

**MONTHLY ECONOMIC REVIEW
NOVEMBER 2009**

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>

CONTENTS

Overview	2
1. Trends in Various Measures of Inflation	7
2. Developments in Money, Credit and Interest Rates	10
3. Performance of the Real Sector	15
4. Developments in the Balance of Payments and Exchange Rates	23
5. Developments in the Banking Sector.....	28
6. Government Budget Performance	34
7. Developments in Public Debt	38
8. Activity in the Stock Market	43
9. Balance Sheet of the Central Bank of Kenya	45

***Information in the Monthly Economic Review is provided for public information and may be reproduced with due acknowledgment. Enquiries concerning this publication should be addressed to: The Director, Research Department, Central Bank of Kenya, P. O. Box 60000-00200, Nairobi.
email: info@centralbank.go.ke***

OVERVIEW

Introduction This Monthly Economic Review highlights recent economic developments through November 2009. It highlights developments in money, credit and banking, inflation, interest rates and the shilling exchange rate. It also highlights developments in the real sector, Government budgetary operations, public debt and balance of payments.

Real GDP Growth Economic growth stagnated in the third quarter of 2009 at 0.0 percent with the level of output of goods and services remaining equal to that experienced in the same quarter of 2008. This was as a result of various shocks including the persistent drought which adversely affected the agricultural and electricity sectors and the rising fuel prices which suppressed the transport and manufacturing sectors. Agriculture, which constitutes 23.4 percent of GDP, declined by 3.5 percent during the third quarter of 2009 while Manufacturing, Transport and communications, and Construction, which together account for about 25.0 percent of GDP also declined during the quarter by 2.4, 1.8 and 1.12 percent, respectively. The above decreases were counteracted by increases in some sectors, with the hotels and restaurants sector leading by 44.4 percent increase. Other shocks included the global economic crisis and the lag effects of the post election crisis experienced in 2008. Growth rates during the first and second quarter of 2009 were equivalent to 4.0 and 2.1 percent, respectively.

Inflation The overall 12-month inflation decelerated over the year to November 2009 from 17.8 percent in December 2008 to 5.0 percent in November 2009, a level last recorded in December 2007. The annual average inflation was comparatively high at 10.2 percent in November 2009. 12-month inflation excluding food, energy and transport edged down gradually from 8.1 percent in October 2008 to 4.8 percent in November 2009.

Government Fiscal Operations The central Government budgetary operations in the five months of the fiscal year 2009/10 resulted in a deficit of Ksh 38.2 billion or 1.6 percent of GDP on commitment basis compared with a deficit of Ksh 26.4 bil-

lion or 1.2 percent of GDP in a similar period of 2008/09. The budget deficit during the period was well within the programmed target of 2.3 percent of GDP on a commitment basis.

Public Debt Developments Kenya's public and publicly guaranteed debt increased by 2.9 percent in the first five months of fiscal year 2009/10 to stand at Ksh 1,084.2 billion in November 2009 from Ksh 1,053.7 billion in June 2009 representing 44.1 percent of GDP. The external debt to GDP ratio decreased from 22.4 percent in June 2009 to 21.2 percent in November 2009 while the domestic debt to GDP ratio increased from 21.7 percent to 22.9 percent during the period.

Monetary Expansion Money supply, M3, grew by 14.8 percent in the year to November 2009 compared with 19.4 percent in a corresponding period in 2008, and remained below the projected 15.1 percent growth in November 2009.

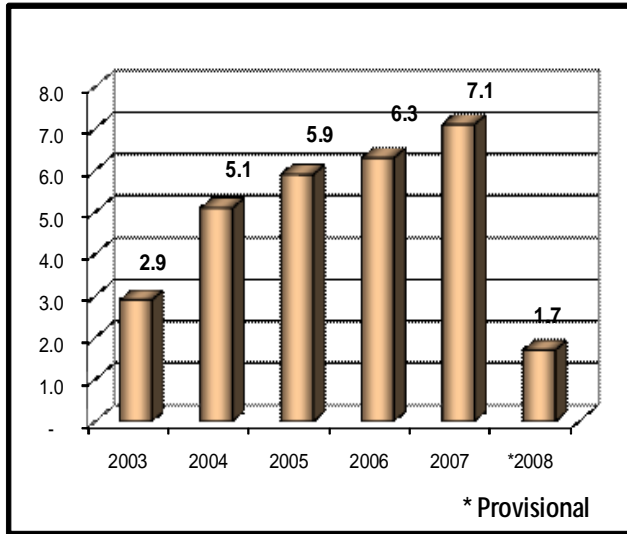
Interest Rates In the month of November 2009, the MPC lowered the Central Bank Rate (CBR) to 7.0 percent from 7.75 percent in October 2009. Other short term and long term interest rates trended upwards in November 2009 with exception of savings deposits and 91-day Treasury bill rate that declined by 14 and 2 basis points respectively.

Balance of Payments Kenya's balance of payments position improved from a surplus of US\$ 30 million in the year to October 2008 to a surplus of US\$ 369 million in the year to October 2009. The improvement reflected the surplus in the capital and financial account which offset the current account deficit.

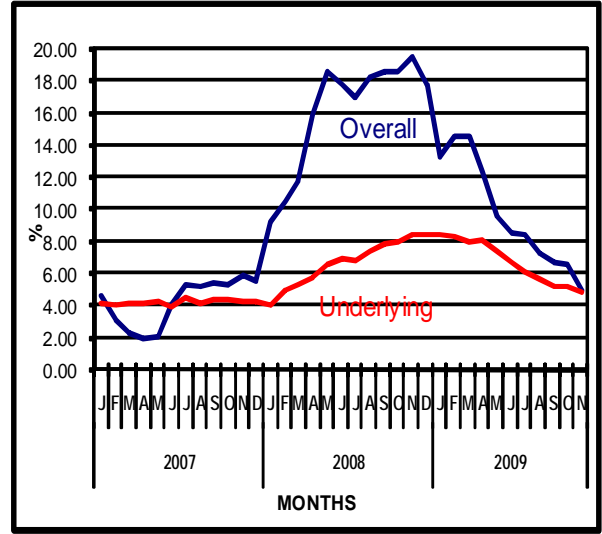
Exchange Rates The Kenya shilling depicted mixed performance against major world currencies. It strengthened against the US dollar but weakened against the Sterling Pound, the Japanese Yen and the Euro in November 2009. Against the US dollar, the shilling exchanged at Ksh 74.74 per US dollar in November 2009 compared with Ksh 75.24 per US dollar in October 2009.

SELECTED ECONOMIC PERFORMANCE INDICATORS

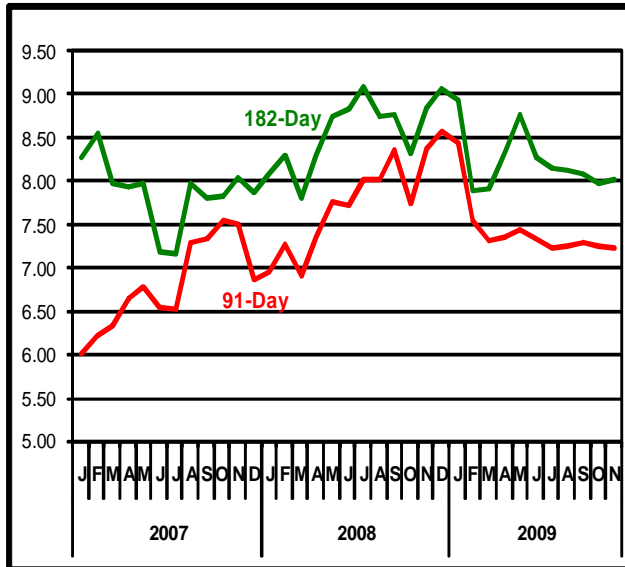
Real GDP Growth



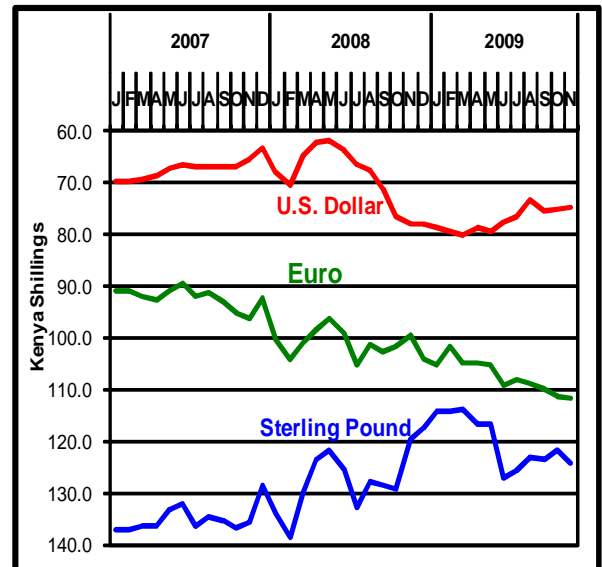
Inflation



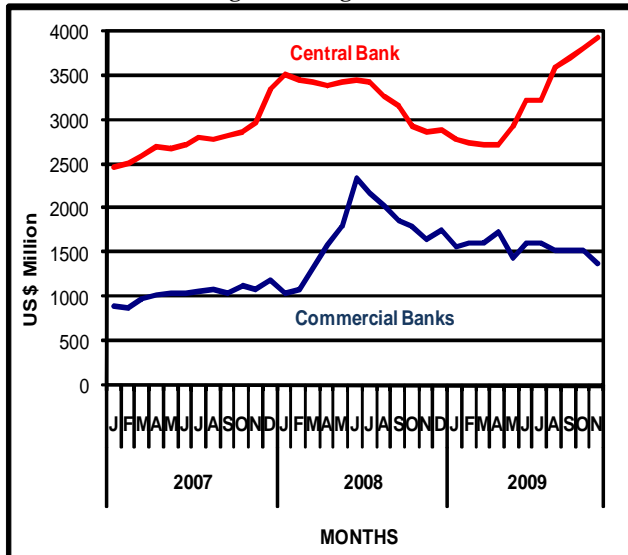
Treasury Bill Rates



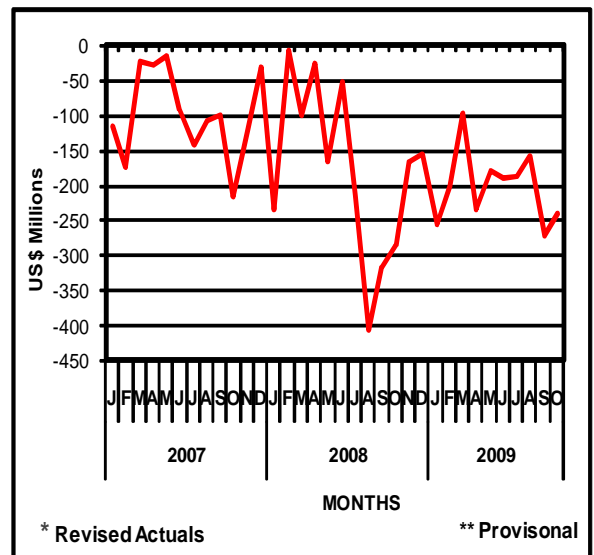
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008*
1. POPULATION*									
People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30
Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	1.03
2. NATIONAL ACCOUNTS**									
GDP at Basic Prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,527	1,443,981	1,610,831	1,852,263
GDP at Market Prices (Ksh m):									
At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,434	1,825,960	2,099,798
At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,081	1,249,331	1,338,039	1,360,626
Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.32	7.10	1.69
Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,478	34,608	35,969	35,525
3. GROSS NATIONAL SAVINGS (% of GDP at mkt prices)³	12.9	10.0	8.1	10.1	12.2	13.4	14.9	13.1	14.8
4. GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)³	6.7	4.4	4.0	4.8	6.6	7.2	7.2	5.8	7.9
5. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	19.1	19.2
6. CONSUMER PRICE INFLATION (URBAN) 1997 BASE									
Average Annual Inflation	10.01	5.87	1.96	9.82	11.62	10.31	14.45	9.76	26.24
Twelve-month Inflation (Dec-Dec) * Revised	11.89	1.78	4.10	8.35	16.25	7.56	15.59	12.03	27.72
7. STOCK MARKET									
Nairobi Stock Exchange Price Index (1966=100)	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18
Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29
8. GOVERNMENT BUDGET (Ksh bn) ***									
Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67
Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84
Budget Deficit (-) / Surplus (+)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)
Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(1.54)	0.42	(2.39)	(1.18)	(3.68)
9. MONEY AND CREDIT (Ksh bn)(end period)									
Liquidity (L) ¹	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,092.01
Money Supply (M3) ²	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.13
Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59
Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	808.50
Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	155.32
Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	653.18
10. BALANCE OF PAYMENTS (US\$ m)**									
Overall Balance	108.21	166.38	3.26	413.33	38.85	280.11	616.44	939.56	(479.42)
Current Account	(237.48)	(383.39)	(117.69)	146.20	-131.76	-252.32	-510.44	-1,034.48	-1,978.35
Capital and Financial Account	416.21	348.20	(31.67)	537.82	239.52	765.99	884.59	2,229.58	1,171.72
11. FOREIGN EXCHANGE RESERVES (US\$ m) End Period	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78
Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46
Months of imports****	(2.8)	(3.2)	(3.3)	(4.2)	(3.4)	(3.2)	(3.5)	(4.0)	(2.7)
Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32
12. PUBLIC DEBT (US\$ bn) End Period***	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	13.46
Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66
As % of GDP	24.09	22.25	23.11	26.81	25.32	23.40	23.18	23.56	21.15
External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80
As % of GDP	42.21	40.13	36.99	37.72	36.64	32.21	27.93	23.09	21.61
13. EXCHANGE RATE (Ksh/US\$) (Annual Average)	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18

* Provisional.

** Revised to reflect data in Economic Survey 2008.

*** Fiscal year to June 30th.

**** Figures in parentheses refer to official reserves in terms of average of current year 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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2008		2009						
	Nov	Dec	May	June	July	Aug	Sep	Oct	Nov
1. INFLATION (%)									
CPI	134.77	134.69	141.16	140.18	139.77	139.94	140.51	141.21	141.51
Overall Inflation									
12-month overall inflation	19.55	17.80	9.57	8.57	8.41	7.34	6.72	6.60	5.00
Average annual overall inflation	15.18	16.18	15.86	15.05	14.30	13.37	12.39	11.41	10.24
Underlying Inflation*									
12-month underlying inflation	8.48	8.44	7.43	6.70	6.18	5.64	5.16	5.17	4.84
Average annual underlying inflation	5.05	4.96	5.90	6.03	6.15	6.25	6.29	6.37	6.44
2. INTEREST RATES (%)									
91-day Treasury bill interest rate	8.39	8.59	7.45	7.33	7.22	7.25	7.29	7.26	7.22
Overdraft interest rate	13.85	14.39	14.13	14.41	13.94	13.90	13.76	14.03	14.24
3. STOCK MARKET									
Nairobi Stock Exchange Price Index	3,341.00	3,521.18	2,852.57	3,294.56	3,273.10	3,102.68	3,005.41	3,083.63	3,189.55
Turnover (%)	0.52	0.29	0.49	0.61	0.48	0.45	0.37	0.49	0.64
4. GOVERNMENT BUDGET** (Ksh bn.)									
Revenue	184.15	236.60	449.64	511.35	40.08	74.82	128.90	170.83	208.56
Expenses	210.51	241.70	515.70	621.91	44.77	98.61	159.30	210.69	246.75
Budget Deficit (-) / Surplus (+)	(26.36)	(5.10)	(66.06)	(110.56)	(4.69)	(23.79)	(30.40)	(39.86)	(38.18)
5. MONEY AND CREDIT (Ksh bn.)									
Liquidity (L) ¹	1,082.96	1,091.93	1,139.47	1,166.93	1,199.96	1,212.12	1,218.18	1,243.84	1243.5
Money Supply (M3) ²	890.20	901.05	928.60	950.24	973.62	982.85	986.90	1,006.01	1022.3
Reserve Money	160.65	163.59	160.40	159.94	157.95	156.88	163.49	163.45	178.2
Total Domestic Credit	805.03	806.04	835.18	854.03	858.79	871.46	880.7	900.0	931.3
Government	157.93	155.32	162.55	173.87	176.02	183.19	187.1	192.3	216.4
Private sector and other public sector	647.10	650.72	672.63	680.16	682.77	688.27	693.5	707.7	708.7
6. MONEY AND CREDIT (Annual % Change)									
Liquidity (L) ¹	15.71	12.38	7.1	13.5	15.1	15.9	15.9	15.6	14.8
Money Supply (M3) ²	7.49	7.49	10.6	13.0	14.4	15.0	14.8	13.9	14.8
Reserve Money	4.03	4.03	8.8	4.6	3.7	3.3	7.1	4.0	10.9
Total Domestic Credit	22.56	22.85	18.7	21.7	18.9	17.8	13.8	12.7	15.7
Government	(4.60)	13.01	38.1	30.3	26.9	26.1	24.8	19.6	37.0
Private and other public sector	31.71	25.45	14.8	19.7	17.0	15.7	11.2	11.0	10.5
7. BALANCE OF PAYMENTS (US\$ m)									
Overall Balance	(59.13)	6.14	41.20	84.39	3.61	62.03	116.95	104.63	
Current Account	(178.01)	(148.04)	(179.62)	(188.77)	(185.20)	(157.20)	(270.86)	(239.49)	
Trade Balance	(546.76)	(528.18)	(422.82)	(446.29)	(419.60)	(415.36)	(532.83)	(584.97)	
Capital and Financial Account	118.88	154.18	220.82	273.16	181.59	219.42	387.81	344.12	
8. FOREIGN EXCHANGE RESERVES (US\$ m)	4,523.43	4,640.78	4,370.19	4,821.67	4,830.14	5,125.15	5,235.15	5,346.66	5319.81
Official***	2,869.33	2,875.46	2,928.94	3,219.52	3,215.85	3,275.65	3,707.96	3,810.00	3934.28
Months of imports cover	2.87	2.75	2.95	3.26	3.33	3.83	4.01	4.13	4.27
Commercial banks	1,654.11	1,765.32	1,441.25	1,602.15	1,614.29	1,534.33	1,527.18	1,536.00	1385.53
9. PUBLIC DEBT (US\$ bn)	11.37	12.50	12.9	13.7	13.9	14.1	14.4	14.6	14.4
Domesic	5.80	5.87	6.25	6.72	6.93	7.18	7.34	7.54	7.48
As % of GDP	20.66	20.60	20.70	21.67	22.05	22.62	22.65	23.20	22.91
External	5.58	6.63	6.62	6.94	6.95	6.95	7.07	7.03	6.93
As % of GDP	19.89	23.27	21.95	22.36	22.12	21.92	21.80	21.77	21.21
10. GROSS DOMESTIC DEBT (Ksh bn)****	451.39	456.20	489.34	518.51	530.53	547.21	550.69	567.13	562.93
11. AVERAGE EXCHANGE RATE									
Ksh/US\$	78.18	78.22	79.63	77.85	76.75	76.37	75.60	75.24	74.7
Ksh/Pound Sterling	119.59	117.42	116.98	127.22	125.58	126.34	123.57	121.65	124.1
Ksh/ 100 Yen	80.71	85.37	80.76	80.61	81.29	80.49	82.70	83.38	83.8
Ksh/Euro	99.33	104.07	105.08	109.03	108.02	108.83	110.01	111.25	111.7

* Underlying inflation excluding food, energy and transport and communications

** Data on Government budget for 2008/09 fiscal year remain provisional until publication in the Annual Economic Survey

*** Figures in parentheses refer to official reserves in terms of average of current year imports of goods and non-factor services.

