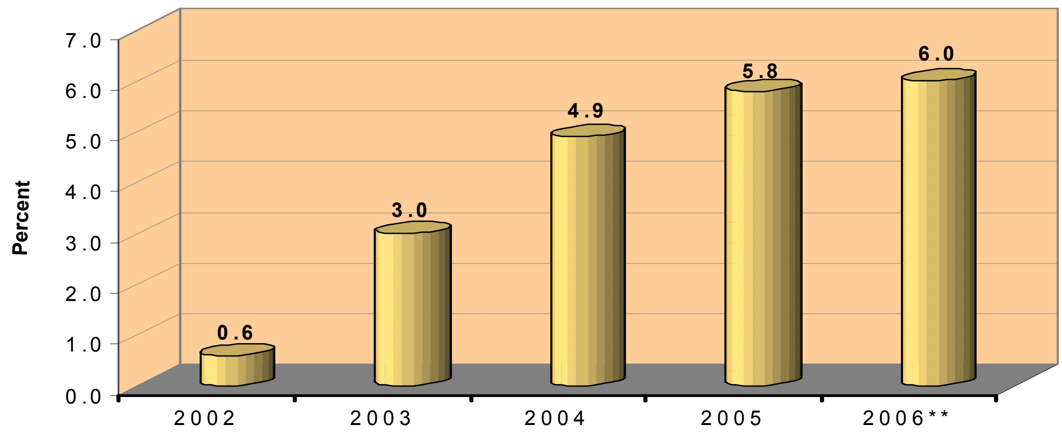
The commercial banks overall weighted lending rate declined in March 2007 from 13.64 percent in February 2007 to 13.56 percent in March. The overdraft rate declined from 14.05 percent to 13.95 percent while, the overall deposit rate declined from 4.21 percent in February 2007 to 4.19 percent in March attributed to the decline in the over 3 months deposit rate. Over the same period, the interest rate spread declined marginally from 9.42 percent to 9.37 percent as the lending rates declined more than deposit rates.

PERFORMANCE OF THE REAL SECTOR

Overview

Economic growth in 2006 is estimated at 6.0 percent, compared with 5.8 percent in 2005. The increased growth is attributed to improved performance in various sectors of the economy particularly tourism, agriculture, telecommunications, energy and building and construction. The economic outlook for 2007 remains good with prospects of favourable weather conditions (Chart 3A, Tables 3.1 and 3.2).

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



** Estimate
Source: Kenya National Bureau of Statistics (Economic Survey 2006) and Central Bank of Kenya

TABLE 3.1: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

	Share in Real GDP (%)	Ksh Million			
MAIN SECTORS	**2005**	**2002**	**2003**	**2004**	**2005**
Agriculture,Forestry & Fishing	24.20	274,308	281,077	285,905	305,226
Manufacturing	10.50	99,894	105,891	110,617	116,157
Wholesale and retail trade, repairs	10.80	91,233	92,805	100,655	107,155
Hotels & Restaurants	1.40	12,428	9,903	13,747	15,581
Financial Services	3.10	41,443	42,064	42,657	46,111
Construction	4.00	31,218	31,538	32,790	35,143
Transport, Storage & Communications	10.90	101,408	105,091	112,126	121,479
Government	14.40	136,242	143,577	146,110	146,562
Others of which	11.40	125,278	130,608	134,482	137,181
Domestic Services	*0.40*	*3,780*	*3,855*	*3,932*	*4,011*
Real estate, renting & Business service	*5.60*	*60,452*	*61,864*	*63,740*	*65,882*
Other-Financial services indirectly measured	*-0.80*	*-10,665*	*-10,315*	*-10,801*	*-11,798*
Electricity & Water supply	*2.00*	*23,749*	*27,074*	*27,895*	*27,924*
Mining & Quarrying	*0.50*	*5,036*	*5,213*	*5,326*	*5,469*
Community,social & personal services	*3.70*	*42,926*	*42,917*	*44,390*	*45,693*
Total GDP at basic 2001prices	**90.70**	**913,451**	**942,554**	**979,090**	**1,030,597**
Taxes less subsidies on products	8.80	112,403	113,900	128,626	141,493
Real GDP at 2001 market prices	**100.00**	**1,025,854**	**1,056,454**	**1,107,715**	**1,172,090**
GDP at Mkt Prices		1,022,208	1,136,288	1,282,504	1,415,155
Overall GDP Deflator		100	108	116	121

Source: Kenya National Bureau of Statistics (Economic Survey 2006)

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

	Share in Real GDP in 2005 (%)	2002	2003	2004	2005
Agriculture,Forestry & Fishing	24.20	-3.0	2.5	1.7	6.8
Manufacturing	10.50	0.1	6.0	4.5	5.0
Wholesale and retail trade, repairs	10.80	-2.5	1.2	9.5	10.5
Hotels & Restaurants	1.40	4.7	-20.3	15.1	16.1
Financial Services	3.10	-1.6	1.5	1.4	8.1
Building & Construction	4.00	-1.9	1.0	4.0	7.2
Transport & Communications	10.90	9.1	3.6	6.7	8.3
Government	14.40	0.3	2.6	1.8	2.8
Others	11.40	1.4	4.3	2.6	3.6
Domestic Services	*0.40*	2.0	2.0	2.0	2.0
Real estate, renting & Business service	*5.60*	3.0	2.3	3.0	3.4
Other-Financial services indirectly measured	*-0.80*	-9.4	-3.3	4.7	9.2
Electricity & Water supply	*2.00*	20.7	14.0	3.0	0.1
Mining & Quarrying	*0.50*	2.5	3.5	2.2	2.7
Community,social & personal services	*3.70*	2.7	-0.0	3.4	2.9
Real GDP Growth		**0.6**	**3.0**	**4.9**	**5.8**

*Provisional
Source: Kenya National Bureau of Statistics (Economic Survey 2006)

Agriculture Tea, horticulture, coffee and sugar cane output in the first two months of 2007 are shown in Table 3.3.

TABLE 3.3: OUTPUT GROWTH OF MAJOR CROPS

	2005	2006	Jan-Feb' 2006	Jan-Feb' 2007
Tea				
Output (ton)	328,503.00	310,578.33	29,614.33	76,449.00
Growth (%)	1.21	-5.46	-50.61	158.15
Horticulture				
Output (ton)	163,153.82	166,736.82	28,108.06	28,534.62
Growth (%)	12.03	2.20	-4.15	1.52
Coffee				
Output (ton)	47,650.00	50,527.91	10,047.91	8,925.00
Growth (%)	-4.56	6.04	16.70	-11.18
Sugar Cane *				
Output (ton)	4,693,292.00	4,933,805.00	883,281.00	843,932.00
Growth (%)	22.12	5.12	7.38	-4.45

* Provisional

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

Tea Tea output grew by 158.2 percent, from 29,614.3 metric tonnes in January - February 2006 to 76,449.0 metric tonnes in January - February 2007. The growth was attributed to favourable weather conditions in the tea growing regions. Average tea prices, however, fell from US $ 2,510 per tonne in February 2006 to US $ 1,750 per tonne in February 2007.

Horticulture During the first two months of 2007, output in the horticultural sector grew by 1.5 percent, from 28,108.1 metric tonnes in January – February 2006 to 28,534.6 metric tonnes in January - February 2007. Flower production which contributed 54 percent to total horticultural crop exports declined by 3.0 percent . Production of vegetables grew by 2.8 percent while output of fruits rose by 36.3 percent in January-February 2007.

Coffee

Coffee production declined by 11.2 percent in the first two months of 2007, from 10,047.9 metric tonnes in a similar period of 2006 to 8,925.0 metric tonnes. Meanwhile, the average coffee prices improved from US $ 2,899 per tonne in February 2006 to US $ 3,030 per tonne in February 2007.

Sugarcane

Provisional data shows that sugarcane production declined by 4.5 percent in the January – February 2007. Production stood at 883,281 metric tonnes in January-February 2006 but fell to 843,932 metric tonnes in January-February 2007.

Manufacturing

There was good performance in the production of selected manufactured goods in January – February 2007 period as shown in Table 3.4. Beer, milk and soda ash output increased by 38.0 percent, 32.6 percent and 11.1 percent, respectively, during the period, while cigarettes production rose by 6.9 percent. However, sugar production declined by 9.7 percent in the January – February 2007.

TABLE 3.4: PRODUCTION OF SELECTED MANUFACTURED GOODS

	2005	2006	Jan-Feb'2006	Jan-Feb'2007
Processed sugar				
Output (MT)	491,001	475,660	92,419	83,434
Growth %	-4.98	-3.12	1.65	-9.72
Soda ash				
Output (MT)	364,301	374,010	52,160	57,956
Growth %	2.51	2.67	-10.79	11.11
Milk				
Output ('000 litres)	336,979	356,758	55,433	73,488
Growth %	25.00	5.87	8.53	32.57
Beer				
Output ('000 litres)	266,419	280,500	43,357	59,835
Growth %	11.25	5.29	10.52	38.01
Cigarettes				
Output (Milles)	10,962,727	12,303,278	1,742,101	1,861,772
Growth %	22.12	12.23	10.40	6.87

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

Energy Sector

As shown in Table 3.5, electricity generation increased by 9.1 percent in January – February 2007 to 1,009.2 million kilowatt hours (KWH). The proportion of hydropower in total electricity generation during the period was 56.7 percent compared with 51.1 percent a year earlier. Geothermal and thermal power generation during the period contributed 14.8 percent and 28.6 percent, respectively of the total power generation in the country. In tandem with increased generation, consumption of electricity grew by 6.9 percent during the period under review.

Meanwhile, oil prices in the international market increased from US $ 54.9 per barrel in January 2007 to US $ 58.8 per barrel in February 2007.

TABLE 3.5: ENERGY SECTOR PERFORMANCE

	2004	2005	2006	Jan-Feb 2006	Jan-Feb 2007
Electricity Supply (Generation)					
Output (KWH Millions)	5,032.71	5,518.94	5,823.03	925.36	1,009.22
Growth %	*7.95*	*9.66*	*5.51*	*6.69*	*9.06*
Of which:					
Hydro-power Generation (KWH Millions)	3,007.31	3,009.44	3,013.96	473.27	572.35
Growth (%)	*-6.99*	*0.10*	*0.15*	*-5.10*	*20.94*
Geo-Thermal Generation (KWH Millions)	986.64	1,001.58	1,045.69	174.32	149.72
Growth (%)	*97.97*	*1.50*	*4.40*	*5.13*	*-14.11*
Thermal (KWH Millions)	1,038.74	1,507.83	1,762.59	277.77	287.15
Growth (%)	*11.62*	*45.16*	*16.90*	*37.02*	*3.38*
Consumption of electricity (KWH Millions)	4,219.20	4,505.10	4,743.10	780.40	834.40
Growth %	*7.87*	*6.78*	*5.28*	*4.98*	*6.92*
Consumption of Fuels (Metric Tonnes)	2,336.80	2,710.00	2,866.70		
Growth %	*9.74*	*15.97*	*5.78*		
Murban crude oil average price (US $ per barrel)	36.93	53.65	64.57	56.90	58.75
Growth %	*31.40*	*45.30*	*20.30*	*29.32*	*3.25*

Source: Kenya National Bureau of Statistics

Tourism

Tourism sector continues to be vibrant as shown in Tables 3.6. Tourist arrivals increased by 11.8 percent to 273,909 visitors in the first quarter of 2007 compared with 245,059 visitors in first quarter of 2006 period. The growth in the tourism sector reflects the success achieved in marketing the sector coupled with diversification of the tourism market.

Arrivals through Jomo Kenyatta International Airport accounted for 66.0 percent of total tourist arrivals and grew by 14.3 percent during the first three months of 2007. Similarly, arrivals through the Moi International Airport Mombasa grew by 8.5 percent and accounted for 33.4 percent of total arrivals while those by cruise ships rose by 0.6 percent during the period.

TABLE 3.6: TOURIST ARRIVALS BY POINT OF ENTRY

	2005	2006	Jan-Mar 2006	Jan-Mar 2007	Share in Jan-Mar 06	Share in Jan-Mar 07	% Growth Jan-Mar 07
CRUISE	4,680	6,161	2,588	1,723	1.1%	0.6%	-33.4%
MIAM	214,476	263,699	84,369	91,526	34.4%	33.4%	8.5%
JKIA	614,068	684,475	158,102	180,660	64.5%	66.0%	14.3%
TOTAL	**833,224**	**954,335**	**245,059**	**273,909**	100.0%	100.0%	11.8%

Cruise ships - Entry through port of Mombasa;
JKIA - Entry through Jomo Kenyatta

Source: Kenya Tourism Board

Europe continues to be the main source of tourists to Kenya with arrival from the continent accounting for 61.1 percent of total arrivals in the first quarter of 2007 and growing by 9.4 percent as shown in Table 3.7. Meanwhile, tourist arrivals from Africa increased by 16.9 percent and comprised 17.5 percent of total arrivals. Arrivals from America had improved by 24.0 percent in the January-March 2007 period and accounted for 11.2 percent of total arrivals.

