MONTHLY ECONOMIC REVIEW
July 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 July 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-July 2007 points to favourable economic growth as the economy grew by 6.3 percent in the first quarter of 2007 compared with 4.1 percent in the first quarter of 2006.

Inflation

12-month overall inflation increased from 11.1 percent in June 2007 to 13.6 percent in July 2007. The 12-month underlying inflation also increased from 4.9 percent in June 2007 to 5.5 percent in July 2007.

Government Fiscal Operations

During the first eleven months of the fiscal year 2006/07, Central Government budgetary operations resulted in a budget deficit of Ksh 26.4 billion or 1.5 percent of GDP on commitment basis compared with Ksh 38.0 billion or 2.5 percent of GDP in a similar period in the previous fiscal year. The budget deficit was well within the target of 3.2 percent of GDP.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by Ksh 21.5 billion in the first eleven months of the fiscal year 2006/07, from Ksh 789.1 billion in June 2006 to Ksh 810.5 billion in May 2007. The rise in the debt was attributed to an increase of Ksh 33.0 billion in domestic debt, which was partly offset by a decrease of Ksh 11.5 billion in external debt. The rise in domestic debt during the period was due to programmed domestic borrowing by the Government to finance the budget deficit, while the decrease in external debt was largely due to strengthening of the Kenya shilling.

Monetary Expansion

Money supply, M3[1], growth accelerated to 18.8 percent in the year to June 2007 from 16.0 percent in a similar period to June 2006. M3 expansion in the year to June 2007 resulted from growth in net foreign assets (NFA) and net domestic assets (NDA) of the banking system which increased by 25.2 percent and 15.9 percent, respectively.

Interest Rates

Short term interest rates remained stable in July 2007 as the 91-day Treasury bill rate averaged 6.53 percent in June 2007 compared with 6.52 percent in July 2007. The 182-day Treasury bill rate declined from 7.19 percent in June 2007 to 7.16 percent in July 2007.

Balance of Payments

The overall surplus in the balance of payments decreased from US$ 793 million in the year to May 2006 to US$ 431 million in the year to May 2007 following increased current account deficit and a reduction in the capital and financial account surplus.

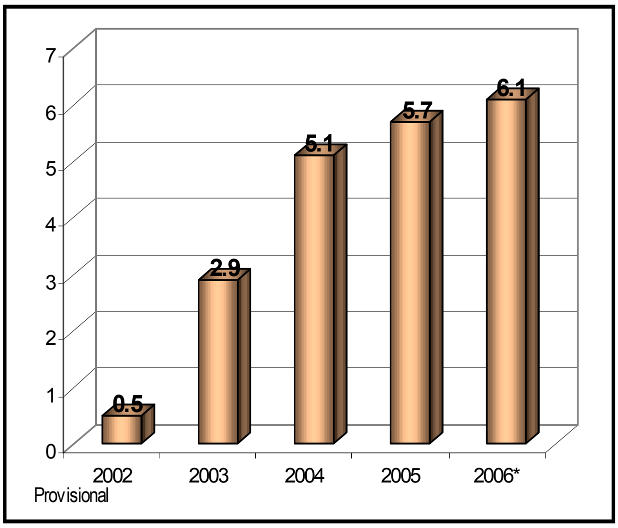
Exchange Rates

The Kenya shilling weakened against all the major currencies in July 2007. Against the US dollar, the shilling traded at Ksh 67.1 in July 2007 compared with Ksh 66.6 per US dollar in June 2007.

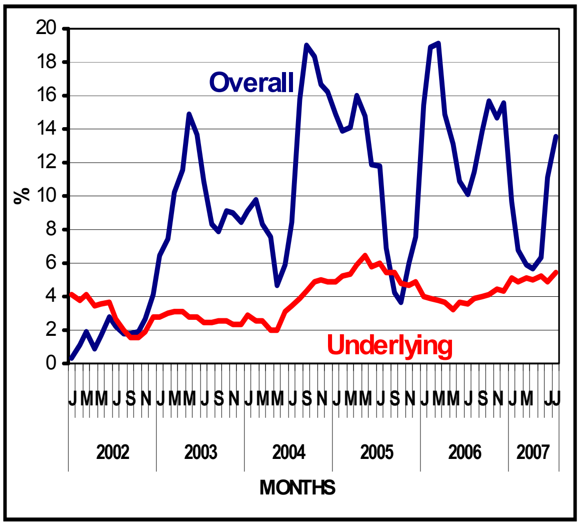
[1] Effective January 2006, the CBK adopted a harmonized definition of monetary aggregates to conform to those of the East African Community (EAC) member countries. Consequently, M3X, the intermediate target of monetary policy in Kenya under the reserve money programme has been renamed broad money M3.

SELECTED ECONOMIC PERFORMANCE INDICATORS

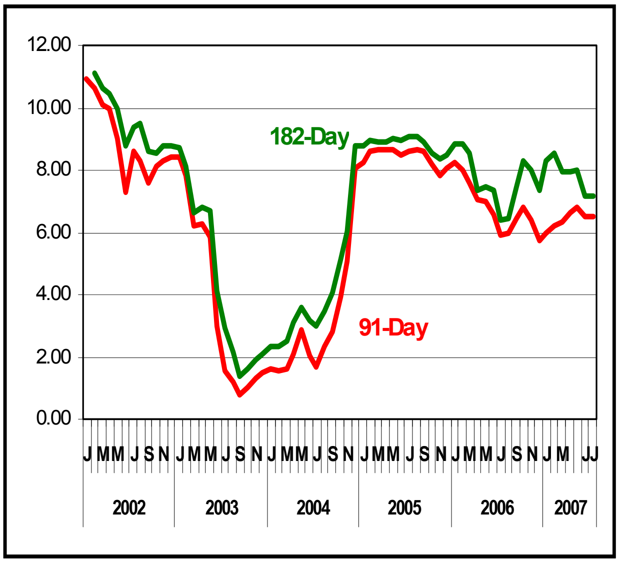
Real GDP Growth



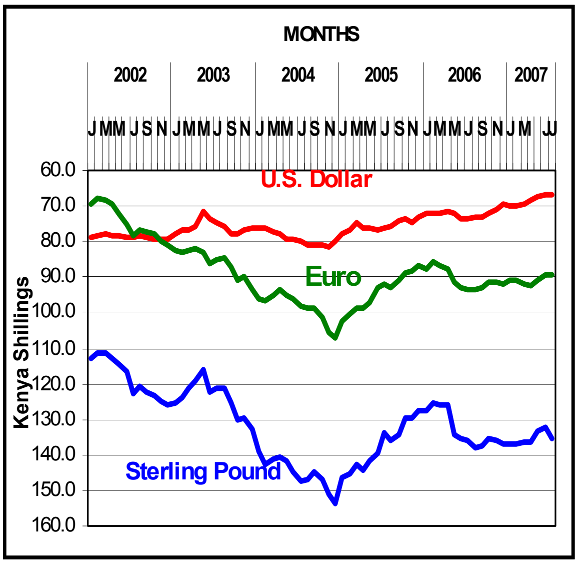
Inflation



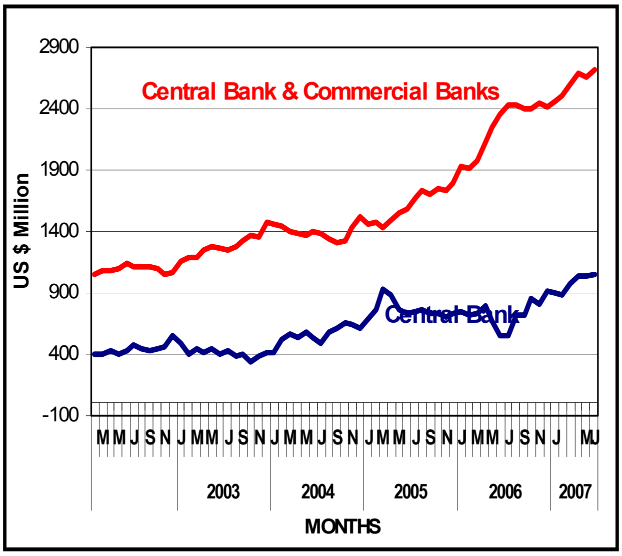
Treasury Bill Rates



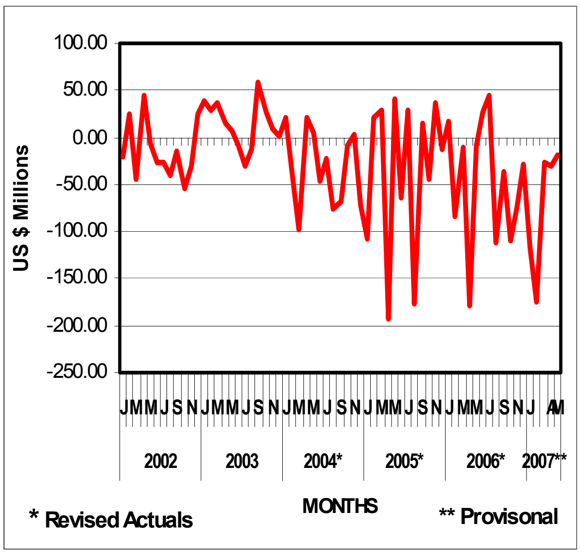
Kenya Shilling Exchange Rate



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	336.83
	Expenditure	194.97	197.34	175.12	232.92	225.76	255.28	289.54	298.13	319.42
	Budget Deficit (-) / Surplus (+)	-10.10	3.84	7.57	-16.53	-22.32	-27.11	-18.62	5.72	17.41
	Budget Deficit (% of GDP)	-1.25	0.44	0.81	-1.66	-2.19	-2.51	-1.54	0.42	1.13
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**	**9.29**	**9.14**	**9.83**	**9.99**
	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*	22.83
	External	*5.45*	*5.40*	*5.08*	*5.05*	*4.79*	*5.39*	*5.29*	*5.69*	5.15
	As % of GDP	*39.99*	*45.36*	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.17*	27.51
13.	**EXCHANGE RATE (Ksh/US$) (ANNUAL AVERAGE)**	**60.40**	**70.30**	**76.20**	**78.60**	**78.70**	**75.93**	**79.28**	**75.55**	**72.10**

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

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

SELECTED MONTHLY ECONOMIC INDICATORS

	2006		2007						
INDICATOR	Sep	Dec	Jan	Feb	Mar	Apr	May	June	July
1. INFLATION (%)									
CPI	**204.22**	**214.05**	**220.72**	**223.59**	**225.30**	**222.61**	**221.83**	**224.93**	**226.57**
Overall Inflation									
12-month overall inflation	13.85	15.59	9.67	6.81	5.87	5.66	6.33	11.10	13.56
Average annual overall inflation	12.13	14.45	13.94	12.88	11.73	10.92	10.33	10.35	10.64
Underlying Inflation*									
12-month underlying inflation	4.02	4.32	5.15	4.92	5.13	5.03	5.22	4.90	5.46
Average annual underlying inflation	4.09	3.88	3.98	4.06	4.17	4.29	4.46	4.56	4.72
2. INTEREST RATES (%)									
91-day Treasury bill interest rate	6.45	5.73	6.00	6.22	6.32	6.65	6.77	6.53	6.52
Overdraft interest rate	13.42	13.91	14.11	14.05	13.95	13.58	13.35	13.20	13.34
3. STOCK MARKET									
Nairobi Stock Exchange Price Index	4,879.86	5,645.65	5,774.24	5,387.28	5,133.67	5,199.44	5,001.77	5,146.73	5340.1
Turnover (%)	2.24	0.83	1.38	1.05	1.10	0.72	1.00	1.20	1.34
4. GOVERNMENT BUDGET (Ksh bn.)**									
Revenue	77.73	170.16	195.32	221.74	256.71	305.21	336.13	383.60	
Expenses	94.57	194.39	219.73	255.44	284.20	334.50	362.54	405.20	
Budget Deficit (-) / Surplus (+)	**(16.84)**	**(24.23)**	**(24.41)**	**(33.69)**	**(27.49)**	**(29.29)**	**(26.41)**	**(21.60)**	
5. MONEY AND CREDIT (Ksh bn.)									
Liquidity (L)[1]	796.15	826.91	832.09	831.91	858.80	866.11	880.42	894.60	
Money Supply (M3)[2]	632.01	659.59	662.15	665.98	684.97	690.44	701.52	719.52	
Reserve Money	112.29	124.16	118.85	119.90	122.17	126.08	124.57	126.47	
Total Domestic Credit	**540.82**	**571.48**	**577.62**	**579.65**	**591.25**	**595.70**	**606.03**	**606.75**	
Government	130.08	137.81	137.24	134.25	137.80	132.52	134.30	157.17	
Private sector and other public sector	463.18	463.18	463.18	463.18	463.18	463.18	471.73	449.58	
6. MONEY AND CREDIT (Annual % Change)									
Liquidity (L)[1]	16.63	16.99	17.11	15.60	17.29	15.07	16.65	16.88	
Money Supply (M3)[2]	17.44	17.78	17.75	16.74	17.84	14.99	17.32	18.83	
Reserve Money	17.06	16.88	16.01	18.37	18.89	17.80	21.58	17.45	
Total Domestic Credit	**13.03**	**15.40**	**16.78**	**15.64**	**14.39**	**13.72**	**16.38**	**16.30**	
Government	9.49	12.81	16.20	14.87	9.45	7.10	10.33	33.32	
Private and other public sector	13.33	14.99	15.85	15.01	14.77	14.48	18.23	11.33	
7. BALANCE OF PAYMENTS (US$ m)									
Overall Balance	**(24.10)**	**(21.24)**	**51.55**	**44.18**	**92.97**	**101.34**	**(54.33)**	**44.56**	
Current Account	(37.35)	(27.71)	(117.84)	(176.07)	(25.74)	(19.73)	(19.55)	(109.66)	
Trade Balance	(305.84)	(360.09)	(392.31)	(469.73)	(322.03)	(337.18)	(393.71)	(411.37)	
Capital and Financial Account	13.25	6.47	169.39	220.25	118.71	121.06	(34.78)	154.23	
8. FOREIGN EXCHANGE RESERVES (US$ m)	3,113.30	3,331.30	3,284.30	3,381.13	3,570.40	3,717.17	3,719.22	3,767.46	
Official***	2,402.41	2,415.27	2,462.82	2,500.95	2,589.91	2,684.19	2,682.59	2,723.15	
Months of imports cover	*3.77*	*3.53*	*3.54*	*3.48*	*3.57*	*3.71*	*3.63*	*3.68*	
Commercial banks	710.89	916.03	821.48	880.18	980.49	1,032.98	1,036.63	1,044.31	
9. PUBLIC DEBT (US$ bn)	**10.38**	**10.94**	**10.72**	**10.94**	**11.26**	**11.87**	**12.10**	**12.09**	
Domestic	5.16	5.46	5.36	5.53	5.64	5.72	5.84	6.08	
As % of GDP	23.02	24.55	24.90	24.62	23.97	21.89	21.66	22.10	
External	5.22	5.48	5.36	5.41	5.62	6.15	6.27	6.01	
As % of GDP	26.18	*24.55*	*24.90*	*24.62*	*23.97*	*23.60*	*23.26*	*21.88*	
10. GROSS DOMESTIC DEBT (Ksh bn)******	**371.59**	**385.10**	**378.10**	**385.80**	**386.29**	**390.49**	**390.80**	**404.70**	
11. AVERAGE EXCHANGE RATE									
Ksh/US$	72.87	69.63	69.88	69.62	69.29	68.58	67.19	66.57	67.07
Ksh/Pound Sterling	137.59	136.79	136.91	136.40	134.91	136.40	133.31	132.25	136.41
Ksh/ 100 Yen	62.26	59.47	58.09	57.76	59.08	57.73	55.65	54.27	55.17
Ksh/Euro	92.86	92.03	90.87	91.04	91.77	92.68	90.82	89.33	91.99

* 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 NationalBureau of Statistics, Treasury, Nairobi Stock Exchange and Central Bank of Kenya

Trends in Various Measures of Inflation

Overall Inflation

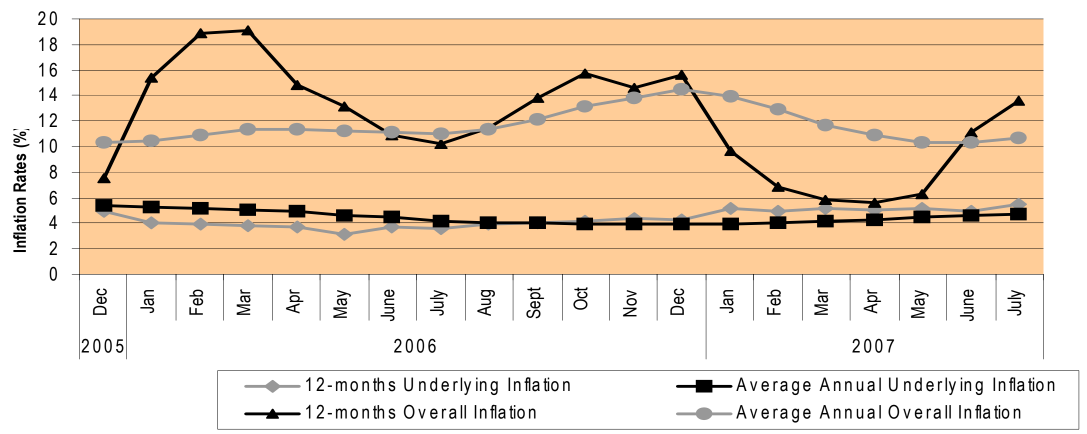
Overall 12-month inflation rose from 11.1 percent in the year to June 2007 to 13.6 percent in the year to July 2007. Average annual inflation increased from 10.4 percent in June 2007 to 10.6 percent in July 2007. The increase in overall inflation was mainly due to an increase in prices of food and non-alcoholic drinks (mainly sukuma wiki/kales, cabbages, sugar and bread), wines and spirits, cooking gas and charcoal. This was the second successive month that double digit inflation was recorded in 2007.

Underlying Inflation

The 12-month underlying inflation (which excludes food, fuel & power, transport and communications indices) increased from 4.9 percent in June 2007 to 5.5 percent in July 2007. The annual average underlying inflation went up from 4.6 percent in June 2007 to 4.7 percent in July 2007, thus remaining within 5 percent and below the monetary policy objective. The 12-month underlying inflation was, however, slightly above the target.

Table 1.1 and Chart 1A depict trends in overall and underlying inflation between December 2005 and July 2007. Following five months of subdued inflationary pressure in 2007, the overall inflation increased to double digits in July 2007 mainly as a result of an increase in food inflation.

