MONTHLY ECONOMIC REVIEW

March 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

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Overview

Introduction

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

GDP Growth

Leading economic indicators in January 2007 show that the economy continues on a steady growth path in 2007. The economy is estimated to have grown by 6 percent in 2006 compared with 5.8 percent in 2005.

Inflation

Overall inflation decelerated to 5.9 percent in March 2007 from 6.8 percent in February 2007 mainly on account of lower inflation in the Food and Non-alcoholic Drinks, Fuel and Power, and Transport and Communication categories.

Government Fiscal Operations

Increased Government expenditure on commitment basis in the first seven months of the fiscal year 2006/07, resulted in a budget deficit of Ksh 18.2 billion or 1.1 percent of GDP. This was, however, within the revised target of Ksh 43.8 billion or 2.6 percent of GDP for the period.

Public Debt Developments

Kenya's overall debt stock fell from 50.3 percent of GDP in June 2006 to 47.5 percent in January 2007. External debt declined from 27.5 percent to 24.9 percent of GDP while domestic debt fell from 22.8 percent of GDP to 22.6 percent in the period.

Monetary Expansion

Money supply, M3[1], increased by 16.8 percent in February 2007 compared with 12 percent in February 2006. However, the M3 growth in February 2007 was lower than 17.8 percent in January 2007. The expansion in M3 in February 2007 originated from increased net foreign assets (NFA) and net domestic assets (NDA) of the banking system which grew by 27.8 percent and 12 percent, respectively.

Interest Rates

Short-term interest rates were higher in February 2007 than in January 2007. The average 91-day Treasury bill rate rose from 6.0 percent in January 2007 to 6.2 percent in February 2007, while the interbank rate increased from 6.4 percent to 6.5 percent.

Balance of Payments

The surplus in the overall balance of payments rose from US$ 530 million in the year to January 2006 to US$ 612 million in the year to January 2007, reflecting higher surplus in the capital and financial account which more than financed the wider current account deficit.

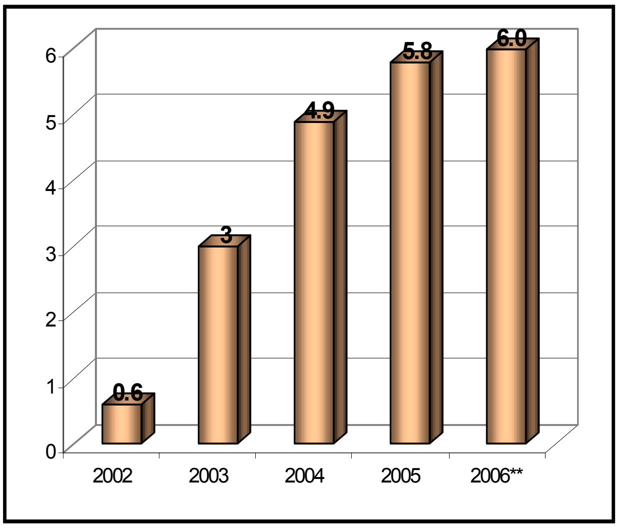
Exchange Rates

The Kenya shilling appreciated against the US dollar and the Sterling Pound in March 2007 but depreciated against the Euro and the Japanese Yen. Against the US dollar, the shilling exchanged at Ksh 69.3 in March 2007 compared with Ksh 69.6 in February 2007. The shilling depreciated against the Uganda and Tanzania shillings.

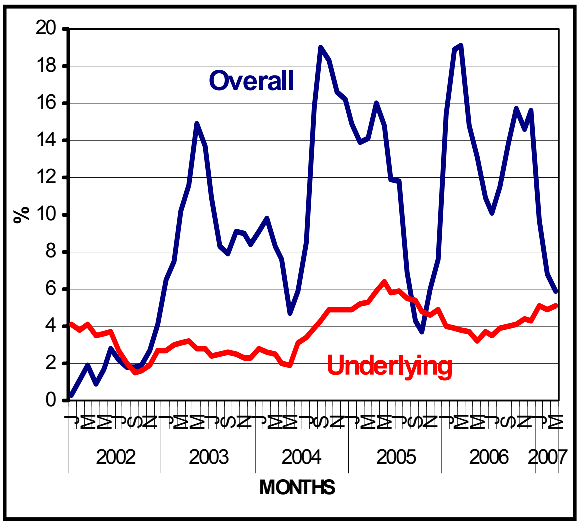
[1] Effective January 2006, the CBK adopted a harmonized definition of monetary aggregates to conform to those of the East African Community (EAC) member countries. Consequently, M3X, the intermediate target of monetary policy in Kenya under the reserve money programme has been renamed broad money M3.

SELECTED ECONOMIC PERFORMANCE INDICATORS

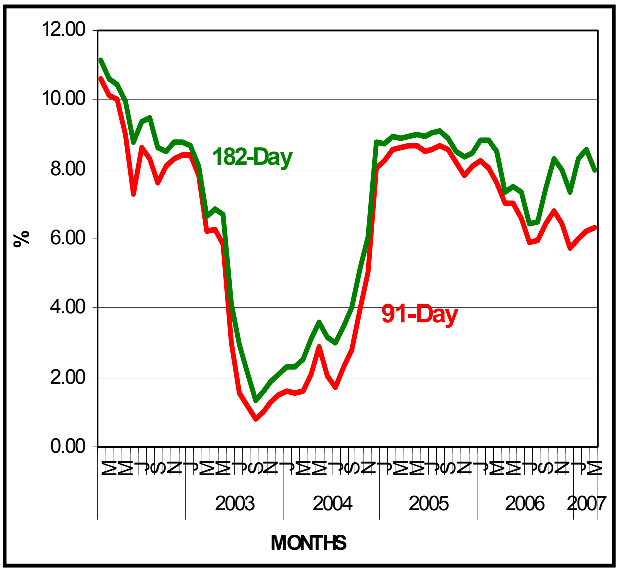
Real GDP Growth



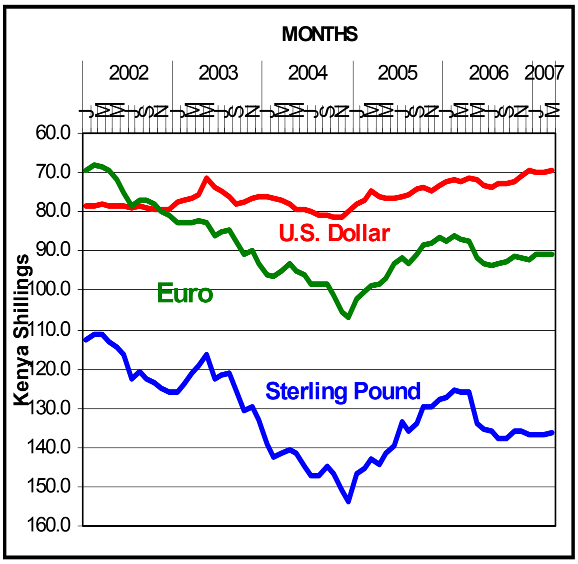
Inflation



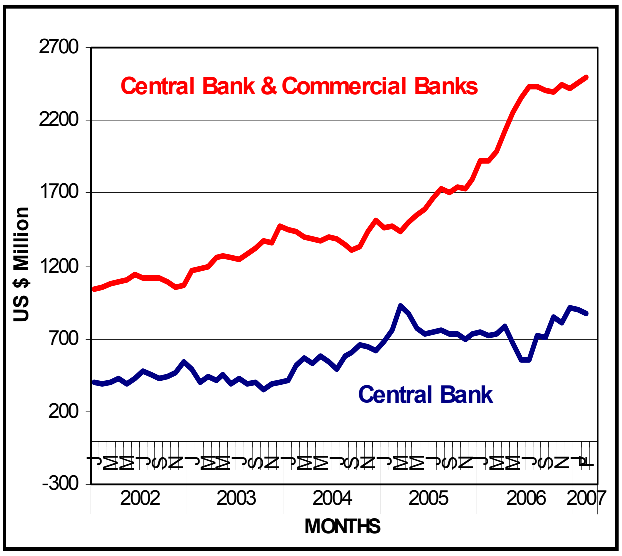
Treasury Bill Rates



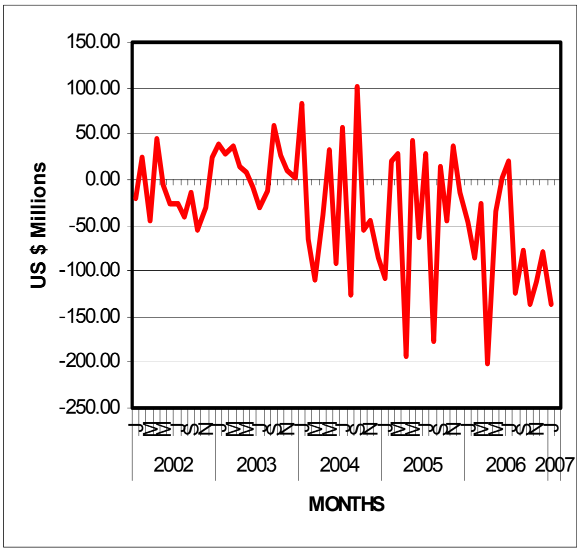
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS, 1998 - 2005

	INDICATOR	1998	1999	2000	2001	2002	2003	2004	2005
1.	**POPULATION***								
	People in Millions	28.88	29.54	29.53	30.90	31.50	32.20	32.80	33.40
	Growth (%)	2.31	2.29	3.00	4.64	1.94	2.22	2.54	2.50
2.	**NATIONAL ACCOUNTS****								
	GDP at Basic Prices (Ksh m)	850.81	906.93	858,919	906,874	905,748	1,010,939	1,142,799	1,291,227
	GDP at Market Prices (Kshs m):								
	At Current Prices	844.38	867.18	967,838	1,020,022	1,022,208	1,136,288	1,282,504	1,415,155
	At Constant 2001 Market Prices	955.18	977.00	982,855	1,020,022	1,025,854	1,056,454	1,107,715	1,172,090
	Real GDP Growth (%)	3.30	2.30	0.60	4.50	0.60	3.00	4.90	5.80
	Per Capita Income Real 2001 prices (Ksh)	333.60	296.60	33,283	33,767	32,549	32,845	33,764	35,045
3.	**GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)**	**9.77**	**10.88**	**10.6**	**13.9**	**13.2**	**9.9**	**13.2**	**10.8**
4.	**GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)**	**17.30**	**16.20**	**17.4**	**18.8**	**15.3**	**16.4**	**16.9**	**16.8**
5.	**CONSUMER PRICE INFLATION (URBAN) 1997 BASE**								
	Average Annual Inflation	6.70	5.60	10.01	5.87	1.96	9.82	11.62	10.31
	Twelve-month Inflation (Dec-Dec)	0.67	10.43	11.89	1.57	4.27	8.35	16.25	18.87
6.	**STOCK MARKET**								
	Nairobi Stock Exchange Price Index (1966=100)	2,963.10	2,303.20	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04
	Trade Turnover (%)	0.40	0.23	0.17	0.17	0.50	0.89	0.92	0.88
7.	**GOVERNMENT BUDGET (Ksh bn) *****								
	Revenue and Grants	184.87	201.18	182.69	216.39	203.44	225.69	270.91	304.71
	Expenditure	194.97	197.34	175.12	232.92	225.76	264.14	282.19	303.71
	Budget Deficit (-) / Surplus (+)	-10.10	3.84	7.57	-16.53	-22.32	-38.45	-11.28	1.00
	Budget Deficit (% of GDP)	-1.25	0.44	0.81	-1.66	-2.19	-3.56	-0.93	0.07
8.	**MONEY AND CREDIT (Ksh bn)(end period)**								
	Liquidity (L)[1]	381.35	414.43	435.47	462.13	521.20	569.43	633.92	712.32
	Money Supply (M3)[2]	328.32	345.73	360.01	368.39	406.01	453.35	513.16	565.49
	Reserve Money	74.99	78.99	77.73	79.12	88.45	87.52	101.05	106.23
	Total Domestic Credit	**350.60**	**358.48**	**331.29**	**334.00**	**364.93**	**405.20**	**473.61**	**498.66**
	Government	91.10	84.13	76.45	89.08	108.61	133.85	132.34	122.16
	Others	260.60	274.35	254.85	244.93	256.33	271.41	341.27	376.50
9.	**BALANCE OF PAYMENTS (US$ m)****								
	Overall Balance	**-4.80**	**5.80**	**108.20**	**166.38**	**3.26**	**413.33**	**38.85**	**280.12**
	Current Account	-475.10	-89.60	-237.50	-383.39	-117.69	146.20	-353.30	-495.04
	Capital and Financial Account	617.50	263.80	416.22	348.20	-31.67	537.82	239.52	765.90
10.	**FOREIGN EXCHANGE RESERVES (US$ m) END PERIOD**	**1,100.00**	**1,104.00**	**1,398.72**	**1,459.35**	**1,612.69**	**1,888.04**	**2,078.40**	**2,534.16**
	Official	782.00	789.00	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82
	*Months of imports**** *	*(2.5)*	*(2.9)*	*(2.8)*	*(3.2)*	*(3.3)*	*(4.2)*	*(3.4)*	*(3.3)*
	Commercial Banks	328.00	315.00	501.30	395.53	545.70	408.28	559.67	735.34
11.	**PUBLIC DEBT (US$ bn) END PERIOD*****	**8.45**	**8.00**	**7.58**	**7.85**	**8.09**	**9.29**	**9.14**	**9.84**
	Domestic	3.00	2.60	2.50	2.80	3.30	3.90	3.85	4.14
	As % of GDP	*22.01*	*21.84*	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*
	External	*5.45*	*5.40*	*5.08*	*5.05*	*4.79*	*5.39*	*5.29*	*5.69*
	As % of GDP	*39.99*	*45.36*	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.17*
12.	**EXCHANGE RATE (Ksh/US$) (ANNUAL AVERAGE)**	**60.40**	**70.30**	**76.20**	**78.60**	**78.70**	**75.93**	**79.28**	**75.55**

* Provisional.

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

*** Fiscal year to June 30th.

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

[1] Previously M3XT

[2] Previously M3X

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

SELECTED MONTHLY ECONOMIC INDICATORS

	2005		2006										2007		
INDICATOR	Jun	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
1. INFLATION (%)															
CPI	**182.51**	**185.18**	**212.80**	**210.69**	**208.62**	**202.45**	**199.52**	**200.94**	**204.22**	**208.04**	**208.60**	**214.05**	**220.72**	**223.59**	**225.3**
Overall Inflation															
12-month overall inflation	11.91	7.56	19.14	14.85	13.09	10.93	10.15	11.50	13.85	15.69	14.64	15.59	9.67	6.81	5.87
Average annual overall inflation	14.97	10.31	11.36	11.31	11.20	11.12	10.99	11.35	12.13	13.11	13.81	14.45	13.94	12.88	11.73
Underlying Inflation*															
12-month underlying inflation	5.79	4.94	3.82	3.66	3.18	3.68	3.55	3.92	4.02	4.11	4.39	4.32	5.15	4.92	5.13
Average annual underlying inflation	5.01	5.40	4.89	4.89	4.62	4.44	4.23	4.12	4.09	3.95	3.93	3.88	3.98	4.06	4.18
2. INTEREST RATES (%)															
91-day Treasury bill interest rate	8.50	8.07	7.60	7.02	7.01	6.60	5.89	5.96	6.45	6.83	6.41	5.73	6.00	6.22	6.32
Overdraft interest rate	13.83	13.67	13.26	13.81	14.02	13.78	13.48	13.43	13.42	13.94	13.96	13.91	14.11	14.05	
3. STOCK MARKET															
Nairobi Stock Exchange Price Index	3,972.2	3,973.0	4,101.64	4,025.20	4,349.25	4,260.49	4,258.54	4,486.07	4,879.86	5,314.36	5,615.20	5,645.65	5,774.24	5,387.28	
Turnover (%)	2.00	1.64	1.31	1.08	2.45	1.90	1.25	1.49	2.24	2.04	1.87	0.83	1.38	1.05	
4. GOVERNMENT BUDGET** (Ksh bn.)															
Revenue	304.7	148.3	229.95	253.12	295.93	327.80	22.91	47.90	77.73	107.86	137.32	170.16	201.48		
Expenses	303.4	179.2	268.55	292.60	337.04	383.00	25.91	59.36	94.57	128.57	161.38	194.39	219.73		
Budget Deficit (-) / Surplus (+)	**1.33**	**-30.90**	**(38.60)**	**(39.48)**	**(41.11)**	**(55.20)**	**(3.00)**	**(11.46)**	**(16.84)**	**(20.71)**	**(24.06)**	**(24.23)**	**(18.24)**		
5. MONEY AND CREDIT (Ksh bn.)															
Liquidity (L)¹	663.8	712.3	738.22	758.95	760.70	771.09	783.65	792.91	802.83	811.23	820.81	834.16	839.31	839.14	
Money Supply (M3)²	526.8	565.5	587.56	606.67	603.92	611.22	625.90	628.92	638.69	649.47	658.47	666.84	669.37	673.21	
Reserve Money	94.6	106.2	102.76	107.04	102.45	107.68	108.95	111.21	112.03	113.93	117.27	124.16	118.85	119.90	
Total Domestic Credit	**466.3**	**498.7**	**520.17**	**527.52**	**524.53**	**525.85**	**553.50**	**541.33**	**545.34**	**561.10**	**575.97**	**575.76**	**581.97**	**584.11**	
Government	112.3	122.2	126.20	123.74	121.73	117.89	134.86	131.40	130.61	139.69	146.44	137.81	137.25	134.25	
Private sector and other public sector	354.0	376.5	382.24	403.79	402.80	407.96	412.13	409.92	414.73	421.41	429.53	437.94	444.72	449.86	
6. MONEY AND CREDIT (Annual % Change)															
Liquidity (L)¹	12.4	12.4	13.91	16.66	16.55	16.20	15.76	15.17	16.62	16.00	16.82	17.11	17.16	15.65	
Money Supply (M3)²	11.3	10.2	12.46	16.82	16.84	16.03	17.20	15.82	17.42	17.01	17.87	17.92	17.82	16.79	
Reserve Money	4.8	5.1	9.77	14.23	9.69	14.01	14.61	16.95	16.79	13.62	15.30	16.88	16.01	18.37	
Total Domestic Credit	**7.8**	**5.3**	**9.02**	**12.95**	**10.66**	**12.78**	**16.49**	**14.18**	**13.23**	**14.13**	**14.96**	**15.46**	**16.85**	**15.72**	
Government	-19.3	-7.7	(0.75)	7.09	1.93	4.98	20.74	14.42	9.94	14.34	16.38	12.81	16.21	14.87	
Private and other public sector	20.6	10.3	12.81	14.86	13.60	15.25	16.60	14.31	14.13	13.27	14.48	16.32	17.05	15.98	
7. BALANCE OF PAYMENTS (US$ m)															
Overall Balance	**47.41**	**73.11**	**67.54**	**143.75**	**142.60**	**105.03**	**80.77**	**9.45**	**(22.77)**	**5.26**	**46.48**	**(19.91)**	**52.88**		
Current Account	(63.58)	(13.59)	(26.83)	(200.96)	(34.45)	0.86	20.53	(123.23)	(76.45)	(135.58)	(110.93)	(80.23)	(135.82)		
Trade Balance	(278.90)	(253.08)	(270.80)	(411.85)	(293.11)	(279.55)	(226.30)	(364.66)	(310.34)	(387.01)	(369.77)	(364.63)	(392.31)		
Capital and Financial Account	110.99	86.70	94.37	344.71	177.05	104.17	60.24	132.68	53.68	140.84	157.41	60.33	188.70		
8. FOREIGN EXCHANGE RESERVES (US$ m)	2,326.8	2,534.2	2,718.44	2,910.54	2,921.57	2,909.42	2,987.33	3,149.13	3,113.30	3,252.44	3,250.06	3,331.30	3,284.30	3,381.13	
Official***	1586.86	1798.82	1,981.35	2,119.76	2,253.30	2,352.99	2,428.42	2,430.51	2,402.41	2,399.37	2,440.52	2,415.27	2,462.82	2,500.95	
Months of imports cover	*3.13*	*3.30*	*3.44*	*3.68*	*3.85*	*4.02*	*4.07*	*4.01*	*3.88*	*3.79*	*3.73*	*3.63*	*3.63*	*3.69*	
Commercial banks	739.98	735.34	737.09	790.78	668.27	556.42	558.91	718.62	710.89	853.07	809.54	916.03	821.48	880.18	
9. PUBLIC DEBT (US$ bn)	**9.84**	**10.28**	**10.48**	**10.61**	**10.46**	**10.68**	**10.81**	**11.00**	**10.97**	**11.11**	**11.52**	**11.24**	**11.29**		
Domestic	4.14	4.63	4.81	4.89	4.84	4.84	4.96	5.07	5.16	5.21	5.45	5.46	5.36		
As % of GDP	*23.40*	*24.10*	*24.53*	*24.56*	*24.53*	*22.83*	*23.05*	*23.02*	*23.02*	*23.04*	*23.16*	*23.19*	*24.90*		
External	*5.69*	*5.65*	*5.66*	*5.71*	*5.62*	*5.84*	*5.85*	*5.94*	*5.81*	*5.89*	*6.08*	*5.78*	*5.93*		
As % of GDP	*32.17*	*29.39*	*28.85*	*28.67*	*28.53*	*27.47*	*27.21*	*26.97*	*26.18*	*26.04*	*25.83*	*24.55*	*22.60*		
10. GROSS DOMESTIC DEBT (Ksh bn)****	**315.57**	**335.00**	**346.06**	**348.22**	**349.49**	**357.84**	**364.84**	**367.96**	**371.59**	**375.52**	**381.03**	**385.10**	**378.10**	**385.80**	
11. AVERAGE EXCHANGE RATE															
Ksh/US$	76.7	73.1	72.28	71.30	71.80	73.41	73.66	72.87	72.87	72.29	71.13	69.63	69.88	69.62	69.3
Ksh/Pound Sterling	139.5	127.6	126.13	125.84	134.10	135.37	135.78	137.85	137.59	135.58	135.89	136.79	136.91	136.40	134.9
Ksh/ 100 Yen	70.6	61.6	61.63	60.94	64.20	64.03	63.71	62.89	62.26	60.95	60.65	59.47	58.09	57.76	59.1
Ksh/Euro	93.2	86.7	86.90	87.45	91.60	92.96	93.50	93.34	92.86	91.26	91.58	92.03	90.87	91.04	91.8