TABLE 3.7: TOURIST ARRIVALS BY CONTINENT OF ORIGIN

REGION	2005	2006	Jan-Mar 2006	Jan-Mar 2007	Share in Jan-Mar 06	Share in Jan-Mar 07	% Growth Jan-Mar 07
Africa	161,304	188,872	41,030	47,949	16.7%	17.5%	16.9%
America	93,902	110,967	24,693	30,611	10.1%	11.2%	24.0%
Asia	86,005	93,518	20,698	22,707	8.4%	8.3%	9.7%
Europe	473,637	537,195	152,930	167,320	62.4%	61.1%	9.4%
Oceanic	13,682	15,529	3,120	3,591	1.3%	1.3%	15.1%
Others	14	2,093		8	0.0%	0.0%	
Sub-Total	***828,544***	***948,174***	***242,471***	***272,186***	98.9%	99.4%	***12.3%***
Cruise	4,680	6,161	2,588	1,723	1.1%	0.6%	-33.4%
Total	**833,224**	**954,335**	**245,059**	**273,909**	**100.0%**	**100.0%**	**11.8%**

Source: Kenya Tourism Board

Transport

In the transport sector, the number of new motor vehicles registered grew by 28.2 percent in the first two months of 2007. A total of 11,992 new motor vehicle units were registered during the period compared with 9,357 units registered in a similar period of 2006 as shown in Table 3.8.

TABLE 3.8: REGISTRATION OF NEW MOTOR VEHICLES

	2005	2006	Jan-Feb'2006	Jan-Feb'2007	Share in Jan-Feb '07	Growth in Jan-Feb '07
Type						
Saloons	14214	14,829	2,906	3,024	25.22	4.1%
St,Wagons	10158	12,631	2,176	3,308	27.59	52.0%
Vans, P/ups	6308	6,661	1,300	1,444	12.04	11.1%
M/Buses	4076	3,714	833	622	5.19	-25.3%
Buses	885	856	179	161	1.34	-10.1%
Lorries	3113	3,610	637	799	6.66	25.4%
Trailers	1351	1,706	187	257	2.14	37.4%
Motor cycles	3759	6,250	767	1,968	16.41	156.6%
3 Wheelers	735	1,075	149	175	1.46	17.4%
Wheeled tractors	856	920	177	193	1.61	9.0%
Others	198	505	46	41	0.34	-10.9%
Total	45,653	52,757	9,357	11,992	100.00	28.2%

Source: Kenya National Bureau of Statistics

The volume of petroleum products transported by the Kenya Pipeline Company (KPC) grew by 9.3 percent to 657,770 cubic metres in the first two months of 2007 compared with 601,948 cubic metres in the first two months of 2006 (Table 3.9). Similarly, during the period, cargo handled by the Kenya Ports Authority increased by 16.2 percent due to increased imports, exports and transhipment through the port.

TABLE 3.9: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

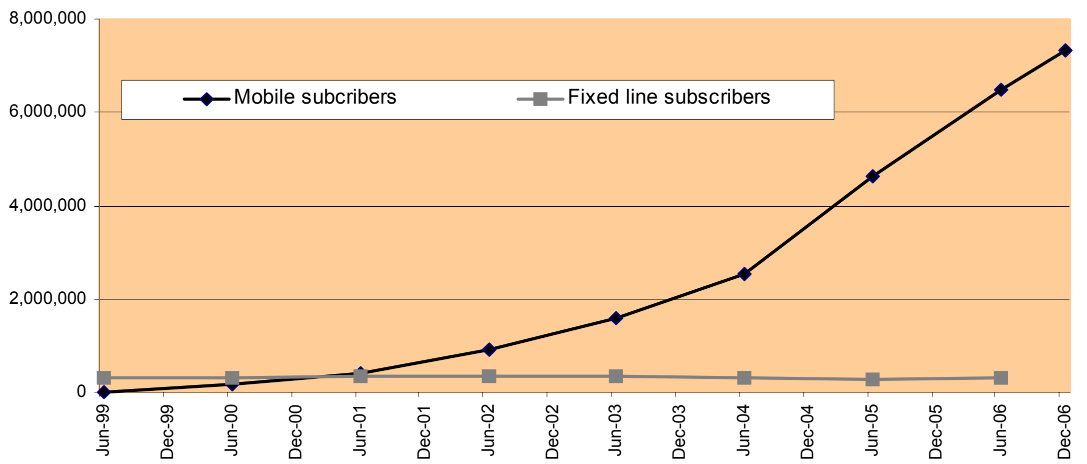
	2004	2005	2006	Jan-Feb' 06	Jan-Feb' 07
Mombasa Port Cargo Throughput					
Output (MT) Eqiuvalent	12,920,124	13,280,747	14,418,901	2,189,693	2,544,458
Output Growth %	3.30	2.79	8.57	-6.72	16.20
Kenya Pipeline oil Throughput					
Output ('000 litres)	3,259,180	3,527,662	3,826,154	601,948	657,770
Output Growth %	9.95	8.24	8.46	5.40	9.27

Sources: Port of Mombasa, Kenya and Kenya Pipeline

Telecommunications

The telecommunications sector continued to be vibrant in 2006 as depicted in Chart 3B. The mobile telephone subscribers increased from 5,263,916 in December 2005 to 7,340, 317 by December 2006. Similarly, fixed telephone lines increased from 281,764 in December 2005 to 286,729 in June 2006.

CHART 3B: GROWTH OF FIXED AND MOBILE TELEPHONE SUBSCRIBERS, JUNE 1999 - DEC 2006



Source: Communication Commission of Kenya

Building & Construction Industry

Growth in building and construction sector decelerated in the first month of 2007 compared with a similar period in 2006 as reflected by the slowdown in consumption of cement, a major input in the sector. Cement consumption declined by 2.8 percent from 136,601 metric tonnes in January 2006 to 132,765 metric tonnes in January 2007.

DEVELOPMENTS IN BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya's balance of payments surplus increased from US $ 516 million in the year to February 2006 to US $ 657 million in the year to February 2007 as shown in Table 4.1. This improvement was in increased private sector financial flows into the capital and financial account, which more than offset the deterioration in the current account following increased merchandise imports.

TABLE 4.1: BALANCE OF PAYMENTS (US$ MILLION)

ITEM	Year to Feb 2006*	Year to February 2007 Q1 Mar-May	Q2 Jun-Aug	Q3 Sep-Nov	Q4 Dec-Feb*	Year to Feb 2007*	Absolute change Feb 07 - Feb 06
1. OVERALL BALANCE	516	354	195	29	78	657	*141*
2. CURRENT ACCOUNT	(360)	(262)	(102)	(323)	(391)	(1078)	*(718)*
2.1 Goods	(2784)	(976)	(871)	(1067)	(1227)	(4140)	*(1356)*
2.1.1 Exports (fob)	3206	842	932	893	928	3594	*389*
Coffee	130	49	43	25	24	141	*11*
Tea	583	139	187	168	186	680	*98*
Horticulture	458	133	111	133	139	515	*57*
Oil products	95	9	36	44	29	119	*24*
Manufactured Goods	359	96	119	109	112	436	*77*
Raw Materials	157	37	50	56	66	209	*52*
Re-exports	585	107	95	42	58	302	*(283)*
Other	839	271	291	314	314	1192	*353*
2.1.2 Imports (cif)	5989	1817	1802	1960	2155	7734	*1745*
Oil	1466	409	524	405	348	1686	*220*
Chemicals	822	266	241	277	251	1036	*214*
Manufactured Goods	797	255	278	291	282	1106	*310*
Machinery & Transport Equipment	1836	614	467	675	929	2685	*849*
Other	1069	273	292	311	345	1221	*152*
2.2 Services	2423	714	769	744	836	3062	*639*
2.2.1 Non-factor services (net)	1151	317	363	363	418	1461	*311*
of which tourism	631	155	174	167	218	714	*84*
2.2.2 Income (net)	(121)	(8)	(14)	2	(3)	(23)	*99*
of which official interest	(155)	(18)	(29)	(14)	(23)	(85)	*70*
2.2.3 Current Transfers	1394	404	419	379	421	1623	*229*
Private (net)	1259	404	419	379	421	1623	*364*
Public (net)	136	0	0	0	0	0	*(136)*
3. CAPITAL & FINANCIAL ACCOUNT	876	616	297	352	469	1735	*859*
3.1 Capital Tranfers (net)	194	34	59	50	21	163	*(31)*
3.2 Financial Account	682	582	238	302	449	1572	*889*
3.2.1 Official, medium & long-term	(246)	(67)	(43)	(33)	(30)	(173)	*73*
Inflows	110	6	47	18	37	107	*(3)*
Outflows	(356)	(73)	(89)	(50)	(68)	(280)	*76*
3.2.2 Private, medium & long-term (net)	461	216	(65)	(110)	78	121	*(341)*
Commercial Banks (net)	14	65	(13)	(64)	(134)	(146)	*(160)*
Other private medium & long-term (net)	448	151	(51)	(46)	213	267	*(181)*
3.2.3 Short-term (net) incl. errors & omissions	467	433	345	444	401	1623	*1157*
memo:							
Gross Reserves	2643	2922	3149	3250	3381	3381	*738*
Official	1919	2253	2431	2441	2501	2501	*582*
*imports cover***	*3.4*	*3.9*	*4.0*	*3.7*	*3.6*	*3.6*	*0.2*
*imports cover****	*4.2*	*4.6*	*4.8*	*4.5*	*4.4*	*4.4*	*0.2*

* Provisional

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

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

Source: Central Bank of Kenya

Current Account

The current account deficit widened from US $ 360 million in the year to February 2006 to US $ 1,078 million in the year to February 2007 reflecting deterioration in the trade deficit by US $ 1,356 million. The services account, however, improved by US $ 639 million largely due to increased inflows from non-factor services, including tourism and current transfers.

Merchandise Account

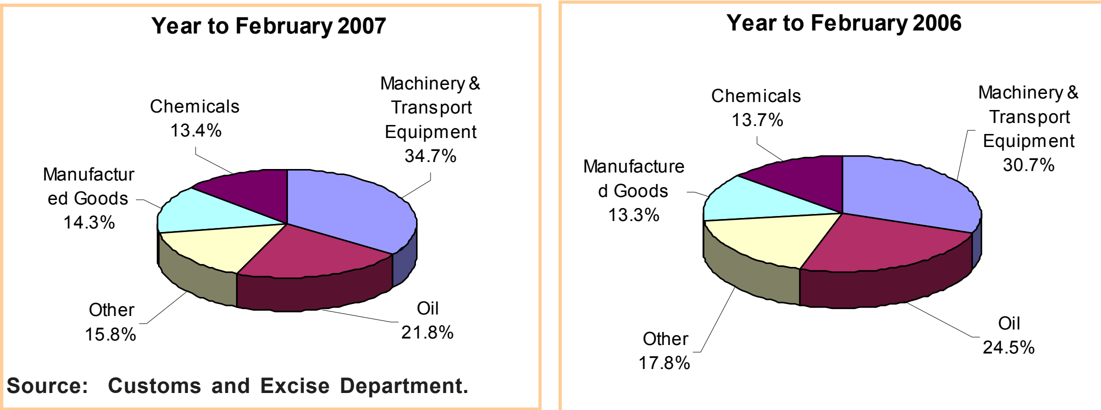
The trade deficit widened from US $ 2,784 million in the year to February 2006 to US $ 4,140 million in the year to February 2007 reflecting the increase in merchandise imports by 29.1 percent to US $ 7,734 million. Merchandise exports grew by 12.1 percent to US $ 3,594 million.

Imports

Merchandise imports rose by US $ 1,745 million largely reflecting increased importation of machinery and transport equipment, manufactured goods, petroleum products, and chemicals. The increase in the value of machinery and transport equipment imports by US $ 849 million was due to imports of aircraft, road vehicles, industrial machinery, telecommunication and sound recording equipment, and electrical machinery. The increase in imports of manufactured goods by US $ 310 million was largely attributable to imports of paper products, textiles and non-ferrous metals (copper wire, aluminum and zinc). The value of oil imports also increased by US $ 220 million and reflected higher imports of diesel oil, motor spirit and jet fuel while imports of chemicals rose by US $ 214 million, reflecting increase in import values of manufactured fertilisers, medicinal and pharmaceutical products, and plastics. Other miscellaneous imports, which include palm oil, raw materials and wheat, rose by US $ 152 million.

Machinery and transport equipment and petroleum products accounted for 56.5 percent of total imports in the year to February 2007 while the share of manufactured goods in the import bill increased to 14.3 percent (Chart 4A). The share of chemicals in total imports, however, declined to 13.4 percent.

CHART 4A: COMPOSITION OF KENYA'S IMPORTS



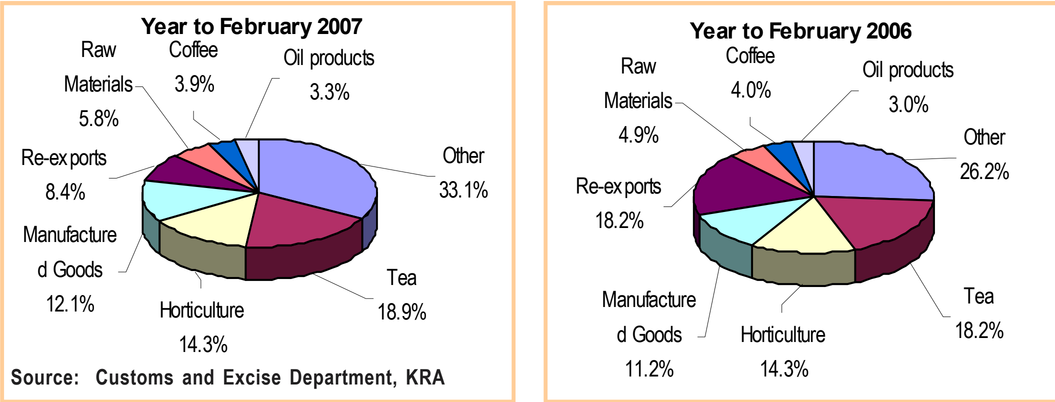
Source: Customs and Excise Department.