**** Excludes IMF funds 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 has remained within the single digit level from May 2009. This is a positive development coming from the heightened inflation experienced in 2008 and part of 2009. In November 2009 the rate fell to 5.0 percent from 6.6 percent in October 2009 following decreases in the prices of most categories of goods and services. The CPI for the alcohol and tobacco and the fuel and power baskets, however, went up, while a few other baskets experienced only marginal increases.

Underlying Inflation

12-month underlying inflation declined from 8.1 percent in October 2008 to 5.2 percent in October 2009 and further down to 4.8 percent in November 2009. This was mainly due to recovery from the 2008 crisis as well as falling prices of housing for the “Nairobi Lower” income group and the stagnation of the housing prices for the “Nairobi Middle/ Upper” income group.

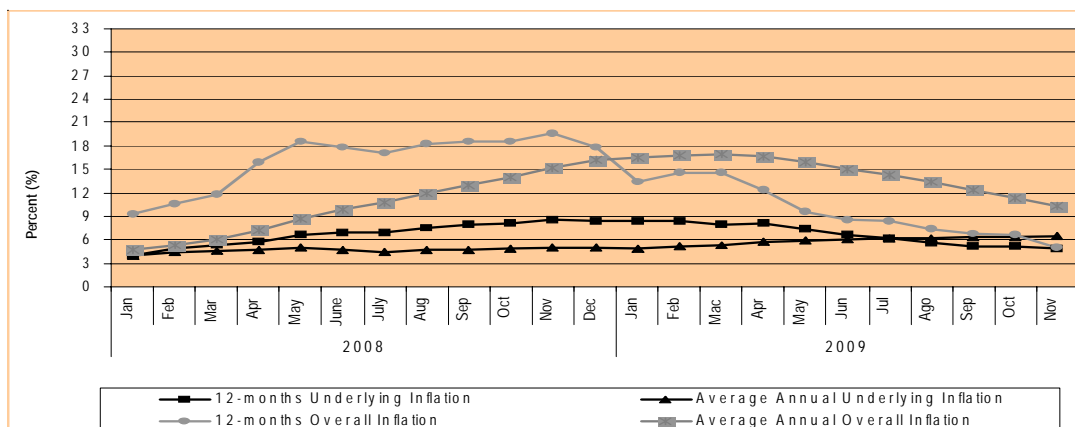
Table 1.1 and Chart 1A depict trends in overall and underlying inflation between August 2008 and November 2009.

TABLE 1.1: UNDERLYING AND OVERALL INFLATION (%)

	2008					2009										
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Underlying Inflation																
12-month	7.45	7.93	8.06	8.48	8.44	6.70	6.18	5.64	5.16	5.17	4.84					
Average annual	4.76	4.78	4.88	5.05	4.96	6.03	6.15	6.25	6.29	6.37	6.44					
Growth over one month	0.66	0.81	0.35	0.56	0.35	0.27	0.06	0.15	0.34	0.37	0.25					
Growth over 3 months	2.19	2.03	1.84	1.73	1.26	1.28	0.58	0.48	0.56	0.87	0.97					
Overall Inflation																
12-month	18.31	18.64	18.62	19.55	17.80	8.57	8.41	7.34	6.72	6.60	5.00					
Average annual	11.87	12.96	14.05	15.18	16.18	15.05	14.30	13.37	12.39	11.41	10.24					
Growth over one month	1.12	0.99	0.61	1.74	-0.06	-0.69	-0.30	0.12	0.41	0.50	0.21					
Growth over 3 months	2.09	1.20	1.97	2.75	3.38	1.55	-0.22	-1.52	-0.87	0.24	1.04					

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

CHART 1A: UNDERLYING AND OVERALL INFLATION (%)



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

Inflation by Income Groups

All the various income groups experienced falling 12-month inflation rates in November 2009 with the “rest of Kenya” income group recording the largest decline, equivalent to 1.98 percent from 8.06 percent in October 2009 to 6.08 percent in November 2009. In this income group, the category with the highest decline in CPI was the food and non-alcoholic drinks group which dropped by 1.22 points. The “Combined Nairobi” income group’s inflation declined from 4.49 percent in October 2009 to 3.4 percent in November 2009. The easing reflected largely in the “Nairobi lower” income group’s inflation which declined from 4.19 percent in October 2009 to 2.93 percent in November 2009 on account of lower costs of housing, household goods and services and personal goods and services. The “Nairobi Middle/ Upper” income group’s inflation fell marginally during the same period. Details on inflation by income groups are shown in Table 1.2 and Chart 1B below.

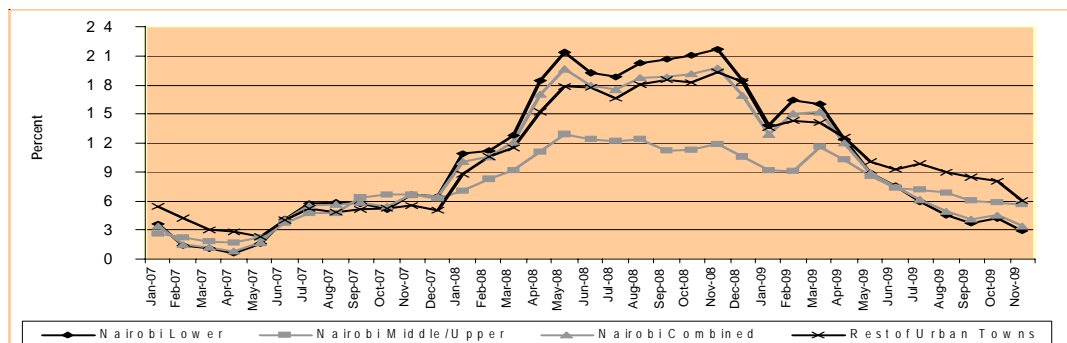
TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)

	2008					2009					
	Aug	Sep	Oct	Nov	Dec	Jun	Jul	Aug	Sep	Oct	Nov
Nairobi Lower	20.22	20.66	21.08	21.66	18.46	7.52	5.98	4.56	3.72	4.19	2.93
Nairobi Middle/Upper	12.38	11.18	11.30	11.92	10.56	7.31	7.13	6.88	6.07	5.84	5.65
Nairobi Income ¹	18.71	18.81	19.18	19.77	16.95	7.48	6.19	4.98	4.15	4.49	3.43
Rest of Urban Towns	18.04	18.52	18.24	19.39	18.38	9.30	9.92	8.95	8.48	8.06	6.08

^{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 & Services Categories

The 12-month inflation across goods and services in November 2009 was varied with some categories experiencing increased inflation, others declining inflation while others remained constant. The food and non-alcoholic drinks, housing, household goods and services, and personal goods and services categories all experienced declining inflation from 9.2 percent, 6.9 percent, 2.0 percent and 7.6 percent respectively in October 2009 to 6.2 percent, 5.1 percent, 1.0 percent and 6.7 percent, respectively, in November 2009. This was mainly influenced by lower food prices outside Nairobi and falling cost of housing in Nairobi. Alcohol and tobacco category experienced the largest increase in 12-month inflation equivalent to 3.6 percent from 5.5 percent in October 2009 to 9.1 percent in November 2009. Medical goods and services category’s inflation remained constant at 8.0 percent in November 2009.

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

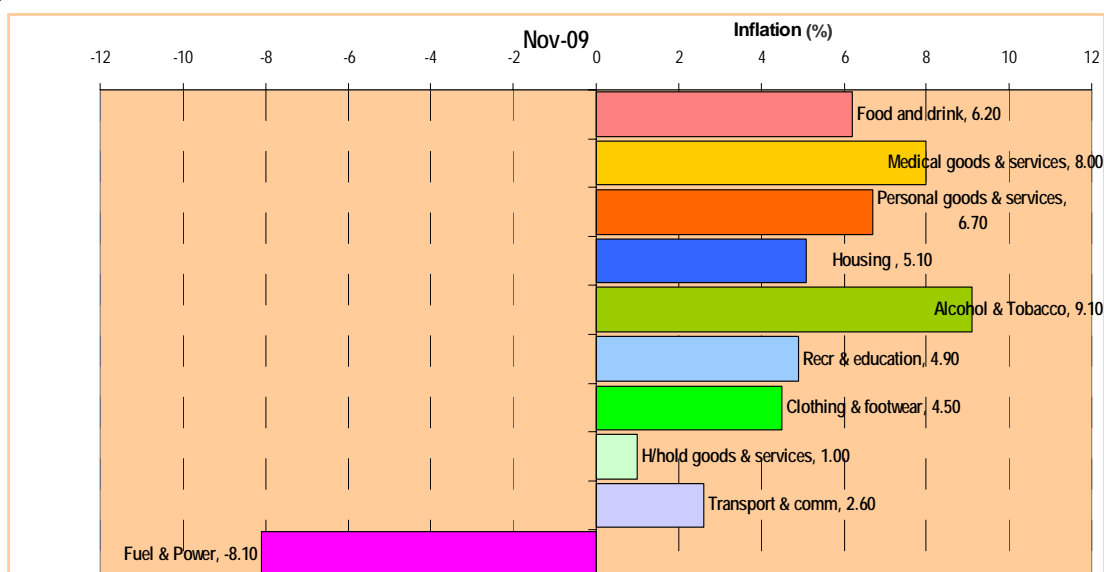
TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES

Goods and Services Weight	Income Groups*				2008					2009					
	Nairobi Lower (31.9)	Middle/ Upper (8.0)	Rest of Urban Townships (60.1)	Combined weights (100)	Aug	Sep	Oct	Nov	Dec	Jun	Jul	Aug	Sep	Oct	Nov
	Food and drink	55.70	31.90	50.20	50.50	25.78	26.25	26.29	28.36	25.88	11.39	11.97	10.70	9.76	9.24
Housing	11.90	31.70	9.00	11.70	6.55	8.01	7.66	8.65	8.61	8.24	7.94	7.72	6.81	6.91	5.06
Recr & education	4.60	7.30	6.60	6.00	4.49	4.65	4.31	4.48	4.36	4.89	4.80	4.67	4.48	4.63	4.87
H/hold goods & services	5.00	4.70	6.40	5.80	9.72	9.94	11.36	12.14	12.27	7.21	6.31	4.70	3.69	1.98	0.96
Clothing & footwear	9.20	7.40	9.10	9.00	5.77	5.50	5.73	5.84	5.92	3.92	3.77	3.46	3.72	3.99	4.52
Transport & comm	5.10	10.20	5.50	5.70	14.77	13.74	13.70	8.72	7.38	1.61	1.62	1.33	1.73	1.72	2.57
Fuel & Power	3.50	2.20	4.80	4.20	31.23	31.84	28.65	27.06	17.07	(5.28)	(9.69)	(12.41)	(12.19)	(9.92)	(8.09)
Medical goods & services	0.90	1.30	2.00	1.60	7.72	8.54	8.37	8.90	9.52	9.25	8.84	8.35	7.66	7.99	8.00
Personal goods & services	2.30	1.90	2.60	2.40	8.11	8.63	9.31	9.89	9.43	10.14	9.73	8.69	8.11	7.61	6.74
Alcohol & Tobacco	1.80	1.40	3.80	3.00	16.30	15.90	15.78	14.48	13.88	6.87	4.37	3.69	3.30	5.47	9.14

* 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



Source: Kenya National Bureau of Statistics

Inflation Outlook

Despite the current food security situation in the country which indicates that over ten million Kenyans are affected by famine, inflation is expected to remain stable due to the rainfall currently being experienced in many parts of the country.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates Money supply, M3¹, grew by 14.8 percent in the year to November 2009 compared with 19.4 percent in a corresponding period in 2008, and remained below the projected 15.1 percent growth for November 2009. Broad money, M2, that is, M3 excluding foreign currency deposits, grew by 17.1 percent in November 2009 compared with 16.8 percent in November 2008 (Table 2.1 and Chart 2A).

TABLE 2.1: MONEY SUPPLY AND ITS SOURCES (Ksh billion)

	2007 Nov	2008 Nov	2009 Nov	Nov-08 12 months %age change	Nov-09 12 months %age change
1. Money supply, M3 (2+3) 2/	745.3	890.2	1022.3	19.4	14.8
1.1 Money supply, M2 3/	643.1	751.2	879.5	16.8	17.1
1.2 Money supply, M1	360.5	393.4	441.0	9.1	12.1
1.3 Currency outside banks	87.3	91.3	93.7	4.7	2.6
2. Net foreign assets 4/	219.3	258.5	266.3	17.9	3.0
Central Bank	170.4	200.6	224.8	17.7	12.0
Banking Institutions	48.9	57.9	41.5	18.5	-28.3
3. Net domestic assets (3.1+3.2)	525.9	631.7	756.0	20.1	19.7
3.1 Domestic credit (3.1.1+3.1.2)	656.8	805.0	931.3	22.6	15.7
3.1.1 Government (net)	165.5	157.9	216.4	-4.6	37.0
3.1.2 Private sector and other public sector	491.3	647.1	714.9	31.7	10.5
3.2 Other assets net (3-3.1)	-130.9	-173.4	-175.3	32.4	1.1
Memorandum items					
1. Overall liquidity, L 1/	935.9	1083.0	1243.5	15.7	14.8
2. Reserve money	140.5	160.7	178.2	14.3	10.9
Currency outside banks	87.3	91.3	93.7	4.7	2.6
Bank reserves	53.3	69.3	84.5	30.1	21.9

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

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

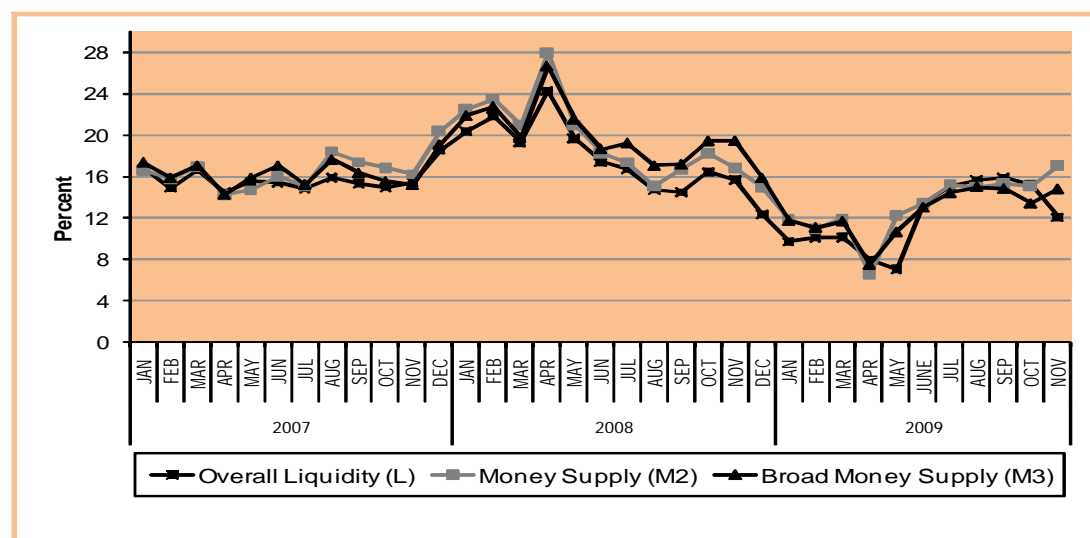
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

3/ Broad money, M2, comprises currency outside banking institutions, and all private and other public sector holdings of demand savings and time deposits. It excludes central and local Government deposits with banking institutions.

4/ Net Foreign Assets at current exchange rate to the US dollar.

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



¹ Effective September 2008, the CBK adopted a harmonized definition of monetary aggregates to conform to those of the East Africa Community partner states. Consequently, M3X has now been renamed M3 denoting extended broad money.

The slow down in expansion of money supply in the year to November 2009 followed deceleration in the growth in net foreign assets (NFA) of the banking system which partially offset the growth in net domestic assets (NDA). NFA grew by 3.0 percent in the twelve months to November 2009 compared with a growth of 17.9 percent in a corresponding period in 2008, largely reflecting a deceleration in the build up in Central Bank's NFA as well as the NFA of Commercial Banks. Commercial Banks NFA declined as a result of the Central Bank purchasing foreign exchange from the market. NDA grew by 19.7 percent in the year to November 2009 compared with 20.1 percent a year earlier. The expansion in NDA of the banking system during the period reflected increased credit to Government while credit to the private sector declined.

