MONTHLY ECONOMIC REVIEW
DECEMBER 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

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Overview

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

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

Inflation Overall 12-month inflation rose from 11.8 percent in the year to November 2007 to 12.0 percent in the year to December 2007. Average annual inflation eased from 10.0 percent in the year to November 2007 to 9.8 percent in the year to December 2007.

Government Fiscal Operations Due to a robust performance of tax revenue and lower than budgeted expenditure outturn in the first four months of 2007/08, cumulative central Government budgetary operations resulted in a deficit of Ksh 8.4 billion or 0.4 percent of GDP on commitment basis compared with a deficit of Ksh 20.5 billion or 1.3 percent of GDP in a similar period of the previous fiscal year. The budget deficit during the period was within the target for the period which was a deficit of 0.9 percent of GDP on commitment basis.

Public Debt Developments Kenya's public and publicly guaranteed debt, as a percentage of GDP, dropped from 51.1 percent in June 2006 to 43.8 percent in June and October 2007. Domestic debt, as a ratio of GDP, dropped from 22.1 percent in June 2007 to 22.0 percent in October 2007 while external debt increased from 21.7 percent to 21.9 percent of GDP during the period. The overall debt to GDP ratio has generally been falling since June 2004 due to improved economic performance.

Monetary Expansion

Money supply, M3[1], grew by 16.7 percent in the year to October 2007 compared with 17.0 percent in a corresponding period in 2006. While M3 growth in October 2007 eased from 17.7 percent in September 2007, it remained above the projected 15.0 percent growth for the 12 months ending December 2007.

Interest Rates

Short term interest rates declined in December 2007 as the average 91-day Treasury bill rate fell from 7.52 percent in November 2007 to 6.87 percent in December 2007. The 182-day Treasury bill rate also declined from 8.04 percent in November 2007 to 7.87 percent in December 2007.

Balance of Payments

The surplus in the balance of payments declined from US$ 725 million in the year to October 2006 to US$ 455 million in the year to October 2007, reflecting increased merchandise imports.

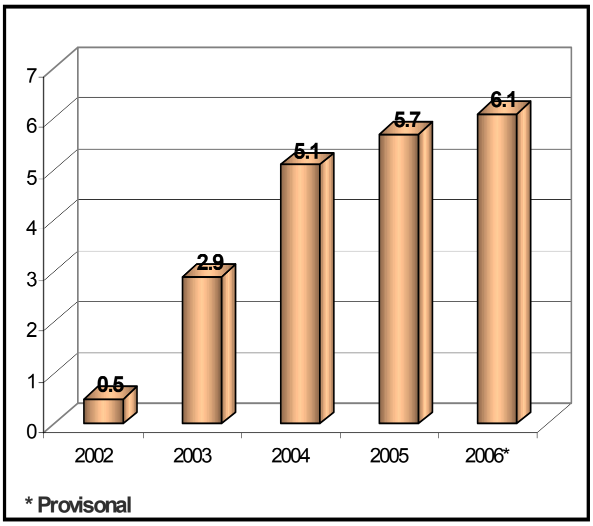
Exchange Rates

The Kenya shilling appreciated against major world currencies in December 2007. Against the US dollar, the shilling exchanged at an average of Ksh 63.3 per US dollar in December 2007 compared with Ksh 65.5 per US dollar in November 2007. The shilling also strengthened against the Uganda and Tanzania shillings.

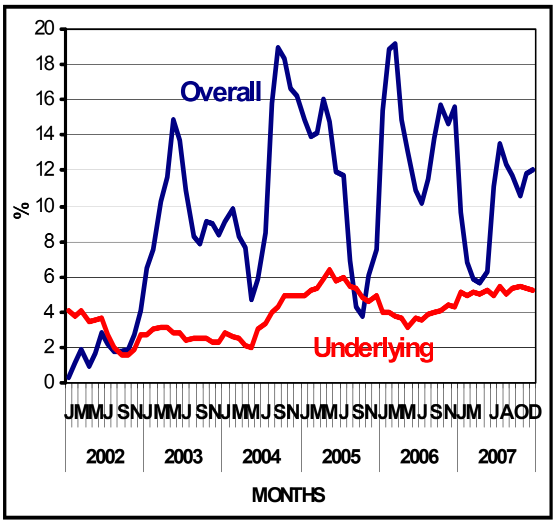
[1] Effective January 2006, the CBK adopted a harmonized definition of monetary aggregates to conform to those of the East African Community (EAC) member countries. Consequently, M3X, the intermediate target of monetary policy in Kenya under the reserve money programme has been renamed broad money M3.

SELECTED ECONOMIC PERFORMANCE INDICATORS

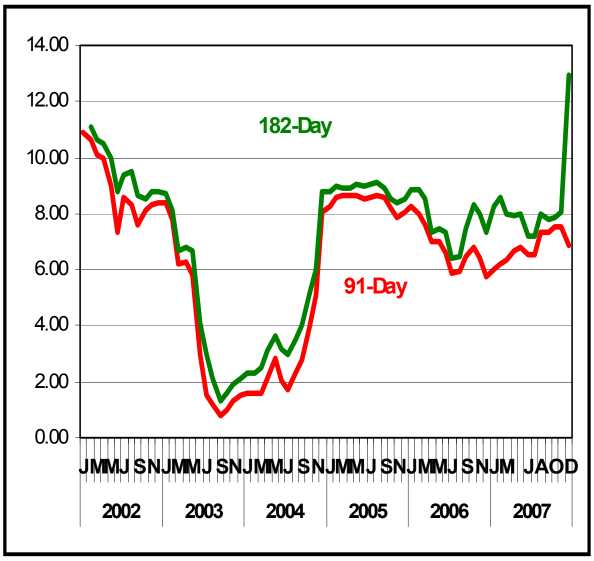
Real GDP Growth



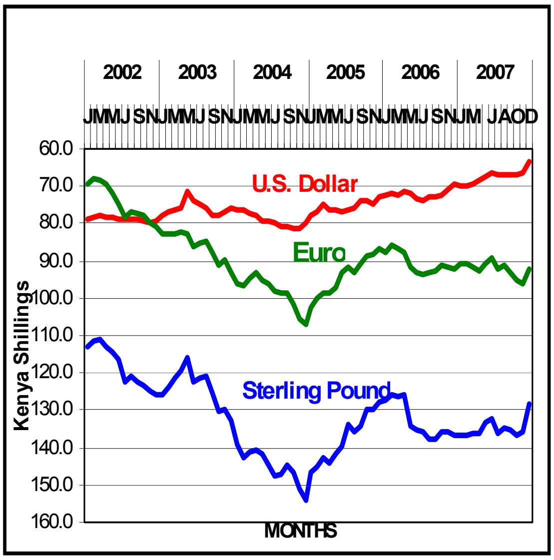
Inflation



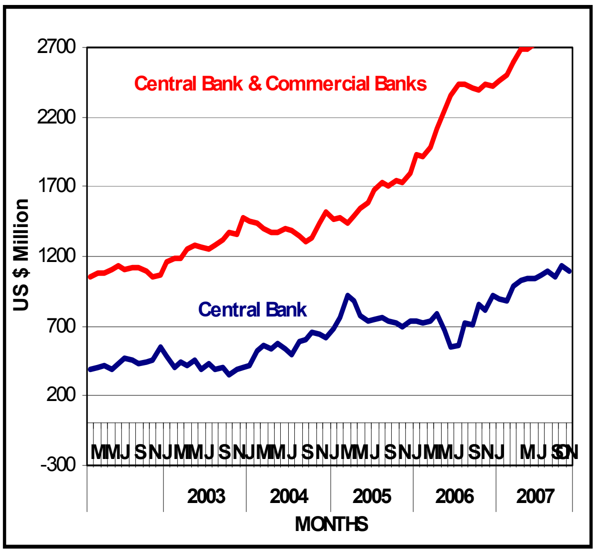
Treasury Bill Rates



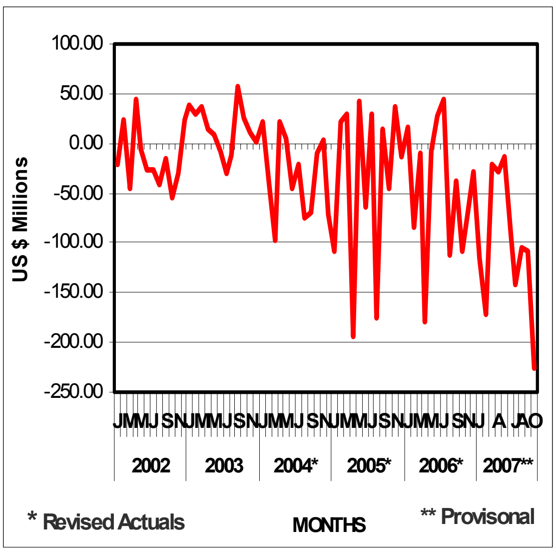
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS, 1998 - 2006

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

* Provisional.
** Revised to reflect data in Economic Survey 2007.
*** Fiscal year to June 30th.
**** Figures in parentheses refer to official reserves in months of imports of goods and non-factor services.
[1] Previously M3XT
[2] Previously M3X
[3] Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2006 Dec	2007 Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1. INFLATION (%)											
CPI	**214.05**	**225.30**	**222.61**	**221.83**	**224.93**	**226.57**	**225.79**	**228.15**	**229.99**	**233.28**	**239.81**
Overall Inflation											
12-month overall inflation	15.59	5.87	5.66	6.33	11.10	13.56	12.37	11.72	10.55	11.83	12.03
Average annual overall inflation	14.45	11.73	10.92	10.33	10.35	10.64	10.72	10.57	10.19	10.00	9.76
Underlying Inflation*											
12-month underlying inflation	4.32	5.13	5.03	5.22	4.90	5.46	5.06	5.34	5.41	5.30	5.25
Average annual underlying inflation	3.88	4.17	4.29	4.46	4.56	4.72	4.81	4.92	5.03	5.82	5.18
2. INTEREST RATES (%)											
91-day Treasury bill interest rate	5.73	6.32	6.65	6.77	6.53	6.52	7.3	7.3	7.55	7.82	6.87
Overdraft interest rate	13.91	13.95	13.58	13.35	13.20	13.34	13.39	13.26	13.29	13.43	12.96
3. STOCK MARKET											
Nairobi Stock Exchange Price Index	5,645.65	5,133.67	5,199.44	5,001.77	5,146.73	5,340.08	5,371.72	5,146.46	4,971.04	5,215.36	5,444.83
Turnover (%)	0.83	1.10	0.72	1.00	1.20	1.34	1.88	2.09	1.39	1.33	0.97
4. GOVERNMENT BUDGET (Ksh bn.)**											
Revenue	170.16	256.71	305.21	331.21	383.59	34.2	66.0	97.96	135.14	169.18	
Expenses	194.39	284.20	334.50	368.65	405.20	29.3	69.6	94.06	143.49	188.67	
Budget Deficit (-) / Surplus (+)	**(24.23)**	**(27.49)**	**(29.29)**	**(37.44)**	**(21.61)**	**4.90**	**(3.68)**	**3.90**	**(8.35)**	**(19.50)**	
5. MONEY AND CREDIT (Ksh bn.)											
Liquidity (L)[1]	826.91	858.80	866.11	880.42	894.60	902.18	920.50	927.11	932.77	949.20	
Money Supply (M3)[2]	659.59	684.97	690.44	701.52	719.52	723.32	741.05	743.99	750.14	760.41	
Reserve Money	124.16	122.17	126.08	124.57	126.47	128.42	132.44	131.33	133.95	140.54	
Total Domestic Credit	**571.48**	**591.25**	**595.70**	**606.03**	**606.75**	**616.37**	**632.66**	**638.06**	**646.43**	**666.63**	
Government	137.81	137.80	132.52	134.30	157.17	156.03	163.22	160.41	166.51	165.55	
Private sector and other public sector	433.67	453.45	463.18	471.72	449.97	460.34	469.44	477.65	479.92	501.08	
6. MONEY AND CREDIT (Annual % Change)											
Liquidity (L)[1]	16.99	17.29	15.07	16.65	16.88	16.01	17.02	16.45	15.93	16.60	
Money Supply (M3)[2]	17.78	17.84	14.99	17.32	18.83	16.72	19.02	17.72	16.70	16.68	
Reserve Money	16.88	18.89	17.80	21.58	17.45	17.87	19.03	16.96	17.58	19.84	
Total Domestic Credit	**15.40**	**14.39**	**13.72**	**16.38**	**16.30**	**13.51**	**17.79**	**17.98**	**16.04**	**16.54**	
Government	12.81	9.45	7.10	10.33	33.32	15.69	24.21	23.32	19.20	13.05	
Private and other public sector	14.99	14.77	14.48	18.23	11.33	12.78	15.65	16.29	14.98	17.75	
7. BALANCE OF PAYMENTS (US$ m)											
Overall Balance	**(21.24)**	**92.97**	**101.34**	**(54.33)**	**44.56**	**85.66**	**(19.64)**	**44.97**	**40.08**		
Current Account	(27.71)	(21.15)	(27.79)	(14.32)	(92.08)	(142.38)	(105.68)	(108.95)	(225.42)		
Trade Balance	(360.09)	(322.03)	(337.18)	(393.71)	(411.37)	(439.94)	(428.90)	(405.76)	(514.09)		
Capital and Financial Account	6.47	114.12	129.13	(40.01)	136.64	228.03	86.04	153.92	265.51		
8. FOREIGN EXCHANGE RESERVES (US$ m)	3,331.30	3,570.40	3,717.17	3,719.22	3,767.46	3,869.52	3,871.43	3,869.69	3,991.21	4,068.98	
Official***	2,415.27	2,589.91	2,684.19	2,682.59	2,723.15	2,804.80	2,779.07	2,820.04	2,852.97	2,970.84	
Months of imports cover	*3.53*	*3.57*	*3.71*	*3.63*	*3.61*	*3.62*	*3.54*	*3.55*	*3.50*	*3.64*	
Commercial banks	916.03	980.49	1,032.98	1,036.63	1,044.31	1,064.72	1,092.37	1,049.66	1,138.24	1,098.14	
9. PUBLIC DEBT (US$ bn)	**10.94**	**11.26**	**11.87**	**12.10**	**12.04**	**12.16**	**12.32**	**12.43**	**12.44**		
Domestic	5.46	5.64	*5.72*	*5.84*	*6.08*	*6.08*	*6.21*	*6.37*	*6.24*		
As % of GDP	24.55	23.97	21.89	21.66	22.14	22.21	22.28	22.63	21.97		
External	5.48	5.62	6.15	6.27	5.96	6.08	6.11	6.06	6.21		
As % of GDP	*24.55*	*23.97*	*23.60*	*23.26*	*21.69*	*22.22*	*21.92*	*21.51*	*21.88*		
10. GROSS DOMESTIC DEBT (Ksh bn)****	**385.10**	**386.29**	**390.49**	**390.80**	**404.69**	**410.2**	**415.9**	**426.8**	**418.5**	**426.1**	
11. AVERAGE EXCHANGE RATE											
Ksh/US$	69.63	69.29	68.58	67.19	66.57	67.07	66.95	67.02	66.85	65.49	63.30
Ksh/Pound Sterling	136.79	134.91	136.40	133.31	132.25	136.41	134.57	135.19	136.52	135.79	128.45
Ksh/ 100 Yen	59.47	59.08	57.73	55.65	54.27	55.17	57.38	58.25	57.76	58.92	56.52
Ksh/Euro	92.03	91.77	92.68	90.82	89.33	91.99	91.15	93.06	95.09	96.13	92.24

* Overall inflation excluding food, energy and transport and communications

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

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

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

[1] Previously M3XT

[2] Previously M3X

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

Trends in Various Measures of Inflation

Overall Inflation

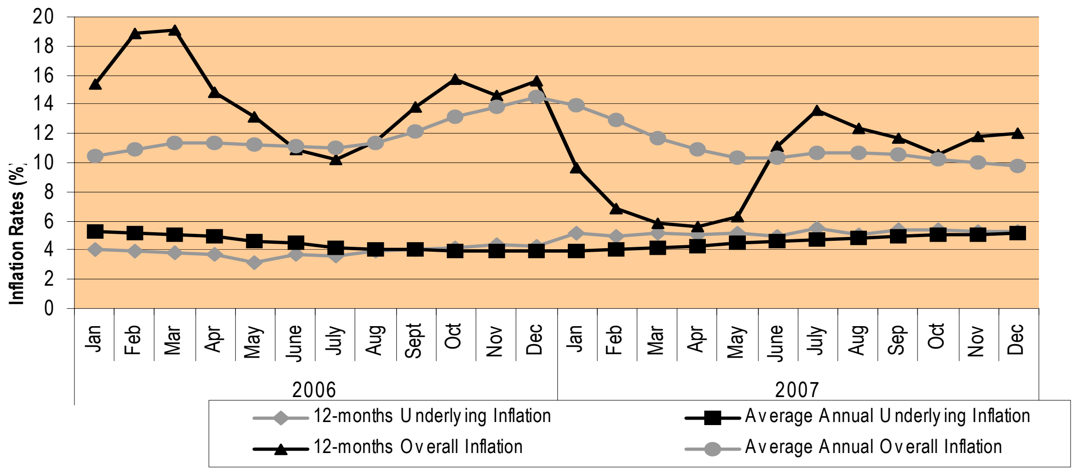
Overall 12-month inflation rose from 11.8 percent in the year to November 2007 to 12.0 percent in the year to December 2007. Increased pressure on overall inflation was mainly from higher prices of alcohol and tobacco, and transport and communication categories of goods and services. In contrast, average annual inflation eased from 10.0 percent in the year to November 2007 to 9.8 percent in the year to December 2007.

Underlying Inflation

The 12-month underlying inflation remained unchanged at 5.3 percent in the year to December 2007 as recorded in the year to November 2007. However, the annual average underlying inflation rose marginally from 5.1 percent in the year to November 2007 to 5.2 percent in the year to December 2007.

Table 1.1 and Chart 1A depict trends in overall and underlying inflation between January 2006 and December 2007.

CHART 1A: UNDERLYING AND OVERALL INFLATION



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

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2006		2007								
	Nov	Dec	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Underlying Inflation											
12-month	4.39	4.32	5.03	5.22	4.90	5.46	5.06	5.34	5.41	5.30	5.25
Average annual	3.93	3.88	4.29	4.46	4.56	4.72	4.81	4.92	5.03	5.10	5.18
Growth over one month	0.29	0.48	0.23	0.19	0.80	0.64	0.15	0.59	0.29	0.19	0.43
Growth over 3 months	0.84	0.99	0.65	0.79	1.22	1.64	1.60	1.40	1.04	1.07	0.91
Overall Inflation											
12-month	14.64	15.59	5.66	6.33	11.10	13.56	12.37	11.72	10.55	11.83	12.03
Average annual	13.81	14.45	10.92	10.33	10.35	10.64	10.72	10.57	10.19	10.00	9.76
Growth over one month	0.30	2.60	-1.20	-0.40	1.40	0.70	-0.30	1.00	0.80	1.40	2.80
Growth over 3 months	3.80	4.80	0.90	-0.80	-0.20	1.80	1.80	1.40	1.50	3.30	5.10

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

Inflation by Income Groups

Across the income groups, the Nairobi Lower income group recorded the highest inflation, which rose from 12.1 percent in the 12-months to November 2007 to 12.9 percent in the 12-months to December 2007. Similarly, inflation for the ''Combined Nairobi'' income group accelerated from 11.7 percent to 12.4 percent. The other income groups recorded lower inflation in the year to December 2007 compared with the year to November 2007. The inflation for Nairobi Middle/Upper income group decelerated from 9.8 percent to 9.6 percent, while inflation for the ''Rest of Kenya'' income group decelerated from 12.0 percent to 11.8 percent.