* Overall inflation excluding food, energy and transport and communications

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

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

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

¹ Previously M3XT

² Previously M3X

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

TRENDS IN VARIOUS MEASURES OF INFLATION

Overall Inflation

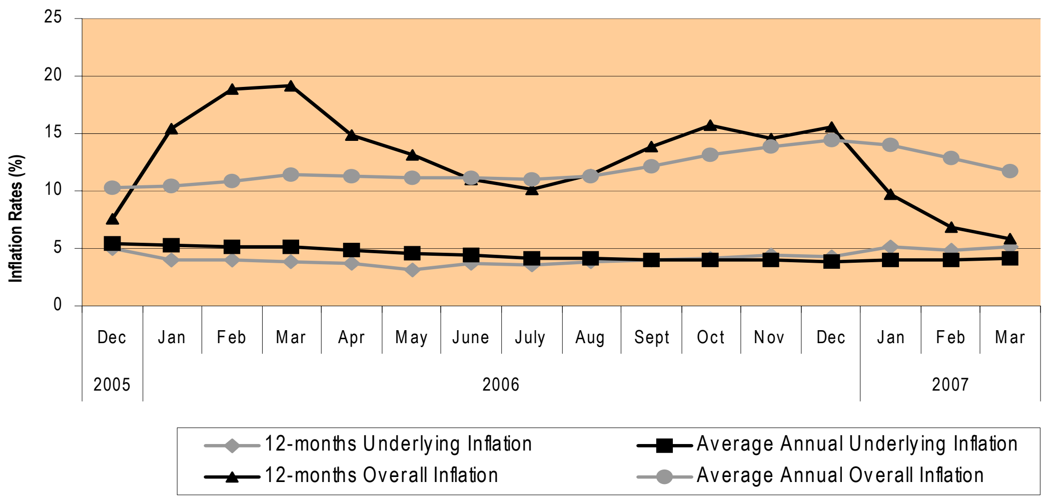
Month-on-month inflation decelerated from 6.8 percent in February 2007 to 5.9 per cent in March 2007. At the same time, the average annual inflation dropped from 12.9 percent in February 2007 to 11.7 percent in March 2007.

Underlying Inflation

Annual underlying inflation, which excludes food and non-alcoholic drink, fuel and power and transport and communications prices, increased from 4.9 percent in February 2007 to 5.1 per cent in March 2007. The average annual underlying inflation also increased from 4.1 per cent in February 2007 to 4.2 percent in March 2007.

Chart 1A and Table 1.1 depicts trends in overall and underlying inflation between December 2005 and March 2007. During this period, underlying inflation remained around the 5 percent inflation objective. The month-on-month inflation has been decreasing over the last three months from 15.6 percent in December 2006 to 5.9 percent in March 2007.

CHART 1A: UNDERLYING AND OVERALL INFLATION



Sources: Central Bureau of Statistics & Central Bank of Kenya

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2006									2007		
	Feb	Mar	Apr	May	June	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Underlying Inflation												
12-month	3.94	3.82	3.66	3.18	3.68	4.02	4.11	4.39	4.32	5.15	4.92	5.13
Average annual	5.20	5.08	4.89	4.62	4.44	4.01	3.95	3.93	3.88	3.98	4.06	4.18
Growth over one month	0.26	0.17	0.32	0.01	1.10	0.32	0.22	0.29	0.48	1.20	0.05	0.37
Growth over 3 months	1.22	0.85	0.76	0.51	1.44	0.98	1.09	0.84	0.99	1.98	1.74	1.63
Overall Inflation												
12-month	18.87	19.14	14.85	13.09	10.93	13.85	15.69	14.64	15.59	9.67	6.81	5.87
Average annual	10.88	11.36	11.31	11.20	11.12	12.13	13.11	13.81	14.45	13.94	12.88	11.73
Growth over one month	4.00	1.70	-1.00	-1.00	-3.00	1.60	1.90	0.30	2.60	3.10	1.30	0.80
Growth over 3 months	15.00	14.90	4.70	-0.30	-4.90	0.90	4.30	3.80	4.80	6.10	7.20	5.30

Sources: Central Bureau of Statistics & Central Bank of Kenya

Inflation by Income Groups

All income groups experienced lower month-on-month inflation in March 2007 than in February 2007 except Nairobi Lower Income Group whose inflation went up. Inflation for Nairobi Lower income group was 3.9 percent in March 2007 up from 3.8 percent in February 2007 while that of Nairobi Middle/Upper was 3.4 percent, down from 4.8 percent. The combined Nairobi inflation was 3.8 percent down from 8.9 percent in the previous month. Month-on Month inflation for the rest of the country was 7.3 percent down from 8.9 percent in the previous month but well above the national overall inflation of 5.9 percent. Details on inflation by income groups are provided in Table 1.2 and Chart 1 B.

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

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

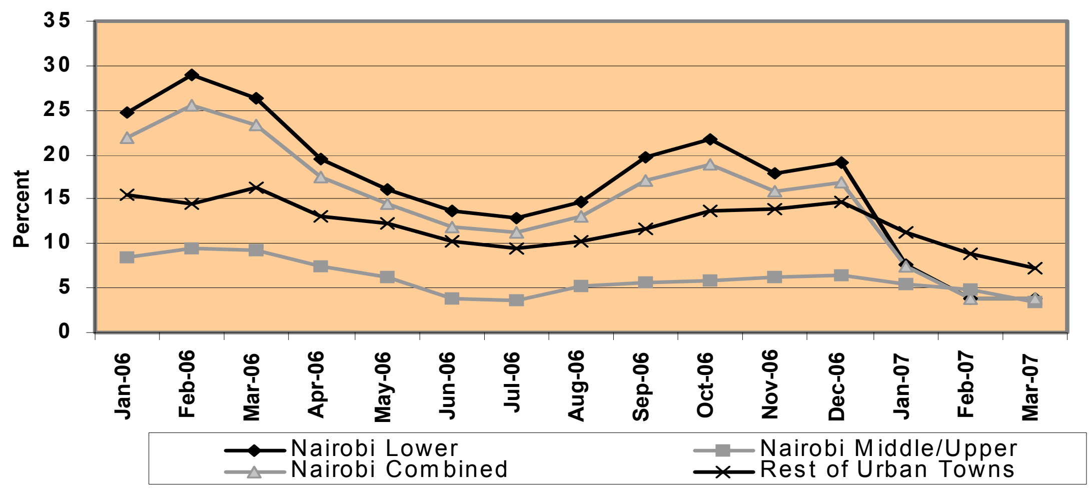
1/ The Nairobi income group combines Nairobi lower and Nairobi middle/upper income groups.

Source: Central Bureau of Statistics and Central Bank of Kenya

Inflation Across Goods and Services Categories

Inflation in each category of the CPI basket was within single digits, except for Fuel and Power which had 11.0 percent, and has been above ten percent over the last thirty-two months. Inflation rates in all the other categories ranged between 2.8 percent, (for Personal Goods and Services), and 7.3 percent (for Housing category). Food and Non-alcoholic drink recorded single digit inflation of 5.72 percent, lower than in February (7.2 percent) and January (11.8 percent), thus contributing significantly to the deceleration in overall annual inflation. Inflation for the Alcohol and Tobacco and Medical Goods & Services categories remained unchanged from their February levels, i.e. 5.6 percent and 4.0 percent, respectively.

CHART 1B: 12-MONTH INFLATION BY INCOME GROUPS



Source: Central Bureau of Statistics and Central Bank of Kenya

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

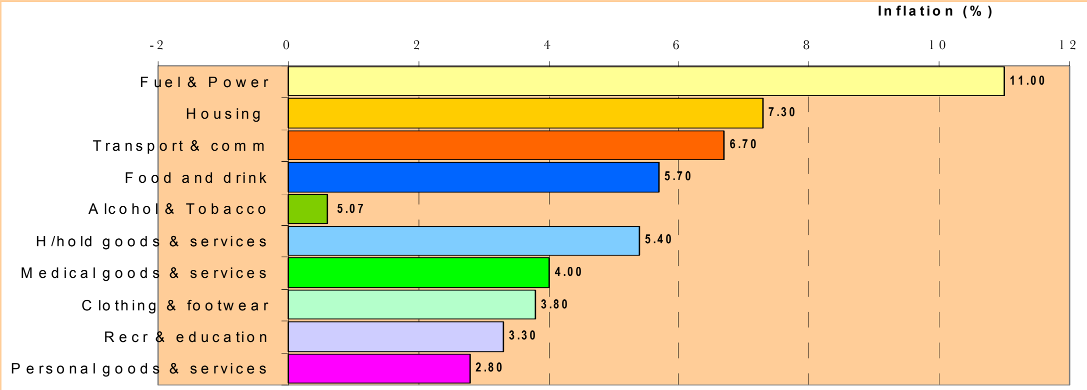
TABLE 1.3: 12-MONTH INFLATION ACROSS CPI CATEGORIES OF GOODS AND SERVICES - SEPTEMBER 06 TO MARCH 07

	Income Groups*				12-Month inflation						
					2006				2007		
Goods and Services	Nairobi Lower	Middle/Upper	Rest of Urban Towns	Combined weights							
Weight	*(31.9)*	*(8.0)*	*(60.1)*	*(100)*	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Food and drink	55.70	31.90	50.20	50.50	19.97	22.99	21.10	22.60	11.80	7.20	5.7
Housing	11.90	31.70	9.00	11.70	4.73	5.07	5.90	6.00	7.30	6.90	7.3
Recr & education	4.60	7.30	6.60	6.00	2.15	2.16	2.00	2.10	3.60	3.00	3.3
H/hold goods & services	5.00	4.70	6.40	5.80	3.78	3.95	4.40	4.70	5.10	5.30	5.4
Clothing & footwear	9.20	7.40	9.10	9.00	3.10	2.84	2.80	3.00	3.40	3.60	3.8
Transport & comm	5.10	10.20	5.50	5.70	8.50	8.24	7.10	6.50	6.50	7.20	6.7
Fuel & Power	3.50	2.20	4.80	4.20	11.92	13.52	13.00	13.50	12.80	11.50	11.0
Medical goods & services	0.90	1.30	2.00	1.60	3.35	3.36	4.10	3.10	4.90	4.00	4.0
Personal goods & services	2.30	1.90	2.60	2.40	2.04	1.99	1.80	2.00	2.60	2.70	2.8
Alcohol & Tobacco	1.80	1.40	3.80	3.00	9.19	9.33	8.80	7.00	6.00	5.60	5.6

* Numbers in parentheses are income group weights

Source: Central Bureau of Statistics

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



Source: Central Bureau of Statistics

Inflation Outlook

Inflation in the near future is expected to hinge on the international oil prices, the shilling exchange rate to the US dollar, and success of monetary policy implementation.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Money supply, M3[1], grew by 16.8 percent in the year to February 2007 compared with 12 percent in a similar period in 2006. M3 growth eased from 17.8 percent in January 2007 but remained above the projected 12.5 percent growth for the March 2007 quarter. Broad money, M2, that is, M3 excluding foreign currency deposits, grew by 15.8 percent in February 2007 compared with 12.9 percent in February 2006 as shown in Table 2.1 and Chart 2A.

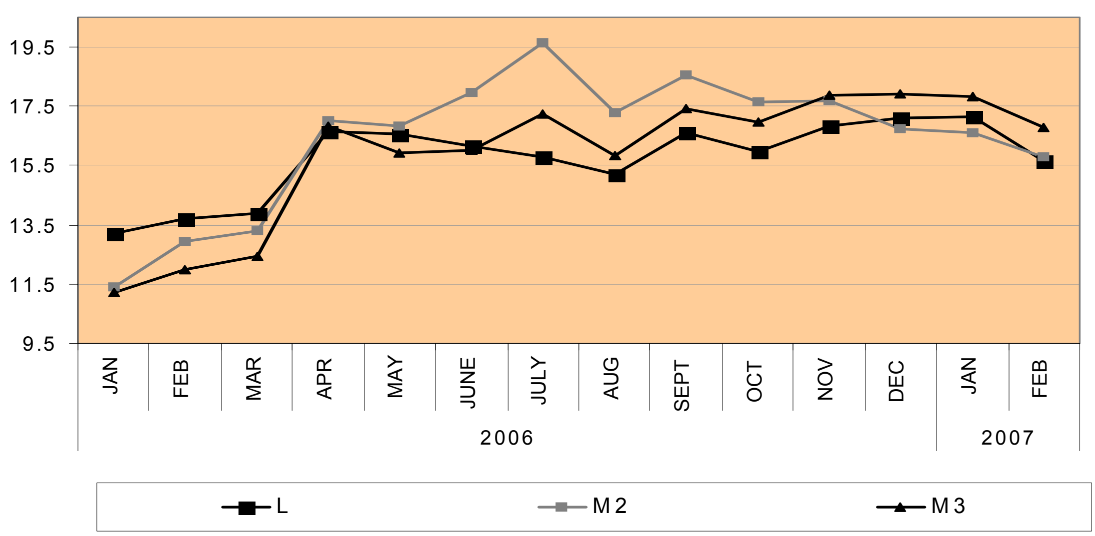
TABLE 2.1: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

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

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

Money supply growth in the year to February 2007 was driven by increased net foreign assets (NFA) and net domestic assets (NDA) of the banking system. NFA grew by 27.8 percent compared with 29.6 percent in a corresponding period in 2006, while NDA grew by 12 percent compared with 5.8 percent over a similar period as shown in Table 2.2.

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

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

	2005 February	2006 February	2007 February	Feb-06 12 months %age change	Feb-07 12 months %age change
1. Money Supply, M3 (2+3) 2/	**514.7**	**576.4**	**673.2**	**12.0**	**16.8**
1.1 Money supply, M2 3/	428.8	484.2	560.6	12.9	15.8
1.2 Money supply, M1	202.9	238.3	289.7	17.4	21.6
1.3 Currency outside banks	58.2	63.0	73.4	8.2	16.4
2. Net Foreign Assets 4/	**134.0**	**173.7**	**222.0**	**29.6**	**27.8**
Central Bank	82.5	123.3	159.4	49.5	29.3
Banking Institutions	51.5	50.4	62.6	-2.2	24.2
3. Net Domestic Assets (3.1+3.2)	**380.7**	**402.7**	**451.3**	**5.8**	**12.0**
3.1 Domestic Credit (3.1.1+3.1.2)	**470.7**	**504.8**	**584.1**	**7.2**	**15.7**
3.1.1 Government (net)	124.3	116.9	134.2	-5.9	14.9
3.1.2 Private sector and other public sector	346.5	387.9	449.9	12.0	16.0
3.2 Other Assets Net (3-3.1)	-90.1	-102.0	-132.9	13.3	30.2
Memorandum items					
1. Overall Liquidity, L 1/	**638.2**	**725.6**	**839.1**	**13.7**	**15.6**
2. Reserve Money	**95.1**	**101.3**	**119.9**	**6.5**	**18.4**
Currency outside banks	58.2	63.0	73.4	8.2	16.4
Bank reserves	36.9	38.3	46.5	3.8	21.6

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

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

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

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

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

Source: Central Bank of Kenya

Banking systems' NFA and NDA each contributed 8.4 percent to money supply expansion in February 2007, compared with 7.7 percent and 4.3 percent, respectively, in February 2006. The main contribution to the growth in banking system's NDA was domestic credit which at 13.8 percent in February 2007 compared with 6.6 percent in February 2006, reflecting faster growth in credit to both the private sector and Government. Meanwhile, the higher contribution of NFA to money supply expansion in February 2007 compared with February 2006, reflected increased private sector capital flows.

TABLE 2.3: CONTRIBUTION TO M3 GROWTH (%)

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

Source: Central Bank of Kenya

Credit Developments

Domestic credit grew by 15.7 percent in the year to February 2007 compared with 7.2 percent a year earlier, reflecting increased credit to both Government and private sector. Credit to Government increased by 14.9 percent in the year to February 2007 compared with a 5.9 percent decline in a corresponding period in 2006 (Table 2.4).

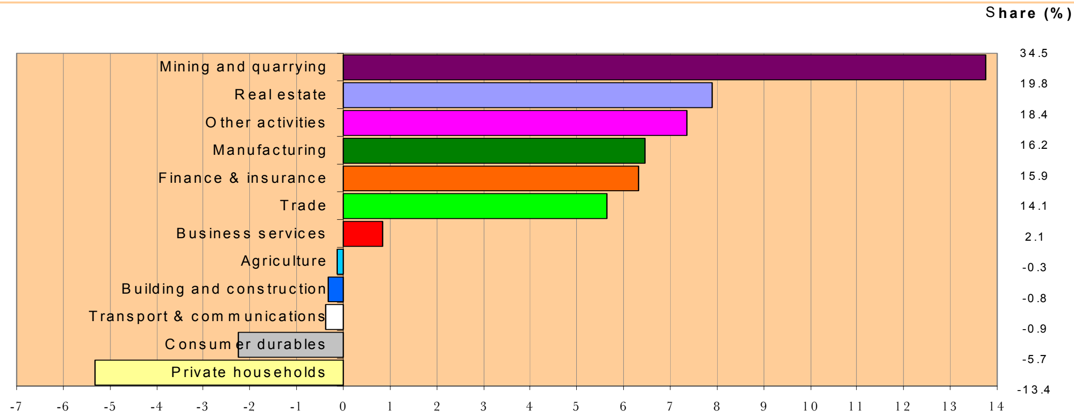
Growth in credit to private sector rose from 11.6 percent in February 2006 to 15.1 percent in February 2007. As shown in Chart 2B, most of the expansion in credit to private sector was to mining and quarrying (51.0 percent), real estate (29.3 percent), manufacturing (9.7 percent), finance and insurance (13.1 percent), and other activities (15.8 percent).