TABLE 2.2: BANKING SYSTEM NET DOMESTIC CREDIT (KSH BILLION)

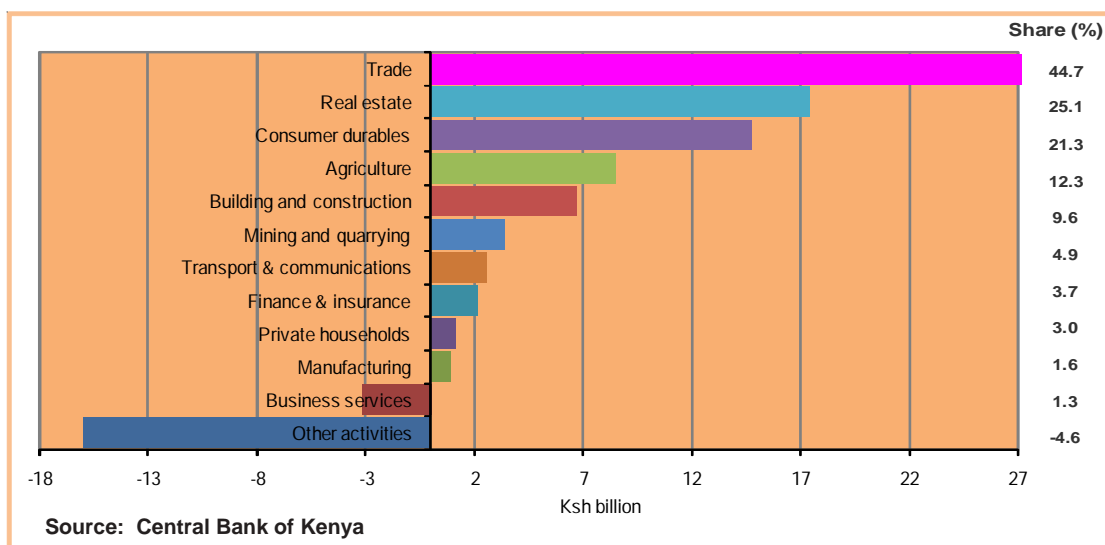
	2008 Nov		2009 Nov		Annual Change Nov	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2007/08	2008/09
1. Credit to Government	157.9	19.6	216.4	23.2	-4.6	37.0
Central Bank	-1.2	-0.2	-8.6	-0.9	111.6	598.9
Commercial Banks & NBFIs	159.2	19.8	225.0	24.2	-4.2	41.4
2. Credit to other public sector	7.5	0.9	6.2	0.7	-25.0	-17.4
Local government	-3.3	-0.4	-11.0	-1.2	50.4	238.2
Parastatals	10.8	1.3	17.3	1.9	-11.6	60.0
3. Credit to private sector	639.6	79.4	708.7	76.1	32.9	10.8
Agriculture	29.0	3.6	37.5	4.0	10.0	29.2
Manufacturing	86.2	10.7	87.1	9.4	36.4	1.0
Trade	86.1	10.7	117.1	12.6	52.8	35.9
Building and construction	37.9	4.7	44.5	4.8	1.8	17.6
Transport & communications	54.1	6.7	56.7	6.1	22.1	4.8
Finance & insurance	20.7	2.6	22.8	2.4	-19.5	10.1
Real estate	34.2	4.2	51.6	5.5	45.6	50.8
Mining and quarrying	4.5	0.6	7.8	0.8	-12.7	76.0
Private households	104.8	13.0	105.9	11.4	30.4	1.1
Consumer durables	36.2	4.5	50.9	5.5	60.0	40.8
Business services	65.5	8.1	62.3	6.7	40.6	-4.8
Other activities	80.5	10.0	64.5	6.9	60.9	-19.9
4. TOTAL (1+2+3) *	805.0	100.0	931.3	100.0	22.6	15.7

Source: Central Bank of Kenya

Credit Developments

Domestic credit grew by 15.7 percent in the year to November 2009 and remained above the target growth rate of 14.7 percent. In comparison with a growth of 22.6 percent in November 2008, domestic credit declined in the year to November 2009 reflecting a slow down in credit to the private sector. Credit extended to the private sector decelerated from 32.1 percent in the year to November 2008 to 10.8 percent in the year to November 2009, remaining below the targeted growth rate of 12.0 percent. The 10.8 percent growth in private sector credit was channelled to trade (44.7 percent), real estate (26.1 percent), consumer durables (21.3 percent) agriculture (12.3 percent) and building and construction (9.6 percent) (Chart 2B). Meanwhile, growth in credit to Government increased to 37.0 percent in the year to November 2009 compared with a net repayment of 4.6 percent in a corresponding period in 2008 (Table 2.2).

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO NOVEMBER 2009 (Ksh billion)



Reserve Money

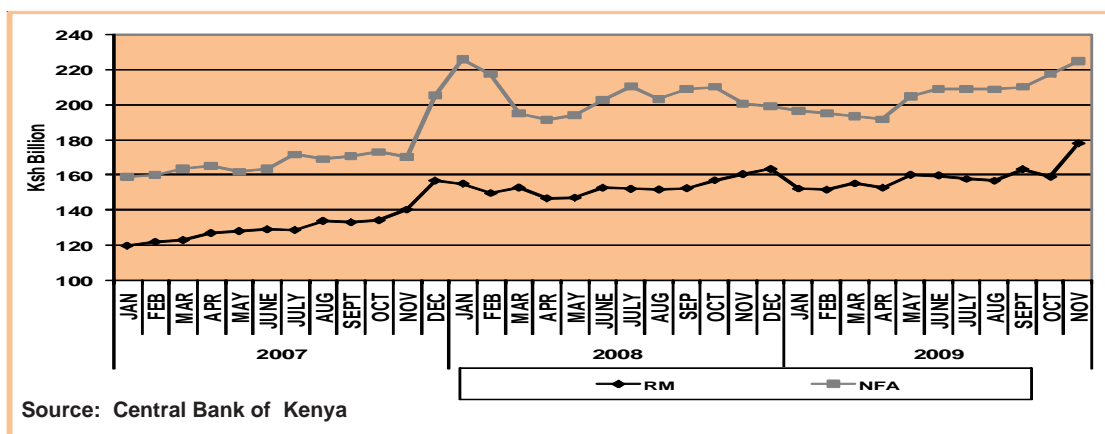
Reserve money increased by 10.9 percent to Ksh 178.2 billion in November 2009 from Ksh 160.7 billion in November 2008 (Table 2.3). The increase in reserve money was largely due to bank reserves which grew by 21.9 percent. At Ksh 178.2 billion in November 2009, reserve money was Ksh 9.7 billion above target.

TABLE 2.3: RESERVE MONEY AND ITS SOURCES (Ksh billion)

	2007 Nov	2008 Nov	2009 Nov	Change (%)		2009 Nov Target	2009 Deviation
				2007/08	2008/09		
1. Net Foreign Assets	170.4	200.6	224.8	17.7	12.0	228.2	-3.4
2. Net Domestic Assets	-29.9	-40.0	-46.6	33.7	16.6	-51.3	4.7
2.1 Government Borrowing (net)	-0.6	-1.2	-8.6	111.6	598.9	-4.4	-4.2
2.2 Advances & Discounts	-11.3	0.7	0.0	-106.3	-100.0	0.1	-0.1
2.3 Other Domestic Assets (net)	-20.4	-41.9	-40.7	105.3	-2.9	-55.5	14.8
3. Reserve Money	140.5	160.7	178.2	14.3	10.9	168.5	9.7
3.1 Currency outside banks	87.3	91.3	93.7	4.7	2.6	104.3	-10.7
3.2 Bank reserves	53.3	69.3	84.5	30.1	21.9	64.2	20.3

Source: Central Bank of Kenya

CHART 2C: TRENDS IN RESERVE MONEY AND NET FOREIGN ASSETS



Net foreign assets (NFA) of the Central Bank, rose by 12.0 percent to Ksh 224.8 billion in the year to November 2009. The rise in NFA of the Central Bank reflected interbank purchases of foreign exchange to boost the level of gross reserves.

Net domestic assets (NDA) of the Central Bank declined by 16.6 percent to Ksh -46.6 billion in the year to November 2009, down from Ksh -40.0 billion in the previous year. The decline in NDA was due to accumulation of deposits of the Government that offset increases in other domestic assets.

On net basis, Government accumulated deposits of Ksh 7.3 billion in November 2009, while net indebtedness of Central Bank to commercial banks declined by Ksh 0.7 billion. Other domestic assets net of other liabilities increased by 2.9 percent.

Interest Rates

The Central Bank Rate (CBR) was reduced by 75 basis points from 7.75 percent to 7.0 percent in November 2009. The short term and long term interest rates trended upwards in November 2009. The average interbank rate increased from 2.57 percent in October 2009 to 3.11 percent in November 2009 (Table 2.4). The rise in the interbank rate was as a result of increased activities in the interbank market with high volumes traded in the month of November compared with October 2009. The reverse repo rate remained at 4.36 percent in November 2009 as per the last trading rate in October 29, 2009. The Central Bank was not in the market in the month of November 2009. Meanwhile, the 91-day Treasury bill rate edged downwards marginally from 7.26 percent in October 2009 to 7.22 percent in November 2009. Whereas, the 182-Treasury bills rate increased slightly from 7.98 percent to 8.02 percent during the period.

Lending and Deposit Rates

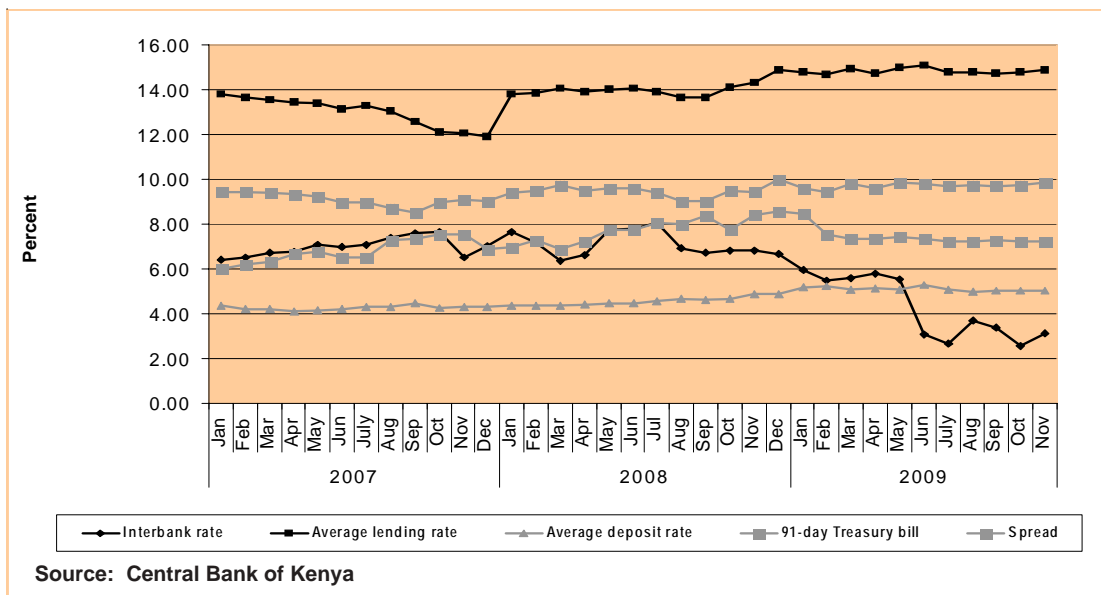
Commercial banks average lending rate and deposit rates increased marginally in the November 2009. The average lending rate increased by 9 basis point to 14.87 percent in November 2009 while the overall deposit rate increased by 1 basis point to 5.04 percent. Consequently, the interest rate spread widened to 9.83 percent in November 2009 from 9.75 percent in October 2009.

TABLE 2.4: INTEREST RATES (%)

	2008					2009				
	Aug	Sep	Oct	Nov	Dec	July	Aug	Sept	Oct	Nov
91-day Treasury bill rate	8.017	8.36	7.75	8.39	8.59	7.24	7.25	7.29	7.26	7.22
Overdraft rate	13.11	13.43	13.91	13.85	14.40	13.94	13.90	13.76	14.03	14.24
Interbank rate	6.92	6.70	6.81	6.83	6.66	2.69	3.68	3.38	2.57	3.11
Repo rate	6.35	6.06	6.03	6.26	6.23	6.18	6.18	6.18	6.18	6.18
Reverse Repo rate						3.31	4.29	4.01	3.17	4.36
Average lending rate (1)	13.66	13.66	14.12	14.32	14.87	14.79	14.76	14.74	14.78	14.87
Average deposit rate (2)	4.65	4.62	4.65	4.86	4.89	5.09	5.00	5.05	5.03	5.04
0 to 3 - month deposit	5.39	5.19	5.39	5.89	5.68	5.98	5.93	6.05	5.83	5.94
Savings deposits	1.68	1.73	1.74	1.61	1.65	1.67	1.65	1.65	1.85	1.71
Spread (1-2)	9.01	9.04	9.47	9.46	9.98	9.70	9.76	9.69	9.75	9.83

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



PERFORMANCE OF THE REAL SECTOR

Overview During the third quarter of 2009, the economy experienced zero economic growth with the GDP for the quarter standing at Ksh 361.0 billion compared with Ksh 361.2 billion for the same quarter in 2008. This followed mixed sectoral performances during the quarter. Of significance was the decline in the value added of key sectors including agriculture and forestry, manufacturing, electricity and water supply, transport and communication and construction which declined, respectively, by 3.5 percent, 2.4 percent, 7.4 percent, 1.8 percent and 1.1 percent. Agriculture and forestry and the electricity sectors contracted following the persistent drought, while the manufacturing, construction and transport and communications sectors were affected by the high energy prices and the global economic recession. The decline was counteracted by growth in sectors such as hotels and restaurants, financial intermediation, education, other services, real estate, public administration and defence and the wholesale and retail trade sector which expanded during the quarter by 44.4 percent, 8.9 percent, 3.7 percent, 3.2 percent, 2.7 percent, 2.7 percent, and 1.8 percent, respectively, thus resulting in 0.0 percent overall growth. (Table 3.1, Chart 3A and Chart 3B).

CHART 3A: REAL GDP GROWTH IN THE FIRST QUARTERS

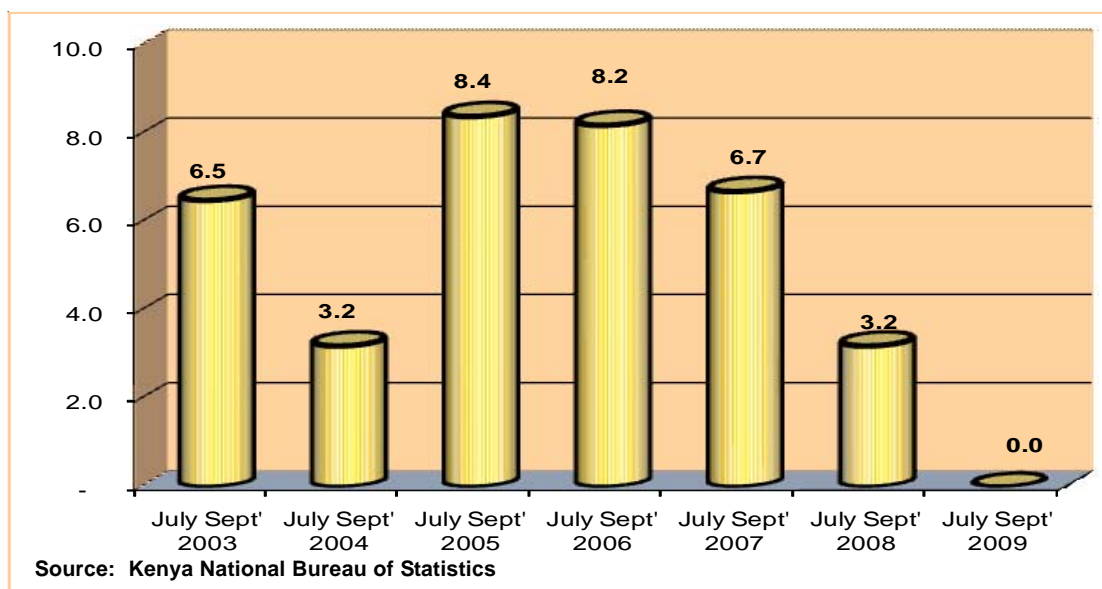


TABLE 3.1 GROWTH RATES FOR REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES (%)

	Share in Real GDP in 2007 (%)	2003	2004	2005	2006	2007	2008*
Agriculture, Forestry & Fishing	24.44	2.4	3.8	6.7	2.6	2.1	(3.7)
Mining & Quarrying	0.47	3.5	-0.3	2.7	4.1	12.9	3.2
Manufacturing	9.78	6.0	4.5	4.7	6.3	6.5	3.8
Electricity and water supply	2.25	14.0	3.0	-0.1	-1.4	9.1	5.2
Wholesale and retail trade, repairs	9.88	1.5	8.5	5.6	11.6	11.5	5.1
Hotels & Restaurants	1.56	-20.3	38.8	13.3	14.9	16.3	(36.1)
Building & Construction	3.01	1.0	4.4	7.5	6.3	6.9	8.3
Transport & Communications	11.71	3.5	7.0	9.0	11.4	15.1	3.1
Financial intermediation	3.69	1.5	1.4	5.6	4.8	6.7	3.1
Real estate, renting and business services	5.31	2.3	3.0	3.4	3.9	3.5	3.7
Public administration and defense	3.35	0.6	0.2	-1.3	-1.6	-2.0	0.6
Education	5.63	9.7	2.0	0.7	0.3	3.7	5.8
Health and social work	2.79	2.8	3.8	3.2	3.3	3.2	3.6
Other community, social and personal services	3.72	-0.0	3.7	3.0	4.3	3.4	3.0
Private households with employed persons	0.37	2.0	2.0	2.0	2.0	2.0	2.0
Less : Financial services indirectly measured	-0.90	-3.3	4.7	4.3	5.1	2.7	(7.5)
Total GDP at basic 2001 prices	86.40	3.1	3.9	5.2	5.6	6.2	(0.1)
Taxes less subsidies on products	13.60	1.3	14.8	11.0	11.2	13.4	6.7
Real GDP at 2001 market prices	100.00	2.9	5.1	5.9	6.3	7.1	1.7

Source: Kenya National Bureau of Statistics

Agriculture The agricultural sector had mixed performance in the year to October 2009. Insufficient rainfall in most parts of the country caused general crop failure which affected food security, necessitating importation of basic food commodities. The more resilient crops, however, did well despite the deteriorating weather conditions and the delayed El-Niño rains which were expected in most parts of the country early in the last quarter of 2009. Selected performances of agricultural output are as shown in Table 3.2.

Tea Cumulative tea production fell from 273,490.0 metric tonnes in January – October 2008 to 242,214.5 metric tonnes in the period January – October 2009, equivalent to 11.4 percent decrease. However, output increased to 32,759.6 metric tonnes in October 2009 from 27,430.0 metric tonnes in September 2009 reflecting the onset of the high season which falls between September and December and which is attributed to the short rains experienced both in the east and west of the Rift. The tea output in October 2009 was 7.2 percent lower than the 35,307.0 metric tonnes produced in October 2008. During the month of October 2009, the average price of Kenyan tea was at US\$ 2.79 per kilogram or 21.8 percent higher than US\$ 2.29 per kilogram in October 2008.

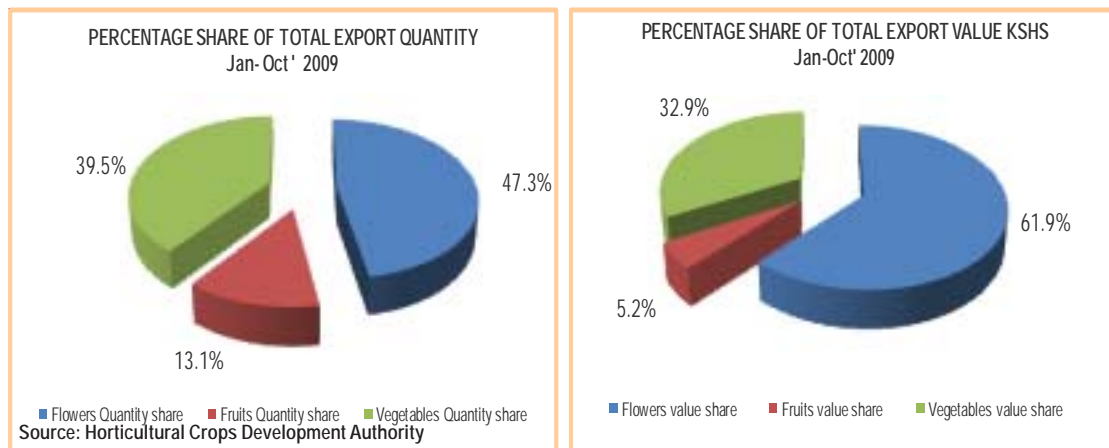
TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE		Jan-Oct 2008	Jan-Oct 2009
	2007	2008		
Tea				
Output (Metric tonnes)	369,606.18	345,818.00	273,490.00	242,214.48
Growth (%)	19.0%	-6.44%	-11.33%	-11.44%
Horticulture				
Output (Metric tonnes)	192,147.45	193,117.06	164,350.08	151,857.35
Growth (%)	17.7%	0.50%	4.7%	-7.60%
Coffee				
Output (Metric tonnes)	52,268.00	38,705.00	33,174.00	45,292.00
Growth (%)	3.4%	-25.95%	-31.00%	36.53%
Sugar Cane				
Output (Metric tonnes)	5,204,214.00	4,991,097.00	4,103,706.00	4,558,316.55
Growth (%)	5.48%	-4.10%	-5.25%	11.08%

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

Horticulture Horticultural export volumes declined by 7.6 percent to 151,857.4 metric tonnes in January – October 2009, from 164,350.1 metric tonnes in a similar period in 2008. This followed a reduction in the export volumes of flowers and vegetables which were affected by the unfavourable weather conditions experienced all over the country. Fruit exports increased to 382.7 metric tonnes in October 2009 from 274.2 metric tonnes in September 2009 which was also the lowest level of fruit export volumes experienced in any month since October 2005. The declining trend of flower exports, especially roses which was a consequence of depressed demand from Kenya's traditional markets began to recover from September 2009. Cumulative exported vegetables for the period January – October 2009 decreased as a result of the dry weather conditions to reach 60,042.0 metric tonnes from 70,321.5 metric tonnes for the same period in the previous year. Largely on account of the reduced volumes exported, the value of horticultural exports fell by Ksh 8.8 billion or 17.6 percent in the period January – October 2009, from Ksh 49.9 billion in January – October 2008. Details on the performance of the horticultural sub-sector are provided in Chart 3C.