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

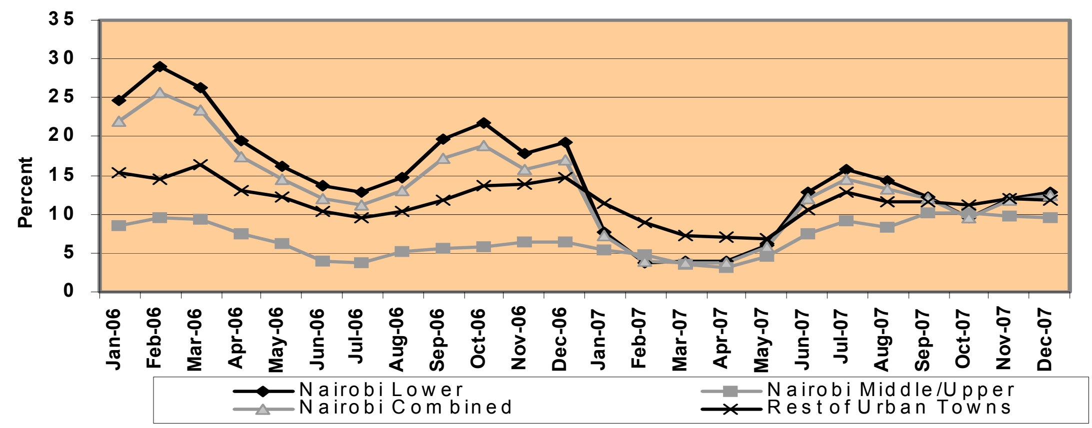
TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)

	2006		2007								
	Nov	Dec	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Nairobi Lower	17.86	19.20	3.86	5.95	12.93	15.65	14.34	12.27	9.48	12.07	12.90
Nairobi Middle/Upper	6.33	6.44	3.14	4.51	7.44	9.04	8.27	10.10	10.15	9.80	9.61
Nairobi Income \[1]	15.83	16.99	3.75	5.72	12.04	14.56	13.34	11.92	9.60	11.71	12.38
Rest of Urban Towns	13.82	14.67	6.96	6.75	10.50	12.90	11.72	11.59	11.18	11.96	11.80

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

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

CHART 1B: 12-MONTH INFLATION BY INCOME GROUPS



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

Inflation Across Goods and Services Categories

In the 12-months to December 2007, six categories of goods and services in the CPI basket recorded higher inflation than in the 12-months to November 2007. Food inflation still remains the major contributor to overall inflation, having recorded 15.9 percent in the 12-months to December 2007 up from 15.7 percent in the 12-months to November 2007. Inflation for alcohol and tobacco category rose from 9.3 percent in the year to November 2007 to 11.6 percent in the year to December 2007. Inflation for medical goods and services, and transport and communication rose from 3.8 percent and 8.6 percent in the 12-months to November 2007, to 3.9 percent and 9.5 percent, respectively, in the 12-months to December 2007. Similarly, inflation for recreation and education category, and personal goods and services, rose from 3.2 percent and 3.8 percent in the 12-months to November 2007 to 3.3 percent and 4.2 percent, respectively, in the 12-months to December 2007.

On the other hand, inflation for housing category, and household goods and services decelerated from 6.9 percent and 5.7 percent in the 12-months to November 2007, to 6.0 percent and 5.5 percent, respectively, in the 12-months to December 2007. Inflation for clothing and footwear, and fuel and power categories of goods and services however remained unchanged at 3.1 percent and 5.7 percent, respectively, as recorded in the 12-months to November 2007.

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

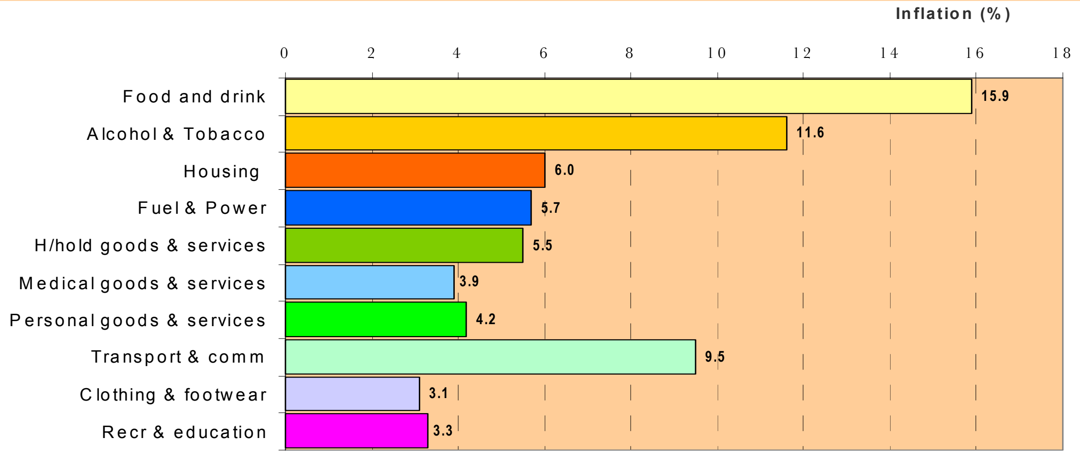
TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES - DECEMBER 2006 TO DECEMBER 2007

	Income Groups*											
Goods and Services	Nairobi Lower	Middle/Upper	Rest of Urban Towns	Combined weights	2006	2007						
Weight	*(31.9)*	*(8.0)*	*(60.1)*	*(100)*	Dec	June	July	Aug	Sep	Oct	Nov	Dec
Food and drink	55.70	31.90	50.20	50.50	22.60	15.00	18.90	17.20	16.10	14.00	15.70	15.90
Housing	11.90	31.70	9.00	11.70	6.00	5.80	7.20	6.50	7.50	7.50	6.90	6.00
Recr & education	4.60	7.30	6.60	6.00	2.10	3.10	2.90	2.70	2.80	3.20	3.20	3.30
H/hold goods & services	5.00	4.70	6.40	5.80	4.70	5.90	6.00	6.30	6.20	6.20	5.70	5.50
Clothing & footwear	9.20	7.40	9.10	9.00	3.00	3.30	3.00	2.70	2.80	2.80	3.10	3.10
Transport & comm	5.10	10.20	5.50	5.70	6.50	3.10	3.20	3.80	2.80	3.10	8.60	9.50
Fuel & Power	3.50	2.20	4.80	4.20	13.50	8.50	8.70	7.00	6.30	5.90	5.70	5.70
Medical goods & services	0.90	1.30	2.00	1.60	3.10	4.70	4.80	4.90	4.10	4.40	3.80	3.90
Personal goods & services	2.30	1.90	2.60	2.40	2.00	3.60	3.80	4.10	3.90	3.70	3.80	4.20
Alcohol & Tobacco	1.80	1.40	3.80	3.00	7.00	8.00	9.80	8.10	8.10	7.80	9.30	11.60

* Numbers in parentheses are income group weights

Source: Kenya National Bureau of Statistics

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



Source: Kenya National Bureau of Statistics

Inflation Outlook

Inflation in the coming months will be highly dependent on developments in food prices, international oil prices and the shilling exchange rate.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Money supply, M3[1], growth in the year to November 2007 was slower at 16.7 percent compared with 17.9 percent in the year to November 2006 as shown in Table 2.1 and Chart 2A. The expansion in M3 was however above the projected growth of 14 percent for the fourth quarter of 2007. At 16.2 percent, money supply, M2, also grew less rapidly in November 2007 compared with 17.7 percent in November 2006.

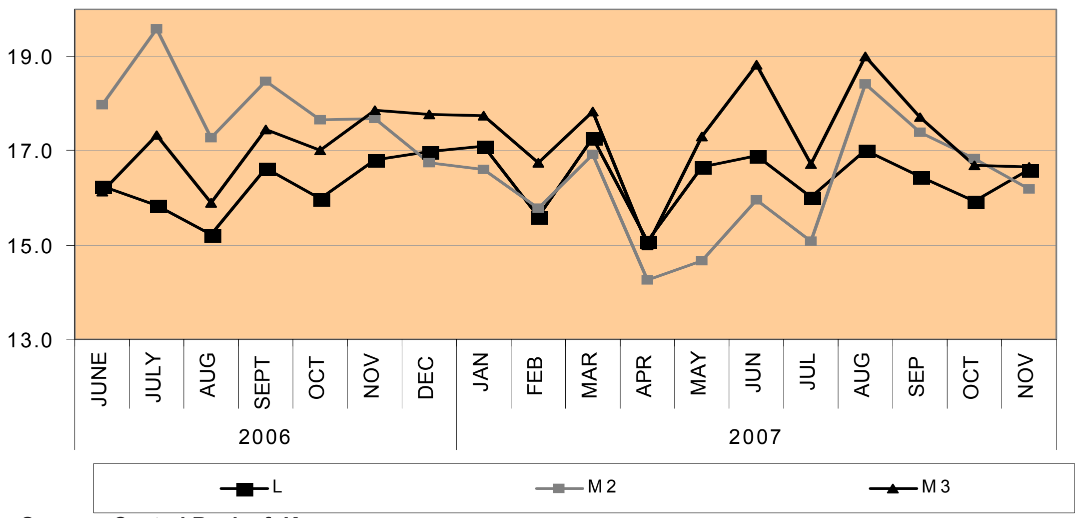
TABLE 2.1: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

Monetary Aggregates	2006				2007			
	Jun	Sep	Oct	Dec	Mar	Jun	Oct	Nov
Currency outside banks	13.3	15.8	15.9	15.3	19.2	16.2	16.0	20.2
M1	16.4	21.0	21.7	26.2	21.3	31.1	24.5	26.3
M2	18.0	18.5	17.6	16.7	16.9	16.0	16.8	16.2
M3	16.0	17.4	17.0	17.9	17.8	18.8	16.7	16.7
L*	16.2	16.6	16.0	17.1	17.3	16.9	15.9	16.6

* 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

M3 growth in the year to November 2007 resulted from increased net foreign assets (NFA) and net domestic assets (NDA) of the banking system. NFA of the banking system grew by 14.7 percent in the year to November 2007, a slowdown compared with 28.3 percent increase in the year to November 2006 (Table 2.2). NDA of the banking system grew by 17.6 percent compared with 13.5 percent in a similar period in 2006 reflecting increased domestic credit.

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

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

	2005 November	2006 November	2007 November	Nov-06 12 months %age change	Nov-07 12 months %age change
1. Money Supply, M3 (2+3) 2/	**553.0**	**651.7**	**760.4**	**17.9**	**16.7**
1.1 Money supply, M2 3/	470.3	553.4	643.1	17.7	16.2
1.2 Money supply, M1	228.5	285.2	360.4	24.8	26.3
1.3 Currency outside banks	63.7	72.6	87.3	14.1	20.2
2. Net Foreign Assets 4/	**162.7**	**208.7**	**239.3**	**28.3**	**14.7**
Central Bank	118.1	160.9	183.2	36.2	13.9
Banking Institutions	44.6	47.8	56.1	7.3	17.4
3. Net Domestic Assets (3.1+3.2)	**390.3**	**443.0**	**521.1**	**13.5**	**17.6**
3.1 Domestic Credit (3.1.1+3.1.2)	**497.6**	**572.0**	**666.6**	**15.0**	**16.5**
3.1.1 Government (net)	125.8	146.4	165.5	16.4	13.1
3.1.2 Private sector and other public sector	371.8	425.6	501.1	14.5	17.7
3.2 Other Assets Net (3-3.1)	-107.3	-129.0	-145.5	20.2	12.9
Memorandum items					
1. Overall Liquidity, L 1/	**697.0**	**814.1**	**949.2**	**16.8**	**16.6**
2. Reserve Money	**101.7**	**117.3**	**140.5**	**15.3**	**19.8**
Currency outside banks	63.7	72.6	87.3	14.1	20.2
Bank reserves	38.0	44.6	53.3	17.4	19.3

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

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

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

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

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

Source: Central Bank of Kenya

The contribution of net foreign assets to money supply, M3, expansion declined from 8.6 percent in November 2006 to 4.7 percent in November 2007 as shown in Table 2.3. On the other hand, the growth in net domestic assets accounted for 12 percent of the 16.7 percent expansion in M3, having increased from 9.3 percent in November 2006.

TABLE 2.3: CONTRIBUTION TO M3 GROWTH (%)

	2006				2007			
	Jun	Oct	Nov	Dec	Mar	Jun	Oct	Nov
Annual growth in M3	**16.1**	**17.0**	**17.9**	**17.8**	**17.8**	**18.8**	**16.7**	**16.7**
Net Foreign Assets	**7.1**	**9.0**	**8.6**	**8.8**	**8.4**	**8.0**	**4.1**	**4.7**
Net Domestic Assets	**9.0**	**8.0**	**9.3**	**9.0**	**9.4**	**10.9**	**12.6**	**12.0**
Domestic Credit	**11.2**	**12.5**	**13.4**	**13.6**	**12.8**	**14.0**	**13.9**	**14.5**
Government (net)	1.1	3.2	3.7	2.8	2.0	6.5	3.8	2.9
Rest of Economy	10.1	9.4	9.7	10.8	10.8	7.6	10.1	11.6
Other public sector	0.4	1.0	1.3	1.2	1.1	0.0	-0.7	-1.3
Private Sector	9.8	8.4	8.4	9.7	9.6	7.5	10.8	12.9
Other items (net)	**-2.2**	**-4.6**	**-4.2**	**-4.6**	**-3.4**	**-3.2**	**-1.3**	**-2.5**

Source: Central Bank of Kenya

Credit Developments

Domestic credit grew 16.5 percent in the year to November 2007 compared with 15 percent in November 2006. Credit to Government grew slower at 13.1 percent in the year to November 2007, compared with 16.4 percent increase in a similar period in 2006. The slowdown in credit to Government reflected a build up of Government deposits at the Bank. Growth in private sector credit was however faster at 20.7 percent in the year to November 2007 compared with 12.9 percent in the year to November 2006 (Table 2.4). Credit to the private sector was in line with economic performance in 2007.

The main share of private sector credit in the year to November 2007 was to other activities (50.3 percent) private households (34.8 percent), consumer durables (10.5 percent), transport and communication (6.2 percent), and building and construction (4.9 percent) as shown in Chart 2B.

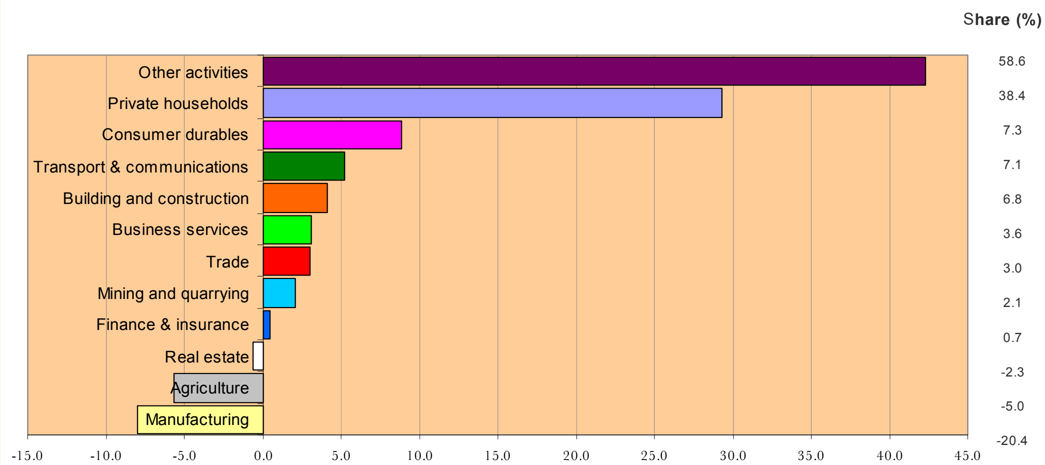
TABLE 2.4: BANKING SYSTEM NET DOMESTIC CREDIT

	2006 November		2007 November		Annual % Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2005/2006	2006/2007
1. Credit to Government	**146.4**	**25.6**	**165.5**	**24.8**	**16.4**	**13.1**
Central Bank	-0.8	-0.1	-0.6	-0.1	-112.4	-27.4
Commercial Banks & NBFIs	147.2	25.7	166.1	24.9	23.3	12.8
2. Credit to other public sector	**18.7**	**3.3**	**10.0**	**1.5**	**62.4**	**-46.3**
Local government	-1.8	-0.3	-2.2	-0.3	81.2	20.6
Parastatals	20.5	3.6	12.2	1.8	63.9	-40.5
3. Credit to private sector	**406.9**	**71.1**	**491.0**	**73.7**	**12.9**	**20.7**
Agriculture	32.1	5.6	26.4	4.0	-4.8	-17.7
Manufacturing	71.2	12.5	63.2	9.5	8.9	-11.3
Trade	53.4	9.3	56.4	8.5	3.0	5.7
Building and construction	33.0	5.8	37.2	5.6	25.7	12.5
Transport & communications	39.2	6.8	44.3	6.7	44.7	13.2
Finance & insurance	25.2	4.4	25.7	3.9	-20.5	1.8
Real estate	24.1	4.2	23.5	3.5	0.2	-2.5
Mining and quarrying	3.0	0.5	5.1	0.8	2.8	67.9
Private households	51.0	8.9	80.3	12.0	9.2	57.5
Consumer durables	13.7	2.4	22.6	3.4	66.2	64.6
Business services	43.5	7.6	46.6	7.0	28.4	7.2
Other activities	17.5	3.1	59.8	9.0	107.0	242.2
4. TOTAL (1+2+3) *	**572.0**	**100.0**	**666.6**	**100.0**	**15.0**	**16.5**

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Reserve Money

Reserve money increased by 19.8 per cent in the year to November 2007 compared with 15.3 per cent annual growth to November 2006 as shown in Table 2.5. Average reserve money in November 2007 at Ksh 140.5 billion was above target by Ksh 4.5 billion. The excess reserve money was held in currency outside banks (Ksh 3.2 billion) and bank reserves (Ksh 1.3 billion).

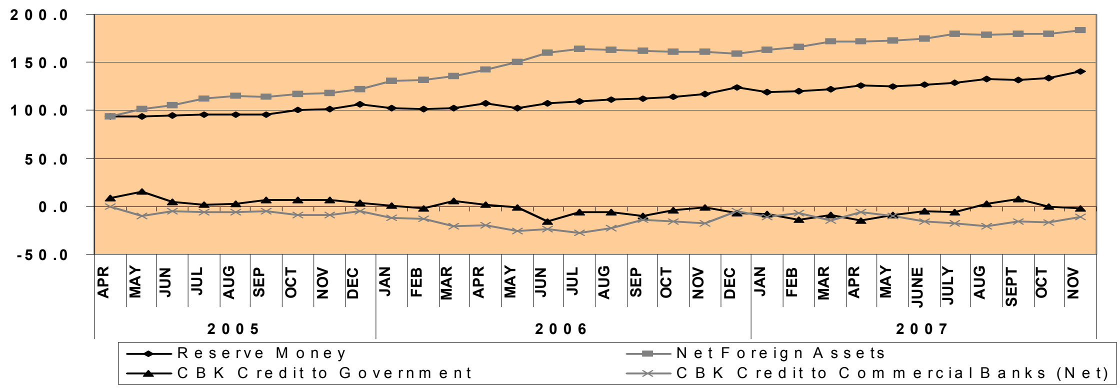
TABLE 2.5: RESERVE MONEY AND ITS SOURCES (Ksh billion)

	2006	2007	Change		2007	
	Nov	Nov	Absolute	%	Nov Target	Deviation
1. Net Foreign Assets	154.8	183.2	28.4	18.3	179.3	3.9
2. Net Domestic Assets	-37.6	-42.6	-5.1	13.5	-43.3	0.7
2.1 Government Borrowing (net)	-0.8	-1.8	-1.0	127.3	-10.3	8.5
2.2 Advances & Discounts	-18.0	-11.3	6.7	-37.3	-14.4	3.1
2.3 Other Domestic Assets (net)	-18.8	-29.5	-10.8	57.4	-18.6	-11.0
3. Reserve Money	117.3	140.5	23.3	19.8	136.0	4.5
3.1 Currency outside banks	74.2	88.9	14.7	19.9	85.7	3.2
3.2 Bank reserves	43.1	51.6	8.5	19.8	50.3	1.3

Source: Central Bank of Kenya

Reserve money increase by Ksh 23.3 billion in the year to November 2007 was supported by increase in net foreign assets (NFA) of the Central Bank as well as a rise in net domestic assets (NDA). NFA increased by Ksh 22.3 billion or 13.9 per cent in the year to November 2007. The level of net foreign assets was Ksh 183.2 billion as at November 2007 and was above the target by Ksh 3.9 billion.