TABLE 2.4: BANKING SYSTEM NET DOMESTIC CREDIT

	2006 February		2007 February		Annual % Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2005/2006	2006/2007
1. Credit to Government	**116.9**	**23.2**	**134.2**	**23.0**	**-5.9**	**14.9**
Central Bank	-2.0	-0.4	-13.4	-2.3	-110.4	561.5
Commercial Banks & NBFIs	118.9	23.6	147.6	25.3	13.5	24.2
2. Credit to other public sector	**13.3**	**2.6**	**18.6**	**3.2**	**21.7**	**39.9**
Local government	-1.0	-0.2	-1.2	-0.2	44.7	15.9
Parastatals	14.3	2.8	19.8	3.4	23.1	38.2
3. Credit to private sector	**374.6**	**74.2**	**431.2**	**73.8**	**11.6**	**15.1**
Agriculture	33.5	6.6	33.4	5.7	7.6	-0.4
Manufacturing	66.2	13.1	72.7	12.4	6.9	9.7
Trade	51.9	10.3	57.5	9.8	4.1	10.9
Building and construction	2.1	0.4	1.8	0.3	-21.6	-15.4
Transport & communications	1.5	0.3	1.1	0.2	26.0	-25.2
Finance & insurance	48.3	9.6	54.6	9.4	5.0	13.1
Real estate	26.9	5.3	34.8	6.0	28.7	29.3
Mining and quarrying	27.0	5.3	40.8	7.0	32.6	51.0
Private households	31.2	6.2	25.9	4.4	0.8	-17.1
Consumer durables	26.1	5.2	23.9	4.1	21.8	-8.7
Business services	2.4	0.5	3.2	0.5	10.7	36.2
Other activities	46.6	9.2	53.9	9.2	25.7	15.8
4. TOTAL (1+2+3) *	**504.8**	**100.0**	**584.1**	**100.0**	**7.2**	**15.7**

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

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



Source: Central Bank of Kenya

Reserve Money

Reserve money increased by Ksh 18.6 billion or 18.6 percent in the year to February 2007 compared with Ksh 6.2 billion or 6.5 percent annual growth in the year to February 2006 as shown in Table 2.5. The increase in reserve money was in currency outside banks of Ksh 10.4 billion or 10.4 percent and bank reserves of Ksh 8.2 billion or 8.2 percent. Average reserve money in February 2007 at Ksh 120.8 billion was above target by Ksh 3.9 billion.

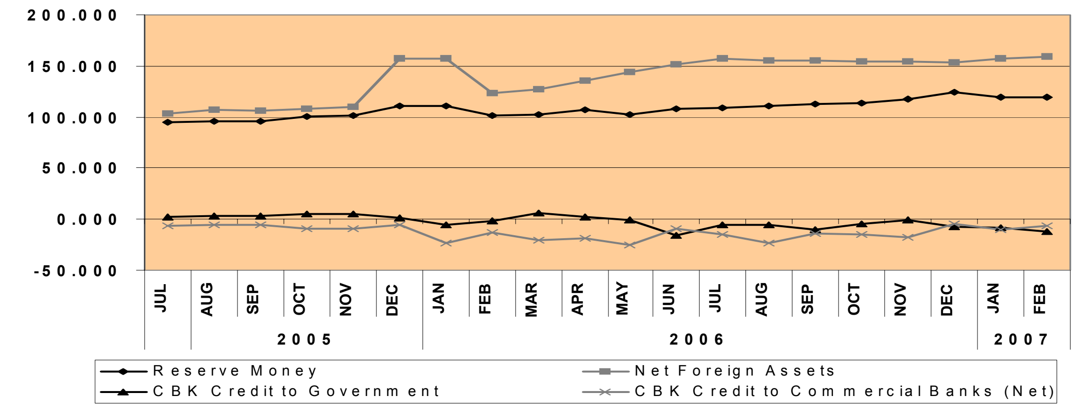
The Ksh 18.6 billion increase in reserve money in the year to February 2007 was supported by increased NFA of the Central Bank as NDA declined. NFA increased by Ksh 36.1 billion or 29.3 percent in the year to February 2007 largely due to interbank forex purchases by the Bank for purposes of build up of foreign exchange reserves.

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

	2006	2007	Change		2007	
	Feb	Feb	Absolute	%	Feb Target	Deviation
1. Net Foreign Assets	123.3	159.4	36.1	29.3	162.7	-3.3
2. Net Domestic Assets	-22.0	-39.5	-17.5	79.5	-47.2	7.7
2.1 Government Borrowing (net)	-2.0	-12.4	-10.4	514.3	-10.3	-2.1
2.2 Advances & Discounts	-13.0	-6.7	6.3	-48.4	-24.0	17.3
2.3 Other Domestic Assets (net)	-6.9	-20.3	-13.4	193.1	-12.9	-7.4
3. Reserve Money	101.3	119.9	18.6	18.4	115.5	4.4
3.1 Currency outside banks	64.1	74.5	10.4	16.3	71.1	3.4
3.2 Bank reserves	37.2	45.4	8.2	22.0	44.4	1.0

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

NDA of the Central Bank declined by Ksh 17.5 billion or 79.5 percent from Ksh -22.0 billion in February 2006 to Ksh –39.5 billion in February 2007. The decline in NDA follows build up in Government deposits at the Central Bank, reduction in Government borrowing, reduction in the repo holdings by commercial banks and improved profitability of the Bank by February 2007 relative to February 2006.

Government deposits increased by Ksh 4.6 billion from Ksh 45.5 billion in February 2006 to Ksh 50.2 billion in February 2007. During the same period, Government borrowing from the Bank declined by Ksh 5.8 billion from Ksh 43.5 billion in February 2006 to Ksh 37.7 billion in February 2007 due to reduced utilisation of the overdraft facility.

Meanwhile, net indebtedness of Central Bank to commercial banks declined by Ksh 6.3 billion from Ksh 13.0 billion in February 2006 to Ksh 6.7 billion in February 2007 following redemptions of maturing repos previously held by the Bank for purposes of Open Market Operations. As a reflection of improved profitability of the Bank, other domestic assets of the Central Bank net of liabilities declined by Ksh 13.4 billion from Ksh -6.9 billion in February 2006 to Ksh -20.3 billion in February 2007.

Interest rates

The Central Bank Rate (CBR) was kept unchanged at 10 percent following the Monetary Policy Advisory Committee decision in their February 6, 2007 meeting. This signaled continued monetary tightening by the Central Bank. As a result, short term interest rates increased in February 2007 with the average 91-day Treasury bill rate increasing by 22 basis points from 6.0 percent in January 2007 to 6.22 percent in February. Similarly, the 182-day Treasury bill rate increased from 8.28 percent in January 2007 to 8.56 percent in February 2007.

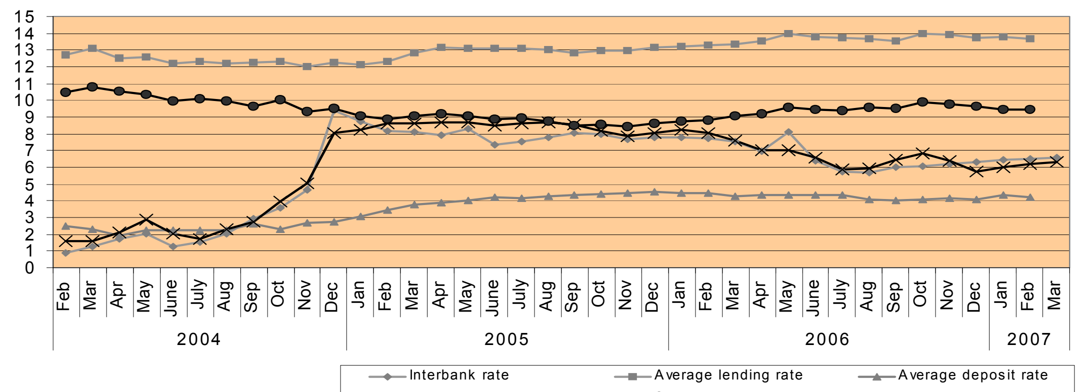
The average interbank rate increased from 6.43 percent in January 2007 to 6.51 percent in February 2007 while the Repo rate increased from 6.43 percent to 6.60 percent in February 2007. Table 2.6 provides a summary of various interest rates for selected months in 2006 and 2007 while Chart 2D depicts trends in domestic interest rates.

TABLE 2.6: INTEREST RATES (%)

	2006								2007		
	Feb	Mar	Apr	May	June	Oct	Nov	Dec	Jan	Feb	Mar
91-day Treasury bill rate	8.02	7.60	7.02	7.01	6.60	6.83	6.41	5.73	6.00	6.22	6.32
Overdraft rate	13.34	13.26	13.81	14.02	13.78	13.94	13.96	13.91	14.11	14.05	
Interbank rate	7.73	7.52	6.97	8.12	6.41	6.08	6.18	6.34	6.43	6.52	6.55
Average lending rate (1)	13.27	13.33	13.51	13.95	13.79	14.01	13.93	13.74	13.78	13.64	
Average deposit rate (2)	4.48	4.33	4.35	4.36	4.35	4.11	4.15	4.11	4.35	4.21	
0 to 3 - month deposit	5.49	5.74	5.28	5.04	5.05	4.88	4.93	5.13	5.15	5.09	
Savings deposits	1.36	1.34	1.33	1.31	1.27	1.35	1.37	1.35	1.42	1.43	
Spread (1-2)	8.78	9.05	9.16	9.59	9.44	9.90	9.78	9.63	9.43	9.42	

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES (%)



Source: Central Bank of Kenya

Lending and Deposit Rates

Commercial banks' overall weighted lending rate declined from 13.78 percent in January to 13.64 percent in February 2007. The overdraft rate declined from 14.11 percent to 14.05 percent contributed by the decline in the business overdraft loan by 0.57 percent, while the 1-5 year corporate lending rate declined from 12.96 percent to 11.94 percent. Similarly, the overall deposit rate declined from 4.35 percent in January 2007 to 4.21 percent in February 2007 contributed by the decline in the over 3 months deposit rate. Over the same period, interest rate spread declined from 9.43 percent to 9.42 percent as both lending and deposit rates moved in tandem.

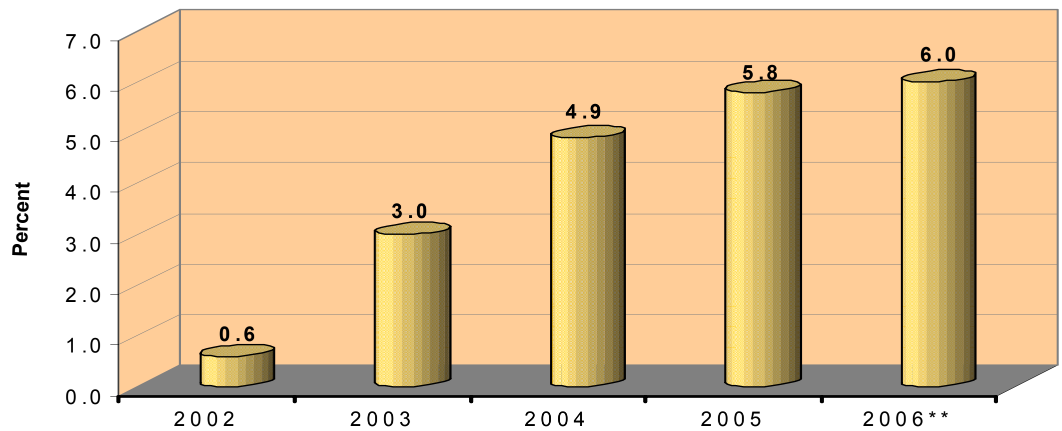
Performance of The Real Sector

Overview

GDP is estimated to have grown by 6.0 percent in 2006 despite the drought experienced in the first quarter of the year (Chart 3A). Most of the improvement was registered in the main sectors of the economy, particularly, agriculture, manufacturing as well as service sectors such as transport, telecommunications, financial services and tourism (Tables 3.1 and 3.2).

Going by the leading economic indicators in January 2007, the economic growth momentum is continuing in 2007 and in the medium term. Agricultural growth is expected to accelerate partly due to improved governance in agricultural institutions and the expected favourable weather conditions. Other expected drivers of improved economic performance in 2007 and the medium term includes tourism, transport and financial services sectors. Similarly, manufacturing sector growth continues benefiting from regional market opportunities while the textile industry continues to benefit from the extension of the African Growth and Opportunity Act (AGOA) agreement.

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



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

TABLE 3.1: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

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

Source: Central Bureau of Statistics (Economic Survey 2006)

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

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

*Provisional

Source: Central Bureau of Statistics (Economic Survey 2006)

Agriculture

Performance of tea, horticulture, coffee and sugar cane output is presented in Table 3.3.

TABLE 3.3: OUTPUT GROWTH OF MAJOR CROPS

	2004	2005	2006	Jan-06	Jan-07
Tea					
Output (ton)	324,578.69	328,503.00	310,578.33	17,939.42	41,610.00
Growth (%)	10.54	1.21	-5.46	-47.42	131.95
Horticulture					
Output (ton)	145,636.83	163,153.82	166,736.82		
Growth (%)	24.63	12.03	2.20		
Coffee					
Output (ton)	49,926.00	47,650.00	50,527.91	5,023.00	4,548.00
Growth (%)	-18.45	-4.56	6.04	-8.27	-9.46
Sugar Cane					
Output (ton)	4,654,027.00	4,693,292.00	4,933,805.00	454,846.00	440,167.00
Growth (%)	11.22	22.12	5.12	3.00	-3.23

* January - November period

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

Tea

Tea production grew strongly in January 2007 compared with January 2006. It grew by 132.0 percent, from 17,939.4 metric tonnes in January 2006 to 41,610.0 metric tonnes in January 2007. The robust growth followed good weather conditions in the last quarter of 2006.

Horticulture Output in the horticultural sector is estimated to have increased by 2.2 percent in 2006 from 163,154 metric tonnes produced in 2005 (Table 3.3). During the year under review, flower production increased by 6.5 percent and contributed 53 percent of the total horticultural crop exports. Production of vegetables declined by 3.3 percent while output of fruits declined by 16.8 percent during the year under review.

Coffee Coffee production declined by 9.5 percent from 5,023 metric tonnes in January 2006 to 4,548 metric tonnes in January 2007. Meanwhile, the average coffee prices declined from US$ 2,970 per tonne in January 2006 to US$ 2,880 per tonne in January 2007. Production in the coffee sub-sector is, however, expected to improve during the year 2007 as reforms in the sub-sector, particularly coffee marketing, take root.

Manufacturing Production of selected goods in the manufacturing sector is presented in Table 3.4 and show continued good performance. The performance in the sector over the last several years is supported by the positive impact of tax incentives introduced by the Government over the years and increased access to external markets in the Common Markets for East and Southern Africa (COMESA), East African Community (EAC) and United States through African Growth and Opportunity Act (AGOA).

TABLE 3.4: PRODUCTION OF SELECTED MANUFACTURED GOODS

	2005	2006	Jan-06	Jan-07
Processed sugar				
Output (MT)	491,001	475,660	47,596	42,188
Growth %	-4.98	-3.12	-2.85	-11.31
Soda ash				
Output (MT)	364,301	374,010	27,010	29,760
Growth %	2.51	2.67	-10.27	10.18
Milk				
Output ('000 litres)	336,979	356,758	29,993	35,980
Growth %	25.00	5.87	16.06	19.96
Beer				
Output ('000 litres)	266,419	280,500	22,199	30,749
Growth %	11.25	5.29	2.55	38.52
Cigarettes				
Output (Milles)	10,962,727	12,303,278	797,108	1,179,874
Growth %	22.12	12.23	-0.90	48.02

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

Production of beer and cigarettes increased by 38.5 percent and 48.0 percent, respectively, from 22,199 cubic metres and 797,108 milles in January 2006 to 30,749 cubic metres and 1,179,874 milles in January 2007. Similarly, soda ash production rose by 10.1 percent from 27,010 metric tonnes in January 2006 to 29,760 metric tonnes while milk production increased by 20.0 percent during the period. However, processed sugar output declined from 47,596 metric tonnes to 42,188 metric tonnes during the period.

Energy Sector

Electricity generation increased by 8.5 percent from 483.9 million kilowatt hours (KWH) in January 2006 to 524.9 million KWH in January 2007. Hydropower continues to be the major source of electricity in Kenya. Its generation grew by 32 percent in January 2007. Thermal- and geo-thermal generation, however, declined by 7.5 percent and 27.7 percent, respectively, in January 2007.

Consumption of electricity on the other hand, increased by 5.9 percent from 390 million KWH in January 2006 to 412.9 million KWH in January 2007, in line with increased economic activity. Meanwhile, international crude oil prices declined by 11.8 percent from an average of US$ 62.15 per barrel in January 2006 to an average of US$ 54.85 per barrel in January 2007.

TABLE 3.5: ENERGY SECTOR PERFORMANCE

	2004	2005	2006	Jan-06	Jan-07
Electricity Supply (Generation)					
Output (KWH Millions)	5,032.71	5,518.94	5,823.03	483.93	524.85
Growth %	*7.95*	*9.66*	*5.51*	*9.14*	*8.46*
Of which:					
Hydro-power Generation (KWH Millions)	3,007.31	3,009.44	3,013.96	242.75	320.48
Growth (%)	*-6.99*	*0.10*	*0.15*	*-5.62*	*32.02*
Geo-Thermal Generation (KWH Millions)	986.64	1,001.58	1,045.69	92.32	66.74
Growth (%)	*97.97*	*1.50*	*4.40*	*5.14*	*-27.71*
Thermal (KWH Millions)	1,038.74	1,507.83	1,762.59	148.86	137.63
Growth (%)	*11.62*	*45.16*	*16.90*	*51.33*	*-7.54*
Consumption of electricity (KWH Millions)	4,219.20	4,505.10	4,743.10	390.00	412.90
Growth %	*7.87*	*6.78*	*5.28*	*4.90*	*5.87*
Consumption of Fuels (Metric Tonnes)	2,336.80	2,710.00	2,866.70		
Growth %	*9.74*	*15.97*	*5.78*		
Murban crude oil average price (US $ per barrel)	36.93	53.65	64.57	62.15	54.85
Growth %	*31.40*	*45.30*	*20.30*	*47.62*	*-11.75*

Source: Central Bureau of Statistics

Tourism

Tourism continues to be vibrant as shown in Tables 3.6 and 3.7. Tourist arrivals increased by 18,683 visitors or 11 percent, from 169,369 arrivals in the first two months of 2006 to 188,052 visitors in a similar period of 2007. The improved performance of the sector is attributable to the success of efforts to market the country's tourist destinations in the face of adverse travel advisories by the US Government and increased competition from other tourist destinations like South Africa, Egypt and the Indian Ocean Islands. This has led to improved image of the country abroad, as a destination of choice by holiday-makers. The measures the Government put in place to improve security also contributed to the good performance of the sector.

Tourist arrivals through the Moi International Airport Mombasa accounted for 34.3 percent and grew by 11.3 percent in January-February 2007 (Table 3.6). Meanwhile, arrivals through Jomo Kenyatta International Airport increased by 11.1 percent and accounted for 64.7 percent of total arrivals while those by cruise ships declined by 3.9 percent during the period.

TABLE 3.6: TOURIST ARRIVALS BY POINT OF ENTRY

	2005	2006	Jan-Feb 2006	Jan-Feb 2007	Share in Jan-Feb 06	Share in Jan-Feb 07	%Growth Jan-Feb 07
CRUISE	4,680	6,161	1,793	1,723	1.1%	0.9%	-3.9%
MIAM	214,476	263,699	58,049	64,593	34.3%	34.3%	11.3%
JKIA	614,068	684,475	109,527	121,736	64.7%	64.7%	11.1%
TOTAL	**833,224**	**954,335**	**169,369**	**188,052**	100.0%	100.0%	11.0%

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

Source: Kenya Tourism Board

Europe continues to be the main source of tourists to Kenya accounting for 62.4 percent of total arrivals in the first two months of 2007 and growing by 8.7 percent as shown in Table 3.7. Meanwhile, tourist arrivals from Africa increased by 17.2 percent and accounted for 16.2 percent of total arrivals. Arrivals from America improved in January- February 2007 period, growing by 22.8 percent and accounting for 11.0 percent of total arrivals.