Exports

Merchandise exports increased by US $ 389 million in the year to February 2007 to US $ 3,594 million following increased export values of coffee, tea, horticulture, manufactured goods, oil and raw materials. The value of re-exports, however, declined during the period in review. The value of coffee exports rose by US $ 11 million following improved export price while the value of tea exports rose by US $ 98 million on account of higher export price. The increase in the value of horticulture exports by US $ 57 million was attributed to increased export price and volume. The increase in the export value of manufactured goods largely reflected increased exports of cement, metal manufactures, textiles and processed leather.

Chart 4B shows that coffee, tea and horticulture collectively accounted for 37.2 percent of the total value of exports in the year to February 2007 compared with 36.5 percent in the year to February 2006. The contribution of manufactured goods to the total value of exports also rose to 12.1 percent compared with 11.2 percent a year earlier.

CHART 4B: COMPOSITION OF KENYA'S EXPORTS



Source: Customs and Excise Department, KRA

Direction of Trade

The main destination countries for Kenya's merchandise exports were Uganda (11.3 percent), United Kingdom (10.8 percent), United States of America (7.8 percent), the Netherlands (7.8 percent), Tanzania (7.4 percent), Pakistan (5.8 percent), Sudan (4.1 percent), Egypt (4.0 percent), and the Democratic Republic of Congo (3.1 percent) as shown in Table 4.2. Overall, African countries absorbed 43.8 percent of Kenya's merchandise exports.

The main sources of Kenya's merchandise imports are United Arab Emirates (14.2 percent), United States of America (8.8 percent), India (7.5 percent), China (6.0 percent), South Africa (5.8 percent), Japan (5.7 percent), United Kingdom (5.2 percent), Saudi Arabia (4.6 percent), Singapore (3.7 percent), and Germany (3.6 percent).

TABLE 4.2: DIRECTION OF TRADE

IMPORTS (in millions of US dollars)	Year to February		
Country	2005	2006	2007
Africa	**705**	**798**	**894**
Of which			
South Africa	450	572	451
Egypt	83	83	115
Others	173	144	328
Rest of the World	**4,000**	**5,191**	**6,841**
Of which			
United Arab Emirates	481	908	1,095
USA	188	567	683
India	291	343	583
China	172	272	462
Japan	311	299	442
United Kingdom	390	803	400
Saudi Arabia	464	328	356
Singapore	60	180	285
Germany	168	216	280
Ireland	9	13	223
Indonesia	84	127	205
Italy	97	117	165
France	168	170	153
Netherlands	96	129	131
Others	1,021	721	1,379
Total	**4,705**	**5,989**	**7,734**

EXPORTS (in millions of US dollars)	Year to February		
Country	2005	2006	2007
Africa	**1,324**	**1,544**	**1,573**
Of which			
Uganda	486	512	405
Tanzania	212	267	264
Sudan	72	100	147
Egypt	84	124	145
DRC	117	107	111
Somalia	44	67	108
Others	309	367	393
Rest of the World	**1,494**	**1,662**	**2,021**
Of which			
United Kingdom	286	317	387
USA	53	58	281
Netherlands	217	250	279
Pakistan	145	194	210
United Arab Emirates	32	53	70
Germany	57	71	65
India	49	52	54
France	44	69	52
Others	609	597	623
Total	**2,818**	**3,206**	**3,594**

Source: Customs and Excise Department, KRA

Services

The services account improved by US $ 639 million in the year to February 2007 to a surplus of US $ 3,062 million due to a net increase in non-factor services, increased interest earnings on foreign exchange reserves, reduced interest payments on official external debt, and increased current transfers receipts.

Net receipts from non-factor services increased by US $ 311 million due mainly to increased inflows from tourism and other Government services. Earnings from tourism rose by US $ 84 million to US $ 714 million in the year to February 2007. The income account also improved to a net outflow of US $ 23 million in the year to February 2007 compared with a net outflow of US $ 121 million in the year to February 2006. Much of this improvement was attributed to increased interest earned on official foreign exchange reserves by US $ 48 million to US $ 106 million. As interest earned by the private sector declined by US $ 6 million to US $ 12 million, interest payments rose by US $ 13 million. Reduced interest payments on official foreign debt by US $ 70 million also contributed to the improvement in the income account. Total grants received rose to US $ 1,623 million in the year to February 2007 and this was entirely through the private sector.

Capital and Financial Account

The capital and financial account surplus improved to US $ 1,735 million in the year to February 2007 from US $ 876 million a year earlier due mainly to an increase in private short term capital flows by US $ 1,157 million. Net official capital and financial flows also improved during the period in review as private medium and long-term financial flows worsened.

Net official capital and financial flows improved by US $ 42 million during the year to February 2007 following reduced repayment of foreign loans by the Government by US $ 76 million. The Government received US $ 107 million in foreign loans during the year to February 2007 compared with receipts of US $ 110 million a year earlier and repaid US $ 280 million down from US $ 356 million in the previous year. Project related grants to the Government reduced by US $ 31 million in the year to February 2007 to US $ 163 million.

Private medium and long-term financial flows worsened to a net inflow of US $ 121 million reflecting reduced receipts of foreign loans, increased foreign loan repayments and increased net foreign assets of commercial banks by US $ 146 million. Foreign direct investment flows however improved by US $ 29 million.

Foreign Exchange Reserves

Official foreign exchange reserves held by the Central Bank increased by US $ 609 million to US $ 2,590 million (4.5 months of import cover) at end of March 2007 from US $ 1,981 million (4.2 months of import cover) at the end of March 2006 (Table 4.3 and Chart 4C). The build up in official reserves during the year to March 2007 was largely achieved through purchases of foreign exchange from the domestic foreign exchange market equivalent to US $ 725 million. The Central Bank also received US $ 262 million being interest earned on official foreign exchange reserves and foreign aid to the Government. The Bank, however, spent US $ 50 million on its own operations during the year to March 2007, and US $ 463 million on behalf of the Government to cover expenses related to Government imports and to service official foreign debt.

Foreign exchange holdings of commercial banks also rose by US $ 243 million to US $ 980 million at the end of March 2007. Most of these assets were held as balances with banks abroad in the amount of US $ 800 million. Other foreign assets of commercial banks included cash, foreign loans and foreign bills discounted.

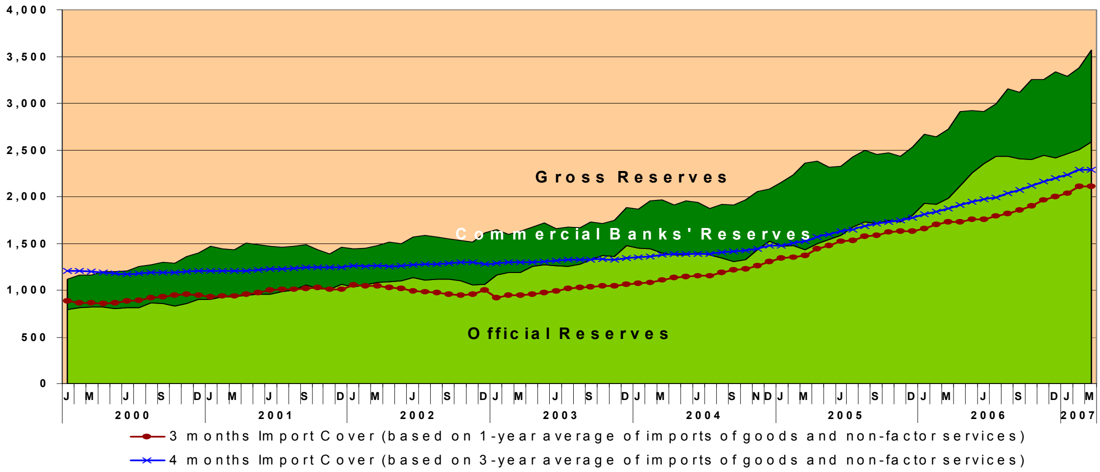
Total foreign exchange held by the entire banking system therefore rose from US $ 2,718 million at the end of March 2006 to US $ 3,570 million at end of March 2007. Besides these holdings, foreign currency deposits held locally by residents increased by US $ 272 million to US $ 1,469 million at the end of March 2007.

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

	Dec 05	Mar 06	Jun 06	Sep 06	Dec 06	Jan 07	Feb 07	Mar 07
1. Gross Foreign Exchange Reserves	**2,534**	**2,718**	**2,909**	**3,113**	**3,331**	**3,284**	**3,381**	**3,570**
of which:								
Official	1,799	1,981	2,353	2,402	2,415	2,463	2,501	2,590
*imports cover**	*3.3*	*3.4*	*4.0*	*3.9*	*3.6*	*3.6*	*3.6*	*3.7*
*imports cover***	*4.0*	*4.2*	*4.8*	*4.6*	*4.4*	*4.4*	*4.4*	*4.5*
Commercial Banks	735	737	556	711	916	821	880	980
2. Residents' foreign currency deposits	**1,149**	**1,197**	**1,126**	**1,275**	**1,428**	**1,422**	**1,423**	**1,469**

*Based on current year's imports of goods and non-factor services
**Based on 36 month average of imports of goods and non-factor services

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya shilling gained 72 cents against the US dollar in April 2007 to exchange at Ksh 68.6 compared with Ksh 69.3 in March 2007 (Table 4.4 and Charts 4D, 4E and 4F). The continued strength of the Kenya shilling against the US dollar follows excess foreign exchange inflows over demand in the domestic foreign exchange market, particularly from merchandise exports, tourism and inter-bank sales.

The shilling, however, had mixed performance against the Sterling Pound, the Euro and the Japanese Yen in April 2007 reflecting the performance of these currencies against the US dollar in the international currency markets. The shilling depreciated against the Sterling Pound and the Euro to trade at averages of Ksh 136.4 and Ksh 92.7 in April 2007 compared with Ksh 134.9 and Ksh 91.8 in March 2007. The weakening of the shilling against the Sterling Pound and the Euro in April 2007 reflected the strengthening of the two currencies against the US dollar internationally. The shilling, however, strengthened against the Japanese Yen to trade at Ksh 57.7 in April 2007 compared with Ksh 59.1 in March 2007 and reflected the weakening of the Japanese Yen against the US dollar.

The Kenya shilling lost against the Uganda shilling in April 2007 but gained against the Tanzania shilling to respectively trade at Ush 25.2 and Tsh 18.4 per Kenya Shilling compared with Ush 25.3 and Tsh 18.1 in March 2007.

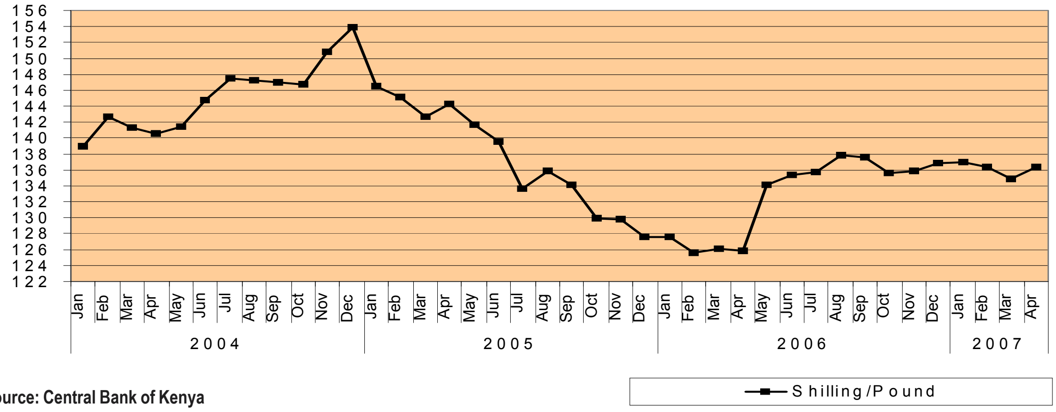
TABLE 4.4: KENYA SHILLING EXCHANGE RATE

	2006							2007				% change Apr 07 - Mar 07
	Mar	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
US Dollar	72.28	73.41	73.66	72.87	72.87	72.29	71.13	69.63	69.88	69.62	69.29	68.58	**-1.03**
Pound Sterling	126.13	135.37	135.78	137.85	137.59	135.58	135.89	136.79	136.91	136.40	134.91	136.40	**1.11**
100 Japanese Yen	61.63	64.03	63.71	62.89	62.26	60.95	60.65	59.47	58.09	57.76	59.08	57.73	**-2.28**
Uganda Shilling*	25.19	25.32	25.20	25.37	25.45	25.52	25.52	26.07	25.97	25.44	25.26	25.20	**-0.22**
Tanzania Shilling*	16.75	17.07	17.20	17.82	17.99	17.58	18.23	18.62	18.55	18.49	18.13	18.40	**1.48**
Euro	86.90	92.96	93.50	93.34	92.86	91.26	91.58	92.03	90.87	91.04	91.77	92.68	**0.99**
Euro per US dollar	0.832	0.790	0.788	0.781	0.785	0.792	0.777	0.757	0.769	0.765	0.755	0.740	**-2.01**