CHART 1A: UNDERLYING AND OVERALL INFLATION



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

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2006							2007					
	Mar	Apr	June	Sept	Oct	Nov	Dec	Feb	Mar	Apr	May	June	July
Underlying Inflation													
12-month	3.82	3.66	3.68	4.02	4.11	4.39	4.32	4.92	5.13	5.03	5.22	4.90	5.46
Average annual	5.08	4.89	4.44	4.01	3.95	3.93	3.88	4.06	4.17	4.29	4.46	4.56	4.72
Growth over one month	0.17	0.32	1.10	0.32	0.22	0.29	0.48	0.05	0.37	0.23	0.19	0.80	0.64
Growth over 3 months	0.85	0.76	1.44	0.98	1.09	0.84	0.99	1.74	1.63	0.65	0.79	1.22	1.64
Overall Inflation													
12-month	19.14	14.85	10.93	13.85	15.69	14.64	15.59	6.81	5.87	5.66	6.33	11.10	13.56
Average annual	11.36	11.31	11.12	12.13	13.11	13.81	14.45	12.88	11.73	10.92	10.33	10.35	10.64
Growth over one month	1.70	-1.00	-3.00	1.60	1.90	0.30	2.60	1.30	0.80	-1.20	-0.40	1.40	0.70
Growth over 3 months	14.90	4.70	-4.90	0.90	4.30	3.80	4.80	7.20	5.30	0.90	-0.80	-0.20	1.80

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

Inflation by Income Groups

The 12-month inflation for all income groups increased further in July 2007 compared with June 2007. Inflation for Nairobi Lower income group increased from 12.9 percent in June 2007 to 15.7 percent in July 2007, which was the highest among all income groups for the last 18 months. The Nairobi Middle and Upper income groups also experienced higher inflation, rising from 7.4 percent in June 2007 to 9.0 percent in July 2007. The combined inflation for Nairobi increased from 12.0 percent in June 2007 to 14.6 percent in July 2007, while that for the 'Rest of Kenya' went up from 10.5 percent in June 2007 to 12.9 percent in July 2007. Thus the inflation level for the 'Rest of Kenya' (i.e. all regions outside Nairobi) was lower than that for the Combined Nairobi and the overall inflation country-wide. The Nairobi lower income group, however, experienced the highest level of inflation at 15.7 percent in July 2007. The group is the most adversely affected by food inflation because a large proportion of their income is spent on food.

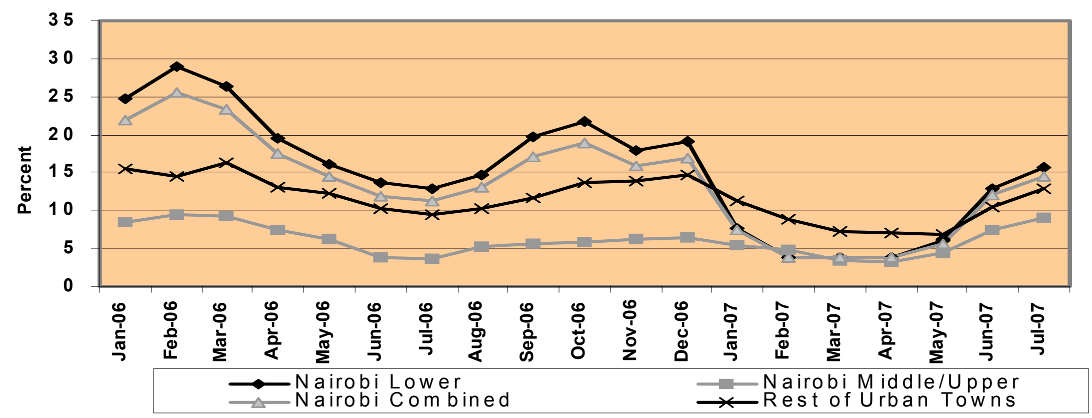
Details of inflation by income groups are presented in Table 1.2 and Chart 1 B.

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

	2006						2007						
	June	July	Aug	Sept	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July
Nairobi Lower	13.65	12.80	14.75	19.67	17.86	19.20	7.73	3.75	3.88	3.86	5.95	12.93	15.65
Nairobi Middle/Upper	3.92	3.70	5.14	5.68	6.33	6.44	5.34	4.76	3.43	3.14	4.51	7.44	9.04
Nairobi Income \[1]	11.93	11.20	13.05	17.15	15.83	16.99	7.35	3.90	3.81	3.75	5.72	12.04	14.56
Rest of Urban Towns	10.28	9.47	10.35	11.73	13.82	14.67	11.32	8.90	7.32	6.96	6.75	10.50	12.90

[1]/ The Nairobi income group combines Nairobi lower and Nairobi middle/upper income groups.
Source: Central Bureau of Statistics and Central Bank of Kenya

CHART 1B: 12-MONTH INFLATION BY INCOME GROUPS



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

Inflation Across Goods and Services Categories

All categories of goods and services except Clothing and Footwear and Recreation and Education had higher increases in prices in July 2007 than in June 2007. However, inflation for all the categories, except Food & Drinks, were at single digit level. Inflation for the Food and Non-alcoholic Drink category rose significantly from 15.0 percent in June 2007 to 18.9 percent in July 2007, thus being the main contributor to the increase in overall inflation during the period.

As shown in Table 1.3, the increase in the 12-month inflation was in six out of the ten categories of goods and services covered in the Consumer Price Index (CPI). Evidently, food inflation continues to contribute more to the erosion of the purchasing power of Kenyans than any other single category of goods and services.

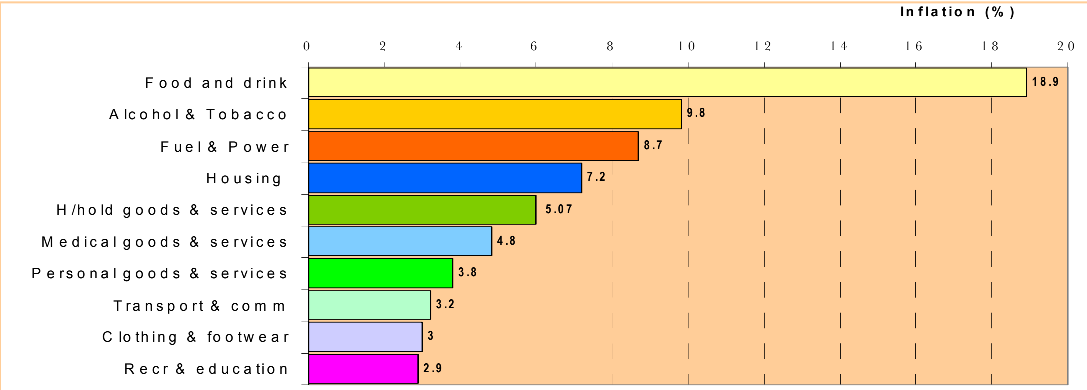
TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES - JULY 2006 TO JULY 2007

	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)*	July	Dec	Jan	Feb	Mar	Apr	May	June	July
Food and drink	55.70	31.90	50.20	50.50	13.48	22.60	11.80	7.20	5.70	5.50	6.70	15.00	18.90
Housing	11.90	31.70	9.00	11.70	4.27	6.00	7.30	6.90	7.30	7.20	7.10	5.80	7.20
Recr & education	4.60	7.30	6.60	6.00	1.98	2.10	3.60	3.00	3.20	3.30	3.20	3.10	2.90
H/hold goods & services	5.00	4.70	6.40	5.80	3.04	4.70	5.10	5.30	5.40	5.20	5.70	5.90	6.00
Clothing & footwear	9.20	7.40	9.10	9.00	3.13	3.00	3.40	3.60	3.80	3.80	4.00	3.30	3.00
Transport & comm	5.10	10.20	5.50	5.70	9.27	6.50	6.50	7.20	6.70	5.80	5.50	3.10	3.20
Fuel & Power	3.50	2.20	4.80	4.20	12.84	13.50	12.80	11.50	11.00	10.50	8.60	8.50	8.70
Medical goods & services	0.90	1.30	2.00	1.60	3.13	3.10	4.90	4.00	4.00	4.10	3.50	4.70	4.80
Personal goods & services	2.30	1.90	2.60	2.40	2.32	2.00	2.60	2.70	2.80	2.60	3.00	3.60	3.80
Alcohol & Tobacco	1.80	1.40	3.80	3.00	6.69	7.00	6.00	5.60	5.60	5.10	6.60	8.00	9.80

* Numbers in parentheses are income group weights

Source: Kenya National Bureau of Statistics

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



Source: Kenya National Bureau of Statistics

Inflation Outlook

Rising world oil prices may accelerate inflation for the fuel and power and transport categories. The shilling exchange rate is expected to remain stable while monetary expansion will remain on course, thus serving to mitigate the inflationary pressure from world oil prices.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Money supply, M3[1], grew by 18.8 percent in the year to June 2007 compared with 16.1 percent in the year to June 2006 as shown in Table 2.1 and Chart 2A. The expansion in M3 was above the target growth of 14 percent for the June 2007 quarter. The expansion in M2 was, however, slower at 16 percent in June 2007 compared with 18 percent in June 2006. The slowdown in the growth of M2 was attributed to the slow growth in quasi deposits which grew by 1.3 percent in June 2007 compared with 19.2 percent in June 2006. Demand deposits held by the public, however, increased by 37.7 percent in June 2007 compared with 18 percent in June 2006.

TABLE 2.1: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

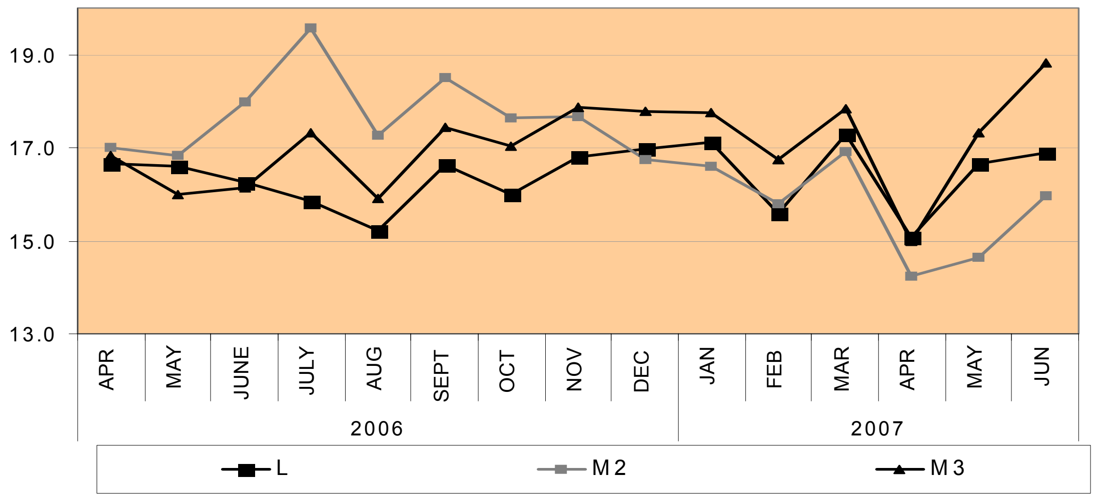
Monetary Aggregates	2006			2007				
	Jun	Sep	Dec	Jan	Mar	Apr	May	Jun
Currency outside banks	13.3	15.8	15.3	14.9	19.2	19.8	23.7	16.2
M1	16.4	21.0	26.2	22.9	21.3	11.3	28.3	31.1
M2	18.0	18.5	16.7	16.6	16.9	14.2	14.7	16.0
M3	16.0	17.4	17.9	17.8	17.8	15.0	17.3	18.8
L*	16.2	16.6	17.1	17.2	17.3	15.1	16.7	16.9

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

Source: Central Bank of Kenya

M3 growth in the year to June 2007 stemmed from a 25.2 percent increase in net foreign assets (NFA) and a 15.9 percent rise in net domestic assets (NDA) of the banking system, reflecting increased private sector financial inflows and growth in domestic credit, respectively (Table 2.2).

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

[1] Effective January 2006, CBK adopted a harmonized definition of monetary aggregates to conform to those of the East Africa partner states. Consequently, M3X, is renamed M3.

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

	2005 June	2006 June	2007 June	Jun-06 12 months %age change	Jun-07 12 months %age change
1. Money Supply, M3 (2+3) 2/	**521.3**	**605.5**	**719.5**	**16.1**	**18.8**
1.1 Money supply, M2 3/	442.4	522.0	605.3	18.0	16.0
1.2 Money supply, M1	221.9	258.4	338.7	16.4	31.1
1.3 Currency outside banks	59.3	67.2	78.1	13.3	16.2
2. Net Foreign Assets 4/	**154.4**	**191.6**	**239.8**	**24.1**	**25.2**
Central Bank	105.0	159.5	174.2	51.9	9.2
Banking Institutions	49.4	32.1	65.6	-35.0	104.4
3. Net Domestic Assets (3.1+3.2)	**367.0**	**413.9**	**479.7**	**12.8**	**15.9**
3.1 Domestic Credit (3.1.1+3.1.2)	**463.3**	**521.7**	**606.8**	**12.6**	**16.3**
3.1.1 Government (net)	112.3	117.9	157.2	5.0	33.3
3.1.2 Private sector and other public sector	351.0	403.8	449.6	15.1	11.3
3.2 Other Assets Net (3-3.1)	-96.3	-107.8	-127.0	11.9	17.8
Memorandum items					
1. Overall Liquidity, L 1/	**658.4**	**765.4**	**894.6**	**16.3**	**16.9**
2. Reserve Money	**94.4**	**107.7**	**126.5**	**14.0**	**17.5**
Currency outside banks	59.3	67.2	78.1	13.3	16.2
Bank reserves	35.1	40.5	48.3	15.1	19.5

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

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

2/ Broader money, M3, comprises M2 and residents' foreign currency deposits with local banks. M3 is therefore 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. It 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

Increased NFA accounted for 8.0 percent of the 18.8 percent expansion in M3 in June 2007, compared with 7.1 percent a year earlier as shown in Table 2.3. The growth in NDA accounted for 10.9 percent of the M3 expansion, compared with 9.0 percent in June 2006.

TABLE 2.3: CONTRIBUTION TO M3 GROWTH (%)

	2006			2007			
	May	Jun	Dec	Mar	Apr	May	Jun
Annual growth in M3	**16.0**	**16.1**	**17.8**	**17.8**	**15.0**	**17.3**	**18.8**
Net Foreign Assets	**7.5**	**7.1**	**8.8**	**8.4**	**7.6**	**8.8**	**8.0**
Net Domestic Assets	**8.5**	**9.0**	**9.0**	**9.4**	**7.4**	**8.5**	**10.9**
Domestic Credit	**11.0**	**11.2**	**13.6**	**12.8**	**12.0**	**13.8**	**14.0**
Government (net)	1.5	1.1	2.8	2.0	1.5	1.7	6.5
Rest of Economy	9.5	10.1	10.8	10.8	10.5	12.1	7.6
Other public sector	0.3	0.4	1.2	1.1	1.2	1.3	0.0
Private Sector	9.2	9.8	9.7	9.6	9.4	10.8	7.5
Other items (net)	**-2.5**	**-2.2**	**-4.6**	**-3.4**	**-4.6**	**-5.3**	**-3.2**

Source: Central Bank of Kenya

Credit Developments

Domestic credit grew by 16.3 percent in the year to June 2007 compared with 12.6 percent in June 2006 while, credit to Government increased by 33.3 percent in the year to June 2007 compared with 5.0 percent in the year to June 2006. The large increase in credit to Government was due to the Ksh 20 billion Treasury bond issued to the National Bank of Kenya by the Government, for its restructuring.

Credit to the private sector grew by 11.6 percent in the year to June 2007 compared with 15.0 percent in a similar period of 2006. Government share in total domestic credit thus increased from 22.6 percent in June 2006 to 25.9 percent in June 2007, while that of private sector declined from 75.1 percent to 72.0 percent, as that of the other public sector went down from 2.3 percent to 2.1 percent over a similar period (Table 2.4).

TABLE 2.4: BANKING SYSTEM NET DOMESTIC CREDIT

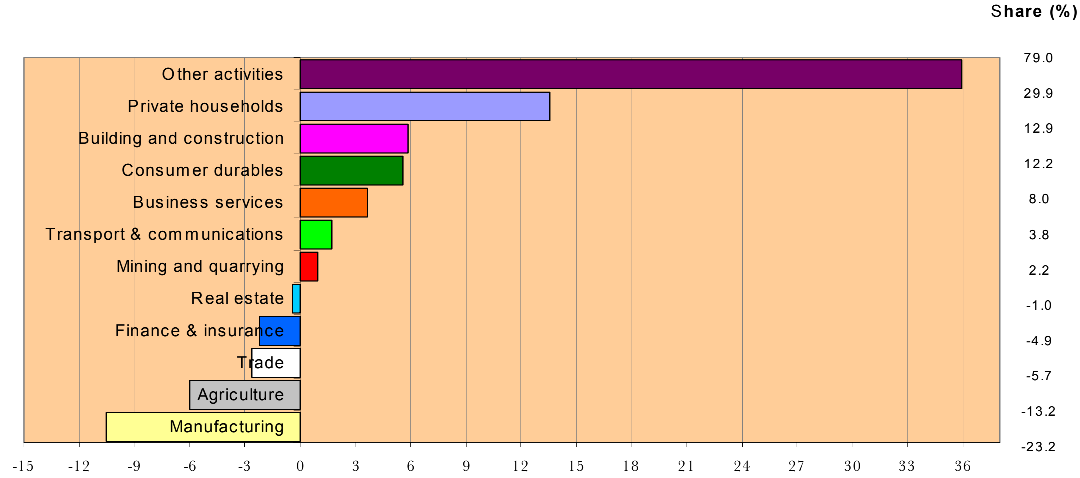
	2006 June		2007 June		Annual % Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2005/2006	2006/2007
1. Credit to Government	**117.9**	**22.6**	**157.2**	**25.9**	**5.0**	**33.3**
Central Bank	-15.8	-3.0	-3.5	-0.6	-411.5	-78.0
Commercial Banks & NBFIs	133.7	25.6	160.6	26.5	24.6	20.2
2. Credit to other public sector	**12.2**	**2.3**	**12.5**	**2.1**	**18.5**	**2.3**
Local government	-1.8	-0.3	-1.4	-0.2	56.6	-21.1
Parastatals	14.0	2.7	13.9	2.3	22.3	-0.7
3. Credit to private sector	**391.6**	**75.1**	**437.1**	**72.0**	**15.0**	**11.6**
Agriculture	34.7	6.6	28.7	4.7	17.5	-17.3
Manufacturing	71.1	13.6	60.5	10.0	5.6	-14.8
Trade	57.7	11.1	55.1	9.1	12.0	-4.5
Building and construction	31.1	6.0	37.0	6.1	31.4	18.8
Transport & communications	35.6	6.8	37.3	6.1	33.4	4.9
Finance & insurance	29.7	5.7	27.5	4.5	-2.9	-7.5
Real estate	25.7	4.9	25.3	4.2	8.8	-1.7
Mining and quarrying	3.1	0.6	4.1	0.7	47.8	32.2
Private households	45.4	8.7	58.9	9.7	-2.0	30.0
Consumer durables	11.8	2.3	17.4	2.9	28.0	47.1
Business services	41.7	8.0	45.4	7.5	28.1	8.7
Other activities	4.1	0.8	40.1	6.6	-276.2	870.4
4. TOTAL (1+2+3) *	**521.7**	**100.0**	**606.8**	**100.0**	**12.6**	**16.3**

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

Source: Central Bank of Kenya

The largest share of private sector credit in the year to June 2007went to private households (29.9 percent). As shown in Chart 2B, other sectors received credit as follows: building and construction (12.9 percent), consumer durables (12.2 percent), business services (8 percent), transport and communication (3.8 percent), and mining and quarrying (2.2 percent).