TABLE 3.7: TOURIST ARRIVALS BY CONTINENT OF ORIGIN

REGION	2005	2006	Jan-Feb 2006	Jan-Feb 2007	Share in Jan-Feb 06	Share in Jan-Feb 07	%Growth Jan-Feb 07
Africa	161,304	188,872	25,966	30,427	15.3%	16.2%	17.2%
America	93,902	110,967	16,787	20,616	9.9%	11.0%	22.8%
Asia	86,005	93,518	14,443	15,377	8.5%	8.2%	6.5%
Europe	473,637	537,195	108,000	117,407	63.8%	62.4%	8.7%
Oceanic	13,682	15,529	2,271	2,500	1.3%	1.3%	10.1%
Others	14	2,093	109	2	0.1%	0.0%	-98.2%
Sub-Total	***828,544***	***948,174***	***167,576***	***186,329***	98.9%	99.1%	***11.2%***
Cruise	4,680	6,161	1,793	1,723	1.1%	0.9%	-3.9%
Total	**833,224**	**954,335**	**169,369**	**188,052**	**100.0%**	**100.0%**	**11.0%**

Source: Kenya Tourism Board

Transport

In the transport sector, 52,757 new motor vehicle units were registered in 2006 up from 45,653 units registered in 2005. This represents a growth of 15.6 percent as shown in Table 3.8.

TABLE 3.8: REGISTRATION OF NEW MOTOR VEHICLES

	2004	2005	2006	Share in 2006 (%)	Growth in 2006 (%)
Type					
Saloons	12,628	14214	14,829	28.1	4.3%
St,Wagons	8,863	10158	12,631	23.9	24.3%
Vans, P/ups	7,042	6308	6,661	12.6	5.6%
M/Buses	4,405	4076	3,714	7.0	-8.9%
Buses	872	885	856	1.6	-3.3%
Lorries	2,461	3113	3,610	6.8	16.0%
Trailers	1,112	1351	1,706	3.2	26.3%
Motor cycles	4,136	3759	6,250	11.8	66.3%
3 Wheelers	134	735	1,075	2.0	46.3%
Wheeled tractors	829	856	920	1.7	7.5%
Others	152	198	505	1.0	155.1%
Total	**42,634**	**45,653**	**52,757**	**100**	15.6%

Source: Central Bureau of Statistics

The volume of petroleum products transported by the Kenya Pipeline Company (KPC) increased from 312,053 thousand litres in January 2006 to 338,328 thousand litres in January 2007, reflecting a growth of 8.4 percent. Cargo throughput by Kenya Ports Authority (KPA), however, declined by 0.9 percent from 1,151,979 metric tonnes in January 2006 to 1,141,904 metric tonnes in January 2007.

TABLE 3.9: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

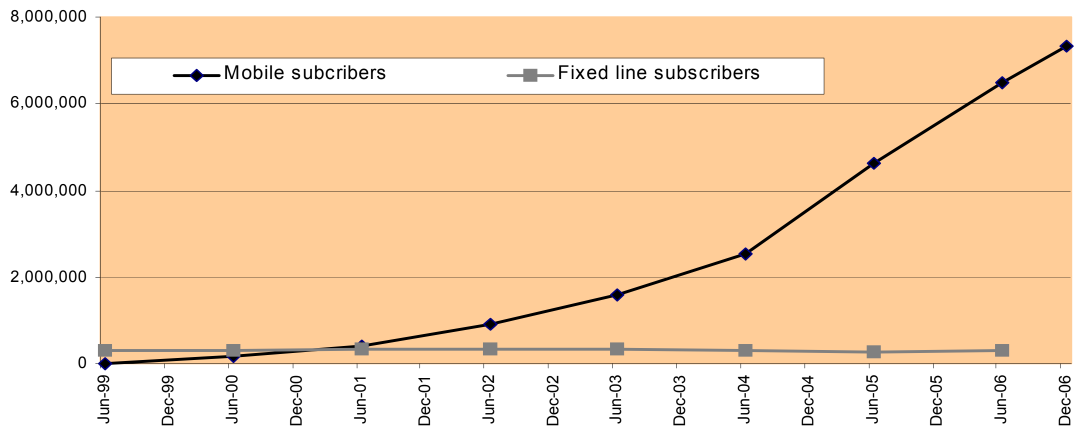
	2004	2005	2006	Jan-06	Jan-07
Mombasa Port Cargo Throughput					
Output (MT) Eqiuvalent	12,920,124	13,280,747	14,418,901	1,151,979	1,141,904
Output Growth %	3.30	2.79	8.57	-15.13	-0.87
Kenya Pipeline oil Throughput					
Output ('000 litres)	3,259,180	3,527,662	3,826,154	312,053	338,328
Output Growth %	9.95	8.24	8.46	6.90	8.42

Sources: Port of Mombasa, Kenya and Kenya Pipeline

Telecommunications

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

CHART 3B: GROWTH OF FIXED AND MOBILE TELEPHONE SUBSCRIBERS, 1998 - 2006



Source: Communication Commission of Kenya

Building & Construction Industry

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

DEVELOPMENTS IN BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Kenya's overall balance of payments surplus increased to US$ 612 million in the year to January 2007 compared with US$ 530 million in the year to January 2006 as shown in Table 4.1. This follows an improvement in the capital and financial account, which more than offset the deterioration in the current account balance.

TABLE 4.1: BALANCE OF PAYMENTS (US$ MILLION)

ITEM	Year to Jan 2006*	Year to January 2007 Q1 Feb-Apr	Q2 May-Jul	Q3 Aug-Oct	Q4 Nov-Jan*	Year to Jan 2007*	Absolute change Jan 07 - Jan 06
1. OVERALL BALANCE	530	212	328	(8)	79	612	*82*
2. CURRENT ACCOUNT	(233)	(313)	(13)	(335)	(327)	(988)	*(755)*
2.1 Goods	(2577)	(968)	(799)	(1062)	(1127)	(3956)	*(1379)*
2.1.1 Exports (fob)	3222	795	910	891	902	3498	*275*
Coffee	130	36	54	26	23	139	*10*
Tea	569	146	178	170	178	672	*103*
Horticulture	439	134	117	121	141	513	*74*
Oil products	96	9	24	42	37	112	*16*
Manufactured Goods	362	90	109	113	113	425	*62*
Raw Materials	162	40	42	56	62	200	*38*
Re-exports	619	107	94	61	41	303	*(315)*
Other	846	233	292	302	307	1134	*288*
2.1.2 Imports (cif)	5799	1763	1709	1953	2029	7454	*1654*
Oil	1367	404	483	467	360	1715	*348*
Chemicals	822	255	222	267	270	1014	*192*
Manufactured Goods	783	225	277	294	294	1090	*307*
Machinery & Transport Equipment	1818	568	441	633	761	2404	*586*
Other	1010	311	286	291	344	1231	*221*
2.2 Services	2344	656	786	727	800	2968	*624*
2.2.1 Non-factor services (net)	1106	305	367	342	390	1404	*298*
of which tourism	605	169	173	166	191	700	*95*
2.2.2 Income (net)	(109)	(28)	(11)	(1)	(1)	(41)	*68*
of which official interest	(145)	(33)	(26)	(18)	(19)	(96)	*49*
2.2.3 Current Transfers	1347	379	430	385	410	1605	*258*
Private (net)	1204	379	430	385	410	1605	*401*
Public (net)	143	0	0	0	0	0	*(143)*
3. CAPITAL & FINANCIAL ACCOUNT	763	524	341	327	406	1599	*837*
3.1 Capital Tranfers (net)	215	29	56	49	35	169	*(46)*
3.2 Financial Account	548	496	285	278	371	1430	*883*
3.2.1 Official, medium & long-term	(236)	(97)	(49)	(48)	11	(182)	*53*
Inflows	104	15	30	20	51	116	*12*
Outflows	(340)	(112)	(79)	(68)	(39)	(299)	*41*
3.2.2 Private, medium & long-term (net)	377	122	212	(336)	(25)	(27)	*(404)*
Commercial Banks (net)	(77)	(33)	265	(285)	(6)	(60)	*17*
Other private medium & long-term (net)	454	155	(52)	(51)	(19)	33	*(421)*
3.2.3 Short-term (net) incl. errors & omissions	407	470	122	662	385	1639	*1233*
memo:							
Gross Reserves	2667	2911	2987	3252	3284	3284	*617*
Official	1926	2120	2428	2399	2463	2463	*537*
*imports cover***	*3.5*	*3.7*	*4.1*	*3.8*	*3.6*	*3.6*	*0.1*
*imports cover****	*4.3*	*4.4*	*4.9*	*4.5*	*4.4*	*4.4*	*0.1*

* Provisional

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

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

Source: Central Bank of Kenya

Current Account

The deficit in the current account widened by US$ 755 million to US$ 988 million in the year to January 2007, reflecting US$ 1,654 million increase in merchandise imports which surpassed US$ 275 million increase in merchandise exports and US$ 624 million increase in the services account surplus.

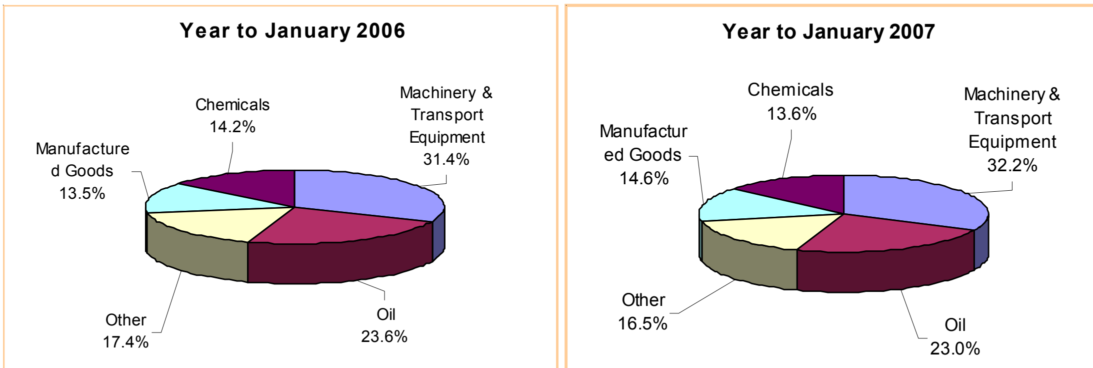
Merchandise Account

Merchandise imports grew by 28.5% to US$ 7,454 million in the year to January 2007 while merchandise exports grew by 8.5% to US$ 3,498 million. The trade deficit therefore widened from US$ 2,577 million in the year to January 2006 to US$ 3,956 million in the year to January 2007.

Imports

The increase in imports was largely in machinery and transport equipment and petroleum products, which accounted for 55.3 percent of total imports as shown in Chart 4A. Importation of machinery and transport equipment increased by US$ 586 million and was mainly in imports of road vehicles, industrial machinery, telecommunication and sound recording equipment, and electrical machinery while the increase in the value of oil imports by US$ 348 million largely reflected higher imports of diesel oil. Imports of chemicals also rose by US$ 192 million, reflecting higher import values of medicinal and pharmaceutical products, manufactured fertiliser and plastics. The increase in imports of manufactured goods by US$ 307 million was largely attributable to imports of paper products, textiles and non-ferrous metals (copper wire, aluminum and zinc). The share of manufactured goods in the import bill increased to 14.6 percent in the year to January 2007 while the share of chemicals in total imports declined to 13.6 percent (Chart 4A). Other miscellaneous imports, which include palm oil, raw materials and wheat, rose by US$ 221 million.

CHART 4A: COMPOSITION OF KENYA'S IMPORTS



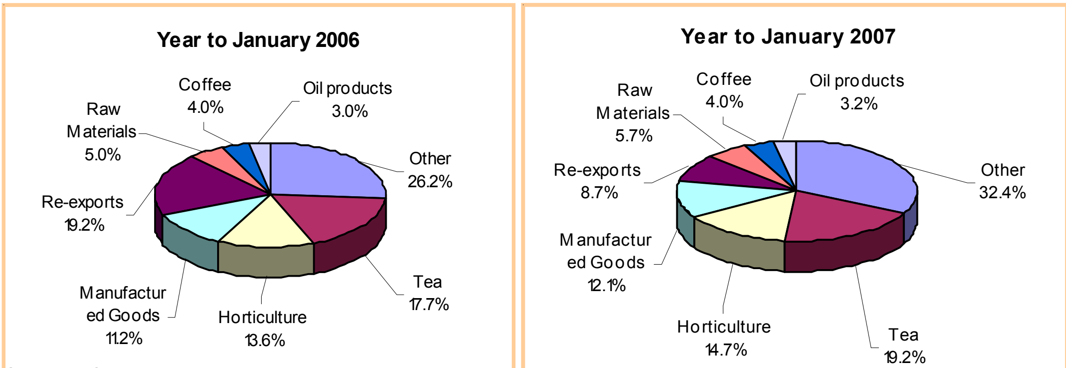
Source: Customs and Excise Department.

Exports

Export earnings increased by US$ 275 million in the year to January 2007 to US$ 3,498 million. This reflects increases in earnings from major export categories, namely; coffee, tea, horticulture, manufactured goods and raw materials. The value of re-exports, however, declined during the period in review. Earnings from coffee and tea exports rose by US$ 10 million and US $ 103 million, respectively, following improved export prices. The increase in the value of horticulture exports by US$ 74 million was attributed to increased export volume. The increase in the value of manufactured exports largely reflected increased exports of cement, metal manufactures, textiles and processed leather.

Chart 4B shows that coffee, tea and horticulture collectively accounted for 37.9 percent of the total value of exports in the year to January 2007 compared with 35.3 percent in the year to January 2006. The contribution of manufactured goods to the total value of exports also rose to 12.1 percent compared with 11.2 percent a year earlier.

CHART 4B: COMPOSITION OF KENYA'S EXPORTS



Source: Customs and Excise Department, KRA

Direction of Trade

The main destination countries for Kenya's merchandise exports were Uganda (11.1%), United Kingdom (11.0%), the Netherlands (7.9%), United States of America (7.4%), Tanzania (7.3%), Pakistan (6.0%), Sudan (4.1%), Egypt (4.0%), and the Democratic Republic of Congo (3.1%) as shown in Table 4.2. Overall, African countries absorbed 43.4% of Kenya's merchandise exports.

Kenya's merchandise imports mainly originated from United Arab Emirates (13.8%), India (7.5%), South Africa (6.1%), United States of America (5.9%), United Kingdom (5.9%), China (5.8%), Japan (5.7%), Saudi Arabia (5.3%), Singapore (4.7%), and Germany (3.7%).

TABLE 4.2: DIRECTION OF TRADE

IMPORTS (in millions of US dollars)	Year to January		
Country	2005	2006	2007
Africa	**690**	**804**	**882**
Of which			
South Africa	448	566	452
Egypt	84	83	115
Others	159	156	315
Rest of the World	**4,005**	**4,995**	**6,572**
Of which			
United Arab Emirates	510	879	1,032
India	287	336	556
USA	185	557	442
United Kingdom	369	772	440
China	169	266	433
Japan	307	304	422
Saudi Arabia	446	309	395
Singapore	57	109	350
Germany	167	211	272
Ireland	8	13	223
Indonesia	99	111	203
Italy	95	110	165
France	155	185	147
Netherlands	95	127	129
Others	1,054	705	1,362
Total	**4,695**	**5,799**	**7,454**

EXPORTS (in millions of US dollars)	Year to January		
Country	2005	2006	2007
Africa	**1,276**	**1,577**	**1,517**
Of which			
Uganda	460	552	388
Tanzania	210	267	257
Sudan	72	94	143
Egypt	83	119	139
DRC	114	109	108
Somalia	43	64	107
Others	294	372	377
Rest of the World	**1,481**	**1,645**	**1,981**
Of which			
United Kingdom	281	311	385
Netherlands	219	242	278
USA	52	60	260
Pakistan	138	189	210
United Arab Emirates	32	52	70
Germany	56	72	62
India	48	53	52
France	45	69	51
Others	610	599	612
Total	**2,757**	**3,222**	**3,498**

Source: Customs and Excise Department, KRA

Services

The surplus in the services account increased by US$ 624 million to US$ 2,968 million in the year to January 2007, reflecting a net increase in non-factor services, higher interest earnings on foreign exchange reserves, reduced interest payments on official external debt, and increased current transfers receipts.

Net receipts from non-factor services increased due mainly to increased inflows from tourism and other Government services. Earnings from tourism rose from US$ 605 million in the year to January 2006 to US$ 700 million in the year to January 2007.

In the income account, interest earned on official foreign exchange reserves rose from US$ 56 million in the year to January 2006 to US$ 103 million in the year to January 2007, as interest earned by the private sector declined from US$ 19 million to US$ 11 million. Total interest payments on official foreign debt declined by US$ 49 million. Interest payments by the private sector, however, rose by US$ 20 million. Total grants received rose to US$ 1,605 million in the year to January 2007 and this was entirely through the private sector.

Capital and Financial Account

Net inflows into the capital and financial account rose from US$ 763 million in the year to January 2006 to US$ 1,599 million in the year to January 2007 following increased private short term capital inflows. Net official capital and financial flows also improved during the period as private medium and long-term financial flows worsened.

Project related grants to the Government reduced by US$ 46 million in the year to January 2007 as net repayment of foreign loans by the Government declined by US$ 53 million. The Government received US$ 116 million in foreign loans and repaid US$ 299 million in the year to January 2007, compared with receipts of US$ 104 million and payments of US$ 340 million a year earlier.

Private medium and long-term financial flows worsened to a net outflow of US$ 27 million owing to reduced receipts of foreign loans and increased foreign loan repayments. Foreign direct investment flows, however, improved by US$ 36 million as commercial banks increased their holdings of net foreign assets by US$ 60 million to US$ 703 million. Net short-term inflows (including errors and omissions in recorded transactions) rose to US$ 1,639 million from 407 million in the year to January 2006.

Foreign Exchange Reserves

Following the improvement in the balance of payments, the Central Bank of Kenya was able to purchase foreign exchange from the domestic foreign exchange market equivalent to US$ 687 million during the year to February 2007. The Bank received an additional US$ 252 million being foreign grants and loans in aid of the Government and interest earned on foreign exchange reserves. During the year to February 2007, the Bank spent US$ 51 million on its own operations and US$ 444 million on behalf of the Government to cover expenses related to Government imports and to service official foreign debt. Official foreign exchange reserves held by the Central Bank therefore increased by US$ 582 million to US$ 2,501 million (4.5 months of import cover) at the end of February 2007 from US$ 1,919 million (4.2 months of import cover) at the end of February 2006 (Table 4.3 and Chart 4C).

Foreign exchange holdings of commercial banks also rose by US$ 156 million to US$ 880 million at the end of February 2007. These assets were largely held as balances with banks abroad. Other foreign assets of commercial banks included cash, foreign loans and foreign bills discounted.

Foreign exchange held by the entire banking system therefore rose from US$ 2,643 million in February 2006 to US$ 3,381 million in February 2007. Besides these holdings, foreign currency deposits held locally by residents increased by US$ 258 million to US$ 1,423 million in February 2007.