* Units of currency per Kenya shilling

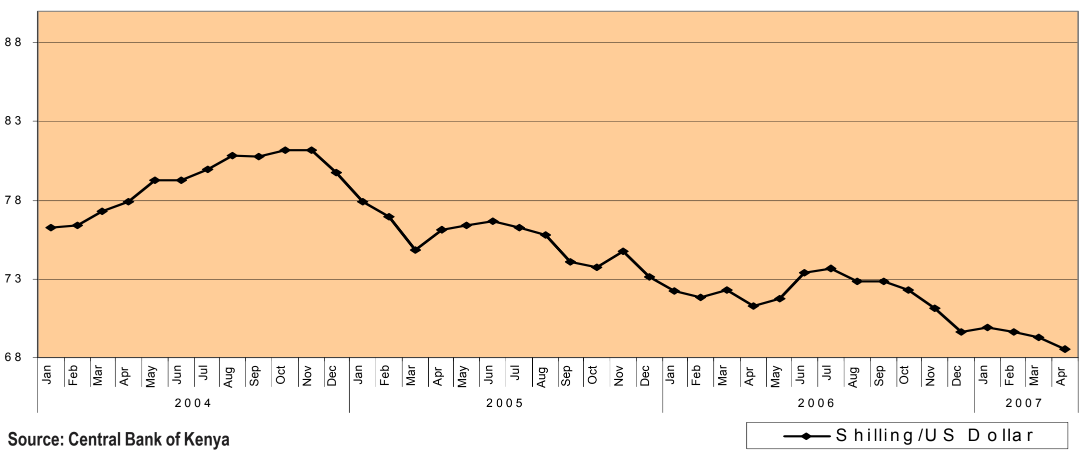
Source: Central Bank of Kenya

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



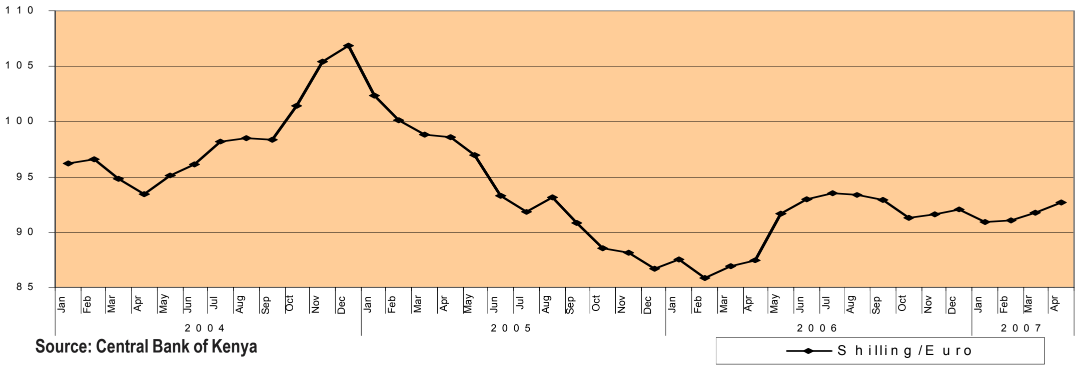
Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

Overall the banking sector remained stable in March 2007, mainly due to favourable macroeconomic conditions prevailing during the period. Faced with good economic prospects, the banking sector improved its asset quality portfolio and retained high capital adequacy ratios. The sector also registered growth in deposits and profitability. The improved performance resulted from increased income on loans and advances and a significant inflow of foreign deposits.

Structure of the Banking Sector

Financial institutions and forex bureaus remained 45 and 95 respectively, between February 2006 and February 2007.

Total assets expanded by 17.3 percent or Ksh 114.5 billion, from Ksh 661.3 billion at the end of February 2006 to Ksh 775.8 billion at the end of February 2007. The major assets were loans and advances and Government securities that constituted 53 percent and 21 percent, respectively, of total assets.

Loans and Advances

Loans and advances net of provisions stood at Ksh 405.1 billion in February 2007 compared with Ksh 343.3 billion in February 2006. Local currency loans and advances increased by 17.1 percent, from Ksh 289.1 billion in February 2006 to Ksh 338.5 billion in February 2007, while foreign currency loans and advances increased by 23.1 percent, from Ksh 54.1 billion in February 2006 to Ksh 66.6 billion over the same period.

Government Securities

Investment in Government securities increased by 20.7 percent from Ksh. 135.2 billion in February 2006 to Ksh 163.1 billion in January 2007 due to increased liquidity in the market and increased Government domestic borrowing.

Deposit Liabilities

Total deposit liabilities including accrued interest increased by 16.1 percent, from Ksh 543.0 billion in February 2006 to Ksh 630.7 billion in February 2007. Although deposit liabilities increased over the period under review, the proportion of deposit liabilities to total liabilities declined from 94.0 percent to 93.0 percent. Foreign currency deposits rose by 16.1 percent, from Ksh 88.7 billion to Ksh 103.0 billion over the same period. This increase in deposit liabilities was attributed to external donor inflow, remittances by Kenyans living abroad and earnings from tourism and agricultural sectors.

Capital and Reserves

Capital and reserves of the banking sector increased by 18.1 percent, from Ksh 83.6 billion in 2006 to Ksh 98.7 billion in February 2007. The increase in capital and reserves in the sector was a result of fresh capital injection by some institutions and retention of profits. Risk weighted assets increased by 25.9 percent or Ksh 110.6 billion, from Ksh 427.8 billion in February 2006 to Ksh 538.4 billion in February 2007. Similarly, total capital increased by 16.7 percent, from Ksh 79.3 billion to Ksh 92.5 billion in February 2007. Capital adequacy in the sector, as measured by the ratio of total capital to total risk weighted assets ratio declined from 18.5 percent in

February 2006 to 17.2 percent in February 2007 and was above the minimum statutory requirement of 12 percent.

Non-performing loans

Non-performing loans was estimated at Ksh 100.4 billion or 20.7 percent of gross loans in February 2007, compared with Ksh 104.9 billion or 24.7 percent of gross loans at the end of February 2006. The reduction in the level of non-performing loans was attributed to recoveries and write-offs. The level of non-performing loans net of loan loss provisions stood at Ksh 24.6 billion and accounted for 5.1 percent of gross loans. Consequently, asset quality which is measured by the ratio of net non-performing loans to gross loans improved from 6.9 percent to 5.1 percent over the period as shown in Table 5.1.

TABLE 5.1: NON-PERFORMING LOANS & PROVISIONS (KSH BILLION)

		February-06	February-07
1	Gross loans and advances	423.6	484.8
2	Total loans and Advances	385.5	449.5
3	Gross non-performing loans	104.9	100.4
4	Specific Provisions	38.7	40.4
5	General Provisions	3.5	4
6	Total Provisions (4+5)	42.2	44.4
7	Net Advances (2-6)	343.3	407.3
8	Total Non-Performing Loans and Advances	66.8	65
9	Net Non-Performing Loans and advances (8-4	24.6	24.6
10	Total NPLs as % of total advances (8/2)	17.3	14.5
11	Net NPLs as % of gross advances (9/1)	5.8	5.1
12	Specific Provisions as % of Total NPLs (4/8)	57.9	62.0

Source: Central Bank of Kenya

Profitability

Pre-tax profit of the banking sector stood at Ksh 5.1 billion compared with Ksh 3.6 billion in February 2006. The improved profitability was attributed to increased interest income on loans and advances and government securities and non-funded income. Total expenses increased by 16.9 percent, from, Ksh 10.2 billion in February 2006 to Ksh 11.9 billion in February 2007. Loan loss provision for the period increased to Ksh 1.3 billion, from Ksh 1.2 billion expensed over a similar period in 2006. Salaries and wages expenses increased from Ksh 3.1 billion in February 2006 to Ksh 3.6 billion in February 2007. Annualized return on assets rose from 2.5 percent to 3.1 percent in 2007. At the same time, return on shareholders funds increased from 25.8 percent to 31.0 percent over the same period.

Liquidity Ratio Requirement

Liquidity in the banking sector remained high with commercial banks maintaining an average liquidity ratio of 45.8 percent compared with the minimum requirement of 20 percent. Mortgage Finance companies and other Non-bank Financial Institutions (NBFIs) maintained an average liquidity ratio of 34.7 percent. The only one building society maintained an average liquidity ratio of 45.0 percent.

Cash Ratios Requirement

Commercial banks maintained an average 6.2 per cent reserve ratio with the Central Bank in March 2007 against the 6.0 per cent reserve ratio requirements as shown in Table 5.2 and Chart 5A. NBFIs maintained an average 6.0 percent reseve ratio during the same period. In addition to reserve requirements, commercial banks held on average Ksh 1.4 billion as excess reserves in March 2007 compared with Ksh 1.7 billion in February 2007.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2006											2007		
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Commercial Banks														
Actual Average Liquidity	42.5	42.6	42.0	41.0	42.6	42.8	41.5	43.6	43.3	44.8	45.0	46.0	45.8	45.7
Minimum Liquidity Ratio	20	20	20	20	20	20	20	20	20	20	20.0	20.0	20.0	20.0
Actual Cash Ratio - All Banks	6.2	6.2	6.3	6.2	6.2	6.2	6.4	6.4	6.2	6.2	6.4	6.3	6.3	6.2
Minimum Cash Ratio Requirement*	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
NBFIs														
Actual Average Liquidity Ratio	31.5	33.6	33.3	28.6	28.8	29.5	29.0	28.9	28.6	28.2	32.0	28.0	34.7	40.7
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Minimum Cash Ratio Requirement*	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

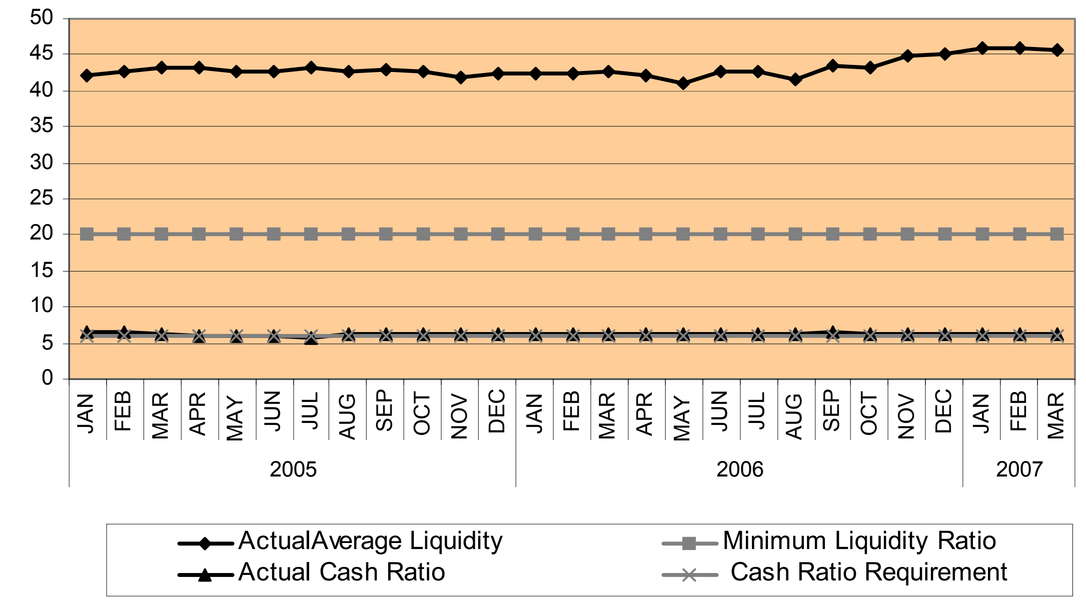
* Monthly average liquidity and cash ratios

** Commercial banks and NBFIs must observe a daily minimum of 6% cash ratio. The requirement became effective from 1st July 2003

*** Ratio includes NBFIs and Mortgage companies

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

GOVERNMENT BUDGET PERFORMANCE

Central Government budgetary operations in the first eight months of the fiscal year 2006/07 resulted in a budget deficit of Ksh 27.2 billion or 1.6 percent of GDP on commitment basis compared with Ksh 29.7 billion or 2.0 percent of GDP in a similar period in the previous fiscal year (Table 6.1 and Chart 6A). The decrease in the deficit during the period was attributed mainly to the significant growth in tax revenue. Tax revenue grew by Ksh 28.2 billion during the period. However, external grants declined by Ksh 8 billion while total expenses increased by Ksh 17.6 billion. On cash basis, however, the Government had a budget deficit of Ksh 39.4 billion or 2.3 percent of GDP compared with Ksh 25.5 billion or 1.7 percent of GDP in the previous fiscal year.

The deficits on commitment and cash basis in the first eight months of the fiscal year 2006/07 were both within their respective targets of 2.9 percent and 2.8 percent of GDP.