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



Source: Central Bank of Kenya

NDA of the Central Bank increased by Ksh 1.0 billion to Ksh –42.6 billion in November 2007 from Ksh -43.6 billion in November 2006. The increase in NDA of the Central Bank was due to draw down on Government deposits at the Central Bank as well as decline in repo holding by commercial banks.

Government deposits fell by Ksh 5.4 billion to Ksh 41.6 billion in November 2007 but were partly offset by the Ksh 5.2 billion decline in Government borrowing. As a result, Government borrowing on a net basis increased by Ksh 0.2 billion in the year to November 2007.

Meanwhile, monetary operations of the Bank led to declined net indebtedness of commercial banks to Central Bank by Ksh 6.7 billion from Ksh 18.0 billion in December 2005 to Ksh 11.3 billion in November 2007. Other domestic assets of the Central Bank net of liabilities declined by Ksh 4.7 billion from Ksh -24.8 billion in November 2006 to Ksh -29.5 billion in November 2007.

Central Bank rate

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

Short-term interest rates

The average 91-day Treasury bill rate declined from 7.52 percent in November 2007 to 6.87 percent in December 2007, while the 182-day Treasury bill rate also declined from 8.04 percent in November 2007 to 7.87 percent in December 2007.

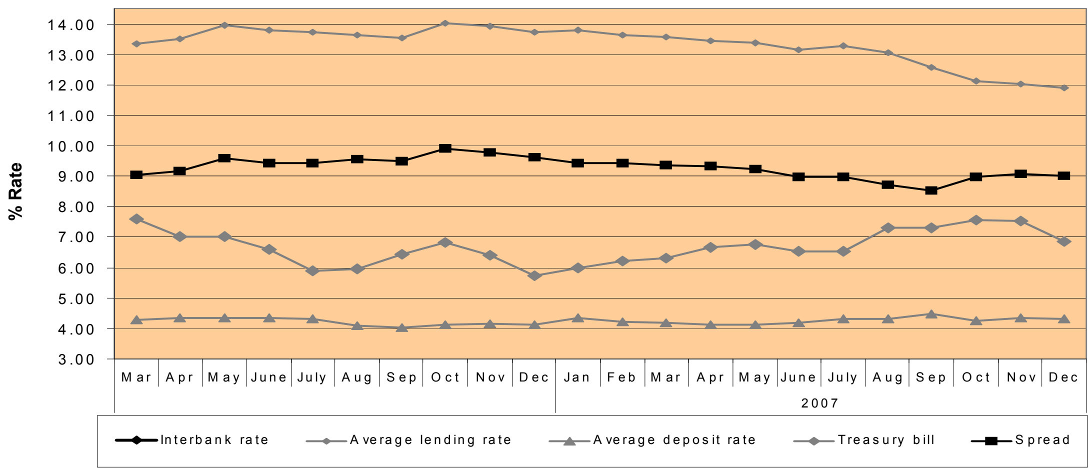
The average interbank rate increased from 6.50 percent in November 2007 to 7.05 percent in December 2007, while the Repo rate also increased from 6.01 percent to 6.64 percent in December 2007. Table 2.6 provides a summary of various interest rates for selected months in 2006 and 2007 while Chart 2D depicts trends in domestic interest rates.

TABLE 2.6: INTEREST RATES (%)

	2007											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
91-day Treasury bill rate	6.00	6.22	6.32	6.65	6.77	6.53	6.52	7.30	7.32	7.55	7.52	6.87
Overdraft rate	14.11	14.05	13.95	13.58	13.35	13.20	13.35	13.39	13.26	13.29	13.43	12.96
Interbank rate	6.43	6.52	6.70	6.79	7.10	6.98	7.07	7.38	7.59	7.65	6.50	7.05
Repo rate	6.43	6.60	6.70	6.84	7.03	7.08	7.19	7.49	7.70	6.95	6.01	6.64
Average lending rate (1)	13.78	13.64	13.56	13.44	13.38	13.14	13.29	13.04	12.87	13.24	13.39	13.32
Average deposit rate (2)	4.35	4.21	4.19	4.11	4.14	4.18	4.33	4.31	4.48	4.27	4.33	4.32
0 to 3 - month deposit	5.15	5.09	5.23	5.14	5.06	5.10	5.24	5.34	5.28	5.05	5.10	5.18
Savings deposits	1.42	1.41	1.43	1.35	1.57	1.54	1.65	1.60	1.67	1.64	1.65	1.67
Spread (1-2)	**9.43**	**9.42**	**9.37**	**9.32**	**9.23**	**8.96**	**8.96**	**8.73**	**8.53**	**8.97**	**9.06**	**9.00**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES (%)



Source: Central Bank of Kenya

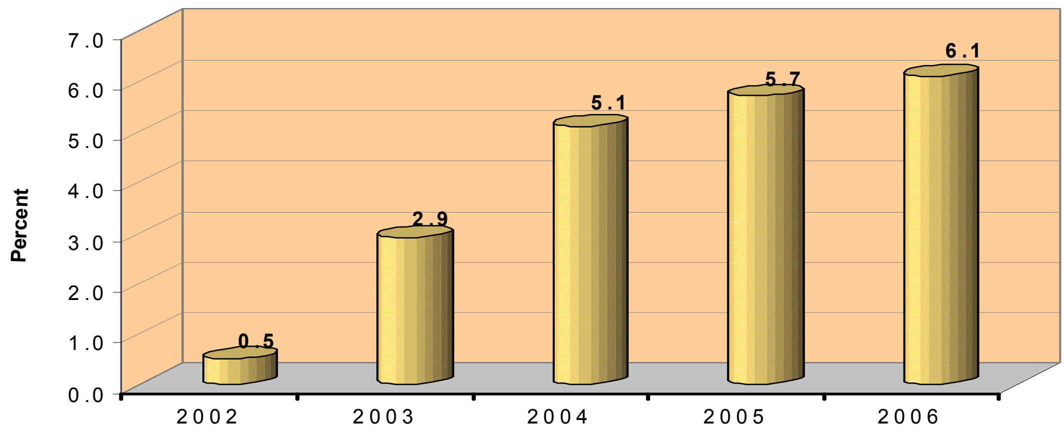
Lending and Deposit Rates

The commercial banks average lending rate declined from 13.39 percent in November 2007 to 13.32 percent in December 2007. The overdraft rate declined from 13.43 percent to 12.96 percent over the same period while the overall deposit rate declined marginally from 4.33 percent in November 2007 to 4.32 percent in December 2007. Consequently, the interest rate spread declined to 9.0 percent in December 2007.

Performance of The Real Sector

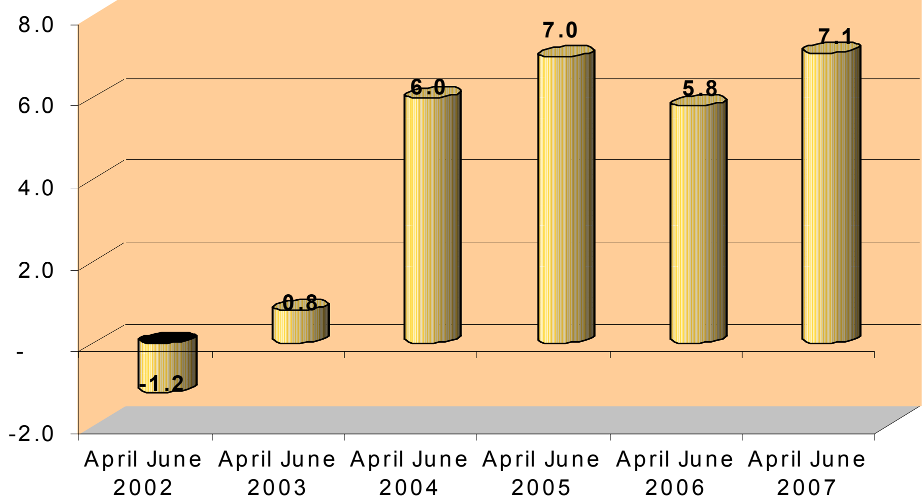
Overview The production and services sectors continued to experience vibrant activity as at the end of the first ten months of 2007. The review of data and other indicators for the ten month cumulative production and service delivery points to performance which continues to be held up by favorable economic fundamentals.

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



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

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



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

TABLE 3.1: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

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

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

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

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

*Provisional

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

TABLE 3.3: OUTPUT GROWTH OF MAJOR CROPS

TABLE 3.3: OUTPUT GROWTH IN KEY CROPS	2005	2006	Jan-Oct' 2006	Jan-Oct' 2007
Tea				
Output (Metric tonnes)	328,503.00	310,578.33	244,518.33	308,435.55
Growth (%)	*1.2%*	*-5.5%*	*-8.97%*	*26.14%*
Horticulture				
Output (Metric tonnes)	163,153.82	166,736.82	136,737.20	157,017.45
Growth (%)	*12.0%*	*2.2%*	*-0.84%*	*14.83%*

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

Agriculture

The key crop growing areas of the country received adequate rains in 2007 and enabled production for both sale and food needs to reach sufficient levels. In terms of food security, the Ministry of Agriculture (MOA) and USAID famine early warning system (FEWS NET) latest report indicates that 2.6 million metric tonnes of maize is expected to be harvested in current short and long rains season. While the distribution of rainfall in the main crop producing areas of the country was normal to above normal, where in some parts, the wheat crop was nearly destroyed, the report further states that the rains were insufficient in southern and north eastern pastoral areas and southeastern and coastal lowlands. However, any likely food scarcity in these areas is expected to be met by favorable overall national crop harvest. Table 3.3 gives the comparative performance of the selected crops in the first ten months of 2006 and 2007.

Tea

The sales and marketing of tea is getting a push by Kenya Tea Development Authority product and market diversification programs. The market search includes efforts made to tap into the US market where some promotional campaigns and fairs have already been held. The major sales and marketing challenge facing the tea sector is sometimes low prices in world markets which KTDA hopes to counter by value addition and quality beef up.

Cumulative tea output increased by 26.1 percent from 244,518.33 metric tonnes in the first ten months of 2006 to 308,435.55 metric tonnes in the first ten months of 2007 (Table 3.3). The growth was supported by suitable weather conditions in the growing areas. Low world tea prices in 2007 in relation to 2006 is evident in the value of exports where in spite of higher quantity of tea produced in 2007, tea exports fetched Ksh 39.5 billion in the first ten months of 2006 and decreased by 7.8 percent to Ksh 36.4 billion in the first ten months of 2007.

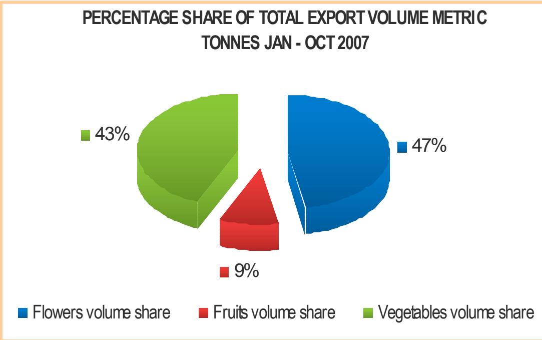
Horticulture

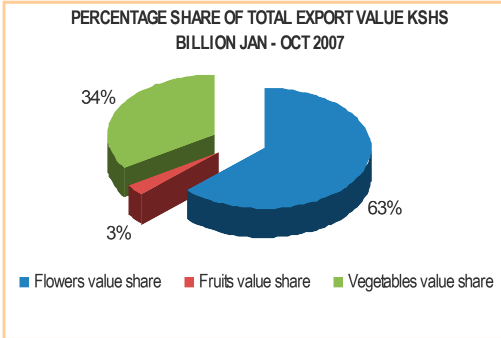
Horticulture export volume increased by 14.8 percent from 136,737.20 metric tonnes of exports in the first ten months of 2006 to 157,017.45 metric tonnes of exports in a similar period of 2007.

Flower exports, which constituted 47 percent of total exports increased by 4.0 percent from 71,257.56 metric tonnes to 74,097.10 metric tonnes while vegetables, making up 43 percent of exports increased by 33.2 percent from 51,170.44 metric tonnes to 68,174.97 metric tonnes. On the other hand fruits, which constitute a share of 9 percent, increased by 3.1 percent. In terms of earnings, flower exports increased by 83.63 percent from Ksh 18.8 billion to Ksh 34.55 billion while fruit export earnings increased by 19.1 percent from Ksh 1.39 billion to Ksh 1.66 billion. Vegetable export earnings increased by 31.1 percent from Ksh 14.3 billion to Ksh 18.79 billion. (Chart 3C).

The marketing and sales challenges that the horticulture products continue to face are stringent standards imposed by some consumers in Europe. The other challenge is lack of access to some markets but HCDA is tackling this by enhancing its marketing strategy and search for markets other than traditional markets. Flooded domestic market for fruits and vegetables, poor quality, poor packaging, poor harvesting methods, lack of access to cold storage facilities and markets and cases of middlemen exploiting farmers are some of the problems facing sales and marketing of horticultural products. Bulk of domestic horticulture sales is marketed through urban wholesale markets like Marikiti in Nairobi.

CHART 3C: HORTICULTURE JANUARY - OCTOBER 2007





Sugarcane

The problems facing realization of higher sales of sugar as cited by numerous reports are due to inefficient processing resulting in higher costs and ineffective import monitoring controls allowing cheaper sugar to flood in from lower cost producing countries in COMESA. Other marketing and sales challenges are rain fed dependent as opposed to irrigation based production and small holder based as opposed to large scale production where the advantages of economies of scale come in handy.

Manufacturing

Growing national and regional demand has anchored and increased sales of manufactured products. The rising demand outside the country is mainly in COMESA countries.

Other factors facilitating marketing and sales of manufactured products are the ongoing liberalization of trade policies, introduction of new financial products and liberalization, reforms and expansion in the ICT sector.

In the first ten months of 2006, cumulative production for selected items was as follows: soda ash - 308,220 metric tonnes, cement -1,776,824 metric tonnes, beer - 215,959,363 litres, cigarettes - 9,855,680 milles, milk - 293,818,820 litres and galvanized sheets - 138,280 metric tonnes. In the first ten months of 2007, the percentage change in relation to the previous cumulative output were as follows; soda ash by negative 1.3 percent to 304,175 metric tonnes, cement by 8.24 percent to 1,923,200 metric tonnes, beer by 44.3 percent to 311,538,695.66 litres, cigarettes by 26.7 percent to 12,491,414.20 litres, milk by 18.2 percent to 347,307.940 litres while galvanized sheets increased by 13.54 percent to 157,008 metric tonnes as shown in Table 3.4.

Sales and marketing of the electricity is limited by smaller customer connectivity which is being currently tackled by targeting more customers for extra connections, power losses through the distribution network and theft and burglary of electrical distribution wires. The risk of higher prices charged by KENGEN would also result in lower sales and markets for Kenya power & lighting company. The ongoing rural electrification program is a definite boost for marketing and sales in electricity generation and distribution sectors.

TABLE 3.4: PRODUCTION OF SELECTED MANUFACTURED GOODS

	2005	2006	Jan-Oct'2006	Jan-Oct'2007
Cement production				
Output (MT)	2,123,256	2,174,090	1,776,824	1,923,200
Output Growth %	18.42	2.39	10.92	8.24
Soda ash				
Output (MT)	364,301	374,010	308,220	304,175
Growth %	*2.5%*	*2.7%*	*1.66%*	*-1.31%*
Milk				
Output ('000 litres)	336,979	356,758	293,819	347,308
Growth %	*25.0%*	*5.9%*	*5.71%*	*18.20%*
Beer				
Output ('000 litres)	266,419	280,500	215,959	311,539
Growth %	*11.3%*	*5.3%*	*1.23%*	*44.26%*
Cigarettes				
Output (Milles)	10,962,727	12,303,278	9,855,680	12,491,414
Growth %	*22.1%*	*12.2%*	*11.18%*	*26.74%*

* MT = Metric tonnes

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

Energy Sector

Electricity generation increased by 8.89 percent up from 4,808.86 million (KWH) generated in the first ten months of 2006 to 5,236.48 million (KWH) generated in a similar period of 2007. On the other end, consumption of electricity increased by 8.46 percent up from 3,921.40 million (KWH) to 4,253.30 million (KWH) in the period under review. The breakdown of generation was as follows: hydro-power generation rose to 21.20 percent from 2,456.87 to 2,977.76 million (KWH), geo-thermal generation declined to 4.72 percent from 866.25 to 823.12 million (KWH) while thermal generation declined to 3.32 percent from 1,484.95 to 1,435.72 million (KWH) (Table 3.5).

TABLE 3.5: ENERGY SECTOR PERFORMANCE

	2005	2006	Jan-Oct' 2006	Jan-Oct' 2007
Electricity Supply (Generation)				
Output (KWH Millions)	5,518.94	5,823.03	4,808.86	5,236.48
Growth %	*9.7%*	*5.5%*	*5.21%*	*8.89%*
Of which:				
Hydro-power Generation (KWH Millions)	3,009.44	3,013.96	2,456.87	2,977.76
Growth (%)	*0.1%*	*0.2%*	*-1.62%*	*21.20%*
Geo-Thermal Generation (KWH Millions)	1,001.58	1,045.69	866.25	823.12
Growth (%)	*1.5%*	*4.4%*	*2.12%*	*-4.72%*
Thermal (KWH Millions)	1,507.83	1,762.59	1,484.95	1,435.72
Growth (%)	*45.2%*	*16.9%*	*21.21%*	*-3.32%*
Consumption of electricity (KWH Millions)	4,505.10	4,743.10	3,921.40	4,253.30
Growth %	*6.8%*	*5.3%*	*5.54%*	*8.46%*
Consumption of Fuels (Metric Tonnes)	2,710,000	2,866,700	2,328	2,234
Growth %	*16.0%*	*5.8%*	*3.7%*	*-4.04%*
Murban crude oil 10-month average price (US $ per barrel)	53.65	64.57	65.71	66.64
Growth %	*45.3%*	*20.3%*	*23.50%*	*1.40%*

Source: Kenya National Bureau of Statistics

In fuel consumption sub-sector, the world oil price increase slowed down having increased by 1.4 percent to average US $ 66.64 per barrel in the ten month period of 2007 compared with increase of 23.5 percent in similar period of 2006.

Tourism

Aggressive marketing has increased tourism revenues by a notable amount. The launch by Kenya Tourism Board of new brands of tourism and diversification into new markets like Asia is partly behind the rising revenues in the sector. Focus on local tourism as one of the tourism frontiers and identification of tourism destinations once ignored were other defining factors that accounted for tourism income.

The first ten months of 2006 saw tourist arrival in the country reach 772,563 people. Arrivals increased by 13.0 percent to 873,311 people in the same period of 2007 Table 3.6 and 3.7).

TABLE 3.6: TOURIST ARRIVALS BY POINT OF ENTRY

	2005	2006	Jan-Oct' 2006	Jan-Oct' 2007	Share in Jan-Oct' 07	% Growth Jan-Oct' 07
CRUISE	4,533	6,161	3,733	2,663	0.3%	-28.7%
MIAM	231,979	263,699	210,260	223,878	25.6%	6.5%
JKIA	615,268	684,475	558,570	646,770	74.1%	15.8%
TOTAL	**851,780**	**954,335**	**772,563**	**873,311**	100.0%	13.0%

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

Source: Kenya Tourism Board

TABLE 3.7: TOTAL ARRIVALS BY CONTINENT

REGION	2005	2006	Jan-Oct' 2006	Jan-Oct' 2007	Share in Jan-Oct' 2007	% Growth Jan-Oct' 2007
Africa	161,304	188,872	152,431	176,891	20.3%	16.0%
America	93,902	110,967	91,179	114,028	13.1%	25.1%
Asia	86,005	93,518	77,499	88,405	10.1%	14.1%
Europe	473,637	537,195	435,185	475,716	54.5%	9.3%
Oceanic	13,682	15,529	12,473	15,595	1.8%	25.0%
Others	14	2,093	63	13	0.0%	-79.4%
Sub-Total	***828,544***	***948,174***	***768,830***	***870,648***	99.7%	13.2%
Cruise	4,680	6,161	3,733	2,663	0.3%	-28.7%
Total	**833,224**	**954,335**	**772,563**	**873,311**	100.0%	13.0%

Source: Kenya Tourism Board

Transport and Telecommunication

One of the challenges of the tourism sector in terms of getting extra markets and sales is insecurity and political instability. The spilover effects has potential to cripple tourism and public transport sectors, limiting free flow of goods and services. The other limiting factors to more potential markets and sales are volatile and high crude oil prices as well as inefficient and damaged airwaves and physical infrastructure.