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



Source: Central Bank of Kenya

Reserve Money

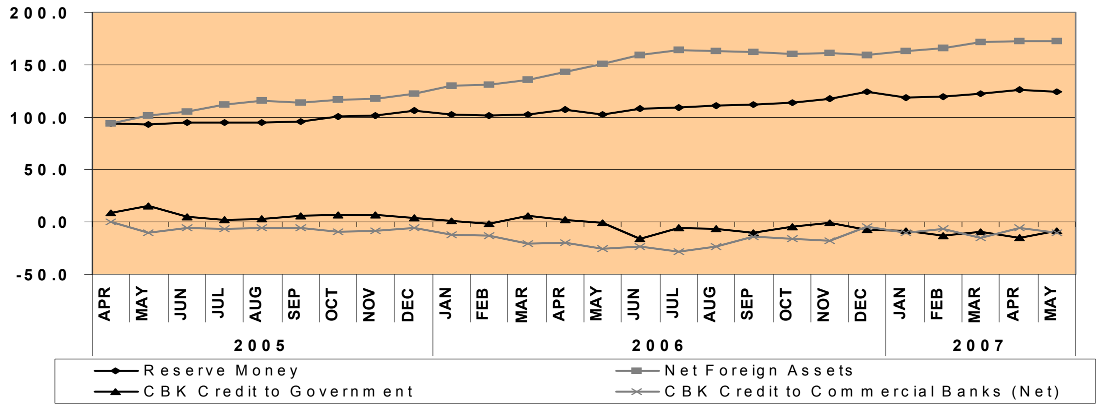
Reserve money increased by Ksh 18.8 billion or 17.5 percent (Table 2.5) in the year to June 2007 compared with Ksh 13.1 billion or 13.9 percent in the year to June 2006. Most of the increase in reserve money was in currency outside banks which rose by Ksh 12.4 billion or 18.6 percent. In addition, bank reserves went up by Ksh 6.4 billion or 15.6 per cent. Therefore, the average reserve money in June 2007 was Ksh 126.5 billion or Ksh 3.4 billion above target. The excess was held as currency outside banks (Ksh 2.7 billion) and bank reserves (Ksh 0.7 billion).

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

	2006	2007	Change		2007	
	June	June	Absolute	%	June Target	Deviation
1. Net Foreign Assets	159.5	174.1	14.6	9.2	175.7	-1.6
2. Net Domestic Assets	-51.8	-47.7	4.1	-8.0	-52.6	5.0
2.1 Government Borrowing (net)	-15.8	-4.6	11.1	-70.6	-10.3	5.7
2.2 Advances & Discounts	-23.3	-15.6	7.7	-33.0	-27.9	12.3
2.3 Other Domestic Assets (net)	-12.7	-27.4	-14.7	115.6	-14.4	-13.0
3. Reserve Money	107.7	126.5	18.8	17.5	123.1	3.4
3.1 Currency outside banks	66.8	79.3	12.4	18.6	76.6	2.7
3.2 Bank reserves	40.8	47.2	6.4	15.6	46.5	0.7

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The increase in reserve money in the twelve months to June 2007 originated from increased NFA which expanded by 14.0 percent to Ksh 174.1 billion, due to foreign exchange interbank purchases by the Bank. The expansionary effects of NFA on reserve money was partially offset by reduced NDA of the Central Bank. The NDA increased to Ksh -47.7 billion in June 2007 from Ksh -51.8 billion in June 2006 following a decline in Government net indebtedness. Government deposits at the Central Bank declined by Ksh 18.1 billion from Ksh 59.2 billion in June 2006 to Ksh 41.1 billion in June 2007. Government borrowing also declined from Ksh 43.4 billion in June 2006 to Ksh 37.6 billion in June 2007. During the same period, Central Bank net indebtedness to commercial banks declined by Ksh 7.7 billion to Ksh 15.6 billion in June 2007.

Interest Rates

The Central Bank Rate (CBR) was changed to 8.75 percent in August 2007 following the Monetary Policy Advisory Committee (MPAC) advice to signal further tightening of monetary policy.

Short-term interest rates

Short term interest rates remained stable in July 2007 as the average 91-day Treasury bill rate stood at 6.53 percent in June 2007 compared with 6.52 percent in July 2007. The 182-day Treasury bill rate declined from 7.19 percent in June 2007 to 7.16 percent in July 2007.

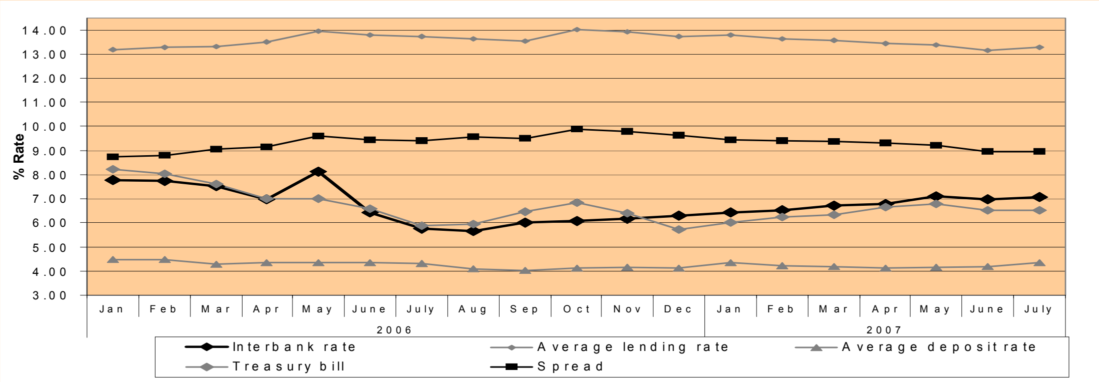
The average interbank rate, however, increased from 6.98 percent in June 2007 to 7.07 percent in July, while the Repo rate went up from 7.07 percent to 7.19 percent in July 2007. These rates were higher than both the 91 and 182 - day Treasury bill rates. Table 2.6 provides a summary of various interest 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
91-day Treasury bill rate	6.00	6.22	6.32	6.65	6.77	6.53	6.52
Overdraft rate	14.11	14.05	13.95	13.58	13.35	13.20	13.35
Interbank rate	6.43	6.52	6.70	6.79	7.10	6.98	7.07
Repo rate	6.43	6.60	6.70	6.84	7.03	7.08	7.19
Average lending rate (1)	13.78	13.64	13.56	13.44	13.38	13.14	13.29
Average deposit rate (2)	4.35	4.21	4.19	4.11	4.14	4.18	4.33
0 to 3 - month deposit	5.15	5.09	5.23	5.14	5.06	5.10	5.24
Savings deposits	1.42	1.41	1.43	1.35	1.57	1.54	1.65
Spread (1-2)	**9.43**	**9.42**	**9.37**	**9.32**	**9.23**	**8.96**	**8.96**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES (%)



Source: Central Bank of Kenya

Lending and Deposit Rates

Commercial banks' average lending rate increased from 13.14 percent in June 2007 to 13.29 percent in July 2007. The overdraft rate edged up from 13.20 percent to 13.35 percent over the same period. The overall deposit rate also rose from 4.18 percent in June 2007 to 4.33 percent in July 2007. The increase in the deposit rate was offset by an increase in the average lending rate and, as a result, interest rate spread remained at 8.96 percent in July 2007.

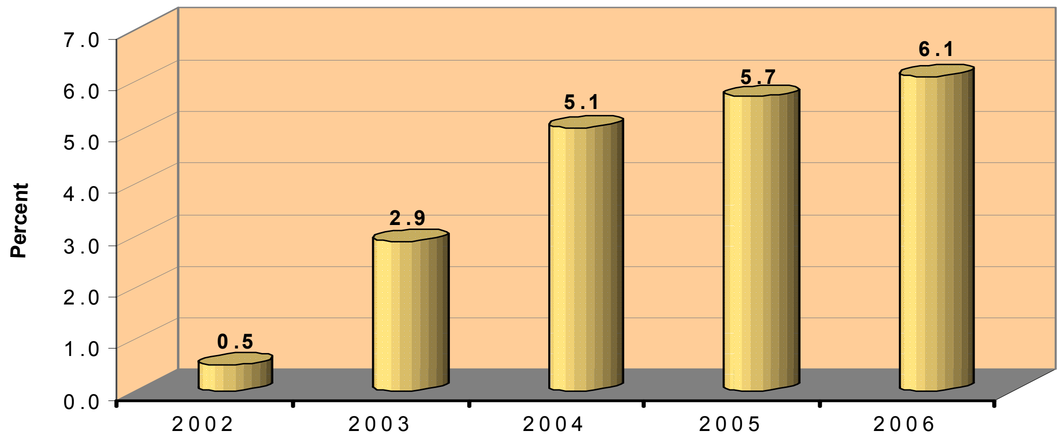
Performance of The Real Sector

Overview

Real gross domestic product (GDP) expanded by 6.1 percent in 2006, up from 5.7 percent in 2005 (Chart 3A, Tables 3.1 and 3.2). Growth in 2006 was mainly driven by tourism, agriculture, transport and communication, and construction sectors. Reforms initiated by the Government in the last few years created positive signals that facilitated growth in various sectors of the economy.

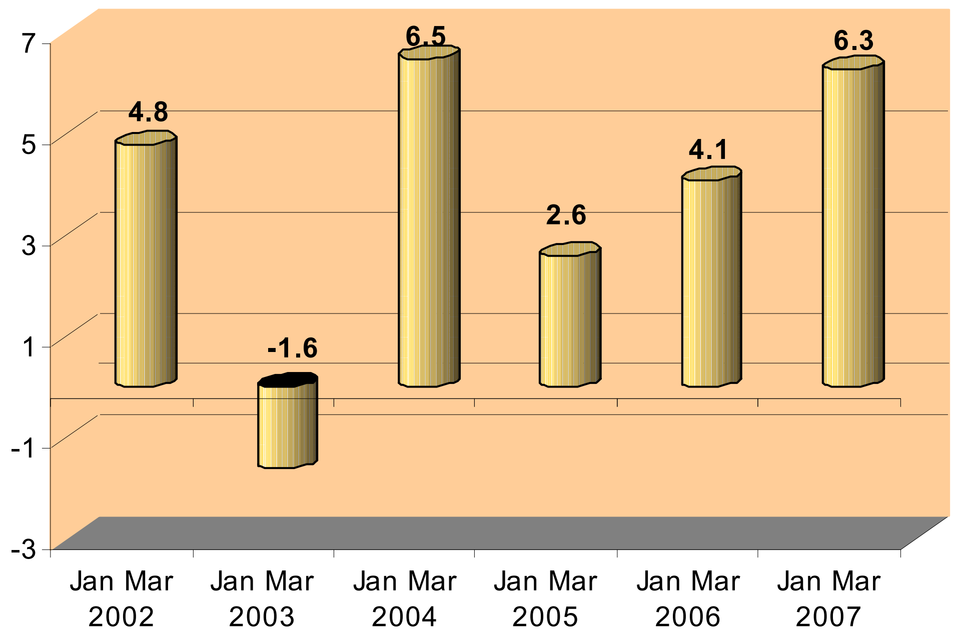
In the first quarter of 2007, GDP grew by 6.3 percent compared with 4.1 percent in a similar period of 2006 (Chart 3B). The growth momentum is forecast to continue in 2007 and the medium term as envisaged in the Vision 2030. In 2007/08 the economy is expected to grow by between 5.8 percent and 7.0 percent against the backdrop of favourable weather conditions and stable macroeconomic environment.

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



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

CHART 3B: REAL GDP GROWTH IN THE FIRST QUARTER 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

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

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

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

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

***Provisional**

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

TABLE 3.3: OUTPUT GROWTH OF MAJOR CROPS

	2005	2006	Jan-May'2006	Jan-May'2007
Tea				
Output (tons)	328,503.00	310,578.33	106,339.33	171,448.55
Growth (%)	*1.2%*	*-5.5%*	*-25.48%*	*61.28%*
Horticulture				
Output (tons)	163,153.82	166,736.82	72,702.85	73,991.00
Growth (%)	*12.0%*	*2.2%*	*-5.55%*	*1.77%*
Coffee				
Output (tons)	47,650.00	50,527.91	31,763.91	29,888.00
Growth (%)	*-4.6%*	*6.0%*	*-1.75%*	*-5.91%*
Sugar Cane				
Output (tons)	4,693,292.00	4,933,805.00	2,194,116.00	2,237,008.00
Growth (%)	*22.1%*	*5.1%*	*8.29%*	*1.95%*

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

Agriculture

Production of key crops continued to grow in the first five months of 2007 as shown in Table 3.3.

Tea

Over the first five months of 2007, cumulative tea output increased by 61.3 percent compared with a decline of 25.5 percent in a similar period of 2006. Tea production stood at 171,448.6 metric tonnes in the January – May 2007 period, up from 106,339.3 metric tonnes in the same period of 2006 (Table 3.3). The improved performance followed good rainfall experienced in the tea growing regions. Average tea prices, however, declined from US$ 2,180 per tonne in May 2006 to US$ 1,670 per tonne in May 2007.

Horticulture

Horticultural sector output increased by 1.8 percent in the first five months of 2007. Production in the January – May 2006 period was 72,703 tonnes and it rose to 73,991 tonnes in a similar period of 2007. Production of flowers and fruits edged up by 4.1 percent and 0.4 percent, respectively, while output of vegetables decreased by 1.3 percent during the period.

Coffee

Coffee production in the first five months of 2007 declined by 5.9 percent to 29,888 metric tonnes compared with 31,764 metric tonnes delivered in the first five months of 2006. The average coffee price in May 2007 also fell from US$ 2,660 per tonne in May 2006 to US$ 2,470 per tonne.

Manufacturing

The manufacturing sector realised a good performance in the Jan-May 2007 period. Production of beer and cigarettes increased by 36.6 percent and 17.5 percent respectively, while that of soda ash rose by 8.4 percent during the period. Milk production also went by 32.8 percent. Output of sugar, however, fell by 1.2 percent, as shown in Table 3.4.

TABLE 3.4: PRODUCTION OF SELECTED MANUFACTURED GOODS

	2005	2006	Jan-May'2006	Jan-May'2007
Processed sugar				
Output (MT)	491,001	475,660	224,650	222,047
Growth %	*-5.0%*	*-3.1%*	*4.5%*	*-1.2%*
Soda ash				
Output (MT)	364,301	374,010	146,150	158,486
Growth %	*2.5%*	*2.7%*	*-3.42%*	*8.44%*
Milk				
Output ('000 litres)	336,979	356,758	129,428	171,870
Growth %	*25.0%*	*5.9%*	*5.28%*	*32.79%*
Beer				
Output ('000 litres)	266,419	280,500	114,944	156,986
Growth %	*11.3%*	*5.3%*	*8.04%*	*36.58%*
Cigarettes				
Output (Milles)	10,962,727	12,303,278	5,294,145	6,220,591
Growth %	*22.1%*	*12.2%*	*17.32%*	*17.50%*

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

Energy Sector

Electricity generation increased by 7.9 percent in the first five months of 2007 to 2,545.9 million kilowatt hours (KWH), from 2,360.7 million KWH over the same period last year (Table 3.5). In line with increased economic activity, consumption of electricity grew by 8.1 percent to 2,075.5 million KWH during the period.

Hydro-electricity power generation increased by 18.8 percent to 1,464.7 million KWH in the January - May 2007 period. However, geothermal and thermal generation declined by 9.1 percent and 0.9 percent, respectively. In the crude oil sector, combined demand pressure and sporadic supplies on international crude oil market saw crude oil prices rise from US$ 68.4 per barrel in May 2007 to US$ 69.7 in June 2007.

TABLE 3.5: ENERGY SECTOR PERFORMANCE

	2005	2006	Jan-May 2006	Jan-May 2007
Electricity Supply (Generation)				
Output (KWH Millions)	5,518.94	5,823.03	2,360.67	2,545.88
Growth %	*9.7%*	*5.5%*	*5.90%*	*7.85%*
Of which:				
Hydro-power Generation (KWH Millions)	3,009.44	3,013.96	1,233.22	1,464.70
Growth (%)	*0.1%*	*0.2%*	*0.67%*	*18.77%*
Geo-Thermal Generation (KWH Millions)	1,001.58	1,045.69	439.50	399.53
Growth (%)	*1.5%*	*4.4%*	*2.41%*	*-9.09%*
Thermal (KWH Millions)	1,507.83	1,762.59	687.95	681.67
Growth (%)	*45.2%*	*16.9%*	*19.68%*	*-0.91%*
Consumption of electricity (KWH Millions)	4,505.10	4,743.10	1,919.40	2,075.50
Growth %	*6.8%*	*5.3%*	*5.01%*	*8.13%*
Consumption of Fuels (Metric Tonnes)	2,710.00	2,866.70	1,146.50	1,117.10
Growth %	*16.0%*	*5.8%*	*0.5%*	*-2.6%*
Murban crude oil average price (US $ per barrel)	53.65	64.57	63.99*	64.15**
Growth %	*45.3%*	*20.3%*	*33.60%*	*0.30%*

Source: Kenya National Bureau of Statistics

Tourism

Performance of the tourism sector improved in the first five months of 2007 as stepped up marketing and improved security resulted in higher tourist arrivals. As shown in Table 3.6, tourist arrivals went up by 11.6 percent to 402,044 visitors in the January-May 2007 period compared with 360,155 visitors over a similar period last year. Tourist arrivals at the Moi International Airport, Mombasa grew by 7.9 percent to 117,154 visitors between January and May 2007 compared with 108,606 visitors in a similar period of 2006. Arrivals through Jomo Kenyatta International Airport rose by 13.8 percent from 248,763 visitors to 283,167 visitors, while those by cruise ships declined by 38.2 percent from 2,786 visitors to 1,723 visitors during the period.

Visitor arrivals from all continents increased during the period under review as analysed on Table 3.7. The highest increase of 20.4 percent was in visitors from America which accounted for 11.7 percent. Visitors from Europe, which accounted for 56.1 percent of all arrivals in the January - May 2007 period, increased by 9.9 percent. Visitors from Africa also rose by 18.0 percent and accounted for 21.0 percent of total visitor arrivals during the period.

