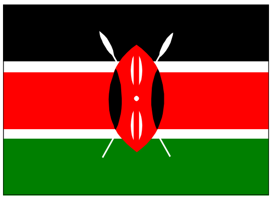


MONTHLY ECONOMIC REVIEW
NOVEMBER 2007
The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at: http://www.centralbank.go.ke
email: info@centralbank.go.ke

CONTENTS

Overview

Introduction

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

GDP Growth

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

Inflation

Overall 12-month inflation rose from 10.6 percent in the year to October 2007 to 11.8 percent in the year to November 2007. In contrast, average annual inflation decelerated from 10.2 percent in the year to October 2007 to 10.0 percent in the year to November 2007.

Government Fiscal Operations

Government budgetary operations improved significantly in the first quarter of 2007/08 compared with performance in a similar period of 2006/07 due to improved tax revenue collections. Consequently, the Government budgetary operations in the first quarter of 2007/08 resulted in a surplus of Ksh 3.3 billion or 0.2 percent of GDP on commitment basis compared with a deficit of Ksh 0.9 billion or 0.1 percent of GDP in a similar period of the previous fiscal year. The performance of the budget in the first quarter of 2007/08 was well within the target of 0.4 percent of GDP on commitment basis.

Public Debt Developments

The overall debt to GDP ratio dropped from 51.1 percent in June 2006 to 43.8 percent in June 2007 before rising to 44.1 percent in September 2007. The proportion of domestic debt in GDP increased from 22.1

percent to 22.6 percent during the period while external debt to GDP ratio dropped from 21.7 percent to 21.5 percent. The overall debt to GDP ratio was generally on a downward trend in the previous three years to June 2007 due to improved economic performance

Monetary Expansion

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

Interest Rates

Short term interest rates declined in November 2007 with the average 91-day Treasury bill rate increased from 7.6 percent in October 2007 to 7.5 percent in November 2007. The 182-day Treasury bill rate, however, increased from 7.84 percent in October 2007 to 8.04 percent in Nobember 2007. Average interbank rates decline.

Balance of Payments

Overall surplus in the balance of payments declined from US$ 766 million in the year to September 2006 to US$ 419 million in the year to September 2007 following increased merchandise imports.

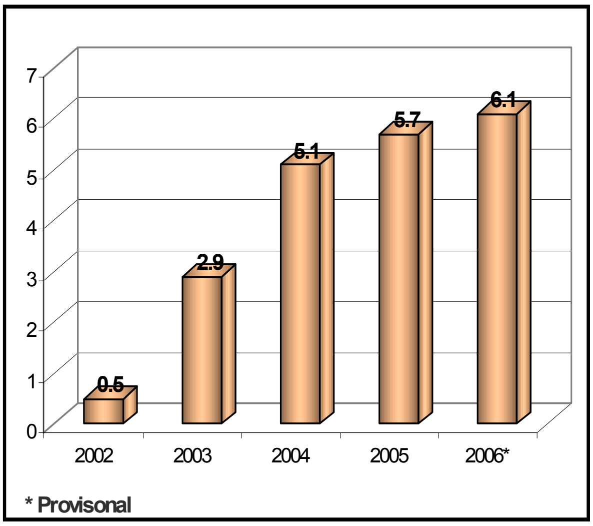
Exchange Rates

The Kenya shilling appreciated against the US dollar and the Sterling Pound in November 2007 but depreciated against the Euro and the Japanese Yen. Against the US dollar, the shilling exchanged at an average of Ksh 65.5 per US dollar in November 2007 compared with Ksh 66.8 per US dollar in October 2007. The shilling depreciated marginally against the Uganda and Tanzania shillings.

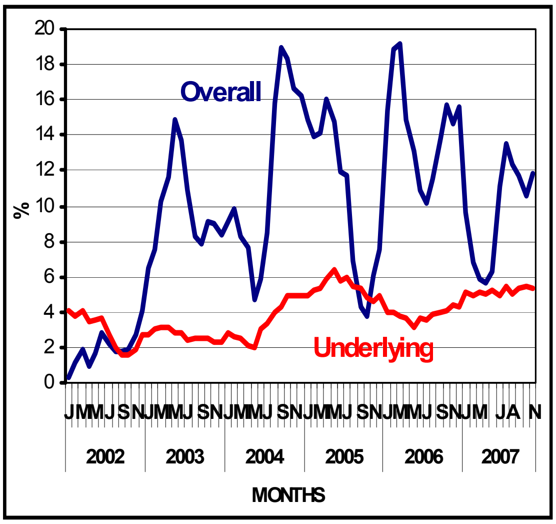
[1] Effective January 2006, the CBK adopted a harmonized definition of monetary aggregates to conform to those of the East African Community (EAC) member countries. Consequently, M3X, the intermediate target of monetary policy in Kenya under the reserve money programme has been renamed broad money M3.

SELECTED ECONOMIC PERFORMANCE INDICATORS

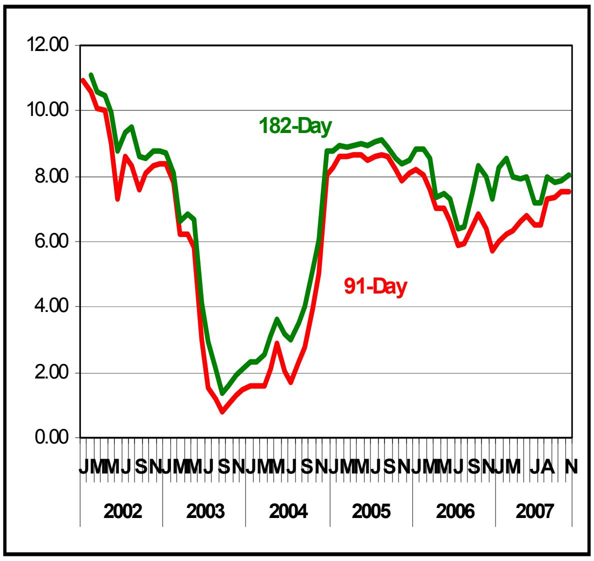
Real GDP Growth



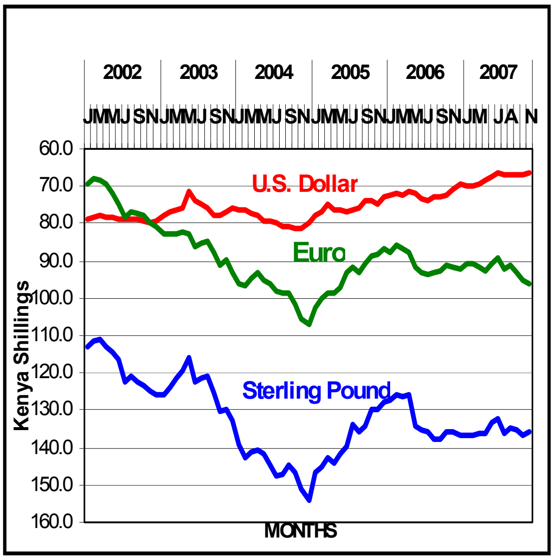
Inflation



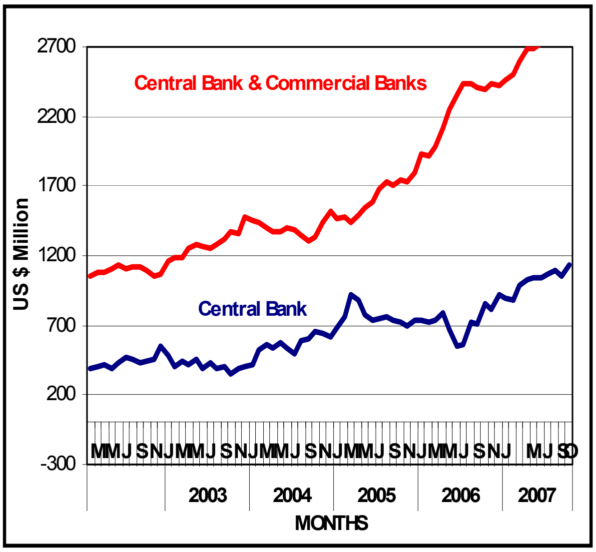
Treasury Bill Rates



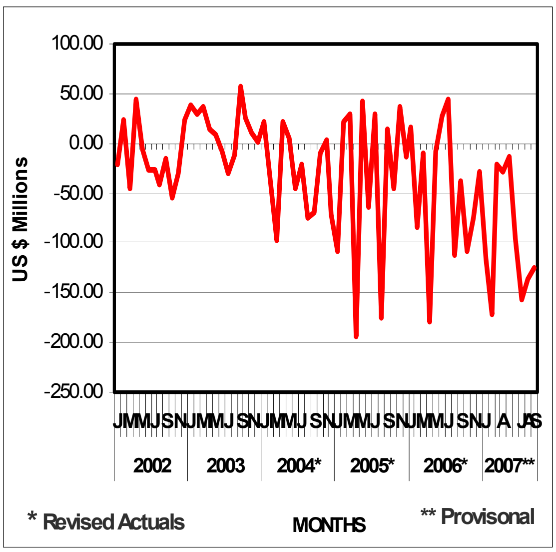
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS, 1998 - 2006

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

* Provisional.

** Revised to reflect data in Economic Survey 2007.

*** Fiscal year to June 30th.

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

[1] Previously M3XT

[2] Previously M3X

[3] Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

	2006										
INDICATOR	Nov	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
1. INFLATION (%)											
CPI	**208.60**	**214.05**	**225.30**	**222.61**	**221.83**	**224.93**	**226.57**	**225.79**	**228.15**	**229.99**	**233.28**
Overall Inflation											
12-month overall inflation	14.64	15.59	5.87	5.66	6.33	11.10	13.56	12.37	11.72	10.55	11.83
Average annual overall inflation	13.81	14.45	11.73	10.92	10.33	10.35	10.64	10.72	10.57	10.19	10.00
Underlying Inflation*											
12-month underlying inflation	4.39	4.32	5.13	5.03	5.22	4.90	5.46	5.06	5.34	5.41	5.30
Average annual underlying inflation	3.93	3.88	4.17	4.29	4.46	4.56	4.72	4.81	4.92	5.03	5.82
2. INTEREST RATES (%)											
91-day Treasury bill interest rate	6.41	5.73	6.32	6.65	6.77	6.53	6.52	7.3	7.3	7.55	7.52
Overdraft interest rate	13.96	13.91	13.95	13.58	13.35	13.20	13.34	13.39	13.26	13.29	13.43
3. STOCK MARKET											
Nairobi Stock Exchange Price Index	5,615.20	5,645.65	5,133.67	5,199.44	5,001.77	5,146.73	5,340.08	5,371.72	5,146.46	4,971.04	5,215.36
Turnover (%)	1.87	0.83	1.10	0.72	1.00	1.20	1.34	1.88	2.09	1.39	1.33
4. GOVERNMENT BUDGET** (Ksh bn.)											
Revenue	137.32	170.16	256.71	305.21	331.21	383.59	34.2	66.0	97.9		
Expenses	161.38	194.39	284.20	334.50	368.65	405.20	29.3	69.6	94.6		
Budget Deficit (-) / Surplus (+)	**(24.06)**	**(24.23)**	**(27.49)**	**(29.29)**	**(37.44)**	**(21.61)**	**4.90**	**(3.65)**	**3.30**		
5. MONEY AND CREDIT (Ksh bn.)											
Liquidity (L)[1]	814.09	826.91	858.80	866.11	880.42	894.60	902.18	920.50	927.11	932.77	
Money Supply (M3)[2]	651.73	659.59	684.97	690.44	701.52	719.52	723.32	741.05	743.99	750.14	
Reserve Money	117.27	124.16	122.17	126.08	124.57	126.47	128.42	132.44	131.33	133.95	
Total Domestic Credit	**571.99**	**571.48**	**591.25**	**595.70**	**606.03**	**606.75**	**616.37**	**632.66**	**638.06**	**646.43**	
Government	146.44	137.81	137.80	132.52	134.30	157.17	156.03	163.22	160.41	166.51	
Private sector and other public sector	425.56	433.67	453.45	463.18	471.72	449.97	460.34	469.44	477.65	479.92	
6. MONEY AND CREDIT (Annual % Change)											
Liquidity (L)[1]	16.80	16.99	17.29	15.07	16.65	16.88	16.01	17.02	16.45	15.93	
Money Supply (M3)[2]	17.86	17.78	17.84	14.99	17.32	18.83	16.72	19.02	17.72	16.70	
Reserve Money	15.30	16.88	18.89	17.80	21.58	17.45	17.87	18.98	16.96	17.58	
Total Domestic Credit	**14.95**	**15.40**	**14.39**	**13.72**	**16.38**	**16.30**	**13.51**	**17.79**	**17.98**	**16.04**	
Government	16.38	12.81	9.45	7.10	10.33	33.32	15.69	24.21	23.32	19.20	
Private and other public sector	12.94	14.99	14.77	14.48	18.23	11.33	12.78	15.65	16.29	14.98	
7. BALANCE OF PAYMENTS (US$ m)											
Overall Balance	**45.15**	**(21.24)**	**92.97**	**101.34**	**(54.33)**	**44.56**	**85.66**	**(19.64)**	**44.97**		
Current Account	(74.73)	(27.71)	(21.15)	(27.79)	(14.32)	(92.08)	(142.38)	(105.68)	(124.68)		
Trade Balance	(365.25)	(360.09)	(322.03)	(337.18)	(393.71)	(411.37)	(439.94)	(428.90)	(405.76)		
Capital and Financial Account	119.88	6.47	114.12	129.13	(40.01)	136.64	228.03	86.04	169.66		
8. FOREIGN EXCHANGE RESERVES (US$ m)	3,250.06	3,331.30	3,570.40	3,717.17	3,719.22	3,767.46	3,869.52	3,871.43	3,869.69	3,991.21	
Official***	2,440.52	2,415.27	2,589.91	2,684.19	2,682.59	2,723.15	2,804.80	2,779.07	2,820.04	2,852.97	
Months of imports cover	*3.63*	*3.53*	*3.57*	*3.71*	*3.63*	*3.61*	*3.62*	*3.54*	*3.55*	*3.59*	
Commercial banks	809.54	916.03	980.49	1,032.98	1,036.63	1,044.31	1,064.72	1,092.37	1,049.66	1,138.24	
9. PUBLIC DEBT (US$ bn)	**10.87**	**10.94**	**11.26**	**11.87**	**12.10**	**12.04**	**12.16**	**12.32**	**12.43**		
Domestic	5.45	5.46	5.64	5.72	5.84	6.08	6.08	6.21	6.37		
As % of GDP	23.16	24.55	23.97	21.89	21.66	22.14	22.21	22.28	22.60		
External	5.42	5.48	5.62	6.15	6.27	5.96	6.09	6.11	6.06		
As % of GDP	25.83	*24.55*	*23.97*	*23.60*	*23.26*	*21.69*	*22.24*	*21.92*	*21.50*		
10. GROSS DOMESTIC DEBT (Ksh bn)****	**381.03**	**385.10**	**386.29**	**390.49**	**390.80**	**404.70**	**410.2**	**415.9**	**426.8**		
11. AVERAGE EXCHANGE RATE											
Ksh/US$	71.13	69.63	69.29	68.58	67.19	66.57	67.07	66.95	67.02	66.85	65.49
Ksh/Pound Sterling	135.89	136.79	134.91	136.40	133.31	132.25	136.41	134.57	135.19	136.52	135.79
Ksh/ 100 Yen	60.65	59.47	59.08	57.73	55.65	54.27	55.17	57.38	58.25	57.76	58.92
Ksh/Euro	91.58	92.03	91.77	92.68	90.82	89.33	91.99	91.15	93.06	95.09	96.13

* Overall inflation excluding food, energy and transport and communications

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

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

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

[1] Previously M3XT

[2] Previously M3X

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

TRENDS IN VARIOUS MEASURES OF INFLATION

Overall Inflation

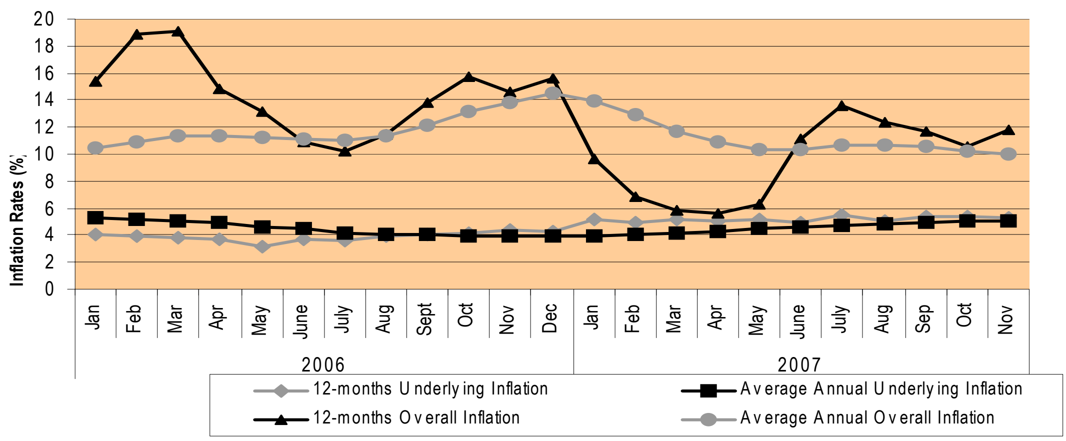
Overall 12-month inflation rose from 10.6 percent in the year to October 2007 to 11.8 percent in the year to November 2007. Increased pressure on overall inflation mainly emanated from higher prices of food, alcohol and tobacco, and transport and communication categories of goods and services. In contrast, average annual inflation decelerated from 10.2 percent in the year to October 2007 to 10.0 percent in the year to November 2007.

Underlying Inflation

While the 12-month underlying inflation decelerated from 5.4 percent in the year to October 2007 to 5.3 percent in the year to November 2007, the annual average underlying inflation rose from 5.0 percent to 5.1 percent. Deceleration in the 12-month underlying inflation derived from easing of upward pressure in the prices of housing, and medical goods and services.

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

CHART 1A: UNDERLYING AND OVERALL INFLATION



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

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2006				2007							
	Sept	Oct	Nov	Dec	Apr	May	June	July	Aug	Sep	Oct	Nov
Underlying Inflation												
12-month	4.02	4.11	4.39	4.32	5.03	5.22	4.90	5.46	5.06	5.34	5.41	5.30
Average annual	4.01	3.95	3.93	3.88	4.29	4.46	4.56	4.72	4.81	4.92	5.03	5.10
Growth over one month	0.32	0.22	0.29	0.48	0.23	0.19	0.80	0.64	0.15	0.59	0.29	0.19
Growth over 3 months	0.98	1.09	0.84	0.99	0.65	0.79	1.22	1.64	1.60	1.40	1.04	1.07
Overall Inflation												
12-month	13.85	15.69	14.64	15.59	5.66	6.33	11.10	13.56	12.37	11.72	10.55	11.83
Average annual	12.13	13.11	13.81	14.45	10.92	10.33	10.35	10.64	10.72	10.57	10.19	10.00
Growth over one month	1.60	1.90	0.30	2.60	-1.20	-0.40	1.40	0.70	-0.30	1.00	0.80	1.40
Growth over 3 months	0.90	4.30	3.80	4.80	0.90	-0.80	-0.20	1.80	1.80	1.40	1.50	3.30

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

Inflation by Income Groups

Except for the Nairobi Middle/Upper income group, whose inflation decelerated from 10.2 percent in the 12-months to October 2007 to 9.8 percent in the 12-months to November 2007, all other income groups experienced higher inflation during the year to November 2007 compared with the year to October 2007. For instance, inflation for the Nairobi Lower income group accelerated from 9.5 percent to 12.1 percent while inflation for the ''Combined Nairobi'' income group accelerated from 9.6 percent to 11.7 percent. Inflation for the ''Rest of Kenya'' income group also rose from 11.2 percent in the 12-months to October 2007 to 12.0 percent in the 12-months to November 2007. Details on inflation by income groups are shown in Table 1.2 and Chart 1 B.