The number of passengers that arrived and exited through Jomo Kenyatta International Airport (JKIA) in the first ten months of 2006 decreased by 0.5 and 1.3 percent, respectively, to 1,227,078 and 1,236,406 in the same period of 2007 (Table 3.8).

The volume of cargo throughput handled by Kenya Ports Authority (KPA) increased by 9.9 percent from 11,978,658.31 metric tonnes in the first ten months of 2006 to 13,169,043,.46 metric tonnes in the same period of 2007. The breakdown of the cargo throughput into categories shows exports consisting of 15.8 percent of total cargo throughput, increase by 11.3 percent to 2,083,464 metric tonnes, imports consisting of 81.7 percent, increase by 9.2 percent to 10,761,472 metric tonnes while transshipments, consisting of 2.5 percent, increase by 27.1 percent to 324,108 metric tonnes (Table 3.8).

The amount of fuel transported through the Kenya Pipeline Company (KPC) increased by 162,571.81 metric tonnes to 3,343,283.84 metric tonnes in the first ten months of 2007 compared to a similar period of 2006 (Table 3.8).

TABLE 3.8: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2005	2006	Jan-Oct' 06	Jan-Oct' 07
Mombasa Port Cargo Throughput				
Output (MT) Equivalent	13,280,747	14,418,901	11,978,658	13,169,043
Output Growth %	*2.8%*	*8.6%*	*8.63%*	*9.94%*
Number of passengers Thro' JKIA				
Incoming	1,350,676	1,489,615	1,233,583	1,227,078
Growth (%)	11.8	10.3	9.4	(0.5)
Outgoing	1,360,881	1,499,876	1,252,501	1,236,406
Growth %	10.4	10.2	9.6	(1.3)
Kenya Pipeline oil Throughput				
Output ('000 litres)	3,527,662	3,826,154	3,180,712	3,343,284
Output Growth %	*8.2%*	*8.5%*	*9.2%*	*5.1%*

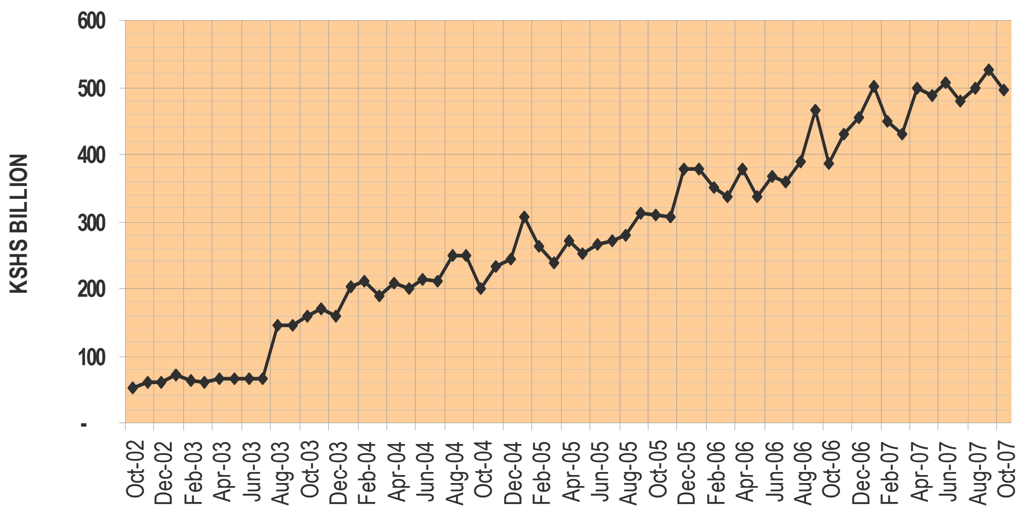
* MT = Metric tonnes

Sources: Port of Mombasa, Kenya and Kenya Pipeline

In road transport, the number of newly registered motor vehicles increased by 66.62 percent from a number of 42,377 in the first ten months of 2006 to 70,610 in the same period of 2007.

In the telecommunication industry, mobile phone use excisable airtime tax increased by 30.0 percent from Ksh 3,750 million in the first ten months of 2006 to Ksh 4,873 million in the same period of 2007 (Chart 3D).

CHART 3D: EXCISE TAX ON AIRTIME



Source: Kenya Revenue Authority (KRA)

Building & Construction Industry

Lower interest rates, increased disposable income and new financial products have led to increased demand for housing in the country especially in urban areas. As for monetary flow to the sector, increased overall demand in the country and COMESA region has improved marketing and sales in the sector. Furthermore, infrastructure projects such repair, expansion and commissioning of new roads and airports, has given an extra push. Expenditure on CDF projects is another supporting factor in successful marketing and sales of cement and housing in recent times.

Cumulative cement consumption in the first ten months of 2006 amounted to 1,460,729 metric tonnes compared with 1,675,453 metric tonnes in the same period of 2007.

DEVELOPMENTS IN BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

The surplus in Kenya's balance of payments reduced from US$ 725 million in the year to October 2006 to US$ 455 million in the year to October 2007 following the widening of the current account deficit which surpassed improvement in the capital and financial account (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Oct 2006	Year to October 2007* Q1 Nov-Jan	Q2 Feb-Apr	Q3 May-Jul	Q4 Aug-Oct	Year to Oct 2007*	Absolute change Oct 07 - Oct 06
1. OVERALL BALANCE	725	75	238	76	65	455	*(270)*
2. CURRENT ACCOUNT	(428)	(206)	(222)	(249)	(440)	(1117)	*(689)*
2.1 Goods	(3577)	(1118)	(1129)	(1245)	(1349)	(4840)	*(1264)*
Exports (fob)	3416	914	986	1069	1043	4012	*596*
Coffee	139	23	41	58	39	161	*22*
Tea	640	178	183	189	154	705	*65*
Horticulture	494	141	157	144	167	609	*115*
Oil products	86	37	40	47	49	173	*87*
Manufactured Goods	405	113	124	131	133	501	*96*
Raw Materials	180	62	53	58	56	230	*50*
Re-exports	355	42	59	42	47	188	*(167)*
Other	1117	318	330	398	399	1445	*328*
Imports (cif)	6993	2032	2115	2314	2392	8852	*1860*
Oil	1758	360	379	568	554	1861	*103*
Chemicals	967	270	309	279	290	1148	*182*
Manufactured Goods	1005	294	315	356	397	1362	*357*
Machinery & Transport Equipment	2001	761	711	646	735	2853	*852*
Other	1262	347	400	465	416	1628	*366*
2.2 Services	3148	911	907	996	909	3724	*575*
Non-factor services (net)	1538	448	462	514	511	1935	*396*
of which tourism	688	191	238	238	210	878	*189*
Income (net)	(77)	(5)	(2)	(33)	(32)	(72)	*5*
of which official interest	(111)	(20)	(19)	(23)	(27)	(89)	*22*
Current Transfers	1687	468	447	515	430	1860	*173*
Private (net)	1571	472	447	515	430	1864	*293*
Public (net)	116	(4)	0	0	0	(4)	*(120)*
3. CAPITAL & FINANCIAL ACCOUNT	1153	282	460	325	505	1572	*419*
3.1 Capital Tranfers (net)	198	35	70	77	61	244	*45*
3.2 Financial Account	955	247	390	248	444	1329	*374*
Official, medium & long-term	(238)	2	(43)	25	(33)	(49)	*189*
Inflows	93	51	24	79	36	190	*97*
Outflows	(331)	(49)	(67)	(54)	(69)	(239)	*92*
Private, medium & long-term (net)	(7)	(22)	6	40	(9)	16	*22*
Commercial Banks (net)	(54)	(6)	(188)	76	33	(85)	*(32)*
Other private medium & long-term (net)	47	(15)	194	(36)	(42)	101	*54*
Short-term (net) incl. errors & omissions	1200	266	426	183	487	1362	*162*
memo:							
Gross Reserves	3252	3284	3717	3870	3991	3991	*739*
Official	2399	2463	2684	2805	2853	2853	*454*
*imports cover***	*3.7*	*3.5*	*3.7*	*3.6*	*3.5*	*3.5*	*(0.2)*
*imports cover****	*4.4*	*4.3*	*4.5*	*4.4*	*4.2*	*4.2*	*(0.2)*
Commercial Banks	853	821	1033	1065	1138	1138	*285*

* 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 deficit in the current account widened from US$ 428 million in the year to October 2006 to US$ 1,117 million in the year to October 2007 due to increase in the trade deficit. The improvement in the services account to a surplus of US$ 3,724 million, however, mitigated the negative impact of the widening trade deficit on the current account balance.

Merchandise Account

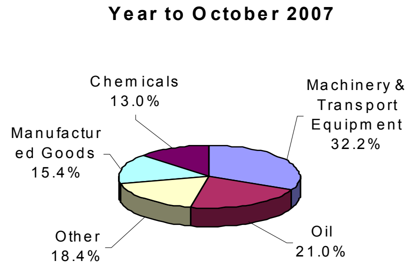
The trade deficit widened by US$ 1,264 million in the year to October 2007, reflecting 26.6 percent growth in merchandise imports to US$ 8,852 million as the value of merchandise exports rose by 17.4 percent to US$ 4,012 million.

Imports

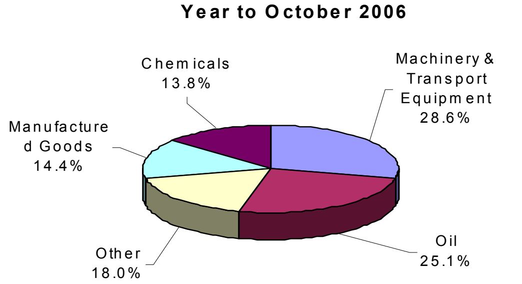
The increase in the value of merchandise imported during the year to October 2007 was mainly in imports of machinery and transport equipment, manufactured goods, chemicals, oil and other miscellaneous goods including wheat, sugar, palm oil, crude materials, and miscellaneous manufactured articles. The value of machinery and transport equipment imports rose by US$ 852 million, reflecting increased imports of road vehicles, electrical machinery, industrial machinery, telecommunication and sound recording equipment, power generating machinery and office machines. The increase in imports of manufactured goods by US$ 357 million was reflective of increased imports of iron, steel, metal manufactures, paper products, textiles, and rubber tyres. The imports of chemicals rose by US$ 182 million, reflecting increased import values of industrial chemicals, medicinal and pharmaceutical products, and plastics. The value of oil imports increased by US$ 103 million, reflecting higher imports of crude oil, jet fuel, kerosene and diesel oil. Other miscellaneous imports rose by US$ 366 million to US$ 1,628 million.

Machinery and transport equipment and petroleum products made up 32.2 percent and 21.0 percent of the total value of merchandise imports, respectively, in the year to October 2007 compared with 28.6 percent and 25.1 percent in the previous year (Chart 4A). The share of manufactured goods and chemicals in the import bill in the year to October 2007 was 15.4 percent and 13.0 percent, respectively.

CHART 4A: COMPOSITION OF KENYA'S IMPORTS



Source: Customs and Excise Department.

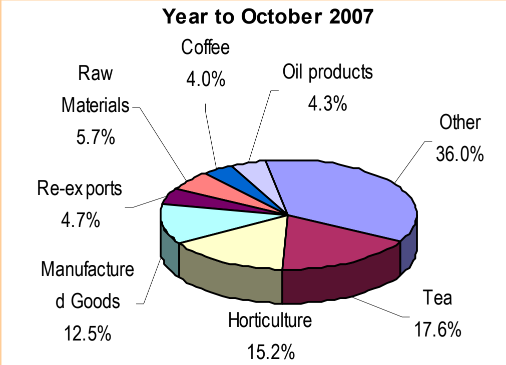


Exports

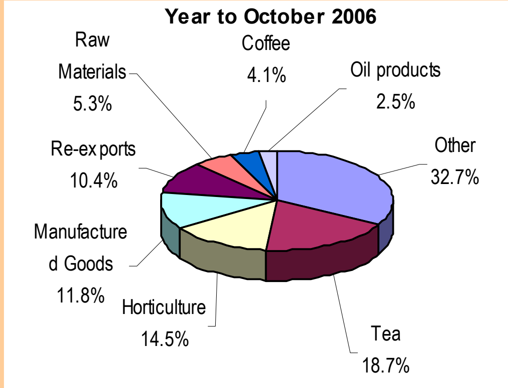
Improvement in merchandise exports was supported by increased exports of coffee, tea, horticulture, oil, manufactured goods and raw materials. The values of coffee, tea and horticulture exports rose by US$ 22 million, US$ 65 million and US$ 115 million, respectively, largely on account of improved export volumes. The average export price for the three commodities, however, exhibited mixed performance with the price for coffee and horticulture exports improving marginally as the export price for tea declined. The increase in the export value of manufactured goods by US$ 96 million largely reflected increased exports of cement, processed leather and metal manufactures while the export value of oil products rose by US$ 87 million following increased exports of diesel oil, lubricating oils and grease. The value of re-exports, however, declined during the period under review as the value of other miscellaneous exports, which include chemical products, clothing accessories, beverages, tobacco products and machinery, rose by US$ 328 million.

Chart 4B shows that coffee, tea and horticulture collectively accounted for 36.8 percent of the total value of exports in the year to October 2007 as the share of manufactured goods in total exports rose to 12.5 percent.

CHART 4B: COMPOSITION OF KENYA'S EXPORTS



Source: Customs and Excise Department, KRA



Direction of Trade

Table 4.2 shows that the main destination countries for Kenya's merchandise exports during the year to October 2007 were Uganda (11.7%), United Kingdom (10.4%), Netherlands (8.1%), Tanzania (7.8%), United States of America (7.0%), Pakistan (5.3%), Sudan (4.3%), Egypt (3.3%), and the Democratic Republic of Congo (3.0%). Overall, African countries absorbed 44.8% of Kenya's merchandise exports.

During the review period, Kenya sourced merchandise imports mainly from United Arab Emirates (14.9%), India (9.3%), United States of America (7.7%), China (7.6%), Japan (6.5%), South Africa (5.5%), United Kingdom (5.2%), Germany (3.8%), Indonesia (2.9%) and Saudi Arabia (2.8%).

TABLE 4.2: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)	Year to October		
Country	**2005**	**2006**	**2007**
Africa	**846**	**855**	**973**
Of which			
South Africa	591	471	486
Egypt	83	102	161
Others	172	282	325
Rest of the World	**5,019**	**6,138**	**7,880**
Of which			
United Arab Emirates	728	1,036	1,323
India	294	495	821
USA	564	284	684
China	254	339	671
Japan	301	382	579
United Kingdom	687	554	461
Germany	195	256	336
Indonesia	103	185	259
Saudi Arabia	430	365	252
France	150	173	240
Singapore	76	295	208
Italy	105	163	196
Netherlands	126	124	139
Bahrain	124	107	132
Others	881	1,380	1,580
Total	**5,864**	**6,993**	**8,852**

EXPORTS (in millions of US dollars)	Year to October		
Country	**2005**	**2006**	**2007**
Africa	**1,593**	**1,463**	**1,797**
Of which			
Uganda	572	385	470
Tanzania	252	257	312
Sudan	87	123	171
Egypt	91	150	131
DRC	132	99	122
Somalia	61	92	110
Others	398	357	482
Rest of the World	**1,842**	**1,953**	**2,215**
Of which			
United Kingdom	312	363	418
Netherlands	236	263	323
USA	59	208	281
Pakistan	181	200	214
United Arab Emirates	51	59	119
Germany	68	66	80
India	51	55	79
France	66	52	57
Others	820	687	643
Total	**3,436**	**3,416**	**4,012**

Source: Customs and Excise Department, KRA

Services

The balance on the services account improved from a surplus of US$ 3,148 million in the year to October 2006 to a surplus of US$ 3,724 million in the year to October 2007 following increased receipts from non-factor services and private current transfers.

Net receipts from non-factor services increased by US$ 396 million to US$ 1,935 million during the year to October 2007 due mainly to increased receipts from transportation services and foreign travel, which surpassed the increase in payments for foreign travel, insurance services, royalties and licence fees. The balance on the income account also improved to a net outflow of US$ 72 million in the year to

October 2007 compared with a net outflow of US$ 77 million in the year to October 2006. This improvement was attributed to increased interest earned on official foreign exchange reserves and increased income earned on foreign investments by the private sector. Gross payments from the income account also increased during the review period mainly reflecting increased interest payments on private foreign debt as interest payments on official foreign debt declined. Net current transfers received rose to US$ 1,860 million in the year to October 2007 and this was largely through the private sector.

Capital and Financial Account

The balance on the capital and financial account increased by US$ 419 million in the year to October 2007 to a surplus of US$ 1,572 million following increased short term private financial inflows as well as improved official financial and capital flows.

Net private short term financial inflows increased by US$ 162 million to US$ 1,362 million in the year to October 2007 as private medium and long-term financial flows improved to a net inflow of US$ 16 million compared with a net outflow of US$ 7 million recorded over a comparable period in the previous year. The improvement in private medium and long-term flows reflected net increase in receipts of foreign loans, which offset the net increase in direct investment outflows and commercial banks foreign assets.

Net official medium and long-term financial flows also improved by US$ 189 million in the year to October 2007 reflecting reduced repayment of official foreign loans by US$ 92 million to US$ 239 million and increased foreign loans to the Government by US$ 97 million to US$ 190 million. In the capital account, project related grants to the Government increased by US$ 45 million to US$ 244 million during the year in review.

Foreign Exchange Reserves

Official foreign exchange reserves held by the Central Bank increased from US$ 2,441 million (4.4 months of import cover) at the end of November 2006 to US$ 2,971 million (4.4 months of import cover) at the end of November 2007 (Table 4.3 and Chart 4C). During the year to November 2007, the Central Bank purchased foreign exchange from the domestic foreign exchange market equivalent to US$ 534 million and received US$ 438 million as interest earned on official foreign exchange reserves and foreign aid to the Government. The Bank however spent US$ 33 million on its own operations during the year to November 2007, and US$ 514 million on behalf of the Government to cover expenses related to Government imports and to service official foreign debt.

Foreign exchange assets of commercial banks also rose from US$ 810 million at the end of November 2006 to US$ 1,098 million at the end of November 2007. Most of these assets were held as balances with banks abroad in the amount of US$ 877 million. Other foreign assets of commercial banks included cash, foreign loans and foreign bills discounted.