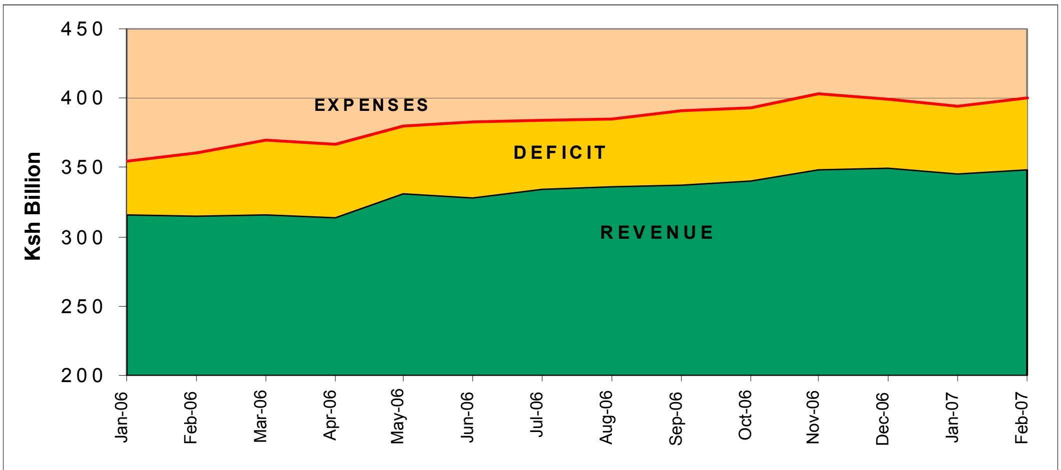
TABLE 6.1: STATEMENT OF CENTRAL GOVERNMENT BUDGETARY OPERATIONS (Ksh Billion)

	FY 2005/06	FY 2006/07		
	February Actual	February Actual*	Target	Over (+) / Below (-) Target
1. TOTAL REVENUE	**204.7**	**224.8**	**250.3**	**-25.5**
Revenue	190.2	218.4	236.6	-18.2
Tax Revenue	163.4	189.6	197.4	-7.9
Non Tax Revenue	14.1	17.8	17.3	0.5
Appropriations-in-Aid	12.7	11.0	21.9	-10.9
External Grants	14.5	6.5	13.7	-7.2
2. TOTAL EXPENSES	**234.5**	**252.1**	**299.1**	**-47.0**
Recurrent Expenses	200.5	210.2	236.7	-26.5
Development Expenses	34.0	41.9	62.4	-20.5
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-29.7**	**-27.2**	**-48.8**	**21.6**
As % of GDP	-2.0	-1.6	-2.9	
4. ADJUSTMENT TO CASH BASIS	**4.3**	**-12.2**	**0.8**	**-12.9**
5. DEFICIT ON A CASH BASIS	**-25.5**	**-39.4**	**-48.0**	**8.6**
As % of GDP	-1.7	-2.3	-2.8	
6. DISCREPANCY:Exp. (+) / Rev. (-)	**-8.3**	**-7.8**	**0.0**	
7. FINANCING	**17.2**	**31.6**	**48.0**	**-16.5**
Domestic (Net)	16.7	30.4	39.6	-9.2
External (Net)	0.5	-2.9	4.7	-7.6
Capital Receipts (privatisation)	0.0	4.0	3.7	0.3
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

* Provisional

Sources: Treasury

CHART 6A: 12-MONTH CUMULATIVE BUDGET OUT-TURN (Ksh billion)



Sources: Treasury and Central Bank of Kenya

Revenue

Cumulative Government revenue including receipts of external grants in the first eight months of the fiscal year 2006/07 amounted to Ksh 224.8 billion compared with Ksh 250.3 billion target for the period. This represented a shortfall of Ksh 25.5 billion or 10.2 percent in Government receipts. However, as shown in Table 6.2, the receipts exceeded the Ksh 204.7 billion realised in a similar period in the previous fiscal year by Ksh 20.1 billion or 9.8 percent. The proportion of Government receipts in GDP declined to 13.1 percent from 13.7 percent in the first eight months of the fiscal year 2005/06, reflecting a faster growth in GDP compared with revenue during the period.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh Billion)

	Feb-06 Ksh bn	Feb-07 Ksh bn	Movement
1. Revenue (2+3+4)	**190.2**	**218.4**	**28.2**
2. Tax Revenue	163.4	189.6	26.2
Income Tax	69.3	76.4	7.1
Value Added Tax	47.2	59.9	12.7
Import Duty	13.3	18.2	4.9
Excise Duty	33.7	35.1	1.5
3. Appropriations-in-Aid	12.7	11.0	-1.7
4. Other Revenue	14.1	17.8	3.7
5. External Grants	**14.5**	**6.5**	**-8.0**
Total Receipts (1+5)	**204.7**	**224.8**	**20.1**

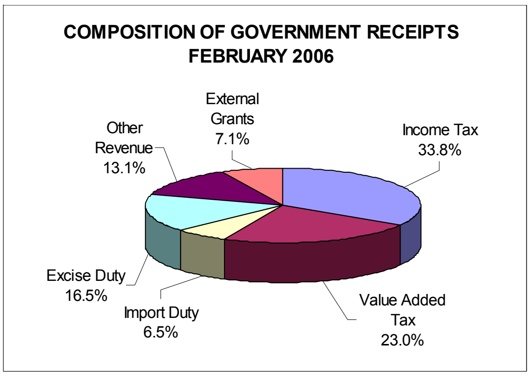
Source: Treasury

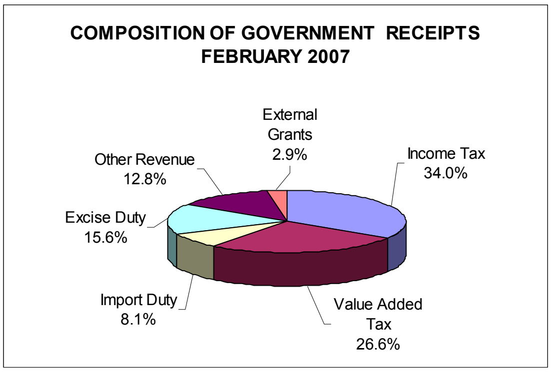
From July 2006 to February 2007, cumulative tax revenue collection amounted to Ksh 189.6 billion against a target of Ksh 197.4 billion. This represented a shortfall of Ksh 7.9 billion or performance of 96.0 percent in the tax revenue to the Exchequer during the period. However, tax revenue increased by Ksh 26.2 billion or 16.0 percent during the period from Ksh 163.4 billion in a similar period of the previous fiscal year.

Consequently, the share of tax revenue in total Government receipts increased to 84.3 percent in the first eight months of the fiscal year 2006/07 from 79.8 percent in a similar period of the previous fiscal year. The increase in tax revenue collection during the period was driven by increases in import duty and VAT which realised growths of 37.0 percent and 26.9 percent respectively. Similarly, as shown in Table 6.2 and Chart 6B, collections of income tax and excise duty grew by 10.3 percent and 4.3 percent respectively during the period. Total tax revenue as a proportion of GDP increased from 10.9 percent to 11.1 percent during the period.

External grants to the Government declined by 55.4 percent in the first eight months of the fiscal year 2006/07. External grants received amounted to Ksh 6.5 billion compared with Ksh 14.5 billion in a similar period in the previous fiscal year.

CHART 6B: COMPOSITION OF GOVERNMENT RECEIPTS





Source: Treasury

Expenditure and Net Lending

Cumulative Government expenses and net lending to public institutions increased to Ksh 252.1 billion in the first eight months of the fiscal year 2006/07, from Ksh 234.5 billion in a similar period of the previous fiscal year. As shown in Table 6.3 and Chart 6C, the increase in the expenses during the period was mainly in recurrent expenditure which increased by Ksh 9.7 billion and was mainly driven by the Ksh 7.0 billion rise in salaries and wages and Ksh 3.8 billion rise in expenses on the interest cost on domestic debt. Similarly, development expenditure increased by Ksh 7.9 billion during the period.

Government expenses during the period were, however, within the budget target of Ksh 299.1 billion for the period. Recurrent and development expenses fell short of their targets for the period by Ksh 26.5 billion and Ksh 20.5 billion respectively. The Government expenses as a proportion of GDP consequently fell from 15.7 percent to 14.7 percent during the period.

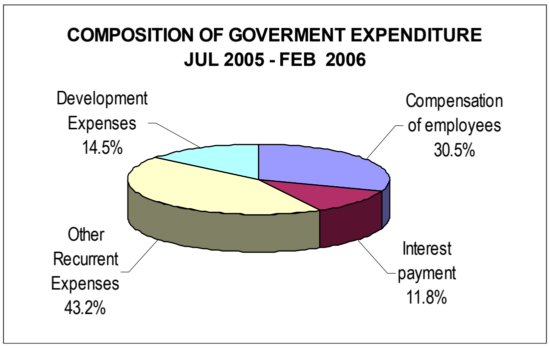
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

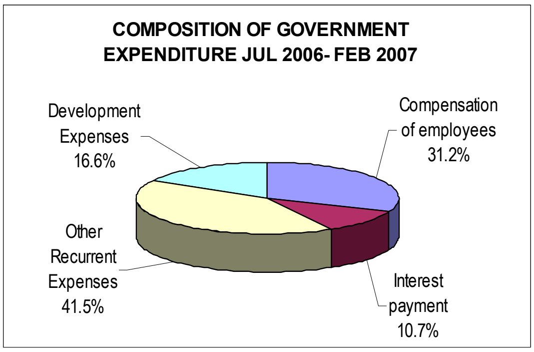
	Feb-06 Ksh bn	Feb-07 Ksh bn	Movement
1.Recurrent	**200.5**	**210.2**	**9.7**
Compensation of employees	71.6	78.5	**7.0**
Total Interest	27.8	27.1	**-0.7**
of which			
Domestic*	19.7	23.5	**3.8**
Foreign interest due	8.1	3.6	**-4.5**
Others	101.2	104.6	**3.4**
2. Development	**34.0**	**41.9**	**7.9**
TOTAL EXPENSES	**234.5**	**252.1**	**17.6**

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

Source: Treasury

CHART 6C: COMPOSITION OF GOVERNMENT EXPENDITURE





Source: Treasury

The share of recurrent expenses dropped from 85.5 percent to 83.4 percent of Government expenditure during the first eight months of the fiscal year 2006/07. The decline in the proportion of recurrent expenses during the period is attributed mainly to faster growth in development expenses. Subsequently, the share of development expenses in total expenditure increased from 14.5 percent to 16.6 percent during the period. The rise in the share of development expenses is a positive development and in line with the objectives of the Economic Recovery Strategy for Wealth and Employment Creation of consistently increasing development expenses in order to support increased public investment.

Financing

Government budgetary operations in the first eight months of the fiscal year 2006/07 resulted in a financing requirement of Ksh 39.9 billion compared with Ksh 24.3 billion in a similar period of the fiscal year 2005/06. As shown in Table 6.4, the financing requirement comprised Ksh 31.6 billion to finance the budget deficit, Ksh 2.9 billion to make external debt repayments and Ksh 5.5 billion to repay domestic debt owed to the Central Bank of Kenya.

The sources of the Ksh 39.9 billion financing requirement comprised Ksh 27.0 billion domestic borrowing from commercial banks and non-bank sources through issuance of Treasury bills and bonds; Ksh 8.9 billion draw down of Government deposits at the Central Bank of Kenya; and Ksh 4.0 billion from proceeds of sale of Government shares in the Mumias Sugar Company. The Ksh 27.0 billion domestic borrowing comprised Ksh 14.5 billion from commercial banks and Ksh 12.5 billion from non-bank sources.

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

I. FINANCING REQUIREMENTS	Feb-06 Ksh bn	Feb-07 Ksh bn
1. Budget deficit	17.2	31.6
2. External debt reduction	0.0	2.9
3. Domestic debt reduction	5.3	5.5
3.1 Central Bank (incl. items in transit)	5.3	5.5
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	1.8	0.0
TOTAL	**24.3**	**39.9**
II. FINANCING SOURCES	**Feb-06 Ksh bn**	**Feb-07 Ksh bn**
1. Budget surplus	0.0	0.0
2. External debt increase	0.5	0.0
3. Increase in domestic debt	23.8	27.0
3.1 Central Bank	0.0	0.0
3.2 Commercial banks	11.8	14.5
3.3 Non-bank sources	12.0	12.5
4. Reduction in GoK deposits at CBK	0.0	9.0
5. Privatisation proceeds	0.0	4.0
TOTAL	**24.3**	**39.9**

Sources: Treasury & Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank stood at Ksh 37.7 billion at the end of February 2007 compared with Ksh 43.2 billion at the end of June 2006 and Ksh 43.5 billion as at end February 2006. As shown in Table 6.5, the Ksh 5.8 billion decline in the debt between February 2006 and February 2007 reflected decreases of Ksh 5.2 billion in the Government overdraft and Ksh 0.4 billion each in the repo

Treasury bills and revaluation gains on the IMF funds on-lent to the Government. However, these increases were partly offset by an increase of Ksh 0.2 billion in the stock of cleared items in transit.

In order to control the potential inflationary pressures associated with monetized borrowing from the Central Bank, the CBK Act limits direct advances to the Government to 5 percent of the latest audited recurrent revenue of the Government. According to the audited Appropriations Accounts for the fiscal year 2004/05, the gross recurrent revenue of the Government was Ksh 265.4 billion. Consequently, in accordance with section 46 (3) of the Central Bank of Kenya Act (Cap 491), the Government overdraft limit at the Central Bank was revised upwards from Ksh 11.3 billion, which was based on the fiscal year 2003/04 ordinary revenue, to Ksh 13.3 billion with effect from February 2007.