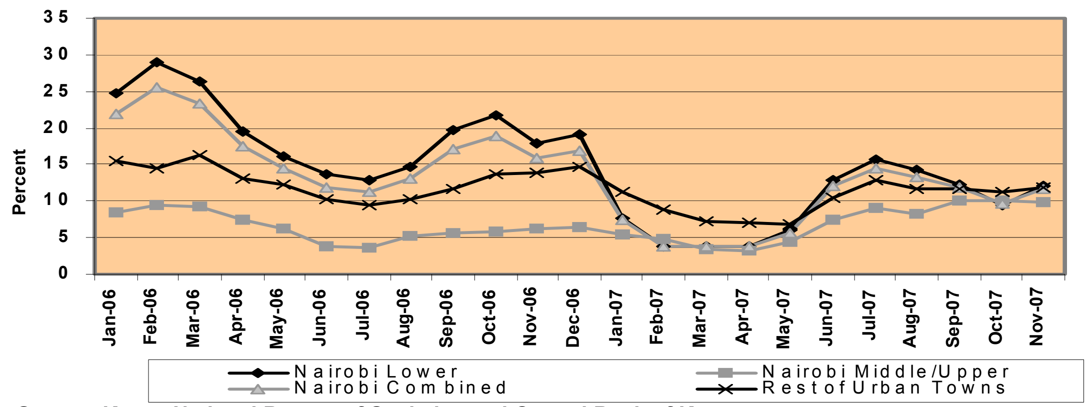
TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)

	2006				2007							
	Aug	Sept	Nov	Dec	Apr	May	June	July	Aug	Sep	Oct	Nov
Nairobi Lower	14.75	19.67	17.86	19.20	3.86	5.95	12.93	15.65	14.34	12.27	9.48	12.07
Nairobi Middle/Upper	5.14	5.68	6.33	6.44	3.14	4.51	7.44	9.04	8.27	10.10	10.15	9.80
Nairobi Income \1	13.05	17.15	15.83	16.99	3.75	5.72	12.04	14.56	13.34	11.92	9.60	11.71
Rest of Urban Towns	10.35	11.73	13.82	14.67	6.96	6.75	10.50	12.90	11.72	11.59	11.18	11.96

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

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

CHART 1B: 12-MONTH INFLATION BY INCOME GROUPS



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

Inflation Across Goods and Services Categories

The 12-month inflation in all the categories of goods and services except for food and non-alcoholic drinks category of goods and services, remained within single digit levels. Inflation for food and non-alcoholic drinks rose from 14.0 percent in the 12-months to October 2007 to 15.7 percent in the 12-months to November 2007, thus contributing most to the increase in overall inflation.

Inflation for alcohol and tobacco, and clothing and footwear categories of goods and services rose from 7.8 percent and 2.8 percent, respectively, in the 12-months to October 2007, to 9.3 percent and 3.1 percent in the 12-months to November 2007. Similarly, inflation for transport and communication, and personal goods and services, rose from 3.1 percent and 3.7 percent, respectively, in the 12-months to October 2007 to 8.6 percent and 3.8 percent in the 12-months to November 2007.

It is notable that four of the ten categories of goods and services in the CPI basket recorded lower inflation during the year to November 2007 than in the year to October 2007. Inflation for housing, fuel and power, household goods and services and medical goods and services, decelerated from 7.5 percent, 5.9 percent, 6.2 percent and 3.8 percent, respectively, in the 12-months to October 2007 to 6.9 percent, 5.7 percent, 5.7 percent and 3.8 percent, respectively, in the 12-months to November 2007. Inflation for recreation and education category of goods and services remained unchanged at 3.2 percent as recorded in October 2007.

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

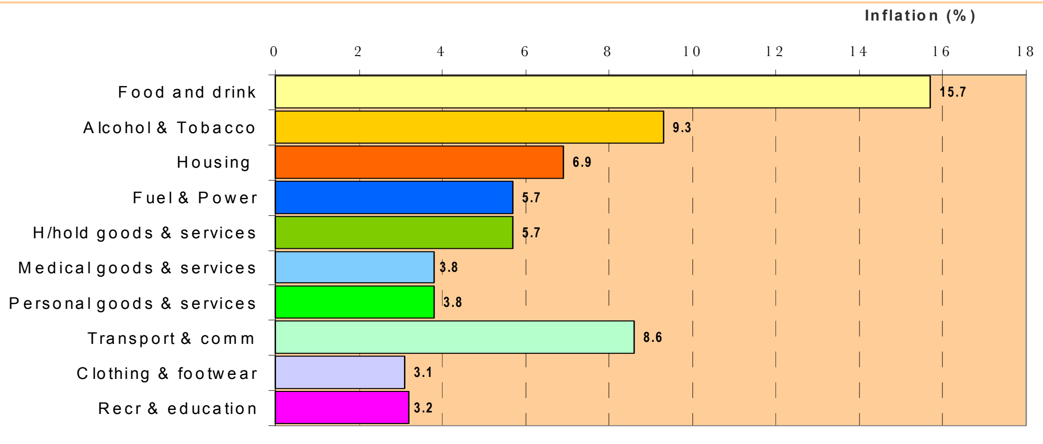
TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES - NOVEMBER 2006 TO NOVEMBER 2007

	Income Groups*													
Goods and Services	Nairobi Lower	Middle/Upper	Rest of Urban Towns	Combined weights	2006		2007							
Weight	*(31.9)*	*(8.0)*	*(60.1)*	*(100)*	Nov	Dec	Apr	May	June	July	Aug	Sep	Oct	Nov
Food and drink	55.70	31.90	50.20	50.50	21.10	22.60	5.50	6.70	15.00	18.90	17.20	16.10	14.00	15.70
Housing	11.90	31.70	9.00	11.70	5.90	6.00	7.20	7.10	5.80	7.20	6.50	7.50	7.50	6.90
Recr & education	4.60	7.30	6.60	6.00	2.00	2.10	3.30	3.20	3.10	2.90	2.70	2.80	3.20	3.20
H/hold goods & services	5.00	4.70	6.40	5.80	4.40	4.70	5.20	5.70	5.90	6.00	6.30	6.20	6.20	5.70
Clothing & footwear	9.20	7.40	9.10	9.00	2.80	3.00	3.80	4.00	3.30	3.00	2.70	2.80	2.80	3.10
Transport & comm	5.10	10.20	5.50	5.70	7.10	6.50	5.80	5.50	3.10	3.20	3.80	2.80	3.10	8.60
Fuel & Power	3.50	2.20	4.80	4.20	13.00	13.50	10.50	8.60	8.50	8.70	7.00	6.30	5.90	5.70
Medical goods & services	0.90	1.30	2.00	1.60	4.10	3.10	4.10	3.50	4.70	4.80	4.90	4.10	4.40	3.80
Personal goods & services	2.30	1.90	2.60	2.40	1.80	2.00	2.60	3.00	3.60	3.80	4.10	3.90	3.70	3.80
Alcohol & Tobacco	1.80	1.40	3.80	3.00	8.80	7.00	5.10	6.60	8.00	9.80	8.10	8.10	7.80	9.30

* Numbers in parentheses are income group weights

Source: Kenya National Bureau of Statistics

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



Source: Kenya National Bureau of Statistics

Inflation Outlook

High food and international oil prices continue to be the major threat to inflation.

Overall 12-month inflation rose from 10.6 percent in the year to October 2007 to 11.8 percent in the year to November 2007 mainly on account of higher prices of food, alcohol and tobacco, and transport and communication categories of goods and services.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Money supply, M3[1], grew by 16.7 percent in the year to October 2007 compared with 17.0 percent in a corresponding period in 2006. While M3 growth in October 2007 eased from 17.7 percent in September 2007, it remained above the projected 15.0 percent growth for the December 2007 quarter. Broad money, M2, that is, M3 excluding foreign currency deposits, grew by 16.8 percent in October 2007 compared with 17.6 percent in October 2006 as shown in Table 2.1 and Chart 2A.

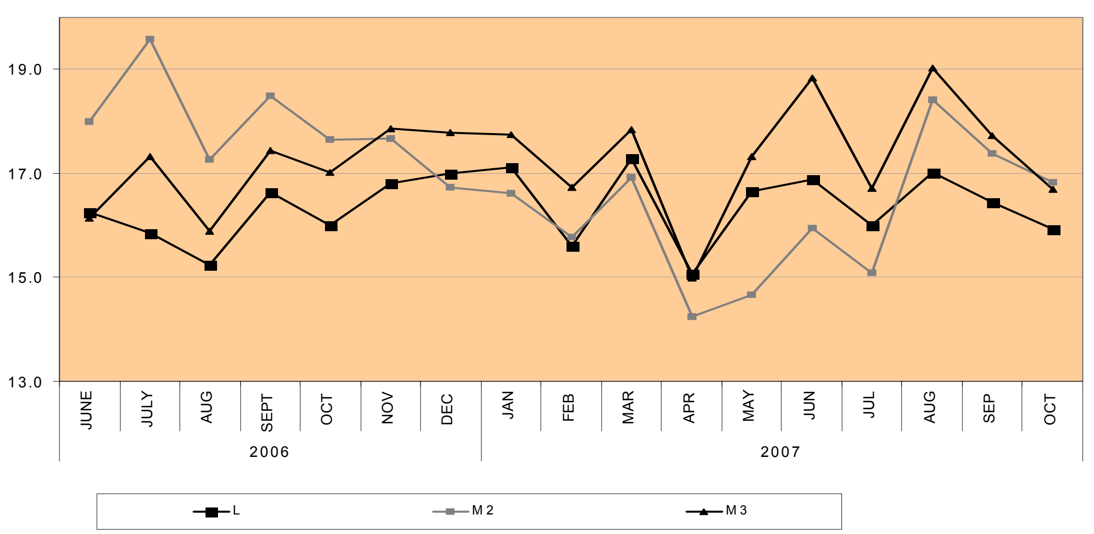
TABLE 2.1: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

Monetary Aggregates	2006				2007			
	Jun	Sep	Oct	Dec	Mar	Jun	Sep	Oct
Currency outside banks	13.3	15.8	15.9	15.3	19.2	16.2	16.6	16.0
M1	16.4	21.0	21.7	26.2	21.3	31.1	30.9	24.5
M2	18.0	18.5	17.6	16.7	16.9	16.0	17.4	16.8
M3	16.0	17.4	17.0	17.9	17.8	18.8	17.7	16.7
L*	16.2	16.6	16.0	17.1	17.3	16.9	16.4	15.9

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The growth in money supply in the year to October 2007 was supported by growth in net foreign assets (NFA) and net domestic assets (NDA) of the banking system. NFA grew by 12.5 percent while NDA of the Central Bank expanded by 18.8 percent.

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

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

	2005 October	2006 October	2007 October	Oct-06 12 months %age change	Oct-07 12 months %age change
1. Money Supply, M3 (2+3) 2/	**549.3**	**642.8**	**750.1**	**17.0**	**16.7**
1.1 Money supply, M2 3/	463.9	545.8	637.6	17.6	16.8
1.2 Money supply, M1	231.5	281.6	350.6	21.7	24.5
1.3 Currency outside banks	60.1	69.6	80.8	15.9	16.0
2. Net Foreign Assets 4/	**164.7**	**212.3**	**238.8**	**28.9**	**12.5**
Central Bank	117.1	160.7	179.9	37.2	12.0
Banking Institutions	47.6	51.6	58.8	8.4	14.1
3. Net Domestic Assets (3.1+3.2)	**384.6**	**430.5**	**511.4**	**11.9**	**18.8**
3.1 Domestic Credit (3.1.1+3.1.2)	**488.3**	**557.1**	**646.4**	**14.1**	**16.0**
3.1.1 Government (net)	122.2	139.7	164.3	14.3	17.6
3.1.2 Private sector and other public sector	366.1	417.4	482.2	14.0	15.5
3.2 Other Assets Net (3-3.1)	-103.7	-126.5	-135.1	22.1	6.7
Memorandum items					
1. Overall Liquidity, L 1/	**693.6**	**804.6**	**932.8**	**16.0**	**15.9**
2. Reserve Money	**100.3**	**113.9**	**134.0**	**13.6**	**17.6**
Currency outside banks	60.1	69.6	80.8	15.9	16.0
Bank reserves	40.2	44.3	53.2	10.2	20.1

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

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

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

3/ Broad money, M2, comprises currency outside banking institutions, and all private and other public sector holdings of d

time deposits. It excludes central and local Government deposits with banking institutions. Is comparable to M3 in the p

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

Source: Central Bank of Kenya

At 12.6 percent, the contribution of NDA to money supply expansion in October 2007 was higher than 8.0 percent in October 2006, reflecting faster growth in credit to the private sector and to Government. Meanwhile, the contribution of the banking system's NFA to monetary expansion eased from 9.0 percent in October 2006, to 4.1 percent in October 2007, reflecting a slower build up in banking system' NFA.

TABLE 2.3: CONTRIBUTION TO M3 GROWTH (%)

	2006				2007			
	Jun	Sep	Oct	Dec	Mar	Jun	Sep	Oct
Annual growth in M3	**16.1**	**17.4**	**17.0**	**17.8**	**17.8**	**18.8**	**17.7**	**16.7**
Net Foreign Assets	**7.1**	**8.1**	**9.0**	**8.8**	**8.4**	**8.0**	**5.6**	**4.1**
Net Domestic Assets	**9.0**	**9.4**	**8.0**	**9.0**	**9.4**	**10.9**	**12.1**	**12.6**
Domestic Credit	**11.2**	**11.7**	**12.5**	**13.6**	**12.8**	**14.0**	**15.4**	**13.9**
Government (net)	1.1	2.2	3.2	2.8	2.0	6.5	4.8	3.8
Rest of Economy	10.1	9.5	9.4	10.8	10.8	7.6	10.6	10.1
Other public sector	0.4	0.8	1.0	1.2	1.1	0.0	-0.4	-0.7
Private Sector	9.8	8.7	8.4	9.7	9.6	7.5	11.0	10.8
Other items (net)	**-2.2**	**-2.4**	**-4.6**	**-4.6**	**-3.4**	**-3.2**	**-3.2**	**-1.3**

Source: Central Bank of Kenya

Credit Developments

Domestic credit grew by 16.0 percent in the year to October 2007 compared with 14.1 percent in a similar period in 2006, reflecting increased credit to the private sector and to Government. Credit to Government increased by 17.6 per cent in the year to October 2007 compared with a 14.3 percent decline in a corresponding period in 2006, reflecting higher domestic borrowing by Government to finance increased expenditure particularly on projects.

Credit to the private sector grew by 17.3 percent in October 2007 compared with 12.8 percent in October 2006. Most of the private sector credit expansion was due to Households (16.5 percent), Manufacturing (12.47 percent), Trade (12.34 percent), Other activities (11.30 percent), Business services (9.58 percent) and transport (8.95 percent) as shown in Chart 2B. Loans to these sectors accounted for over 70.1 percent of the overall private credit expansion in the year to October 2007.

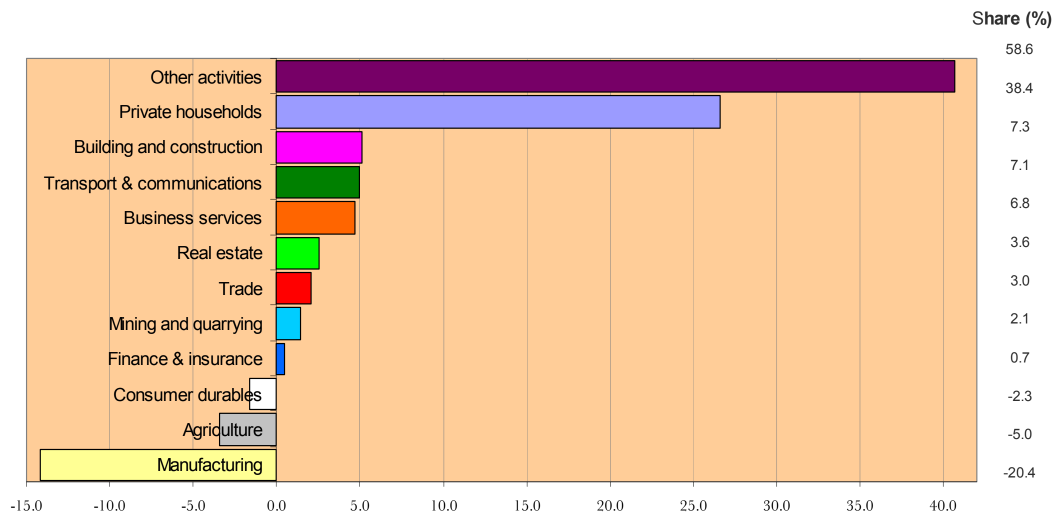
TABLE 2.4: BANKING SYSTEM NET DOMESTIC CREDIT

	2006 October		2007 October		Annual % Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2005/2006	2006/2007
1. Credit to Government	**139.7**	**25.1**	**164.3**	**25.4**	**14.3**	**17.6**
Central Bank	-4.2	-0.8	0.1	0.0	-162.9	-102.2
Commercial Banks & NBFIs	143.9	25.8	164.2	25.4	24.7	14.1
2. Credit to other public sector	**16.9**	**3.0**	**12.1**	**1.9**	**50.7**	**-28.1**
Local government	-2.3	-0.4	-2.4	-0.4	364.0	5.6
Parastatals	19.1	3.4	14.5	2.2	63.8	-24.1
3. Credit to private sector	**400.5**	**71.9**	**470.0**	**72.7**	**12.8**	**17.3**
Agriculture	31.7	5.7	31.8	4.9	1.7	0.5
Manufacturing	73.2	13.1	58.6	9.1	10.0	-20.0
Trade	56.0	10.1	58.0	9.0	11.4	3.5
Building and construction	32.6	5.9	36.5	5.6	21.5	12.0
Transport & communications	39.2	7.0	42.1	6.5	52.2	7.4
Finance & insurance	24.7	4.4	26.1	4.0	-20.8	5.8
Real estate	24.1	4.3	26.3	4.1	4.3	8.7
Mining and quarrying	3.1	0.5	4.9	0.8	8.0	62.1
Private households	49.9	9.0	75.9	11.7	5.3	52.0
Consumer durables	14.7	2.6	11.6	1.8	68.1	-20.9
Business services	40.3	7.2	45.0	7.0	15.3	11.7
Other activities	11.0	2.0	53.1	8.2	81.4	384.1
4. TOTAL (1+2+3) *	**557.1**	**100.0**	**646.4**	**100.0**	**14.1**	**16.0**

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Reserve Money

Reserve money grew by 17.6 per cent in the year to October 2007 relative to 13.6 per cent annual growth in the year to October 2006 as shown in Table 2.5. The expansion in reserve money was in currency outside banks and bank reserves which grew by 16.0 percent and 20.4 percent, respectively, compared with 20.1 percent and 3.9 percent a year earlier. Reserve money was Ksh 134 billion in October 2007, which was Ksh 1.3 billion above the target for the period.

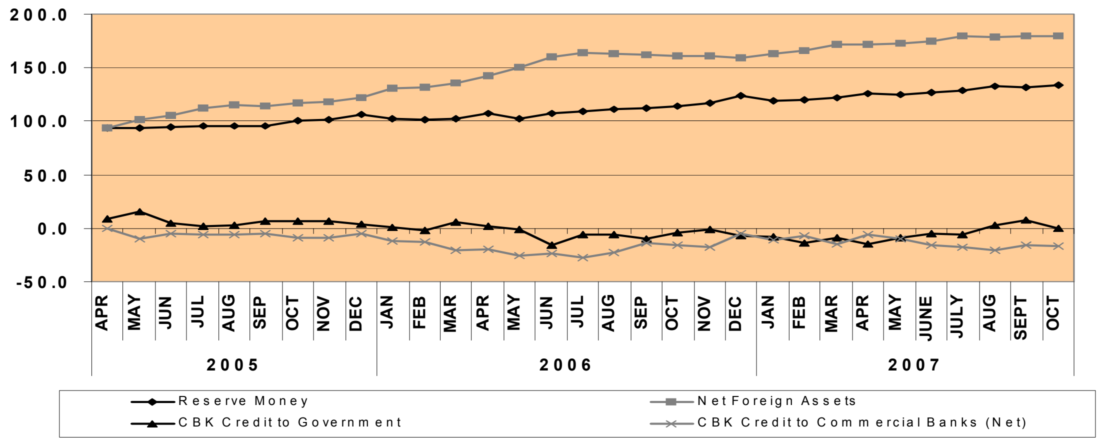
The increase in reserve money in the year to October 2007 was supported by growth in Net Foreign Assets (NFA) of the Central Bank, which increased by Ksh 25.5 billion or 16.5 percent in the year to October 2007 due to interbank forex purchases

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

	2006	2007	Change		2007	
	Oct	Oct	Absolute	%	Oct Target	Deviation
1. Net Foreign Assets	154.5	179.9	25.5	16.5	186.4	-6.4
2. Net Domestic Assets	-40.6	-46.0	-5.4	13.4	-53.8	7.8
2.1 Government Borrowing (net)	-4.6	0.1	4.7	-102.0	-10.3	10.4
2.2 Advances & Discounts	-15.1	-17.2	-2.1	13.6	-27.9	10.7
2.3 Other Domestic Assets (net)	-20.8	-28.9	-8.1	38.7	-15.6	-13.3
3. Reserve Money	113.9	134.0	20.0	17.6	132.6	1.3
3.1 Currency outside banks	72.1	83.6	11.5	16.0	83.1	0.6
3.2 Bank reserves	41.8	50.3	8.5	20.4	49.6	0.7

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

by the Bank. Usable NFA of the Central Bank averaged Ksh 179.9 billion or Ksh 6.4 billion below the target in October 2007.