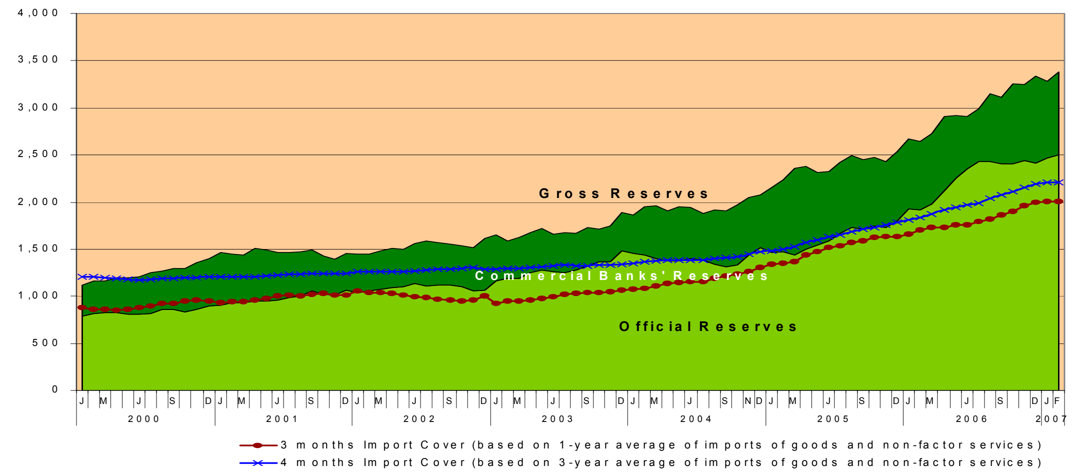
TABLE 4.3: FOREIGN EXCHANGE RESERVES (END OF PERIOD, US$ MILLION)

	Dec 04	Dec 05	Feb 06	Mar 06	Jun 06	Sep 06	Dec 06	Jan 07	Feb 07
1. Gross Foreign Exchange Reserves	**2,078**	**2,534**	**2,643**	**2,718**	**2,909**	**3,113**	**3,331**	**3,284**	**3,381**
of which:									
Official	1,519	1,799	1,919	1,981	2,353	2,402	2,415	2,463	2,501
*imports cover**	*3.5*	*3.3*	*3.4*	*3.4*	*4.0*	*3.9*	*3.6*	*3.6*	*3.7*
*imports cover***	*4.1*	*4.0*	*4.2*	*4.2*	*4.8*	*4.6*	*4.4*	*4.4*	*4.5*
Commercial Banks	560	735	724	737	556	711	916	821	880
2. Residents' foreign currency deposits	**1,019**	**1,149**	**1,165**	**1,197**	**1,126**	**1,275**	**1,428**	**1,422**	**1,423**

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

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

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya shilling remained strong against the US dollar in March 2007 supported by an increase in foreign exchange supply in the domestic foreign exchange market from merchandise exports, tourism and inter-bank sales, particularly in the second half of the month, which outweighed corporate demand. The shilling thus gained 32 cents against the US dollar to exchange at Ksh 69.3 in March 2007 compared with Ksh 69.6 in February 2007 (Table 4.4 and Charts 4D, 4E and 4F).

The shilling, however, had mixed performance against the Pound Sterling, the Euro and the Japanese Yen, reflecting the performance of these currencies against the US dollar in the international currency markets. In March 2007, the Sterling Pound weakened against the US dollar while the Euro strengthened. The appreciation of the shilling against the Sterling Pound in March 2007 to an average of Ksh 134.9 compared with Ksh 136.40 in February 2007 partly reflects the weakening of the Sterling Pound against the US dollar internationally. In similar vein, the depreciation of the shilling against the Euro and the Japanese Yen reflects the strengthening of the two currencies against the US dollar in international currency markets. Against the Euro and the Japanese Yen, the shilling traded at averages of Ksh 91.8 and Ksh 59.1, respectively, in March 2007 compared with averages of Ksh 91.0 and Ksh 57.8 in February 2007. The Kenya shilling lost against the Uganda and Tanzania shillings in March 2007 and respectively traded at Ush 25.3 and Tsh 18.1 per Kenya shilling compared with Ush 25.4 and Tshs 18.5 in February 2007.

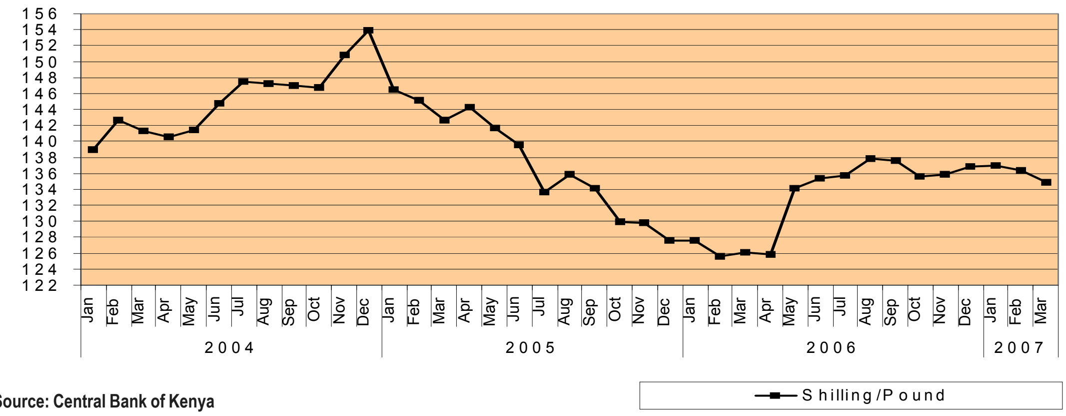
TABLE 4.4: KENYA SHILLING EXCHANGE RATE

	2006										2007			%change Mar 07 - Feb 07
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
US Dollar	72.28	71.30	71.76	73.41	73.66	72.87	72.87	72.29	71.13	69.63	69.88	69.62	69.29	**-0.46**
Pound Sterling	126.13	125.84	134.13	135.37	135.78	137.85	137.59	135.58	135.89	136.79	136.91	136.40	134.91	**-1.09**
100 Japanese Yen	61.63	60.94	64.24	64.03	63.71	62.89	62.26	60.95	60.65	59.47	58.09	57.76	59.08	**2.28**
Uganda Shilling*	25.19	25.61	25.56	25.32	25.20	25.37	25.45	25.52	25.52	26.07	25.97	25.44	25.26	**-0.70**
Tanzania Shilling*	16.75	17.16	17.31	17.07	17.20	17.82	17.99	17.58	18.23	18.62	18.55	18.49	18.13	**-1.96**
Euro	86.90	87.45	91.64	92.96	93.50	93.34	92.86	91.26	91.58	92.03	90.87	91.04	91.77	**0.80**
Euro per US dollar	0.832	0.815	0.783	0.790	0.788	0.781	0.785	0.792	0.777	0.757	0.769	0.765	0.755	**-1.25**

* Units of currency per Kenya shilling

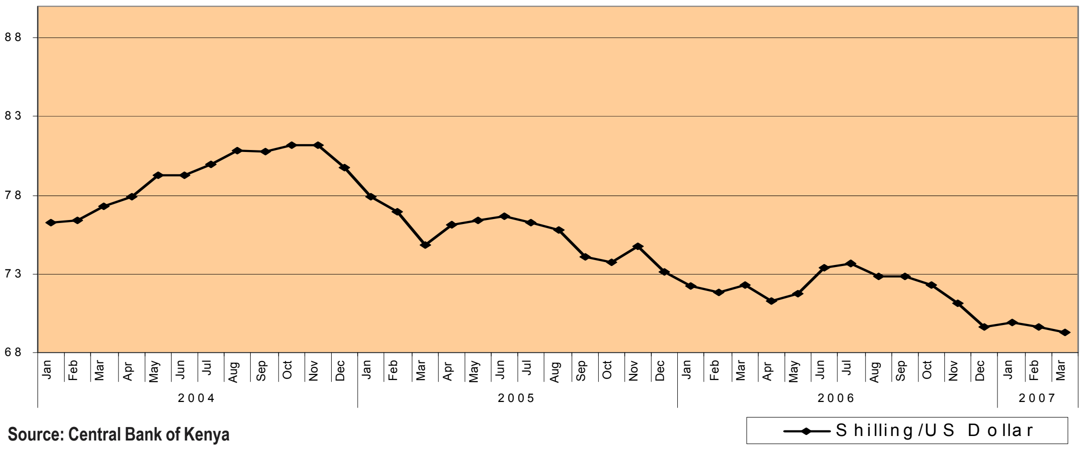
Source: Central Bank of Kenya

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



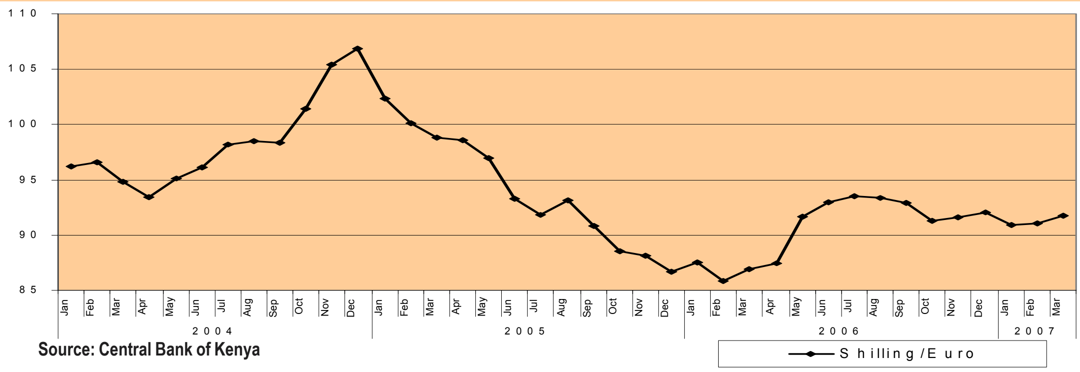
Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

Overall the banking sector remained stable in January 2007, mainly due to favourable macroeconomic conditions. With good economic prospects, the banking sector improved its asset quality portfolio and retained high capital adequacy ratios. The sector also registered growth in deposits and profitability. The improved performance resulted from increased income on loans and advances and a significant inflow of foreign deposits. Financial institutions and forex bureaus remained 45 and 95 respectively, between January 2006 and January 2007.

Structure of the Banking Sector

Total assets expanded by 18.1 percent or Ksh. 117.5 billion from Ksh. 648.6 billion in January 2006 to Ksh 766.0 billion in January 2007. The major assets were loans and advances and government securities which constituted 51 percent and 21 percent, respectively, of total assets.

Loans and Advances

Loans and advances, net of provisions, amounted to Ksh 400.5 billion in January 2007 compared with Ksh 340.0 billion in January 2006. Local currency loans and advances increased by 17.1 percent from Ksh 284.5 billion in January 2006 to Ksh 333.0 billion in January 2007 while foreign currency loans and advances increased by 21.2 percent from Ksh 55.6 billion in January 2006 to Ksh 67.4 billion over the same period.

Government Securities

Investment in Government securities increased by 21.4 percent from Ksh. 130.3 billion in January 2006 to Ksh 158.1 billion in January 2007 due to increased liquidity and increased government borrowing in the domestic market.

Deposit Liabilities

Total deposit liabilities including accrued interest increased by 18.8 percent from Ksh 528.8 billion in January 2006 to Ksh 628.2 billion in January 2007. Foreign currency deposits rose by 27.3 percent from Ksh 86.2 billion to Ksh 109.8 billion over the same period. This increase in deposit base was attributed to external donor inflows, remittances by Kenyans living abroad and earnings from tourism and agricultural sector.

Capital and Reserves

Capital and reserves of the banking sector increased by 13.8 percent from Ksh 82.8 billion in 2006 to Ksh. 96.6 billion in December 2006. 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 16.3 percent or Ksh 73.3 billion from Ksh 450.0 billion in January 2006 to Ksh 526.8 billion in January 2007. Similarly, total capital increased by 11.2 percent from Ksh 77.0 billion to Ksh 90.8 billion in January 2007. However, capital adequacy in the sector, as measured by the ratio of total capital to total risk weighted assets ratio declined from 18.1 percent in January 2006 to 17.5 percent in January 2007 but remained above the minimum statutory requirement of 12 percent.

Non-performing loans

In January 2007, the stock of non - performing loans stood at Ksh 100.4 billion or 20.9 percent of gross loans, compared with Ksh. 104.9 billion or 25.0 percent of gross loans at the end of January 2006. The reduction in the level of non-performing loans was attributed to recoveries and write-offs. The non-performing loans net of loan loss provisions stood at Ksh 25.3 billion and accounted for 5.3 percent of gross loans. Consequently, asset quality measured by the ratio of net non-performing loans to gross loans improved from 6.9 percent to 5.3 percent over the period as shown in Table 5.1.

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

		January-06	January-07
1	Gross loans and advances	419.9	479.6
2	Total loans and Advances	381.2	444.2
3	Gross non-performing loans	104.9	100.4
4	Specific Provisions	37.4	39.7
5	General Provisions	3.8	4.0
6	Total Provisions (4+5)	41.2	43.7
7	Net Advances (2-6)	340.0	400.4
8	Total Non-Performing Loans and Advances	66.2	65.0
9	Net Non-Performing Loans and advances (8-4	28.8	25.3
10	Total NPLs as % of total advances (8/2)	17.4	14.6
11	Net NPLs as % of gross advances (9/1)	6.9	5.3
12	Specific Provisions as % of Total NPLs (4/8)	56.5	61.0

Source: Central Bank of Kenya

Profitability

The banking sector's pre-tax profit stood at Ksh 6.13 billion in January 2007 compared with Ksh 5.1 billion in January 2006. The improved profitability was attributed to an increase in interest income on loans and advances and government securities and non-funded income. Fees and commissions income increased by 39.2 percent from Ksh 1.7 billion in January 2006 to Ksh 2.3 billion in January 2007. Total expenses increased by 18.7 percent from Ksh 5.1 billion in January 2006 to Ksh 6.1 billion in January 2007. Loan loss provision for the period increased to Ksh 603 million from Ksh 484 million expensed over a similar period in 2006. Salaries and wages expenses declined from 1.70 billion in January 2006 to Ksh 1.68 billion in January 2007. Annualized return on assets rose from 2.8 percent to 3.3 percent in 2007. At the same time, the return on shareholders funds increased from 27.2 percent to 33.2 percent 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 44.8 percent compared with the minimum requirement of 20 percent (Table 5.2 and Chart 5A). Mortgage Finance companies and other non-bank financial institutions (NBFIs) maintained an average liquidity ratio of 28.8 percent. The only building society maintained an average liquidity ratio of 47.7 percent.

Cash Ratios Requirement

Commercial banks maintained an average 6.3 percent reserve ratio with the Central Bank in February 2007 against the 6.0 percent reserve ratio requirements as shown in Table 5.2 and Chart 5A. NBFIs maintained an average 6.0 percent during the same period. In addition to reserve requirements, commercial banks held on average Ksh 1.7 billion as excess reserves in February 2007 compared with Ksh 1.8 billion in January 2007.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2006												2007	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Commercial Banks														
Actual Average Liquidity	42.5	42.5	42.6	42.0	41.0	42.6	42.8	41.5	43.6	43.3	44.8	45.0	46.0	
Minimum Liquidity Ratio	20	20	20	20	20	20	20	20	20	20	20	20.0	20.0	20.0
Actual Cash Ratio - All Banks	6.2	6.2	6.2	6.3	6.2	6.2	6.2	6.4	6.4	6.2	6.2	6.4	6.3	6.3
Minimum Cash Ratio Requirement*	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
NBFIs														
Actual Average Liquidity Ratio	33.2	31.5	33.6	33.3	28.6	28.8	29.5	29.0	28.9	28.6	28.2	32.0	28.0	
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Minimum Cash Ratio Requirement*	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

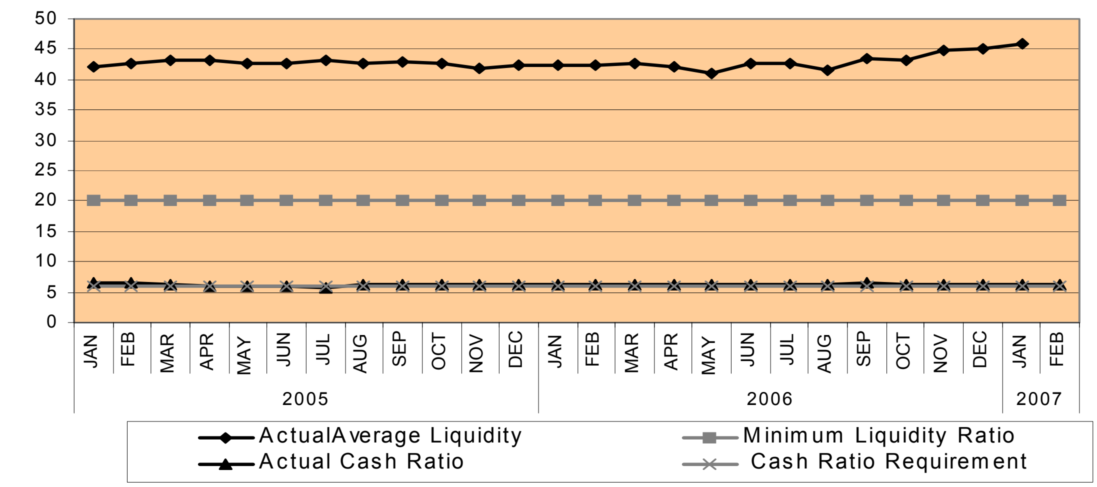
* Monthly average liquidity and cash ratios

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

*** Ratio includes NBFIs and Mortgage companies

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

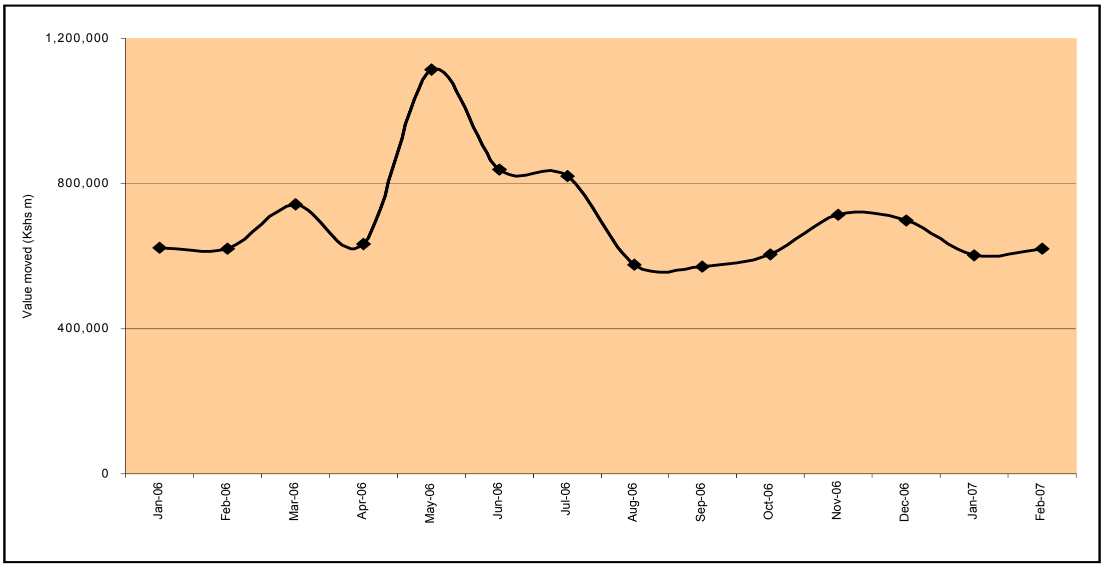
KEPSS Utilization Report

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 12,742 transactions worth Ksh 621 billion in February 2007. This represents 2.85 percent increase from January 2007. Compared with February 2006, however, the amount moved remained relatively the same though the volume moved increased from 10,696 transactions to 12,742 representing an increase of 19.13 percent - Table 5.3 and Chart 5B below.