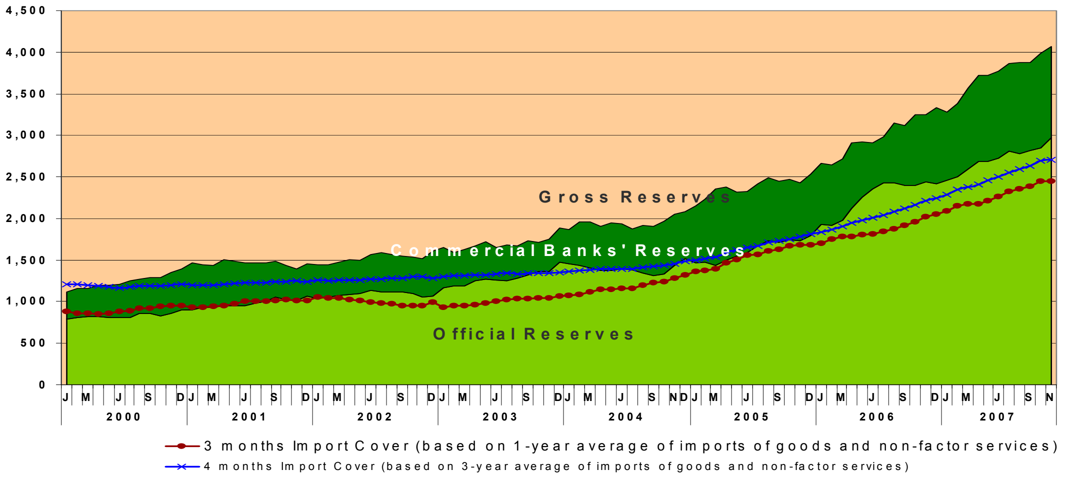
Total foreign exchange held by the entire banking system therefore rose from US$ 3,250 million at the end of November 2006 to US$ 4,069 million at the end of November 2007. Besides these holdings, foreign currency deposits held locally by residents increased by US$ 249 million to US$ 1,584 million at the end of November 2007.

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

	Nov 06	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07
1. Gross Foreign Exchange Reserves	**3,250**	**3,767**	**3,870**	**3,871**	**3,870**	**3,991**	**4,069**
of which:							
Official	2,441	2,723	2,805	2,779	2,820	2,853	2,971
*imports cover**	*3.6*	*3.6*	*3.6*	*3.5*	*3.5*	*3.5*	*3.6*
*imports cover***	*4.4*	*4.4*	*4.4*	*4.3*	*4.3*	*4.2*	*4.4*
Commercial Banks	810	1,044	1,065	1,092	1,050	1,138	1,098
2. Residents' foreign currency deposits	**1,335**	**1,544**	**1,494**	**1,513**	**1,524**	**1,519**	**1,584**

*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 appreciated against major world currencies in December 2007 as shown in Table 4.4 and Charts 4D, 4E and 4F, mainly supported by foreign direct inflows into the domestic foreign exchange market. The shilling gained against the US dollar to exchange at an average of Ksh 63.3 per US dollar in December 2007 compared with Ksh 65.5 per US dollar in November 2007. The shilling also appreciated against the Sterling Pound, the Euro and the Japanese Yen to trade at Ksh 128.5 per Sterling Pound, Ksh 92.2 per Euro and Ksh 56.5 per 100 Japanese Yen in December 2007 compared with Ksh 135.8 per Sterling Pound, Ksh 96.1 per Euro and Ksh 58.9 per 100 Japanese Yen in November 2007.

The Kenya shilling appreciated against regional currencies in December 2007. Against the Uganda shilling, it traded at Ush 27.1 per Kenya shilling in December 2007 compared with Ush 26.1 per Kenya shilling in November 2007, and against the Tanzania shilling at Tsh 18.4 per Kenya shilling in December 2007 compared with Tsh 17.5 per Kenya shilling in November 2007.

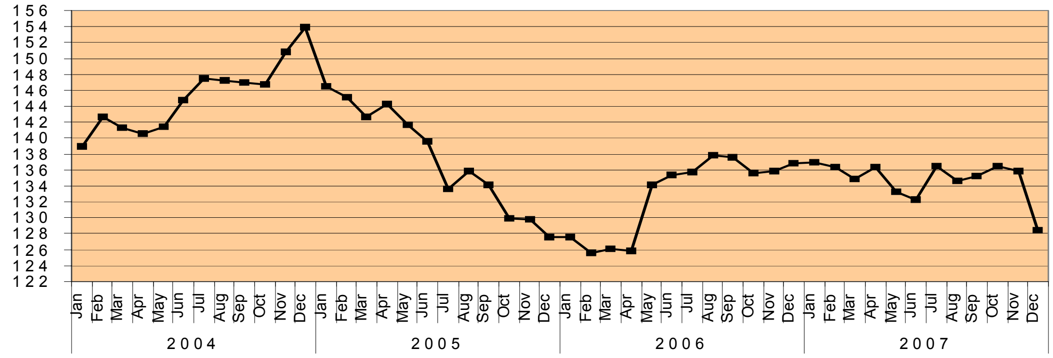
TABLE 4.4: KENYA SHILLING EXCHANGE RATE

	2006		2007										%change Dec 07 - Nov 07
	Nov	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
US Dollar	71.13	69.63	69.29	68.58	67.19	66.57	67.07	66.95	67.02	66.85	65.49	63.30	**-3.34**
Pound Sterling	135.89	136.79	134.91	136.40	133.31	132.25	136.41	134.57	135.19	136.52	135.79	128.45	**-5.40**
100 Japanese Yen	60.65	59.47	59.08	57.73	55.65	54.27	55.17	57.38	58.25	57.76	58.92	56.52	**-4.08**
Uganda Shilling*	25.52	26.07	25.26	25.20	25.33	24.97	24.24	25.80	26.24	26.13	26.11	27.11	**3.85**
Tanzania Shilling*	18.23	18.62	18.13	18.40	18.90	18.97	18.82	19.09	18.79	17.60	17.53	18.36	**4.70**
Euro	91.58	92.03	91.77	92.68	90.82	89.33	91.99	91.15	93.06	95.09	96.13	92.24	**-4.04**
Euro per US dollar	0.777	0.757	0.755	0.740	0.740	0.745	0.729	0.734	0.720	0.703	0.681	0.686	**0.74**

* Units of currency per Kenya shilling

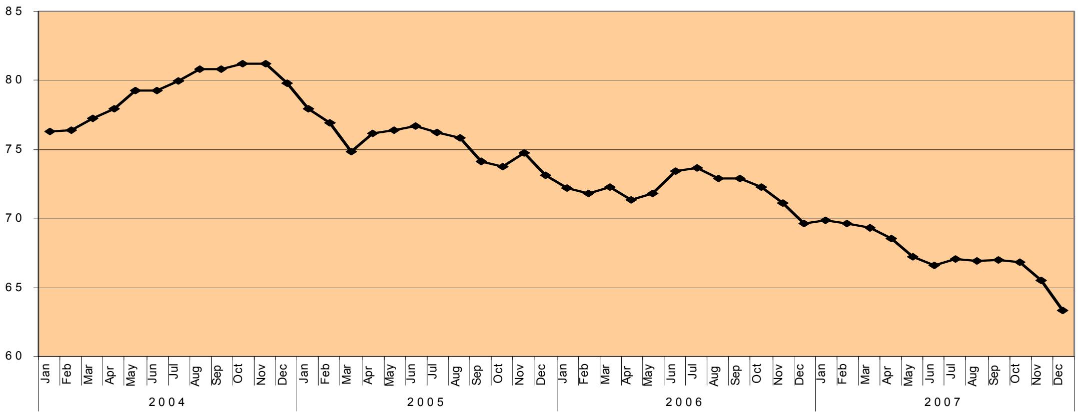
Source: Central Bank of Kenya

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



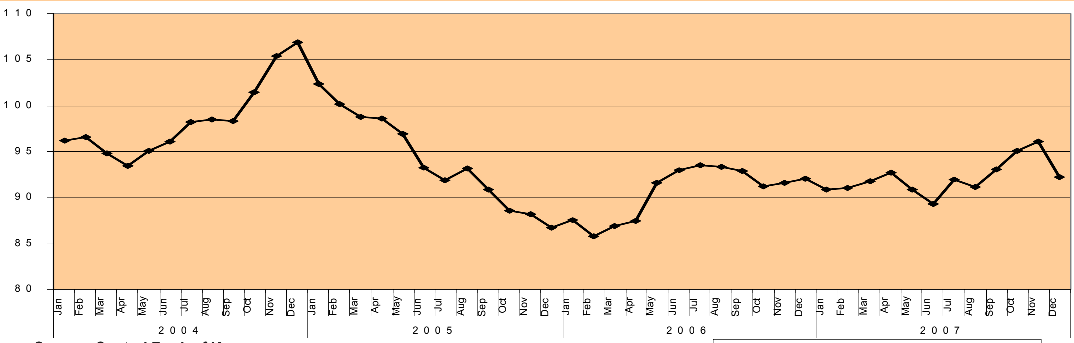
Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

The banking sector continued to record impressive growth. Overall, profitability rose by 33.9 percent while the asset portfolio expanded by 20.2 percent. The banking sector performance indicators improved as evidenced by decline in the stock of non-performing loans and improvement of capital adequacy ratios which was mainly attributed to fresh capital injections and retention of profits over the period.

The number of financial institutions increased from 45 in November 2006 to 46 in November 2007 following commencement of banking business by Gulf African Bank Ltd. in November 2007. The number of operating forex bureaus remained at 96 over the same period.

Structure of the Banking Sector

During the period ending November 2007, the balance sheet of the banking sector expanded with total assets increasing by 20.2 percent or Ksh 152.6 billion from Ksh 755.3 billion as at November 2006 to Ksh 907.9 billion as at November 2007. Growth of the asset portfolio was funded mainly by the increase in deposits and injection of capital as well as retention of profits.

Net loans and advances net of provisions stood at Ksh 477.2 billion and comprised 52.6 percent of total assets compared with Ksh 385.9 billion or 51 percent of total assets in November 2006. Local currency loans and advances increased by 23.9 percent from Ksh 325.1 billion in November 2006 to Ksh 403.0 billion in November 2007 while foreign currency loans and advances increased by 21.9 percent from Ksh 60.9 billion in 2006 to Ksh 74.2 billion over the same period.

Government Securities

Investment in Government securities increased by 16.1 percent from Ksh 161.7 billion in November 2006 to Ksh 187.6 billion in November 2007 and was attributed to high liquidity in the market and increase in interest rate on government securities.

Deposit Liabilities

Deposit liabilities in the banking system, including accrued interest, increased by 17.6 percent from Ksh 620.8 billion as at the end of November 2006 to Ksh 730.0 billion as at November 2007. The increase in deposit base was attributed to aggressive marketing campaigns for new deposits by some institutions and rapid expansion of branch network. Increase in deposits was also attributed to external donor inflows to various government agencies and non-governmental organizations coupled with the increase in earnings from tourism and exports.

Capital and Reserves

During the period to November 2007, the banking system remained stable and banks were adequately capitalised, with the banking-sector capital-adequacy ratio remaining in excess of the minimum requirement of 12 percent. As a result, capital-adequacy ratio increased from 16.3 percent in November 2006 to 16.7 percent in November 2007. Similarly, capital and reserves of the banking system increased by 24.6 percent from Ksh 94.5 billion to Ksh 117.7 billion. The increase in capital over the period was attributed to fresh capital injection and retention of profits.

Non-performing loans

The stock of non-performing loans (NPLs) was estimated at Ksh 59.1 billion or 11.4 percent of gross loans, at the end of November 2007, compared with Ksh 103.8 billion or 22.3 percent of total loans at the end of November 2006. The sharp reduction in the level of non-performing loans was attributed mainly to write-offs against provisions held and recoveries by some of the banks during the period under review. Expressed as a percentage of total loans and advances, non-performing loans net of loan loss provisions improved from 5.9 percent in November 2006 to 4.1 percent in November 2007 as shown in Table 5.1.

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

		Nov-06	Nov-07
1	Gross loans and advances	466.2	519.8
2	Loans and Advances (net of interest suspended)	430.1	504.5
3	Gross non-performing loans	103.8	59.1
4	Specific Provisions	40.1	22.7
5	General Provisions	4.1	4.7
6	Total Provisions (4+5)	44.2	27.4
7	Net Advances (2-6)	385.9	477.1
8	Total Non-Performing Loans and Advances	67.7	43.9
9	Net Non-Performing Loans and advances (8-4)	27.6	21.2
10	Total NPLs as % of total advances (8/2)	15.7	8.7
11	Net NPLs as % of gross advances (9/1)	5.9	4.1
12	Specific Provisions as % of Total NPLs (4/8)	59.2	51.7

Source: Central Bank of Kenya

Profitability

As a result of favourable economic conditions, gross un-audited profit before tax of the banking system increased by 33.9 percent or by Ksh 8.4 billion to Ksh 33.2 billion in November 2007, compared with Ksh 24.8 billion reported in a similar period in 2006. The improved profitability was attributed to an increase in interest income on loans and advances, interest income on government securities and from fees and commissions coupled with reduction in bad debt charges. Favourable economic conditions, among other things, contributed to the improvement in banks' profitability ratios during 2007. As a result, annualized return on assets rose from 2.8 percent in November 2006 to 3.2 percent as at November 2007, while return on shareholders funds increased from 28.6 percent to 30.8 percent over the same period.

Liquidity Ratio Requirement

Banking sector holdings of liquid assets as a ratio to deposit liabilities was above the minimum requirement of 20 percent in December 2007. Commercial banks maintained an average ratio of 40.65 percent in December 2007, while non bank financial institutions (NBFIs) average ratio was 31.48 per cent.

Cash Ratio Requirement

Commercial banks maintained an average 6.0 per cent reserve ratio with the Central Bank in November 2007 against the 6.0 per cent reserve ratio requirements as shown in Table 5.3 and Chart 5A. NBFIs maintained an average 6.0 percent during the same period. In addition to reserve requirements, commercial banks held on average Ksh 1,241 million in November 2007 as excess reserves compared with Ksh 1,218 million held in October 2007.

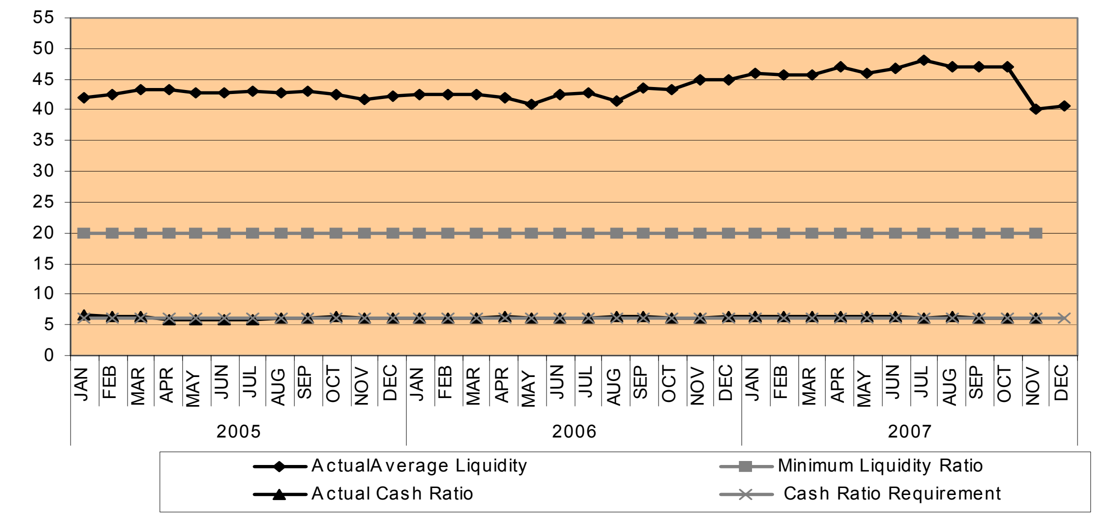
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2006			2007						
	Oct	Nov	Dec	June	July	Aug	Sept	Oct	Nov	Dec
Commercial Banks										
Actual Average Liquidity	43.3	44.8	45.0	46.7	47.6	46.5	46.9	46.1	40.1	40.7
Minimum Liquidity Ratio	20	20	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio - All Banks	6.2	6.2	6.4	6.3	6.2	6.3	6.2	6.2	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
NBFIs										
Actual Average Liquidity Ratio	28.6	28.2	32.0	26.2	24.4	25.2	28.2	27.6	23.6	31.48
Minimum Liquidity Ratio	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
Minimum Cash Ratio Requirement***	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

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

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

KEPPS Kenya shillings flows

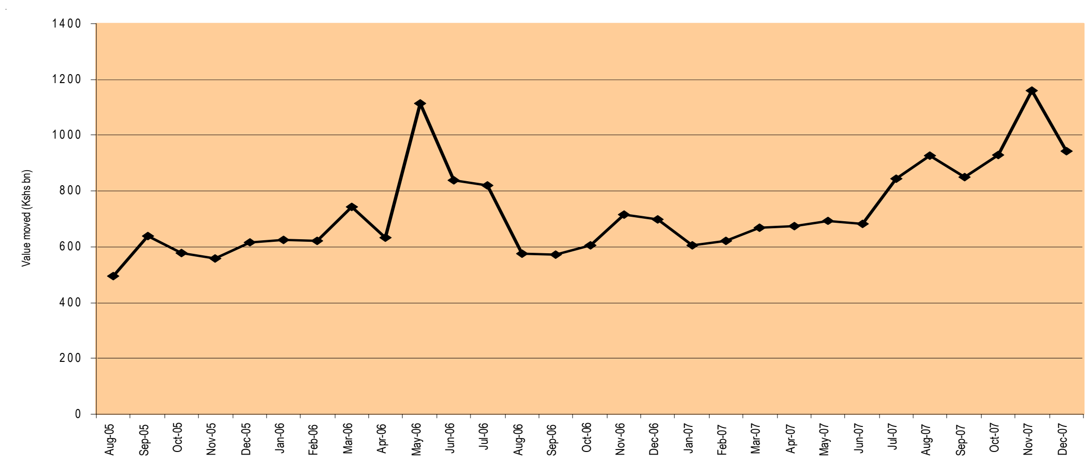
Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 14,641 transactions worth Ksh 945 billion in December 2007 compared to Ksh 1,161 billion moved in November 2007, representing 18.64 percent decrease (Table 5.3). The amount moved represents 35.17 percent increase compared to Ksh 699 billion moved in December 2006. On the overall, flows through KEPSS maintained an upward trend in the year to December 2007 resulting mainly from payments for primary issues and redemption of government securities, open market operations, and increased economic activities. The decline in December flows is attributed to fewer business days in the month.

The amount moved through the system averaged Ksh 53.1 million per transaction while the total amount moved per day was approximately Ksh 39.5 billion (See Chart 5B below). Direct settlements through KEPSS in the month accounted for 94.9 percent of the total settlements while indirect payments (ACH Net settlement) accounted for 5.1 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value of KEPSS transactions (bn)	Settlement proportions			
		Direct (bn)	%	Indirect {NSI (bn)}	%
Jan-06	625	573	91.7	52	8.3
Feb-06	620	582	93.8	39	6.2
Mar-06	743	690	92.8	53	7.2
Apr-06	633	575	90.9	58	9.1
May-06	1,115	1,041	93.3	74	6.7
Jun-06	839	784	93.5	55	6.5
Jul-06	820	769	93.7	51	6.3
Aug-06	576	523	90.8	53	9.2
Sep-06	571	515	90.0	57	10.0
Oct-06	606	541	89.2	66	10.8
Nov-06	716	657	91.9	58	8.1
Dec-06	699	640	91.6	59	8.4
Jan-07	604	550	91.1	54	8.9
Feb-07	621	567	91.3	54	8.7
Mar-07	668	614	92.0	54	8.0
Apr-07	673	611	90.8	62	9.2
May-07	693	634	91.5	59	8.5
Jun-07	682	622	91.1	61	8.9
Jul-07	844	785	93.0	59	7.0
Aug-07	928	860	92.7	68	7.3
Sep-07	851	778	91.4	73	8.6
Oct-07	930	868	93.3	62	6.7
Nov-07	1,161	1,087	93.6	74	6.4
Dec-07	945	897	94.9	48	5.1

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

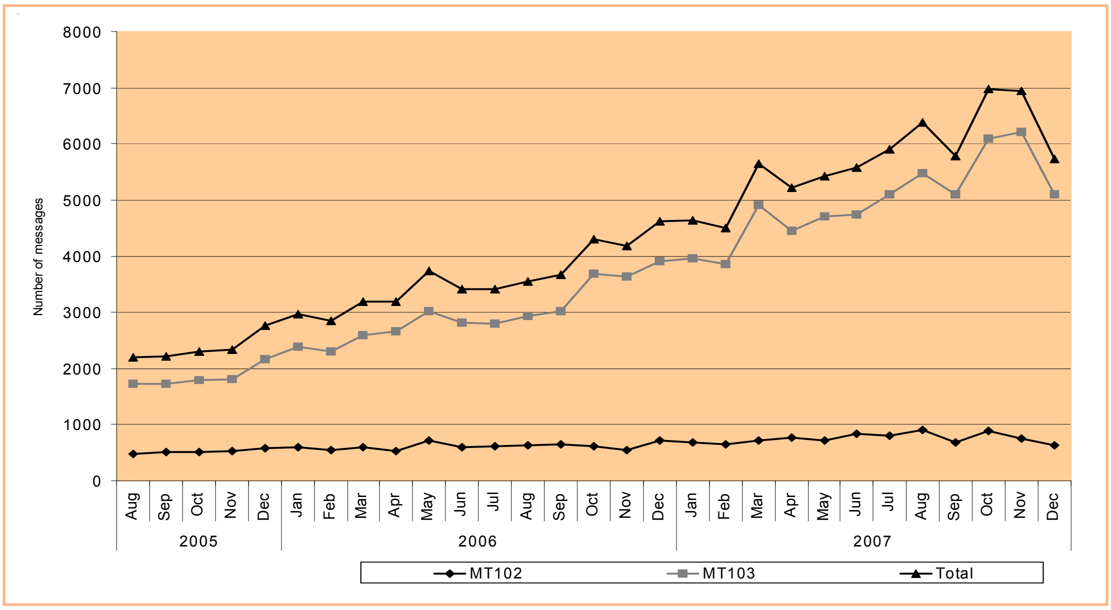


Multiple 3rd party messages

Multiple third party Message Type (MT) 102 decreased by 16.13 percent from 744 messages in November 2007 to 624 messages in December 2007. Single third party Message Type (MT) 103 also decreased by 17.79 percent in the same period from 6,206 messages to 5,102 messages. Overall, total third party messages through KEPSS decreased by 17.61 percent from 6,950 messages in November 2007 to 5,726 messages in December 2007. The decline of third party messages is attributed to the fewer business days in the month.