TABLE 3.6: TOURIST ARRIVALS BY POINT OF ENTRY

	2005	2006	Jan-May 2006	Jan-May 2007	Share in Jan-May 06	Share in Jan-May 07	% Growth Jan-May 07
CRUISE	4,533	6,161	2,786	1,723	0.8%	0.4%	-38.2%
MIAM	231,979	263,699	108,606	117,154	30.2%	29.1%	7.9%
JKIA	615,268	684,475	248,763	283,167	69.1%	70.4%	13.8%
TOTAL	**851,780**	**954,335**	**360,155**	**402,044**	100.0%	100.0%	11.6%

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: TOURIST ARRIVALS BY CONTINENT OF ORIGIN

REGION	2005	2006	Jan-May 2006	Jan-May 2007	Share in Jan-May 06	Share in Jan-May 07	% Growth Jan-May 07
Africa	161,304	188,872	71,528	84,382	19.9%	21.0%	18.0%
America	93,902	110,967	39,040	46,996	10.8%	11.7%	20.4%
Asia	86,005	93,518	36,536	37,859	10.1%	9.4%	3.6%
Europe	473,637	537,195	205,475	225,744	57.1%	56.1%	9.9%
Oceanic	13,682	15,529	4,789	5,331	1.3%	1.3%	11.3%
Others	14	2,093	1	9	0.0%	0.0%	800.0%
Sub-Total	***828,544***	***948,174***	***357,369***	***400,321***	99.2%	99.6%	12.0%
Cruise	4,680	6,161	2,786	1,723	0.8%	0.4%	-38.2%
Total	**833,224**	**954,335**	**360,155**	**402,044**	**100.0%**	**100.0%**	**11.6%**

Source: Kenya Tourism Board

Transport

Petroleum products transported through the Kenya Pipeline Company (KPC) oil pipeline increased by 7.7 percent from 1,543,282 cubic metres in the first five months of 2006 to 1,662,115 cubic metres in a similar period of 2007. Throughput of cargo by Kenya Ports Authority (KPA), similarly, increased by 7.6 percent from 5,909,409

TABLE 3.8: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2004	2005	2006	Jan-May' 06	Jan-May' 07
Mombasa Port Cargo Throughput					
Output (MT) Equivalent	12,920,124	13,280,747	14,418,901	5,909,409	6,357,364
Output Growth %	*3.3%*	*2.8%*	*8.6%*	*2.83%*	*7.58%*
Kenya Pipeline oil Throughput					
Output ('000 litres)	3,259,180	3,527,662	3,826,154	1,543,282	1,662,115
Output Growth %	*10.0%*	*8.2%*	*8.5%*	*5.45%*	*7.7%*

Sources: Port of Mombasa, Kenya and Kenya Pipeline

metric tonnes in January to May 2006 to 6,357,364 metric tonnes in January - May 2007.

In the transport sector, new motor vehicles registered increased by 46.2 percent in the first four months of 2007. A total of 23,417 new motor vehicle units were registered

TABLE 3.9: REGISTRATION OF NEW MOTOR VEHICLES

	2,005	2,006	2006 Growth	Jan-Apr'2006	Jan-Apr'2007	Share in Jan-Apr '07 (%)	Growth in Jan-Apr '07
Type							
Saloons	14,214	14,829	0.04	4,849	5,463	23.33	12.66
St,Wagons	10,158	12,631	0.24	3,568	6,238	26.64	74.83
Vans, P/ups	6,308	6,661	0.06	2,245	3,022	12.91	34.61
M/Buses	4,076	3,714	(0.09)	1,324	984	4.20	(25.68)
Buses	885	856	(0.03)	315	366	1.56	16.19
Lorries	3,113	3,610	0.16	954	1,700	7.26	78.20
Trailers	1,351	1,706	0.26	505	550	2.35	8.91
Motor cycles	3,759	6,250	0.66	1,483	4,194	17.91	182.81
3 Wheelers	735	1,075	0.46	253	420	1.79	66.01
Wheeled tractors	856	920	0.07	286	378	1.61	32.17
Others	198	505	1.55	232	102	0.44	(56.03)
Total	45,653	52,757	0.16	16,014	23,417	100.00	46.23

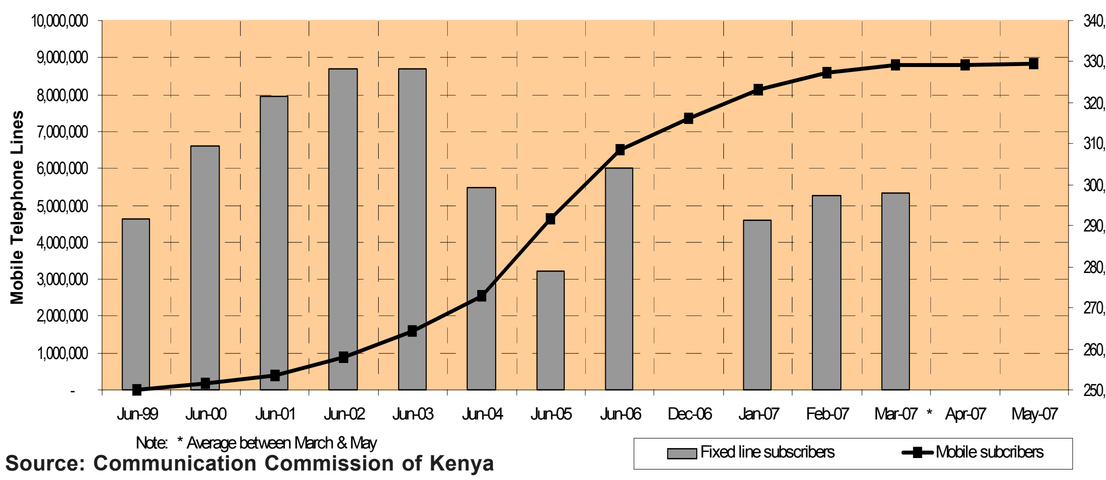
Source: Kenya National Bureau of Statistics

Telecommunications

during the period compared with 16,014 units registered in a similar period of 2006 as shown in Table 3.9.

The telecommunications sector continued to be vibrant in 2007 as depicted in Chart 3C. The mobile telephone subscribers increased by 20.4 percent from 7,340,317

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



Note: * Average between March & May

Source: Communication Commission of Kenya

by December 2006 to 8,839,422 in May 2007. Similarly, fixed telephone lines rose from 286,729 in June 2006 to 297,888 by March 2007, an increase of 3.9 percent.

Building & Construction Industry

The building and construction sector performed well in 2006 following higher budgetary allocation for road construction and increased projects funded by the constituency development funds (CDF). Cement consumption rose by 12.3 percent in 2006 from 1,572.5 metric tonnes in 2005 to 1,765.8 metric tonnes. In the first three months of 2007, cement consumption increased further by 2.7 percent from 412,216 metric tonnes in the first quarter of 2006 to 423,178 metric tonnes.

Developments in Balance of Payments and Exchange Rates

Overview

The surplus in Kenya's overall balance of payments declined to US$ 431 million in the year to May 2007 compared with US$ 793 million in the year to May 2006 as shown in Table 4.1. This was due to the widening of the current account deficit by US$ 251 million and the decline in the capital and financial account surplus by US$ 111 million.

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

ITEM	Year to May 2006	Year to May 2007* Q1 Jun-Aug	Q2 Sep-Nov	Q3 Dec-Feb	Q4 Mar-May	Year to May 2007*	Absolute change May 07 - May 06
1. OVERALL BALANCE	793	191	25	74	140	431	*(363)*
2. CURRENT ACCOUNT	(398)	(42)	(221)	(322)	(65)	(650)	*(251)*
2.1 Goods	(3112)	(858)	(1054)	(1222)	(1053)	(4187)	*(1075)*
Exports (fob)	3313	949	911	934	1011	3805	*492*
Coffee	136	43	25	24	46	138	*2*
Tea	598	187	168	186	184	725	*126*
Horticulture	472	111	133	139	166	549	*77*
Oil products	96	36	44	29	54	164	*68*
Manufactured Goods	364	119	109	112	128	468	*104*
Raw Materials	152	50	56	66	46	218	*67*
Re-exports	486	95	42	59	40	236	*(249)*
Other	1010	309	333	319	345	1306	*296*
Imports (cif)	6425	1807	1965	2156	2063	7992	*1567*
Oil	1489	524	405	348	464	1742	*253*
Chemicals	869	241	277	251	311	1081	*212*
Manufactured Goods	832	278	291	282	347	1199	*367*
Machinery & Transport Equipment	1959	467	675	929	538	2609	*650*
Other	1277	297	316	347	403	1363	*86*
2.2 Services	2714	816	833	901	988	3538	*824*
Non-factor services (net)	1293	418	429	435	445	1726	*433*
of which tourism	651	174	167	218	252	811	*160*
Income (net)	(128)	(19)	(2)	(7)	(12)	(40)	*87*
of which official interest	(154)	(31)	(15)	(24)	(15)	(86)	*68*
Current Transfers	1549	418	406	473	555	1852	*303*
Private (net)	1385	424	412	475	555	1865	*480*
Public (net)	163	(6)	(6)	(2)	0	(13)	*(176)*
3. CAPITAL & FINANCIAL ACCOUNT	1192	233	246	396	205	1080	*(111)*
3.1 Capital Tranfers (net)	187	59	50	21	68	198	*10*
3.2 Financial Account	1004	174	196	375	137	883	*(122)*
Official, medium & long-term	(258)	(43)	(33)	(27)	(31)	(133)	*125*
Inflows	105	47	18	41	21	126	*20*
Outflows	(363)	(89)	(50)	(68)	(51)	(258)	*105*
Private, medium & long-term (net)	538	(61)	(106)	81	(102)	(187)	*(725)*
Commercial Banks (net)	117	(13)	(64)	(134)	(75)	(286)	*(403)*
Other private medium & long-term (net)	421	(47)	(42)	216	(28)	99	*(322)*
Short-term (net) incl. errors & omissions	724	277	334	321	270	1203	*478*
memo:							
Gross Reserves	2922	3149	3250	3381	3719	3719	*798*
Official	2253	2431	2441	2501	2683	2683	*429*
*imports cover***	*3.7*	*3.9*	*3.6*	*3.5*	*3.6*	*3.6*	*(0.1)*
*imports cover****	*4.5*	*4.7*	*4.4*	*4.3*	*4.4*	*4.4*	*(0.2)*

* Provisional
** In months of goods and non-factor services (based on current year's imports of goods & non-factor services
*** In months of goods and non-factor services (based on 36 months average of imports of goods & non-factor services
Source: Central Bank of Kenya

Current Account

The current account deficit widened from US$ 398 million in the year to May 2006 to US$ 650 million in the year to May 2007 following US$ 1,075 million widening in the trade deficit. The surplus in the services account, however, improved by US$ 824 million during the year in review.

Merchandise Account

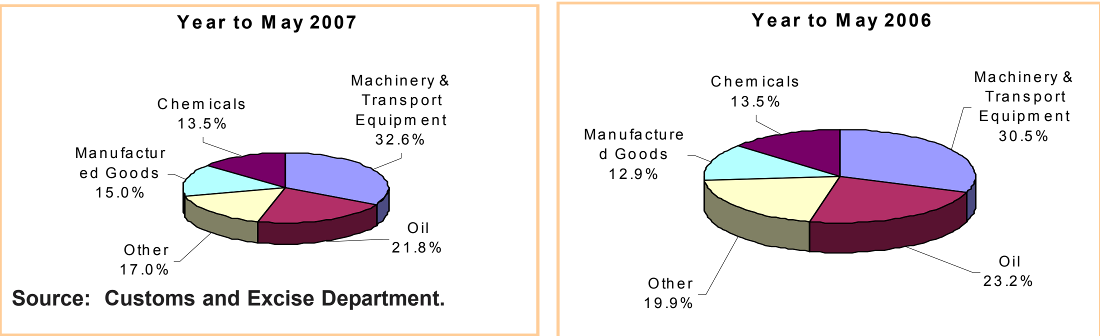
The value of merchandise imports rose by 24.4 percent to US$ 7,992 million in the year at May 2007, while the value of merchandise exports rose by 14.8 percent to US$ 3,805 million. The trade deficit therefore widened from US$ 3,112 million in the year to May 2006 to US$ 4,187 million in the year to May 2007.

Imports

Merchandise imports rose during the year to May 2007 largely reflecting increased imports of machinery and transport equipment (mainly road vehicles, telecommunication and sound recording equipment, electrical machinery, industrial machinery, office machines and an aircraft) and manufactured goods (mainly textile fabrics, iron, steel and non-ferrous metals). The value of oil imports also rose during the year following increased imports of diesel oil, jet fuel, motor spirit, kerosene and gas. Imports of chemicals, particularly plastics, manufactured fertilisers, medicinal and pharmaceutical products, and industrial chemicals, also increased. Other miscellaneous imports, which include palm oil valued at US$ 240 million, crude materials (US$ 194 million), sugar (US$ 119 million), wheat (US$ 128 million) and rice (US$ 76 million), rose by 12.0 percent to US$ 1,363 million.

Merchandise imports composition remained relatively unchanged during the year to May 2007 from the previous year. Machinery and transport equipment and petroleum products accounted for more than half of the total value of merchandise imports (Chart 4A). Other major imports categories were manufactured goods and chemicals.

CHART 4A: COMPOSITION OF KENYA'S IMPORTS



Source: Customs and Excise Department.

Exports

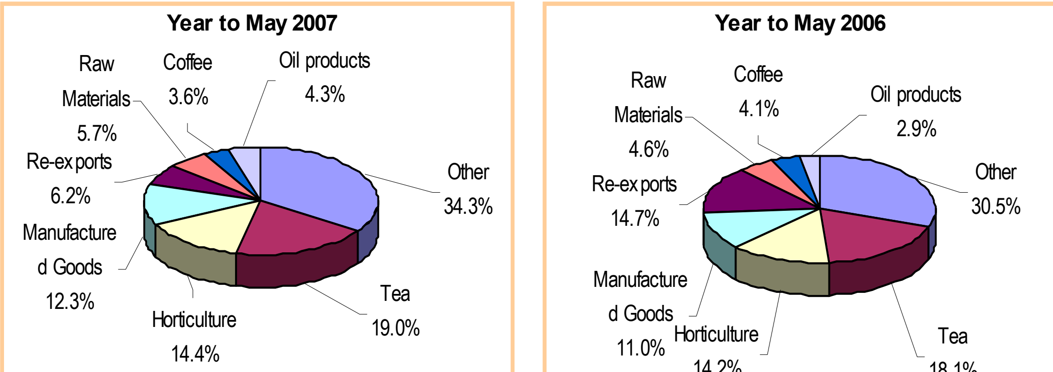
Merchandise exports rose by US$ 492 million to US$ 3,805 million in the year to May 2007, due mainly to increased exports of tea, manufactured goods, horticulture, oil and raw materials. 365,072 tonnes of tea was exported during the year to May 2007 totalling US$ 725 million in value compared with 338,866 tonnes of tea exported in the previous year valued at US$ 598 million. The increase in the value of tea exports during the year to May 2007 also reflected improved export prices. Horticulture exports performed well during the year in review reflecting increased export volume of vegetables, fruits and cut flowers, although export prices for vegetables and fruits declined. The value of coffee exports remained relatively unchanged as the reduced volume of coffee exports was offset by an increase in the export price.

Exports of manufactured goods rose during the year to May 2007 following increased exports of iron and steel valued at US$ 129 million, cement worth US$ 68 million and other miscellaneous metal manufactures. The value of oil exported also rose by US$ 68 million reflecting increased exports of lubricating oils and grease while raw material exports increased on account of increased exports of crude animal and vegetable materials. Other miscellaneous exports, which rose to US$ 1,363 million during the review period, mainly comprised exports of clothing accessories valued at US$ 241 million, tobacco manufactures valued at US$ 116 million, inorganic chemicals (US$ 77 million), machinery and transport equipment (US$ 90 million), fish (US$ 55 million) and medicines (US$ 49 million).

Coffee, tea and horticulture collectively accounted for 37.1 percent of the total value of exports in the year to May 2007 compared with 36.4 percent in the year to May 2006 (Chart 4B). The contribution of manufactured goods to the total value of exports also rose to 12.3 percent compared with 11.0 percent a year earlier.

Table 4.2 shows the main destination countries for Kenya's merchandise exports during the year to May 2007, which were Uganda (11.3 percent), United Kingdom (10.3 percent), the Netherlands (7.7 percent), United States of America (7.7 percent), Tanzania (7.5 percent), Pakistan (5.8 percent), Sudan (4.2 percent), Egypt (4.1

CHART 4B: COMPOSITION OF KENYA'S EXPORTS



Source: Customs and Excise Department, KRA

Direction of Trade

percent), and Somalia (3.0 percent). Overall, African countries absorbed 44.0 percent of Kenya's merchandise exports.

During the review period, Kenya sourced merchandise imports from United Arab Emirates (14.0 percent), United States of America (8.7 percent), India (8.6 percent), China (6.5 percent), Japan (6.0 percent), South Africa (5.6 percent), United Kingdom (5.3 percent), Saudi Arabia (4.5 percent), Singapore (3.6 percent), and Germany (3.6 percent).

TABLE 4.2: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)	Year to May		
Country	2005	2006	2007
Africa	728	817	942
Of which			
South Africa	480	563	446
Egypt	81	93	149
Others	167	161	348
Rest of the World	4,547	5,609	7,050
Of which			
United Arab Emirates	636	917	1,120
USA	379	394	693
India	305	361	690
China	191	301	520
Japan	327	321	481
United Kingdom	491	722	421
Saudi Arabia	473	283	358
Singapore	79	178	288
Germany	173	234	285
Indonesia	83	140	220
Italy	98	130	181
France	153	176	177
Netherlands	106	128	138
Bahrain	138	123	128
Others	916	1,201	1,353
Total	5,275	6,425	7,992

EXPORTS (in millions of US dollars)	Year to May		
Country	2005	2006	2007
Africa	1,446	1,474	1,675
Of which			
Uganda	523	450	428
Tanzania	232	260	284
Sudan	82	109	160
Egypt	86	133	155
Somalia	51	72	114
DRC	128	102	114
Others	344	347	420
Rest of the World	1,680	1,839	2,130
Of which			
United Kingdom	303	327	393
Netherlands	230	250	294
USA	60	104	293
Pakistan	160	196	222
United Arab Emirates	39	57	76
Germany	62	68	66
India	52	50	63
France	58	57	50
Others	717	731	673
Total	3,126	3,313	3,805

Source: Customs and Excise Department, KRA

Services

The surplus in the services account increased by US$ 824 million to US$ 3,538 million during the year to May 2007 due to higher receipts from non-factor services, increased interest earnings on official foreign exchange reserves, reduced interest payments on official foreign debt, and increased current transfers.
Net receipts from non-factor services rose to US$ 1,726 million in the year to May 2007 reflecting increases in transportation services, travel, and government services. Receipts from foreign travel increased from US$ 651 million in the year to May 2006 from US$ 811 million in the year to May 2007.