Meanwhile, NDA of the Central Bank declined from Ksh -40.6 billion in the year to October 2006 to Ksh -46 billion in the year to October 2007, representing a 5.4 percent decline. The decline in NDA of the Central Bank was due to build up in Government deposits at the Central Bank, increased mop up operations by Central Bank and decline in other domestic assets net of liabilities.

Government deposits increased by Ksh 3.8 billion from Ksh 47.1 billion in October 2006 to Ksh 43.3 billion in October 2007. At the same time, Government borrowing from CBK increased by Ksh 0.6 billion from Ksh 42.8 billion in October 2006 to Ksh 43.4 billion in October 2007. As a result, Government borrowing on a net basis was Ksh 0.1 billion in October 2007.

As a result of enhanced open market operations by the Bank, net indebtedness of commercial banks from Central Bank declined by Ksh 2.1 billion from Ksh -15.1 billion in October 2006 to Ksh -17.2 billion in October 2007.

Other domestic assets of the Central Bank net of liabilities declined from Ksh -20.8 billion in October 2006 to Ksh –28.9 billion in October 2007.

Central Bank rate

The Central Bank Rate (CBR) remained unchanged at 8.75 percent in November 2007 following the Monetary Policy Advisory Committee's recommendation to continue with the tight monetary stance.

Short-term interest rates

Short term interest rates declined in November 2007 as the average 91-day Treasury bill rate increased from 7.6 percent in October 2007 to 7.5 percent in November 2007. The 182-day Treasury bill rate however increased from 7.84 percent in October 2007 to 8.04 percent in November 2007 reflecting the increased amount of bills offered by the government.

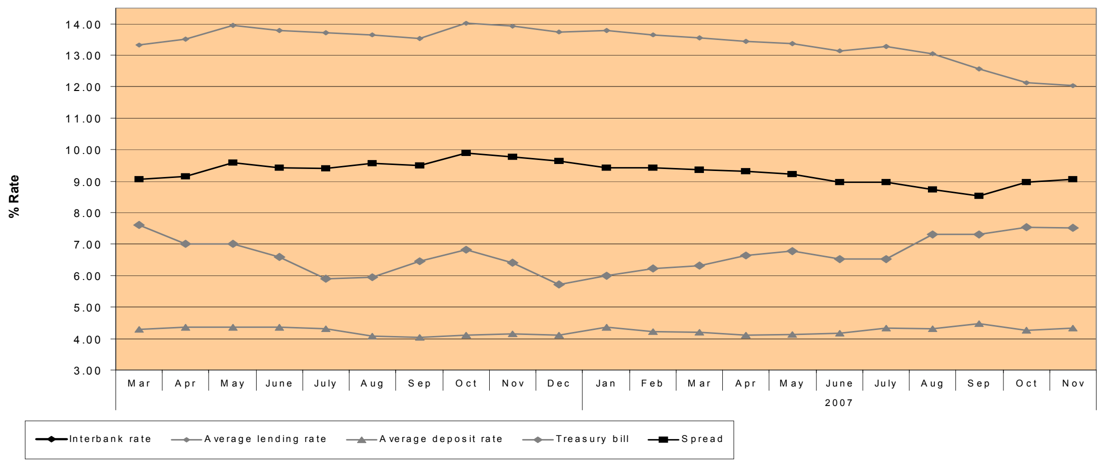
The average interbank rate declined from 7.65 percent in October 2007 to 6.50 percent in November while the Repo rate declined from 7.25 percent to 6.04 percent in November 2007. Table 2.6 provides a summary of various interest rates for selected months in 2006 and 2007 while Chart 2D depicts trends in domestic interest rates.

TABLE 2.6: INTEREST RATES (%)

	2007										
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
91-day Treasury bill rate	6.00	6.22	6.32	6.65	6.77	6.53	6.52	7.30	7.32	7.55	7.52
Overdraft rate	14.11	14.05	13.95	13.58	13.35	13.20	13.35	13.39	13.26	13.24	13.39
Interbank rate	6.43	6.52	6.70	6.79	7.10	6.98	7.07	7.38	7.59	7.65	6.50
Repo rate	6.43	6.60	6.70	6.84	7.03	7.08	7.19	7.49	7.70	7.25	6.04
Average lending rate (1)	13.78	13.64	13.56	13.44	13.38	13.14	13.29	13.04	12.56	12.12	12.03
Average deposit rate (2)	4.35	4.21	4.19	4.11	4.14	4.18	4.33	4.31	4.48	4.27	4.33
0 to 3 - month deposit	5.15	5.09	5.23	5.14	5.06	5.10	5.24	5.34	5.28	5.05	5.10
Savings deposits	1.42	1.41	1.43	1.35	1.57	1.54	1.65	1.60	1.67	1.64	1.65
Spread (1-2)	**9.43**	**9.42**	**9.37**	**9.32**	**9.23**	**8.96**	**8.96**	**8.73**	**8.53**	**8.97**	**9.06**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES (%)



Source: Central Bank of Kenya

Lending and Deposit Rates

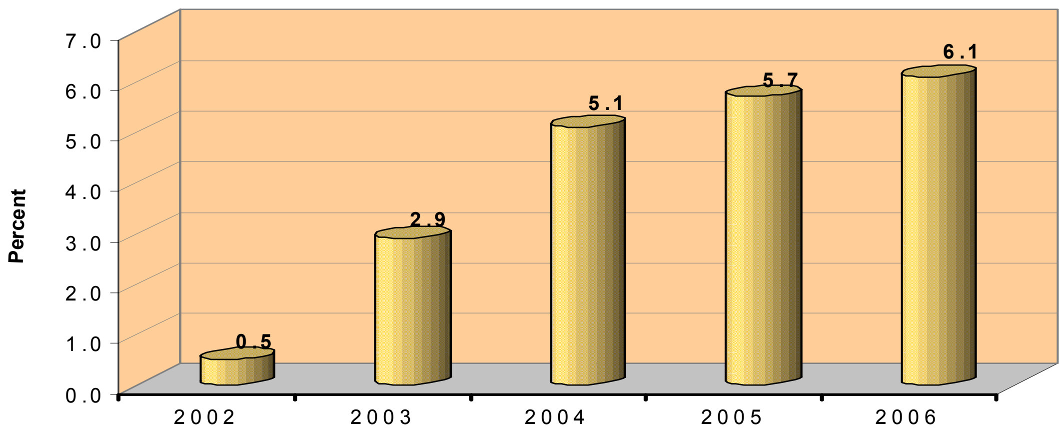
The commercial banks average lending rate declined from 12.12 percent in October 2007 to 12.03 percent in November 2007. The overdraft rate increased from 13.24 percent to 13.39 percent over the same period while the overall deposit rate increased from 4.27 percent in October 2007 to 4.33 percent in November 2007. Consequently, the interest rate spread increased to 9.06 percent in November 2007.

Performance of The Real Sector

Overview The performance of the economy through September 2007 was held and boosted up by a number of factors which include relatively affordable credit, positive credit rating in world debt and financial markets, stable exchange rate, past and current investment in all sectors and in short run, good rains.

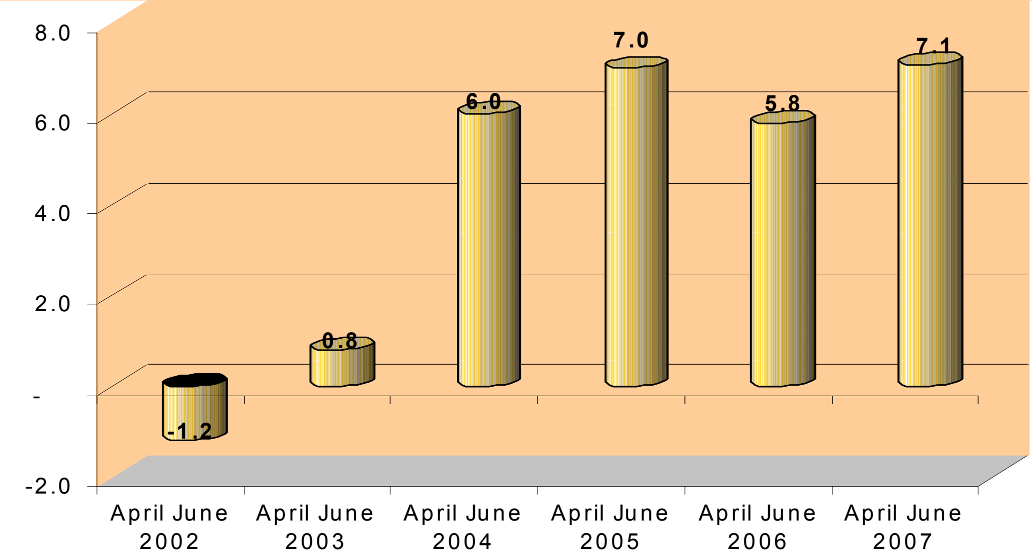
The rate of increase in consumption of electricity (8.9 % in September 2007) is one of the evidence of thriving manufacturing sector (10% of GDP). Manufacturing together with tourism (9.5% of GDP), agriculture (25.4% of GDP), transport and telecommunication (10.9% of GDP) and other service sectors (15.1% of GDP) formed the backbone of economic activity in the past three quarters of 2007 (Chart 3B).

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



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

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



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

Looking ahead, however, there are a host of threats and risks to sustainable economic growth which range from droughts, inflation, high interest rates, lack of balance of payments support and aid from bilateral partners and upward surges in world oil prices.

TABLE 3.1: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

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

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

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

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

***Provisional**

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

TABLE 3.3: OUTPUT GROWTH OF MAJOR CROPS

TABLE 3.3: OUTPUT GROWTH IN KEY CROPS

	2005	2006	Jan-Sept' 2006	Jan-Sept' 2007
Tea				
Output (Metric tonnes)	328,503.00	310,578.33	209,749.33	273,225.55
Growth (%)	*1.2%*	*-5.5%*	*-11.26%*	*30.26%*
Horticulture				
Output (Metric tonnes)	163,153.82	166,736.82	122,469.16	138,290.47
Growth (%)	*12.0%*	*2.2%*	*-2.35%*	*12.92%*
Sugar Cane				
Output (Metric tonnes)	4,693,292.00	4,933,805.00	3,788,336.00	3,909,233.00
Growth (%)	*22.1%*	*5.1%*	*12.77%*	*3.19%*

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

Agriculture

In agriculture, table 3.3 gives the comparative performance of the selected crops in the first three quarters of 2006 and 2007. Improved weather conditions which has prevailed for much of the nine months of 2007 bodes well for agricultural sector which in turn would hopefully translate into higher incomes and healthier population.

Tea

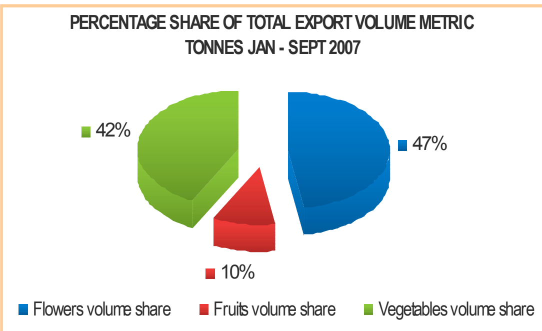
In the tea sub sector, cumulative output in the first three quarters of 2006 decreased by 11.3 percent owing to drought conditions which subdued the crop. The first three quarters of 2007 crop output changed by 63,476.22 metric tonnes over the similar precedent period to 273,225.55 metric tonnes (Table 3.3). However, the price in the first three quarters of 2006 averaged US $ 2,165.56 per metric tonne and dropped by 13.2 percent to average US $ 1,777.27 per metric tonne in the first three quarters of 2007.The monthly price trend declined in March 2007 before increasing to US $ 1,726.25 per metric tonne in August 2007 and to US $ 1,880.00 per metric tonne in September 2007.

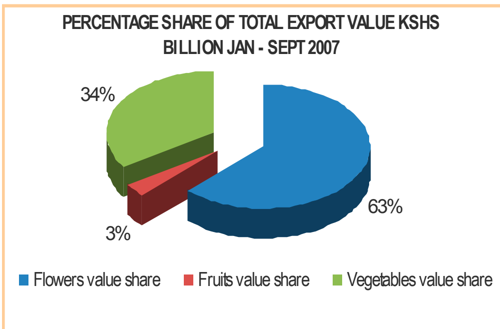
Horticulture

Horticultural exports volume increased by 12.9 percent over the first three quarters of 2006 to 138,290.473 metric tonnes in the gone three quarters of 2007. Export volume is dominated by flowers which stood at 47 percent of the total. Flower exports increased by 4.5 percent to 65,526.25 metric tonnes. In second place to flowers in terms of export volume are the vegetables whose cumulative first three quarters output increased by 27.71 percent to 58,694.29 metric tonnes. Fruit trailed in terms of export volume and fixed at around 10 percent share, it grew by 1.9 percent.

The value of total horticultural exports increased by 64.13 percent to Ksh 49.51 billion. By category, the flower export farmers earned Ksh 30.97 billion. Vegetables export farmers earned Ksh 16.97 billion while fruit export farmers bagged Ksh 1.57 billion. Flower exports formed 63 percent of the total export value in the period, followed by vegetables with 34 percent while fruits constituted only 3 percent.
Recurrent droughts remain the largest single challenge facing the industry. Other challenges are infrastructure related, crop diseases, hygiene standards imposed on the export product and competition from other producers like Ethiopia.

CHART 3C: HORTICULTURE JANUARY - SEPTEMBER 2007





Sugarcane

The sugar subsector is set to benefit from extension of COMESA duty free sugar imports control for another four years starting from March 2008. The extension was granted in cognizant of the fact that the problems which the industry faced in the past have not been totally eradicated.

Compared with similar period of 2006, sugarcane deliveries increased by 3.2 percent to 3,909,233 metric tonnes in the first three quarters of 2007 and similarly, processed sugar increased by 3.4 percent to 385,405 metric tonnes while sugar sales reduced by 2.1 percent to 380,497 metric tones (Table 3.3 and Table 3.4).

Manufacturing

The manufacturing sector continues to benefit from various tax incentives and duty waivers introduced in the last few years. Similarly, creation of export processing zones has supplied additional boost up. As a key input, the growth of electricity consumption by 8.9 percent in the first three quarters of 2007 and observation of selected manufactured products data confirms the gains in the sector. Relating to the first three quarters of 2006, cumulative production for soda ash, beer, cigarettes, milk and mineral water notched up and down to other levels by -1.3, 35.69, 20.05, 18.25, 12.10 percentages respectively to 270,789 metric tonnes, 274,025,985,000 litres, 11,336,425 milles, 309,319,210 litres and 232,013,000 litres respectively in the first three quarters of 2007 as shown in Table 3.4.

TABLE 3.4: PRODUCTION OF SELECTED MANUFACTURED GOODS

	2005	2006	Jan-Sept'2006	Jan-Sept'2007
Processed sugar				
Output (MT)	491,001	475,660	372,784	385,405
Growth %	*-5.0%*	*-3.1%*	*5.7%*	*3.4%*
Soda ash				
Output (MT)	364,301	374,010	274,430	270,789
Growth %	*2.5%*	*2.7%*	*0.32%*	*-1.33%*
Milk				
Output ('000 litres)	336,979	356,758	261,583	309,319
Growth %	*25.0%*	*5.9%*	*6.29%*	*18.25%*
Beer				
Output ('000 litres)	266,419	280,500	201,954	274,026
Growth %	*11.3%*	*5.3%*	*6.31%*	*35.69%*
Cigarettes				
Output (Milles)	10,962,727	12,303,278	9,442,696	11,336,425
Growth %	*22.1%*	*12.2%*	*18.66%*	*20.05%*

* MT = Metric tonnes

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

Energy Sector

Out of 4,291.42 million (KWH) of electricity generated in the first nine months of 2006, hydropower generated 2,223.67 million (KWH) accounting for 51.82 percent of total generation, geothermal energy generated 780.46 million (KWH) accounting for 18.19 percent while thermal energy generated 1,287.28 million (KWH) accounting for 30 percent. In the first nine months of 2007 and in comparison to a similar period of 2006, total generation increased by 9.4 percent to 4,694.8 million (KWH). Hydropower increased by 20.2 percent to 2,672.56 million (KWH) making up 57.11 percent while geothermal, making up 15.8 percent of the total generation, decreased by 5.1 percent to 740.82 million (KWH) and thermal generation with 27.1 percent share decreased by 0.5 percent to 1,281.42 million (KWH (Table 3.5).

TABLE 3.5: ENERGY SECTOR PERFORMANCE

	2005	2006	Jan-Sept' 2006	Jan-Sept' 2007
Electricity Supply (Generation)				
Output (KWH Millions)	5,518.94	5,823.03	4,291.42	4,694.68
Growth %	*9.7%*	*5.5%*	*4.90%*	*9.40%*
Of which:				
Hydro-power Generation (KWH Millions)	3,009.44	3,013.96	2,223.67	2,672.56
Growth (%)	*0.1%*	*0.2%*	*-0.80%*	*20.20%*
Geo-Thermal Generation (KWH Millions)	1,001.58	1,045.69	780.46	740.82
Growth (%)	*1.5%*	*4.4%*	*1.60%*	*-5.10%*
Thermal (KWH Millions)	1,507.83	1,762.59	1,287.28	1,281.42
Growth (%)	*45.2%*	*16.9%*	*18.98%*	*-0.50%*
Consumption of electricity (KWH Millions)	4,505.10	4,743.10	3,505.50	3,822.60
Growth %	*6.8%*	*5.3%*	*5.40%*	*9.05%*
Consumption of Fuels (Metric Tonnes)	2,710,000	2,866,700	2,069	2,012
Growth %	*16.0%*	*5.8%*	*2.3%*	*2.75%*
Murban crude oil 8-month average price (US $ per barrel)	53.65	64.57	66.42	65.92
Growth %	*45.3%*	*20.3%*	*26.10%*	*-0.89%*

* Average in May 2007
** Average in June 2007

Source: Kenya National Bureau of Statistics

Similarly, consumption of electricity increased by 8.9 percent over related period of 2006 to a 3,816.40 million (KWH) in the first nine months of 2007.

The challenges facing the energy sector are drought, leakages of electricity and increases in crude oil prices. Droughts sometimes reduce water supplies to hydro-electric dams leading to inefficient generation and increased cost of electricity while rising crude oil prices has a similar effect of putting upward pressure on costs of production. These problems eventually feed into and slow down economic activity.

Tourism

Tourism performed well through the first three quarters of 2007. There have been no adverse developments to jeopardize tourism sector operations. The sector appeared to withstand uncertainties associated with an election year with the period revenues surpassing the revenues in the first three quarters of 2006. As shown in the table below, tourists who arrived in the first three quarters of 2007 over the first three quarters of 2006 increased by 13.3 percent to 782,230 people. Entries through Jomo Kenyatta International Airport (JKIA) were the most numerous with 579,816 visitors while 199,751 visitors came through Moi International Airport Mombasa (MIAM). In both entry points, Europe continues to lead in terms of arrivals.