CHART 3C: HORTICULTURE EXPORTS

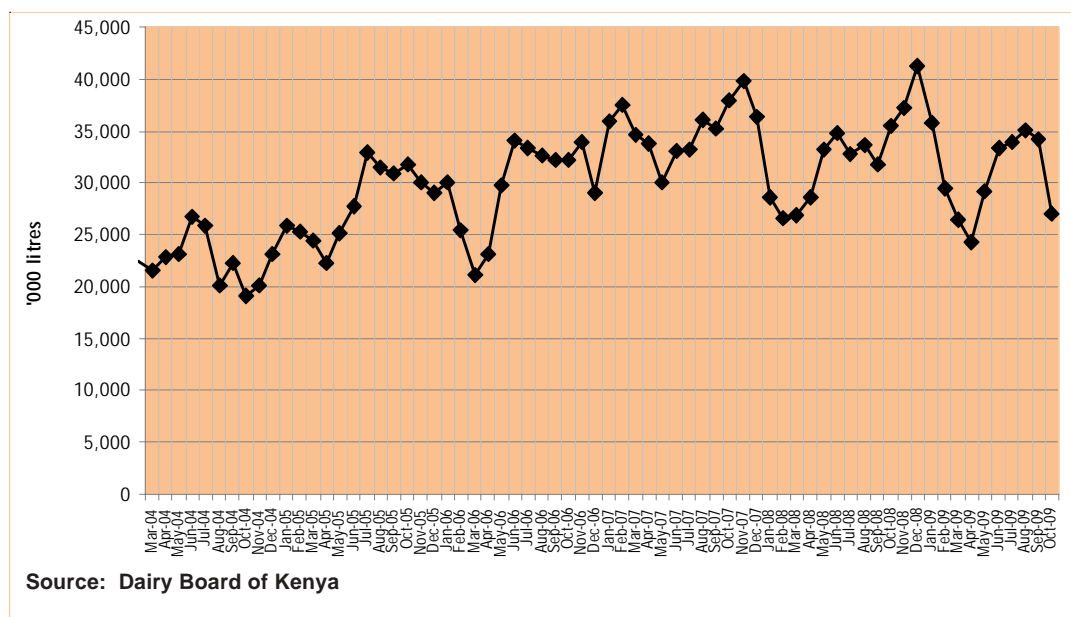


Coffee Cumulative coffee production for the period January – October 2009 amounted to 45,292.0 metric tonnes. This was 12,118.0 metric tonnes, or 36.5 percent above the amount produced during the same period in the previous year. On average, monthly production during the period was 4,529.2 metric tonnes compared with 3,317.4 metric tonnes in the previous year. From the beginning of the year, coffee output responded well to improved export prices, reaching a peak of US \$ 3.39 per kilogram in August 2009, and falling marginally to US \$ 3.19 in October 2009. Cumulative prices increased marginally from US \$ 2.3 per kilogram in January – October 2008 to US \$ 2.5 per kilogram in January – October 2009.

Sugarcane Total sugarcane deliveries in the period January – October 2009 increased by 11.1 percent to 4,558,316.6 metric tonnes compared with deliveries of 4,103,706 metric tonnes in the same period in 2008.

Dairy Cumulative volume of milk received in the formal sector declined from 312,454,563.5 litres between January and October 2008 to 308,708,563.5 litres between January and October 2009 due to persistent drought (Chart 3D).

CHART 3D: PROCESSED MILK PRODUCTION IN KENYA ('000 LITRES)



Manufacturing The total amount of sugar processed between January and October 2009 increased by 7.5 percent compared with a 3.7 percent decline in sugar production between January and October 2008. Total cement production increased by 5.1 percent for the period January – October 2008 from 2,341,968 metric tonnes to 2,450,995 in January - October 2009. Growth in cement production is expected to pick up further with the entrance of Mombasa Cement Limited Company this year.

Total beer production fell by 9.5 million litres in the period January – October 2009 from 353.3 million litres produced between January - October 2008. This was equivalent to a 2.7 percent decrease.

Cigarette output also decreased by 6.2 percent, from 12.0 million milles in January-October 2008 to 11.3 million milles in January – October 2009 (Table 3.3).

Soda ash mining during the period January to October 2009 amounted to 334,959 metric tonnes, representing 21.1 percent decline from 424,317 metric tonnes mined in the same period in 2008. This decline reflects stiff competition from cheaper synthetic imports from China, which forced closure of some plants at Magadi Soda Company.

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE			
	2007	2008	Jan-Oct'2008	Jan-Oct'2009
Processed sugar Output (M T)	520,404	507,277	418,543	449,803
Growth %	9.4%	-2.5%	-3.6%	7.4%
Cement production Output (M T)	2,545,661	3,134,571	2,341,968	2,460,995*
Output Growth %	17.1%	23.1%	10.7%	5.08%
Soda ash Output (M T)	386,598	513,415	424,317	334,959
Growth %	3.4%	32.8%	39.5%	-21.1%
Milk Output ('000 litres)	423,111	390,963	312,454	308,709
Growth %	17.5%	-7.6%	-9.9%	-1.2%
Beer Output ('000 litres)	379,485	426,733	353,280	343,760
Growth %	35.3%	12.5%	13.4%	-2.7%
Cigarettes Output (Millions)	15,475,310	14,786,407	12,012,045	11,263,091
Growth %	25.8%	-4.5%	-3.8%	-6.2%

M T = Metric tonnes

* Provisional

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

Energy Sector

Electricity generated in the current year to October 2009 fell by 3.2 percent from 4,761.7 million Kilowatt hours generated over a similar period in 2008 (Table 3.4). Cumulative Geo-Thermal and Thermal power increased by 30.7 percent and 37.8 percent, respectively, in January – October 2009, somehow compensating for the 28.6 percent decline in hydro-power generation which was as a result of inadequate rainfall experienced in areas which feed the hydro power stations.

Consumption of electricity fell marginally by 0.6 percent from 4,413.8 million Kilowatt hours between January and October 2008, to 4,385.5 million Kilowatt hours between January and October 2009.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	CUMULATIVE		CUMULATIVE	
	2007	2008	Jan-Oct'2008	Jan-Oct'2009
Electricity Supply (Generation) Output (KWH Millions)	6,287.68	5,694.05	4,761.65	4,609.86
Growth %	8.0%	-9.4%	-9.1%	-3.2%
<i>Of which:</i>				
Hydro-power Generation (KWH Millions)	3,584.76	3,240.44	2,726.06	1,945.86
Growth (%)	18.9%	-9.6%	-8.5%	-28.6%
Geo-Thermal Generation (KWH Millions)	991.12	1,038.79	846.63	1,106.15
Growth (%)	-5.2%	4.8%	2.9%	30.7%
Thermal (KWH Millions)	1,711.92	1,414.88	1,189.01	1,638.32
Growth (%)	-2.9%	-17.4%	-17.2%	37.8%
Consumption of electricity (KWH Millions)	5,125.80	5,300.70	4,413.80	4,385.50
Growth %	8.1%	3.4%	3.8%	-0.6%
Consumption of Fuels (Metric Tonnes)	3,121,700.00	2,853,900	2,357	2,037
Growth %	11.2%	-8.6%	-10.4%	-13.6%
Murban crude oil average price (US \$ per barrel)	72.46	97.86	108.08	59.71
Growth %	11.6%	35.0%	57.3%	-44.8%

* Provisional

NA: Not Available

Source: Kenya National Bureau of Statistics

Similarly, cumulative fuel consumption declined from 2,357 metric tonnes in the period January – October 2008 to 2,037 metric tonnes between January and October 2009, equivalent to 13.6 percent decline.

In the fuel sub-sector, average international crude oil prices declined by 44.8 percent from US \$ 108.1 per barrel in the period January – October 2008, to US \$ 59.7 per barrel in January – October 2009.

Tourism

The tourism sector grew by 24.2 percent during the second quarter of 2009 compared with 37.0 percent decline in the second quarter of the previous year, and is expected to grow further in the subsequent periods given that the total arrivals between January and October 2009 have already surpassed the total number of arrivals between January and December 2008. The high tourism season which begins in June took off well with arrivals increasing steadily from 69,059 visitors in June 2009 to peak at 100,314 visitors in August 2009. The total number of visitors for the period January – October 2009 increased by 36.0 percent to 768,844, from 565,348 in the same period a year earlier. The cruise season resumed in October 2009, with a total of 287 persons arriving via cruise ships, making the total cruise ships arrivals in the year to reach 12,096 people (Table 3.5). Tourism earnings improved compared to the earlier months of the year but trailed the previous years by 14.4 percent. Total earnings in January – October 2009 amounted to US\$ 458.5 million compared to US\$ 535.4 million in January –October 2008.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2007	2008	Jan-Oct 2008	Jan-Oct 2009	Jan -Oct 2009 % Share	Jan - Oct 2009 % Growth
CRUISE	2,837	6,877	3,194	12,096	1.6%	278.7%
MIAM	276,298	112,517	75,339	132,544	17.2%	75.9%
JKIA	769,597	609,606	486,815	624,204	81.2%	28.2%
TOTAL	1,048,732	729,000	565,348	768,844	100.0%	36.0%

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

Source: Kenya Tourism Board

In January – October 2009, a total of 362,866 arrivals were from Europe which accounted for 47.2 percent of the total visitors. This was equivalent to 55.5 percent increase in the number of tourists compared to the 233,361 tourists who visited between January 2008 and October 2008 (Table 3.6). Similarly, arrivals from America, Asia, the Oceanic region and Africa increased respectively by 35.2 percent, 24.0 percent, 26.9 percent and 10.5 percent. Arrivals via cruise ships increased by 236.6 percent from 3,594 persons in January – October 2008 to 12,096 persons in January – October 2009.

TABLE 3.6: TOTAL ARRIVALS BY CONTINENT

REGION	2007	2008	Jan-Oct 2008	Jan-Oct 2009	Jan - Oct'2009 % Share	Jan- Oct' 2009 %Growth
Africa	212,501	207,737	166,985	184,586	24.0%	10.5%
America	132,651	97,771	79,190	107,037	13.9%	35.2%
Asia	103,443	94,496	71,054	88,091	11.5%	24.0%
Europe	578,312	308,123	233,361	362,866	47.2%	55.5%
Oceanic	18,975	13,963	11,164	14,168	1.8%	26.9%
Cruise	2,850	7,400	3,594	12,096	1.6%	236.6%
Total	1,048,732	729,490	565,348	768,844	100.0%	36.0%

Source: Kenya Tourism Board

Transport and Tele-communications

The volume of cargo throughput handled by Kenya Ports Authority (KPA) at the port of Mombasa increased by 14.3 percent from 13,481,388 metric tonnes in January – October 2008 to 15,409,677 metric tonnes in January – October 2009. Of this, total imports constituted 86.2 percent, total exports constituted 13.2 percent while transit shipments constituted 0.6 percent, equivalent to 13,281,020 metric tonnes, 2,036,525 metric tonnes and 92,132 metric tonnes, respectively. Similarly, cargo transported via Kenya Pipeline Company (KPC) increased by 10.9 percent during the same period. In the transport and telecommunication sector, excise duty on airtime rose by 6.5 percent, from Ksh 5,589.2 million in the period January – October 2008 to Ksh 5,953.1 million in January – October 2009 Table 3.7.

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

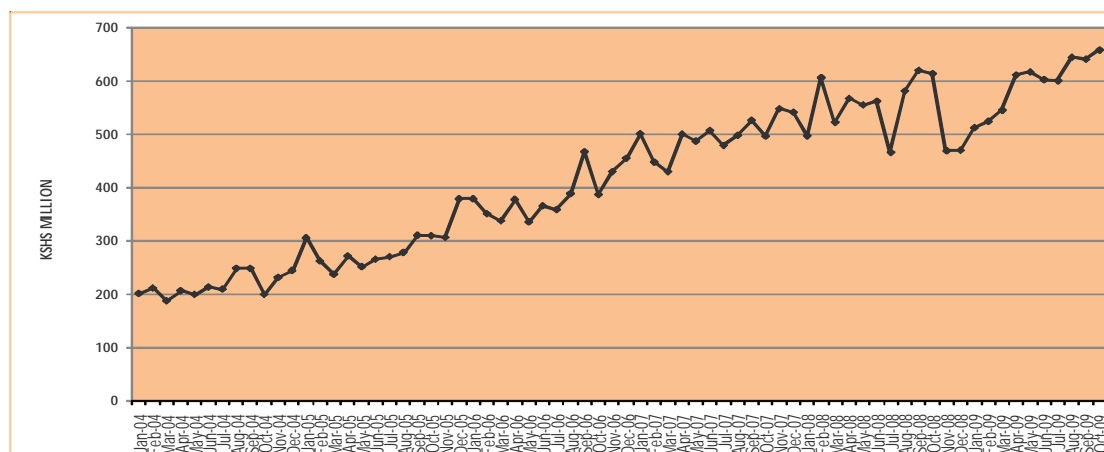
	CUMULATIVE			
	2007	2008	Jan-Oct 2008	Jan-Oct 2009
Mombasa Port Cargo Throughput				
Output (MT) Equivalent	15,960,465	16,414,729	13,481,388	15,409,677
Output Growth %	10.70%	2.85%	2.29%	14.30%
Number of passengers Thro' JKIA				
Incoming	1,478,849	1,757,475	1,216,263	1,107,419*
Growth (%)	-0.70%	18.84%	-0.88%	-8.95%
Outgoing	1,480,620	1,476,851	1,216,942	1,144,223*
Growth %	-1.30%	-0.25%	-1.57%	-5.98%
Kenya Pipeline oil Throughput				
Output ('000 litres)	3,962,279	3,859,481	3,219,156	3,570,211
Output Growth %	3.60%	-2.59%	-3.71%	10.91%
Kenya Revenue Authority (Excise tax on airtime)				
Kshs million	5,962	6,528	5,589	5,953
Output Growth %	28.60%	9.50%	14.70%	6.51%

MT = Metric tonnes

* Provisional

Sources: Kenya Ports Authority and Kenya Pipeline Company

CHART 3E: EXCISE TAX ON AIRTIME

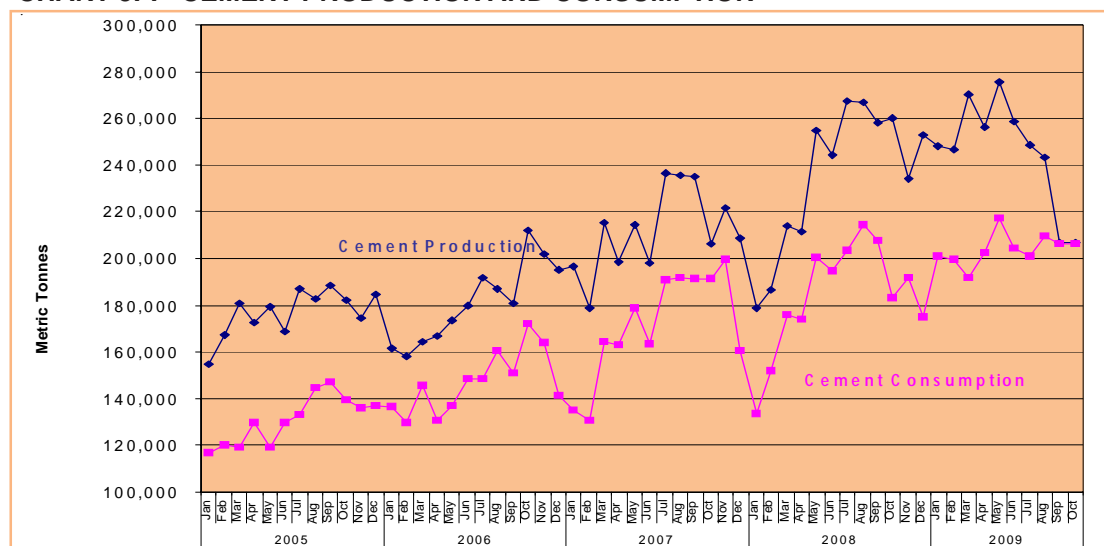


Source: Kenya Revenue Authority (KRA)

Building & Construction Industry

Cement consumption increased by 10.9 percent from 1,839,387 metric tonnes in the first ten months of 2008 to 2,039,720 metric tonnes in the same period in 2009, reflecting increased economic activity in the industry.

CHART 3F: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview Kenya's balance of payments position reflected developments in the global economy which is on a slow recovery albeit activity remaining below pre-crisis levels. The surplus in the balance of payments improved from US\$ 30 million in the year to October 2008 to US\$ 369 million in the year to October 2009. The improvement was supported by increased surplus in the capital and financial account which offset the current account deficit.