Compared with December 2006, multiple third party messages decreased by 13.81 percent while single third party messages increased by 30.69 percent in December 2007 (See Chart 5C). In value terms, Inter-bank transfers (MT202) accounted for 61.31 percent of the total value moved through KEPSS in December 2007 while third party messages (MT102 & MT103) accounted for 38.69 percent.

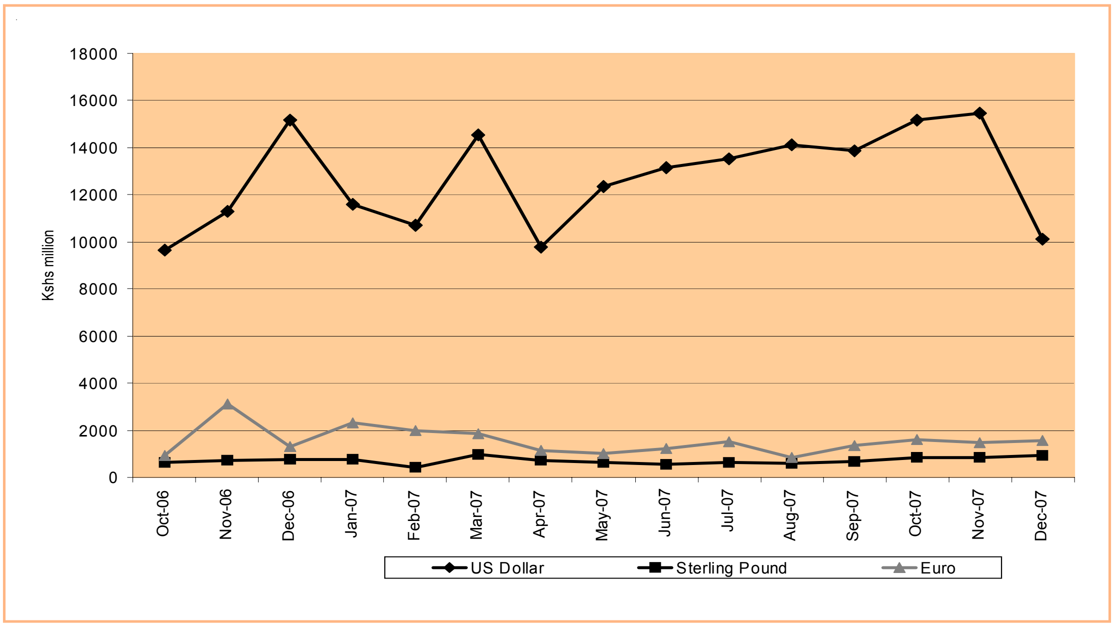
CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS



Domestic Froreign Currency Flows

Domestic Foreign Currency messages through KEPSS decreased by 33.83 percent from 1,741 messages in November 2007 to 1,152 messages in December 2007. The US dollar remained dominant in the domestic foreign currency cheque clearing (See Chart 5D). The total amount in Kenya Shilling equivalent moved through KEPSS, decreased from Ksh 17.79 billion in November 2007 to Ksh 12.61 billion in December 2007 representing a decrease of 29.14 percent.

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



GOVERNMENT BUDGET PERFORMANCE

Due to a robust performance of tax revenue and lower than budgeted expenditure during the first four months of 2007/08, cumulative central Government budgetary operations resulted in a deficit of Ksh 8.4 billion or 0.4 percent of GDP on commitment basis compared with a deficit of Ksh 20.5 billion or 1.3 percent of GDP in a similar period of the previous fiscal year (Table 6.1). Similarly, the budget deficit on cash basis decreased from 1.8 percent to 0.8 percent of GDP during the period. The deficits during the period were also within the targets for the period which were deficits of 0.9 percent and 0.8 percent of GDP on commitment and cash basis, respectively.

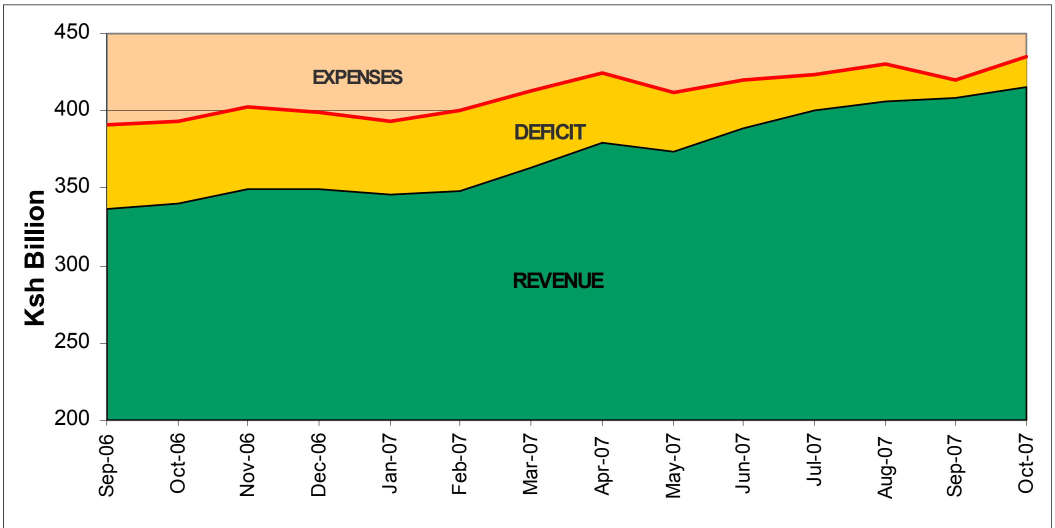
The 12-month cumulative budget deficit narrowed significantly in the first four months of 2007/08 compared with that in a similar period of the previous year mainly due to a faster growth in Government revenue compared with that in expenditure (Chart 6A).

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

	FY 2006/07	FY 2007/08		
	October Actual	October Prov.	Revised Target	Over (+) / Below (-) Target
1. TOTAL REVENUE	**107.9**	**135.1**	**140.9**	**-5.8**
Revenue	104.2	130.4	131.2	-0.8
Tax Revenue	92.2	125.2	119.3	5.9
Non Tax Revenue	6.3	3.1	3.3	-0.3
Appropriations-in-Aid	5.7	2.2	8.6	-6.5
External Grants	3.7	4.7	9.6	-4.9
2. TOTAL EXPENSES	**128.4**	**143.5**	**158.1**	**-14.6**
Recurrent Expenses	109.3	112.3	122.8	-10.5
Development Expenses	19.0	31.2	35.3	-4.1
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-20.5**	**-8.4**	**-17.2**	**8.9**
As % of GDP	-1.3	-0.4	-0.9	
4. ADJUSTMENT TO CASH BASIS	**-9.0**	**-6.7**	**1.5**	**-8.3**
5. DEFICIT ON A CASH BASIS	**-29.5**	**-15.1**	**-15.7**	**0.6**
As % of GDP	-1.8	-0.8	-0.8	
6. DISCREPANCY: Exp. (+) / Rev. (-)	**-7.1**	**-0.3**	**0.0**	
7. FINANCING	**22.4**	**14.8**	**15.7**	**-0.9**
Domestic (Net)	23.9	14.7	21.5	-6.8
External (Net)	-1.5	-1.7	3.0	-4.7
Capital Receipts (privatisation)	0.0	1.8	0.0	1.8
Others	0.0	0.0	-8.8	8.8
Financing gap	0.0	0.0	0.0	0.0

Sources: Treasury

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



Sources: Treasury and Central Bank of Kenya

Revenue

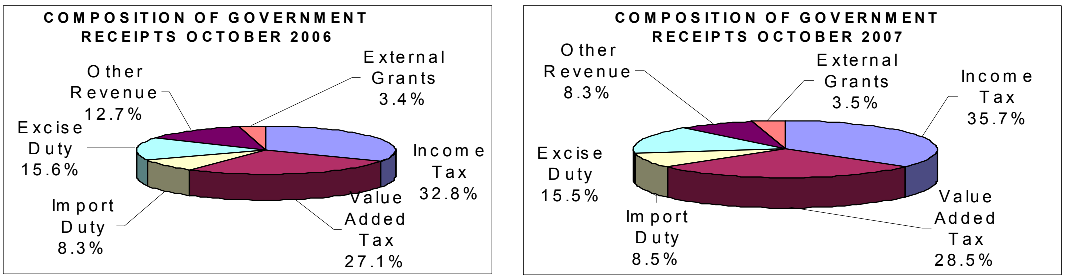
Government revenue (including grants) increased from Ksh 107.9 billion during the first four months of 2006/07 to Ksh 135.1 billion in a similar period of 2007/08 (Table 6.2). This represented a rise of Ksh 27.3 billion or growth of 25.3 percent in the revenue and grants during the period. However, the Government receipts in the period fell short of the target of Ksh 140.9 billion by Ksh 5.8 billion or 4.1 percent. The shortfall in the receipts was attributed to significant decreases in Appropriation in Aid (A-I-A) and external grants. The proportion of total Government receipts in GDP increased from 6.6 percent to 7.1 percent of GDP during the period following a faster growth in the revenue (including grants).

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Oct-06 Ksh bn	Oct-07 Ksh bn	Change
1. Revenue (2+3+4)	**104.2**	**380.9**	**276.8**
2. Tax Revenue	92.2	125.2	33.0
Income Tax	35.3	48.2	12.9
Value Added Tax	29.3	38.5	9.2
Import Duty	9.0	11.6	2.6
Excise Duty	16.9	21.0	4.1
Others	1.8	6.0	4.2
3. Appropriations-in-Aid	7.4	112.3	104.8
4. Other Revenue	4.6	143.5	138.9
5. External Grants	**19.0**	**31.2**	**12.2**
TOTAL RECEIPTS (1+5)	**123.2**	**412.2**	**289.0**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue, which amounted to Ksh 92.2 billion in the first four months of 2006/07, increased to Ksh 125.2 billion in a similar period in 2007/08. This was equivalent to an increase of Ksh 33.0 billion or growth of 35.8 percent in tax revenue during the period. Consequently, the share of tax revenue in total Government receipts increased from 85.5 percent to 92.6 percent during the period. The significant growth in tax revenue during the period was boosted by the good performance of the economy, and implementation of tax management reforms by Kenya Revenue Authority which enhanced compliance and efficiency.

Following the above developments, the ratio of tax revenue to GDP increased from 5.6 percent to 6.6 percent during the period. As shown in Table 6.2 and Chart 6B, the increase in tax revenue during the period was mainly in income tax and VAT, which increased by Ksh 12.9 billion and Ksh 9.2 billion, respectively. Similarly, collections of import duty and excise duty increased by Ksh 2.6 billion and Ksh 4.1 billion, respectively, during the period.

Government receipts of external grants increased by Ksh 1.0 billion from Ksh 3.7 billion in the first four months of 2006/07 to Ksh 4.7 billion in a similar period of 2007/08. Despite the increase in external grants during the period, the receipts fell short of the target for the period by Ksh 4.9 billion or 50.9 percent. The subdued performance of the grants during the period was partly attributed to low absorption mainly due to bottlenecks in processing of the grants.

Expenditure and Net Lending

Government expenditure and net lending to public entities increased from Ksh 128.4 billion in the first four months of 2006/07 to Ksh 143.5 billion in a similar period of 2007/08. This was equivalent to a rise of Ksh 15.1 billion or growth of 11.8 percent in the expenditure during the period. As shown in Table 6.3 and Chart 6C, recurrent and development expenditures increased from Ksh 109.3 billion and Ksh 19.0 billion to Ksh 112.3 billion and Ksh 31.2 billion, respectively, during the period. These represented increases of Ksh 2.9 billion and Ksh 12.2 billion, respectively, in the recurrent and development expenditure during the period. The rise in development expenditure during the period was mainly to finance road infrastructure rehabilitation and expansion.

As a result of these developments, the share of development expenditure in total Government expenditure increased from 14.8 percent to 21.8 percent during the period while recurrent expenditure dropped from 85.2 percent to 78.2 percent of total expenditure. This development is consistent with the Government expenditure management policy of restructuring the expenditure outlays in favour of priority areas including infrastructure and flagship projects for Vision 2030.

Although Government expenditure and net lending increased in the first four months of 2007/08, it remained well within the target of Ksh 158.1 billion for the period. However, the share of overall expenditure in GDP dropped from 7.8 percent to 7.5 percent during the period due to a faster growth in GDP. Specifically, the share of recurrent expenditure in GDP dropped from 6.7 percent to 5.9 percent during the period while development expenditure increased from 1.2 percent to 1.6 percent.

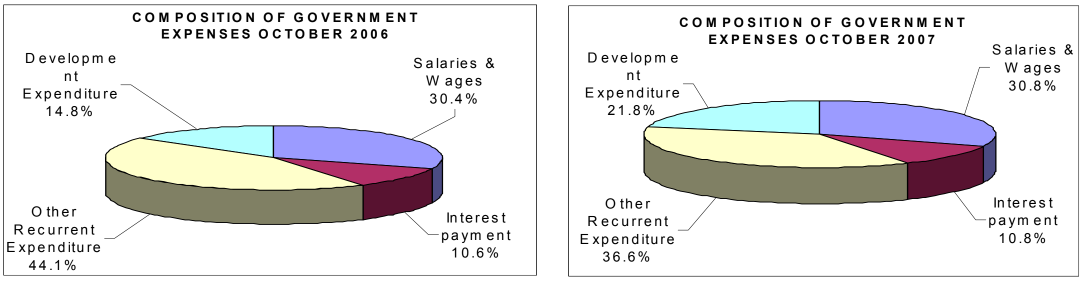
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Oct-06 Ksh bn	Oct-07 Ksh bn	Movement
1.Recurrent	**109.3**	**112.3**	**2.9**
Salaries & Wages	39.1	44.2	**5.1**
Total Interest	13.6	15.5	**1.9**
of which			
Domestic*	11.7	14.0	**2.3**
Foreign interest due	1.9	1.5	**-0.4**
Others	56.7	52.5	**-4.1**
2. Development	**19.0**	**31.2**	**12.2**
TOTAL EXPENSES	**128.4**	**143.5**	**15.1**

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

Source: Treasury

CHART 6C: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

As a result of a lower deficit, the budgetary operations of the Government in the first four months of 2007/08 resulted in a financing requirement of Ksh 18.7 billion compared with Ksh 24.3 billion in a similar period of the previous fiscal year. As shown in Table 6.4, the financing requirement comprised Ksh 14.8 billion to finance the budget deficit, Ksh 1.7 billion to finance external debt repayments and Ksh 2.2 billion to build up Government deposits at Central Bank of Kenya. The financing requirement of Ksh 18.7 billion was sourced through domestic borrowing amounting to Ksh 16.9 billion and through privatisation proceeds of Ksh 1.8 billion from sale of Government shares in the Kenya Re-Insurance Company. Domestic borrowing comprised Ksh 5.8 billion from the Central Bank of Kenya, Ksh 3.7 billion from commercial banks and Ksh 7.4 billion from non-bank sources.

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

I. FINANCING REQUIREMENTS	Oct-06 Ksh bn	Oct-07 Ksh bn
1. Budget deficit	22.4	14.8
2. External debt reduction	1.5	1.7
3. Domestic debt reduction	0.4	0.0
3.1 Central Bank (incl. items in transit)	0.4	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	2.2
TOTAL	24.3	18.7
II. FINANCING SOURCES	**Oct-06 Ksh bn**	**Oct-07 Ksh bn**
1. Budget surplus	0.0	0.0
2. External debt increase	0.0	0.0
3. Increase in domestic debt	12.2	16.9
3.1 Central Bank	0.0	5.8
3.2 Commercial banks	10.8	3.7
3.3 Non-bank sources	1.4	7.4
4. Reduction in GoK deposits at CBK	12.1	0.0
5. Privatisation proceeds	0.0	1.8
TOTAL	24.3	18.7

Sources: Treasury & Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank of Kenya decreased from Ksh 42.8 billion in October 2006 to Ksh 37.6 billion in June 2007 before rising to Ksh 43.4 billion in October 2007. The increase in the Government indebtedness during the period was attributed to increases of Ksh 0.4 billion and Ksh 0.6 billion, respectively, in Government overdraft at the Central Bank of Kenya and cleared items on transit respectively. These increases were, however, partly offset by a Ksh 0.4 billion revaluation gain on IMF funds on-lent to the Government. Despite the rise in the Government overdraft at the Central Bank of Kenya in October 2007, the overdraft level remained within the legal limit of Ksh 13.3 billion (Table 6.5).

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

	2006	2007		Movement
	October	June	October	Oct-06-Oct-07
Total Credit	**42.8**	**37.6**	**43.4**	**0.6**
1. Overdraft	5.2	0.0	5.7	0.4
2. Rediscounted securities	0.0	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.0	0.0
Treasury bonds	0.0	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	35.5	35.5	35.5	0.0
4. IMF funds onlent to Government	1.7	1.4	1.3	-0.4
5. Cleared items in transit	0.3	0.6	0.9	0.6
Memorandum				
Authorised overdraft limit	**11.3**	**13.3**	**13.3**	**1.9**
Amount utilised to date	5.2	0.0	5.7	0.4
Amount available	6.1	13.2	7.6	1.5

Source: Central Bank of Kenya

Outlook of FY 2007/08

During the fiscal year 2007/08, Government revenue excluding grants is projected at Ksh 428.9 billion or 20.8 percent of GDP. The growth in revenue will be driven mainly by good economic performance and improved tax administrative efficiencies. External grants are projected to rise to Ksh 40.3 billion or 2.0 percent of GDP during the fiscal year. Similarly, Government expenditure is projected at Ksh 580.4 billion or 28.2 percent of GDP in the fiscal year and will comprise Ksh 411.2 billion or 20.0 percent of GDP in recurrent expenditure, and Ksh 169.2 billion or 8.2 percent of GDP in development expenditure.

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

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt

Kenya's public and publicly guaranteed debt increased from Ksh 789.1 billion in June 2006 to Ksh 801.3 billion in June 2007 and further to Ksh 832.5 billion in October 2007 (Table 7.1). Despite the rise in the debt during the period, the overall debt to GDP ratio dropped from 51.1 percent in June 2006 to 43.8 percent in June and October 2007 (Chart 7A). The proportion of gross domestic debt in GDP dropped from 22.1 percent to 22.0 percent during the period while external debt to GDP ratio rose from 21.7 percent to 21.9 percent. The overall debt to GDP ratio has generally been falling since June 2004 due to improved economic performance.