TABLE 3.6: TOURIST ARRIVALS BY POINT OF ENTRY

	2005	2006	Jan-Sept' 2006	Jan-Sept' 2007	Share in Jan-Sept' 07	% Growth Jan-Sept' 07
CRUISE	4,533	6,161	3,733	2,663	0.3%	-28.7%
MIAM	231,979	263,699	188,906	199,751	25.5%	5.7%
JKIA	615,268	684,475	497,888	579,816	74.1%	16.5%
TOTAL	**851,780**	**954,335**	**690,527**	**782,230**	100.0%	13.3%

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

Source: Kenya Tourism Board

TABLE 3.7: TOURIST ARRIVALS BY CONTINENT OF ORIGIN

REGION	2005	2006	Jan-Sept' 2006	Jan-Sept' 2007	Share in Jan-Sept' 2006	% Growth Jan-Sept' 2007
Africa	161,304	188,872	136,564	159,435	20.4%	16.7%
America	93,902	110,967	82,818	104,079	13.3%	25.7%
Asia	86,005	93,518	70,597	79,590	10.2%	12.7%
Europe	473,637	537,195	385,821	422,587	54.0%	9.5%
Oceanic	13,682	15,529	10,957	13,866	1.8%	26.5%
Others	14	2,093	37	10	0.0%	-73.0%
Sub-Total	***828,544***	***948,174***	***686,794***	***779,567***	99.7%	13.5%
Cruise	4,680	6,161	3,733	2,663	0.3%	-28.7%
Total	**833,224**	**954,335**	**690,527**	**782,230**	100.0%	13.3%

Source: Kenya Tourism Board

The threats and risks to the sector remained insecurity, political instability, negative publicity, damaged roads, damage to tourism resources and disappearing wildlife and wildlife habitat.

Transport

In the air service transport sector, the number of passengers arriving and leaving through Jomo Kenyatta International Airport (JKIA) decreased slightly by 0.4 and 0.7 percent to 1,097,391 and 1,109,924 respectively in the first three quarters of 2007 (Table 3.8).

In marine transport, the Kenya Ports Authority (KPA) handled 11,804,103.81 metric tonnes of cargo in the first three quarters of 2007 signifying 9.5 percent increase over cargo throughput in the first three quarters of 2006. On the breakdown of the cargo throughput into individual components, exports consisting of 15.9 percent of total cargo throughput, increased by 11.3 percent to 1,878,321 metric tonnes, imports consisting of 81.7 percent, increased by 8.7percent to 9,639,448 metric tonnes while transshipments, consisting of 2.4 percent, increased by 27.7 percent to 286,335 metric tones (Table 3.8).

TABLE 3.8: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2005	2006	Jan-Sept' 06	Jan-Sept' 07
Mombasa Port Cargo Throughput				
Output (MT) Equivalent	13,280,747	14,418,901	10,780,053	11,804,104
Output Growth %	*2.8%*	*8.6%*	*7.55%*	*9.50%*
Number of passengers Thro' JKIA				
Incoming	1,350,676	1,489,615	1,101,305	1,097,391
Growth (%)	11.8	10.3	9.4	(0.4)
Outgoing	1,360,881	1,499,876	1,117,759	1,109,924
Growth %	10.4	10.2	9.1	(0.7)
Kenya Pipeline oil Throughput				
Output ('000 litres)	3,527,662	3,826,154	2,841,479	2,987,957
Output Growth %	*8.2%*	*8.5%*	*8.16%*	*5.2%*

* MT = Metric tonnes

Sources: Port of Mombasa, Kenya and Kenya Pipeline

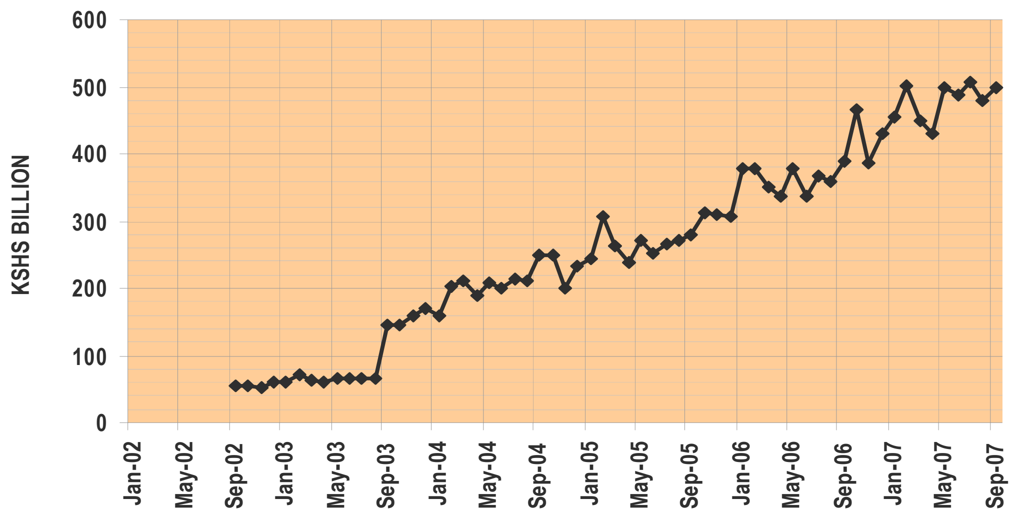
In petroleum transportation, the Kenya Pipeline Company (KPC) transported an extra 146,477.81 metric tonnes to 2,987,956.84 metric tonnes of fuel in the first three quarters of 2007 relative to similar period of 2006.

In road transport, the number of newly registered motor vehicles increased by 63.8 percent from a number of 37,582 in the first three quarters of 2006 to 61,564 in the first three quarters of 2007.

Telecommunications

To proxy activity in telecommunication industry, excisable airtime data produced by Kenya Revenue Authority (KRA) indicates a growth of 30.12 percent inclusive of inflation. Tax revenue collected from use of mobile phones increased by 30.12 percent from Ksh 3,363 million in the first three quarters of 2006 to Ksh 4,376 million in the first three quarters of 2007.

CHART 3D: EXCISE TAX ON AIRTIME



Source: Kenya Revenue Authority (KRA)

Building & Construction Industry

Affordable cost of credit in conjunction with other enabling circumstances has continued to hold the sector in a good position. The growing demand for cement in the domestic market and COMESA region is a solid confirmation of the industry's prospects remaining positive for a long time ahead. As a major input and indicator, cement consumption increased by 12.3 percent from 1,572,500 metric tonnes in 2005 to 1,765,800 metric tonnes in 2006.

Despite the progress in the industry, there are however, a number of threats and risks which include high cost of oil and energy, erratic and unstable exchange rates and dangers exposed to roads leading finally to high transport costs.

Developments in Balance of Payments and Exchange Rates

Overview

Kenya's balance of payments reduced to a surplus of US$ 419 million in the year to September 2007 compared with a surplus of US$ 766 million recorded a year earlier (Table 4.1). This outcome reflects the widening of the current account deficit by US$ 640 million which surpassed improvement in the capital and financial account of US$ 293 million.

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Sep 2006	Year to September 2007*				Year to Sep 2007*	Absolute change Sep 07 - Sep 06
		Q1 Oct-Dec	Q2 Jan-Mar	Q3 Apr-Jun	Q4 Jul-Sep		
1. OVERALL BALANCE	766	28	189	92	111	419	*(347)*
2. CURRENT ACCOUNT	(371)	(196)	(309)	(134)	(373)	(1011)	*(640)*
2.1 Goods	(3393)	(1108)	(1184)	(1142)	(1275)	(4709)	*(1316)*
Exports (fob)	3405	897	986	1014	1027	3924	*518*
Coffee	139	25	32	55	43	155	*16*
Tea	645	161	200	176	166	703	*58*
Horticulture	489	139	147	155	151	592	*103*
Oil products	79	39	41	44	47	172	*94*
Manufactured Goods	401	113	118	125	137	492	*91*
Raw Materials	173	54	66	47	53	221	*48*
Re-exports	385	42	58	38	44	183	*(202)*
Other	1095	324	323	372	386	1405	*310*
Imports (cif)	6799	2005	2170	2156	2302	8633	*1834*
Oil	1729	398	384	518	454	1755	*25*
Chemicals	937	282	268	293	292	1135	*198*
Manufactured Goods	960	284	301	366	383	1333	*373*
Machinery & Transport Equipment	1882	720	816	597	710	2843	*961*
Other	1290	321	402	382	462	1567	*277*
2.2 Services	3022	912	875	1008	902	3698	*675*
Non-factor services (net)	1466	455	457	513	472	1897	*431*
of which tourism	679	171	234	245	214	864	*185*
Income (net)	(102)	(3)	(6)	(31)	(22)	(61)	*41*
of which official interest	(136)	(18)	(21)	(23)	(26)	(88)	*49*
Current Transfers	1658	460	424	527	451	1862	*204*
Private (net)	1533	465	424	527	451	1868	*335*
Public (net)	126	(6)	0	0	0	(6)	*(131)*
3. CAPITAL & FINANCIAL ACCOUNT	1137	223	498	226	484	1431	*293*
3.1 Capital Tranfers (net)	183	54	33	107	18	212	*29*
3.2 Financial Account	954	169	465	119	465	1218	*264*
Official, medium & long-term	(274)	(2)	(50)	17	(47)	(82)	*192*
Inflows	96	48	14	73	24	159	*63*
Outflows	(370)	(51)	(64)	(56)	(71)	(241)	*129*
Private, medium & long-term (net)	132	(241)	172	(95)	31	(132)	*(264)*
Commercial Banks (net)	73	(203)	(36)	(62)	75	(226)	*(299)*
Other private medium & long-term (net)	59	(38)	208	(33)	(44)	94	*35*
Short-term (net) incl. errors & omissions	1097	412	343	196	482	1433	*336*
memo:							
Gross Reserves	3113	3331	3570	3767	3870	3870	*756*
Official	2402	2415	2590	2723	2820	2820	*418*
*imports cover***	*3.8*	*3.5*	*3.6*	*3.6*	*3.5*	*3.5*	*(0.2)*
*imports cover****	*4.5*	*4.3*	*4.4*	*4.4*	*4.3*	*4.3*	*(0.2)*
Commercial Banks	711	916	980	1044	1050	1050	*339*

* Provisional

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

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

Source: Central Bank of Kenya

Current Account

The current account deficit widened to US$ 1,011 million in the year to September 2007 compared with US$ 371 million in the year to September 2006 following deterioration in the trade account. Merchandise imports increased to US$ 8,633 million in the year to September 2007 as merchandise exports rose to US$ 3,924 million. The surplus in the services account, however, improved to US$ 3,698 million thus mitigating the widening of the trade deficit.

Merchandise Account

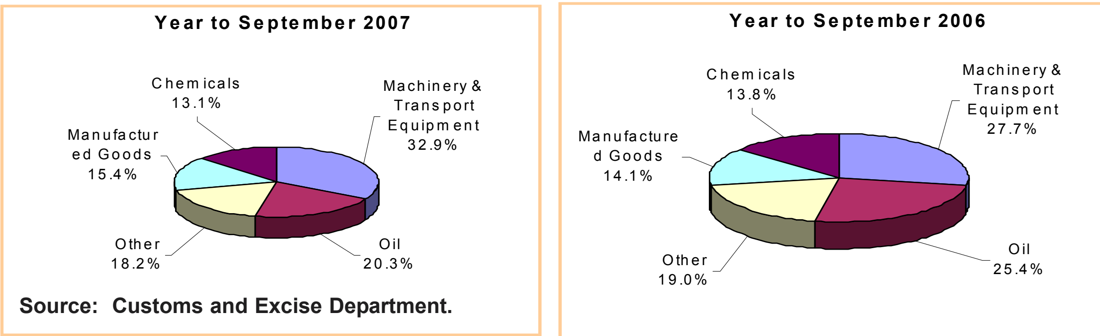
The trade deficit widened to US$ 4,709 million in the year to September 2007 reflecting 27.0 percent growth in merchandise imports to US$ 8,633 million, which surpassed 15.2 percent increase in the value of merchandise exports to US$ 3,924 million.

Imports

The increase in the value of merchandise imported during the year to September 2007 reflected increased imports of machinery and transport equipment, manufactured goods, chemicals and other miscellaneous goods including wheat, sugar, palm oil, raw materials, and miscellaneous manufactured articles. Machinery and transport equipment imports rose by US$ 961 million reflecting increased imports of road vehicles, electrical machinery, industrial machinery, telecommunication and sound recording equipment and office machines. The increase in imports of manufactured goods by US$ 373 million was reflective of increased imports of iron, steel, metal manufactures, paper products, textiles and rubber tyres while imports of chemicals rose by US$ 198 million, reflecting increase in import values of industrial chemicals, medicinal and pharmaceutical products, and plastics. The value of oil imports increased by US$ 25 million reflecting higher imports of crude oil, jet fuel, kerosene, diesel oil and gas while other miscellaneous imports rose to US$ 1,567 million.

Machinery and transport equipment and petroleum products made up 32.9 percent and 20.3 percent of the total value of merchandise imports, respectively, in the year to September 2007 compared with 27.7 percent and 25.4 percent in the previous year (Chart 4A). The share of manufactured goods and chemicals in the import bill in the year to September 2007 was 15.4 percent and 13.1 percent, respectively.

CHART 4A: COMPOSITION OF KENYA'S IMPORTS



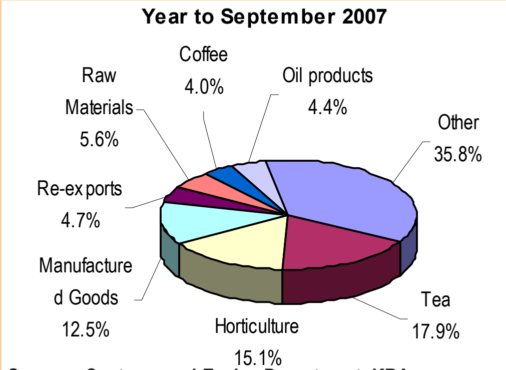
Source: Customs and Excise Department.

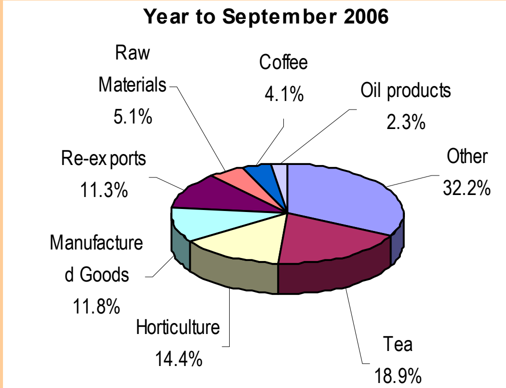
Exports

Improvement in merchandise exports followed increased exports of coffee, tea, horticulture, oil, manufactured goods and raw materials. The values of coffee, tea and horticulture exports rose by US$ 16 million, US$ 58 million and US$ 103 million, respectively, largely on account of improved export volumes. The average export prices for the three commodities exhibited mixed performance with the price for coffee and horticulture exports improving as the export price for tea declined. The increase in the export value of manufactured goods by US$ 91 million largely reflected increased exports of cement, processed leather and metal manufactures while the export value of oil products rose by US$ 94 million following increased exports of diesel oil, lubricating oils and grease. The value of re-exports however declined during the period in review as the value of other miscellaneous exports, which include chemical products, clothing accessories, beverages, tobacco products and machinery, rose by US$ 310 million.

Chart 4B shows that coffee, tea and horticulture collectively accounted for 37.0 percent of the total value of exports in the year to September 2007 while manufactured goods made up 12.5 percent of the total value of exports.

CHART 4B: COMPOSITION OF KENYA'S EXPORTS





Source: Customs and Excise Department, KRA

Direction of Trade

Table 4.2 shows that the main destination countries for Kenya's merchandise exports during the year to September 2007 were Uganda (12.0%), United Kingdom (10.2%), Netherlands (8.0%), Tanzania (7.9%), United States of America (7.1%), Pakistan (5.6%), Sudan (4.3%), Egypt (3.3%), and the Democratic Republic of Congo (3.1%). Overall, African countries absorbed 44.8% of Kenya's merchandise exports.

Kenya sourced merchandise imports mainly from United Arab Emirates (14.8%), India (8.8%), United States of America (7.7%), China (7.5%), Japan (6.6%), South Africa (5.5%), United Kingdom (5.3%), Germany (3.7%), Singapore (3.1%) and Saudi Arabia (2.9%).

TABLE 4.2: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)	Year to September		
Country	2005	2006	2007
Africa	**855**	**828**	**964**
Of which			
South Africa	602	454	477
Egypt	83	101	160
Others	170	272	327
Rest of the World	**4,891**	**5,971**	**7,669**
Of which			
United Arab Emirates	715	1,008	1,275
India	285	459	758
USA	568	284	669
China	244	321	645
Japan	307	360	566
United Kingdom	658	586	459
Germany	186	256	321
Singapore	69	228	268
Saudi Arabia	418	357	251
Indonesia	96	176	249
France	142	179	223
Italy	100	160	189
Netherlands	118	131	135
Bahrain	117	105	130
Others	868	1,360	1,532
Total	**5,746**	**6,799**	**8,633**

EXPORTS (in millions of US dollars)	Year to September		
Country	2005	2006	2007
Africa	**1,558**	**1,462**	**1,758**
Of which			
Uganda	572	385	470
Tanzania	252	257	312
Sudan	87	123	171
Egypt	91	150	131
DRC	132	99	122
Somalia	61	92	110
Others	363	356	442
Rest of the World	**1,821**	**1,944**	**2,166**
Of which			
United Kingdom	310	359	402
Netherlands	237	258	315
USA	58	190	280
Pakistan	182	196	220
United Arab Emirates	48	59	107
Germany	66	67	76
India	53	53	74
France	64	53	55
Others	802	709	637
Total	**3,379**	**3,405**	**3,924**

Source: Customs and Excise Department, KRA

Services

The services account improved from a surplus of US$ 3,022 million in the year to September 2006 to a surplus of US$ 3,698 million in the year to September 2007 following increased receipts from non-factor services, income and private current transfers.

Net receipts from non-factor services increased by US$ 431 million to US$ 1,897 million during the year to September 2007 due to increased receipts from non-factor services (mainly transportation services and travel) by US$ 474 million to US$ 2,799 million as payments for non-factor services rose by US$ 44 million to

US$ 902 million reflecting mainly increased payments for foreign travel. The balance on the income account also improved to a net outflow of US$ 61 million in the year to September 2007 compared with a net outflow of US$ 102 million in the year to September 2006. This improvement was attributed to increased interest earned on official foreign exchange reserves and increased income earned on foreign investments by the private sector. Gross payments from the income account also increased during the review period reflecting increased payments by the private sector as interest payments on official foreign debt declined. Net current transfers received rose to US$ 1,862 million in the year to September 2007 and this was largely through the private sector.

Capital and Financial Account

The balance on the capital and financial account increased by US$ 293 million in the year to September 2007 to US$ 1,431 million following increased short term private financial inflows and reduced repayment of official foreign debt.

Private short term financial flows increased by US$ 336 million to US$ 1,433 million in the year to September 2007 while private medium and long-term financial flows worsened to a net outflow of US$ 132 million. The decline in private medium and long-term flows reflected increase in net foreign assets of commercial banks by US$ 226 million. Other private medium and long-term flows however improved by US$ 35 million during the review period due mainly to the net increase in receipts of foreign loans, which offset the net increase in direct investment outflows.

Net official medium and long-term financial flows improved by US$ 192 million in the year to September 2007 to US$ 82 million reflecting reduced repayment of official foreign loans by US$ 129 million to US$ 241 million and increased foreign loans to the Government by US$ 63 million to US$ 159 million. In the capital account, project related grants to the Government increased by US$ 29 million to US$ 212 million during the year in review.

Foreign Exchange Reserves

Official foreign exchange reserves held by the Central Bank increased from US$ 2,399 million (4.4 months of import cover) at the end of October 2006 to US$ 2,853m (4.3 months of import cover) at the end of October 2007 (Table 4.3 and Chart 4C). During the year to October 2007, the Central Bank purchased foreign exchange from the domestic foreign exchange market equivalent to US$ 519 million and received US$ 371 million as interest earned on official foreign exchange reserves and foreign aid to the Government. The Bank however spent US$ 34 million on its own operations during the year to October 2007, and US$ 514 million on behalf of the Government to cover expenses related to Government imports and to service official foreign debt.

Foreign exchange assets of commercial banks also rose from US$ 853 million at the end of October 2006 to US$ 1,138 million at end of October 2007. Most of these assets were held as balances with banks abroad in the amount of US$ 837 million. Other foreign assets of commercial banks included cash, foreign loans and foreign bills discounted.