TABLE 5.3: TRENDS IN TOTAL MONTHLY FLOWS JANUARY 2006 – FEBRUARY 2007

	Total value moved per month (Ksh Billion)	No. of Transactions	Average value per transaction (Ksh m)	Number of working days	Per day	
					Value	No. of Transactions
Jan-06	625	10,575	59.1	20	31,226	529
Feb-06	620	10,696	58.0	20	31,016	535
Mar-06	743	11,951	62.2	23	32,301	520
Apr-06	633	10,484	60.4	17	37,220	617
May-06	1,115	13,487	82.7	22	50,696	613
Jun-06	839	12,360	67.9	21	39,960	589
Jul-06	820	11,859	69.2	21	39,071	565
Aug-06	576	11,863	48.5	23	25,034	516
Sep-06	571	11,744	0.0	21	27	559
Oct-06	606	11,554	0.1	19	32	608
Nov-06	716	12,834	0.1	22	33	583
Dec-06	699	12,641	0.1	18	39	702
Jan-07	604	13,139	0.0	22	27	597
Feb-07	621	12,742	0.0	20	31	637
Average	670	11,438	58.4	21	32,451	554

CHART 5B: TRENDS IN DAILY FLOWS



Third Party Messages through KEPSS Aug 05 - Feb 07

Multiple third party Message Type (MT) 102 decreased for the second consecutive month to 654 from 724 messages in December 2006. Similarly, single third party Message Type (MT103) declined to 3,850 messages in February 2007 from 3,953 messages in January 2007. Inspite of this observation, the general upward trend has been maintained. This may be attributed partly to the awareness campaigns conducted by the Bank recently and partly due to the decline in KEPSS charges as depicted on Chart 5C below based on several surveys carried out by the Bank. Month-on- month MT102 increased by 19.8 percent from 546 messages to 654 messages while MT103 increased by 67.3 percent from 2,302 messages to 3,850 messages in February 2006 compared with February 2007 respectively.

CHART 5C TRENDS IN AVERAGE OUTGOING KEPSS CHARGES

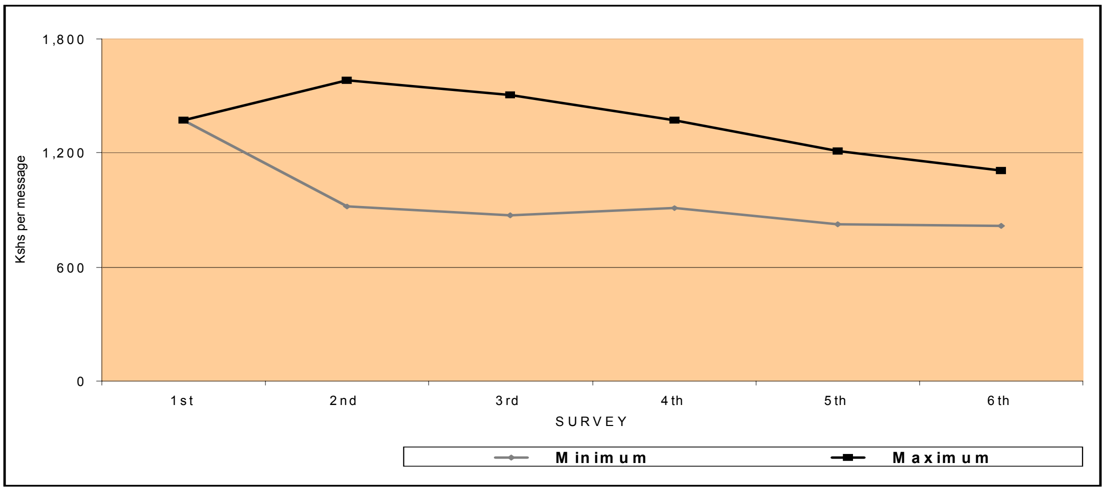


TABLE 5.4: MT 102 AND MT 103 FLOW THROUGH KEPSS

	2006											2007	
MT	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
102	546	596	524	723	602	617	623	647	615	552	724	680	654
103	2,302	2,586	2,665	3,020	2,818	2,796	2,927	3,018	3,679	3,627	3,904	3,953	3,850

CHART 5D: TRENDS IN MT102 MESSAGE FLOW THROUGH KEPSS AUG 05 – FEB 06

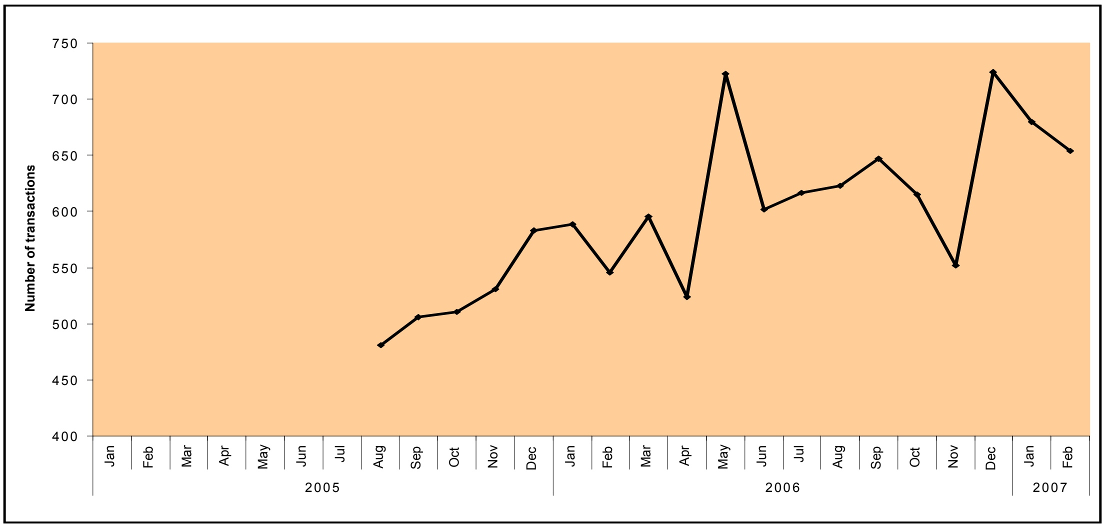
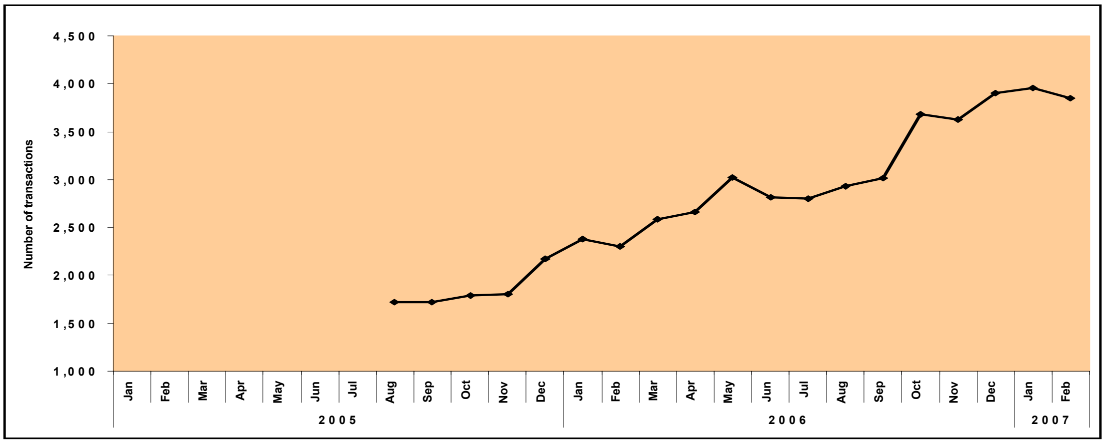


CHART 5E: TRENDS IN MT103 MESSAGE FLOW THROUGH KEPSS AUG 05-FEB 06



Direct and Indirect KEPSS Transactions

Direct payments through KEPSS increased to 91.3 percent in February 2007 compared with 91.1 percent in January 2007. Compared with February 2006, the proportion of direct payments to Net Settlement Instruction (NSI) in February 2007 dropped by 2.5 percentage points to 91.3 percent from 93.8 percent. Table 5.5 below highlights these developments.

TABLE 5.5: USAGE PROPORTIONS

	Total value of KEPSS transactions (m)	Settlement proportions			
		Direct (m)	%	Indirect {NSI (m)}	%
Jan-06	624,525	572,816	91.7	51,709	8.3
Feb-06	620,315	581,770	93.8	38,545	6.2
Mar-06	742,922	689,655	92.8	53,267	7.2
Apr-06	632,740	575,206	90.9	57,534	9.1
May-06	1,115,306	1,040,899	93.3	74,407	6.7
Jun-06	839,151	784,441	93.5	54,710	6.5
Jul-06	820,498	769,084	93.7	51,414	6.3
Aug-06	575,771	522,635	90.8	53,136	9.2
Sep-06	571,402	514,532	90.0	56,870	10.0
Oct-06	606,135	540,564	89.2	65,570	10.8
Nov-06	715,570	657,335	91.9	58,235	8.1
Dec-06	698,928	640,012	91.6	58,916	8.4
Jan-07	603,794	550,087	91.1	53,707	8.9
Feb-07	621,032	567,093	91.3	53,939	8.7
Average	648,578	594,155	91.2	54,423	8.8
Average 2005	577,247	526,688	91.2	50,559	8.8
Average 2006	713,605	657,412	91.9	56,193	8.1
Average 2007	612,413	558,590	91.2	53,823	8.8

Source: Central Bank of Kenya

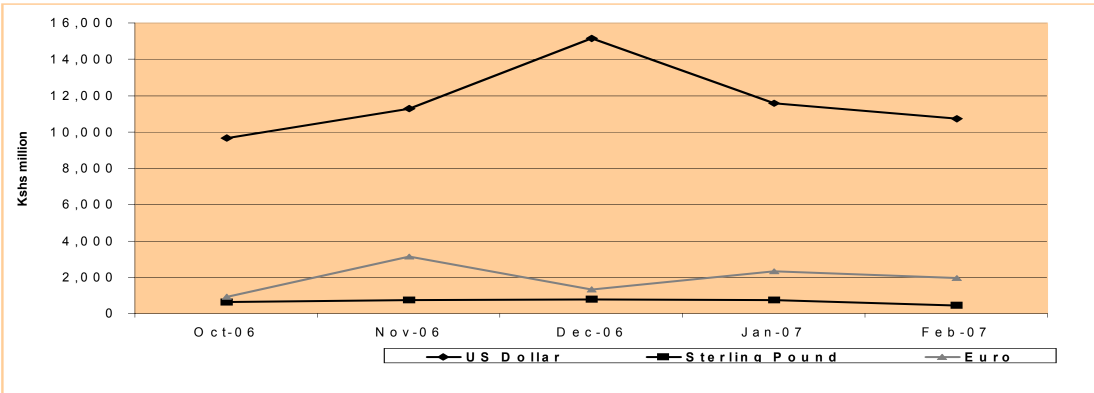
TABLE 5.6: FOREIGN CURRENCY FLOW THROUGH KEPSS

	DOLLAR		STERLING POUND		EURO	
	No. of Transactions	Value transacted (m)	No. of Transactions	Value transacted (m)	No. of Transactions	Value transacted (m)
Oct-06	497	133.8	136	4.5	159	10.1
Nov-06	575	158.7	135	5.3	192	34.0
Dec-06	579	217.8	150	5.6	172	14.3
Jan-07	669	165.7	141	5.5	226	25.7
Feb-07	565	154.0	128	3.1	205	21.6
Average	**539**	**153.7**	**126**	**4.5**	**177**	**19.2**

Domestic Foreign Currency Activity Through KEPSS

Table 5.6 below indicates that foreign currency flows through KEPSS were relatively lower in February 2007 compared with January 2007. For the month of February the system moved Ksh 10.7 billion, Ksh 0.42 billion, and Ksh 1.97 billion worth of US dollars, Sterling Pounds, and Euros respectively. (Figures converted to shilling equivalents using CBK average mean rate)

CHART 5F: FOREIGN CURRENCY KSH EQUIVALENT FLOW THROUGH KEPSS



Government Budget Performance

Budgetary operations of the central Government during the first seven months of the fiscal year 2006/07 resulted in a deficit on commitment basis of Ksh 18.2 billion or 1.1 percent of GDP compared with Ksh 25.3 billion or 1.7 percent of GDP in a similar period in the previous fiscal year. As shown in Table 6.1 and Chart 6A, the lower deficit was attributed to a substantial increase in tax revenue. However, on a cash basis, the Government had a budget deficit of Ksh 28.5 billion or 1.7 percent of GDP compared with Ksh 19.6 billion or 1.3 percent of GDP in the previous fiscal year.

The budget deficit for the first seven months of the fiscal year 2006/07 was within the 2.6 percent of GDP target both on commitment and cash basis.

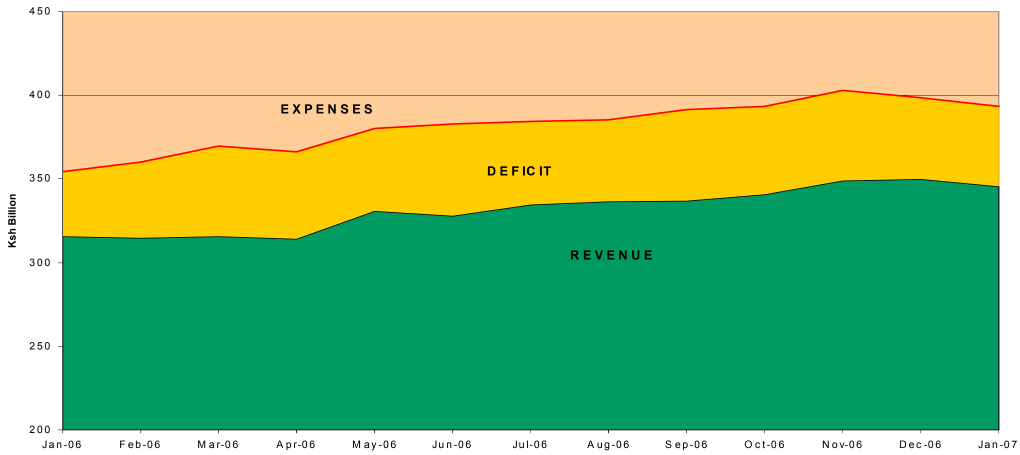
TABLE 6.1: STATEMENT OF CENTRAL GOVERNMENT OPERATIONS (Ksh Billion)

	FY 2005/06	FY 2006/07		
	January Actual	January Actual*	Target	Over (+) / Below (-) Target
1. TOTAL REVENUE	**183.7**	**201.5**	**217.1**	**-15.6**
Revenue	169.8	195.3	205.6	-10.2
Tax Revenue	145.0	169.0	172.3	-3.4
Non Tax Revenue	12.5	15.4	14.2	1.1
Appropriations-in-Aid	12.4	11.0	19.0	-8.0
External Grants	13.9	6.2	11.5	-5.4
2. TOTAL EXPENSES	**209.0**	**219.7**	**260.8**	**-41.1**
Recurrent Expenses	179.4	183.3	209.4	-26.1
Development Expenses	29.6	36.4	51.4	-15.0
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-25.3**	**-18.2**	**-43.8**	**25.5**
As % of GDP	-1.7	-1.1	-2.6	
4. ADJUSTMENT TO CASH BASIS	**5.7**	**-10.2**	**0.8**	**-11.0**
5. DEFICIT ON A CASH BASIS	**-19.6**	**-28.5**	**-43.0**	**14.5**
As % of GDP	-1.3	-1.7	-2.5	
6. DISCREPANCY:Exp. (+) / Rev. (-)	**-1.9**	**-1.1**	**0.0**	
7. FINANCING	**17.7**	**27.4**	**43.0**	**-15.6**
Domestic (Net)	17.0	29.3	36.0	-6.7
External (Net)	0.7	-1.9	3.3	-5.3
Capital Receipts (privatisation)	0.0	0.0	3.7	-3.7
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

* Provisional

Sources: Treasury

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



Sources: Treasury and Central Bank of Kenya

Revenue

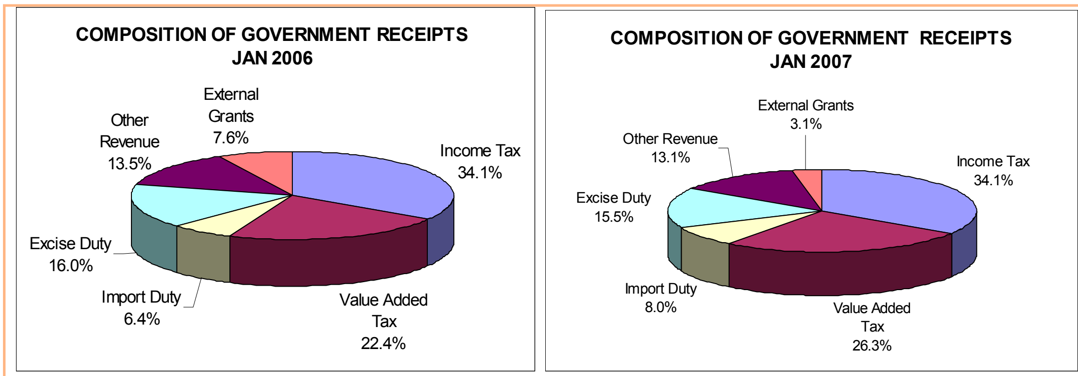
Cumulative Government revenue collection and receipts of external grants during the first seven months of the fiscal year 2006/07 amounted to Ksh 201.5 billion against a target of Ksh 217.1 billion, a shortfall of Ksh 15.6 billion or 7.2 percent in Government receipts compared with the targets. The revenue and grants were, however, above the Ksh 183.7 billion in a similar period in the previous fiscal year (Table 6.2). This represented a growth of Ksh 17.7 billion or 9.7 percent in Government receipts during the period. As a ratio of GDP, the revenue and grants declined from 12.4 percent in the first seven months of the fiscal year 2005/06 to 11.9 percent.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh Billion)

	Jan-06 Ksh bn	Jan-07 Ksh bn	Movement
1. Revenue (2+3+4)	**169.8**	**195.3**	**25.5**
2. Tax Revenue	145.0	169.0	24.0
Income Tax	62.6	68.7	6.0
Value Added Tax	41.2	53.0	11.8
Import Duty	11.7	16.1	4.3
Excise Duty	29.5	31.2	1.7
3. Appropriations-in-Aid	12.4	11.0	-1.4
4. Other Revenue	12.5	15.4	2.9
5. External Grants	**13.9**	**6.2**	**-7.8**
Total Receipts (1+5)	**183.7**	**201.5**	**17.7**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Cumulative tax revenue collection during the first seven months of the fiscal year 2006/07 stood at Ksh 169.0 billion against a target of Ksh 172.3 billion. This resulted in a shortfall of Ksh 3.4 billion from target or a performance of 98.0 percent. However, compared with a similar period last year, tax revenue collection grew by Ksh 24.0 billion or 16.5 percent. The proportion of tax revenue in total Government receipts rose to 83.9 percent during the period from 78.9 percent in a similar period of the previous fiscal year. Similarly, as a ratio of GDP, tax revenue rose from 9.8 percent in the first seven months of 2005/06 fiscal year to 10.0 percent in the first seven months of fiscal year 2006/07.

The increase in tax revenue collection during the period was largely in VAT and import duty which grew by 28.8 percent and 37.0 percent, respectively. Similarly, collections of excise duty and income tax during the period increased by 5.9 percent and 9.6 percent respectively compared with collections in the first seven months of the previous fiscal year (Table 6.2 and Chart 6B).

Receipts of external grants during the first seven months of the fiscal year 2006/07 amounted to Ksh 6.2 billion. This represented a decrease of 55.7 percent from Ksh 13.9 billion realised in a similar period of the previous fiscal year.

Expenditure and Net Lending

Cumulative Government expenses and net lending to public institutions during the first seven months of the fiscal year 2006/07 increased to Ksh 219.7 billion from Ksh 209.0 billion in a similar period of the previous fiscal year. The rise in expenses during the period was mainly in development expenses which increased by Ksh 6.8 billion compared with a similar period of the previous fiscal year. Recurrent expenses increased by Ksh 3.9 billion during the period (Table 6.3 and Chart 6c). Recurrent and development expenses for the period, however, were short of target by Ksh 26.1 billion and Ksh 15.0 billion, respectively.

In the first seven months of the fiscal year 2006/07 recurrent and development expenses were short of their respective targets of Kshs 209.4 billion and Kshs 51.4 billion by Kshs 26.1 billion and Kshs 15.0 billion, respectively. The under performance is attributed to the Government's decision to cut down on operation and maintenance expenses as the revenue collection was below target. Total Government financing during the period was Ksh 15.6 billion below target.