Net investment income, improved by US$ 87 million to a deficit of US$ 40 million in the year to May 2007 reflecting increased interest earnings on official foreign exchange reserves by US$ 48 million to US$ 117 million, and reduced interest payments on official foreign debt by US$ 68 million to US$ 86 million. Net income earned by the private sector from foreign investments however declined during the review period. Net current transfers increased by US$ 303 million to US$ 1,852 million reflecting in part higher external remittance receipts.

Capital and Financial Account

Net capital and financial inflows declined by US$ 111 million to US$ 1,080 million during the year to May 2007 following reduced private medium and long term flows and increased holding of foreign assets by commercial banks.

Capital and financial flows associated with Government operations however improved during the period under review, reflecting reduced repayments of official foreign loans by US$ 105 million. Receipts of foreign loans by the Government also increased by US$ 20 million to US$ 126 million in the year to May 2007 as project grants received in aid of Government projects rose to US$ 198 million in the year to May 2007 compared with US$ 187 million received a year earlier.

Private medium and long-term financial flows reduced to a net outflow of US$ 187 million in the year to May 2007 compared with a net inflow of US$ 538 million recorded in the year to May 2006. This development reflects reduced receipts of foreign loans, increased loan repayments and increased holdings of foreign assets by commercial banks. Net foreign asset holdings by commercial banks rose by US$ 286 million to US$ 858 million in the year to May 2007. Net short-term capital inflows, which include errors and omissions in recorded transactions, increased from US$ 724 million in the year to May 2006 to US$ 1,203 million in the year to May 2007.

Foreign Exchange Reserves

Following the favourable balance of payments, gross foreign assets held by the banking system increased by 29.5 percent from US$ 2,909 million at the end of June 2006 to US$ 3,767 million at the end of June 2007 (Table 4.3 and Chart 4C).

Out of this, the Central Bank held reserve assets amounting to US$ 2,723 million (or 4.4 months of imports cover) at end of June 2007. This represents a build up of US$ 370 million over a period of one year, which was largely achieved through purchases of foreign exchange from the domestic foreign exchange market equivalent to US$ 412 million. During the year, the Central Bank also received US$ 376 million being interest earned on official foreign exchange reserves and foreign aid to the Government. The Bank however spent US$ 20 million on its own operations during the year to June 2007, and US$ 484 million on behalf of the Government to cover expenses related to Government imports and to service official foreign debt. Foreign exchange holdings of commercial banks also rose by US$ 488 million to US$ 1,044 million at end of June 2007. Most of these assets were held as balances with banks abroad in the amount of US$ 834 million. Other foreign assets of commercial banks included cash, foreign loans and foreign bills discounted. Besides these holdings, foreign currency deposits held locally by residents increased by US$ 418 million to US$ 1,544 million at the end of June 2007.

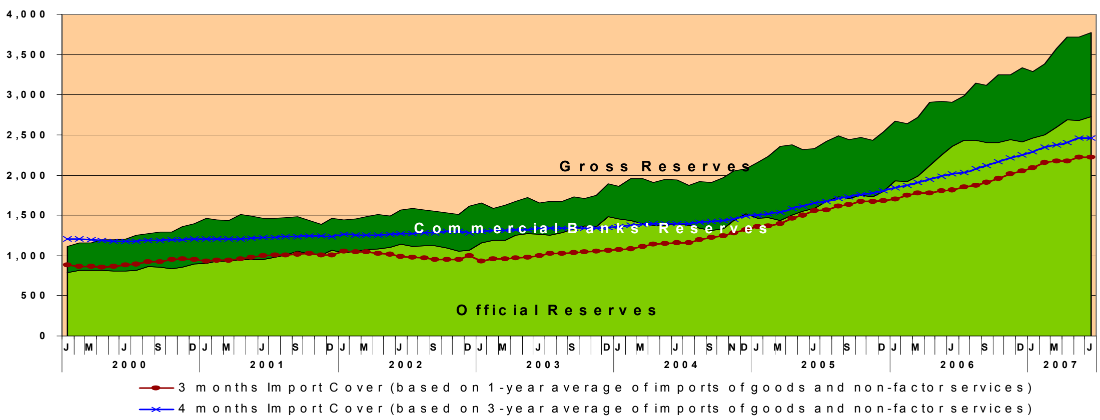
The Kenya shilling weakened against all the major currencies in July 2007 reflecting strong demand for hard currencies in the domestic money market. Against the US

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

	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
1. Gross Foreign Exchange Reserves	**3,331**	**3,284**	**3,381**	**3,570**	**3,717**	**3,719**	**3,767**
of which:							
Official	2,415	2,463	2,501	2,590	2,684	2,683	2,723
*imports cover**	*3.5*	*3.5*	*3.5*	*3.6*	*3.7*	*3.6*	*3.7*
*imports cover***	*4.3*	*4.3*	*4.3*	*4.4*	*4.5*	*4.4*	*4.4*
Commercial Banks	916	821	880	980	1,033	1,037	1,044
2. Residents' foreign currency deposits	**1,428**	**1,422**	**1,423**	**1,469**	**1,467**	**1,558**	**1,544**

*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

dollar, the shilling traded at Ksh 67.1 in July 2007 compared with Ksh 66.6 per US dollar in June 2007 (Table 4.4 and Charts 4D, 4E and 4F).

The shilling also weakened against the Sterling Pound, the Euro and the Japanese Yen. Against the Sterling Pound and the Euro, the shilling exchanged at Ksh 136.4 and Ksh 92.0 respectively in July 2007, compared with Ksh 132.3 and Ksh 89.3 in June 2007, while the shilling traded at Ksh 55.2 against 100 Japanese Yen in July 2007 compared with Ksh 54.3 in June 2007.

On the regional front, the Kenya shilling weakened against both the Uganda and Tanzania shilling to trade at Ush 24.2 and Tsh 18.8 per Kenya shilling in July 2007 compared with Ush 25.0 and Tsh 19.0 per Kenya shilling, respectively in June 2007.

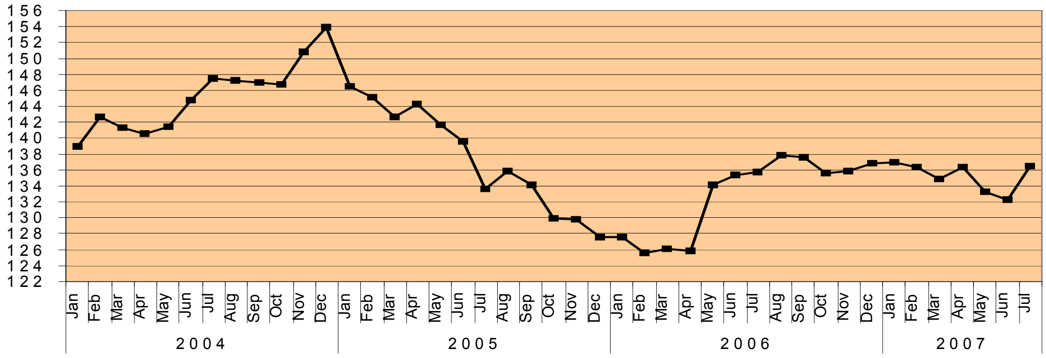
TABLE 4.4: KENYA SHILLING EXCHANGE RATE

	2006			2007							% change June 07 - July 07
	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
US Dollar	73.41	72.87	69.63	69.88	69.62	69.29	68.58	67.19	66.57	67.07	**0.74**
Pound Sterling	135.37	137.59	136.79	136.91	136.40	134.91	136.40	133.31	132.25	136.41	**3.15**
100 Japanese Yen	64.03	62.26	59.47	58.09	57.76	59.08	57.73	55.65	54.27	55.17	**1.64**
Uganda Shilling*	25.32	25.45	26.07	25.97	25.44	25.26	25.20	25.33	24.97	24.24	**-2.94**
Tanzania Shilling*	17.07	17.99	18.62	18.55	18.49	18.13	18.40	18.90	18.97	18.82	**-0.77**
Euro	92.96	92.86	92.03	90.87	91.04	91.77	92.68	90.82	89.33	91.99	**2.97**
Euro per US dollar	0.790	0.785	0.757	0.769	0.765	0.755	0.740	0.740	0.745	0.729	**-2.17**

* Units of currency per Kenya shilli

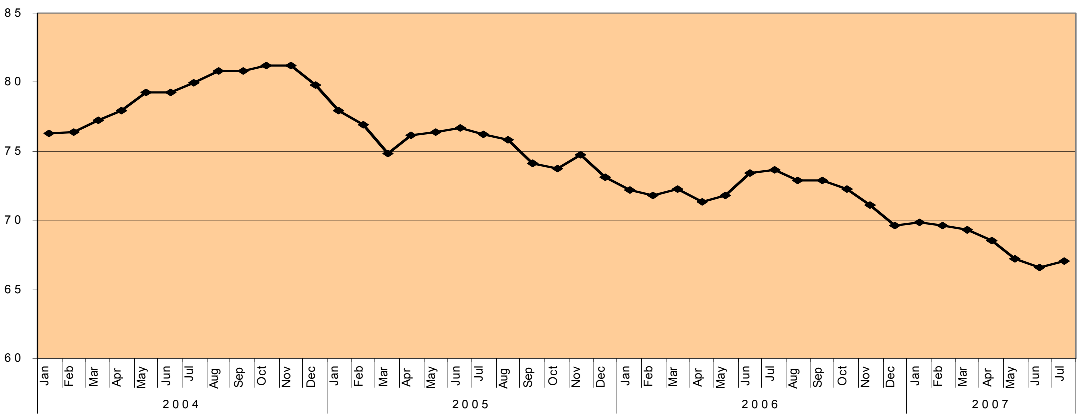
Source: Central Bank of Kenya

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



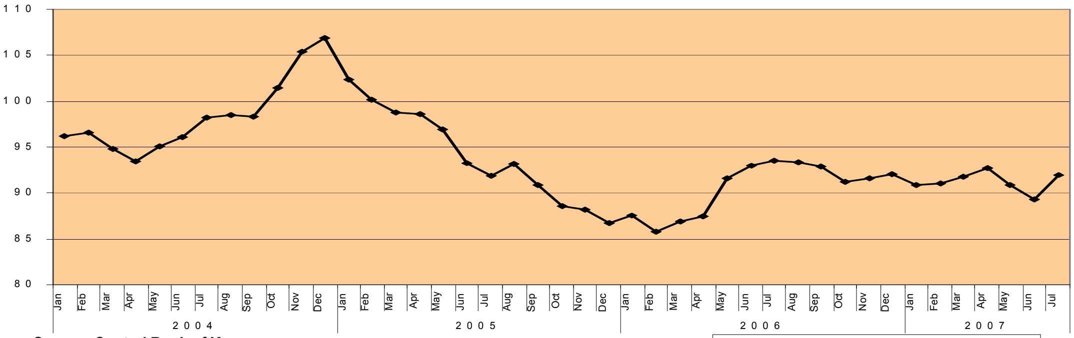
Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

DEVELOPMENTS IN THE BANKING SECTOR

Overview

The banking sector remained stable in the first half of 2007, mainly due to prevailing favourable macroeconomic conditions. The quality of asset portfolio improved capital adequacy ratios which remained high. The sector also registered growth in deposits and profitability. Growth in deposits resulted from a significant inflow of remittances whereas improved profitability resulted from increased income on loans and advances and increased volume of banking services that generated substantial fees and commission income.

Structure of the Banking Sector

The number of financial institutions remained at 45 between June 2006 and June 2007, while the number of operating forex bureaus increased from 95 to 96 over the same period.

Structure of the Balance Sheet

Total assets increased by Ksh 138.3 billion or 19.9 per cent from Ksh 695.1 billion as at June 2006 to Ksh 833.4 billion as at June 2007. The major assets were loans and advances and government securities which constituted 50 percent and 22 per cent percent of total assets, respectively.

Loans and Advances

Loans and advances, net of provisions stood at Ksh 417.5 billion in June 2007 compared to Ksh 362.0 billion in June 2006. Foreign currency loans and advances increased by 7.3 percent from Ksh 63.7 billion in June 2006 to Ksh 63.7 billion in June 2007. Despite an overall increase in aggregate loans and advances, the proportion of foreign currency loans to total loans declined from 18 percent in June 2006 to 16 percent in June 2007 mainly due to a more than proportionate increase in local currency loans. Foreign currency loans increased by 6.25 percent whereas local currency loans increased by 17.1 percent over the same period.

Government Securities

Investment in Government securities rose by 26.1 per cent from Ksh 146.3 billion in June 2006 to Ksh 184.5 billion in June 2007 due to increased liquidity and government borrowing in the domestic market.

Deposit Liabilities

Total deposit liabilities, including accrued interest, increased by Ksh 109 billion or 19 per cent from Ksh 573 billion in June 2006 to Ksh 682 billion in June 2007. Foreign currency deposits rose by 22.0 percent from Ksh 88.9 billion to Ksh 108.4 billion over the same period. This increase in deposit liabilities was attributed to external donor inflows, remittances by Kenyans living abroad and earnings from tourism and agricultural exports.

Capital and Reserves

Capital and reserves of the banking sector increased by 20.1 per cent from Ksh 86.9 billion in 2006 to Ksh 104.4 billion in June 2007. The increase in capital and reserves in the sector was a result of fresh capital injection by some institutions and retention of profits. Risk weighted assets increased by 13.1 percent or Ksh 63.8 billion from Ksh 488.1 billion in June 2006 to Ksh 551.9 billion in June 2007. Similarly, total capital increased by 17.3 percent from Ksh 81.6 billion to Ksh 95.7 billion in June 2007. Capital adequacy in the sector, as measured by the ratio of total capital to total risk weighted assets ratio increased from 16.7 per cent in June 2006 to 17.3 per cent in June 2007 and was above the minimum statutory requirement of 12 per cent.

Non-performing loans

As at June 2007, the stock of gross non - performing loans was estimated at Ksh 70.7 compared with Ksh 102.0 billion as at June 2006. The sharp reduction in the level of non-performing loans was attributed to write-offs against provisions held and recoveries by some of the banks during the period under review. The level of non-performing loans net of loan loss provisions stood at Ksh 22.7 billion and accounted for 4.8 per cent of gross loans. Consequently, asset quality which is measured by the ratio of net non-performing loans to gross loans improved from 5.3 per cent to 4.8 per cent over the period as shown in Table 5.1.

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

		June-06	June-07
1	Gross loans and advances	444.6	470.0
2	Total loans and Advances	407.1	449.0
3	Gross non-performing loans	102.	70.7
4	Specific Provisions	41.0	27.0
5	General Provisions	4.1	4.5
6	Total Provisions (4+5)	45.1	31.5
7	Net Advances (2-6)	362.0	417.5
8	Total Non-Performing Loans and Advances	64.5	59.7
9	Net Non-Performing Loans and advances (8-4)	23.5	22.7
10	Total NPLs as % of total advances (8/2)	15.8	11.1
11	Net NPLs as % of gross advances (9/1)	5.3	4.8
12	Specific Provisions as % of Total NPLs (4/8)	63.6	54.3

Source: Central Bank of Kenya

Profitability

The banking sector's pre-tax profit for the six months period ending June 30, 2007 stood at Ksh 16.3 billion compared to Ksh 12.6 billion in June 2006. The improved profitability was attributed to an increase in interest income on loans and advances and government securities and non-funded income. Total expenses increased by 7.4 percent from Ksh 32.4 billion in June 2006 to Ksh 34.8 billion in June 2007. Loan loss provision for the period was Ksh 2.8 billion compared with Ksh 3.7 billion expensed over a similar period in 2006. The decline in loan loss provisions is attributed to improvement in risk management by institutions and better economic conditions. Salaries and wages expenses increased from Ksh 9.6 billion in June 2006 to Ksh 11.3 billion in June 2007. Annualized return on assets rose from 2.8 per cent to 3.8 per cent in 2007. At the same time, return on shareholders funds increased from 28.9 per cent to 37.6 per cent over the same period.

Liquidity Ratio Requirement

The average liquidity ratio in the banking sector remained high with commercial banks maintaining an average liquidity ratio of 46.7 per cent compared with the minimum requirement of 20 per cent. Mortgage Finance companies and other Non - bank financial institutions (NBFIs) maintained an average liquidity ratio of 30.2 per cent.

Cash Ratio Requirement

The reserve ratio that commercial banks maintained with the Central Bank in June 2007 average 6.3 percent against the 6.0 percent reserve ratio requirements as shown in Table 5.2 and Chart 5A. NBFIs maintained a reserve ratio averaging 6.0 percent during the same period. In addition to reserve requirements, commercial banks held on average Ksh 1.0 billion as excess reserves in July 2007 compared with Ksh 1.2 billion in June 2007.

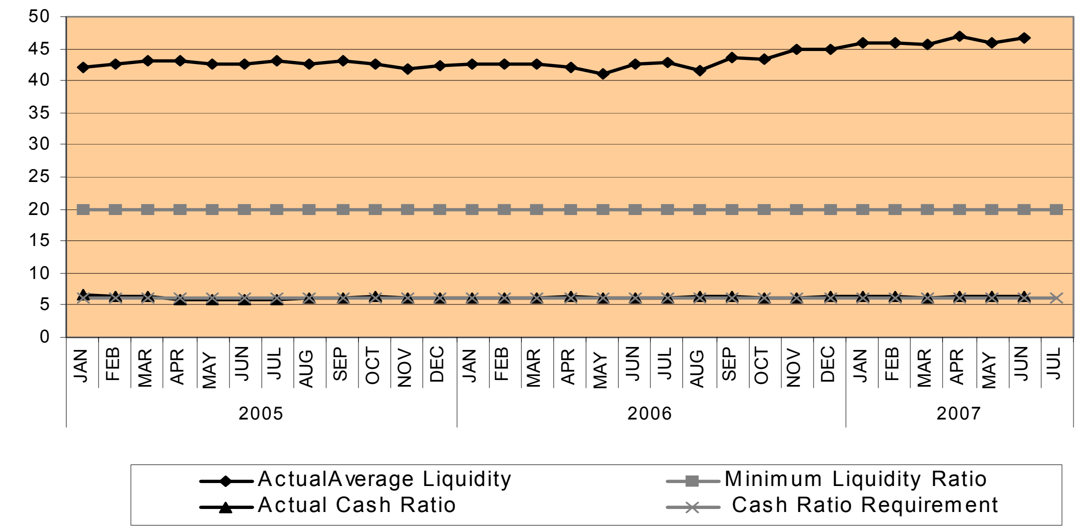
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2006					2007						
	May	Jun	Sep	Oct	Dec	Jan	Feb	Mar	Apr	May	June	July
Commercial Banks												
Actual Average Liquidity	41.0	42.6	43.6	43.3	45.0	46.0	45.8	45.7	47.1	46.1	46.7	
Minimum Liquidity Ratio	20	20	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	6.2	6.4	6.3	6.3	6.2	6.3	6.3	6.3	6.3
Minimum Cash Ratio Requireme	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
NBFIs												
Actual Average Liquidity Ratio	28.6	28.8	28.9	28.6	32.0	28.0	34.7	40.7	33.8	31.4	26.2	
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Minimum Cash Ratio Requireme	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

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

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

Government Budget Performance

During the first eleven months of the fiscal year 2006/07, Central Government budgetary operations resulted in a budget deficit of Ksh 26.4 billion or 1.5 percent of GDP on commitment basis compared with Ksh 38.0 billion or 2.5 percent of GDP in a similar period in the previous fiscal year. As shown in Table 6.1, the good performance of the budget during the period was attributed largely to a significant growth in tax revenue. Similarly, on cash basis, the Government had a reduced budget deficit of Ksh 35.2 billion or 2.0 percent of GDP compared with Ksh 36.5 billion or 2.4 percent of GDP in a similar period of the previous fiscal year.