Total foreign exchange held by the entire banking system therefore rose from US$ 3,252 million at the end of October 2006 to US$ 3,991 million at the end of October 2007. Besides these holdings, foreign currency deposits held locally by residents increased by US$ 207 million to US$ 1,519 million at the end of October 2007.

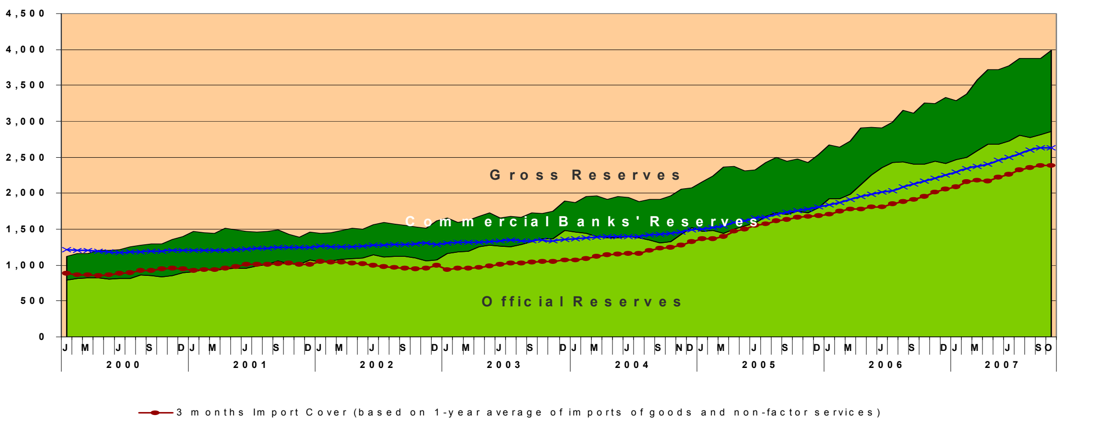
TABLE 4.3: FOREIGN EXCHANGE RESERVES (END OF PERIOD, US$ MILLION)

	Oct 06	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
1. Gross Foreign Exchange Reserves	**3,252**	**3,719**	**3,767**	**3,870**	**3,871**	**3,870**	**3,991**
of which:							
Official	2,399	2,683	2,723	2,805	2,779	2,820	2,853
*imports cover**	*3.7*	*3.6*	*3.6*	*3.6*	*3.5*	*3.5*	*3.6*
*imports cover***	*4.4*	*4.4*	*4.4*	*4.4*	*4.3*	*4.3*	*4.3*
Commercial Banks	853	1,037	1,044	1,065	1,092	1,050	1,138
2. Residents' foreign currency deposits	**1,311**	**1,558**	**1,544**	**1,494**	**1,513**	**1,524**	**1,519**

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

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

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya shilling appreciated against the US dollar and the Sterling Pound in November 2007 but depreciated against the Euro and the Japanese Yen (Table 4.4 and Charts 4D, 4E and 4F). The shilling gained against the US dollar to exchange at an average of Ksh 65.5 per US dollar in November 2007 compared with Ksh 66.8 per US dollar in October 2007. The appreciation of the shilling against the US dollar was supported by foreign direct inflows into the domestic foreign exchange market, which surpassed demand. The shilling also appreciated against the Sterling Pound to trade at Ksh 135.8 per Sterling Pound in November 2007 compared with Ksh 136.5 per Sterling Pound in October 2007.

The Kenya shilling however depreciated against the Euro and the Japanese Yen as the two currencies strengthened against the US dollar in the international markets. The shilling thus traded at Ksh 96.1 per Euro and Ksh 58.9 per 100 Japanese Yen in November 2007 compared with Ksh 95.1 per Euro and Ksh 57.8 per 100 Japanese Yen in October 2007.

The Kenya shilling depreciated marginally against regional currencies in November 2007. Against the Uganda shilling, it traded at 26.11 per Kenya shilling in November 2007 compared with Ush 26.13 per Kenya shilling in October 2007, and against the Tanzania shilling at Tsh 17.5 per Kenya shilling in November 2007 compared with Tsh 17.6 per Kenya shilling in October 2007.

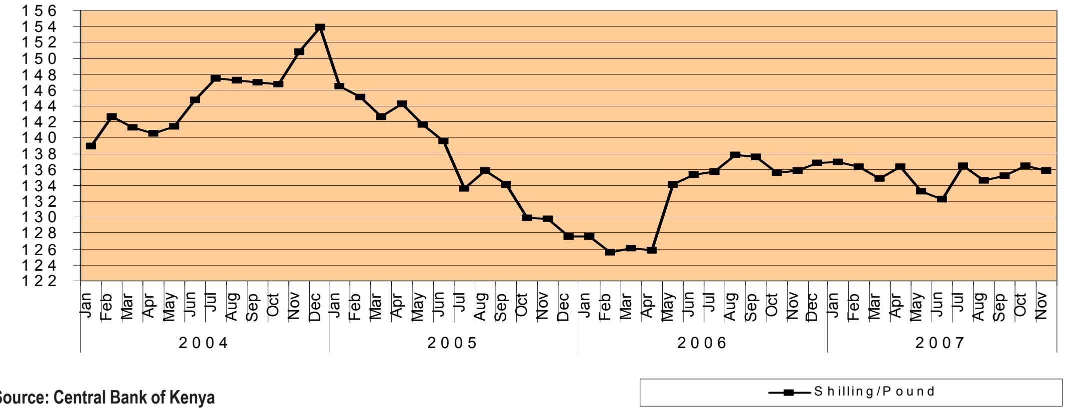
TABLE 4.4: KENYA SHILLING EXCHANGE RATE

	2006		2007											%change
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Nov 07 - Oct 07
US Dollar	71.13	69.63	69.88	69.62	69.29	68.58	67.19	66.57	67.07	66.95	67.02	66.85	65.49	-2.03
Pound Sterling	135.89	136.79	136.91	136.40	134.91	136.40	133.31	132.25	136.41	134.57	135.19	136.52	135.79	-0.54
100 Japanese Yen	60.65	59.47	58.09	57.76	59.08	57.73	55.65	54.27	55.17	57.38	58.25	57.76	58.92	2.02
Uganda Shilling*	25.52	26.07	25.97	25.44	25.26	25.20	25.33	24.97	24.24	25.80	26.24	26.13	26.11	-0.08
Tanzania Shilling*	18.23	18.62	18.55	18.49	18.13	18.40	18.90	18.97	18.82	19.09	18.79	17.60	17.53	-0.36
Euro	91.58	92.03	90.87	91.04	91.77	92.68	90.82	89.33	91.99	91.15	93.06	95.09	96.13	1.09
Euro per US dollar	0.777	0.757	0.769	0.765	0.755	0.740	0.740	0.745	0.729	0.734	0.720	0.703	0.681	-3.09

* Units of currency per Kenya shilling

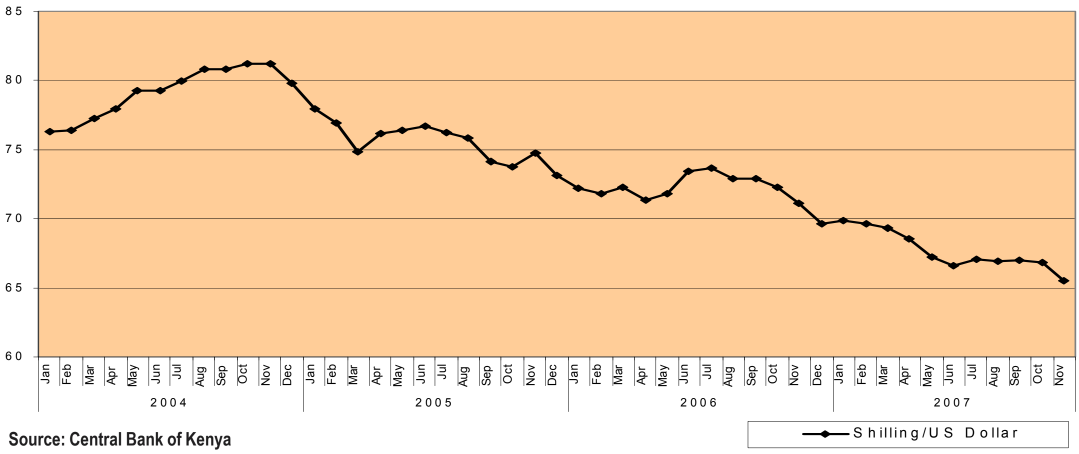
Source: Central Bank of Kenya

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



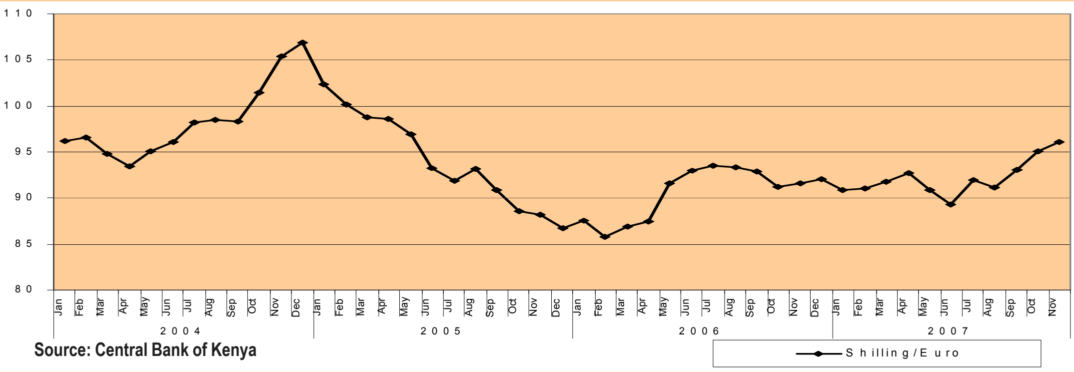
Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

The banking system remained sound with positive developments in all key financial indicators. With gross non-performing loans maintaining a downward trend and profitability improving, capital adequacy ratios were sustained at high levels throughout the period under review, thus providing the banking system with sufficient buffer to absorb any unexpected shocks. The continued enforcement of prudential and legislative supervisory requirements also supported the stability of the sector. The reduction in gross non-performing loans impacted favourably on earnings, thus contributing positively to the overall financial performance. The strengthened balance sheet enabled the banking system to expand credit thereby supporting the country's economic activities.

Structure of the Banking Sector

The number of financial institutions increased to 47 at the end of October 2007 compared with 45 in October 2006 following the licensing of two Islamic banks, Gulf African Bank limited and First Community Bank to conduct banking business. The two banks will operate under Islamic banking principles but within the existing legal framework, The sector therefore comprised of 44 commercial banks, 2 mortgage finance companies and one non-bank financial institution., The number of forex bureaus remained at 96,

Structure of the Balance Sheet

Due to improved economic environment, the banking sectors' total assets expanded by 17.7 per cent or Ksh 134.3 billion from Ksh. 759.3 billion as at October 2006 to Ksh. 893.6 billion as at October 2007. Growth of the asset portfolio was funded mainly by the increase in deposits and capital as well as retention of profits. Loans and advances net of provisions stood at Kshs. 466.0 billion and comprised 52% of total assets compared with Ksh. 383.7 billion or 51% of total assets in October 2006. Local currency loans and advances increased by 22.9 per cent from Ksh 316.8 billion in October 2006 to Ksh 389.2 billion in October 2007 while foreign currency loans and advances increased by 12.8 per cent from Ksh 64.2 billion in to Ksh 72.4 billion over the same period. Lending was mainly to the private households, transport and communications, building and construction and manufacturing sectors of the economy.

Government Securities

Investment in Government securities increased by 15.6 per cent from Ksh. 159.3 billion in October 2006 to Ksh. 184.1billion in October 2006 and was attributed to high liquidity in the market.

Deposit Liabilities

Deposit liabilities in the banking system, including accrued interest increased by 16.5 per cent from Ksh.620.3 billion as at the end of October 2006 to Ksh.722.5 billion as at October 2007. The increase in deposit base was attributed to aggressive marketing campaigns for new deposits by some institutions and rapid expansion of branch network. Increase in deposits was also attributed to external donor inflows to various government agencies and non-governmental organizations coupled with the increase in earnings from tourism and exports

Capital and Reserves

During the period to October 2007, the banking system remained stable and banks were adequately capitalised, with the banking-sector capital-adequacy ratio remaining in excess of the minimum requirement of 12 per cent. However, capital-adequacy ratio decreased from 16.5 per cent in October 2006 to 16.4 per cent in October 2007 mainly due to increase in risk weighted assets. On the other hand, capital and reserves of the banking system increased by 23.0 per cent from Kshs 92.2 billion to Kshs 113.4 billion. The increase in capital over the period was attributed to fresh capital injection and retention of profits

Non-performing loans

Gross non-performing loans continued along a downward trend, tapering off from Ksh 103.3 billion in October 2006 to Ksh. 59.1 billion as at the end of October 2007. The sharp reduction in the level of non-performing loans was attributed mainly to write-offs against provisions held and recoveries by some of the banks during the period under review. Expressed as a percentage of total loans and advances, non-performing loans net of loan loss provisions improved from 5.6 per cent in October 2006 to 4.2 per cent in October 2007 as shown in table 5.1.

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

		Oct-06	Oct-07
1	Gross loans and advances	463.2	489
2	Loans and Advances (net of interest suspended)	426.2	473.4
3	Gross non-performing loans	103.8	59.1
4	Specific Provisions	40.9	22.9
5	General Provisions	4.3	4.6
6	Total Provisions (4+5)	45.2	27.5
7	Net Advances (2-6)	381	445.9
8	Total Non-Performing Loans and Advances	66.8	43.5
9	Net Non-Performing Loans and advances (8-4)	25.9	20.6
10	Total NPLs as % of total advances (8/2)	15.7	9.2
11	Net NPLs as % of gross advances (9/1)	5.6	4.2
12	Specific Provisions as % of Total NPLs (4/8)	61.2	52.6

Source: Central Bank of Kenya

Profitability

At the end of October 2007, the sector's recorded pre-tax profit of Ksh. 29.8 billion, an increase of 34.2 per cent compared with Ksh. 22.2 billion reported in a similar period in 2006. The improved profitability was attributed to an increase in interest income on loans and advances coupled with reduction in bad debt charges. Favourable economic conditions, among other things, contributed to the improvement in banks' profitability ratios during 2007. As a result, annualized return on assets rose from 2.7 per cent in October 2006 to 3.2 per cent as at October 2007 while return on shareholders funds increased from 28.9 per cent to 31.6 per cent over the same period.

Liquidity Ratio Requirement

Banking sector holdings of liquid assets as a ratio to deposit liabilities was above the minimum requirement of 20 per cent in October 2007. Commercial banks maintained an average ratio of 46.1 per cent in October 2007 while non bank financial institutions (NBFIs) average ratio was 27.6 per cent.

Cash Ratio Requirement

Commercial banks maintained an average 6.2 percent reserve ratio with the Central Bank in October 2007 against the 6 percent reserve ratio requirements, as shown in Table 5.3 and Chart 5a. The ratio maintained by NBFIs averaged 6.0 percent during the period. In addition to reserve requirements, commercial banks held on average Ksh 1,218 million in October 2007 as excess reserves compared with Ksh 944 million in September 2007.

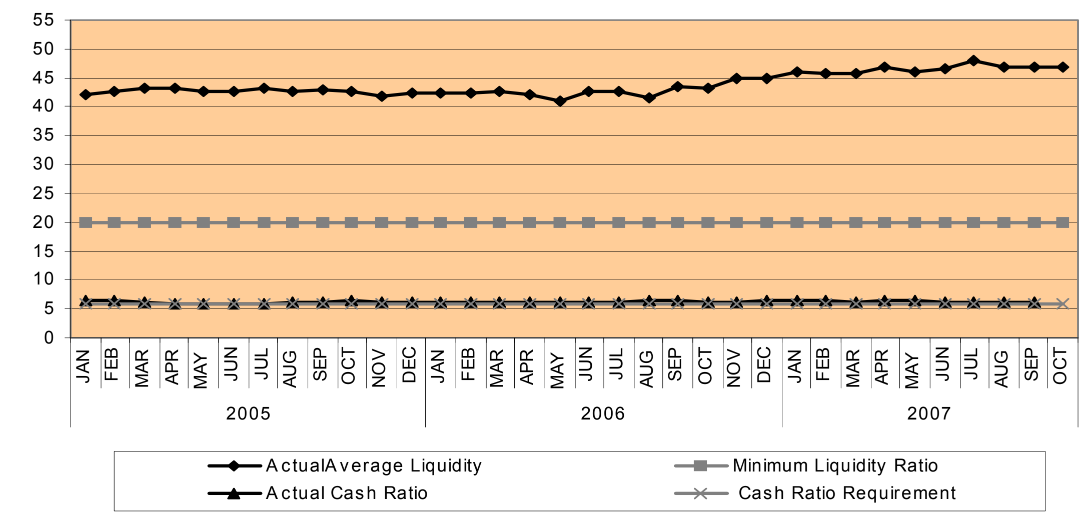
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2006			2007						
	Oct	Nov	Dec	Apr	May	June	July	Aug	Sept	Oct
Commercial Banks										
Actual Average Liquidity	43.3	44.8	45.0	47.1	46.1	46.7	47.6	46.5	46.9	46.1
Minimum Liquidity Ratio	20	20	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio - All Banks	6.2	6.2	6.4	6.3	6.3	6.3	6.2	6.3	6.2	6.2
Minimum Cash Ratio Requirement**	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
NBFIs										
Actual Average Liquidity Ratio	28.6	28.2	32.0	33.8	31.4	26.2	24.4	25.2	28.2	27.6
Minimum Liquidity Ratio	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Actual Cash Ratio	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Minimum Cash Ratio Requirement***	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

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

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

KEPPS Kenya shillings flows

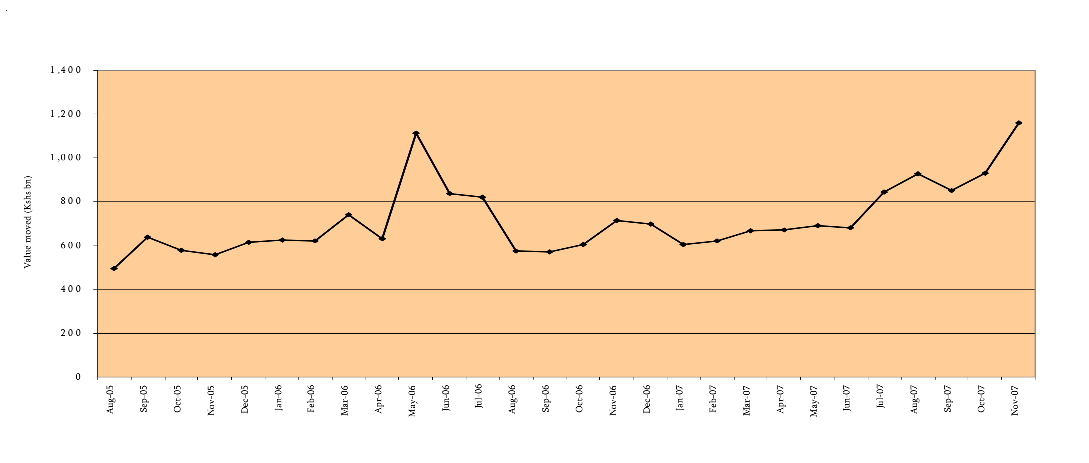
Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 19,136 transactions worth Ksh 1,161 billion in November 2007 representing 24.81 percent increase in value from 930 billion in October 2007. The amount moved represents 62.27 percent increase compared to Ksh 716 billion moved in November 2006. Flows through KEPSS have maintained an upwards trend since January 2007 mainly resulting from payments for primary issues and redemption of government securities, open market operations, and increased economic activities.