TABLE 4.1: BALANCE OF PAYMENTS (US\$ M)

ITEM	Year to October 2009*					Year to Oct 2009*	Absolute Change
	Year to Oct 2008*	Q1 Nov-Jan	Q2 Feb-Apr	Q3 May-Jul	Q4 Aug-Oct		
1. OVERALL BALANCE	30	-160	123	122	284	369	340
2. CURRENT ACCOUNT	-1792	-570	-498	-554	-668	-2290	-498
2.1 Goods	-6177	-1571	-1268	-1289	-1533	-5660	516
Exports (fob)	4975	1105	1084	1104	1129	4421	-554
Imports (cif)	11151	2676	2352	2392	2662	10081	-1070
2.2 Services	4385	1000	770	735	866	3371	-1014
Non-factor services (net)	2089	579	379	368	483	1810	-280
Income (net)	-50	-23	-12	-24	-21	-80	-30
Current Transfers	2345	444	403	391	403	1641	-704
3. CAPITAL & FINANCIAL ACCOUNT	1822	411	622	676	951	2659	837
3.1 Capital Transfers (net)	317	47	106	70	31	254	-63
3.2 Financial Account	1505	364	516	606	920	2405	900
memo:							
Gross Reserves	4735	4348	4620	4830	5347	5347	612
Official	2928	2769	2888	3216	3810	3810	882
<i>imports cover**</i>	2.9	2.7	2.9	3.3	4.1	4.1	1.3
<i>imports cover***</i>	3.5	3.2	3.3	3.6	4.1	4.1	0.6
Commercial Banks	1806	1579	1733	1614	1536	1536	-270

Source: Central Bank of Kenya

Current Account

The deficit in the current account widened by 27.8 percent from US\$ 1,792 million in the year to October 2008 to US\$ 2,290 million in the year to October 2009. The merchandise account which improved due to a lower import bill was countered by a contraction in services. The deficit on the merchandise account narrowed from US\$ 6,177 million in the year to October 2008 to US\$ 5,660 million in the year to October 2009 while the surplus on the services account declined from US\$ 4,385 million to US\$ 3,371 million over the same period (Table 4.2).

Merchandise Account

The value of imports declined by 9.6 percent from US\$ 11,151 million in October 2008, to US\$ 10,081 million in October 2009 reflecting a lower oil import bill on account of low prices of international crude oil during the review period. Oil prices have ranged between US\$ 70 and US\$ 80 a barrel. The potential for higher import prices is not high due to large excess capacity that currently exists and high inventory in oil production. Imports of manufactured goods and chemicals also declined while

those of machinery and transport equipment increased. Imports of machinery typically pick up during upturns in domestic economic activity.

TABLE 4.2: BALANCE ON CURRENT ACCOUNT (US\$ M)

ITEM	Year to October 2009*					Year to Oct 2009*	Absolute Change
	Year to Oct 2008*	Q1 Nov-Jan	Q2 Feb-Apr	Q3 May-Jul	Q4 Aug-Oct		
2. CURRENT ACCOUNT	-1792	-570	-498	-554	-668	-2290	-498
2.1 Goods	-6177	-1571	-1268	-1289	-1533	-5660	516
Exports (fob)	4975	1105	1084	1104	1129	4421	-554
Coffee	157	33	54	67	48	202	45
Tea	877	224	186	214	225	848	-29
Horticulture	762	165	175	170	159	668	-93
Oil products	113	27	16	23	33	99	-14
Manufactured Goods	626	129	131	122	130	512	-114
Raw Materials	326	50	63	53	45	211	-115
Re-exports	275	61	64	74	82	281	6
Other	1840	416	395	382	407	1601	-239
Imports (cif)	11151	2676	2352	2392	2662	10081	-1070
Oil	3056	434	452	508	637	2031	-1025
Chemicals	1441	324	332	323	319	1299	-143
Manufactured Goods	1567	400	295	319	388	1402	-165
Machinery & Transport Equipment	2917	895	730	669	812	3105	188
Other	2169	623	542	574	506	2245	76
2.2 Services	4385	1000	770	735	866	3371	-1014
Non-factor services (net)	2089	579	379	368	483	1810	-280
of which tourism	762	176	143	126	171	615	-147
Income (net)	-50	-23	-12	-24	-21	-80	-30
of which official interest	-126	-29	-19	-28	-18	-93	33
Current Transfers	2345	444	403	391	403	1641	-704
Private (net)	2109	448	403	391	403	1644	-465
Public (net)	236	-3	0	0	0	-3	-240

* Provisional.

Source: Central Bank of Kenya

The value of merchandise exports in the year to October 2009 declined by 11.1 percent to US\$ 4,421 million. This development reflects low global demand which is still below its pre-crisis levels. Commodity prices were broadly stable in early 2009 and started to pick up in the second quarter of the year. With the exception of coffee and re exports, exports in all the major categories declined. Earnings from exports of horticulture and manufactured goods which were lower during the review period reflected reduced export volumes. The improvement in earnings of coffee exports reflected increased exports volume and prices.

Services Account

Receipts from non-factor services declined by 13.4 percent in the year to October 2009 reflecting reduced receipts for freight and travel related services. Transfers to non-governmental organizations and remittances were also lower in the year to October 2009. As a result, net current transfers declined by 30 percent to US\$ 1,641 million.

Direction of Trade

The main destination countries for Kenya's merchandise exports during the year to October 2009 were Uganda (13.1 percent), United Kingdom (10.8 percent), Tanzania (9.0 percent), and Netherlands (7.5 percent). Overall, African countries absorbed 47.7 percent of Kenya's merchandise exports. Exports to EAC region declined from US\$ 1,180 million to US\$ 1,153 million in the year to October 2009 and in proportion to total exports grew from 23.7 percent to 26.1 percent. Similarly, exports to COMESA region decreased from US\$ 1,578 million to US\$ 1,435 million in 2009 accounting for 32.5 percent of total exports (Table 4.3).

Kenya's imports were mainly from United Arab Emirates (10 percent), India (10.7 percent), China (9.6 percent) and South Africa (9.0 percent). The share of imports sourced from African countries accounted for 13.2 percent. Imports from both the EAC and the COMESA regions declined from US\$ 190 million (1.7 percent) and US\$443 million (4.0 percent) to US\$ 156 million (1.5 percent of total imports) and US\$ 314 million (3.1 percent of total exports), respectively, in the year to October 2009.

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)			EXPORTS (in millions of US dollars)				Share of Exports (%)		
Country	Year to October			Year to October			Country	Year to October			Year to October		
	2007	2008	2009	2007	2008	2009		2007	2008	2009	2007	2008	2009
Africa	973	1,242	1,331	10.9	11.1	13.2	Africa	1,797	2,298	2,107	44.3	46.2	47.7
<i>Of which</i>							<i>Of which</i>						
South Africa	486	633	906	5.5	5.7	9.0	Uganda	488	604	580	12.0	12.2	13.1
Egypt	161	153	124	1.8	1.4	1.2	Tanzania	319	406	396	7.9	8.2	9.0
Others	325	456	302	3.6	4.1	3.0	Egypt	131	203	162	3.2	4.1	3.7
EAC	172	190	156	1.9	1.7	1.5	Sudan	171	205	163	4.2	4.1	3.7
COMESA	371	443	314	4.2	4.0	3.1	Somalia	113	192	152	2.8	3.9	3.4
Rest of the World	7,945	9,909	8,750	89.1	88.9	86.8	DRC	121	140	147	3.0	2.8	3.3
<i>Of which</i>							Rwanda	83	124	118	2.0	2.5	2.7
India	821	1,240	1,079	9.2	11.1	10.7	Others	372	424	390	9.2	8.5	8.8
United Arab Emirates	1,323	1,749	1,005	14.8	15.7	10.0	EAC	925	1,180	1,153	22.8	23.7	26.1
China	671	847	964	7.5	7.6	9.6	COMESA	1,259	1,578	1,435	31.0	31.7	32.5
Japan	579	660	614	6.5	5.9	6.1	Rest of the World	2,260	2,676	2,314	55.7	53.8	52.3
USA	684	409	568	7.7	3.7	5.6	<i>Of which</i>						
United Kingdom	461	386	483	5.2	3.5	4.8	United Kingdom	418	549	479	10.3	11.0	10.8
Singapore	208	312	358	2.3	2.8	3.5	Netherlands	323	378	330	8.0	7.6	7.5
Germany	336	368	305	3.8	3.3	3.0	USA	281	297	241	6.9	6.0	5.5
Saudi Arabia	252	351	319	2.8	3.1	3.2	Pakistan	214	191	190	5.3	3.8	4.3
Indonesia	259	344	249	2.9	3.1	2.5	United Arab Emirates	119	129	127	2.9	2.6	2.9
Netherlands	139	172	241	1.6	1.5	2.4	Germany	80	93	92	2.0	1.9	2.1
France	240	211	225	2.7	1.9	2.2	India	79	98	69	1.9	2.0	1.6
Bahrain	132	196	104	1.5	1.8	1.0	Afghanistan	38	57	80	0.9	1.1	1.8
Italy	196	169	185	2.2	1.5	1.8	Others	708	885	705	17.4	17.8	15.9
Others	1,646	2,495	2,052	18.5	22.4	20.4	Total	4057	4975	4421	100	100	100
Total	8,918	11,151	10,081	100	100	100							

Source: Kenya Revebye Authority

Capital and Financial Account

The Capital and Financial Account surplus improved from US\$ 1,822 million to US\$ 2,659 million in the year to October 2009 as the banking sector withdrew part of its deposits abroad and short term flows increased. This mitigated the drop in equity capital, FDI and project grants under the capital account.

Net private medium and long-term financial inflows declined from US\$ 559 million to US\$ 54 million in the year to October 2009 as private short-term financial inflows including errors and omissions improved to US\$ 2,283 million. Official foreign loans declined to US\$ 319 million from US\$ 377 million while repayment of official foreign loans was US\$ 250 million in the year to October 2009 compared with US\$ 265 million the previous year. In the capital account, project related grants to the Government declined to US\$ 241 million during the year in review from US\$ 317 million the previous year.

TABLE 4.4.: BALANCE ON CAPITAL AND FINANCIAL ACCOUNT (US\$ M)

ITEM	Year to October 2009*					Year to Oct 2009*	Absolute Change
	Year to Oct 2008*	Q1 Nov-Jan	Q2 Feb-Apr	Q3 May-Jul	Q4 Aug-Oct		
3. CAPITAL & FINANCIAL ACCOUNT	1822	411	622	676	951	2659	837
3.1 Capital Transfers (net)	317	47	106	70	31	254	-63
3.2 Financial Account	1505	364	516	606	920	2405	900
Official, medium & long-term	112	-10	60	50	-31	69	-44
Inflows	377	47	118	114	40	319	-58
Outflows	-265	-57	-58	-65	-71	-250	15
Private, medium & long-term (net)	559	-36	-283	51	322	54	-505
Commercial Banks (net)	6	-26	-290	57	342	82	77
Other private medium & long-term (net)	553	-10	8	-6	-20	-29	-582
Short-term (net) incl. errors & omissions	833	410	739	505	630	2283	1449

* Provisional.
Source: Central Bank of Kenya

Foreign Exchange Reserves

Total foreign exchange held by the banking system increased by 17.6 percent from US\$ 4,524 million at the end of November 2008 to US\$ 5,320 million at the end of November 2009. The increase was wholly in official foreign exchange reserves held by the Central Bank, from US\$ 2,869 million (3.4 months of import cover) at the end of November 2008 to US\$ 3,934 million (4.3 months of import cover) at the end of November 2009 (Table 4.5 and Chart 4A). The accumulation of official reserves comprised of interbank purchases, exogenous shock facility and special drawing rights allocation from the IMF.

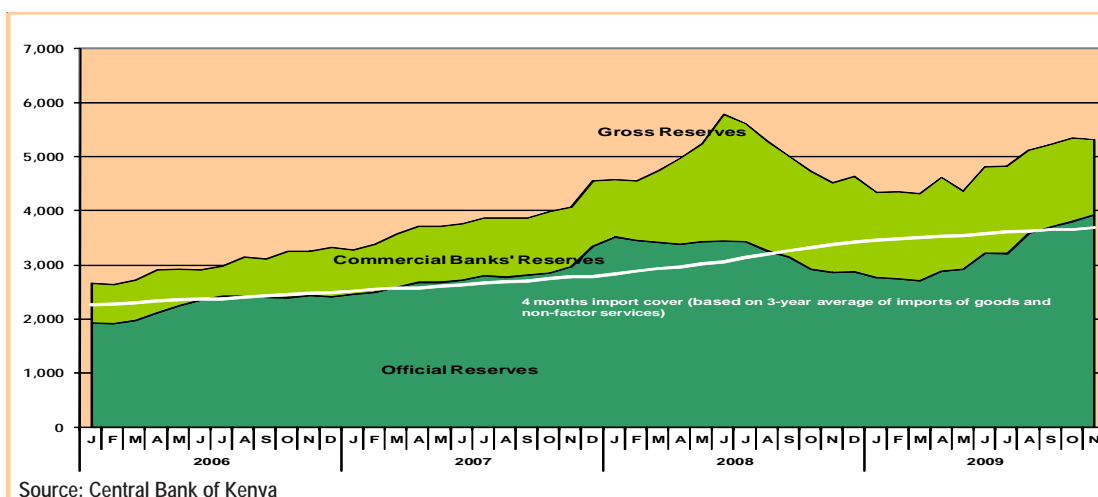
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US\$ MILLION)

	Oct 08	Nov 08	Dec 08	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09
1. Gross Foreign Exchange Reserves	4,735	4,524	4,641	4,620	4,370	4,822	4,830	4,810	5,235	5,347	5,320
of which:											
Official	2,928	2,869	2,875	2,888	2,929	3,219	3,216	3,276	3,708	3,810	3,934
imports cover*	3.6	3.4	3.4	3.3	3.3	3.6	3.6	3.6	4.1	4.1	4.3
Commercial Banks	1,807	1,655	1,766	1,733	1,441	1,602	1,614	1,534	1,527	1,536	1,386
2. Residents' foreign currency deposits	1,714	1,867	1,810	1,702	1,698	1,912	1,967	2,064	1,920	1,917	2,006

*Based on 36 month average of imports of goods and non-factor services
Source: Central Bank of Kenya

Foreign exchange assets of commercial banks declined from US\$ 1,655 million at the end of November 2008 to US\$ 1,368 million at end of November 2009 reflecting a reduction in deposits held with banks abroad. Other foreign assets of commercial banks include shares and securities, foreign loans and other accounts receivable.

CHART 4A: FOREIGN EXCHANGE RESERVES (US\$ MILLION)



Exchange Rates

The Kenya Shilling depicted mixed performance against major world currencies, strengthening against the US dollar but weakening against the Euro, the Sterling Pound and the Japanese Yen (Table 4.6). The shilling gained against the US dollar following an increase in inflows especially from tourism and a general weakening dollar rate in the international foreign exchange market. Against the US dollar, the shilling appreciated to exchange at an average of Ksh 74.74 per US dollar in November 2009 compared with Ksh 75.24 per US dollar in October 2009. The shilling, however, depreciated against the Euro, the Sterling Pound and the Japanese Yen to exchange respectively, at Ksh 111.68 per Euro, Ksh 124.14 per Sterling Pound and Ksh 83.79 per 100 Japanese Yen in November 2009 compared with Ksh 111.25 per Euro, Ksh 121.65 per Sterling Pound and Ksh 83.38 per 100 Japanese Yen in October 2009 (Table 4.6 and Charts 4B).

TABLE 4.6: KENYA SHILLING EXCHANGE RATE

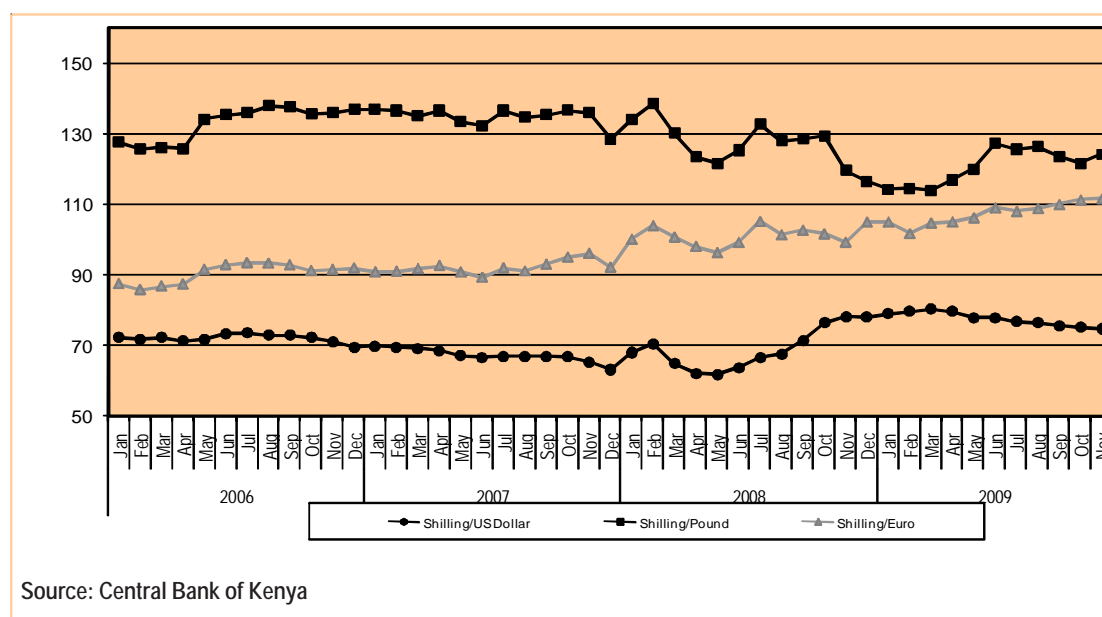
	2008						2009					% change Nov 09- Oct 09
	Jul	Aug	Sep	Oct	Nov	Dec	Jul	Aug	Sep	Oct	Nov	
US Dollar	66.70	67.68	71.41	76.66	78.18	78.04	76.75	76.37	75.60	75.24	74.74	-0.67
Pound Sterling	132.62	127.97	128.58	129.38	119.59	116.53	125.58	126.34	123.57	121.65	124.14	2.05
100 Japanese Yen	62.43	61.92	67.00	76.77	80.71	85.42	81.29	80.49	82.70	83.38	83.79	0.49
Uganda Shilling*	24.36	24.00	23.07	23.89	24.49	25.07	27.52	27.14	26.07	25.27	25.16	-0.43
Tanzania Shilling*	17.65	18.00	16.27	16.12	16.05	16.64	17.25	17.28	17.32	17.50	17.75	1.39
Euro	105.18	101.40	102.73	101.67	99.33	105.56	108.02	108.83	110.01	111.25	111.68	0.39
Euro per US dollar	0.634	0.667	0.695	0.754	0.787	0.739	0.711	0.702	0.687	0.676	0.669	-1.06

* Units of currency per Kenya shilling

Source: Central Bank of Kenya

Against the regional currencies, the Kenya shilling appreciated marginally against the Tanzania Shilling and depreciated against Uganda Shilling respectively to trade at Tsh 17.75 per Kenya shilling and Ush 25.16 per Kenya shilling in November 2009 compared with Tsh 17.50 per Kenya shilling and Ush 25.27 per Kenya shilling in October 2009.

CHART 4B: KENYA SHILLING EXCHANGE RATE



DEVELOPMENTS IN THE BANKING SECTOR

Overview During the period ended 30th November 2009, the Kenyan Banking sector registered significant growth in asset base largely supported by growth in deposits, injection of capital and retention of profits. The level of non-performing loans increased marginally but the sector registered high capital adequacy and liquidity ratios.

The Kenyan-banking sector comprised of 44 commercial banks, 2 mortgage finance companies, 1 deposit taking microfinance institution and 127 foreign exchange bureaus.

Structure of the Balance Sheet The banking sector aggregate balance sheet expanded by 13.1 percent from Ksh 1,194.4 billion to Ksh 1,350.4 billion in November 2009. The main components of the balance sheet were net loans and advances, government securities and placements, which accounted for 53.0 percent, 22.0 percent and 7.0 percent of total assets respectively.