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

	2006		2007	Movement
	February	June	February	Feb 06-Feb 07
Total Government Credit (1+2+3+4+5)	**43.5**	**43.2**	**37.7**	**-5.8**
1. Overdraft	5.2	5.2	0.0	-5.2
2. Rediscounted securities	0.0	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.0	0.0
Treasury bonds	0.0	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	35.9	35.5	35.5	-0.4
4. IMF funds onlent to Government	2.1	1.9	1.7	-0.4
5. Cleared items in transit	0.3	0.5	0.5	0.2
Memorandum				
Authorised overdraft limit	**11.3**	**11.3**	**13.3**	**1.9**
Amount utilised to date	5.2	5.2	0.0	-5.2
Amount available	6.1	6.1	13.2	7.1

Source: Central Bank of Kenya

Outlook for FY 2006/07

The fiscal year 2006/07 budget has targets of Ksh 29.5 billion and Ksh 9.7 billion for domestic and external financing respectively. Furthermore, the Government also expects to receive Ksh 18.2 billion from sale of Government shares in the Mumias Sugar, KenGen and Kenya Re-Insurance companies during the period.

Developments in Public Debt

Overall Debt

Kenya's public and publicly guaranteed debt increased from Ksh 789.1 billion at the end of June 2006 to Ksh 802.3 billion at the end of February 2007. As shown in Table 7.1, this represented an increase of Ksh 13.3 billion. The increase in public debt during the period followed Ksh 28.0 billion increase in domestic debt which was partly offset by a decrease of Ksh 14.7 billion in external debt. The rise in domestic debt during the period was due to programmed domestic borrowing by the Government to finance the budgetary operations while external debt decreased largely due to strengthening of the Kenya shilling.

As a result of these developments, the share of domestic debt in the overall debt increased from 45.3 percent at the end of June 2006 to 48.1 percent at the end of February 2007 while the proportion of external debt in total debt declined from 54.7 percent to 51.9 percent in the same period.

Despite the rise in the overall debt stock during the first eight months of the fiscal year 2006/07, the overall debt to GDP ratio fell from 50.3 percent at the end of June 2006 to 47.4 percent at the end of February 2007. Specifically, external debt to GDP ratio declined from 27.5 percent at the end of June 2006 to 24.6 percent at the end of February 2007 while the ratio of domestic debt to GDP remained unchanged at 22.8 percent as at the end of June 2006. As shown in Chart 7A, the overall debt to GDP ratio has been on a downward trend since June 2004. This is consistent with the Government's debt management objectives and is necessary for maintaining sustainable public debt.

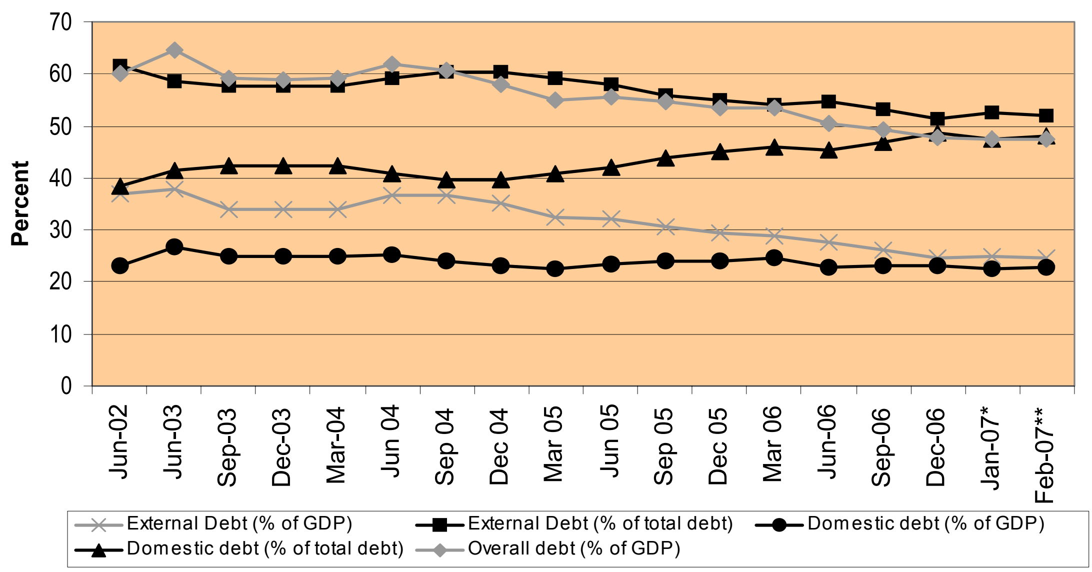
TABLE 7.1: KENYA'S PUBLIC DEBT (Ksh billion)

	Jun 05	Dec 05	Feb 06	Jun-06	Dec-06	Jan-07*	Feb-07**	Change 2006/07
EXTERNAL***								
Bilateral	157.67	146.77	146.68	154.9	145.3	144.6	144.2	-10.6
Multilateral	255.8	240.3	239.1	255.6	242.7	253.2	252.6	-2.9
Commercial Banks	1.8	1.7	1.5	1.3	0.9	0.9	0.9	-0.4
Export Credit	19.2	19.9	19.9	19.5	18.8	18.8	18.8	-0.8
Sub-Total	**434.5**	**408.6**	**407.1**	**431.2**	**407.7**	**417.5**	**416.5**	**-14.7**
(As a % of GDP)	32.2	29.4	29.0	27.5	24.6	24.9	24.6	
(As a % of total debt)	57.9	54.9	54.6	54.7	51.4	52.5	51.9	
DOMESTIC\[1]								
Banks	**169.5**	**179.6**	**181.0**	**190.8**	**211.0**	**201.3**	**205.7**	**15.0**
Central Bank	46.6	44.9	41.4	41.3	47.1	35.9	36.1	-5.2
Commercial Banks	122.9	134.7	139.6	149.5	163.9	165.5	169.7	20.2
Non-banks	**139.5**	**149.2**	**151.2**	**162.0**	**167.7**	**170.4**	**174.7**	**12.7**
Non-bank Financial Inst.	2.1	2.0	2.0	1.4	0.9	0.9	0.9	-0.5
Other Non-bank Sources	137.4	147.3	149.2	160.6	166.9	169.6	173.9	13.3
Non-residents	**6.5**	**6.1**	**6.4**	5.0	6.4	6.4	5.4	0.3
Sub-Total	**315.6**	**335.0**	**338.6**	**357.8**	**385.1**	**378.1**	**385.8**	**28.0**
(As a % of GDP)	23.4	24.1	24.1	22.8	23.2	22.6	22.8	
(As a % of total debt)	42.1	45.1	45.4	45.3	48.6	47.5	48.1	
GRAND TOTAL	**750.0**	**743.6**	**745.7**	**789.1**	**792.9**	**795.6**	**802.3**	**13.3**
(As a % of GDP)	55.6	53.5	53.1	50.3	47.7	47.5	47.4	

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

Sources: Treasury and Central Bank of Kenya

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



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

Domestic Debt

Domestic debt increased from Ksh 357.8 billion at the end of June 2006 to Ksh 385.8 billion at the end of February 2007. This represented an increase of Ksh 28.0 billion or 7.8, attributed to increases of Ksh 31.8 billion and Ksh 1.5 billion in Treasury bonds and Treasury bills, respectively (Table 7.2). These increases were, however, partly offset by decreases of Ksh 0.3 billion and Ksh 5.0 billion in long-term stocks and other forms of domestic debt respectively. Government overdraft at the Central Bank of Kenya declined by Ksh 5.2 billion during the period to stand at zero as at end February 2007, marking a major improvement in Government cash flow management.

The rise in domestic debt from July 2006 to February 2007 was in line with the Government domestic borrowing programme for the fiscal year.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2006								2007				Change
	Jan	%	Feb	%	Sep	%	Dec	%	Jan	%	Feb	%	Jun06 -Feb07
Total stock of Domestic Debt (A+B)	**334.0**	**100.0**	**338.6**	**100.0**	**371.6**	**100.0**	**385.1**	**100.0**	**378.1**	**100.0**	**385.8**	**100.0**	**28.0**
A. Government Securities	**325.8**	**97.6**	**330.9**	**97.7**	**365.1**	**98.3**	**371.0**	**96.3**	**375.2**	**99.2**	**382.7**	**99.2**	**33.0**
1. Treasury Bills (excluding Repo Bills)	**79.6**	**23.8**	**85.0**	**25.1**	**98.6**	**26.5**	**96.7**	**25.1**	**94.8**	**25.1**	**96.3**	**25.0**	**1.5**
Banking institutions	38.0	11.4	41.4	12.2	52.2	14.0	46.8	12.2	45.1	11.9	46.6	12.1	-0.5
Others	41.6	12.4	43.6	12.9	46.4	12.5	49.8	12.9	49.7	13.1	49.7	12.9	2.0
2. Treasury Bonds	**209.3**	**62.7**	**209.0**	**61.7**	**230.0**	**61.9**	**238.0**	**61.8**	**244.1**	**64.6**	**250.1**	**64.8**	**31.8**
Banking institutions	97.3	29.1	96.1	28.4	106.7	28.7	114.6	29.7	117.8	31.2	120.6	31.2	20.4
Others	112.0	33.5	112.8	33.3	123.3	33.2	123.4	32.0	126.3	33.4	129.6	33.6	11.4
3. Long term Stocks	**1.1**	**0.3**	**1.1**	**0.3**	**1.1**	**0.3**	**0.8**	**0.2**	**0.8**	**0.2**	**0.8**	**0.2**	**-0.3**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	1.1	0.3	1.1	0.3	1.1	0.3	0.8	0.2	0.8	0.2	0.8	0.2	-0.3
4. Pre-1997 Government Overdraft at CBK	**35.9**	**10.8**	**35.9**	**10.6**	**35.5**	**9.6**	**35.5**	**9.2**	**35.5**	**9.4**	**35.5**	**9.2**	**0.0**
Of which: Repo T/Bills	35.9	10.8	35.9	10.6	35.5	9.6	35.5	9.2	35.5	9.4	35.5	9.2	0.0
B. Others:	**8.2**	**2.4**	**7.7**	**2.3**	**6.5**	**1.7**	**14.1**	**3.7**	**2.9**	**0.8**	**3.1**	**0.8**	**-5.0**
Of which CBK overdraft to Government	5.8	1.7	5.2	1.5	3.7	1.0	11.3	2.9	0.0	0.0	0.0	0.0	-5.2

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

Source: Central Bank of Kenya

Treasury Bills

Due to preference for use of Treasury bonds in domestic borrowing, the stock of Treasury bills increased by a small margin between July 2006 and February 2007. Treasury bills (excluding Repos) increased from Ksh 94.8 billion at the end of June 2006 to Ksh 96.3 billion at the end of February 2007. Despite the rise in the stock of Treasury bills during the period, the proportion of Treasury bills in total domestic debt fell from 26.5 percent to 25.0 percent (Table 7.2). Furthermore, as shown in Table 7.3 and Chart 7B, Treasury bills holdings by commercial banks decreased from Ksh 47.0 billion or 49.6 percent of the total stock of Treasury bills at the end of June 2006 to Ksh 46.6 billion or 48.4 percent at the end of February 2007 (Table 7.3 and Chart 7B).

The proportion of 182-day Treasury bills in the overall stock of Treasury bills and bonds increased from 18.2 percent in June 2006 to 21.5 percent at the end of February 2007. Consequently, 182-day Treasury bills accounted for the largest proportion of outstanding Treasury bills and bonds during the period. However, as shown in Table 7.5, the proportion of 91-day Treasury bills in the overall stock of Treasury bills and bonds fell from 12.0 percent to 6.3 percent during the period.

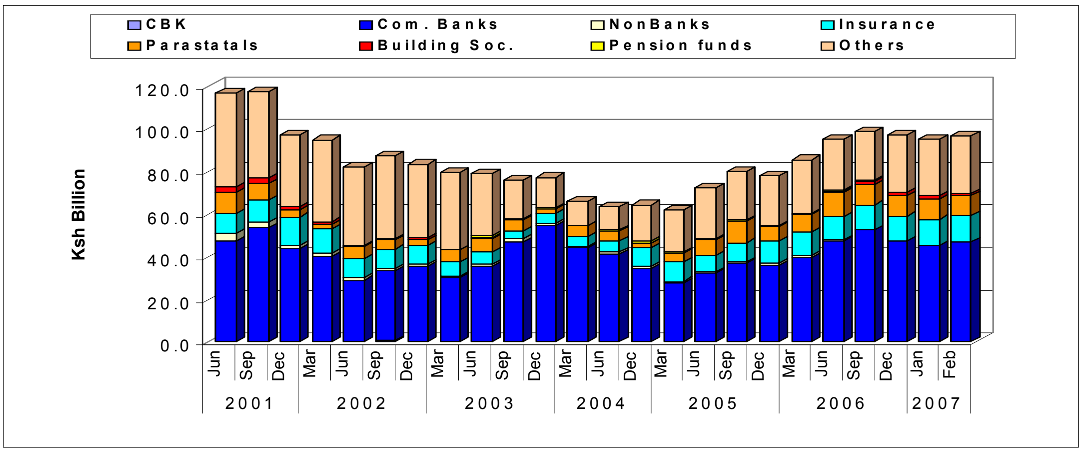
TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

	2005		2006								2007			
Holders	Dec	%	Jan	%	Feb	%	Jun	%	Dec	%	Jan	%	Feb	%
Banking Institutions	36.6	47.2	38.0	47.8	42.4	49.9	47.6	50.2	46.8	48.5	45.1	47.6	46.6	48.4
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	35.6	46.0	37.0	46.5	41.4	48.7	47.0	49.6	46.8	48.4	45.1	47.6	46.6	48.4
NBFIs	0.9	1.2	1.0	1.3	1.0	1.2	0.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	10.3	13.3	10.3	13.0	10.8	12.7	11.0	11.6	11.9	12.3	12.0	12.7	12.6	13.1
Parastatals	7.0	9.0	8.2	10.2	7.5	8.9	11.2	11.9	9.5	9.8	9.6	10.2	9.1	9.5
Of which: NSSF	0.1	0.2	0.4	0.5	0.4	0.4	0.6	0.6	0.3	0.3	0.1	0.1	0.2	0.2
Building Societies	0.1	0.2	0.1	0.1	0.1	0.1	0.5	0.6	1.4	1.5	1.4	1.4	1.1	1.1
Pension Funds	0.3	0.4	0.5	0.6	0.5	0.5	0.6	0.6	0.1	0.1	0.1	0.1	0.1	0.1
Others	23.2	29.9	22.5	28.3	23.7	27.9	23.8	25.1	26.9	27.9	26.6	28.0	26.9	27.9
Total*	**77.4**	**100.0**	**79.6**	**100.0**	**85.0**	**100.0**	**94.8**	**100.0**	**96.7**	**100.0**	**94.8**	**100.0**	**96.3**	**100.0**

* Excludes repurchase order bills

Source: Central Bank of Kenya

CHART 7B: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)



Source: Central Bank of Kenya

Treasury Bonds

The shift by investors from 91-day to 182-day Treasury bills during the period was attributed mainly to higher interest rates on the latter compared with the former.