The amount moved through the system averaged Ksh 56.4 billion per transaction while the amount moved per day was approximately Ksh 34.4 billion (See Table 5.3 and Chart 5B below). Direct settlements through KEPSS in the month accounted for 93.6 percent of the total settlements while indirect payments (ACH Net settlement) accounted for 6.4 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
					Value (bn)	Transactions
31-Aug	496	8,999	0.06	23	22	391
30-Sep	639	11,729	0.05	22	29	533
31-Oct	577	9,522	0.06	19	30	501
30-Nov	558	9,715	0.06	19	29	511
31-Dec	615	10,733	0.06	21	29	511
31-Jan	625	10,575	0.06	20	31	529
28-Feb	620	10,696	0.06	20	31	535
31-Mar	743	11,951	0.06	23	32	520
30-Apr	633	10,484	0.06	17	37	617
31-May	1,115	13,487	0.08	22	51	613
30-Jun	839	12,360	0.07	21	40	589
31-Jul	820	11,859	0.07	21	39	565
31-Aug	576	11,863	0.05	23	25	516
30-Sep	571	11,744	0.05	21	27	559
31-Oct	606	11,554	0.05	19	32	608
30-Nov	716	12,834	0.06	22	33	583
31-Dec	699	12,641	0.06	18	39	702
31-Jan	604	13,139	0.05	22	27	597
28-Feb	621	12,742	0.05	20	31	637
31-Mar	668	14,545	0.05	22	30	661
30-Apr	673	13,029	0.05	22	31	592
31-May	693	15,311	0.05	22	31	696
30-Jun	682	13,874	0.05	20	34	694
31-Jul	844	14,408	0.06	22	38	655
31-Aug	928	17,744	0.05	23	40	771
30-Sep	851	14,649	0.06	20	43	732
31-Oct	930	16,410	0.06	22	42	746
30-Nov	1,161	19,136	0.06	22	53	870

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

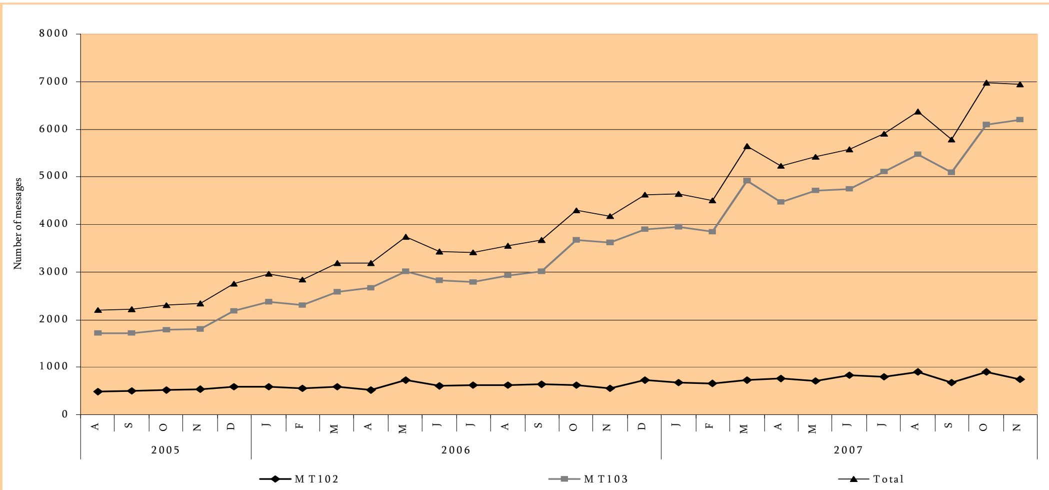


Multiple 3rd party messeages

Multiple third party Message Type (MT) 102 decreased by 16.59 percent from 892 messages in October 2007 to 744 messages in November 2007 while single third party Message Type (MT) 103 increased by 1.90 percent in the same period from 6,090 messages to 6,206 messages. Overall total third party messages through KEPSS decreased by 0.46 percent from 6,982 messages in October 2007 to 6,950 messages in November 2007. The slow growth of multiple third party messages may be attributed to the existence of other modes of payment including EFT (in particular) and cheques.

Compared with November 2006, multiple third party messages increased by 34.78 percent while single third party messages increased by 71.11 percent in November 2007 (See Chart 5C). This growth may be attributed to increased awareness of the existence of KEPSS as a secure and effective payment method. In value terms, Inter-bank transfers (MT202) accounted for 59.25 percent of the total value moved through KEPSS in November 2007 while third party messages (MT102 & MT103) accounted for 40.75 percent.

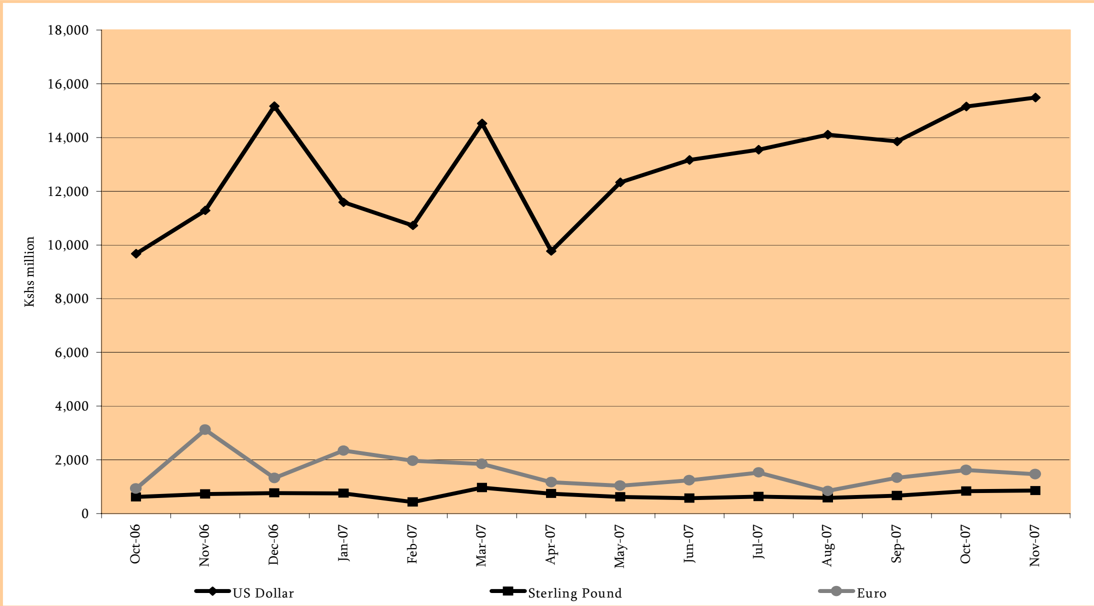
CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS



Domestic Froreign Currency Flows

Domestic Foreign Currency messages through KEPSS decreased by 1.42 percent from 1,766 messages in October 2007 to 1,741 messages in November 2007. The US dollar remained dominant in the domestic foreign currency cheque clearing (Chart 5D). The total amount in Kenya Shilling equivalent moved through KEPSS increased from Ksh 17.61 billion in October 2007 to Ksh 17.79 billion in November 2007 representing an increase of 1.07 percent.

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



Government Budget Performance

Government budgetary operations improved significantly in the first quarter of 2007/08 compared with performance in a similar period of 2006/07 (Table 6.1). The performance was attributed to improved tax collections during the period. Consequently, the Government budgetary operations in the first quarter of 2007/08 resulted in a surplus of Ksh 3.3 billion or 0.2 percent of GDP on commitment basis compared with a deficit of Ksh 0.9 billion or 0.1 percent of GDP in a similar period of the previous fiscal year. Similarly, the budget deficit on cash basis decreased from 0.2 percent to 0.1 percent of GDP during the period.

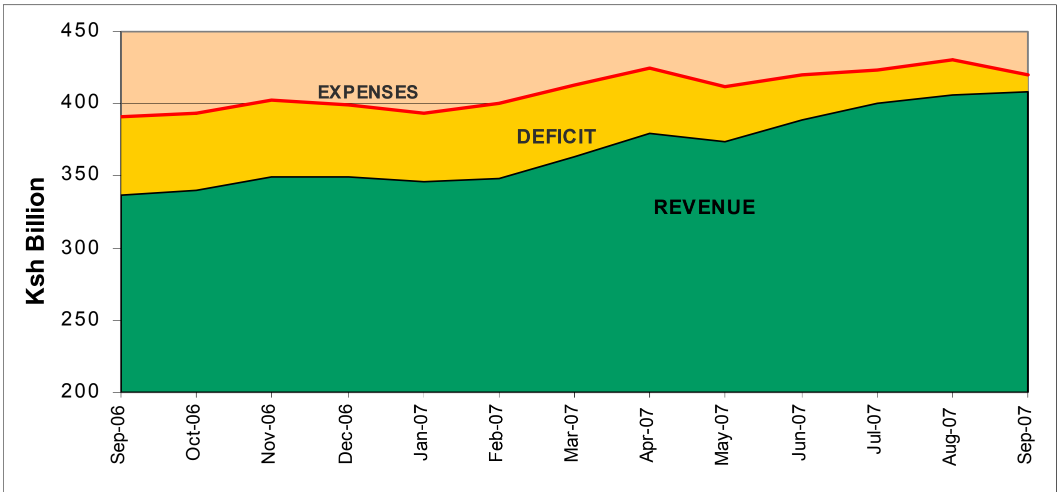
The performance of the budget in the first quarter of 2007/08 was very well within the targets for the period which were deficits of 0.4 percent and 0.3 percent of GDP on commitment and cash basis respectively. As shown in Chart 6a, the 12-month cumulative deficit has narrowed significantly in 2007/08 compared with that in the previous year due to a faster growth in Government revenue compared with that in expenditure.

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

	FY 2006/07	FY 2007/08		
	September Actual	Sebtember Prov.	Revised Target	Over (+) / Below (-) Target
1. TOTAL REVENUE	**77.7**	**97.9**	**103.7**	**-5.8**
Revenue	75.6	96.7	96.3	0.4
Tax Revenue	67.9	87.2	83.4	3.8
Non Tax Revenue	4.4	6.3	6.5	-0.2
Appropriations-in-Aid	3.3	3.2	6.3	-3.1
External Grants	2.2	1.2	7.5	-6.2
2. TOTAL EXPENSES	**78.6**	**94.6**	**110.6**	**-15.9**
Recurrent Expenses	70.2	78.4	86.1	-7.7
Development Expenses	8.4	16.2	24.4	-8.2
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-0.9**	**3.3**	**-6.8**	**10.2**
As % of GDP	-0.1	0.2	-0.4	
4. ADJUSTMENT TO CASH BASIS	**-3.0**	**-4.8**	**0.6**	**-5.4**
5. DEFICIT ON A CASH BASIS	**-3.9**	**-1.5**	**-6.2**	**4.8**
As % of GDP	-0.2	-0.1	-0.3	
6. DISCREPANCY:Exp. (+) / Rev. (-)	**11.5**	**6.8**	**0.0**	
7. FINANCING	**15.5**	**8.2**	**6.2**	**2.0**
Domestic (Net)	16.6	11.3	13.9	-2.6
External (Net)	-1.2	-3.0	-0.4	-2.7
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	-7.3	7.3
Financing gap	0.0	0.0	0.0	0.0

Sources: Treasury

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



Sources: Treasury and Central Bank of Kenya

Revenue

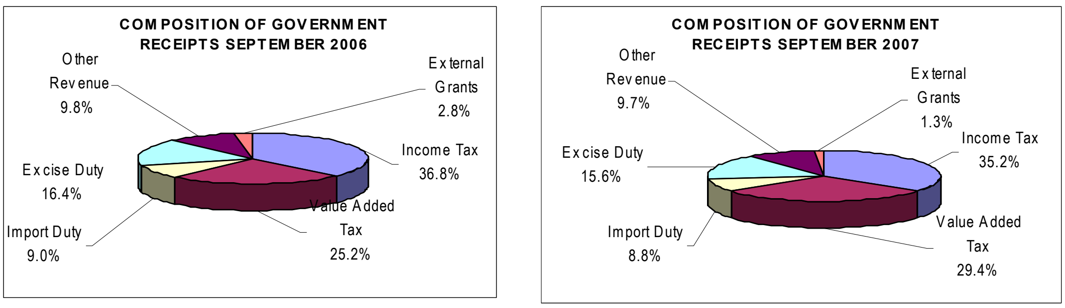
Government revenue (including grants) increased from Ksh 77.7 billion in the first quarter of 2006/07 to Ksh 97.9 billion in a similar period of 2007/08. As shown in Table 6.2, this represented a rise of Ksh 20.2 billion or growth of 26.0 percent in revenue and grants during the period. However, the Government receipts in the period fell short of the target of Ksh 103.7 billion by Ksh 5.8 billion or 5.6 percent due to a significant shortfall in the receipts of external grants. However, the proportion of Government receipts in GDP increased from 4.8 percent to 5.2 percent of GDP during the period following a faster growth in revenue (including grants).

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Sep-06 Ksh bn	Sep-07 Ksh bn	Change
1. Revenue (2+3+4)	**75.6**	**96.7**	**21.1**
2. Tax Revenue	67.9	87.2	19.3
Income Tax	28.6	34.5	5.9
Value Added Tax	19.6	28.8	9.3
Import Duty	7.0	8.6	1.6
Excise Duty	12.8	15.3	2.5
3. Appropriations-in-Aid	3.3	3.2	0.0
4. Other Revenue	4.4	6.3	1.9
5. External Grants	**2.2**	**1.2**	**-0.9**
TOTAL RECEIPTS (1+5)	**77.7**	**97.9**	**20.2**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue increased from Ksh 67.9 billion in the first quarter of 2006/07 fiscal year to Ksh 87.2 billion in a similar period in 2007/08. This was equivalent to an increase of Ksh 19.3 billion or growth of 28.4 percent in the revenue during the period. Consequently, the proportion of tax revenue in total Government receipts increased from 87.4 percent to 89.0 percent during the period. The significant growth in tax revenue during the period was attributed to improved performance of the economy, implementation of tax management reforms which enhanced compliance, and recruitment of new tax payers by the Kenya Revenue Authority.

Following these developments, the ratio of tax revenue to GDP increased from 4.2 percent to 4.6 percent during the period. The increase in tax revenue during the period was largely in income tax and VAT which increased by Ksh 5.9 billion and Ksh 9.3 billion respectively (Table 6.2 and Chart 6b). Similarly, collections of import duty and excise duty increased by Ksh 1.6 billion and Ksh 2.5 billion respectively during the period.

Government receipts of external grants fell by Ksh 0.9 billion from Ksh 2.2 billion in the first quarter of 2006/07 to Ksh 1.2 billion in a similar period of 2007/08. The grants also fell short of the Ksh 7.5 billion target for the period by Ksh 6.2 billion or 8.3 percent. Consequently, the ratio of external grants in total Government receipts dropped from 2.8 percent to 1.3 percent during the period.

Expenditure and Net Lending

Government expenditure and net lending increased from Ksh 78.6 billion in the first quarter of 2006/07 to Ksh 94.6 billion in a similar period of 2007/08. This represented a rise of Ksh 16.0 billion or growth of 20.4 percent in expenditure during the period. Recurrent and development expenditures increased from Ksh 70.2 billion and Ksh 8.4 billion respectively to Ksh 78.4 billion and Ksh 16.2 billion respectively during the period (Table 6.3 and Chart 6C). This was equivalent to increases of Ksh 8.2 billion and Ksh 7.8 billion respectively in recurrent and development expenditure during the period. The rise in development expenditure was mainly due to increased expenditure to finance road rehabilitation and expansion.

Despite the rise, total Government expenditure in the first quarter of 2007/08 remained well within the target of Ksh 110.6 billion. The proportion of overall expenditure in GDP increased from 4.9 percent to 5.0 percent during the period. However, the proportion of recurrent expenditure in GDP dropped from 4.4 percent to 4.2 percent of GDP during the period while development expenditure increased from 0.5 percent to 0.9 percent of GDP.

Following these developments, the share of development expenditure in total Government expenditure increased from 10.7 percent to 17.1 percent during the period while the share of recurrent expenditure dropped from 89.3 percent to 82.9 percent of total expenditure. These developments are consistent with the Government objective of progressively increasing the proportion of expenses on development projects in order to support increased public investment activities which are necessary to sustain high economic growth.

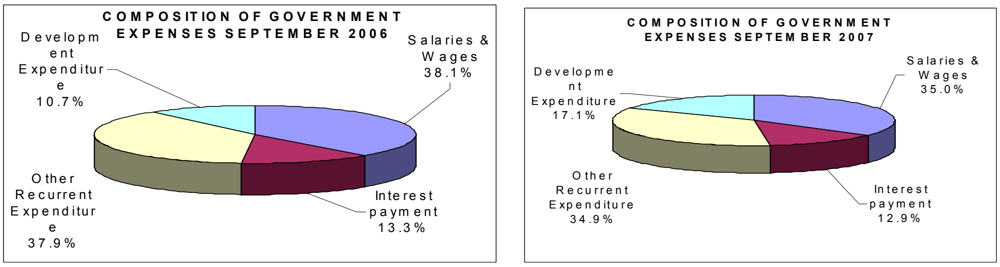
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Sep-06 Ksh bn	Sep-07 Ksh bn	Movement
1.Recurrent	**70.2**	**78.4**	**8.2**
Compensation of employees	30.0	33.1	**3.2**
Total Interest	10.4	12.2	**1.8**
of which			
Domestic*	8.9	10.5	**1.5**
Foreign interest due	1.5	1.8	**0.2**
Others	29.8	33.1	**3.3**
2. Development	**8.4**	**16.2**	**7.8**
TOTAL EXPENSES	**78.6**	**94.6**	**16.0**

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

Source: Treasury

CHART 6C: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

The budgetary operations of the Government in the first quarter of 2007/08 resulted in a financing requirement of Ksh 23.7 billion compared with Ksh 18.3 billion in a similar period of the previous fiscal year (Table 6.4). The financing requirement comprised Ksh 8.2 billion to finance the budget deficit, Ksh 3.0 billion to finance external debt repayments and Ksh 12.4 billion to build up Government deposits at Central Bank of Kenya. The entire financing requirement of Ksh 23.7 billion was sourced through domestic borrowing comprising of Ksh 12.9 billion from the Central Bank of Kenya, Ksh 2.9 from commercial banks and Ksh 7.9 billion from non-bank sources.

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

I. FINANCING REQUIREMENTS	Sep-06	Sep-07
1. Budget deficit	15.5	8.2
2. External debt reduction	1.2	3.0
3. Domestic debt reduction	1.7	0.0
3.1 Central Bank (incl. items in transit)	1.7	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	12.4
TOTAL	18.3	23.7
II. FINANCING SOURCES	**Sep-06 Ksh bn**	**Sep-07 Ksh bn**
1. Budget surplus	0.0	0.0
2. External debt increase	0.0	0.0
3. Increase in domestic debt	11.1	23.7
3.1 Central Bank	0.0	12.9
3.2 Commercial banks	7.4	2.9
3.3 Non-bank sources	3.8	7.9
4. Reduction in GoK deposits at CBK	7.2	0.0
5. Privatisation proceeds	0.0	0.0
TOTAL	18.3	23.7

Sources: Treasury & Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank of Kenya decreased from Ksh 41.5 billion in September 2006 to Ksh 37.6 billion in June 2007 before rising to Ksh 50.5 billion in September 2007. The increase in indebtedness during the period was attributed to a Ksh 9.6 billion increase in Government overdraft at the Central Bank of Kenya which was partly offset by a Ksh 0.5 billion revaluation gain on IMF funds on-lent to the Government and a decrease of Ksh 0.2 billion in cleared items in transit. Despite the rise in the Government overdraft at the Central Bank of Kenya in September 2007, the overdraft level remained within the legal limit of Ksh 13.3 billion.

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

	2006	2007		Movement
	September	June	September	Sept 06-Sept07
Total Credit	**41.5**	**37.6**	**50.5**	**8.9**
1. Overdraft	3.7	0.0	13.3	9.6
2. Rediscounted securities	0.0	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.0	0.0
Treasury bonds	0.0	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	35.5	35.5	35.5	0.0
4. IMF funds onlent to Government	1.9	1.4	1.5	-0.5
5. Cleared items in transit	0.4	0.6	0.2	-0.2
Memorandum				
Authorised overdraft limit	**11.3**	**13.3**	**13.3**	**1.9**
Amount utilised to date	3.7	0.0	13.3	9.6
Amount available	7.7	13.2	0.0	-7.7

Source: Central Bank of Kenya

Outlook of FY 2007/08

Government revenue excluding grants is projected to amount to Ksh 428.9 billion or 20.8 percent of GDP in 2007/08. The growth in revenue will be boosted by better economic performance and implementation of tax administration reforms by Kenya Revenue Authority. External grants are projected to rise to Ksh 40.3 billion or 2.0 percent of GDP during the fiscal year. Similarly, Government expenditure is projected at Ksh 580.4 billion or 28.2 percent of GDP in the fiscal year and will comprise Ksh 411.2 billion or 20.0 percent of GDP in recurrent expenditure, and Ksh 169.2 billion or 8.2 percent of GDP in development expenditure.