Public debt increased by Ksh 34.0 billion or 4.2 percent during the first four months of 2007/08 following increases of Ksh 20.2 billion and Ksh 13.8 billion in external and domestic debts respectively. External debt increased during the period mainly due to the weakening of the Kenya shilling while domestic debt increased due to programmed domestic borrowing.

The share of domestic debt in the overall stock of public debt dropped from 50.5 percent in June 2007 to 50.1 percent in October 2007 while external debt increased from 49.5 percent to 49.9 percent of total debt during the period. The composition of public debt shifted in favour of domestic debt in June 2007 as the Governments resorted mainly to use of Treasury bonds for domestic borrowing. The Government also issued bank restructuring Treasury bonds amounting to Ksh 20.0 billion to the National Bank of Kenya to offset Government guaranteed debts contracted by parastatals.

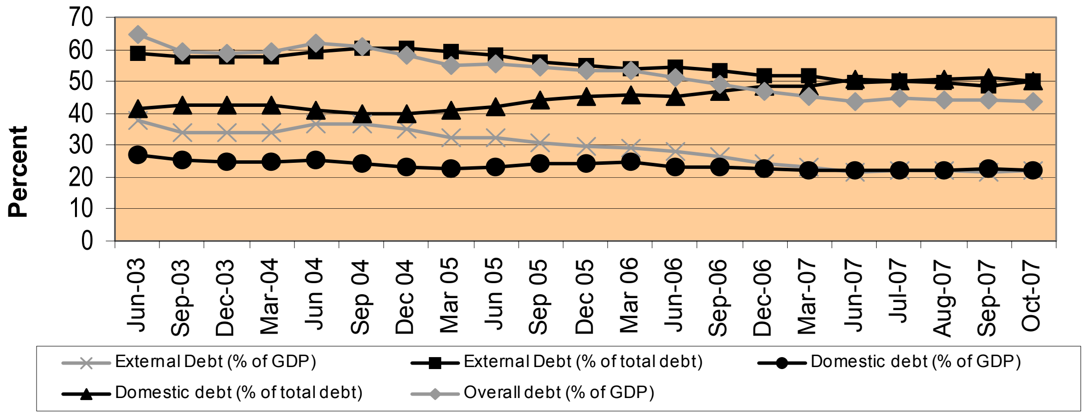
TABLE 7.1: KENYA'S PUBLIC DEBT (Ksh billion)

	Jun-06	Dec-06	Mar-07	June-07	Sept* 2007	Oct** 2007	Change 2007/08
EXTERNAL							
Bilateral	154.9	145.3	145.4	137.9	142.8	143.4	5.5
Multilateral***	255.6	242.7	244.0	240.3	243.4	253.9	13.5
Commercial Banks	1.3	0.9	0.9	0.3	0.6	0.6	0.3
Export Credit	19.5	18.8	18.8	18.0	18.9	18.9	0.8
Sub-Total	**431.2**	**407.7**	**409.1**	**396.6**	**405.7**	**416.7**	**20.2**
(As a % of GDP)	27.9	24.2	23.3	21.7	21.5	21.9	
(As a % of total debt)	54.7	51.4	51.4	49.5	48.7	49.9	
DOMESTIC\[1]							
Banks	**190.8**	**211.0**	**204.8**	**223.0**	**236.9**	**229.1**	**6.1**
Central Bank	41.3	47.1	35.9	36.2	49.0	42.1	5.9
Commercial Banks	149.5	163.9	169.0	186.8	187.8	187.0	0.2
Non-banks	**162.0**	**167.7**	**177.1**	**180.6**	**189.1**	**188.5**	**7.9**
Non-bank Financial Inst.	1.4	0.9	1.2	1.1	1.0	0.9	-0.2
Other Non-bank Sources	160.6	166.9	176.0	179.5	188.1	187.6	8.1
Non-residents	5.0	6.4	4.3	1.1	0.9	0.9	-0.2
Sub-Total	**357.8**	**385.1**	**386.3**	**404.7**	**426.8**	**418.5**	**13.8**
(As a % of GDP)	23.2	22.8	22.0	22.1	22.6	22.0	
(As a % of total debt)	45.3	48.6	48.6	50.5	51.3	50.1	
GRAND TOTAL	**789.1**	**792.9**	**795.3**	**801.3**	**832.5**	**835.2**	**34.0**
(As a % of GDP)	51.1	47.0	45.3	43.8	44.1	43.8	

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

Sources: Treasury and Central Bank of Kenya

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



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

Domestic Debt

Government domestic borrowing activities during the first four months of 2007/08 resulted in an increase in gross domestic debt from Ksh 404.7 billion in June 2007 to Ksh 418.5 billion in October 2007 (Table 7.2). The rise in domestic debt during the period reflected increases of Ksh 13.7 billion and Ksh 5.9 billion in Treasury bonds and other domestic debt, respectively. These increases were, however, partly offset by a decrease of Ksh 5.9 billion in Treasury bills. The Government overdraft at the Central Bank of Kenya, which accounted for the largest share of other domestic debt, stood at Ksh 5.7 billion in October 2007. This level of Government overdraft was well within the current authorized limit of Ksh 13.3 billion.

During the first four months of 2007/08, Treasury bonds and bills auctions realized average performance rates of 146.5 percent and 108.9 percent, respectively. The performance of the Government securities auctions suggests a strong investor appetite for longer dated securities due to higher yields, and the effort by institutional investors such as pension funds and insurance companies to match their long term liabilities with long term assets.

As depicted in Table 7.1, domestic debt owed to commercial banks increased from Ksh 186.8 billion in June 2007 to Ksh 187.0 billion in October 2007. Consequently, the share of domestic debt held by commercial banks dropped from 46.2 percent to 44.7 percent during the period. The decline in the debt is a positive development since excessive domestic borrowing from banks could result in crowding out of private sector investment as the Government competes with the private sector for limited loanable funds.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2006				2007										Change June-07- Oct-07
	Oct	%	Dec	%	June	%	July	%	Aug	%	Sept	%	Oct	%	
Total stock of Domestic Debt (A+B)	**375.5**	**100.0**	**385.1**	**100.0**	**404.7**	**100.0**	**410.2**	**100.0**	**415.9**	**100.0**	**426.8**	**100.0**	**418.5**	**100.0**	**13.8**
A. Government Securities	**367.5**	**97.9**	**371.0**	**96.3**	**402.9**	**99.6**	**403.9**	**98.5**	**405.7**	**97.6**	**412.2**	**96.6**	**410.8**	**98.2**	**7.9**
1. Treasury Bills (excluding Repo Bills)	**97.6**	**26.0**	**96.7**	**25.1**	**94.4**	**23.3**	**93.9**	**22.9**	**92.1**	**22.2**	**95.0**	**22.3**	**88.6**	**21.2**	**-5.9**
Banking institutions	54.5	14.5	46.8	12.2	45.3	11.2	41.6	10.1	40.7	9.8	41.1	9.6	36.8	8.8	-8.5
Others	43.0	11.5	49.8	12.9	49.1	12.1	52.3	12.7	51.4	12.4	53.9	12.6	51.7	12.4	2.6
2. Treasury Bonds	**233.3**	**62.1**	**238.0**	**61.8**	**272.2**	**67.3**	**273.7**	**66.7**	**277.3**	**66.7**	**280.9**	**65.8**	**285.9**	**68.3**	**13.7**
Banking institutions	109.0	29.0	114.6	29.7	141.5	35.0	142.3	34.7	144.3	34.7	145.8	34.2	150.0	35.8	8.4
Others	124.3	33.1	123.4	32.0	130.7	32.3	131.4	32.0	133.0	32.0	**135.1**	**31.6**	136.0	32.5	5.3
3. Long term Stocks	**1.1**	**0.3**	**0.8**	**0.2**	**0.8**	**0.2**	**0.8**	**0.2**	**0.8**	**0.2**	**0.8**	**0.2**	**0.8**	**0.2**	**0.0**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**	0.0	0.0	0.0
Others	1.1	0.3	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.0
4. Pre-1997 Government Overdraft at CBK	**35.5**	**9.5**	**35.5**	**9.2**	**35.5**	**8.8**	**35.5**	**8.7**	**35.5**	**8.5**	35.5	8.3	**35.5**	**8.5**	**0.0**
Of which: Repo T/Bills	35.5	9.5	35.5	9.2	35.5	8.8	35.5	8.7	35.5	8.5	**35.5**	**8.3**	35.5	8.5	0.0
B. Others:	**8.0**	**2.1**	**14.1**	**3.7**	**1.8**	**0.4**	**6.3**	**1.5**	**10.2**	**2.4**	14.6	3.4	**7.7**	**1.8**	**5.9**
Of which CBK overdraft to Government	5.2	1.4	11.3	2.9	0.0	0.0	4.8	1.2	7.5	1.8	**13.3**	**3.1**	5.7	1.4	5.6

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

Source: Central Bank of Kenya

Treasury Bills

As shown in Table 7.2, Treasury bills (excluding Repos) fell from Ksh 94.4 billion in June 2007 to Ksh 88.6 billion in October 2007. Consequently, the proportion of Treasury bills in overall domestic debt dropped from 23.3 percent to 21.2 percent during the period. Treasury bills holdings by commercial banks decreased from Ksh 45.1 billion or 47.7 percent in June 2007 to Ksh 36.7 billion or 41.4 percent in October 2007 (Table 7.3 and Chart 7B). The proportion of 182-day Treasury bills in outstanding Government securities declined from 19.7 percent to 15.6 percent, while 91-day Treasury bills rose from 6.0 percent to 8.1 percent during the period (Table 7.5 and Chart 7D). The rise in the proportion of 91-days Treasury bills was attributed to higher yields compared with those on 182-days Treasury bills.

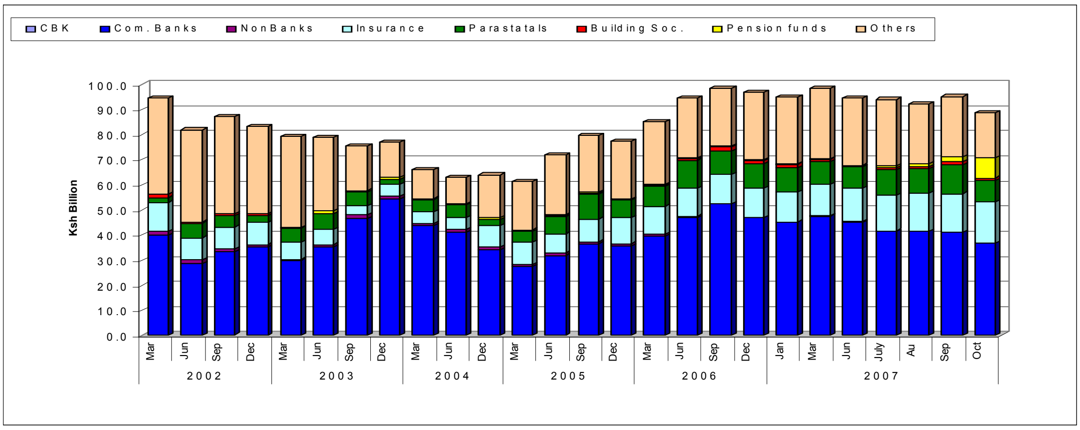
TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

	2006					2007											
Holders	**%**	**Oct**	**%**	**Dec**	**%**	**Mar**	**%**	**Jun**	**%**	**July**	**%**	**Aug**	**%**	**Sept**	**%**	**Oct**	**%**
Banking Institutions	53.0	54.5	55.9	46.8	48.5	47.8	48.6	45.3	48.0	41.6	44.3	41.6	45.1	41.1	43.2	36.8	41.6
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	52.9	54.5	55.9	46.8	48.4	47.5	48.3	45.1	47.7	41.4	44.1	41.4	44.9	41.0	43.1	36.7	41.4
NBFIs	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Insurance Companies	11.9	12.1	12.4	11.9	12.3	12.4	12.6	13.5	14.2	14.1	15.0	15.1	16.4	15.4	16.2	16.3	18.4
Parastatals	9.8	8.5	8.7	9.5	9.8	8.8	8.9	8.3	8.7	10.3	10.9	9.7	10.5	11.6	12.2	8.6	9.7
Of which: NSSF	0.8	0.8	0.8	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.2
Building Societies	1.6	1.3	1.3	1.4	1.5	1.1	1.1	0.6	0.7	0.7	0.8	0.8	0.9	1.0	1.0	0.9	1.1
Pension Funds	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.7	0.8	1.0	1.1	2.1	2.2	8.1	9.1
Others	23.5	20.9	21.5	26.9	27.9	28.3	28.7	26.7	28.3	26.5	28.2	23.9	26.0	23.9	25.2	17.8	20.1
Total*	**100.0**	**97.6**	**100.0**	**96.7**	**100.0**	**98.3**	**100.0**	**94.4**	**100.0**	**93.9**	**100.0**	**92.1**	**100.0**	**95.0**	**100.0**	**88.6**	**100.0**

*** Excludes repurchase order bills**

Source: Central Bank of Kenya

CHART 7B: OUTSTANDING TREASURY BILLS BY HOLDER



Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds increased from Ksh 272.2 billion in June 2007 to Ksh 285.9 billion in October 2007 (Table 7.2 and Chart 7C). As a result, the proportion of Treasury bonds in total domestic debt increased from 67.3 percent to 68.3 percent during the period. Commercial banks holdings of Treasury bonds increased from Ksh 140.7 billion in June 2007 to Ksh 149.2 billion in October 2007 (Table 7.4). Similarly, Treasury bonds holdings by non-bank institutions and individuals increased from Ksh 131.5 billion in June 2007 to Ksh 136.7 billion during the period. Consequently, the proportion of Treasury bonds held by commercial banks increased from 51.7 percent to 52.2 percent during the period.

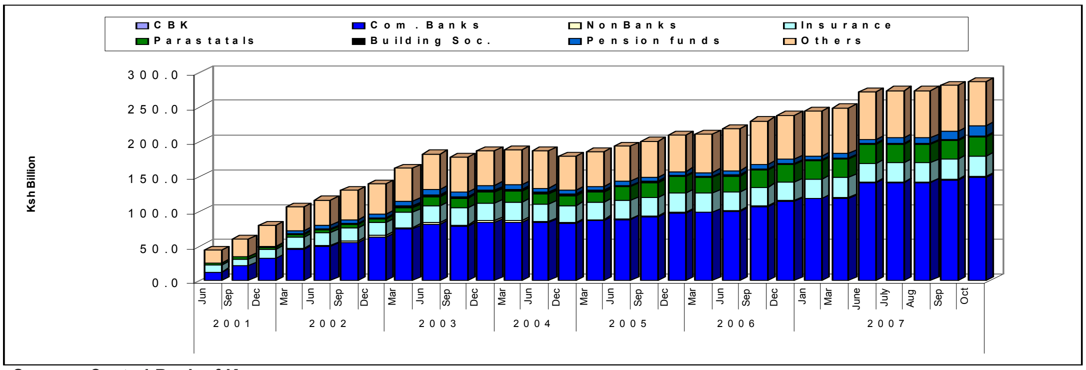
As at end of October 2007, the largest share of outstanding Treasury bonds was in 6-year bonds. However, the share of 6-year bonds in the overall stock of Government securities dropped from 13.2 percent in June 2007 to 12.7 percent in October 2007. Furthermore, following successful issuance of longer dated Treasury bonds during the period, the share of 10-year bonds in total Government securities increased from 6.0 percent to 8.4 percent. As a result, the average maturity profile of domestic debt increased from 3.07 years in June 2007 to 3.16 years in October 2007. These developments are consistent with the Government debt management policy of restructuring domestic debt to longer dated instruments in order to minimise rollover and market risks on the debt which are associated with short term domestic borrowing.

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

	2006						2007									
Holders	**Sep**	**%**	**Oct**	**%**	**Dec**	**%**	**June**	**%**	**July**	**%**	**Aug**	**%**	**Sept**	**%**	**Oct**	**%**
Banking Institutions	107.5	46.8	109.9	47.1	115.4	48.5	141.5	52.0	142.3	52.0	144.3	52.1	146.1	52.0	150.0	52.5
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	0.0	0.0	0.0	0.0
Comm. Banks	106.7	46.4	109.0	46.7	114.6	48.1	140.7	51.7	141.4	51.7	143.5	51.7	145.2	51.7	149.2	52.2
NBFIs	0.9	0.4	0.9	0.4	0.9	0.4	0.9	0.3	0.9	0.3	0.9	0.3	0.9	0.3	0.8	0.3
Insurance Companies	27.2	11.8	27.3	11.7	27.0	11.4	27.5	10.1	27.5	10.0	27.9	10.1	28.5	10.1	28.7	10.0
Parastatals	24.6	10.7	24.6	10.6	24.8	10.4	27.3	10.0	26.8	9.8	27.8	10.0	27.2	9.7	28.1	9.8
Of which: NSSF	5.3	2.3	5.3	2.3	5.4	2.3	6.8	2.5	6.9	2.5	8.0	2.9	8.1	2.9	9.0	3.2
Building Societies	1.6	0.7	1.6	0.7	1.5	0.6	1.3	0.5	1.2	0.5	1.2	0.4	1.2	0.4	1.2	0.4
Pensions Fund	5.9	2.6	5.9	2.5	5.9	2.5	5.9	2.2	8.0	2.9	9.5	3.4	12.5	4.4	14.4	5.0
Others	63.1	27.4	64.0	27.4	63.3	26.6	68.7	25.2	67.9	24.8	66.5	24.0	65.4	23.3	63.5	22.2
Total	**230.0**	**100.0**	**233.3**	**100.0**	**238.0**	**100.0**	**272.2**	**100.0**	**273.7**	**100.0**	**277.3**	**100.0**	**280.9**	**100.0**	**285.9**	**100.0**

Source: Central Bank of Kenya

CHART 7C: STOCK OF TREASURY BONDS



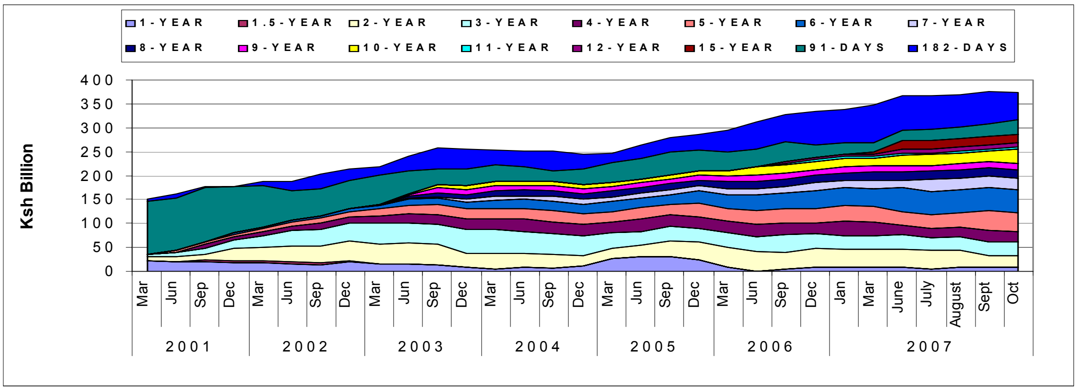
Source: Central Bank of Kenya

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

	2006				2007										Change Jun-07 to Oct-07
	Oct	%	Dec	%	June	%	July	%	Aug	%	Sep	%	Oct	%	
91-Day	34.9	10.5	26.1	7.8	22.0	6.0	24.2	6.6	24.6	6.7	28.4	7.5	30.3	8.1	8.3
182-Day	62.7	19.0	70.6	21.1	72.4	19.7	69.7	19.0	67.5	18.3	66.6	17.7	58.3	15.6	-14.1
1-Year	4.6	1.4	9.7	2.9	8.7	2.4	5.2	1.4	8.4	2.3	8.4	2.2	8.4	2.2	-0.3
2-Year	39.3	11.9	39.3	11.7	37.7	10.3	37.7	10.2	35.4	9.6	24.3	6.5	24.3	6.5	-13.4
3-Year	36.3	11.0	28.6	8.5	31.2	8.5	27.9	7.6	27.9	7.6	27.9	7.4	27.9	7.5	-3.2
4-Year	24.3	7.3	23.4	7.0	19.3	5.3	19.3	5.2	19.3	5.2	24.9	6.6	22.5	6.0	3.2
5-Year	30.0	9.1	30.0	9.0	28.8	7.9	28.8	7.8	31.4	8.5	40.6	10.8	39.5	10.5	10.7
6-Year	32.4	9.8	38.1	11.4	48.3	13.2	48.3	13.1	48.3	13.1	48.3	12.9	47.6	12.7	-0.7
7-Year	13.6	4.1	15.9	4.7	15.9	4.3	24.2	6.6	24.2	6.5	24.2	6.4	24.2	6.4	8.3
8-Year	15.3	4.6	15.3	4.6	17.9	4.9	17.9	4.9	17.9	4.9	17.9	4.8	17.9	4.8	0.0
9-Year	12.6	3.8	12.6	3.8	12.6	3.4	12.6	3.4	12.6	3.4	12.6	3.4	12.6	3.4	0.0
10-Year	17.1	5.2	17.1	5.1	22.1	6.0	22.1	6.0	22.1	6.0	22.1	5.9	31.4	8.4	9.3
11-Year	4.0	1.2	4.0	1.2	4.0	1.1	4.0	1.1	4.0	1.1	4.0	1.1	4.0	1.1	0.0
12-Year	3.9	1.2	3.9	1.2	8.8	2.4	8.8	2.4	8.8	2.4	8.8	2.3	8.8	2.3	0.0
15-Year			0.0	0.0	16.9	4.6	16.9	4.6	16.9	4.6	16.9	4.5	16.9	4.5	0.0
Total	**330.9**	**100.0**	**334.7**	**100.0**	**366.6**	**100.0**	**367.6**	**100.0**	**369.4**	**100.0**	**375.9**	**100.0**	**374.5**	**100.0**	

Source: Central Bank of Kenya

CHART 7D: OUTSTANDING TREASURY BILLS AND BONDS



Source: Central Bank of Kenya

Long-term Stocks

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

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Government securities in the three months to January 2008 will amount to Ksh 59.7 billion in Treasury bills and Ksh 12.8 billion in Treasury bonds. The Treasury bills maturities during the period will comprise Ksh 30.3 billion and Ksh 29.4 billion in 91-day and 182-day Treasury bills, respectively. Treasury bonds maturities in the period will comprise Ksh 5.2 billion, Ksh 5.8 billion and Ksh 1.8 billion in 1-year, 2-year and 4-year Treasury bonds, respectively.