During the period, Government expenditure to GDP ratio declined from 14.2 percent to 13.0 percent in the first seven months of the fiscal year 2006/07.

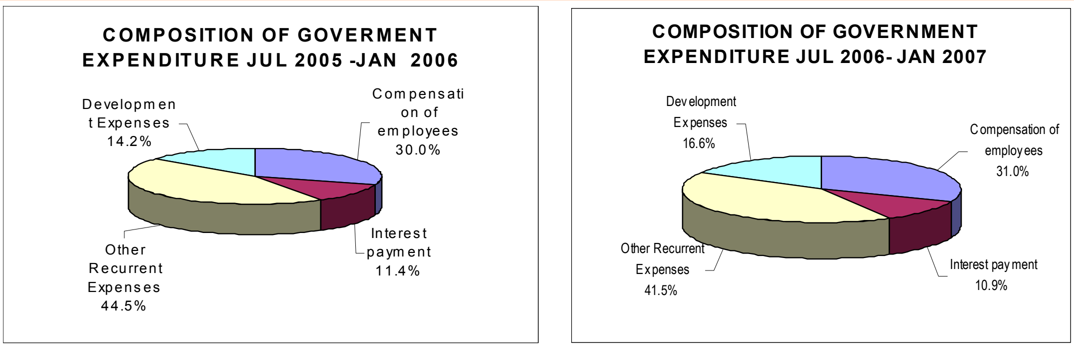
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Jan-06 Ksh bn	Jan-07 Ksh bn	Movement
1.Recurrent	**179.4**	**183.3**	**3.9**
Compensation of employees	62.6	68.2	**5.6**
Total Interest	23.8	23.9	**0.1**
of which			
Domestic*	16.9	20.6	**3.8**
Foreign interest due	6.9	3.2	**-3.7**
Others	93.0	91.3	**-1.8**
2. Development	**29.6**	**36.4**	**6.8**
TOTAL EXPENSES	**209.0**	**219.7**	**10.7**

*Includes commission and other charges paid to CBK

Source: Treasury

CHART 6C: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

The proportion of recurrent expenses in total expenditure during the period decreased to 83.4 percent from 85.8 percent in the first seven months of the fiscal year 2005/06. The decline in the proportion of recurrent expenses during the period was due to the faster increase in development expenses. Consequently, the proportion of development expenses in total expenditure increased to 16.6 percent from 14.2 percent in the first seven months of the fiscal year 2005/06. The rise in the proportion of development expenses in the period is consistent with the Economic Recovery Strategy objective of consistently increasing development expenses in order to promote investments.

Financing

Government budgetary operations in the first seven months of the fiscal year 2005/06 resulted in a financing requirement of Ksh 35.0 billion compared with Ksh 22.6 billion in a similar period of the fiscal year 2005/06 (Table 6.4). The financing requirement comprised Ksh 27.4 billion to finance the budget deficit, Ksh 1.9 billion to make external debt repayments and Ksh 5.7 billion to repay domestic debt owed to the CBK. The Ksh 35.0 billion financing requirement was financed by domestic borrowing consisting of Ksh 12.1 billion from commercial banks, Ksh 9.3 billion from non-bank sources and Ksh 13.7 billion draw down of Government deposits at the CBK.

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

I. FINANCING REQUIREMENTS	Jan-06 Ksh bn	Jan-07 Ksh bn
1. Budget deficit	17.7	27.4
2. External debt reduction	0.0	1.9
3. Domestic debt reduction	4.9	5.7
3.1 Central Bank (incl. items in transit)	4.9	5.7
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0
TOTAL	**22.6**	**35.0**
II. FINANCING SOURCES	**Jan-06 Ksh bn**	**Jan-07 Ksh bn**
1. Budget surplus	0.0	0.0
2. External debt increase	0.7	0.0
3. Increase in domestic debt	20.8	21.3
3.1 Central Bank	0.0	0.0
3.2 Commercial banks	9.8	12.1
3.3 Non-bank sources	11.1	9.3
4. Reduction in GoK deposits at CBK	1.0	13.7
5. Privatisation proceeds	0.0	0.0
TOTAL	**22.6**	**35.0**

Sources: Treasury & Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the CBK stood at Ksh 37.5 billion at the end of January 2007 down from Ksh 43.2 billion at the end of June 2006 and Ksh 44.0 billion in January 2006 (Table 6.5). The Ksh 6.4 billion fall in the debt between January 2006 and January 2007 followed decreases of Ksh 5.8 billion in the Government overdraft and Ksh 0.4 billion in both the repo treasury bills and a revaluation gain on the IMF funds on-lent to the Government. However, these increases were partly offset by an increase of Ksh 0.2 billion in the stock of cleared items in transit. New domestic borrowing in the fiscal year 2006/07 has therefore predominantly been through Treasury bonds. During the period under review the Government substantial reduced use of the overdraft facility at the CBK. In January 2007, direct advances to the Government from the CBK through the overdraft facility remained virtually zero. The reduced use of overdraft is a good sign as overdraft from CBK to Government virtually implies printing of money for financing Government operations. Its reduction was therefore good for monetary policy and reduces the cost of borrowing for the Government since the overdraft facility is granted at a higher rate, 10% currently, than the Treasury bill rates.

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

	2006		2007	Movement
	January	June	January	Jan 06-Jan 07
Total Government Credit (1+2+3+4+5)	**44.0**	**43.2**	**37.5**	-6.4
1. Overdraft	5.8	5.2	0.0	-5.8
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. Non-interest bearing T/bills & bonds	35.9	35.5	35.5	-0.4
4. IMF funds onlent to Government	2.1	1.9	1.7	-0.4
5. Cleared items in transit	0.2	0.5	0.3	0.2
Memorandum				
Authorised overdraft limit	**8.9**	**11.3**	**11.3**	2.4
Amount utilised to date	**5.8**	**5.2**	**0.0**	-5.8
Amount available	3.1	6.1	11.3	8.2

Source: Central Bank of Kenya

Outlook for FY 2006/07

Government domestic and external financing are programmed at Ksh 29.5 billion and Ksh 9.7 billion, respectively, in the fiscal year 2006/07. In addition, the Government expects to receive Ksh 18.2 billion from privatisation of Mumias Sugar, KenGen and Kenya Re-Insurance companies during the period.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt

Kenya's public and publicly guaranteed debt increased from Ksh 789.1 billion at the end of June 2006 to Ksh 796.2 billion at the end of January 2007 (Table 7.1). The rise in debt in the period was due to Ksh 20.3 billion increase in domestic debt which was partly offset by a decrease of Ksh 13.2 billion in external debt. Domestic debt increased due to planned domestic borrowing by the Government while external debt decreased mainly due to strengthening of the Kenya shilling. Following these developments, the proportion of domestic debt in the overall debt increased from 45.3 percent at the end of June 2006 to 47.5 percent at the end of January 2007 while the proportion of external debt in total debt declined from 54.7 percent to 52.5 percent in the same period.

In spite of the rise in the overall debt stock in the first seven months of the fiscal year 2006/07, the overall debt fell from 50.3 percent of GDP at the end of June 2006 to 47.5 percent at the end of January 2007. In particular, external debt declined from 27.5 percent of GDP at the end of June 2006 to 24.9 percent at the end of January 2007 while domestic debt decreased from 22.8 percent of GDP to 22.6 percent in the same period. The falling debt to GDP ratio is in line with the Government's debt management objectives, of achieving and maintaining debt sustainability.

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

	Jun 04	Jun 05	Dec 05	Mar 06	Jun-06	Dec-06	Jan-07*	Change 2006/07
EXTERNAL* **								
Bilateral	162.91	157.67	146.77	144.87	154.9	145.3	144.9	-10.0
Multilateral	260.7	255.8	240.3	242.2	255.6	242.7	253.5	-2.0
Commercial Banks	2.9	1.8	1.7	1.5	1.3	0.9	0.9	-0.4
Export Credit	16.7	19.2	19.9	18.4	19.5	18.8	18.8	-0.8
Sub-Total	**443.2**	**434.5**	**408.6**	**407.0**	**431.2**	**407.7**	**418.0**	**-13.2**
(As a % of GDP)	36.6	32.2	29.4	28.8	27.5	24.6	24.9	
(As a % of total debt)	59.1	57.9	54.9	54.0	54.7	51.4	52.5	
DOMESTIC\[1]								
Banks	**181.5**	**169.5**	**179.6**	**187.1**	**190.8**	**211.0**	**201.3**	**10.6**
Central Bank	50.8	46.6	44.9	47.5	41.3	47.1	35.9	-5.4
Commercial Banks	130.7	122.9	134.7	139.6	149.5	163.9	165.5	16.0
Non-banks	**120.7**	**139.5**	**149.2**	**153.1**	**162.0**	**167.7**	**170.4**	**8.4**
Non-bank Financial Inst.	3.2	2.1	2.0	1.7	1.4	0.9	0.9	-0.5
Other Non-bank Sources	117.5	137.4	147.3	151.4	160.6	166.9	169.6	9.0
Non-residents	**4.0**	**6.5**	**6.1**	**5.9**	5.0	6.4	6.4	1.3
Sub-Total	**306.2**	**315.6**	**335.0**	**346.1**	**357.8**	**385.1**	**378.1**	**20.3**
(As a % of GDP)	25.3	23.4	24.1	24.5	22.8	23.2	22.6	
(As a % of total debt)	40.9	42.1	45.1	46.0	45.3	48.6	47.5	
GRAND TOTAL	**749.4**	**750.0**	**743.6**	**753.1**	**789.1**	**792.9**	**796.2**	**7.1**
(As a % of GDP)	62.0	55.6	53.5	53.4	50.3	47.7	47.5	

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

Sources: Treasury and Central Bank of Kenya

Domestic Debt

Domestic debt increased in the first seven months of the fiscal year 2006/07 by 20.3 percent from Ksh 357.8 billion at the end of June 2006 to Ksh 378.1 billion at the end of January 2007. The rise in domestic debt during the period was wholly due to increases of Ksh 25.7 billion in Treasury bonds, (Table 7.2). These increases were, however, partially offset by a decrease of Ksh 0.3 billion and Ksh 5.2 billion in outstanding Government long-term stocks and other forms of domestic debt respectively. The level of Government overdraft at the CBK declined by Ksh 5.2 billion during the period to virtually zero.

The increase in domestic debt in the first seven months of the fiscal year 2006/07 was attributed to the success of the Government domestic borrowing programme with Treasury bills and bonds auctions realising average subscription rates of 136.5 percent and 159.9 percent, respectively.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2006								2007		Change
	Mar	%	Jun	%	Sep	%	Dec	%	Jan	%	Jun06 -Jan07
Total stock of Domestic Debt (A+B)	**346.1**	**100.0**	**357.8**	**100.0**	**371.6**	**100.0**	**385.1**	**100.0**	**378.1**	**100.0**	**20.3**
A. Government Securities	**332.2**	**96.0**	**349.7**	**97.7**	**365.1**	**98.3**	**371.0**	**96.3**	**375.2**	**99.2**	**25.5**
1. Treasury Bills (excluding Repo Bills)	**84.9**	**24.5**	**94.8**	**26.5**	**98.6**	**26.5**	**96.7**	**25.1**	**94.8**	**25.1**	**0.0**
Banking institutions	39.5	11.4	47.0	13.1	52.2	14.0	46.8	12.2	45.1	11.9	-1.9
Others	45.5	13.1	47.7	13.3	46.4	12.5	49.8	12.9	49.7	13.1	2.0
2. Treasury Bonds	**210.3**	**60.8**	**218.4**	**61.0**	**230.0**	**61.9**	**238.0**	**61.8**	**244.1**	**64.6**	**25.7**
Banking institutions	97.9	28.3	100.1	28.0	106.7	28.7	114.6	29.7	117.8	31.2	17.7
Others	112.4	32.5	118.2	33.0	123.3	33.2	123.4	32.0	126.3	33.4	8.1
3. Long term Stocks	**1.1**	**0.3**	**1.1**	**0.3**	**1.1**	**0.3**	**0.8**	**0.2**	**0.8**	**0.2**	**-0.3**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	1.1	0.3	1.1	0.3	1.1	0.3	0.8	0.2	0.8	0.2	-0.3
4. Pre-1997 Government Overdraft at CBK	**35.9**	**10.4**	**35.5**	**9.9**	**35.5**	**9.6**	**35.5**	**9.2**	**35.5**	**9.4**	**0.0**
Of which: Repo T/Bills	35.9	10.4	35.5	9.9	35.5	9.6	35.5	9.2	35.5	9.4	0.0
B. Others:	**13.8**	**4.0**	**8.1**	**2.3**	**6.5**	**1.7**	**14.1**	**3.7**	**2.9**	**0.8**	**-5.2**
Of which CBK overdraft to Government	11.3	3.3	5.2	1.5	3.7	1.0	11.3	2.9	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

The stock of Treasury bills (excluding Repos) remained unchanged in the first seven months of the fiscal year 2006/07 from Ksh 94.8 billion at the end of June 2006 (Table 7.2). However, the proportion of Treasury bills in the overall stock of domestic debt fell from 26.5 percent to 25.1 percent during the period. Treasury bills holdings by commercial banks fell from Ksh 47.0 billion at the end of June 2006 to Ksh 45.1 billion at the end of January 2007 (Table 7.3 and Chart 7A). Similarly, the proportion of Treasury bills holdings by commercial banks fell from 49.6 percent to 47.6 percent during the period.

At the end of the first seven months of the fiscal year 2006/07, 182-day Treasury bills accounted for the largest share of outstanding Treasury bills and bonds. The 182-day Treasury bills accounted for 20.9 percent of outstanding Treasury bills and bonds at the end of January 2007 up from 18.2 percent at the end of June 2006. However, the proportion of 91-day Treasury bills in outstanding Treasury bills and bonds declined from 12.0 percent to 7.1 percent during the period (Table 7.5). The shift from 91-day to 182-day Treasury bills by investors during the period was attributed largely to the higher interest rates on the latter than the former.

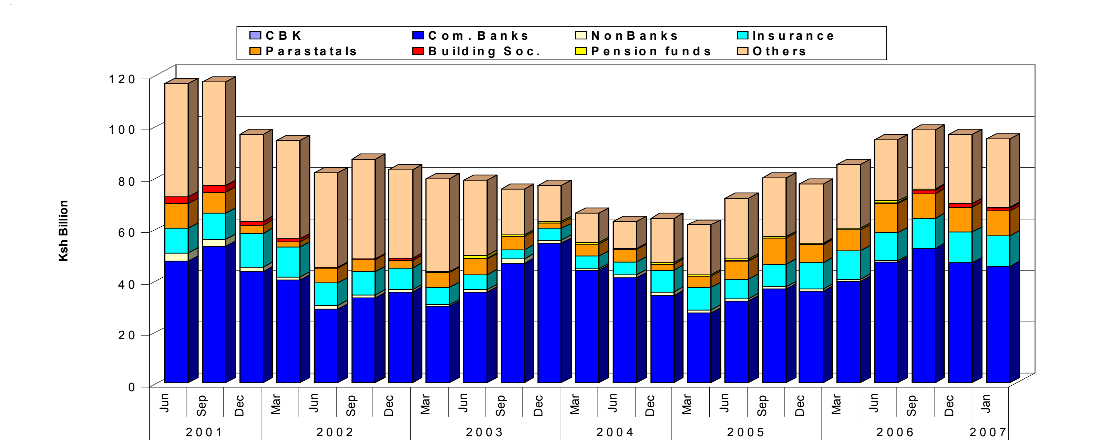
TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

	2005		2006								2007	
Holders	Dec	%	Mar	%	Jun	%	Sep	%	Dec	%	Jan	%
Banking Institutions	36.6	47.2	40.4	47.5	47.6	50.2	52.2	53.0	46.8	48.5	45.1	47.6
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	35.6	46.0	39.5	46.5	47.0	49.6	52.2	52.9	46.8	48.4	45.1	47.6
NBFIs	0.9	1.2	0.9	1.0	0.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	10.3	13.3	11.0	12.9	11.0	11.6	11.7	11.9	11.9	12.3	12.0	12.7
Parastatals	7.0	9.0	8.1	9.5	11.2	11.9	9.6	9.8	9.5	9.8	9.6	10.2
Of which: NSSF	0.1	0.2	0.4	0.4	0.6	0.6	0.8	0.8	0.3	0.3	0.1	0.1
Building Societies	0.1	0.2	0.2	0.2	0.5	0.6	1.6	1.6	1.4	1.5	1.4	1.4
Pension Funds	0.3	0.4	0.4	0.5	0.6	0.6	0.3	0.3	0.1	0.1	0.1	0.1
Others	23.2	29.9	25.0	29.4	23.8	25.1	23.1	23.5	26.9	27.9	26.6	28.1
Total*	77.4	100.0	84.9	100.0	94.8	100.0	98.6	100.0	96.7	100.0	94.8	100.0

* Excludes repurchase order bills

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Treasury Bonds

As shown in Table 7.2 and Chart 7B, the stock of Treasury bonds increased by 11.8 percent from Ksh 218.4 billion at the end of June 2006 to Ksh 244.1 billion at the end of January 2007. Following these developments, the proportion of Treasury bonds in total domestic debt increased from 61.0 percent to 64.6 percent during the period (Table 7.4). Furthermore, Treasury bonds holdings by commercial banks increased from Ksh 100.1 billion or 45.9 percent of outstanding bonds at the end of June 2006 to Ksh 117.8 billion or 48.3 percent of total bonds at the end of January 2007. Similarly, holdings of Treasury bonds by non-bank financial institutions, corporate entities and individuals increased from Ksh 118.3 billion to Ksh 126.3 billion in the same period.

At the end of January 2006, the largest proportion of Treasury bonds were in two-year and six-year bonds. The two-year and six-year bonds comprised 12.6 percent and 11.3 percent of outstanding Treasury bills and bonds at the end of January 2007 compared with 12.7 percent and 10.6 percent respectively at the end of June 2006. In addition, the average maturity of domestic debt increased from 2.23 years to 2.33 years in the same period. These developments are consistent with the

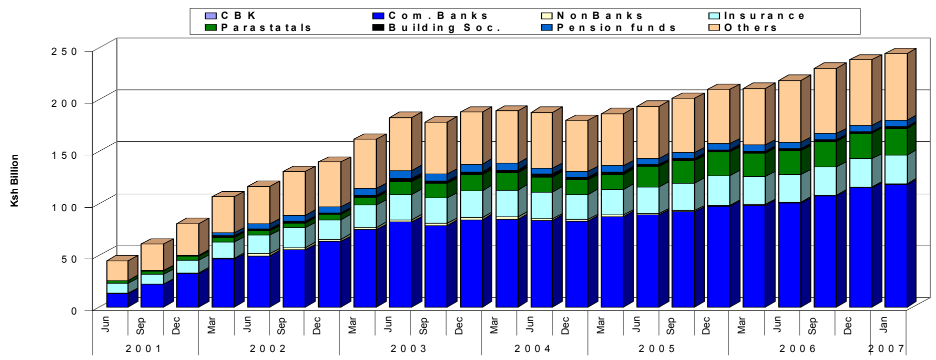
Government debt management objective of lengthening the maturity profile of domestic debt in order to minimise the risks associated with domestic borrowing in the medium to long term.