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

Developments in Public Debt

Overall Debt

Kenya's public and publicly guaranteed debt increased from Ksh 801.3 billion in June 2007 to Ksh 832.5 billion in September 2007 (Table 7.1). This represents a growth of Ksh 31.2 billion or 3.9 percent in the first quarter of 2007/08. The rise in the debt in period was due to increases of Ksh 9.1 billion and Ksh 22.1 billion in external and domestic debts respectively. External debt increased mainly due to weakening of the Kenya shilling while domestic debt increased due to planned domestic borrowing to finance Government budgetary operations.

The proportion of domestic debt in the overall stock of Government debt increased from 50.5 percent in June 2007 to 51.3 percent in September 2007 while external debt dropped from 49.5 percent to 48.7 percent of total debt during the period. The complete shift in the composition of public debt in favour of domestic debt occurred in June 2007 when the Government issued bank restructuring Treasury bonds amounting to Ksh 20.0 billion to the National Bank of Kenya to offset Government guaranteed debts contracted by parastatals.

As shown in Chart 7A, the overall debt to GDP ratio declined from 51.1 percent in June 2006 to 43.8 percent in June 2007 before rising to 44.1 percent in September 2007. The proportion of domestic debt in GDP increased from 22.1 percent to 22.6 percent during the period while external debt to GDP ratio dropped from 21.7 percent to 21.5 percent. The overall debt to GDP ratio was generally on a downward trend in the previous three years to June 2007 due to improved economic performance.

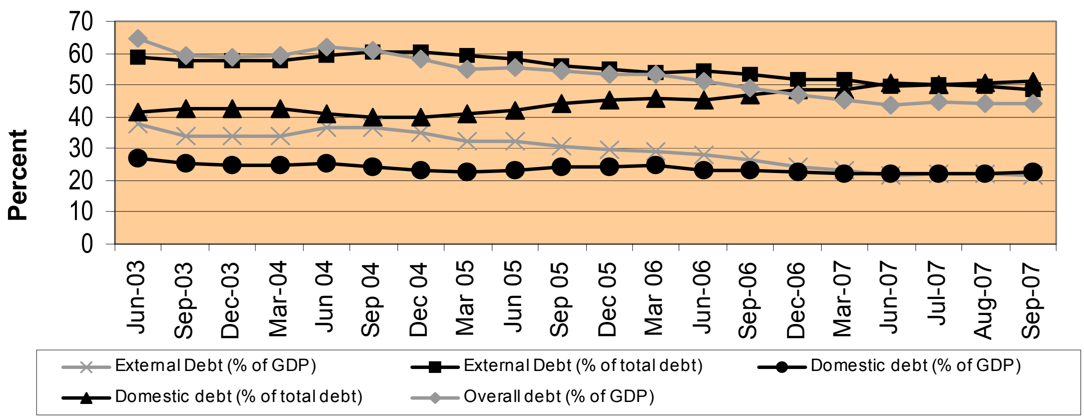
TABLE 7.1: KENYA'S PUBLIC DEBT (Ksh billion)

	Aug-06	Sep-06	Dec-06	Mar-07	June-07	July-07	August*	September**	Change 2007/08
EXTERNAL									
Bilateral	155.0	150.3	145.3	145.4	137.9	137.8	137.1	142.8	4.9
Multilateral***	255.3	251.9	242.7	244.0	240.3	254.8	253.6	243.4	3.0
Commercial Banks	1.3	1.3	0.9	0.9	0.3	0.3	0.3	0.6	0.3
Export Credit	19.5	19.2	18.8	18.8	18.0	18.0	18.0	18.9	0.8
Sub-Total	**431.1**	**422.6**	**407.7**	**409.1**	**396.6**	**410.9**	**409.1**	**405.7**	**9.1**
(As a % of GDP)	27.1	26.2	24.2	23.3	21.7	22.2	21.9	21.5	
(As a % of total debt)	54.0	53.2	51.4	51.4	49.5	50.0	49.6	48.7	
DOMESTIC\[1]									
Banks	**197.3**	**200.8**	**211.0**	**204.8**	**223.0**	**224.7**	**229.7**	**236.9**	**13.9**
Central Bank	42.8	39.6	47.1	35.9	36.2	40.8	44.6	49.0	12.8
Commercial Banks	154.5	161.2	163.9	169.0	186.8	183.9	185.1	187.8	1.0
Non-banks	**165.1**	**164.6**	**167.7**	**177.1**	**180.6**	**184.6**	**185.3**	**189.1**	**8.4**
Non-bank Financial Inst.	0.9	0.9	0.9	1.2	1.1	1.1	1.0	1.0	-0.1
Other Non-bank Sources	164.2	163.7	166.9	176.0	179.5	183.5	184.2	188.1	8.6
Non-residents	5.6	6.2	6.4	4.3	1.1	1.0	1.0	0.9	-0.2
Sub-Total	**368.0**	**371.6**	**385.1**	**386.3**	**404.7**	**410.2**	**415.9**	**426.8**	**22.1**
(As a % of GDP)	23.1	23.0	22.8	22.0	22.1	22.2	22.3	22.6	
(As a % of total debt)	46.0	46.8	48.6	48.6	50.5	50.0	50.4	51.3	
GRAND TOTAL	**799.1**	**794.2**	**792.9**	**795.3**	**801.3**	**821.1**	**825.0**	**832.5**	**31.2**
(As a % of GDP)	50.2	49.2	47.0	45.3	43.8	44.4	44.2	44.1	

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

Sources: Treasury and Central Bank of Kenya

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



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

Domestic Debt

Government domestic borrowing activities in the first quarter of 2007/08 resulted in an increase in gross domestic debt from Ksh 404.7 billion in June 2007 to Ksh 426.8 billion in September 2007 (Table 7.2). The rise in domestic debt during the period followed increases of Ksh 8.7 billion, Ksh 0.6 billion and Ksh 12.8 billion in Treasury bonds, Treasury bills and other domestic debt respectively. The Government overdraft at the Central Bank of Kenya, which accounted for the largest proportion of other domestic debt, amounted to Ksh 13.3 billion in September 2007. This level of Government overdraft was same as the current legal limit of Ksh 13.3 billion. Use of the overdraft facility is restricted to meeting shortfalls resulting from mismatches between revenue and expenditures, and not as a borrowing instrument for meeting the programmed domestic borrowing requirements.

During the first quarter of the fiscal year 2007/08, Treasury bonds auctions realized average over subscriptions of 54.0 percent while Treasury bills auctions were oversubscribed by 28.9 percent. The good performance of the Treasury bonds auctions relative to Treasury bills indicates a strong investor appetite for longer dated securities.

Domestic debt owed to commercial banks increased by Ksh 1.0 billion from Ksh 186.8 billion in June 2007 to Ksh 187.8 billion in September 2007 (Table 7.1). Consequently, the share of domestic debt held by commercial banks dropped from 46.2 percent to 44.0 percent during the period. The drop in the debt owed to commercial banks is positive development as excessive domestic borrowing from banks could result in crowding out private sector investment as the government competes with the private sector for private savings.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

Treasury bills (excluding Repos) increased from Ksh 94.4 billion in June 2007 to

	2006						2007								Change June-07- Sept-07
	Aug	%	Sep	%	Mar	%	June	%	July	%	Aug	%	Sept	%	
Total stock of Domestic Debt (A+B)	368.0	100.0	371.6	100.0	386.3	100.0	404.7	100.0	410.2	100.0	415.9	100.0	426.8	100.0	22.1
A. Government Securities	358.3	97.4	365.1	98.3	383.2	99.2	402.9	99.6	403.9	98.5	405.7	97.6	412.2	96.6	9.3
1. Treasury Bills (excluding Repo Bills)	98.2	26.7	98.6	26.5	98.3	25.5	94.4	23.3	93.9	22.9	92.1	22.2	95.0	22.3	0.6
Banking institutions	49.6	13.5	52.2	14.0	47.5	12.3	45.3	11.2	41.6	10.1	40.7	9.8	41.1	9.6	-4.2
Others	48.5	13.2	46.4	12.5	50.8	13.2	49.1	12.1	52.3	12.7	51.4	12.4	53.9	12.6	4.8
2. Treasury Bonds	223.5	60.7	230.0	61.9	248.6	64.4	272.2	67.3	273.7	66.7	277.3	66.7	280.9	65.8	8.7
Banking institutions	102.5	27.9	106.7	28.7	118.8	30.8	141.5	35.0	142.3	34.7	144.3	34.7	145.8	34.2	4.3
Others	121.0	32.9	123.3	33.2	129.8	33.6	130.7	32.3	131.4	32.0	133.0	32.0	135.1	31.6	4.4
3. Long term Stocks	1.1	0.3	1.1	0.3	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	1.1	0.3	1.1	0.3	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.0
4. Pre-1997 Government Overdraft at CBK	35.5	9.7	35.5	9.6	35.5	9.2	35.5	8.8	35.5	8.7	35.5	8.5	35.5	8.3	0.0
Of which: Repo T/Bills	35.5	9.7	35.5	9.6	35.5	9.2	35.5	8.8	35.5	8.7	35.5	8.5	35.5	8.3	0.0
B. Others:	9.6	2.6	6.5	1.7	3.1	0.8	1.8	0.4	6.3	1.5	10.2	2.4	14.6	3.4	12.8
Of which CBK overdraft to Government	7.9	2.1	3.7	1.0	0.0	0.0	0.0	0.0	4.8	1.2	7.5	1.8	13.3	3.1	13.2

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

Ksh 95.0 billion in September 2007. However, as shown in Table 7.2, the share of Treasury bills in overall domestic debt dropped from 23.3 percent to 22.3 percent during the period. Treasury bills holdings by commercial banks decreased from Ksh 45.1 billion or 47.7 percent of outstanding Treasury bills in June 2007 to Ksh 41.0 billion or 43.1 percent in September 2007 (Table 7.3 and Chart 7B). The proportion of 182-day Treasury bills in outstanding Government securities also declined from 19.7 percent in June 2007 to 17.7 percent in September 2007 (Table 7.5). However, 91-day Treasury bills increased from 6.0 percent of outstanding Government securities in June 2007 to 7.5 percent in August 2007. The rise in the proportion of 91-days Treasury bills was attributed to higher interest rates on the securities in the first quarter of 2007/08.

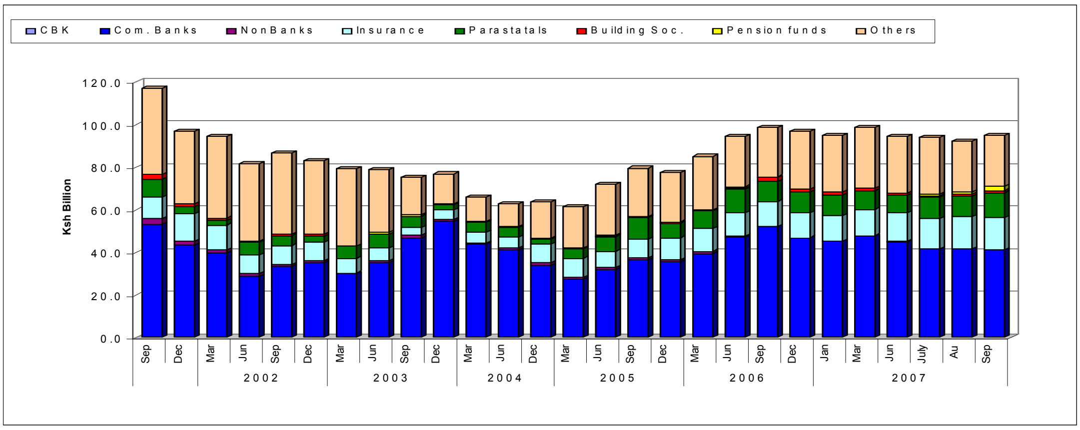
TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

	2006				2007													
Holders	Nov	%	Dec	%	Mar	%	Apr	%	May	%	Jun	%	July	%	Aug	%	Sept	%
Banking Institutions	52.9	54.6	46.8	48.5	47.8	48.6	47.2	46.9	43.9	44.8	45.3	48.0	41.6	44.3	41.6	45.1	41.1	43.2
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	52.8	54.6	46.8	48.4	47.5	48.3	46.9	46.6	43.5	44.4	45.1	47.7	41.4	44.1	41.4	44.9	41.0	43.1
NBFIs	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Insurance Companies	11.8	12.2	11.9	12.3	12.4	12.6	12.6	12.5	13.1	13.3	13.5	14.2	14.1	15.0	15.1	16.4	15.4	16.2
Parastatals	8.9	9.2	9.5	9.8	8.8	8.9	9.6	9.6	9.1	9.3	8.3	8.7	10.3	10.9	9.7	10.5	11.6	12.2
Of which: NSSF	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Building Societies	1.3	1.3	1.4	1.5	1.1	1.1	0.9	0.9	0.5	0.5	0.6	0.7	0.7	0.8	0.8	0.9	1.0	1.0
Pension Funds	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.7	0.8	1.0	1.1	2.1	2.2
Others	21.8	22.5	26.9	27.9	28.3	28.7	30.2	30.0	31.2	31.9	26.7	28.3	26.5	28.2	23.9	26.0	23.9	25.2
Total*	96.8	100.0	96.7	100.0	98.3	100.0	100.6	100.0	97.9	100.0	94.4	100.0	93.9	100.0	92.1	100.0	95.0	100.0

* Excludes repurchase order bills

Source: Central Bank of Kenya

CHART 7B: OUTSTANDING TREASURY BILLS BY HOLDER



Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds increased from Ksh 272.2 billion in June 2007 to Ksh 280.9 billion in September 2007, as shown in Table 7.2 and Chart 7C. Despite the rise, the proportion of Treasury bonds in total domestic debt dropped from 67.3 percent to 65.8 percent during the period. This was mainly due to an increase in the Government overdraft at the Central Bank of Kenya.

Treasury bonds holdings by commercial banks increased from Ksh 140.7 billion in June 2007 to Ksh 145.2 billion in September 2007 (Table 7.4). Similarly, Treasury bonds holdings by non-bank institutions and individuals increased from Ksh 131.5 billion in June 2007 to Ksh 135.1 billion during the period. However, the proportion of Treasury bonds holdings by commercial banks remained unchanged at 51.7 percent. Consequently, the proportion of Treasury bonds held by non-banks also remained unchanged at 48.3 percent.

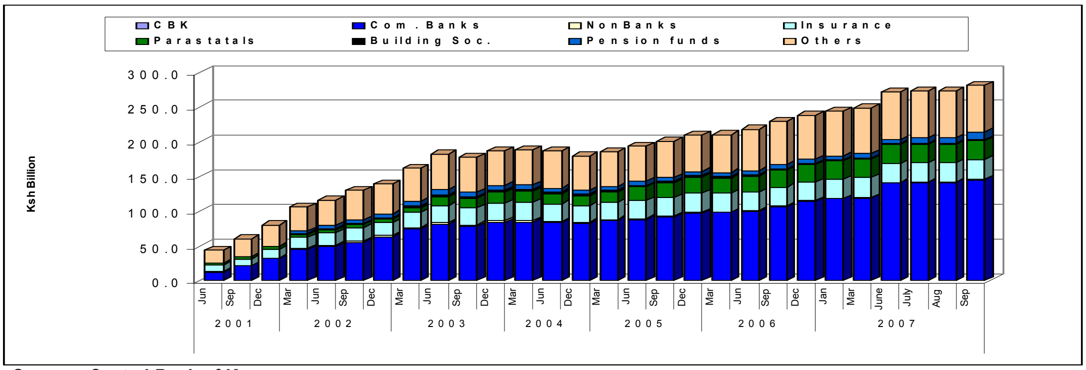
In terms of the maturity profile of Treasury bonds, the largest share of outstanding Treasury bonds was in 6-year bonds in September 2007. However, the proportion of 6-year bonds in outstanding Government securities dropped from 13.2 percent in June 2007 to 12.9 percent in September 2007. Besides, following successful issuance of 5-year and 7-year Treasury bonds during the period, the share of 5-year bonds in total Government securities increased from 7.9 percent to 10.8 percent while 7-year bonds increased from 4.3 percent to 6.4 percent during the period. As a result, the average maturity profile of domestic debt increased from 3.07 years in June 2007 to 3.14 years in September 2007. The rising trend in the average maturity of domestic debt is expected to continue as the Government issues more of the longer dated Treasury bonds such as the 15-year bond. These developments are consistent with the Government debt management strategy of restructuring domestic debt to longer dated instruments in order to minimise the risks associated with short term domestic borrowing.

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

	2006						2007									
Holders	Sep	%	Nov	%	Dec	%	May	%	June	%	July	%	Aug	%	Sept	%
Banking Institutions	107.5	46.8	112.9	47.8	115.4	48.5	122.8	48.4	141.5	52.0	142.3	52.0	144.3	52.1	146.1	52.0
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	106.7	46.4	112.0	47.5	114.6	48.1	121.9	48.1	140.7	51.7	141.4	51.7	143.5	51.7	145.2	51.7
NBFIs	0.9	0.4	0.9	0.4	0.9	0.4	0.9	0.3	0.9	0.3	0.9	0.3	0.9	0.3	0.9	0.3
Insurance Companies	27.2	11.8	27.5	11.6	27.0	11.4	28.6	11.3	27.5	10.1	27.5	10.0	27.9	10.1	28.5	10.1
Parastatals	24.6	10.7	24.7	10.4	24.8	10.4	26.7	10.5	27.3	10.0	26.8	9.8	27.8	10.0	27.2	9.7
Of which: NSSF	5.3	2.3	5.5	2.3	5.4	2.3	6.4	2.5	6.8	2.5	6.9	2.5	8.0	2.9	8.1	2.9
Building Societies	1.6	0.7	1.6	0.7	1.5	0.6	1.5	0.6	1.3	0.5	1.2	0.5	1.2	0.4	1.2	0.4
Pensions Fund	5.9	2.6	5.9	2.5	5.9	2.5	6.1	2.4	5.9	2.2	8.0	2.9	9.5	3.4	11.3	4.0
Others	63.1	27.4	63.6	26.9	63.3	26.6	68.1	26.8	68.7	25.2	67.9	24.8	66.5	24.0	66.6	23.7
Total	**230.0**	**100.0**	**236.0**	**100.0**	**238.0**	**100.0**	**253.7**	**100.0**	**272.2**	**100.0**	**273.7**	**100.0**	**277.3**	**100.0**	**280.9**	**100.0**

Source: Central Bank of Kenya

CHART 7C: STOCK OF TREASURY BONDS



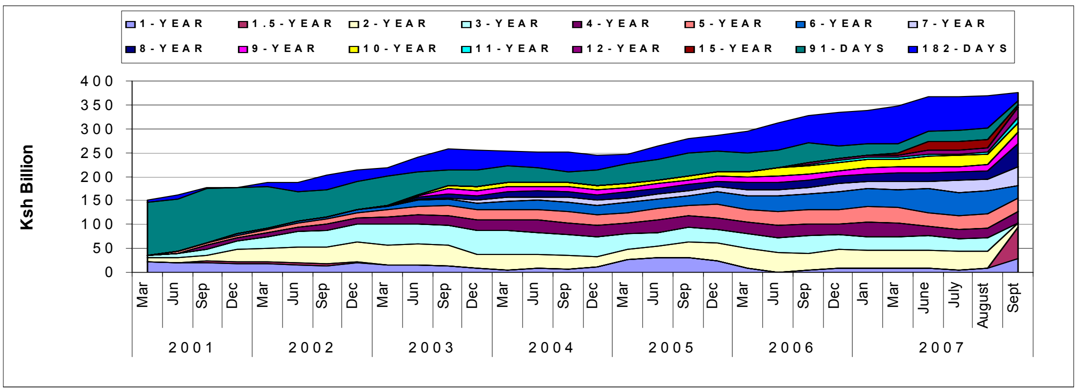
Source: Central Bank of Kenya

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

	2006						2007								Change Jun-07 to Sept-07
	Sep	%	Nov	%	Dec	%	June	%	July	%	Aug	%	Sept	%	
91-Day	40.3	12.3	30.5	9.2	26.1	7.8	22.0	6.0	24.2	6.6	24.6	6.7	28.4	7.5	6.4
182-Day	58.3	17.7	66.3	19.9	70.6	21.1	72.4	19.7	69.7	19.0	67.5	18.3	66.6	17.7	-5.8
1-Year	4.6	1.4	4.6	1.4	9.7	2.9	8.7	2.4	5.2	1.4	8.4	2.3	8.4	2.2	-0.3
2-Year	35.2	10.7	39.3	11.8	39.3	11.7	37.7	10.3	37.7	10.2	35.4	9.6	24.3	6.5	-13.4
3-Year	36.3	11.1	33.3	10.0	28.6	8.5	31.2	8.5	27.9	7.6	27.9	7.6	27.9	7.4	-3.2
4-Year	24.3	7.4	24.3	7.3	23.4	7.0	19.3	5.3	19.3	5.2	19.3	5.2	24.9	6.6	5.6
5-Year	30.0	9.1	30.0	9.0	30.0	9.0	28.8	7.9	28.8	7.8	31.4	8.5	40.6	10.8	11.8
6-Year	33.1	10.1	38.1	11.5	38.1	11.4	48.3	13.2	48.3	13.1	48.3	13.1	48.3	12.9	0.0
7-Year	13.6	4.1	13.6	4.1	15.9	4.7	15.9	4.3	24.2	6.6	24.2	6.5	24.2	6.4	8.3
8-Year	15.3	4.7	15.3	4.6	15.3	4.6	17.9	4.9	17.9	4.9	17.9	4.9	17.9	4.8	0.0
9-Year	12.6	3.8	12.6	3.8	12.6	3.8	12.6	3.4	12.6	3.4	12.6	3.4	12.6	3.4	0.0
10-Year	17.1	5.2	17.1	5.1	17.1	5.1	22.1	6.0	22.1	6.0	22.1	6.0	22.1	5.9	0.0
11-Year	4.0	1.2	4.0	1.2	4.0	1.2	4.0	1.1	4.0	1.1	4.0	1.1	4.0	1.1	0.0
12-Year	3.9	1.2	3.9	1.2	3.9	1.2	8.8	2.4	8.8	2.4	8.8	2.4	8.8	2.3	0.0
15-Year	0.0	0.0			0.0	0.0	16.9	4.6	16.9	4.6	16.9	4.6	16.9	4.5	0.0
Total	**328.5**	**100.0**	**332.9**	**100.0**	**334.7**	**100.0**	**366.6**	**100.0**	**367.6**	**100.0**	**369.4**	**100.0**	**375.9**	**100.0**	

Source: Central Bank of Kenya

CHART 7D: OUTSTANDING TREASURY BILLS AND BONDS



Source: Central Bank of Kenya

Long-term Stocks

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

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Treasury bills and bonds in the second quarter of 2007/08 will amount to Ksh 64.8 billion and Ksh 9.4 billion respectively. The Treasury bills maturities during the period will comprise Ksh 29.6 billion and Ksh 35.2 billion in 91-day and 182-day Treasury bills respectively. Treasury bonds maturities in the period will comprise Ksh 5.2 billion, Ksh 2.4 billion, Ksh 1.1 billion and Ksh 0.7 billion in 1-year, 4-year, 5-year and 6-year Treasury bonds respectively.