Loans & Advances The banking sector gross loans and advances increased from Ksh. 679.8 billion in November 2008 to Ksh. 757.5 billion in November 2009 representing 11.4 percent growth. The growth was attributed to increased economic activities in the households and corporate sectors. Loans and advances net of provisions stood at Ksh 716.1 billion in November 2009, up from Ksh 637.3 billion registered in November 2008.

Deposit Liabilities Deposits from customers were the main source of funding for the banking sector, accounting for 77.0 per cent of total funding liabilities. The deposits expanded by 13.4 percent from Ksh 911.2 billion in November 2008 to Ksh 1,033.1 billion in November 2009, on account of receipts from exports and remittances from abroad.

Capital & Reserves The banking sector recorded stronger capital levels in November 2009, with total capital increasing by 20.0 percent from Ksh 144.3 billion in November 2008 to Ksh 173.1 billion, while shareholders' funds increased by 20.4 percent from Ksh 159.7 billion in November 2008 to Ksh 192.2 billion. As a result, the ratios of total and core capital to total risk-weighted assets improved from 18.1 percent and 16.1 percent to 19.5 percent and 17.2 percent in November 2009 respectively. The increase in capital was attributed to capital injections by some institutions and retention of profits.

Profitability In the eleven months period to November 2009, the sector registered a 12.7 percent growth in pre-tax profits, from Ksh 40.2 billion achieved in November 2008 to Ksh 45.3 billion in November 2009. As a result, the annualised return on assets increased from 2.8 percent to 2.9 percent in November 2009. However, the return on equity declined to 25.7 percent in November 2009 from 27.5 percent in November 2008 largely due to higher proportionate growth in equity. Total income increased by 15.1 percent from Ksh 134.4 billion to Ksh 154.7 billion in November 2009, while total expenses increased by 16.2 percent from Ksh 94.2 billion to Ksh 109.5 billion. Interest on loans and advances, driven by growth in loans, fees and commissions and government securities were the main sources of income accounting for 54 percent,

23 per cent and 15 percent of total income respectively. In addition, staff costs, other expenses and interest on deposits were the major components of expenses, accounting for 33 percent, 27 percent and 26 percent respectively.

Non-performing Loans

Overall, gross non-performing Loans (NPLs) increased by Ksh. 4.1 billion or 7.1 per cent from Ksh. 57.4 billion in November 2008 to Ksh. 61.5 billion in November 2009. The high NPLs has largely been attributed to slowdown in economic activity on account of drought, the negative effects of the post election crisis and the global financial crisis. As a result of the increase in the NPLs, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined to 49.8 per cent from 52.2 percent in November 2008. Similarly, the quality of assets, measured by the proportion of net non-performing loans to gross loans deteriorated from 3.1 per cent to 3.4 per cent in November 2009 as shown in Table 5.1.

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

		Nov-09	Nov-08
1	Gross loans and advances	757.50	679.80
2	Loans and advances (net of interest suspended)	747.30	665.80
3	Gross non-performing loans	61.50	57.40
4	Specific Provisions	25.50	22.60
5	General Provisions	5.70	5.90
6	Total Provisions (4+5)	31.20	28.50
7	Net Advances (2-6)	716.10	637.30
8	Total Non-Performing Loans and advances	51.20	43.30
9	Net Non-Performing Loans and advances(8-4)	25.70	20.70
10	Total NPLs as % of total advances (8/2)	6.90	6.50
11	Net NPLs as % of gross advances (9/1)	3.40	3.10
12	Specific Provisions as % of Total NPLs (4/8)	49.80	52.20

Source: Central Bank of Kenya

Liquidity Ratio Requirement

Liquidity which represents the ability to fund increases in assets and meet obligations as they fall due is crucial to the sustained viability of any banking institution. The importance of liquidity transcends the individual bank as a liquidity shortfall at an individual bank can have systemic repercussions.

As at November 2009, liquid assets amounted to Ksh 401.7 billion while total liquid liabilities stood at Ksh 1,010.2 billion, resulting to an average liquidity ratio of 39.8 percent, against 39.1 percent registered in November 2008. The ratio of total loans to deposits ratio stood at 72.3 percent.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.40 percent in November 2009 compared with 5.15 percent in October 2009 and 4.5 percent statutory level as shown in Table 5.3 and Chart 5A. Commercial banks held excess reserves at the Central Bank averaging Ksh 8.52 billion in November 2009 compared with Ksh 6.12 billion in October 2009.

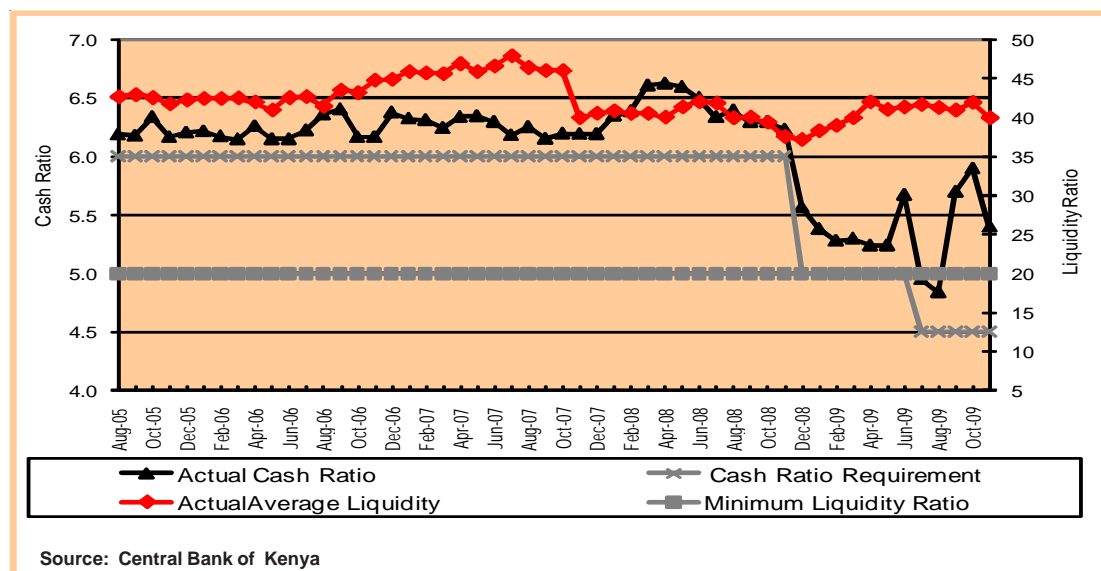
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2008			2009					
	Oct	Nov	Dec	June	July	Aug	Sept	Oct	Nov
Commercial Banks									
Actual Average Liquidity	39.37	37.55	37.18	41.37	41.70	41.33	41.34	41.60	40.19
Minimum Liquidity Ratio	20.0	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	6.26	6.23	5.57	5.67	4.95	4.84	5.40	5.15	5.40
Minimum Cash Ratio Requirement	6.00	6.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50
NBFs									
Actual Average Liquidity Ratio	26.57	27.12	26.82	24.59	24.83	23.93	23.38	22.89	24.61
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio	6.00	6.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50
Minimum Cash Ratio Requirement	6.00	6.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50

* Monthly average liquidity and cash ratios
 ** Commercial banks and NBFs observed a daily minimum of 6% cash ratio effective from 1st July 2003 to 30th Nov 2008.
 ** Commercial banks and NBFs observed a daily minimum of 5% cash ratio effective 1st Dec 2008
 *** Ratio includes NBFs and Mortgage companies

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



**KEPSS
Kenya
Shillings
Flows**

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 56,900 transaction messages worth Ksh 1,430 billion in November 2009 compared with a volume of 55,440 transaction messages valued at Ksh 1,481 billion moved in October 2009 representing 3.4 percent decrease in value and 2.6 percent increase in volume, respectively. The increase in KEPSS usage is attributable to successful value capping implementation process.

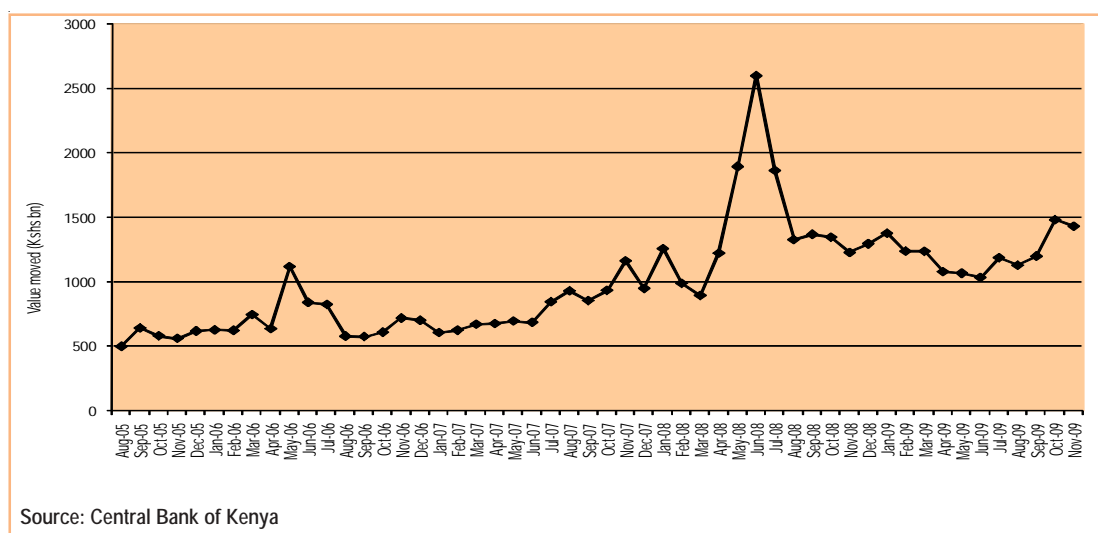
During the twelve months period to November 30, 2009, the value moved averaged Ksh 46.22 million per transaction, while the average value moved per day was approximately Ksh 59.04 billion (Table 5.3 and Chart 5B). Direct settlements through KEPSS in November 2009 averaged 98.5 percent of the total settlements, while indirect payments (ACH Net settlement) averaged 1.5 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	Of which indirect (NSI (Ksh bn))	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-08	1,256	78	23,773	0.05	22	57	1,081
Feb-08	985	62	23,278	0.04	21	47	1,108
Mar-08	891	60	20,920	0.04	18	49	1,162
Apr-08	1,220	107	24,684	0.05	22	55	1,122
May-08	1,895	94	19,730	0.10	21	90	940
Jun-08	2,601	115	22,387	0.12	20	130	1,119
Jul-08	1,864	75	24,599	0.08	23	81	1,070
Aug-08	1,327	59	20,593	0.06	21	63	981
Sep-08	1,367	76	23,494	0.06	22	62	1,068
Oct-08	1,344	85	23,635	0.06	20	67	1,182
Nov-08	1,225	57	22,718	0.05	21	58	1,082
Dec-08	1,293	94	24,131	0.05	20	65	1,207
Jan-09	1,376	68	25,330	0.05	21	66	1,206
Feb-09	1,236	64	20,710	0.06	19	65	1,090
Mar-09	1,235	82	23,752	0.05	22	56	1,080
Apr-09	1,077	997	22,485	0.05	20	54	1,124
May-09	1,064	994	24,024	0.04	20	53	1,201
Jun-09	1,032	80	21,977	0.05	21	49	1,047
Jul-09	1,185	75	25,650	0.05	23	52	1,115
Aug-09	1,127	69	23,001	0.05	21	54	1,095
Sep-09	1,198	90	24,552	0.05	21	57	1,169
Oct-09	1,481	27	55,440	0.03	21	71	2,640
Nov-09	1,430	21	56,900	0.03	21	68	2,710

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third party Messages

Multiple third parties Message Type (MT 102) increased by 157.1 percent from 1,639 transaction messages in October 2009 to 4,214 transaction messages in November 2009. Similarly, single third party Message Type (MT 103) increased by 8.3 percent from 45,940 transaction messages (Ksh) to 49,759 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 13.4 percent from 47,579 transaction messages in October 2009 to 53,973 transaction messages in November 2009.

Compared with November 2008, multiple third parties messages (MT 102) increased by 492.7 percent from 711 transaction messages to 4,214 transaction messages in November 2009, while single third party messages (MT 103) increased by 465.2 percent from 8,804 transaction messages to 49,759 transaction messages (Table 5.4 and Chart 5C).

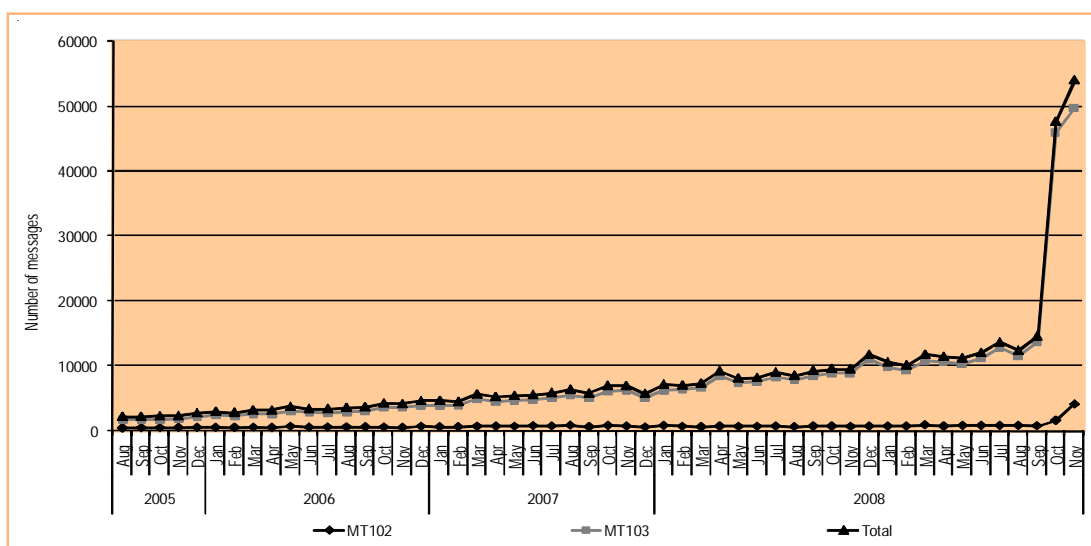
Inter-bank transfers (MT 202) accounted for 57.8 percent on average of the total value moved through KEPSS in November 2009, while third party messages accounted for 42.2 percent. The total number of third party messages (MT 102 and MT 103) grew by 467.2 percent from 9,515 messages in November 2008 to 53,973 messages in November 2009.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2008	January	877	6,300	7,177
	February	724	6,318	7,042
	March	684	6,637	7,321
	April	781	8,457	9,238
	May	708	7,393	8,101
	June	718	7,503	8,221
	July	764	8,268	9,032
	August	696	7,839	8,535
	September	791	8,481	9,272
	October	751	8,803	9,554
	November	711	8,804	9,515
	December	766	11,009	11,775
2009	January	786	9,815	10,601
	February	740	9,376	10,116
	March	929	10,832	11,761
	April	758	10,671	11,429
	May	852	10,351	11,203
	Jun	866	11,194	12,060
	Jul	879	12,778	13,657
	Aug	875	11,511	12,386
	Sep	813	13,740	14,553
	Oct	1639	45,940	47,579
	Nov	4214	49,759	53,973

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

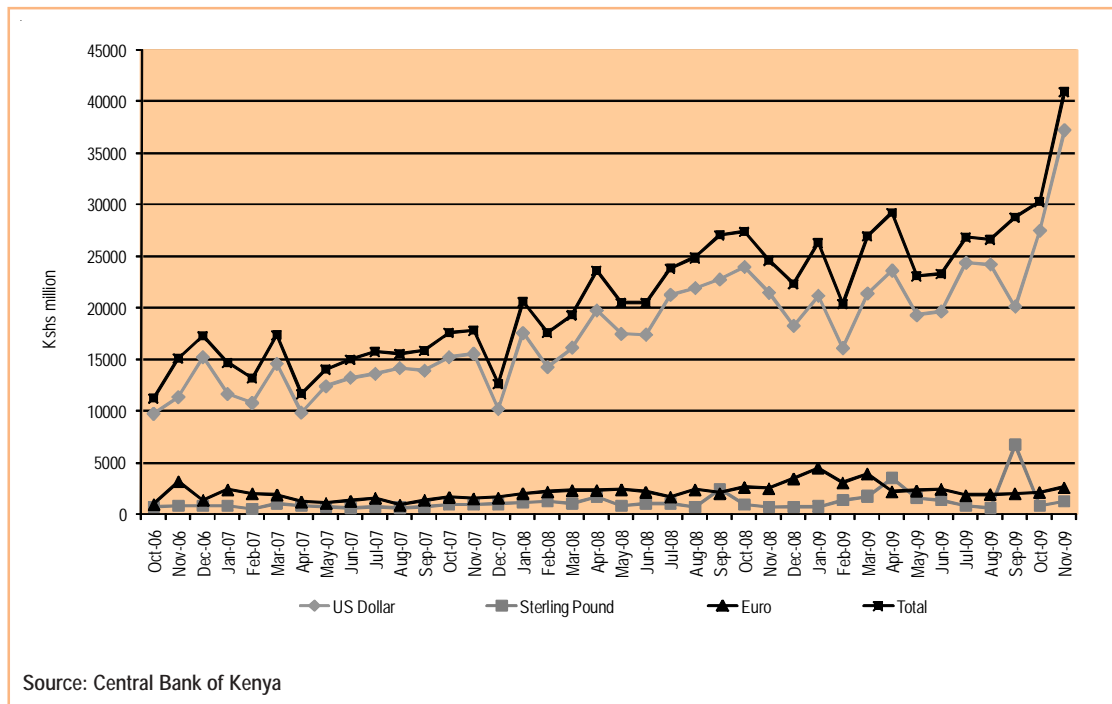


Source: Central Bank of Kenya

Domestic Foreign Currency Flows

Domestic Foreign Currency messages through KEPSS increased by 14.0 percent from 3,551 transaction messages in October 2009 to 4,050 transaction messages in November 2009. The corresponding value in Kenya Shillings equivalent moved in this period also increased by 35.1 percent from Ksh 30.3 billion to Ksh 40.9 billion. The US dollar accounted for 90.9 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 2.9 percent and 6.2 percent, respectively.

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



GOVERNMENT BUDGET PERFORMANCE

Central Government budgetary operations in the five months of the fiscal year 2009/10 resulted in a deficit of Ksh 38.2 billion on commitment basis compared with a deficit of Ksh 26.4 billion in a similar period of 2008/09 (Table 6.1). The deficit-to-GDP ratio increased from 1.2 percent to 1.6 percent on commitment basis while the budget deficit on cash basis decreased from 1.7 percent to 1.6 percent of GDP during the period. The budget deficit during the period was within the programmed target of 3.2 percent of GDP on commitment basis. The performance of the Government budget during the period, however, reflected lower than budgeted Government expenditure.