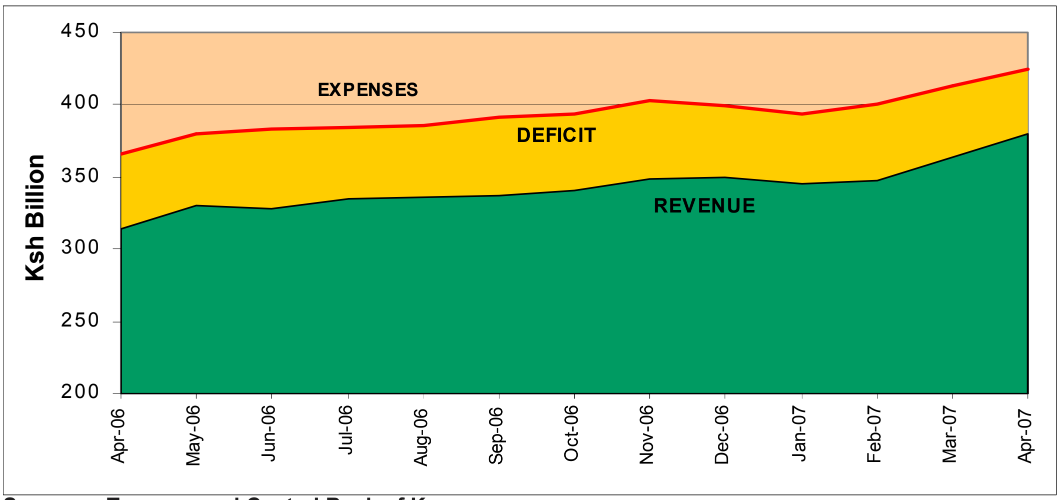
The budget deficit in the first eleven months of the fiscal year 2006/07 was well within the target of 3.2 percent of GDP. The 12- month cumulative budget outturn in Chart 6A indicates that expenditure remained within the budgeted amount.

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

	FY 2005/06	FY 2006/07		
	May Actual	May Prov.	Revised Target	Over (+) / Below (-) Target
1. TOTAL REVENUE	**290.4**	**336.1**	**357.4**	**-21.3**
Revenue	273.5	325.0	337.9	-12.9
Tax Revenue	231.9	277.5	281.2	-3.7
Non Tax Revenue	23.9	26.9	26.8	0.1
Appropriations-in-Aid	17.7	20.6	29.9	-9.3
External Grants	17.0	11.2	19.5	-8.3
2. TOTAL EXPENSES	**328.5**	**362.5**	**415.7**	**-53.2**
Recurrent Expenses	275.5	296.5	322.8	-26.3
Development Expenses	53.0	66.0	92.9	-26.8
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-38.0**	**-26.4**	**-58.3**	**31.9**
As % of GDP	-2.5	-1.5	-3.2	
4. ADJUSTMENT TO CASH BASIS	**1.5**	**-8.8**	**0.8**	**-9.6**
5. DEFICIT ON A CASH BASIS	**-36.5**	**-35.2**	**-57.6**	**22.3**
As % of GDP	-2.4	-2.0	-3.2	
6. DISCREPANCY:Exp. (+) / Rev. (-)	**-7.3**	**0.0**	**0.0**	
7. FINANCING	**29.2**	**35.3**	**57.6**	**-22.3**
Domestic (Net)	29.2	35.6	30.9	4.7
External (Net)	0.0	-4.4	8.4	-12.7
Capital Receipts (privatisation)	0.0	4.0	18.2	-14.2
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Sources: Treasury

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



Sources: Treasury and Central Bank of Kenya

Revenue

Cumulative Government revenue (including receipts of external grants) amounted to Ksh 336.1 billion in the first eleven months of the fiscal year 2006/07 compared with a target of Ksh 357.4 billion. This represented a shortfall of Ksh 21.3 billion or 5.9 percent of revenue in the period mainly due to a decline in receipts of external grants. However, as shown in Table 6.2, the receipts exceeded the Ksh 290.4 billion realised in a similar period in the previous fiscal year by Ksh 45.7 billion or 15.9 percent.

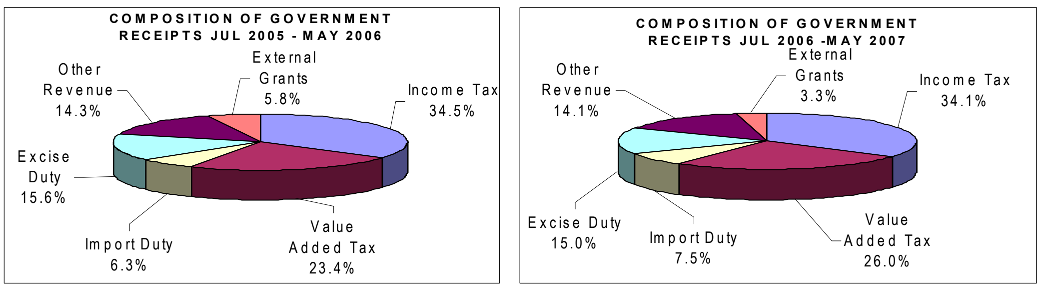
Despite the rise in Government receipts during the period, the proportion of Government receipts in GDP decreased from 19.0 percent in the first eleven months of the fiscal year 2005/06 to 18.6 percent in a similar period of the fiscal year 2006/07. This was attributed to faster growth in GDP during the period compared with growth in revenue.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	May-06	May-07	Movement
1. Revenue (2+3+4)	**273.5**	**325.0**	**51.5**
2. Tax Revenue	231.9	277.5	45.7
Income Tax	100.1	114.5	14.4
Value Added Tax	67.9	87.4	19.5
Import Duty	18.4	25.3	6.9
Excise Duty	45.4	50.3	4.9
3. Appropriations-in-Aid	17.7	20.6	2.8
4. Other Revenue	23.9	26.9	3.0
5. External Grants	**17.0**	**11.2**	**-5.8**
Total Receipts (1+5)	**290.4**	**336.1**	**45.7**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

During the first eleven months of the fiscal year 2006/07, cumulative tax revenue amounted to Ksh 277.5 billion against a target of Ksh 281.2 billion. This represented a shortfall of Ksh 3.7 billion or performance of 98.7 percent. However, tax revenue increased by Ksh 45.7 billion or 19.7 percent during the period from Ksh 231.9 billion in a similar period of the previous fiscal year.

The increased tax revenue resulted in an increase in its share in total Government receipts from 79.8 percent in the first eleven months of the fiscal year 2005/06 to 82.6 percent in the period. Furthermore, the proportion of tax revenue in GDP increased from 15.2 percent to 15.4 percent during the period. The increase in tax revenue collection during the period was in import duty, VAT and income tax which grew by 37.5 percent, 28.7 percent and 14.3 percent, respectively. Similarly, as shown in Table 6.2 and Chart 6B, collections of excise duty grew by 10.9 percent during the period.

External grants to the Government declined from Ksh 17.0 billion in the first eleven months of the fiscal year 2005/06 to Ksh 11.2 billion in a similar period of the fiscal year 2006/07. Furthermore, the grants fell below the target for the period by Ksh 8.3 billion or 42.7 percent.

Expenditure and Net Lending

During the first eleven months of the fiscal year 2006/07, cumulative Government expenditure and net lending to public institutions increased by Ksh 34.1 billion from Ksh 328.5 billion to Ksh 362.5 billion in a similar period of the previous fiscal year. The increase in expenditure during the period was in both recurrent and development expenditures. Recurrent expenditure rose by Ksh 21.1 billion or 7.6 percent (Table 6.3 and Chart 6C). This was mainly driven by increases of Ksh 13.0 billion and Ksh 14.0 billion in expenses on operations and maintenance and in salaries and wages respectively. Development expenditure also increased from Ksh 53.0 billion to 66.0 billion during the period.

Government expenditure, however, remained below the budget target of Ksh 415.7 billion, as recurrent and development expenses fell short of their respective targets for the period by Ksh 26.3 billion and Ksh 26.8 billion. The shortfall in the expenses was mainly on operations and maintenance. It is respectively worth noting, however, that the Government did not realise the programmed Ksh 12.0 billion privatisation proceeds from sale of its shares in the KenGen Company as the process was put on hold, which may have necessitated the slowdown in expenditures.

Despite the rise in Government expenditure, the share of Government expenses in GDP declined from 21.5 percent to 20.1 percent during the period due to a faster growth in GDP.

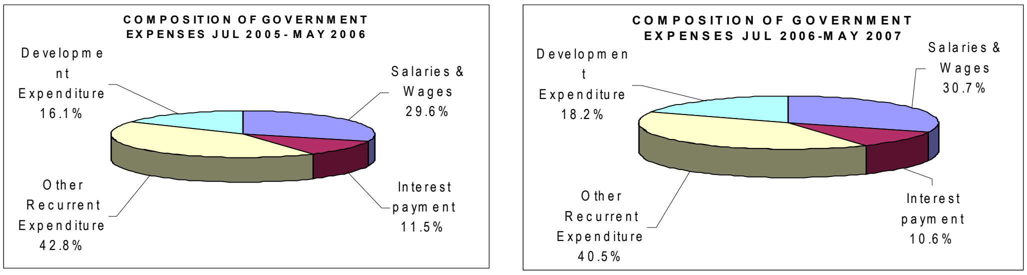
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	May-06	May-07	Movement
1.Recurrent	**275.5**	**296.5**	**21.1**
Compensation of employees	97.3	111.3	**14.0**
Total Interest	37.7	38.3	**0.6**
of which			
Domestic*	28.4	33.7	**5.3**
Foreign interest due	9.4	4.6	**-4.8**
Others	140.4	146.9	**6.5**
2. Development	**53.0**	**66.0**	**13.0**
TOTAL EXPENSES	**328.5**	**362.5**	**34.1**

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

Source: Treasury

CHART 6C: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

The Government increased development expenditure from Ksh 53.0 billion to Ksh 66.0 billion. Consequently, the share of development expenses in total expenditure increased from 16.1 percent to 18.2 percent during the period while recurrent expenditure fell from 83.9 percent to 81.8 percent of total expenditure. This is in line with the core objective of the Economic Recovery Strategy for Wealth and Employment Creation of achieving and maintaining an increasing proportion of expenses on development projects in order to support investment.

Financing

During the first eleven months of the fiscal year 2006/07, Government budgetary operations resulted in a financing requirement of Ksh 45.6 billion compared with Ksh 35.3 billion in a similar period of the fiscal year 2005/06 (Table 6.4). The financing requirement comprised Ksh 35.3 billion to finance the budget deficit, Ksh 4.4 billion to make external debt repayments and Ksh 6.0 billion to repay domestic debt owed to the Central Bank of Kenya.

The sources of the Ksh 45.6 billion financing requirement comprised Ksh 28.5 billion domestic borrowing from commercial banks and non-bank sources; Ksh 13.1 billion draw down of Government deposits at the Central Bank of Kenya; and Ksh 4.0 billion being proceeds from sale of Government shares in the Mumias Sugar Company through the Nairobi Stock Exchange. The Ksh 28.5 billion domestic borrowing comprised Ksh 9.6 billion from commercial banks and Ksh 18.9 billion from non-bank sources.

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

I. FINANCING REQUIREMENTS	May-06	May-07
1. Budget deficit	29.2	35.3
2. External debt reduction	0.0	4.4
3. Domestic debt reduction	5.1	6.0
3.1 Central Bank (incl. items in transit)	5.1	6.0
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	1.0	0.0
TOTAL	**35.3**	**45.6**
II. FINANCING SOURCES	**May-06 Ksh bn**	**May-07 Ksh bn**
1. Budget surplus	0.0	0.0
2. External debt increase	0.0	0.0
3. Increase in domestic debt	35.2	28.5
3.1 Central Bank	0.0	0.0
3.2 Commercial banks	16.1	9.6
3.3 Non-bank sources	19.2	18.9
4. Reduction in GoK deposits at CBK	0.0	13.1
5. Privatisation proceeds	0.0	4.0
TOTAL	**35.3**	**45.6**

Sources: Treasury & Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank decreased from Ksh 43.8 billion at the end of May 2006 to Ksh 43.2 billion at the end of June 2006, and further to Ksh 37.2 billion at the end of May 2007 (Table 6.5). The Ksh 6.5 billion decrease in the debt between May 2006 and May 2007 was attributed to decreases of Ksh 5.6 billion in the Government overdraft, Ksh 0.4 billion in the pre-1997 Government overdraft at the Central Bank of Kenya and Ksh 0.5 billion revaluation gains on the IMF funds on-lent to the Government.

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

	2006		2007	Movement
	May	June	May	May 06-May 07
Total Government Credit (1+2+3+4+5)	**43.8**	**43.2**	**37.2**	**-6.5**
1. Overdraft	5.6	5.2	0.0	-5.6
2. Rediscounted securities	0.0	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.0	0.0
Treasury bonds	0.0	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	35.9	35.5	35.5	-0.4
4. IMF funds onlent to Government	1.9	1.9	1.4	-0.5
5. Cleared items in transit	0.3	0.5	0.2	0.0
Memorandum				
Authorised overdraft limit	**11.3**	**11.3**	**13.3**	**1.9**
Amount utilised to date	5.6	5.2	0.0	-5.6
Amount available	5.7	6.1	13.2	7.5

Source: Central Bank of Kenya

Outlook of FY 2007/08

Government revenue collection is projected at 21 percent of GDP during the fiscal year 2007/08. Total revenues, including appropriations-in-aid, are projected to increase by 14 percent, to Ksh 428.8 billion, while external grants are projected at Ksh 40.3 billion or 2.0 percent of GDP in the financial year. Overall expenditures in 2007/08, excluding amortization payments and restructuring costs, will amount to Ksh 580.4 billion, or 28.2 percent of GDP, up from Ksh 427.6 billion or 23.4 percent of GDP in 2006/07. The share of recurrent expenditure is projected to decline from the level in 2006/07, while domestically financed capital expenditures are projected to rise from Ksh 54.7 billion to Ksh 85.1 billion, or from 3.0 percent of GDP to 4.1 percent of GDP.

Overall budget deficit (including grants) in 2007/08 is projected at Ksh 109.8 billion which is equivalent to 5.3 percent of GDP. The deficit will be financed through net external financing totalling Ksh 39.8 billion or 1.9 percent of GDP, net domestic financing of Ksh 33.9 billion, and net privatization receipts of about Ksh 36 billion. The net domestic financing requirement which is equivalent to 1.6 percent of GDP in 2007/08 is within the medium-term target of 1.5 percent of GDP.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt

Kenya's public and publicly guaranteed debt increased by Ksh 21.5 billion in the first eleven months of the fiscal year 2006/07, from Ksh 789.1 billion in June 2006 to Ksh 810.5 billion in May 2007. This represented a 2.7 percent growth. As shown in Table 7.1, the increase in debt during the period was attributed to an increase of Ksh 33.0 billion in domestic debt which was partly offset by a decrease of Ksh 11.5 billion in external debt. The rise in domestic debt was due to programmed domestic borrowing by the Government to finance the budget deficit while external debt decreased largely due to strengthening of the Kenya shilling.

Following these developments, the share of domestic debt in the overall stock of debt increased from 45.3 percent in June 2006 to 48.2 percent in May 2007, while external debt declined from 54.7 percent to 51.8 percent of total debt over the same period. The proportion of domestic debt in total debt has been rising gradually in the last five years due to reduced access to external funding.

The overall debt to GDP ratio dropped from 51.1 percent in June 2006 to 44.9 percent in May 2007, mainly due to a faster growth in GDP. Specifically, the external debt to GDP ratio dropped from 27.9 percent in June 2006 to 23.3 percent in May 2007, while domestic debt declined from 23.2 percent of GDP to 21.7 percent during the period. The overall debt to GDP ratio has been falling since June 2004 (Chart 7A).