The stock of Treasury bonds increased by Ksh 31.8 billion in the first eight months of the fiscal year 2006/07 to stand at Ksh 250.1 billion at the end of February 2007 from Ksh 218.4 billion at the end of June 2006 (Table 7.4 and Chart 7C). Consequently, the proportion of Treasury bonds in total domestic debt increased from 61.0 percent to 64.8 percent during the period. Besides, as shown in Table 7.4, Treasury bonds holdings by commercial banks increased from Ksh 100.1 billion or 45.9 percent of total bonds at the end of June 2006 to Ksh 120.6 billion or 48.2 percent of total bonds at the end of February 2007. Similarly, holdings of Treasury bonds by non-bank financial institutions, corporate entities and individuals increased from Ksh 118.3 billion to Ksh 129.5 billion in the same period.

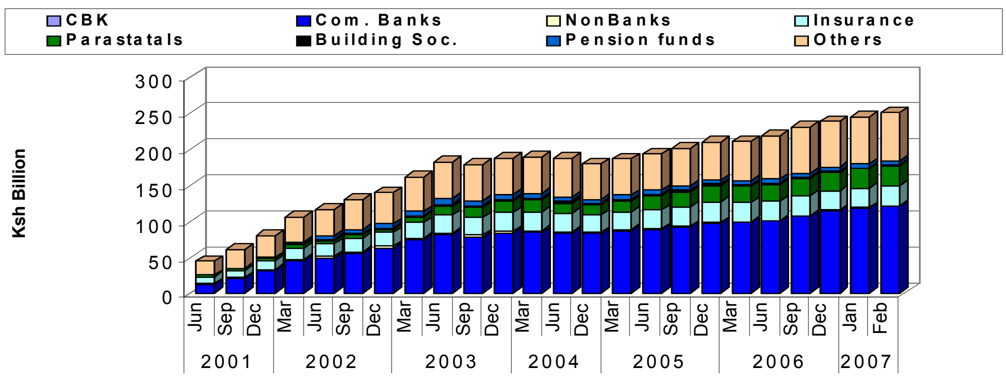
Two-year Treasury bonds accounted for 12.3 percent of the overall stock of Treasury bills and bonds at the end of February 2007 compared with 12.7 percent at the end of June 2006 (Table 7.5 and Chart 7D). Similarly, the proportion of six-year Treasury bonds increased from 10.6 percent to 11.0 percent during the period. Furthermore, the average maturity of domestic debt increased from 2.2 years to 2.3 years. These developments are consistent with the Government debt management objective of restructuring domestic debt from short to long dated instruments in order to reduce risks associated with short term domestic borrowing.

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

	2006								2007			
Holders	**Jan**	**%**	**Feb**	**%**	**Jun**	**%**	**Dec**	**%**	**Jan**	**%**	**Feb**	**%**
Banking Institutions	97.3	46.5	97.1	46.5	101.0	46.3	115.4	48.5	118.7	48.6	121.4	48.5
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	96.3	46.0	96.1	46.0	100.1	45.9	114.6	48.1	117.8	48.3	120.6	48.2
NBFIs	1.0	0.5	1.0	0.5	0.9	0.4	0.9	0.4	0.9	0.4	0.9	0.3
Insurance Companies	27.8	13.3	27.6	13.2	26.4	12.1	27.0	11.4	27.5	11.3	28.0	11.2
Parastatals	22.6	10.8	22.4	10.7	23.2	10.6	24.8	10.4	26.0	10.6	27.2	10.9
Of which: NSSF	3.8	1.8	3.7	1.8	4.9	2.2	5.4	2.3	6.5	2.6	6.5	2.6
Building Societies	2.0	0.9	2.0	1.0	1.8	0.8	1.5	0.6	1.5	0.6	1.5	0.6
Pensions Fund	5.9	2.8	5.9	2.8	6.2	2.8	5.9	2.5	5.9	2.4	6.0	2.4
Others	53.7	25.7	53.9	25.8	59.8	27.4	63.3	26.6	64.4	26.4	66.0	26.4
Total	**209.3**	**100.0**	**209.0**	**100.0**	**218.4**	**100.0**	**238.0**	**100.0**	**244.1**	**100.0**	**250.1**	**100.0**

Source: Central Bank of Kenya

CHART 7C: STOCK OF TREASURY BONDS (Ksh billion)



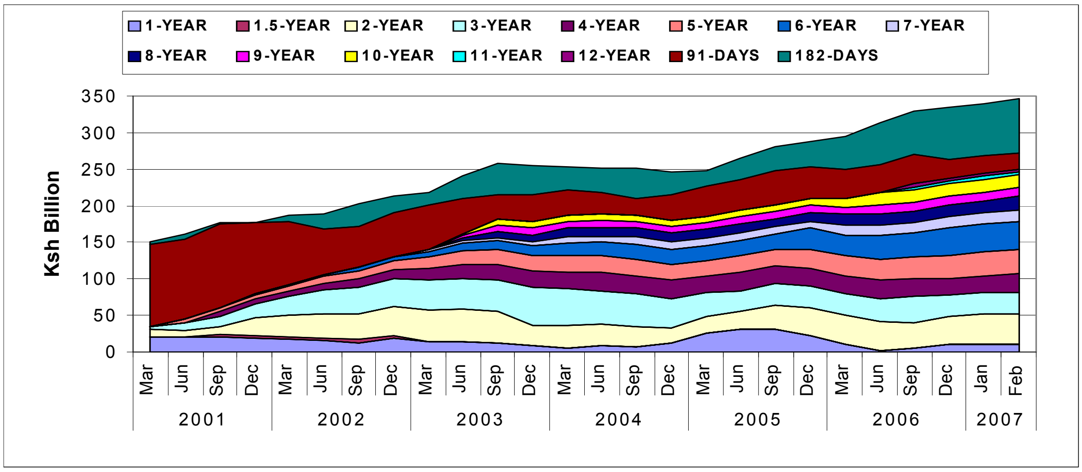
Source: Central Bank of Kenya

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

	2006								2007				Change Jun06 to Feb07
	Jan	%	Feb	%	Sep	%	Dec	%	Jan	%	Feb	%	
91-Day	44.3	15.3	41.9	14.2	40.3	12.3	26.1	7.8	24.1	7.1	21.7	6.3	-15.9
182-Day	35.3	12.2	43.1	14.7	58.3	17.7	70.6	21.1	70.7	20.9	74.5	21.5	17.4
1-Year	17.8	6.2	12.2	4.1	4.6	1.4	9.7	2.9	9.7	2.9	9.7	2.8	8.7
2-Year	43.9	15.2	40.1	13.7	35.2	10.7	39.3	11.7	42.6	12.6	42.6	12.3	2.9
3-Year	24.3	8.4	30.0	10.2	36.3	11.1	28.6	8.5	28.6	8.4	28.6	8.2	-2.7
4-Year	24.2	8.4	24.2	8.2	24.3	7.4	23.4	7.0	23.4	6.9	26.8	7.7	0.5
5-Year	27.6	9.6	27.6	9.4	30.0	9.1	30.0	9.0	32.8	9.7	32.8	9.5	4.4
6-Year	27.8	9.6	27.8	9.5	33.1	10.1	38.1	11.4	38.1	11.3	38.1	11.0	5.0
7-Year	13.6	4.7	13.6	4.6	13.6	4.1	15.9	4.7	15.9	4.7	15.9	4.6	2.3
8-Year	12.0	4.1	15.3	5.2	15.3	4.7	15.3	4.6	15.3	4.5	17.9	5.2	2.7
9-Year	9.6	3.3	9.6	3.3	12.6	3.8	12.6	3.8	12.6	3.7	12.6	3.6	0.0
10-Year	8.6	3.0	8.6	2.9	17.1	5.2	17.1	5.1	17.1	5.0	17.1	4.9	0.0
11-Year	0.0	0.0	0.0	0.0	4.0	1.2	4.0	1.2	4.0	1.2	4.0	1.2	4.0
12-Year	0.0	0.0	0.0	0.0	3.9	1.2	3.9	1.2	3.9	1.2	3.9	1.1	3.9
Total	**288.8**	**100.0**	**293.9**	**100.0**	**328.5**	**100.0**	**334.7**	**100.0**	**338.9**	**100.0**	**346.4**	**100.0**	

Source: Central Bank of Kenya

CHART 7D: OUTSTANDING TREASURY BILLS AND BONDS



Source: Central Bank of Kenya

Long-term Stocks

Outstanding Government long-term stocks decreased by Ksh 0.3 billion, from Ksh 1.1 billion at the end of June 2006 to Ksh 0.8 billion at the end of February 2007. As a result, the proportion of long-term stocks in total domestic debt fell from 0.3 percent to 0.2 percent during the period. The outstanding long-term stocks at the end of February 2007 comprised 54.2 percent in holdings by the National Social Security Fund (NSSF), and 45.8 percent in holdings by insurance companies, other public enterprises and individuals.

Maturity Profile of Treasury Bills and Bonds

From March to May 2007, Treasury bills and bonds totalling Ksh 55.3 billion and Ksh 14.6 billion respectively will mature. The Treasury bill maturities in the period will comprise Ksh 21.7 billion in 91-day Treasury bills and Ksh 33.6 billion in 182-day Treasury bills while the Treasury bonds maturities in the period will comprise Ksh 9.4 billion in 2-year bonds, Ksh 1.4 billion in 3-year bonds, Ksh 2.8 billion in 4-year bonds and Ksh 1.0 billion in 5-year bonds.

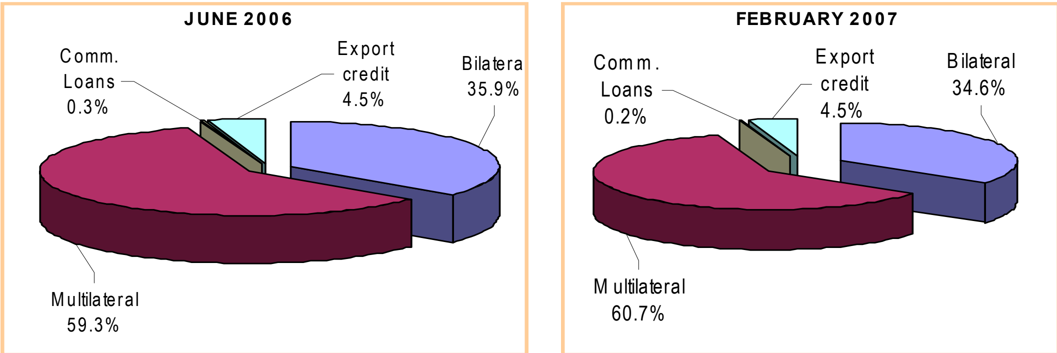
External Debt

Kenya's external public and publicly guaranteed debt fell from Ksh 431.2 billion at the end of June 2006 to stand at Ksh 416.5 billion at the end of February 2007. This represented a decrease of Ksh 14.7 billion or 3.4 percent in the external debt during the period. However, expressed in foreign currency terms, external debt increased from USD 5.8 billion at the end of June 2006 to USD 6.0 billion at the end of February 2007. The decrease in external debt (in shillings) during the period was attributed to principal repayments of Ksh 8.6 billion and revaluation gains on the debt totalling Ksh 11.4 billion, which were partially offset by external loan disbursements amounting to Ksh 5.3 billion. The fall in external debt during the period was therefore attributed primarily to strengthening of the Kenya shilling.