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

	FY 2008/09	FY 2009/10		Over (+) / Below (-) Target
	Nov Actual	Nov Provisional	Target	
1. TOTAL REVENUE	184.2	208.6	223.6	-15.0
Revenue	180.3	204.5	214.5	-10.0
Tax Revenue	165.6	184.8	189.9	-5.1
Non Tax Revenue	2.6	5.8	5.7	0.0
Appropriations-in-Aid	12.1	13.9	18.9	-5.0
External Grants	3.9	4.1	9.1	-5.0
2. TOTAL EXPENSES	210.5	246.7	302.4	-55.7
Recurrent Expenses	164.4	194.4	206.9	-12.4
Development Expenses	46.1	52.3	95.5	-43.2
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-26.4	-38.2	-78.9	-40.7
As % of GDP	-1.2	-1.6	-3.2	
4. ADJUSTMENT TO CASH BASIS	-11.2	0.0	0.0	0.0
5. DEFICIT ON A CASH BASIS	-37.6	-38.2	-78.9	-40.7
As % of GDP	-1.7	-1.6	-3.2	
6. DISCREPANCY: Exp. (+) / Rev. (-)	-1.3	12.7	0.0	
7. FINANCING	36.4	50.9	78.9	-28.0
Domestic (Net)	34.1	51.9	65.6	-13.7
External (Net)	2.3	-1.1	9.3	-10.3
Capital Receipts (privatisation)	0.0	0.0	4.0	-4.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: Treasury

Revenue

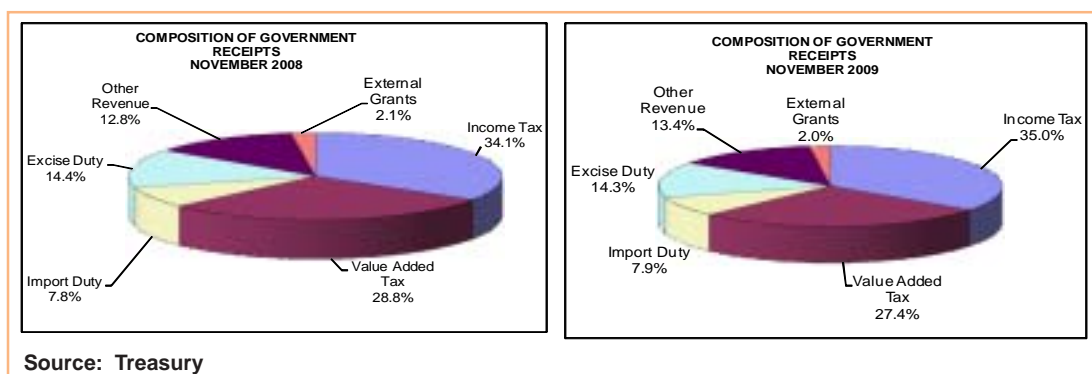
Government revenue and grants increased from Ksh 184.2 billion in the five months of fiscal year 2008/09 to Ksh 208.6 billion in the same period of fiscal year 2009/10 against a target of Ksh 223.6 billion. The shortfall in total revenue was in tax revenue, Appropriations-in-Aid (AIA), and external grants that were Ksh 5.1 billion, Ksh 5.0 billion and 5.0 billion below target, respectively. However, the share of Government revenue and grants in GDP was 8.5 percent during the period.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Nov-08 Ksh bn	Nov-09 Ksh bn	Change
1. Revenue (2+3+4)	180.3	204.5	24.2
2. Tax Revenue	165.6	184.8	19.2
Income Tax	62.8	73.1	10.3
Value Added Tax	53.1	57.1	4.0
Import Duty	14.3	16.5	2.2
Excise Duty	26.4	29.8	3.4
Others	8.9	8.3	-0.6
3. Appropriations-in-Aid	12.1	13.9	1.9
4. Other Revenue	2.6	5.8	3.1
5. External Grants	3.9	4.1	0.2
TOTAL RECEIPTS (1+5)	184.2	208.6	24.4

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Tax revenue increased from Ksh 180.3 billion in the five months of the fiscal year 2008/09 to Ksh 204.5 billion in the current period, representing a growth of 13.4 percent in the tax proceeds, following increases in income and value added taxes during the period. Similarly, Appropriation-in-Aid (AIA) increased by Ksh 1.9 billion while non-tax revenue increased by Ksh 3.1 billion.

Following these developments, the percentage of tax revenue in total revenue decreased from 89.9 percent in the five months of the fiscal year 2008/09 to 88.6 percent in a similar period in the fiscal year 2009/10 (Chart 6A). The share of non-tax revenue increased from 1.4 percent to 2.8 percent during the same period, while the proportion of AIA increased from 6.6 percent to 6.7 percent.

Expenditure and Net Lending During the five months of the fiscal year 2009/10, Government expenditure and net lending increased by 17.2 percent, from Ksh 210.5 billion in a similar period in the fiscal year 2008/09 to Ksh 246.7 billion (Table 6.3). This rise was due to increases of 18.2 percent and 13.5 percent in recurrent and development expenditures, respectively.

The recurrent expenditure increased by Ksh 30.0 billion, attributed to increases of Ksh 7.5 billion in wages and salaries, interest payments of Ksh 7.5 billion and Ksh 15.0 billion in other expenses. Development expenditure increased by Ksh 6.2 billion, from Ksh 46.1 billion to Ksh 52.3 billion in the period.

As a result of these developments, the percentage of development expenditure in total expenditure decreased from 21.9 percent in the five months of the fiscal year 2008/09 to 21.2 percent in a similar period in the fiscal year in 2009/10, while recurrent expenditure increased from 78.1 percent to 78.8 percent (Chart 6B).

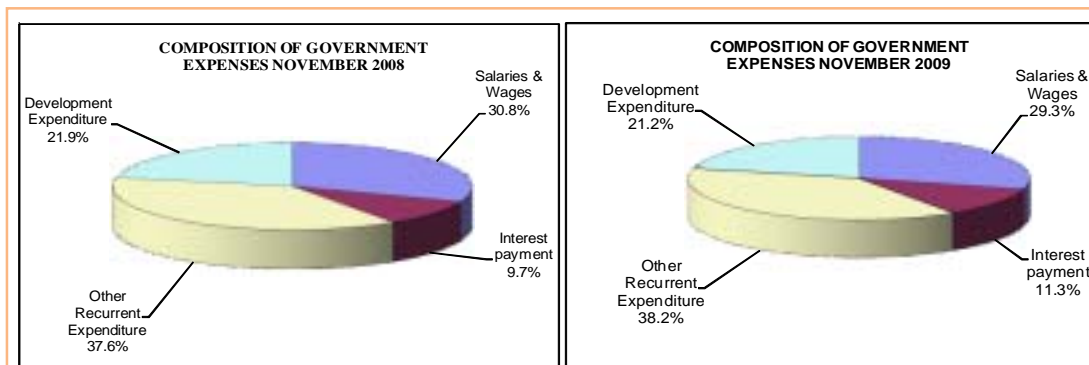
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Nov-08 Ksh bn	Nov-09 Ksh bn	Movement
1. Recurrent	164.4	194.4	30.0
Salaries & Wages	64.8	72.3	7.5
Total Interest	20.5	28.0	7.5
of which			
Domestic*	18.8	25.8	7.0
Foreign interest due	1.7	2.2	0.5
Others	79.1	94.2	15.0
2. Development	46.1	52.3	6.2
TOTAL EXPENSES	210.5	246.7	36.2

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

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

During the five months of 2009/10, budgetary operations of the Government resulted in a financing requirement of Ksh 51.9 billion compared with Ksh 43.8 billion in a similar period of 2008/09 (Table 6.4). The financing requirement comprised Ksh 50.9 billion to finance the budget deficit and Ksh 1.1 billion reduction of external debt. The financing requirement was sourced through net domestic borrowing of Ksh 40.1 billion and draw down in Government deposits by Ksh 11.9 billion.

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

I. FINANCING REQUIREMENTS	Nov-08 Ksh bn	Nov-09 Ksh bn
1. Budget deficit	36.4	50.9
2. External debt reduction	0.0	1.1
3. Domestic debt reduction	7.4	0.0
3.1 Central Bank (incl. items in transit)	7.4	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0
TOTAL	43.8	51.9
II. FINANCING SOURCES	Nov-08 Ksh bn	Nov-09 Ksh bn
1. Budget surplus	0.0	0.0
2. External debt increase	2.3	0.0
3. Increase in domestic debt	14.8	40.1
3.1 Central Bank	0.0	3.1
3.2 Commercial banks	10.3	33.4
3.3 Non-bank sources	4.5	3.6
4. Reduction in GoK deposits at CBK	26.8	11.9
5. Privatisation proceeds	0.0	0.0
TOTAL	43.8	51.9

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank Government indebtedness to the Central Bank increased from Ksh 39.5 billion in November 2008 to Ksh 43.7 billion in November 2009. The rise in Government indebtedness during the period was attributed to an increase of Ksh 5.9 billion in the Government overdraft at Central Bank. Meanwhile, Government reduced other outstanding debt as follows: Ksh 1.1 billion in the Pre-1997 Government overdraft at Central Bank, Ksh 0.4 billion in IMF funds on-lent to Government and Ksh 0.2 billion in cleared items in transit.

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

	2008	2009	Movement
	Nov	Nov	
Total Credit	39.5	43.7	4.2
1. Overdraft	3.9	9.8	5.9
2. Rediscounted securities	0.0	0.0	0.0
Treasury bills	0.0	0.0	0.0
Treasury bonds	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	34.4	33.3	-1.1
4. IMF funds onlent to Government	0.9	0.5	-0.4
5. Cleared items in transit	0.2	0.1	-0.2
Memorandum			
Authorised overdraft limit	14.8	21.0	9.7
Amount utilised to date	3.9	9.8	9.8
Amount available	10.9	11.2	-0.1

Source: Central Bank of Kenya

Outlook for FY 2009/10 The budget estimates for the fiscal year 2009/10, project Government revenue excluding external grants at Ksh 568.9 billion (22.4 percent of GDP). External grants are estimated at Ksh 35.3 billion (1.4 percent of GDP) during the fiscal year. Similarly, Government expenditure is estimated at Ksh 772.4 billion or 30.3 percent of GDP and comprise Ksh 509.1 billion (19.9 percent of GDP) in recurrent expenditure, Ksh 261.3 billion (10.3 percent of GDP) in development expenditure and Ksh 2.0 billion in civil contingency fund.

The overall budget deficit including grants is therefore estimated at Ksh 168.2 billion (6.6 percent of GDP) in 2009/10. The deficit is to be financed through net external borrowing of Ksh 50.2 billion (2.0 percent of GDP), net domestic borrowing of Ksh 109.5 billion (4.3 percent of GDP), privatization proceeds of Ksh 6.0 billion and net refinancing costs of Telkom totalling Ksh 2.5 billion.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt Kenya's public and publicly guaranteed debt increased by 2.9 percent in the first five months of fiscal year 2009/10 to stand at Ksh 1,084.2 billion in November 2009 from Ksh 1,053.7 billion in June 2009 (Table 7.1). This represented 44.1 percent of GDP, which was higher than 41.3 percent of GDP recorded in a similar period of 2008/09, following a slower growth in GDP. The external debt to GDP ratio decreased from 22.4 percent in June 2009 to 21.2 percent in November 2009 while the domestic debt to GDP ratio increased from 21.7 percent to 22.9 percent during the period.

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

	Jun-08	Dec-08	Mar-09	June-09	Jul-09	Aug-09*	Sep-09	Oct-09*	Nov-09**	Change 2009/10
EXTERNAL										
Bilateral	153.2	187.2	182.7	185.9	185.5	184.8	184.8	184.5	189.5	-1.5
Multilateral***	268.2	305.9	307.9	327.1	324.5	323.1	323.1	322.7	308.0	-4.4
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	18.5	22.3	23.1	22.1	22.1	22.1	22.1	22.1	23.7	0.0
Sub-Total	440.0	515.4	513.6	535.1	532.1	530.1	530.0	529.3	521.2	-5.9
(As a % of GDP)	21.6	23.3	22.3	22.4	22.1	21.9	21.8	21.8	21.2	
(As a % of total debt)	50.5	53.0	52.0	50.8	50.1	49.2	49.0	48.3	48.1	
DOMESTIC\										
Banks	228.8	254.1	263.4	290.8	292.8	306.3	310.5	325.1	331.0	40.2
Central Bank	46.4	49.4	40.6	40.1	37.6	40.3	41.6	42.9	43.4	3.3
Commercial Banks	182.5	204.7	222.8	250.7	255.1	266.0	268.9	282.2	287.6	36.8
Non-banks	199.2	198.9	208.8	225.1	235.6	238.5	237.7	239.4	229.1	4.0
Non-bank Financial Inst.	0.7	0.7	1.1	1.0	0.8	0.8	0.8	0.8	0.9	-0.2
Other Non-bank Sources	198.5	198.2	207.8	224.1	234.8	237.7	236.9	238.6	228.2	4.1
Non-residents	2.6	3.2	2.7	2.6	2.2	2.4	2.5	2.6	2.9	0.3
Sub-Total	430.6	456.2	474.9	518.5	530.5	547.2	550.7	567.1	562.9	44.4
(As a % of GDP)	21.1	20.6	20.6	21.7	22.1	22.6	22.6	23.2	23.0	
GRAND TOTAL	870.6	971.6	988.5	1053.7	1062.7	1077.3	1075.7	1091.0	1084.2	30.5
(As a % of GDP)	42.8	43.9	42.9	44.0	44.2	44.5	44.2	44.6	44.1	

* External Debt Revised
 ** External Debt Provisional
 *** Includes IMF Loans.
 †/ Domestic Debt is reported on gross basis

Sources: Treasury and Central Bank of Kenya

Domestic Debt Public domestic debt increased by 8.6 percent during the five months of the fiscal year 2009/10 from Ksh 518.5 billion in June 2009 to Ksh 562.9 billion in November 2009 (Table 7.2). The rise in domestic debt during the period followed increases of Ksh 20.9 billion in Treasury bills (excluding Repos), Ksh 20.3 billion in Treasury bonds and Ksh 3.2 billion in other domestic debt. Government overdraft at Central bank, which is the main component of other domestic debt, increased from Ksh 5.1 billion in June 2009 to Ksh 9.8 billion in November 2009.

Treasury Bills Treasury bills increased from Ksh 116.8 billion in June 2009 to Ksh 137.7 billion in November 2009 (Table 7.3). As a proportion to gross domestic debt, the share of Treasury bills increased from 22.5 percent to 24.5 percent during the period while the Treasury bills held by commercial banks rose from Ksh 74.6 billion to Ksh 104.5 billion. In terms of category, the share of the 91-day Treasury bills decreased from 4.9 percent to 4.5 percent, while that of the 182-day Treasury bills in total Government securities increased from 19.5 percent to at 22.0 percent during the period (Table 7.5). This indicates a shift in demand to the longer maturities on account of the higher return of the latter.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2008		2009								Change Jun-09- Nov -09				
	Dec	%	Jun	%	July	%	Aug	%	Sep	%		Oct	%	Nov	%
Total stock of Domestic Debt (A+B)	456.2	100.0	518.5	100.0	530.5	100.0	547.2	100.0	550.7	100.0	547.2	100.0	562.9	100.0	44.4
A. Government Securities	440.7	96.6	511.6	98.7	526.1	99.2	540.2	98.7	542.4	98.5	557.5	101.9	552.9	98.2	41.3
1. Treasury Bills (excluding Repo Bills)	87.5	19.2	116.8	22.5	120.8	22.8	127.6	23.3	122.2	22.2	133.6	24.4	137.7	24.5	20.9
Banking institutions	42.1	9.2	74.6	14.4	79.6	15.0	83.9	15.3	81.3	14.8	92.8	17.0	104.5	18.6	29.8
Others	45.3	9.9	42.2	8.1	41.2	7.8	43.7	8.0	40.9	7.4	40.7	7.4	33.3	5.9	-8.9
2. Treasury Bonds	318.6	69.8	360.7	69.6	371.2	70.0	378.5	69.2	386.1	70.1	389.9	71.3	381.0	67.7	20.3
Banking institutions	162.6	35.6	176.0	33.9	175.5	33.1	182.1	33.3	187.5	34.1	189.3	34.6	183.1	32.5	7.1
Others	156.0	34.2	184.8	35.6	195.7	36.9	196.4	35.9	198.5	36.1	200.5	36.6	198.0	35.2	13.2
3. Long term Stocks	0.8	0.2	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	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	0.8	0.2	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.0
4. Pre-1997 Government Overdraft at CBK	33.9	7.4	33.3	6.4	33.3	6.3	33.3	6.1	33.3	6.1	33.3	6.1	33.3	5.9	0.0
Of which: Repo T/Bills	33.9	7.4	33.3	6.4	33.3	6.3	33.3	6.1	33.3	6.1	33.3	6.1	33.3	5.9	0.0
B. Others:	15.5	3.4	6.9	1.3	4.4	0.8	7.0	1.3	8.3	1.5	9.6	1.8	10.1	1.8	3.2
Of which CBK overdraft to Government	15.1	3.3	5.1	1.0	3.9	0.7	6.1	1.1	8.0	1.5	9.3	1.7	9.8	1.7	4.7

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

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

Holders	2009											
	June	%	Jul	%	Aug	%	Sep	%	Oct	%	Nov	%
Banking Institutions	74.6	63.9	79.6	65.9	83.9	65.8	81.3	66.6	92.8	69.5	104.5	76.9
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	74.6	63.9	79.6	65.9	83.9	65.8	81.3	66.6	92.8	69.5	104.5	75.8
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	17.0	14.6	15.8	13.1	15.9	12.4	15.1	12.3	14.9	11.1	13.0	9.4
Parastatals	2.3	2.0	2.5	2.1	3.2	2.5	3.7	3.0	3.9	2.9	3.8	2.8
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	7.0	6.0	6.9	5.7	7.1	5.6	6.5	5.3	7.4	5.5	0.0	0.0
Others	15.8	13.6	16.0	13.2	17.5	13.7	15.6	12.8	14.5	10.9	16.4	11.9
Total*	116.8	100.0	120.8	100.0	127.6	100.0	122.2	100.0	133.6	100.0	137.7	100.9

* Excludes repurchase order bills

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds increased by 5.6 percent from Ksh 360.7 billion in June 2009 to Ksh 381.0 billion in November 2009 (Table 7.4). The percentage of Treasury bonds in total domestic debt decreased from 69.6 percent to 67.7 percent during the period. Commercial banks were the largest investors accounting for 48.1 percent of the value of outstanding Treasury bonds as at November 2009, followed by pension funds at 16.8 percent.

In terms of maturity, the 5-year Treasury bonds accounted for the largest proportion of outstanding Government securities during the period, increasing from 11.1 percent in June 2009 to 12.9 percent in November 2009 while the 10-year Treasury bonds accounted for 11.0 percent of outstanding Government securities. The percentage of Treasury bonds with maturities of between 10-years and 20-years increased from 27.0 percent to 29.1 percent during the period following successful issuance of longer dated Treasury bonds. Following the increase in outstanding Treasury bonds during the period, the average maturity profile of domestic debt (by days to maturity) stood at 3 years and 10 months in November 2009 from 3 years 7 months in June 2009.