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

	2006								2007	
Holders	Mar	%	Jun	%	Sep	%	Dec	%	Jan	%
Banking Institutions	98.8	47.0	101.0	46.3	107.5	46.8	115.4	48.5	118.7	48.6
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	97.9	46.6	100.1	45.9	106.7	46.4	114.6	48.1	117.8	48.3
NBFIs	0.9	0.4	0.9	0.4	0.9	0.4	0.9	0.4	0.9	0.4
Insurance Companies	27.0	12.9	26.4	12.1	27.2	11.8	27.0	11.4	27.5	11.3
Parastatals	22.3	10.6	23.2	10.6	24.6	10.7	24.8	10.4	26.0	10.6
Of which: NSSF	3.7	1.8	4.9	2.2	5.3	2.3	5.4	2.3	6.5	2.6
Building Societies	1.9	0.9	1.8	0.8	1.6	0.7	1.5	0.6	1.5	0.6
Pensions Fund	6.0	2.8	6.2	2.8	5.9	2.6	5.9	2.5	5.9	2.4
Others	54.4	25.8	59.8	27.4	63.1	27.4	63.3	26.6	64.4	26.4
Total	**210.3**	**100.0**	**218.4**	**100.0**	**230.0**	**100.0**	**238.0**	**100.0**	**244.1**	**100.0**

Source: Central Bank of Kenya

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



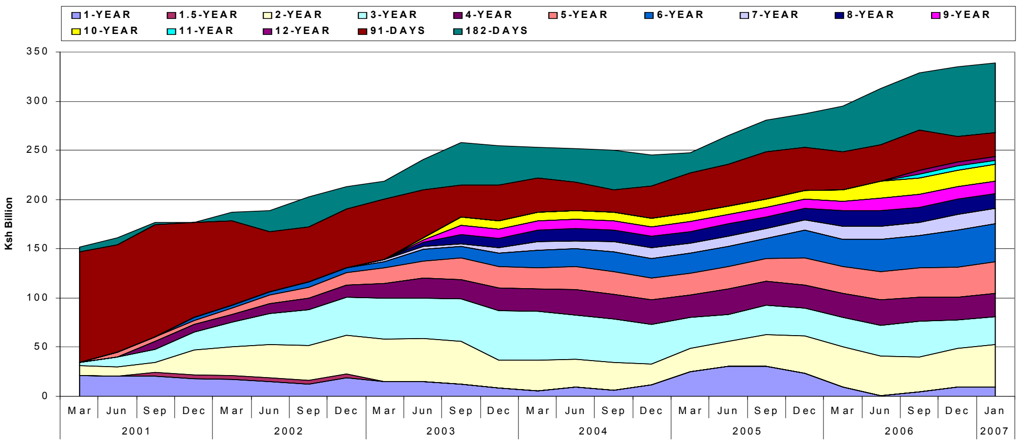
Source: Central Bank of Kenya

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

	2006								2007		Change
	Mar	%	Jun	%	Sep	%	Dec	%	Jan	%	Jun06 to Jan 07
91-Day	38.4	13.0	37.6	12.0	40.3	12.3	26.1	7.8	24.1	7.1	-13.5
182-Day	46.6	15.8	57.1	18.2	58.3	17.7	70.6	21.1	70.7	20.9	13.5
1-Year	9.5	3.2	1.0	0.3	4.6	1.4	9.7	2.9	9.7	2.9	8.7
2-Year	40.7	13.8	39.7	12.7	35.2	10.7	39.3	11.7	42.6	12.6	2.9
3-Year	30.0	10.2	31.3	10.0	36.3	11.1	28.6	8.5	28.6	8.4	-2.7
4-Year	24.2	8.2	26.3	8.4	24.3	7.4	23.4	7.0	23.4	6.9	-2.8
5-Year	27.6	9.3	28.4	9.1	30.0	9.1	30.0	9.0	32.8	9.7	4.4
6-Year	27.8	9.4	33.1	10.6	33.1	10.1	38.1	11.4	38.1	11.3	5.0
7-Year	13.6	4.6	13.6	4.3	13.6	4.1	15.9	4.7	15.9	4.7	2.3
8-Year	15.3	5.2	15.3	4.9	15.3	4.7	15.3	4.6	15.3	4.5	0.0
9-Year	9.6	3.2	12.6	4.0	12.6	3.8	12.6	3.8	12.6	3.7	0.0
10-Year	12.1	4.1	17.1	5.5	17.1	5.2	17.1	5.1	17.1	5.0	0.0
11-Year	0.0	0.0	0.0	0.0	4.0	1.2	4.0	1.2	4.0	1.2	4.0
12-Year	0.0	0.0	0.0	0.0	3.9	1.2	3.9	1.2	3.9	1.2	3.9
Total	**295.3**	**100.0**	**313.1**	**100.0**	**328.5**	**100.0**	**334.7**	**100.0**	**338.9**	**100.0**	

Source: Central Bank of Kenya

CHART 7C: OUTSTANDING TREASURY BILLS AND BONDS



Source: Central Bank of Kenya

Long-term Stocks

Outstanding Government long-term stocks decreased by Ksh 0.3 billion from Ksh 1.1 billion at the end of June 2006 to Ksh 0.8 billion at the end of January 2007. Consequently, the proportion of Government long-term stocks in total domestic debt fell from 0.3 percent to 0.2 percent during the period. Of the outstanding long-term stocks, the National Social Security Fund (NSSF) held 54.2 percent while the remaining 45.8 percent was held by insurance companies, other public enterprises and individuals.

Maturity Profile of Treasury Bills and Bonds

Between February and April 2007 Treasury bills and bonds amounting to Ksh 61.8 billion and Ksh 14.6 billion, respectively, will mature. The Treasury bill maturities in the period will comprise Ksh 29.9 billion in 91-day Treasury bills and Ksh 31.9 billion in 182-day Treasury bills while the Treasury bonds maturities in the period will comprise Ksh 9.5 billion in 2-year bonds, Ksh 2.8 billion in 4-year bonds and 0.9 billion in 5-year bonds.

External Debt

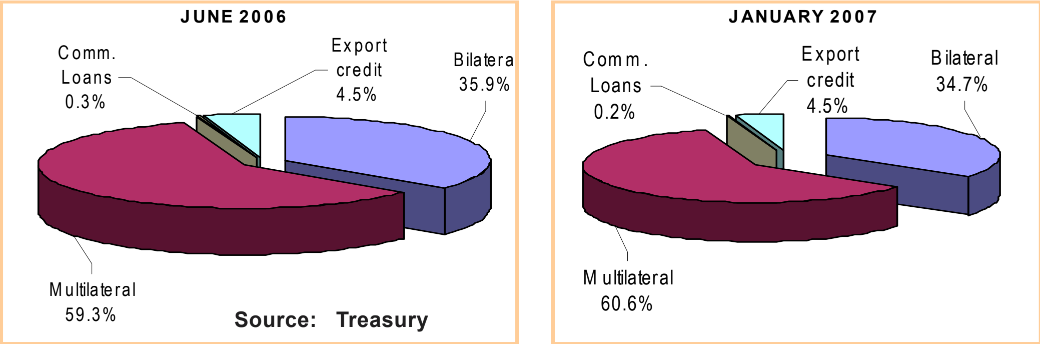
Kenya's external public and publicly guaranteed debt decreased by Ksh 13.2 billion or 3.1 percent in the first seven months of the fiscal year 2006/07, to stand at Ksh 418.0 billion at the end January 2007 from Ksh 431.2 billion at the end of June 2006. However, in foreign currency terms, the debt increased from USD 5.8 billion at the end of June 2006 to USD 5.9 billion at the end of January 2007.

The decline in external debt in the first seven months of the fiscal year was attributed to principal repayments of Ksh 6.6 billion and revaluation gains on the debt totalling Ksh 11.7 billion, which were partially offset by external loan disbursements amounting to Ksh 5.0 billion. The decline in external debt during the period was therefore attributed mainly to strengthening of the Kenya shilling.

Composition of External Debt by Creditor

The share of external debt owed to multilateral creditors increased from 59.3 percent at the end of June 2006 to 60.6 percent at the end of January 2007 while the proportion of the debt owed to bilateral creditors fell from 35.9 percent to 34.7 percent in the period (Chart 7D). On the other hand, the proportion of commercial loans fell from 0.3 percent to 0.2 percent while the share of export credits remained unchanged at 4.6 percent during the period.

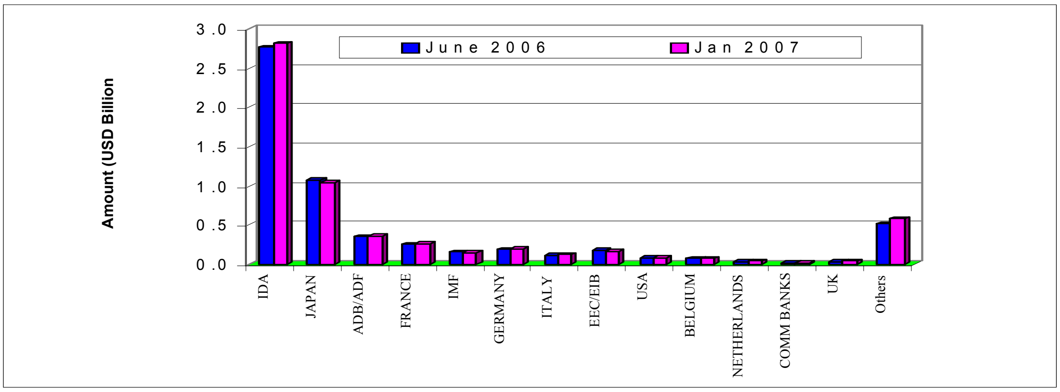
CHART 7D: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

As shown in Chart 7E, the International Development Association (IDA) and Japan were the main creditors to Kenya at the end of January 2007 with outstanding loans of USD 2.8 billion and USD 1.0 billion, respectively.

CHART 7E: EXTERNAL DEBT BY CREDITOR

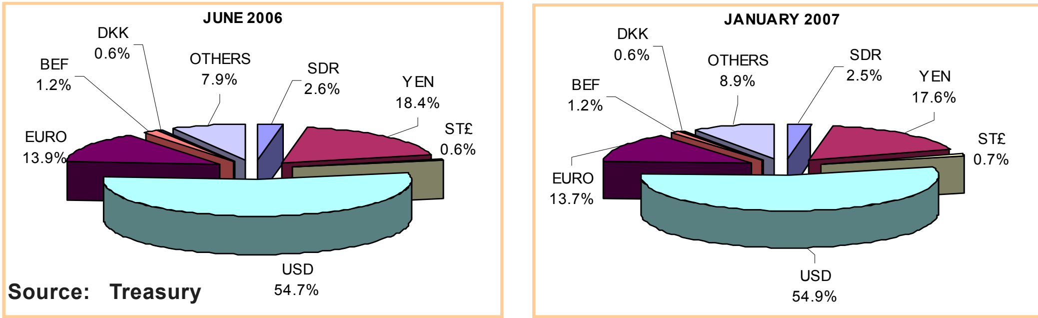


Source: Treasury

Currency Composition of External Debt

The share of external debt held in US dollars and Sterling pounds increased from 54.7 percent and 0.6 percent at the end of June 2006 to 54.9 percent and 0.7 percent respectively at the end of January 2007 (Chart 7F). However, the proportion of external debt held in Japanese yens and Euros fell from 18.4 percent and 13.9 percent to 17.6 percent and 13.7 percent, respectively during the period. At the same time, the proportion of external debt held in Belgian francs remained unchanged from the end-June 2006 positions of 1.2 percent while SDRs fell from 2.7 percent to 2.5 percent during the period.

CHART 7F: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

Government expenditure on interest and other charges on domestic debt during the first seven months of the fiscal year 2006/07 increased to Ksh 20.7 billion or 10.3 percent of ordinary revenue from Ksh 16.7 billion or 9.2 percent of the revenue in a similar period in the previous fiscal year. The higher domestic interest expenditure in period was attributed mainly to the significant rise in the stock of Treasury bonds which resulted in an increase in the interest payments on the bonds.

Similarly, external debt service increased to Ksh 12.7 billion or 6.3 percent of revenue in the first seven months of the fiscal year 2006/07 compared with Ksh 8.4 billion or 4.6 percent of the revenue in a similar period of the fiscal year 2005/06. The external debt service in the first seven months of the fiscal year 2006/07 comprised Ksh 9.8 billion in principal repayments and Ksh 2.9 billion in interest payments. In addition, external debt principal repayments amounting to Ksh 3.3 billion were rescheduled in the first seven months of the fiscal year 2006/07.

Outlook for the FY 2006/07

Government net domestic financing in the fiscal year 2006/07 is programmed at Ksh 29.5 billion. As a result, domestic debt is projected to increase to Ksh 400.5 billion or 22.8 percent of GDP at the end of June 2007. Similarly, external financing is programmed at Ksh 9.7 billion in the fiscal year 2006/07. Consequently, external debt is projected to rise by a similar margin during the fiscal year.

ACTIVITY IN THE STOCK MARKET

Equity Market Year 2006 Review

Activity in the equities market was subdued in February 2007 with most market indicators declining. The NSE 20 Share Index, Kenya's leading indicator of stock market performance, lost 387 points during the month. It declined from 5,774.3 at the end of January 2007 to 5,387.3 in February 2007. Market turnover declined by 26 percent during the month, from Ksh 10.5 billion in January 2007 to Ksh 7.8 billion in February 2007 as a result of declining prices in most counters. The volume of shares traded declined by 20 percent from 136.3 million shares to 109.1 million shares in February 2007. Market capitalization declined by 12 percent or Ksh 100.6 billion from Ksh 824.3 billion in January 2007 to Ksh 723.7 billion in February 2007.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS, 2005 - 2007

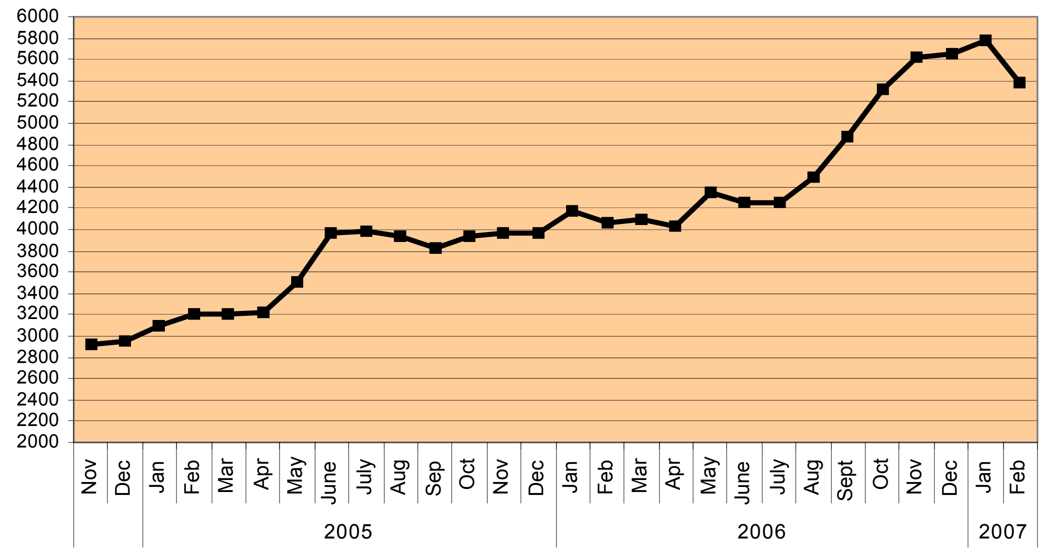
Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
Sept 05	3,832.69	150.99	2,759.43	449.80	1,283.50
Oct 05	3,939.45	58.42	3,850.00	455.00	1,520.00
Nov 05	3,974.12	82.42	4,350.00	455.50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

Source: Nairobi Stock Exchange

Bond market turnover, however, increased by 289 percent with bonds worth Ksh 6.2 billion traded in February 2007 compared with Ksh 1.6 billion in January (Table 8.1). The improved trading at the bond market could be attributed to a shift in the investor preference from the equities to the fixed income securities.

The Main Investment Market Segment had the industrial and allied sector trade 57.7 million shares valued at Ksh 3.0 billion, representing 39 percent of the market turnover in February 2007. Most traded stocks in the sector included KenGen and Mumias sugar that traded 20.1 million and 17.5 million shares, respectively. The Finance and Investment sector traded 36.5 million shares valued at Ksh 3.5 billion and represented 45 percent of total turnover in February 2007. The leading stocks in trading in the sector were ICDC Investment and Barclays Bank that traded 12.3 million and 9.8 million shares, respectively. It is expected that the two sectors will continue to lead in trading volumes as investors shift towards companies expected to announce better results for 2006.

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



Source: Nairobi Stock Exchange

The Alternative Investment Market Segment (AIMS) had 1.2 million shares traded valued at Ksh 71.9 million in February 2007 with Express Kenya trading 795 thousand shares worth Ksh 21.4 million while Williamson Tea had 235 thousand shares traded valued at Ksh 36.3 million.

Balance Sheet of the Central Bank of Kenya

(Kenya shillings million)

	Feb-07	Feb-06	Feb 06/Feb 07 Movement
ASSETS	**216,345**	**187,205**	**29,140**
Foreign Exchange	173,838	139,625	**34,213**
Advances and Discounts to Banks	0	0	**0**
Investment in Government Securities	2	2	**0**
Government Accounts	36,808	43,504	**-6,696**
Overdraft to Government	41	5,202	**-5,161**
Clearing Account	-460	289	**-749**
IMF funds on-lent to Government	1,678	2,096	**-418**
Non-interest Bearing Government Debt	35,549	35,917	**-368**
Other assets	5,697	4,074	**1,623**
Debtors	4,387	2,510	**1,877**
Retirement Benefits	394	478	**-84**
Property and Equipment	633	800	**-167**
Prepaid Leases	283	286	**-3**
LIABILITIES	**216,345**	**187,205**	**29,140**
Currency in Circulation	84,438	72,406	**12,032**
Repo Securities	6,736	13,046	**-6,310**
Deposits	110,775	96,797	**13,978**
Commercial Banks			
Kenya	37,734	29,155	**8,579**
External	21	21	**0**
Non-Bank Financial Institutions	132	113	**19**
IMF	12,670	13,631	**-961**
Government	50,204	45,530	**4,674**
Other Public Entities and Project A/Cs	9,061	7,266	**1,795**
Local Banks Forex Settlement Fund	953	1,081	**-128**
Other Liabilities and Provisions	2,640	1,263	**1,377**
Capital and Reserves	11,756	3,693	**8,063**
Capital	1,500	1,500	**0**
General Reserve Fund	8,145	5,398	**2,747**
Period's Surplus	2,111	-3,205	**5,316**
Dividend payable	0	0	**0**

Source: Central Bank of Kenya

Notes on the Balance Sheet

Assets

Foreign exchange reserves of the Bank increased by Ksh 34,213 million, from Ksh 139,625 million in February 2006 to Ksh 173,838 million in February 2007. Most of the increase came from forex purchases from the interbank market.

Investment in Government Securities remained unchanged at Ksh 2 million in February 2007.

Government accounts declined by Ksh 6,696 million from Ksh 43,504 million in February 2006 to Ksh 36,808 million in February 2007. This was mainly due to repayment of overdraft by Ksh 5,161 million, decline in the value of IMF funds on-lent to government by Ksh 418 million, decline of Ksh 749 million in clearing account balances at the Bank and reduction in the non-interest bearing government debt by Ksh 368 million.

Other assets increased by Ksh 1,623 million from Ksh 4,074 million in February 2006 to Ksh 5,697 million in February 2007 on account of increase in the value of debtors of the Bank by Ksh 1,877 million that fully offset Ksh 167 million decline in the value of property and equipment and Ksh 84 million decline in the value of retirement benefits.

Liabilities

Currency in circulation increased by Ksh 12,032 million from Ksh 72,406 million in February 2006 to Ksh 84,438 million in February 2007.

The stock of **repo securities** declined by Ksh 6,310 million from Ksh 13,046 million in February 2006 to Ksh 6,736 million in February 2007.

Deposits increased by Ksh 13,978 million from Ksh 96,797 million in February 2006 to Ksh 110,775 million in February 2007, largely reflecting increase of Ksh 8,579 million in commercial banks' deposits at the Central Bank, Ksh 4,674 million increase in Government of Kenya deposits and Ksh 1,795 million increase in other public entities and project account deposits. The increases fully offset Ksh 961 million decline in IMF liabilities with the Bank and Ksh 128 million decline in local banks forex settlement balances.

Other liabilities and provisions increased by Ksh 1,377 million from Ksh 1,263 million in February 2006 to Ksh 2,640 million in February 2007.

Capital and reserves increased by Ksh 8,063 million from Ksh 3,693 million in February 2006 to Ksh 11,756 million in February 2007 due to Ksh 2,747 million increase in the general reserve fund and Ksh 5,316 million increase in surplus of the Bank in the year to February 2007.