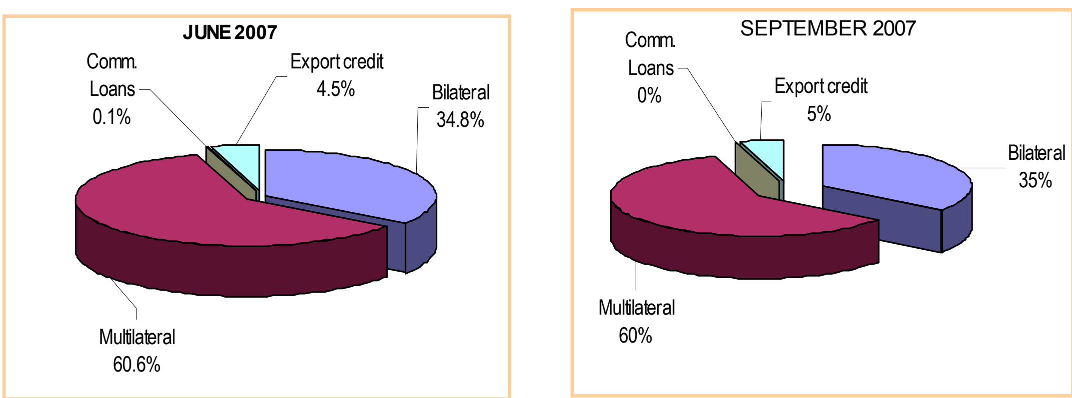
External Debt

External public and publicly guaranteed debt increased from Ksh 396.6 billion in June 2007 to Ksh 405.7 billion in September 2007. This is equivalent to an increase of 2.3 percent in external debt during the period. Expressed in foreign currency terms, the debt increased slightly from USD 6.0 billion to USD 6.1 billion during the period. The rise in external debt (in shillings) was attributed to revaluation losses on the debt totalling Ksh 12.3 billion and disbursements totalling Ksh 1.6 billion. These increases in the debt were, however, partly offset by principal repayments of external debt totalling Ksh 4.8 billion. The entire amount of external loans disbursements during the period was through project financing.

Composition of External Debt by Creditor

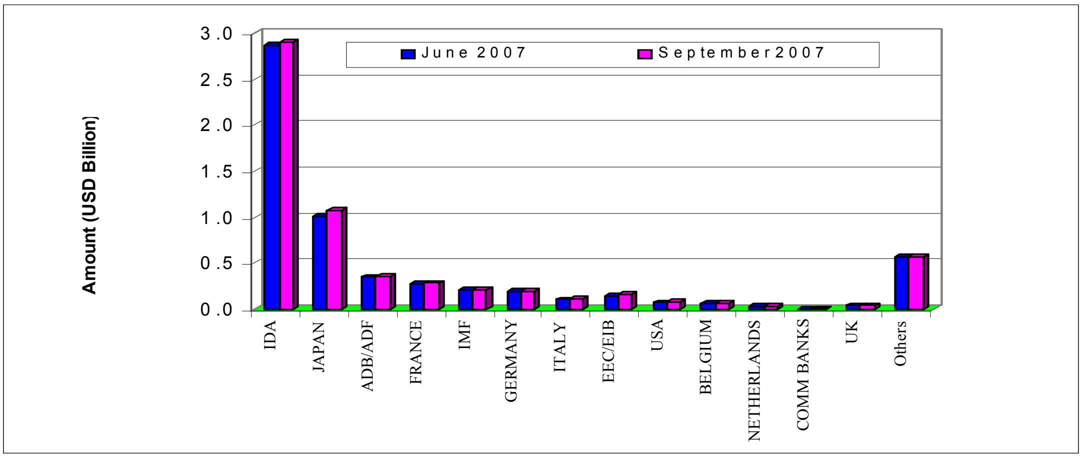
The share of external debt owed to multilateral creditors dropped from 60.6 percent in June 2007 to 60.0 percent in September 2007. However, as shown in Chart 7E, the proportion of the debt owed to bilateral creditors increased from 34.8 percent in June 2007 to 35.2 percent while export credits increased from 4.5 percent to 4.7 percent in September 2007. The proportion of external debt owed to commercial banks remained unchanged at 0.1 percent during the period.

CHART 7E: COMPOSITION OF EXTERNAL DEBT



As shown in Chart F, the largest external creditors to Kenya by September 2007 were the International Development Association (IDA) and Japan. The debt owed to IDA increased from USD 2.87 billion in June 2007 to USD 2.91 billion in September 2007 while that owed to Japan increased from USD 1.01 to USD 1.07 in June 2007.

CHART 7F: EXTERNAL DEBT BY CREDITOR

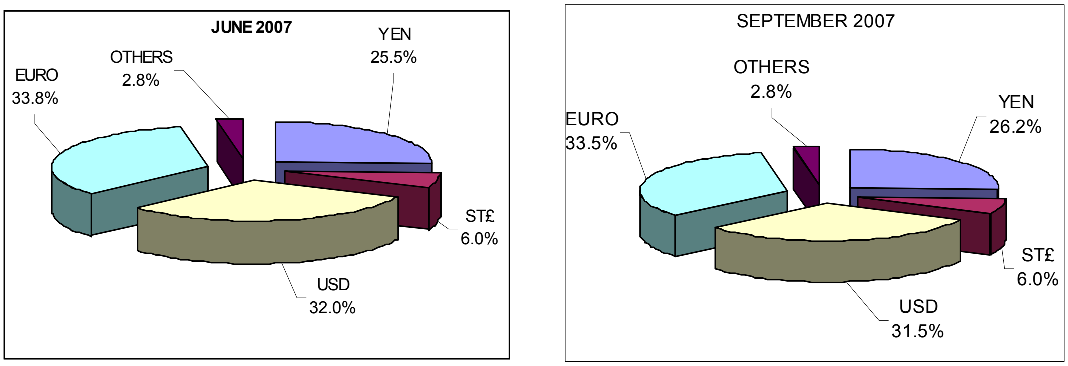


Source: Treasury

Currency Composition of External Debt

As shown in Chart G, the proportion of external debt held in US dollars and Euros dropped from 32.0 percent and 33.8 percent in June 2007 to 31.5 percent and 33.5 percent respectively in September 2007. However, the proportion of external debt held in Japanese Yen rose from 25.5 percent to 26.2 percent during the period. The share of external debt held in Sterling pounds and other currencies including SDRs remained unchanged at 6.0 percent and 2.8 percent respectively during the period.

CHART 7G: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Public Debt Service

Government expenditure on interest and other charges on domestic debt during the first quarter of 2007/08 amounted to Ksh 10.5 billion compared with Ksh 8.9 billion in a similar period of the previous fiscal year. However, the ratio of domestic interest payments to ordinary revenue dropped from 11.8 percent to 10.8 percent due to a faster growth in revenue during the period.

External debt service (including repayments to IMF) increased from Ksh 4.1 billion or 5.4 percent of ordinary revenue in the first quarter of 2006/07 to Ksh 6.6 billion or 6.8 percent of ordinary revenue in a similar period of 2007/08. The increase in external debt service during the period is attributed to end of the consolidation period in December 2006 for the Paris Club debt re-scheduling under the 2004 agreement, which means that the Government is now servicing the debts. The external debt service in the first quarter of 2007/08 comprised Ksh 4.8 billion in principal repayments and Ksh 1.8 billion in interest payments.

Outlook for the Fiscal Year 2007/08

Government domestic and external borrowings are projected at Ksh 34.0 billion and Ksh 39.8 billion respectively in 2007/08. However, gross domestic debt to GDP ratio in June 2008 is projected to remain unchanged from that in June 2007 which was 22.4 percent due to a projected faster growth rate in GDP in the period. The proportion of external debt in GDP is projected to rise slightly from 21.9 percent of GDP in June 2007 to 22.0 percent in June 2008.

Activity in the Stock Market

Equity Market Year 2006 Review

Mixed performance was recorded at the equities market in November 2007 as reflected by key market indicators. Turnover decreased by Ksh 0.3 billion from Ksh 7.2 billion in October 2007 to Ksh 7.5 billion in November 2007. The number of shares traded however fell by 3.1 percent from 183.6 million in October to 177.9 million in November 2007, while market capitalization rose by Ksh 53 million from Ksh 745.5 billion in October 2007 to Ksh 798.1 billion in November 2007. Consequently, the NSE 20 Share Index increased from 4971.04 points in October 2007 to 5215.36 points in November 2007. Market liquidity ratio declined slightly from 1.4 percent in October to 1.3 percent in November 2007 following the drop in the number of shares traded.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS, 2006 - 2007

Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Ksh Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
Jan 06	4,171.80	143.50	6,146.38	481.29	1,054.90
Feb 06	4,056.63	61.95	3,392.49	469.66	4,696.25
Mar 06	4,101.64	69.20	3,692.22	484.18	2,859.70
Apr 06	4,025.21	57.28	2,861.62	486.78	6,002.15
May 06	4,349.75	183.46	11,437.33	614.90	4,783.25
June 06	4,260.49	142.02	8,441.65	623.20	8,128.35
July 06	4,258.54	93.45	5,593.89	615.09	7,383.50
August 06	4,486.07	117.80	8,497.88	668.67	6,440.40
September 06	4,879.86	177.42	12,377.72	726.78	1,497.00
October 06	5,314.36	161.25	13,089.36	771.70	1,872.06
November 06	5,615.20	169.47	13,648.68	806.23	2,847.80
December 06	5,645.65	77.42	5,770.67	791.58	1,009.50
January 07	5,774.24	136.31	10,482.89	824.29	1,601.75
February 07	5,387.28	109.08	7,763.86	723.66	6,234.20
March 07	5,133.67	114.27	6,955.35	696.92	7,789.26
April 07	5,199.44	87.45	4,342.38	701.98	6,266.30
May 07	5,001.77	123.72	6,224.92	709.69	9,555.15
Jun 07	5,146.73	151.11	6,079.43	743.91	10,077.70
July 07	5,340.08	168.57	6,442.34	780.72	8,242.80
August 07	5,371.72	248.14	9,251.20	811.23	10,829.55
September 07	5,146.46	275.7	9,902	791.7	9,523.20
October 07	4,971.04	183.60	7,214.02	745.50	3,486.95
November 07	5,215.36	177.95	7,522.12	798.15	4,695.70

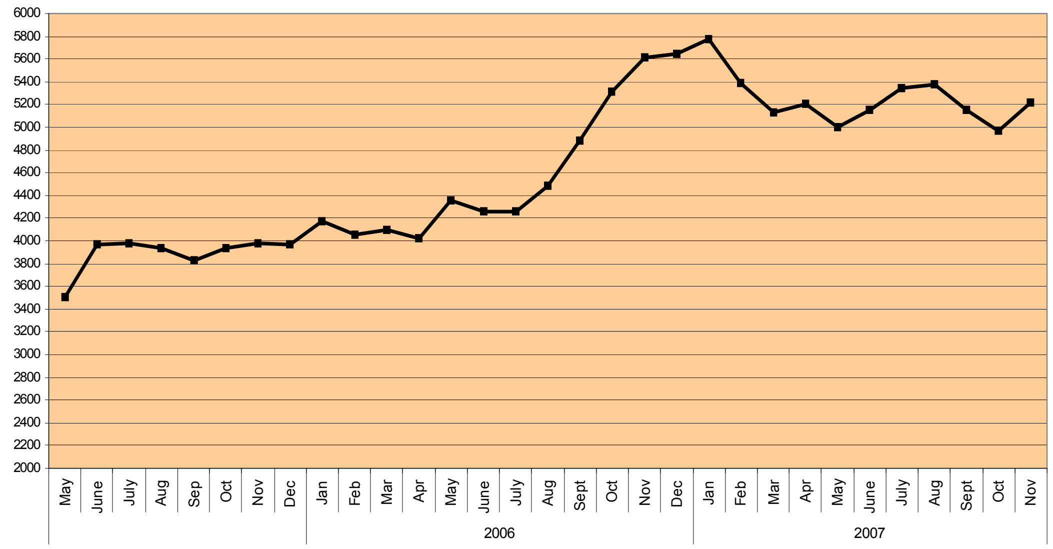
Source: Nairobi Stock Exchange

Bond Market

Bond market trading improved greatly in November 2007 as bond turnover rose by 34.3 percent with bonds worth Ksh 4.7 billion traded compared with Ksh 3.5 billion traded in October 2007.

The Finance and Investment sector continued to be the most active in the Main Investment Market Segment as it traded 82 million shares representing 44.2 percent

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



Source: Nairobi Stock Exchange

of the traded volume in November 2007. The most traded stocks in the sector were Kenya Re (15.2 million) and KCB (33.4million) shares. The Industrial and Allied sector traded 67.1 million shares and contributed 36.2 percent to total market trading in November 2007. Actively traded stocks in the sector included KenGen (28.1 million) and Mumias (18.07 million) shares, respectively. The Commercial and Services sector traded 34.5 million shares traded and accounted for 18.6 percent of traded volume; Access Kenya traded 13.5 million shares while Kenya Airways traded 8.05 million shares to be the most traded stocks in the sector. The Agricultural sector traded 1.1 million shares with Sasini trading 0.8 million shares.

The Alternative Investment Market Segment (AIMS) had 776.7 thousand shares traded with Express Kenya contributing 502 thousand to the traded volume.

Balance Sheet of the Central Bank of Kenya

(Kenya shillings million)

	Oct-07	Oct-06	Oct 06/Oct 07 Movement
ASSETS	**239,948**	**222,013**	**17,935**
Foreign Exchange	191,265	172,266	**18,999**
Advances and Discounts to Banks	40	970	**-930**
Investment in Government Securities	15	15	**0**
Government Accounts	43,366	42,797	**569**
Overdraft to Government	5,671	5,233	**438**
Clearing Account	885	309	**576**
IMF funds on-lent to Government	1,261	1,706	**-445**
Non-interest Bearing Government Debt	3,559	35,549	**-31,990**
Other assets	5,262	5,965	**-703**
Debtors	4,131	4,675	**-544**
Retirement Benefits	240	394	**-154**
Property and Equipment	610	612	**-2**
Prepaid Leases	281	284	**-3**
			0
LIABILITIES	**239,948**	**222,013**	**17,935**
Currency in Circulation	94,800	81,522	**13,278**
Repo Securities	17,210	16,087	**1,123**
Deposits	109,560	109,536	**24**
Commercial Banks			**0**
Kenya	39,649	37,002	**2,647**
External	23	26	**-3**
Non-Bank Financial Institutions	117	117	**0**
IMF	16,077	13,031	**3,046**
Government	43,287	47,057	**-3,770**
Other Public Entities and Project A/Cs	8,541	10,853	**-2,312**
Local Banks Forex Settlement Fund	1,866	1,450	**416**
Other Liabilities and Provisions	894	1,859	**-965**
Capital and Reserves	17,484	13,009	**4,475**
Capital	1,500	1,500	**0**
General Reserve Fund	7,759	8,145	**-386**
Period's Surplus	8,225	1,364	**6,861**
Dividend payable	0	2,000	**-2,000**

Source: Central Bank of Kenya

NOTES ON THE BALANCE SHEET

Assets

Foreign exchange reserves of the Bank increased by Ksh 18,999 million from Ksh 172,266 million in October 2006 to Ksh 191,265 million in October 2007, due to interbank purchases of foreign exchange by the Bank.

Investment in Government securities remained unchanged at Ksh 15 million in October 2007 as recorded in October 2006.

Balances in Government accounts at CBK increased by Ksh 569 million, from Ksh 42,797 million in October 2006 to Ksh 43,366 million in October 2007. The increase was largely in the increase in the use of the overdraft facility at the Central Bank by Ksh 569 million and increase in Government clearing account from Ksh 309 million in October 2006 to Ksh 885 million in October 2007. However, the IMF funds on-lent to Government declined by Ksh 445 million. The value of non interest bearing Government debt remained unchanged.

Other assets declined by Ksh 703 million in October 2007 due to a reduction of Ksh 544 million in debtors of the Bank, decline in retirement benefits of Ksh 154 million, and a decline of Ksh 2 million and Ksh 3 million in the value of property & equipment and prepaid leases.

Liabilities

Currency in circulation increased by Ksh 13,278 million, from Ksh 81,522 million in October 2006 to Ksh 94,800 million in October 2007.

The stock of **repo securities** increased by Ksh 1,123 million, from Ksh 16,087 million in October 2006 to Ksh 17,210 million in October 2007.

Deposits increased by Ksh 24 million, from Ksh 109,536 million in October 2006 to Ksh 109,560 million in October 2007. Deposits of Commercial Banks at Central Bank increased by Ksh 2,647 million, while IMF deposits increased by Ksh 3,046 million. Deposits of local banks forex settlement fund increased by Ksh 416 million during the year. The increase in the deposits was, however, offset by reduction in Government deposits at the Central Bank by Ksh 3,770 million and deposits of other public and project entities by Ksh 2,312 million.

Other liabilities and provisions declined by Ksh 965 million, from Ksh 1,859 million in October 2006 to Ksh 894 million in October 2007.

Capital and reserves increased by Ksh 4,475 million, from Ksh 13,009 million in October 2006 to Ksh 17,484 million in October 2007, due to improved profitability of the Bank by Ksh 6,861 million to Ksh 8,225 million in October 2007. This increase was partially offset by decline in dividends payable of Ksh 2,000 million and a decline in the General Reserve Fund of Ksh 386 million to Ksh 7,759 million in October 2007.