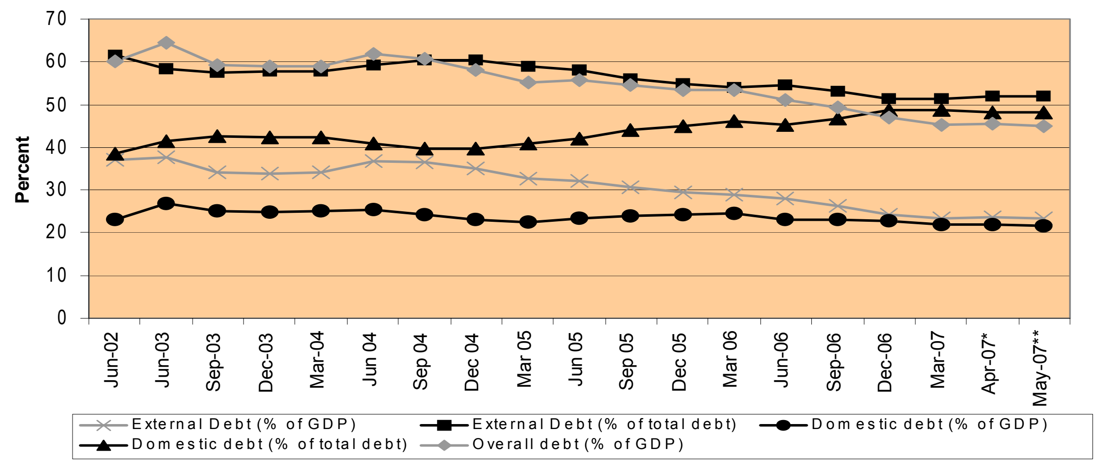
TABLE 7.1: KENYA'S PUBLIC DEBT (Ksh billion)

	Dec 05	Jun-06	Sep-06	Dec-06	Mar-07	Apr-07*	May07**	Change 2006/07
EXTERNAL								
Bilateral	146.77	154.9	150.3	145.3	145.4	145.3	145.3	-9.6
Multilateral***	240.3	255.6	251.9	242.7	244.0	255.3	254.8	-0.8
Commercial Banks	1.7	1.3	1.3	0.9	0.9	0.9	0.9	-0.4
Export Credit	19.9	19.5	19.2	18.8	18.8	18.8	18.8	-0.8
Sub-Total	**408.6**	**431.2**	**422.6**	**407.7**	**409.1**	**420.3**	**419.7**	**-11.5**
(As a % of GDP)	29.4	27.9	26.2	24.2	23.3	23.6	23.3	
(As a % of total debt)	54.9	54.7	53.2	51.4	51.4	51.8	51.8	
DOMESTIC\[1]								
Banks	**179.6**	**190.8**	**200.8**	**211.0**	**204.8**	**206.8**	**203.9**	**13.1**
Central Bank	44.9	41.3	39.6	47.1	35.9	37.7	35.8	-5.5
Commercial Banks	134.7	149.5	161.2	163.9	169.0	169.1	168.1	18.6
Non-banks	**149.2**	**162.0**	**164.6**	**167.7**	**177.1**	**181.4**	**185.0**	**23.0**
Non-bank Financial Inst.	2.0	1.4	0.9	0.9	1.2	1.2	1.2	-0.2
Other Non-bank Sources	147.3	160.6	163.7	166.9	176.0	180.3	183.8	23.1
Non-residents	**6.1**	5.0	6.2	6.4	4.3	2.2	1.9	-3.1
Sub-Total	**335.0**	**357.8**	**371.6**	**385.1**	**386.3**	**390.5**	**390.8**	**33.0**
(As a % of GDP)	24.1	23.2	23.0	22.8	22.0	21.9	21.7	
(As a % of total debt)	45.1	45.3	46.8	48.6	48.6	48.2	48.2	
GRAND TOTAL	**743.6**	**789.1**	**794.2**	**792.9**	**795.3**	**810.8**	**810.5**	**21.5**
(As a % of GDP)	53.5	51.1	49.2	47.0	45.3	45.5	44.9	

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

Sources: Treasury and Central Bank of Kenya

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



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

Domestic Debt

Domestic debt increased from Ksh 357.8 billion in June 2006 to Ksh 390.8 billion in May 2007. As shown in Table 7.2, this represented a rise of Ksh 33.0 billion or 9.2 percent in the debt during the first eleven months of the fiscal year 2006/07. The rise in domestic debt during the period was due to increases of Ksh 35.3 billion and Ksh 3.1 billion in Treasury bonds and bills, respectively. These increases were, however, partly offset by decreases of Ksh 0.3 billion and Ksh 5.1 billion in long-term stocks and other domestic debt, respectively. The Government overdraft at the Central Bank of Kenya, which is included under other domestic debt, decreased from Ksh 5.2 billion to zero during the period.

As shown in Table 7.1, debt owed to commercial banks and the Central Bank of Kenya increased from Ksh 190.8 billion in June 2006 to Ksh 203.9 billion in May 2007. However, the proportion of domestic debt held by the two entities dropped from 53.3 percent to 52.2 percent during the period.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2006				2007										Change
	Jun	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%	May	%	Jun06 - May07
Total stock of Domestic Debt (A+B)	**357.8**	**100.0**	**385.1**	**100.0**	**378.1**	**100.0**	**385.8**	**100.0**	**386.3**	**100.0**	**385.1**	**100.0**	**390.8**	**100.0**	**33.0**
A. Government Securities	**349.7**	**97.7**	**371.0**	**96.3**	**375.2**	**99.2**	**382.7**	**99.2**	**383.2**	**99.2**	**385.7**	**100.1**	**387.8**	**99.2**	**38.1**
1. Treasury Bills (excluding Repo Bills)	**94.8**	**26.5**	**96.7**	**25.1**	**94.8**	**25.1**	**96.3**	**25.0**	**98.3**	**25.5**	**100.6**	**26.1**	**97.9**	**25.0**	**3.1**
Banking institutions	47.0	13.1	46.8	12.2	45.1	11.9	46.6	12.1	47.5	12.3	46.9	12.2	43.5	11.1	-3.6
Others	47.7	13.3	49.8	12.9	49.7	13.1	49.7	12.9	50.8	13.2	53.7	13.9	54.4	13.9	6.6
2. Treasury Bonds	**218.4**	**61.0**	**238.0**	**61.8**	**244.1**	**64.6**	**250.1**	**64.8**	**248.6**	**64.4**	**248.8**	**64.6**	**253.7**	**64.9**	**35.3**
Banking institutions	100.1	28.0	114.6	29.7	117.8	31.2	120.6	31.2	118.8	30.8	119.7	31.1	121.9	31.2	21.8
Others	118.2	33.0	123.4	32.0	126.3	33.4	129.6	33.6	129.8	33.6	129.1	33.5	131.7	33.7	13.5
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**	**-0.3**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	-0.3
4. Pre-1997 Government Overdraft at CBK	**35.5**	**9.9**	**35.5**	**9.2**	**35.5**	**9.4**	**35.5**	**9.2**	**35.5**	**9.2**	**35.5**	**9.2**	**35.5**	**9.1**	**0.0**
Of which: Repo T/Bills	35.5	9.9	35.5	9.2	35.5	9.4	35.5	9.2	35.5	9.2	35.5	9.2	35.5	9.1	0.0
B. Others:	**8.1**	**2.3**	**14.1**	**3.7**	**2.9**	**0.8**	**3.1**	**0.8**	**3.1**	**0.8**	**-0.6**	**-0.1**	**3.0**	**0.8**	**-5.1**
Of which CBK overdraft to Government	5.2	1.5	11.3	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-5.2

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

Source: Central Bank of Kenya

Treasury Bills

As shown in Table 7.2, Treasury bills (excluding Repos) increased from Ksh 94.8 billion in June 2006 to Ksh 97.9 billion in May 2007. However, during the period, the share of Treasury bills in total domestic debt declined from 26.5 percent to 25.0 percent, mainly due to faster growth in the stock of Treasury bonds compared with Treasury bills. Holdings of Treasury bills by commercial banks decreased from Ksh 47.0 billion or 49.6 percent of the overall stock of Treasury bills in June 2006 to Ksh 43.5 billion or 44.4 percent in May 2007 (Table 7.3 and Chart 7B).

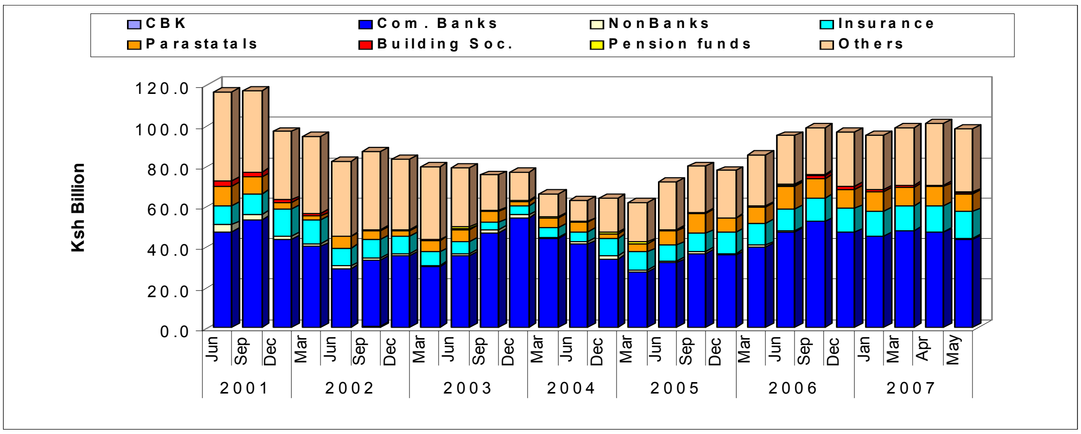
TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

	2006						2007									
Holders	May	%	Jun	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%	May	%
Banking Institutions	46.1	50.0	47.6	50.2	46.8	48.5	45.1	47.6	46.6	48.4	47.8	48.6	47.2	46.9	43.9	44.8
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	45.5	49.3	47.0	49.6	46.8	48.4	45.1	47.6	46.6	48.4	47.5	48.3	46.9	46.6	43.5	44.4
NBFIs	0.7	0.7	0.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.4	0.4
Insurance Companies	11.0	11.9	11.0	11.6	11.9	12.3	12.0	12.7	12.6	13.1	12.4	12.6	12.6	12.5	13.1	13.3
Parastatals	10.8	11.7	11.2	11.9	9.5	9.8	9.6	10.2	9.1	9.5	8.8	8.9	9.6	9.6	9.1	9.3
Of which: NSSF	0.6	0.6	0.6	0.6	0.3	0.3	0.1	0.1	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2
Building Societies	0.5	0.6	0.5	0.6	1.4	1.5	1.4	1.4	1.1	1.1	1.1	1.1	0.9	0.9	0.5	0.5
Pension Funds	0.6	0.6	0.6	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Others	23.3	25.2	23.8	25.1	26.9	27.9	26.6	28.0	26.9	27.9	28.3	28.7	30.2	30.0	31.2	31.9
Total*	92.3	100.0	94.8	100.0	96.7	100.0	94.8	100.0	96.3	100.0	98.3	100.0	100.6	100.0	97.9	100.0

* Excludes repurchase order bills

Source: Central Bank of Kenya

CHART 7B: OUTSTANDING TREASURY BILLS BY HOLDER



Source: Central Bank of Kenya

As shown in Table 7.5, outstanding 182-day Treasury bills increased from Ksh 57.1 billion or 18.2 percent of outstanding Treasury bills and bonds in June 2006 to Ksh 75.6 billion or 21.5 percent in May 2007. As a result, the 182-day Treasury bills comprised the largest proportion of outstanding Treasury bills in May 2007. On the other hand, the share of 91-day Treasury bills in the overall stock of Treasury bills and bonds fell from 12.0 percent to 6.3 percent during the period as investors preferred 182-day Treasury bills due to higher yields.

Treasury Bonds

Treasury bonds increased from Ksh 218.4 billion in June 2006 to Ksh 253.7 in May 2007 (Table 7.2 and Chart 7C). As a result, the share of Treasury bonds in total domestic debt increased from 61.0 percent to 64.9 percent during the period. As shown in Table 7.4, holdings of Treasury bonds by commercial banks increased from Ksh 100.1 billion or 45.9 percent of total bonds in June 2006 to Ksh 121.9

billion or 48.1 percent of outstanding Treasury bonds in May 2007. Similarly, Treasury bonds holdings by non-bank institutions and individuals increased from Ksh 118.3 billion or 54.1 percent of outstanding Treasury bonds in June 2006 to Ksh 131.7 billion or 51.9 percent in May 2007.

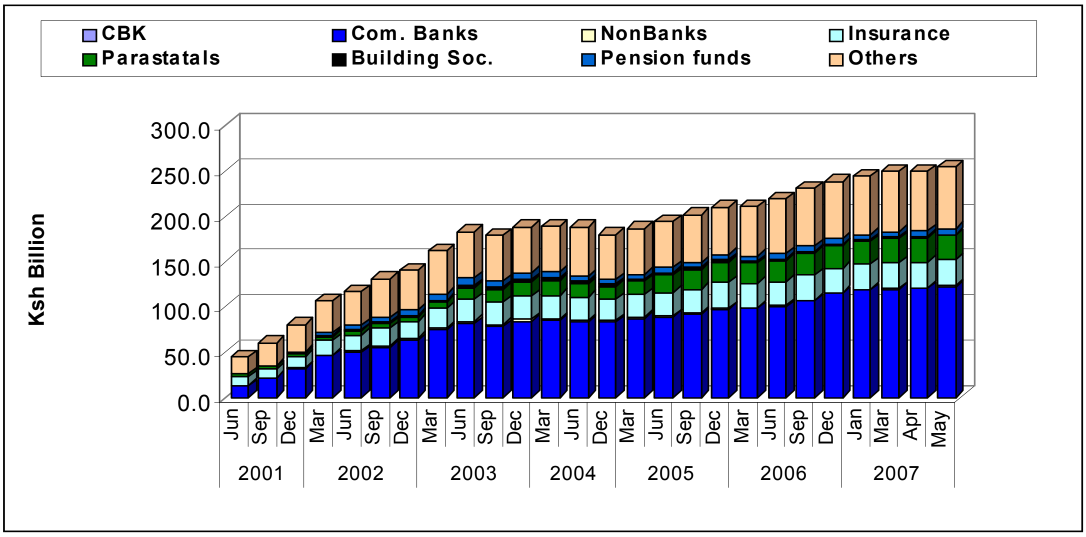
The largest proportion of outstanding Treasury bonds shifted from 2-year bonds in June 2006 to 6-year bonds in May 2007. As shown in Table 7.5, 6-year bonds increased from Ksh 33.1 billion or 10.6 percent of the overall stock of Treasury bonds and bills in June 2006 to Ksh 43.3 billion or 12.3 percent in May 2007. In addition, the average maturity of domestic debt increased from 2.2 years to 2.4 years during the period following the successful issuance 12-year and 15-year Treasury bonds.

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

	2006						2007								
Holders	May	%	Jun	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%	May
Banking Institutions	96.6	44.2	101.0	46.3	115.4	48.5	118.7	48.6	121.4	48.5	119.7	48.1	120.5	48.4	122.8
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
Comm. Banks	95.7	43.8	100.1	45.9	114.6	48.1	117.8	48.3	120.6	48.2	118.8	47.8	119.7	48.1	121.9
NBFIs	0.9	0.4	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
Insurance Companies	26.5	12.1	26.4	12.1	27.0	11.4	27.5	11.3	28.0	11.2	28.5	11.5	28.4	11.4	28.6
Parastatals	22.7	10.4	23.2	10.6	24.8	10.4	26.0	10.6	27.2	10.9	27.0	10.9	27.1	10.9	26.7
Of which: NSSF	4.7	2.1	4.9	2.2	5.4	2.3	6.5	2.6	6.5	2.6	6.5	2.6	6.4	2.6	6.4
Building Societies	1.8	0.8	1.8	0.8	1.5	0.6	1.5	0.6	1.5	0.6	1.5	0.6	1.5	0.6	1.5
Pensions Fund	6.2	2.8	6.2	2.8	5.9	2.5	5.9	2.4	6.0	2.4	6.0	2.4	6.0	2.4	6.1
Others	58.2	26.6	59.8	27.4	63.3	26.6	64.4	26.4	66.0	26.4	65.9	26.5	65.2	26.2	68.1
Total	**212.0**	**97.1**	**218.4**	**100.0**	**238.0**	**100.0**	**244.1**	**100.0**	**250.1**	**100.0**	**248.6**	**100.0**	**248.8**	**100.0**	**253.7**

Source: Central Bank of Kenya

CHART 7C: STOCK OF TREASURY BONDS



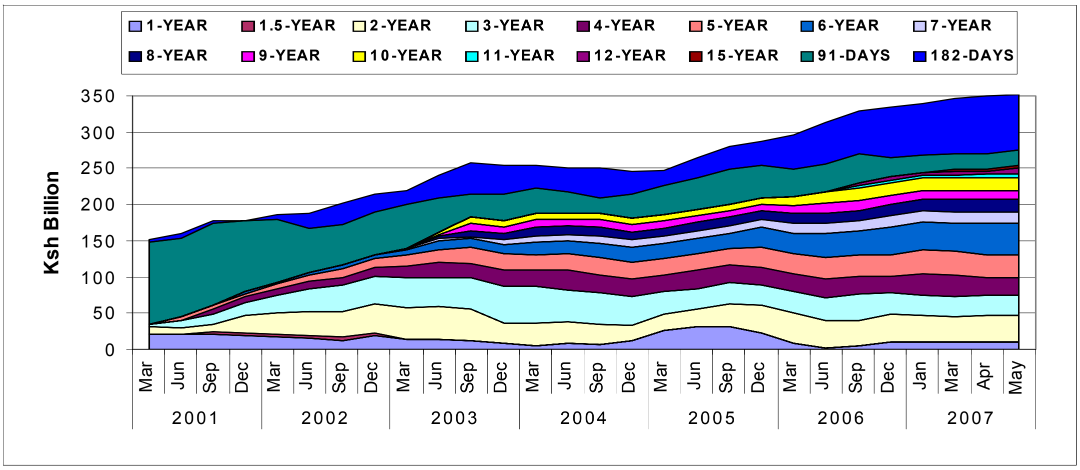
Source: Central Bank of Kenya

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

	2006						2007									
	May	%	Jun	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%	May	%
91-Day	38.6	12.7	37.6	12.0	26.1	7.8	24.1	7.1	21.7	6.3	20.8	6.0	21.5	6.1	22.2	6.3
182-Day	53.7	17.7	57.1	18.2	70.6	21.1	70.7	20.9	74.5	21.5	77.5	22.3	79.1	22.6	75.6	21.5
1-Year	2.9	0.9	1.0	0.3	9.7	2.9	9.7	2.9	9.7	2.8	9.7	2.8	9.7	2.8	9.7	2.8
2-Year	38.7	12.7	39.7	12.7	39.3	11.7	37.0	10.9	37.0	10.7	35.6	10.3	37.7	10.8	37.7	10.7
3-Year	30.0	9.9	31.3	10.0	28.6	8.5	28.6	8.4	28.6	8.2	28.6	8.2	27.2	7.8	27.2	7.7
4-Year	26.3	8.6	26.3	8.4	23.4	7.0	29.1	8.6	32.4	9.4	29.6	8.5	24.0	6.9	24.0	6.8
5-Year	28.4	9.3	28.4	9.1	30.0	9.0	32.8	9.7	32.8	9.5	31.8	9.2	31.8	9.1	31.8	9.0
6-Year	27.1	8.9	33.1	10.6	38.1	11.4	38.1	11.3	38.1	11.0	38.1	11.0	43.3	12.4	43.3	12.3
7-Year	13.6	4.5	13.6	4.3	15.9	4.7	15.9	4.7	15.9	4.6	15.9	4.6	15.9	4.5	15.9	4.5
8-Year	15.3	5.0	15.3	4.9	15.3	4.6	15.3	4.5	17.9	5.2	17.9	5.2	17.9	5.1	17.9	5.1
9-Year	12.6	4.1	12.6	4.0	12.6	3.8	12.6	3.7	12.6	3.6	12.6	3.6	12.6	3.6	12.6	3.6
10-Year	17.1	5.6	17.1	5.5	17.1	5.1	17.1	5.0	17.1	4.9	17.1	4.9	17.1	4.9	17.1	4.9
11-Year	0.0	0.0	0.0	0.0	4.0	1.2	4.0	1.2	4.0	1.2	4.0	1.2	4.0	1.2	4.0	1.1
12-Year	0.0	0.0	0.0	0.0	3.9	1.2	3.9	1.2	3.9	1.1	3.9	1.1	3.9	1.1	8.8	2.5
15-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.7	1.1	3.7	1.0	3.7	1.0
Total	**304.3**	**100.0**	**313.1**	**100.0**	**334.7**	**100.0**	**338.9**	**100.0**	**346.4**	**100.0**	**346.9**	**100.0**	**349.4**	**100.0**	**351.5**	**100.0**

Source: Central Bank of Kenya

CHART 7D: OUTSTANDING TREASURY BILLS AND BONDS



Source: Central Bank of Kenya

Long-term Stocks

Following redemption of Government long-term stocks totalling Ksh 0.3 billion in December 2006, the stocks decreased from Ksh 1.1 billion in June 2006 to Ksh 0.8 billion in May 2007. Consequently, the proportion of the long-term stocks in overall domestic debt declined from 0.3 percent to 0.2 percent during the period. The National Social Security Fund (NSSF) held 54.2 percent of the outstanding stocks in May 2007 while insurance companies, other public enterprises and individuals held the remaining 45.8 percent.