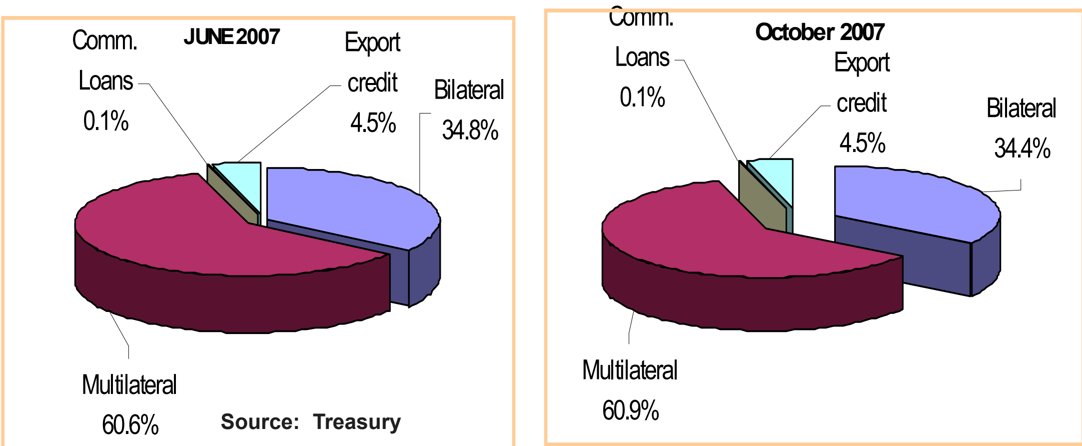
External Debt

External public and publicly guaranteed debt increased from Ksh 396.6 billion in June 2007 to Ksh 416.7 billion in October 2007. This represented a growth of 5.1 percent in external debt during the first four months of 2007/08. Similarly, expressed in foreign currency terms, the debt increased from USD 6.0 billion to USD 6.2 billion during the period. The rise in external debt (in shillings) was attributed to revaluation losses on the debt totalling Ksh 22.2 billion and disbursements totalling Ksh 3.7 billion. These increases in the debt were, however, partly offset by principal repayments of external debt totalling Ksh 5.8 billion. The entire amount of external loans disbursements during the period was through project financing.

Composition of External Debt by Creditor

The share of external debt owed to multilateral creditors increased from 60.6 percent in June 2007 to 60.9 percent in October 2007 (Chart 7E). However, the share of external debt owed to bilateral creditors dropped from 34.8 percent in June 2007 to 34.4 percent while export credits and commercial banks share remained unchanged at 4.5 percent and 0.1 percent during the period.

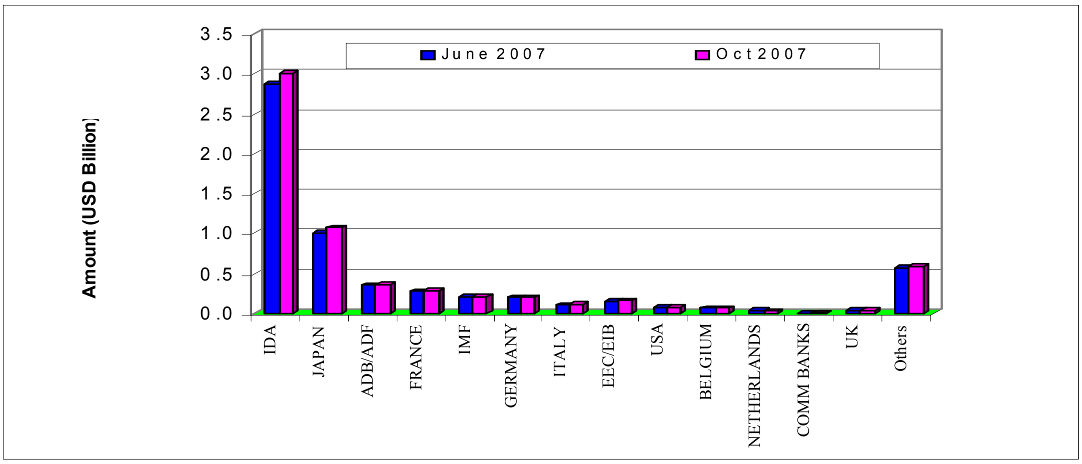
CHART 7E: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

As shown in Chart 7F, the largest external creditors to Kenya as at October 2007 were International Development Association (IDA) and Japan. The debt owed to IDA increased from USD 2.9 billion in June 2007 to USD 3.0 billion in October 2007 while that owed to Japan increased from USD 1.0 to USD 1.1 during the period.

CHART 7F: EXTERNAL DEBT BY CREDITOR

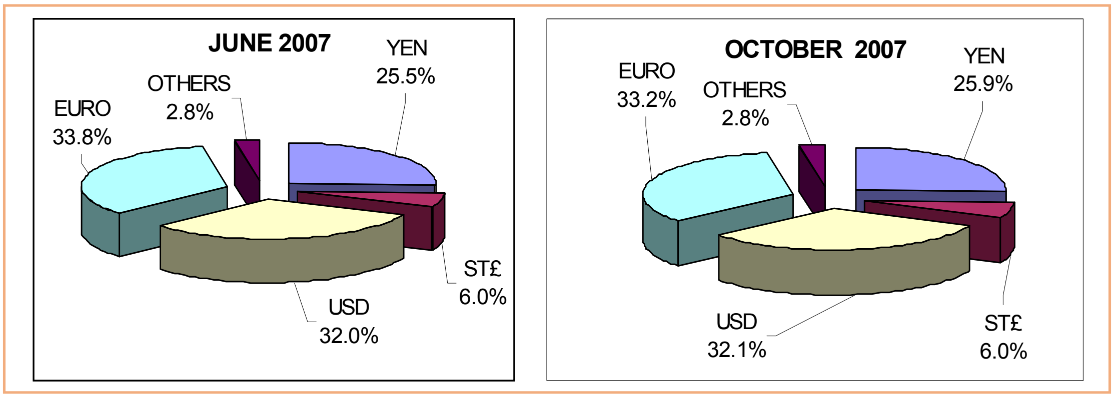


Source: Treasury

Currency Composition of External Debt

The currency composition of external debt in June and October 2007 is presented in Chart 7G. The share of external debt held in US dollars and Japanese Yens increased from 32.0 percent and 25.5 percent in June 2007 to 32.1 percent and 25.9 percent in October 2007, respectively. However, the proportion of external debt held in Euros dropped from 33.8 percent to 33.2 percent during the period. The share of external debt held in Sterling pounds and other currencies including SDRs remained unchanged at 6.0 percent and 2.8 percent, respectively, during the period.

CHART 7G: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Public Debt Service

During the first four months of 2007/08, cumulative Government expenditure on interest and other charges on domestic debt totalled Ksh 14.0 billion compared with Ksh 11.7 billion in a similar period of the previous fiscal year. However, the ratio of domestic interest payments to ordinary revenue dropped from 11.3 percent to 10.8 percent due to a faster growth in revenue during the period. This is an indication that the capacity of the Government to service domestic debt has increased due to the strong revenue base.

External debt service (including repayments to IMF) increased from Ksh 5.2 billion or 5.0 percent of ordinary revenue in the first four months of 2006/07 to Ksh 7.3 billion or 5.6 percent of ordinary revenue in a similar period of 2007/08. The rise in the external debt service during the period is attributed to end of the consolidation period in December 2006 for the Paris Club debt re-scheduling under the 2004 agreement, which means that the Government is now servicing the debts. The external debt service in the first four months of 2007/08 comprised Ksh 5.8 billion in principal repayments and Ksh 1.5 billion in interest payments.

Outlook for the Fiscal Year 2007/08

During the fiscal year 2007/08, Government domestic borrowing is programmed at Ksh 34.0 billion while external borrowing is projected at Ksh 39.8 billion. However, ratio of gross domestic debt to GDP in June 2008 is projected to remain unchanged from that in June 2007 which was 22.4 percent due to an anticipated faster growth rate in GDP in the period. The share of external debt in GDP is projected to rise slightly from 21.9 percent of GDP in June 2007 to 22.0 percent in June 2008.

Activity in the Stock Market

Equity Market Year 2006 Review

There was mixed performance at the equities market in the month of December 2007 as reflected by key market indicators (Table 8.1). While the equity turnover declined by Ksh 1.5 billion from Ksh 7.5 billion in November 2007 to Ksh 6.0 billion in December 2007, the number of shares traded also fell by 21 percent from 178.0 million in November 2007 to 140.8 million in December 2007. The market capitalization rose by Ksh 53 billion, from Ksh 798.2 billion in November 2007 to Ksh 851.1 billion in December 2007. Consequently, the NSE 20 Share Index increased from 5,215.36 points in November 2007 to 5,444.83 points in December 2007 (Chart 8A). Market liquidity ratio declined from 1.3 percent in November 2007 to 1.0 percent in December 2007, following the drop in the number of shares traded.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS, 2006 - 2007

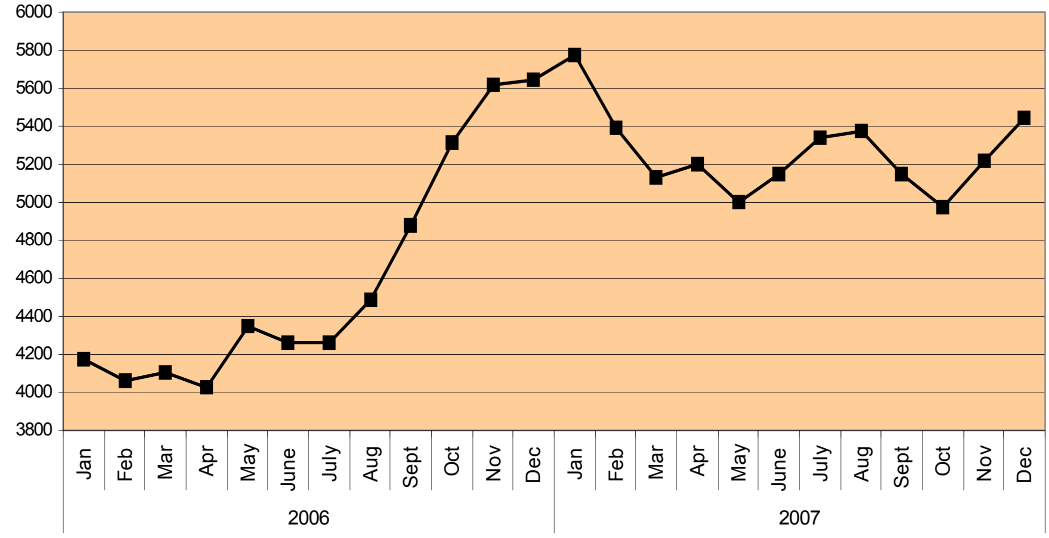
Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Ksh Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
August 06	4,486.07	117.80	8,497.88	668.67	6,440.40
September 06	4,879.86	177.42	12,377.72	726.78	1,497.00
October 06	5,314.36	161.25	13,089.36	771.70	1,872.06
November 06	5,615.20	169.47	13,648.68	806.23	2,847.80
December 06	5,645.65	77.42	5,770.67	791.58	1,009.50
January 07	5,774.24	136.31	10,482.89	824.29	1,601.75
February 07	5,387.28	109.08	7,763.86	723.66	6,234.20
March 07	5,133.67	114.27	6,955.35	696.92	7,789.26
April 07	5,199.44	87.45	4,342.38	701.98	6,266.30
May 07	5,001.77	123.72	6,224.92	709.69	9,555.15
Jun 07	5,146.73	151.11	6,079.43	743.91	10,077.70
July 07	5,340.08	168.57	6,442.34	780.72	8,242.80
August 07	5,371.72	248.14	9,251.20	811.23	10,829.55
September 07	5,146.46	275.7	9,902	791.7	9,523.20
October 07	4,971.04	183.60	7,214.02	745.50	3,486.95
November 07	5,215.36	177.95	7,522.12	798.15	4,695.70
December 07	5,444.83	140.80	6,017.99	851.13	7,007.20

Source: Nairobi Stock Exchange

Bond Market

The bond turnover rose by 49.2 percent, with bonds worth Ksh 7 billion traded in the month of December 2007, up from Ksh 4.7 billion traded in November 2007, showing improved trading in the bond market.

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



Source: Nairobi Stock Exchange

The Finance and Investment sector continued to be the most active in the Main Investment Market Segment in December 2007. It traded 54.7 million shares, accounting for 46.9 percent of the total traded volume, with KCB and Kenya Re being the most traded stocks in the sector, having traded 28.4 million and 8.2 million shares, respectively. The Industrial and Allied sector traded 43.3 million shares, representing 37.1 percent of total traded volume in December 2007. Actively traded stocks in the sector were KenGen and Mumias Sugar, trading 8.1 million shares and 20.1 million shares, respectively. The Commercial and Services sector traded 16 million shares and accounted for 13.7 percent of total traded volume, with Access Kenya and CMC Holdings trading 8 million and 3.1 million shares, respectively, representing the most traded stocks in the sector. The Agricultural sector traded 0.9 million shares, with Sasini trading 0.6 million shares, while in the Alternative Investment Market Segment (AIMS), the total volume of shares traded were 1.9 million (1.6 percent of traded volume), with Express Kenya contributing 1.5 million shares to the traded volume.

Balance Sheet of the Central Bank of Kenya

(Kenya shillings million)

	Nov-07	Nov-06	Nov 06/Nov 07 Movement
ASSETS	**237,939**	**222,249**	**15,690**
Foreign Exchange	191,310	169,904	**21,406**
Advances and Discounts to Banks	503	0	**503**
Investment in Government Securities	16	27	**-11**
Government Accounts	41,032	46,231	**-5,199**
Overdraft to Government	4,139	8,855	**-4,716**
Clearing Account	116	145	**-29**
IMF funds on-lent to Government	1,228	1,682	**-454**
Non-interest Bearing Government Debt	35,549	35,549	**0**
Other assets	5,078	6,087	**-1,009**
Debtors	3,951	4,796	**-845**
Retirement Benefits	240	394	**-154**
Property and Equipment	607	613	**-6**
Prepaid Leases	280	284	**-4**
			0
LIABILITIES	**237,939**	**222,249**	**15,690**
Currency in Circulation	100,752	83,817	**16,935**
Repo Securities	11,787	17,991	**-6,204**
Deposits	112,474	107,302	**5,172**
Commercial Banks			**0**
Kenya	39,673	35,456	**4,217**
External	23	23	**0**
Non-Bank Financial Institutions	122	116	**6**
IMF	19,482	12,845	**6,637**
Government	41,627	47,055	**-5,428**
Other Public Entities and Project A/Cs	10,164	10,163	**1**
Local Banks Forex Settlement Fund	1,383	1,644	**-261**
Other Liabilities and Provisions	1,277	2,009	**-732**
Capital and Reserves	11,649	11,130	**519**
Capital	1,500	1,500	**0**
General Reserve Fund	7,759	8,145	**-386**
Period's Surplus	2,390	-515	**2,905**
Dividend payable	0	2,000	**-2,000**

Source: Central Bank of Kenya

Notes on the Balance Sheet

Assets

Foreign exchange reserves of the Bank increased by Ksh 21,406 million from Ksh 169,904 million in November 2006 to Ksh 191,310 million in November 2007, due to interbank purchases of foreign exchange by the Bank.

Investment in Government securities reduced to Ksh 16 million in November 2007 from Ksh 27 million in November 2006.

Balances in Government accounts at CBK declined by Ksh 5,199 million, from Ksh 46,231 million in November 2006 to Ksh 41,032 million in November 2007. The decline was largely in the reduced use of the overdraft facility at the Central Bank by Ksh 4,716 million, reduction of Ksh 29 million in Government clearing account and reduction in the IMF funds on-lent to Government by Ksh 454 million.

Other assets declined by Ksh 1,009 million from Ksh 6,087 million in November 2006 to Ksh 5,078 million in November 2007 due to a reduction of debtors by Ksh 845 million, decline in retirement benefits of Ksh 154 million, and a decline of Ksh 6 million and Ksh 4 million in the value of property & equipment and prepaid leases respectively.

Liabilities

Currency in circulation increased by Ksh 16,935 million, from Ksh 83,817 million in November 2006 to Ksh 100,752 million in November 2007.

The stock of **repo securities** declined by Ksh 6,204 million, from Ksh 17,991 million in November 2006 to Ksh 11,787 million in November 2007.

Deposits increased by Ksh 5,172 million, from Ksh 107,302 million in November 2006 to Ksh 112,474 million in November 2007. The increase in deposits reflected increased deposits of Commercial Banks at Central Bank by Ksh 4,217 million and those of IMF by Ksh 6,637 million. The increase in deposits was offset by reduction of Ksh 261 million in balances of local banks forex settlement funds and Ksh 5,428 million reduction in Government deposits at the Central Bank.

Other liabilities and provisions declined by Ksh 732 million, from Ksh 2,009 million in November 2006 to Ksh 1,277 million in November 2007.

Capital and reserves increased by Ksh 519 million, from Ksh 11,130 million in November 2006 to Ksh 11,649 million in November 2007, due to improved profitability of the Bank by Ksh 2,905 million. This increase was partially offset by decline in dividends payable of Ksh 2,000 million and a decline in the General Reserve Fund of Ksh 386 million.