Composition of External Debt by Creditor

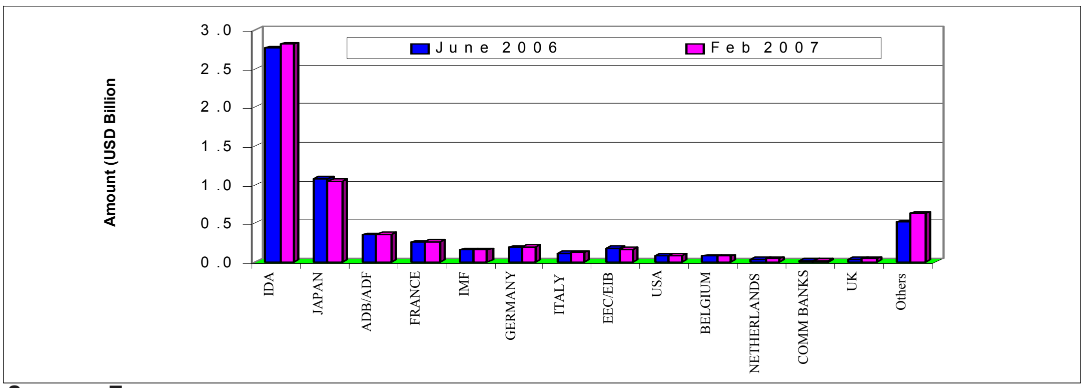
The proportion of external debt owed to multilateral creditors increased from 59.3 percent at the end of June 2006 to 60.7 percent at the end of February 2007. However, as shown in Chart 7E, the proportion of external debt owed to bilateral creditors fell from 35.9 percent to 34.6 percent during the period. Similarly, the proportion of commercial loans dropped from 0.3 percent to 0.2 percent while that of export credits remained unchanged at 4.6 percent during the period.

CHART 7E: COMPOSITION OF EXTERNAL DEBT



The International Development Association (IDA) and Japan remained the main creditors to Kenya at the end of February 2007 with outstanding loans of USD 2.8 billion and USD 1.0 billion respectively (Chart 7F).

CHART 7F: EXTERNAL DEBT BY CREDITOR

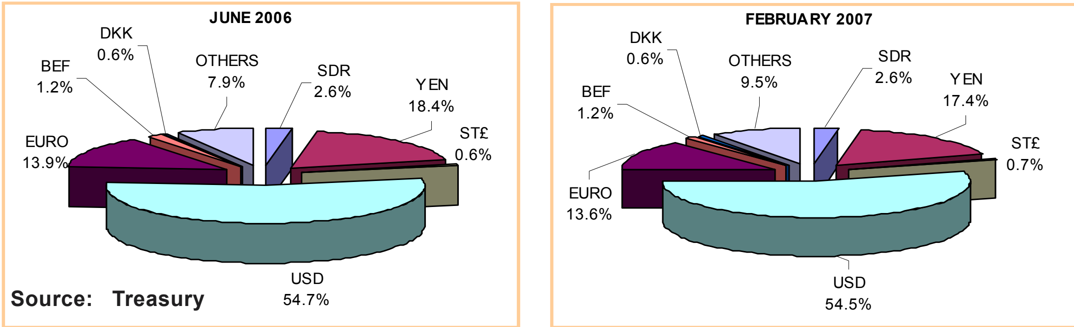


Source: Treasury

Currency Composition of External Debt

As shown in Chart 7G, the proportion of external debt held in Sterling pounds increased from 0.6 percent at the end of June 2006 to 0.7 percent at the end of February 2007. However, the proportion of external debt held in US dollars, Euros and Japanese yen fell from 54.7 percent, 13.9 percent and 18.4 percent to 54.5 percent, 13.6 percent and 17.4 percent respectively during the period. The proportion of external debt held in the IMF Special Drawing Rights (SDRs) remained unchanged as at the end June 2006 position of 2.6 percent.

CHART 7G: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

From July 2006 to February 2007, cumulative Government expenditure on interest and other charges on domestic debt increased to Ksh 23.5 billion or 10.8 percent of ordinary revenue compared with Ksh 19.7 billion or 10.4 percent of the revenue in a similar period in the previous fiscal year. Similarly, external debt service increased to Ksh 12.7 billion or 5.8 percent of revenue in the first eight months of the fiscal year 2006/07 compared with Ksh 6.4 billion or 3.4 percent of the revenue in a similar period of the fiscal year 2005/06. The external debt service in the first eight months of the fiscal year 2006/07 comprised Ksh 8.6 billion in principal repayments and Ksh 4.1 billion in interest and other charges.

Activity in the Stock Market

Equity Market Year 2006 Review

The equity market had mixed performance in the March/April period. Equity turnover declined by Ksh 2.6 billion in April 2007 from Ksh 6.9 billion in March 2007 to Ksh 4.4 billion. Similarly, the number of shares traded declined by Ksh 26.8 million or 23.4 percent from Ksh 114.2 million in March 2007 to Ksh 87.5 million in April. Market capitalization however, increased by Ksh 20.8 billion or 3 percent in April from Ksh 697.3 in March 2007 to Ksh 718.1 billion in April 2007 while the NSE 20 share Index gained 65.8 points from 5,133.7 in March to 5,199.4 in April 2007. Market liquidity, the ratio of the shares traded to the total shares outstanding, declined from 1.1 percent in March to 0.8 percent in April 2007 as a result of the decline in the number of shares traded as well as increased shares issued following share splits during the period.

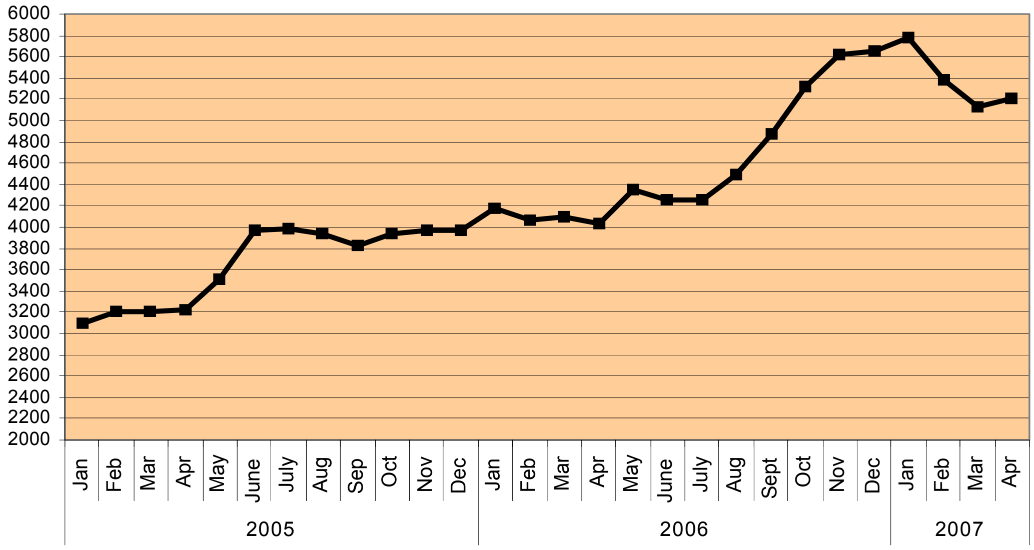
TABLE 8.1: SELECTED STOCK MARKET INDICATORS, 2005 - 2007

Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
Sept 05	3,832.69	150.99	2,759.43	449.80	1,283.50
Oct 05	3,939.45	58.42	3,850.00	455.00	1,520.00
Nov 05	3,974.12	82.42	4,350.00	455.50	1,180.00
Dec 05	3,973.04	85.88	4,070.00	462.52	1,480.00
Jan 06	4,171.80	143.50	6,146.38	481.29	1,054.90
Feb 06	4,056.63	61.95	3,392.49	469.66	4,696.25
Mar 06	4,101.64	69.20	3,692.22	484.18	2,859.70
Apr 06	4,025.21	57.28	2,861.62	486.78	6,002.15
May 06	4,349.75	183.46	11,437.33	614.90	4,783.25
June 06	4,260.49	142.02	8,441.65	623.20	8,128.35
July 06	4,258.54	93.45	5,593.89	615.09	7,383.50
August 06	4,486.07	117.80	8,497.88	668.67	6,440.40
September 06	4,879.86	177.42	12,377.72	726.78	1,497.00
October 06	5,314.36	161.25	13,089.36	771.70	1,872.06
November 06	5,615.20	169.47	13,648.68	806.23	2,847.80
December 06	5,645.65	77.42	5,770.67	791.58	1,009.50
January 07	5,774.24	136.31	10,482.89	824.29	1,601.75
February 07	5,387.28	109.08	7,763.86	723.66	6,234.20
March 07	5,133.67	114.27	6,955.35	696.92	7,789.26
April 07	5,199.44	87.45	4,372.38	718.10	6,268.30

Source: Nairobi Stock Exchange

In the Main Investment Market Segment the Finance and Investment sector led in trading as it transacted 35.9 million shares and represented 41 percent of traded volume in April 2007. The most traded stocks in the sector were KCB, ICDC Investment and Barclays Bank that traded 13.7 million, 7.2 million and 5.5 million shares respectively. The industrial and allied sector traded 32.3 million shares and accounted for 37 percent of total market trading in April 2007. Most traded stocks in the sector included KenGen, Mumias sugar and Eveready Batteries that traded 13.1 million, 7.4 million and 2.3 million shares, respectively.

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



Source: Nairobi Stock Exchange

The Alternative Investment Market Segment (AIMS) had 766 thousand shares traded valued at Ksh 32 million in April 2007 with City Trust trading 698 thousand shares to become the most active in the sector.

Bond Market

Trading at the bond market declined with bond turnover declining by 19.7 percent in April 2007, from Ksh 7.8 billion in March to Ksh 6.3 billion in April 2007 due to better returns in the primary issue. During the month, the government issued a six-year bond FXD 1/2007/6 worth Ksh 6 billion at a coupon rate of 11.5 percent.

BALANCE SHEET OF THE CENTRAL BANK OF KENYA

(KENYA SHILLINGS MILLION)

	Mar-07	Mar-06	Mar 06/Mar 07 Movement
ASSETS	**220,792**	**195,221**	**25,571**
Foreign Exchange	177,647	141,511	**36,136**
Advances and Discounts to Banks	0	0	**0**
Investment in Government Securities	1	2	**-1**
Government Accounts	37,542	49,546	**-12,004**
Overdraft to Government	126	11,324	**-11,198**
Clearing Account	204	238	**-34**
IMF funds on-lent to Government	1,663	2,067	**-404**
Non-interest Bearing Government Debt	35,549	35,917	**-368**
Other assets	5,602	4,162	**1,440**
Debtors	4,340	2,647	**1,693**
Retirement Benefits	394	478	**-84**
Property and Equipment	586	751	**-165**
Prepaid Leases	282	286	**-4**
LIABILITIES	**220,792**	**195,221**	**25,571**
Currency in Circulation	86,754	73,263	**13,491**
Repo Securities	14,555	20,722	**-6,167**
Deposits	107,245	97,480	**9,765**
Commercial Banks			
Kenya	36,497	31,744	**4,753**
External	22	22	**0**
Non-Bank Financial Institutions	120	124	**-4**
IMF	12,562	13,444	**-882**
Government	46,377	44,134	**2,243**
Other Public Entities and Project A/Cs	10,245	7,154	**3,091**
Local Banks Forex Settlement Fund	1,422	858	**564**
Other Liabilities and Provisions	1,555	1,230	**325**
Capital and Reserves	10,683	2,526	**8,157**
Capital	1,500	1,500	**0**
General Reserve Fund	8,145	5,398	**2,747**
Period's Surplus	1,038	-4,372	**5,410**
Dividend payable	0	0	**0**

Source: Central Bank of Kenya

NOTES ON THE BALANCE SHEET

Assets

Foreign exchange reserves of the Bank increased by Ksh 36,136 million from Ksh 141,511 million in March 2006 to Ksh 177,647 million in March 2007, reflecting forex purchases from the interbank market.

Investment in Government Securities declined by Ksh 1 million from Ksh 2 billion in March 2006 to Ksh 1 million in March 2007.

Government accounts declined by Ksh 12,004 million from Ksh 49,546 million in March 2006 to Ksh 37,542 million in March 2007. This followed a repayment of overdraft of Ksh 11,198 million, decline in the value of IMF funds on-lent to government by Ksh 404 million, reduction in the non-interest bearing government debt by Ksh 368 million and a decline of Ksh 34 million in clearing account balances at the Bank.

Other assets increased by Ksh 1,440 million from Ksh 4,162 million in March 2006 to Ksh 5,602 million in March 2007 as a result of increase in the value of debtors of the Bank by Ksh 1,693 million that fully offset Ksh 165 million decline in the value of property and equipment, Ksh 84 million decline in the value of retirement benefits and Ksh 4 decline in prepaid leases.

Liabilities

Currency in circulation increased by Ksh 13,491 million from Ksh 73,263 million in March 2006 to Ksh 86,754 million in March 2007.

The stock of **repo securities** declined by Ksh 6,167 million from Ksh 20,722 million in March 2006 to Ksh 14,555 million in March 2007.

Deposits increased by Ksh 9,765 million from Ksh 97,480 million in March 2006 to Ksh 107,245 million in March 2007. This was mainly due to increase in commercial banks' deposits at the Central Bank by Ksh 4,753 million, increase in Government of Kenya deposits by Ksh 2,243 million, increase in other public entities and project account deposits by Ksh 3,091 million and Ksh 564 million increase in local banks forex settlement balances. The increases more than offset Ksh 882 million decline in IMF liabilities with the Bank.

Other liabilities and provisions increased by Ksh 325 million from Ksh 1,230 million in March 2006 to Ksh 1,555 million in March 2007.

Capital and reserves increased by Ksh 8,157 million from Ksh 2,526 million in March 2006 to Ksh 10,683 million in March 2007 due to Ksh 2,747 million increase in the general reserve fund and Ksh 5,410 million increase in surplus of the Bank in the year to March 2007.