Maturity Profile of Treasury Bills and Bonds

Treasury bills and bonds totalling Ksh 63.6 billion and Ksh 19.7 billion, respectively, will mature between June and August 2007. The Treasury bill maturities during the period will comprise Ksh 22.6 billion and Ksh 41.0 billion in 91-day and 182-day Treasury bills, respectively. Treasury bonds maturities during the period will comprise Ksh 4.6 billion in 1-year bonds, Ksh 2.2 billion in 2-year bonds, Ksh 3.2 billion in 3-year bonds, Ksh 4.7 billion in 4-year bonds and Ksh 5.0 billion in 5-year bonds.

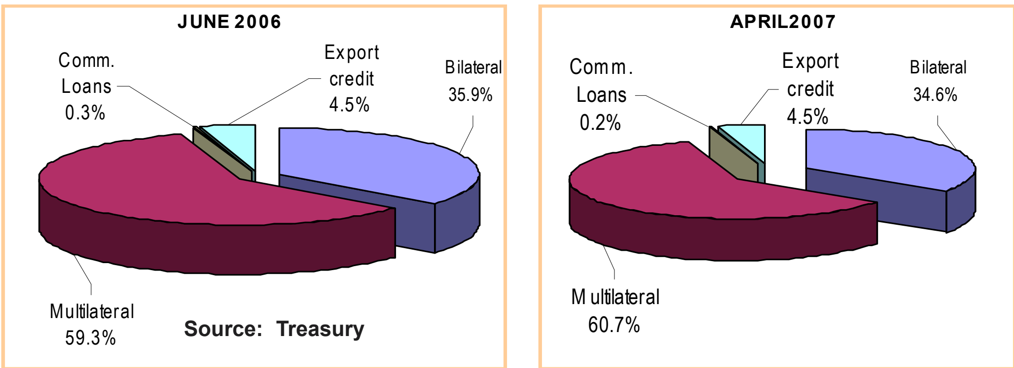
External Debt

Kenya's external public and publicly guaranteed debt fell by Ksh 11.5 billion or 2.7 percent from Ksh 431.2 billion in June 2006 to Ksh 419.7 billion in May 2007. However, in foreign currency terms, the debt increased from USD 5.8 billion in June 2006 to USD 6.3 billion in May 2007. The decline in external debt (in shillings) during the period was attributed to principal repayments of Ksh 11.9 billion and revaluation gains on the debt totalling Ksh 10.3 billion, which were partly offset by external loan disbursements amounting to Ksh 10.7 billion. The decline in external debt during the period was, therefore, attributed mainly to the strengthening of the Kenya shilling. The disbursements during the period included the Ksh 3.9 billion (SDR 37.5 million or USD 56.8 million) IMF programme loan disbursement to the Government in April 2007.

Composition of External Debt by Creditor

The proportion of external debt owed to multilateral creditors increased from 59.3 percent in June 2006 to 60.7 percent in May 2007 (Chart 7E). The rise in the proportion of multilateral debt in total external debt in the period was partly attributed to the Ksh 3.9 billion loan disbursement from the IMF in April 2007. However, the share of external debt owed to bilateral creditors and commercial banks dropped from 35.9 percent and 0.3 percent, respectively, to 34.6 percent and 0.2 percent, respectively, during the period. The share of external debt contracted through export credits remained at the end June 2006 position of 4.5 percent.

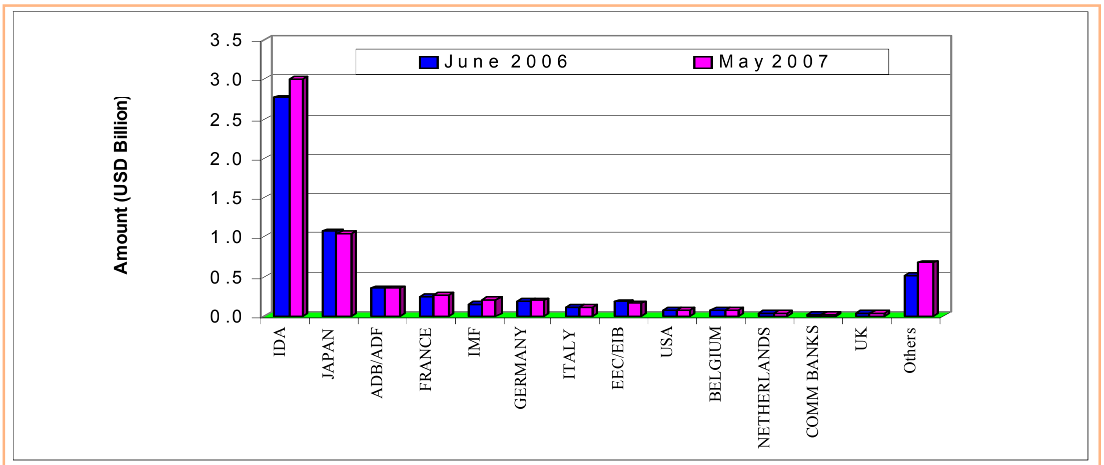
CHART 7E: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

The largest proportion of external debt in May 2007 was owed to the International Development Association (IDA) and Japan with outstanding loans of USD 3.0 billion and USD 1.0 billion, respectively. As shown in Chart 7F, the debt owed to IDA and Japan stood at USD 2.8 billion and USD 1.1 billion respectively in June 2006.

CHART 7F: EXTERNAL DEBT BY CREDITOR

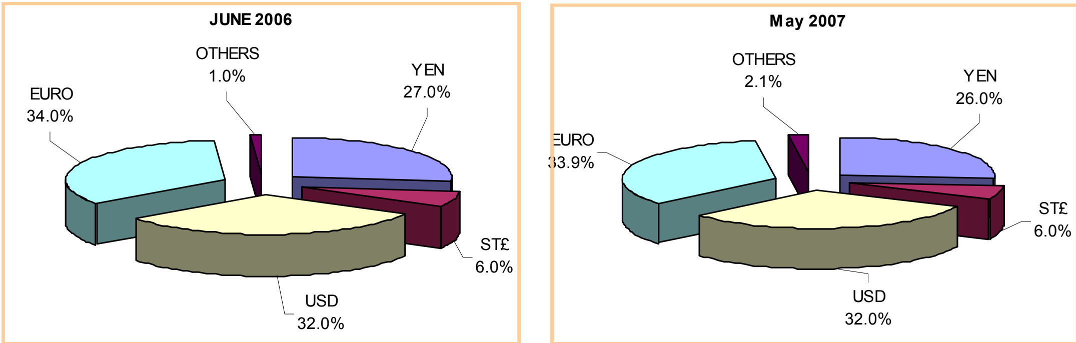


Source: Treasury

Currency Composition of External Debt

The proportion of external debt held in Euros dropped from a revised position of 34.0 percent in June 2006 to 33.9 percent in May 2007 while the debt held in US dollars and Sterling Pounds remained unchanged at 32.0 percent and 6.0 percent, respectively, in June 2006. However, the share of external debt held in other currencies including the IMF Special Drawing Rights (SDRs) increased from 1.0 percent in June 2006 to 2.1 percent in May 2007. This development was partly attributed to the Ksh 3.9 billion loan disbursement from the IMF in April 2007 already referred to above.

CHART 7G: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt during the first eleven months of the fiscal year 2006/07 amounted to Ksh 33.7 billion compared with Ksh 28.4 billion in a similar period in the previous fiscal year. However, the proportion of domestic interest payments in ordinary revenue during the period remained unchanged at 10.4 percent in a similar period in the previous fiscal year. The rise in domestic interest payments during the period was attributed mainly to the significant rise in the stock of Treasury bonds as interest rates were lower on average compared with those in similar period in the previous year.

During the first eleven months of the fiscal year 2006/07, external debt service amounted to Ksh 17.3 billion or 5.3 percent of revenue compared with Ksh 12.2 billion or 4.5 percent of the revenue in a similar period in the fiscal year 2005/06. The external debt service in the first eleven months of the fiscal year 2006/07 comprised Ksh 11.9 billion in principal repayments and Ksh 5.4 billion in interest and other charges.

Outlook for the Fiscal Year 2007/08

The Government plans to borrow Ksh 34.0 billion and Ksh 39.8 billion from the domestic market and external sources, respectively, during the fiscal year 2007/08. However, as stipulated in the Budget Strategy Paper for 2007/08 to 2009/10, gross domestic debt to GDP ratio in June 2008 is projected to remain at the end June 2007 position of 22.4 percent due to the fact that GDP is projected to grow at a faster rate compared with the growth in domestic debt. External debt, on the other hand, 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

The Nairobi Stock Exchange (NSE) was robust throughout July 2007. Turnover improved from Ksh 6.2 billion in June 2007 to Ksh 6.4 billion in July 2007. The NSE 20 Share Index increased from 5,146.7 points in June 2007 to 5,340.1 points in July 2007, reflecting improved trading and price increases in the index- linked counters. Shares traded increased by 11.5 percent, from 151.1 million in June to 168.6 million in July 2007, while market capitalization increased by Ksh 36.8 billion from Ksh 743.9 billion in June 2007 to Ksh 780.7 billion in July 2007. Market liquidity, measured by the ratio of shares traded to the total shares outstanding, improved from 1.2 percent in June to 1.3 percent in July 2007. The improvement in performance at the equity market was mainly attributed to the shares split in June which increased the number of shares available for trading at lower prices (Table 8.1 and Chart 8A).

TABLE 8.1: SELECTED STOCK MARKET INDICATORS, 2005 - 2007

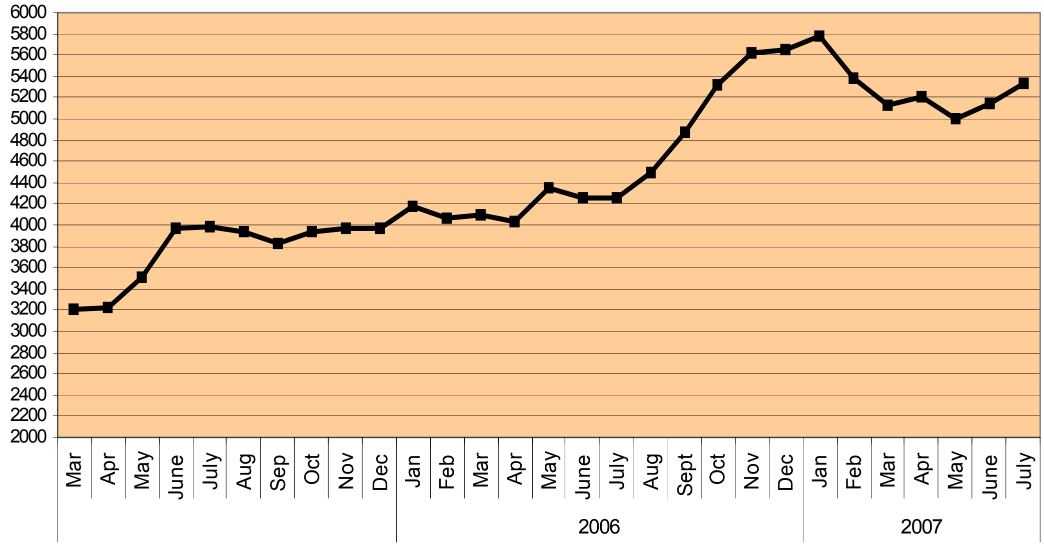
Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
Jan 06	4,171.80	143.50	6,146.38	481.29	1,054.90
Feb 06	4,056.63	61.95	3,392.49	469.66	4,696.25
Mar 06	4,101.64	69.20	3,692.22	484.18	2,859.70
Apr 06	4,025.21	57.28	2,861.62	486.78	6,002.15
May 06	4,349.75	183.46	11,437.33	614.90	4,783.25
June 06	4,260.49	142.02	8,441.65	623.20	8,128.35
July 06	4,258.54	93.45	5,593.89	615.09	7,383.50
August 06	4,486.07	117.80	8,497.88	668.67	6,440.40
September 06	4,879.86	177.42	12,377.72	726.78	1,497.00
October 06	5,314.36	161.25	13,089.36	771.70	1,872.06
November 06	5,615.20	169.47	13,648.68	806.23	2,847.80
December 06	5,645.65	77.42	5,770.67	791.58	1,009.50
January 07	5,774.24	136.31	10,482.89	824.29	1,601.75
February 07	5,387.28	109.08	7,763.86	723.66	6,234.20
March 07	5,133.67	114.27	6,955.35	696.92	7,789.26
April 07	5,199.44	87.45	4,342.38	701.98	6,266.30
May 07	5,001.77	123.72	6,224.92	709.69	9,555.15
Jun 07	5,146.73	151.11	6,079.43	743.91	10,077.70
July 07	5,340.08	168.57	6,442.34	780.72	8,242.80

Source: Nairobi Stock Exchange

Bond Market

Trading at the bond market declined in July 2007 as bonds worth Ksh 7.8 billion were traded compared with Ksh 10.1 billion traded in June 2007.

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



Source: Nairobi Stock Exchange

The Finance and Investment sector was the most active in the Main Investment Market Segment as it traded 73.5 million shares representing 43.6 percent of the traded volume in July 2007. The most traded stocks in the sector were KCB (43.2 million) and ICDC Investment (10.2 million) shares. The Industrial and Allied sector transacted 49.8 million shares and accounted for 29.5 percent of total market trading in July 2007. The most traded stocks in the sector included KenGen (21.8 million shares) and Eveready East Africa (5.4 million shares). The Commercial and Services sector traded 42 million shares and accounted for 25 percent of the total traded volume, with the most active stocks being CMC Holdings (18.7 million) and Access Kenya (15.4 million) shares respectively.

The Alternative Investment Market Segment (AIMS) had 1.4 million shares traded and contributed 1 percent to total traded volume. Express Kenya was the most active counter, trading 1.3 million of the shares traded.

Balance Sheet of the Central Bank of Kenya

(Kenya shillings million)

	Jun-07	Jun-06	June 06/June 07 Movement
ASSETS	**223,763**	**226,603**	**-2,840**
Foreign Exchange	180,883	172,997	**7,886**
Advances and Discounts to Banks	0	5	**-5**
Investment in Government Securities	4	1	**3**
Government Accounts	37,588	43,226	**-5,638**
Overdraft to Government	41	5,202	**-5,161**
Clearing Account	588	537	**51**
IMF funds on-lent to Government	1,410	1,938	**-528**
Non-interest Bearing Government Debt	35,549	35,549	**0**
Other assets	5,288	10,364	**-5,076**
Debtors	3,952	8,979	**-5,027**
Retirement Benefits	394	394	**0**
Property and Equipment	660	706	**-46**
Prepaid Leases	282	285	**-3**
LIABILITIES	**223,763**	**214,221**	**9,542**
Currency in Circulation	89,829	76,207	**13,622**
Repo Securities	15,626	23,342	**-7,716**
Deposits	107,088	102,030	**5,058**
Commercial Banks			
Kenya	39,441	31,661	**7,780**
External	25	20	**5**
Non-Bank Financial Institutions	119	119	**0**
IMF	15,742	13,588	**2,154**
Government	41,067	59,178	**-18,111**
Other Public Entities and Project A/Cs	9,244	8,687	**557**
Local Banks Forex Settlement Fund	1,450	1,159	**291**
Other Liabilities and Provisions	1,705	997	**708**
Capital and Reserves	9,515	11,645	**-2,130**
Capital	1,500	1,500	**0**
General Reserve Fund	8,145	8,145	**0**
Period's Surplus	-130	0	**-130**
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 7,886 million from Ksh 172,997 million in June 2006 to Ksh 180,883 million in June 2007, reflecting forex purchases from the interbank market.

Investment in Government Securities increased by Ksh 3 million from Ksh 1 million in June 2006 to Ksh 4 million in June 2007.

Government accounts declined by Ksh 5,638 million from Ksh 43,226 million in June 2006 to Ksh 37,588 million in June 2007. This followed Ksh 5,161 million overdraft repayment and decline in the value of IMF funds on-lent to government by Ksh 528 million which were partly offset by Ksh 51 million increases in clearing account balances at the Bank. However, non-interest bearing government debt remained unchanged at Ksh 35,549 million in June 2007.

Other assets decreased by Ksh 5,076 million from Ksh 10,364 million in June 2006 to Ksh 5,288 million in June 2007. This was as a result of decrease in the value of debtors of the Bank by Ksh 5,027 million, Ksh 46 million declines in the value of property and equipment and Ksh 3 decline in prepaid leases. However, value of retirement benefits remained unchanged.

Liabilities

Currency in circulation increased by Ksh 13,622 million from Ksh 76,207 million in June 2006 to Ksh 89,829 million in June 2007.

The stock of **repo securities** declined by Ksh 7,716 million from Ksh 23,342 million in June 2006 to Ksh 15,626 million in June 2007.

Deposits increased by Ksh 5,058 million from Ksh 102,030 million in June 2006 to Ksh 107,088 million in June 2007. This was mainly due to increase in commercial banks' deposits at the Central Bank by Ksh 7,780 million, increase in other public entities and project account deposits by Ksh 557 million, IMF liabilities with the Bank also increased by Ksh 2,154 million and Ksh 291 million increases in local banks forex settlement balances which were partly offset by Ksh 18,111 million decreases in Government of Kenya deposits.

Other liabilities and provisions increased by Ksh 708 million from Ksh 997 million in June 2006 to Ksh 1,705 million in June 2007.

Capital and reserves decreased by Ksh 2,130 million from Ksh 11,645 million in June 2006 to Ksh 8,145 million in June 2007 mainly due to Ksh 2,000 million decreases in Dividend payable during the year to June 2007 and Ksh 130 million decrease in the period surplus during the financial year.