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

Holders	2008						2009									
	Oct	%	Nov	%	Dec	%	July	%	Aug	%	Sep	%	Oct	%	Nov	%
Banking Institutions	161.3	51.2	165.8	51.7	163.3	51.3	176.3	47.5	182.9	48.3	188.4	48.8	190.2	48.8	183.9	48.3
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	160.6	51.0	165.1	51.4	162.6	51.0	175.5	47.3	182.1	48.1	187.5	48.6	189.3	48.6	183.7	48.1
NBFIs	0.7	0.2	0.7	0.2	0.7	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2	0.8	0.2
Insurance Companies	32.1	10.2	32.4	10.1	32.4	10.2	39.2	10.6	41.6	11.0	42.9	11.1	44.0	11.3	43.4	11.4
Parastatals	29.4	9.3	29.5	9.2	29.5	9.2	31.8	8.6	31.0	8.2	29.7	7.7	28.8	7.4	28.3	7.4
Of which: NSSF	12.4	3.9	12.5	3.9	12.5	3.9	15.9	4.3	16.5	4.4	15.9	4.1	15.8	4.0	15.3	4.0
Building Societies	0.6	0.2	0.6	0.2	0.6	0.2	0.5	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.4	0.1
Pensions Fund	37.1	11.8	37.6	11.7	37.6	11.8	55.3	14.9	59.2	15.6	60.8	15.7	64.1	16.5	64.1	16.8
Others	54.6	17.3	55.1	17.2	55.2	17.3	68.0	18.3	63.3	16.7	63.8	16.5	62.3	16.0	60.8	16.0
Total	315.0	100.0	320.9	100.0	318.6	100.0	371.2	100.0	378.5	100.0	386.1	100.0	389.9	100.0	381.0	100.0

Source: Central Bank of Kenya

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

	2008						2009									
	Oct	%	Nov	%	Dec	%	July	%	Aug	%	Sep	%	Oct	%	Nov	%
91-Day	21.3	5.3	20.1	4.9	18.5	4.6	26.9	5.5	30.3	6.0	22.8	4.5	23.1	4.4	23.5	4.5
182-Day	68.6	16.9	68.6	16.7	68.9	17.0	93.9	19.1	97.3	19.2	99.4	19.5	110.4	21.1	114.3	22.0
1-Year	12.1	3.0	18.0	4.4	12.5	3.1	12.6	2.6	12.6	2.5	12.6	2.5	12.6	2.4	6.7	1.3
2-Year	31.3	7.7	31.3	7.6	34.5	8.5	45.2	9.2	45.2	8.9	53.2	10.5	53.2	10.2	51.9	10.0
3-Year	19.8	4.9	19.8	4.8	19.8	4.9	12.8	2.6	9.6	1.9	5.8	1.1	5.8	1.1	5.8	1.1
4-Year	16.5	4.1	16.5	4.0	16.5	4.1	12.9	2.6	12.9	2.6	12.9	2.5	7.3	1.4	7.3	1.4
5-Year	48.7	12.0	48.7	11.9	48.7	12.0	52.8	10.7	63.2	12.5	66.7	13.1	66.7	12.7	66.7	12.9
6-Year	45.6	11.3	45.6	11.1	45.6	11.2	38.8	7.9	38.8	7.7	38.8	7.6	38.8	7.4	37.1	7.1
7-Year	24.2	6.0	24.2	5.9	24.2	5.9	24.2	4.9	24.2	4.8	24.2	4.8	24.2	4.6	24.2	4.7
8-Year	17.9	4.4	17.9	4.4	17.9	4.4	17.9	3.6	17.9	3.5	17.9	3.5	17.9	3.4	17.9	3.5
9-Year	12.6	3.1	12.6	3.1	12.6	3.1	12.6	2.6	12.6	2.5	12.6	2.5	12.6	2.4	12.6	2.4
10-Year	39.4	9.7	39.4	9.6	39.4	9.7	57.0	11.6	57.0	11.3	57.0	11.2	57.0	10.9	57.0	11.0
11-Year	4.0	1.0	4.0	1.0	4.0	1.0	4.0	0.8	4.0	0.8	4.0	0.8	4.0	0.8	4.0	0.8
12-Year	8.8	2.2	8.8	2.1	8.8	2.2	28.5	5.8	28.5	5.6	28.5	5.6	28.5	5.4	28.5	5.5
15-Year	32.1	7.9	32.1	7.8	32.1	7.9	42.3	8.6	42.3	8.4	42.3	8.3	51.7	9.9	51.7	10.0
20-Year	1.9	0.5	1.9	0.5	1.9	0.5	9.5	1.9	9.5	1.9	9.5	1.9	9.5	1.8	9.5	1.8
Total	404.8	100.0	409.6	100.0	406.1	100.0	492.0	100.0	506.1	100.0	508.3	100.0	523.4	100.0	518.8	100.0

Source: Central Bank of Kenya

Government Long-term Stocks

During the first five months of the fiscal year 2009/10, Government long term stocks remained unchanged at Ksh 0.8 billion or 0.1 percent of total domestic debt as there were neither new issues nor redemptions of the instrument.

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Government securities from December 2009 to February 2010 will comprise Ksh 60.5 billion in Treasury bills and Ksh 19.7 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 23.5 billion and Ksh 37.0 billion in 91-days and 182-days Treasury bills, respectively.

External Debt

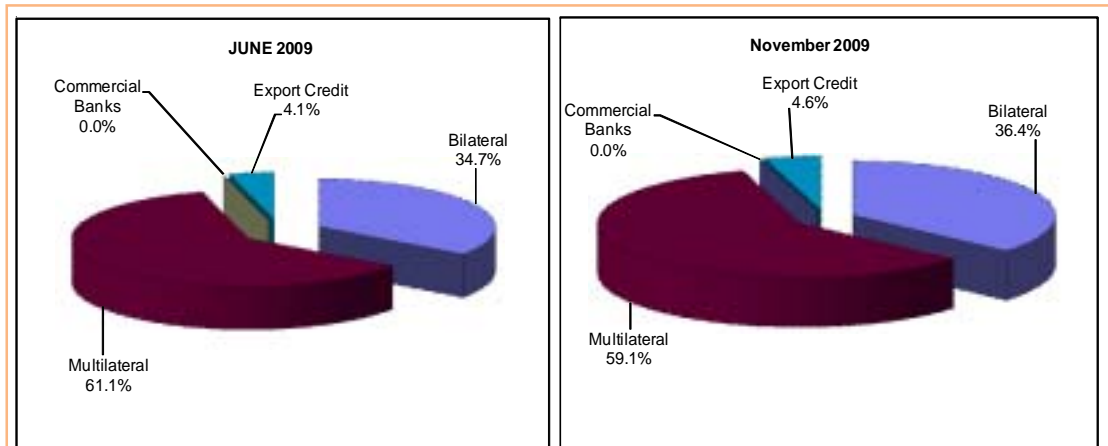
Kenya's external debt decreased by 2.6 percent from Ksh 535.1 billion (USD 6.94 billion) in June 2009 to Ksh 521.2 billion (USD 6.93 billion) in November 2009 following strengthening of the shilling against the US dollar (Table 7.1). The decline in external debt followed external loans disbursement of Ksh 6.5 billion and revaluation gains of Ksh 12.7 billion which was less than the repayments of Ksh 7.9 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to multilateral creditors (including IMF) decreased from 61.1 percent of total external debt to 59.1 percent during the period. However, the percentage of external debt owed to bilateral creditors and that which is contracted through export credits increased from 34.7 percent and 4.1 percent,

respectively, in June 2009 to 36.4 percent and 4.6 percent in November 2009 (Chart 7A).

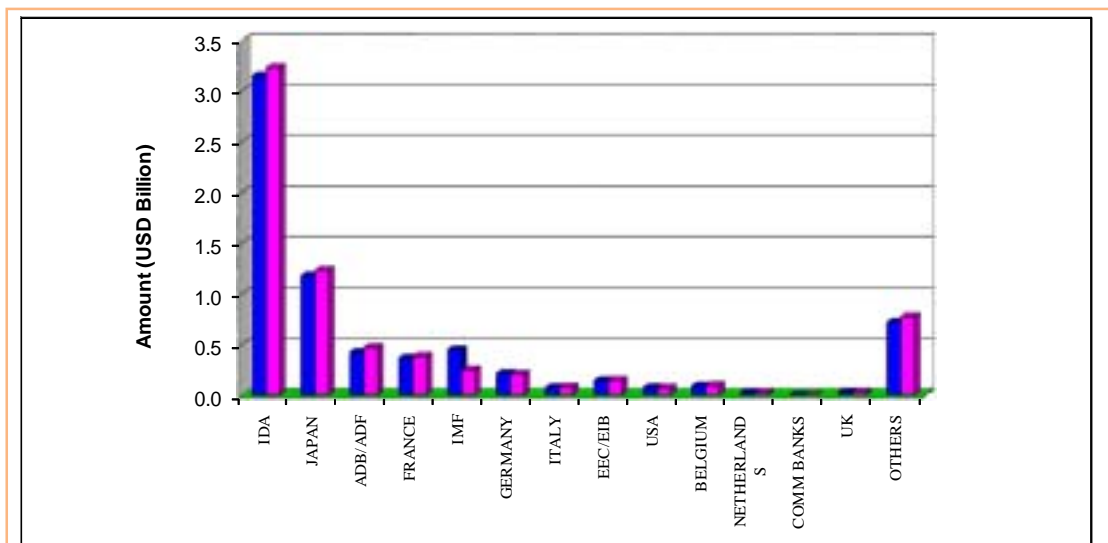
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

As shown in Chart 7B, external debt owed to IDA and Japan remained unchanged at USD 3.1 billion and USD 1.2 billion, respectively, in November 2009. The two remained the largest multilateral and bilateral creditors to Kenya during the period.

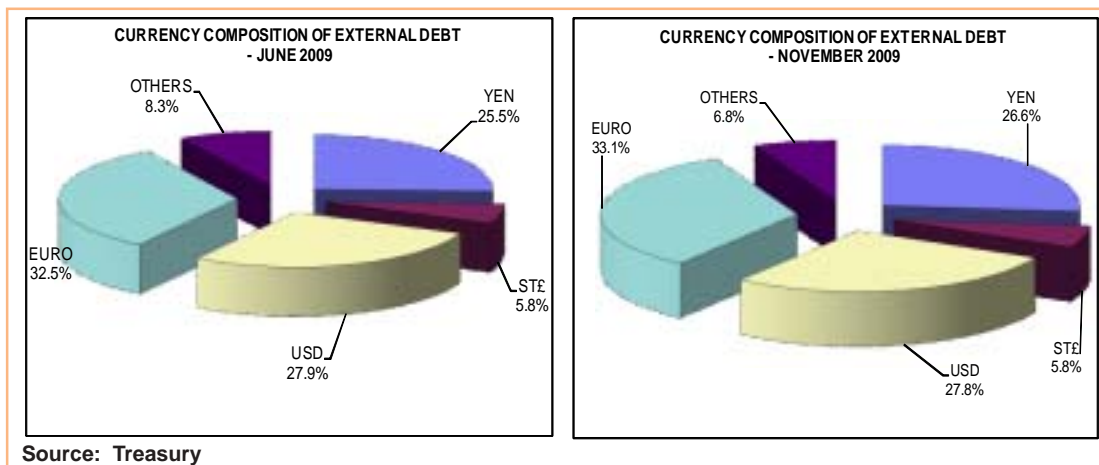
CHART 7B: EXTERNAL DEBT BY CREDITOR



Source: Treasury

The percentage of external debt held in US dollars and in other currencies including SDRs decreased from 27.9 percent and 8.3 percent in June 2009, respectively, to 27.8 percent and 6.8 percent in November 2009. However the external debt proportion held in Japanese Yen and Euro increased from 25.5 percent and 32.5 percent respectively to 26.6 percent and 33.1 during the period (Chart 7C). The external debt proportion held in Sterling Pounds remained unchanged at 5.8 percent in November 2009.

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Public Debt Service Cumulative Government expenditure on interest and other charges on domestic debt increased from Ksh 13.5 billion in the first five months of fiscal year 2008/09 to Ksh 19.6 billion in a similar period of the fiscal year 2009/10. The rise in debt service reflected a higher stock of debt. Consequently, the percentage of domestic interest in ordinary Government revenue increased from 10.3 percent to 13.5 percent during the period. External debt service increased from Ksh 8.1 billion to Ksh 10.0 billion. The external debt service in the period comprised Ksh 7.7 billion in principal repayments and Ksh 2.3 billion in interest payments.

Outlook for the FY 2009/10 The budget estimates for 2009/10 projects Government domestic borrowing at Ksh 109.5 billion (4.3 percent of GDP) and external borrowing at Ksh 50.2 billion (2.0 percent of GDP). However, as indicated in the Budget Strategy Paper for 2009/10 to 2011/12, gross domestic debt-to-GDP ratio is projected to increase from 22.7 percent in June 2009 to 24.2 percent in June 2010 as GDP is expected to grow at a faster rate compared with domestic debt. Consequently, external debt-to-GDP ratio is expected to increase from 22.0 percent to 23.9 percent during the period, which will, however, be lower than the 24.1 percent in June 2009.

ACTIVITY IN THE STOCK MARKET

Equity Market

Performance at the stock market in November 2009 was mixed, with improvement in the equities market segment and a slowdown in the bond market segment (Table 8.1).

The number of shares traded increased by 30.7 percent from 303.3 million in October 2009 to 396.4 million in November 2009. Equity turnover increased by Ksh 125.6 million (2.8 percent), from Ksh 4,521.0 million in October 2009 to Ksh 4,646.6 million in November 2009. The market capitalization increased by Ksh 41.9 billion (5.3 percent), from Ksh 784.0 billion in October 2009 to Ksh 825.8 billion in November 2009. The increase in market capitalization is attributed to the increase in price of most counters. The NSE 20 Share Index rose by 105.9 points (3.4 percent) to close at 3189.6 points in November 2009. Market liquidity ratio increased by 15 basis points to 0.64 percent in November 2009 from 0.49 percent in October 2009 reflecting an increase in the number of shares traded. The equities market performance remained subdued, with all indicators below the pre-global financial crisis levels.

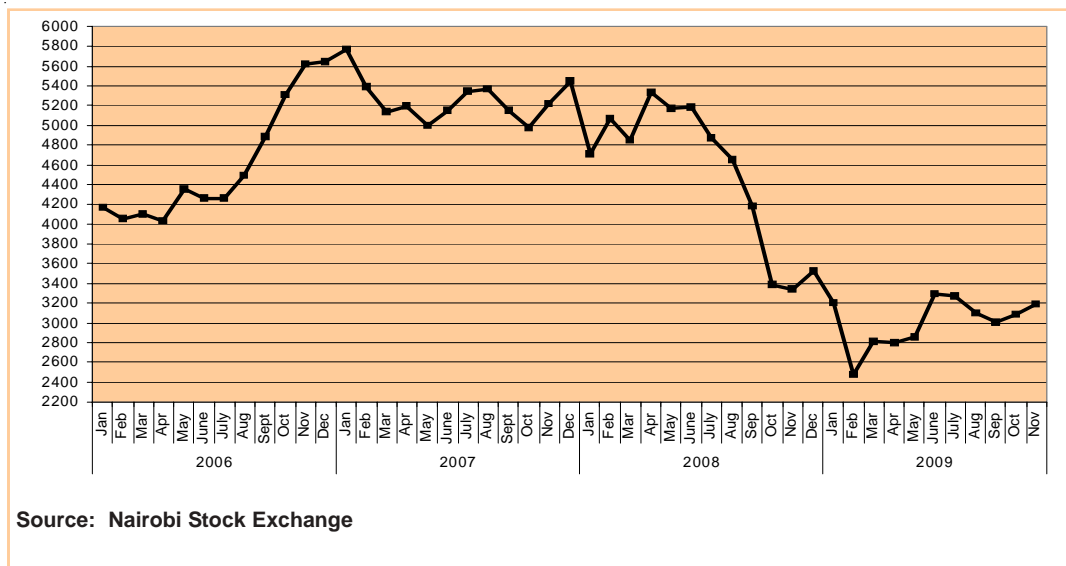
TABLE 8.1: SELECTED STOCK MARKET INDICATORS

Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
August 08	4,648.78	490.81	7,490.20	1,081.86	18,490.36
September 08	4,180.40	485.30	6,787.80	972.30	22,611.94
October-08	3,386.65	393.50	3,642.40	764.90	4,344.11
November-08	3,341.00	290.94	3,723.72	791.60	6,319.71
December-08	3,521.18	170.86	4,617.11	853.67	7,473.44
January-09	3,198.90	177.55	2,624.39	777.45	12,458.82
February-09	2,474.75	150.64	1,645.28	611.49	12,555.25
March-09	2,805.03	207.39	2,414.12	688.67	18,520.00
April-09	2,800.10	215.56	2,549.12	683.03	1,370.00
May-09	2,852.57	308.00	3,087.67	693.44	22,310.00
June-09	3,294.56	377.56	4,126.87	821.78	21,600.00
July-09	3,273.10	296.19	3,261.63	826.75	16,650.00
August-09	3,102.68	280.89	3,149.21	785.28	12,890.00
September-09	3,005.41	231.69	3,547.59	771.63	20,930.00
October-09	3,083.63	303.30	4,520.97	783.97	22,380.00
November-09	3,189.55	396.36	4,646.57	825.84	14,940.00

Source: Nairobi Stock Exchange

The Commercial and Services sector dominated the market trading 292.2 million shares during the month. The most traded share in the sector was Safaricom which traded 282.5 million shares. The Finance and Investment sector traded 64.6 million shares. The most active stock was Equity Bank which traded 39.6 million shares. The Industrial and Allied sector traded 37.2 million shares with Mumias Sugar trading 12.2 million shares. The agricultural sector traded 2.1 million shares.

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



Bond Market The bond market turnover decreased by 33 percent, with bonds worth Ksh 14,940 million traded in November 2009, compared with Ksh 22,380 million worth of bonds traded in October 2009.

BALANCE SHEET OF THE CENTRAL BANK OF KENYA (KENYA SHILLINGS MILLION)

	Nov-09	Nov-08	Nov 08/Nov 09 Movement
ASSETS	317,650	269,913	47,737
Foreign Exchange	265,900	224,019	41,881
Advances and Discounts to Banks	0	1,082	(1,082)
Discounted Government Securities	18	11	7
Government Accounts	43,711	39,503	4,208
Government of Kenya Overdraft	9,829	3,895	5,934
Clearing Account	71	240	(169)
IMF funds on-lent to Government	482	929	(447)
Frozen Government Accounts	33,329	34,439	(1,110)
Other assets	8,021	5,298	2,723
Debtors	4,951	3,941	1,010
Retirement Benefits Assets	1,425	55	1,370
Building and Equipment	1,193	1,025	168
Prepaid Leases	273	277	(4)
Intangible assets	179	0	179
LIABILITIES	317,650	269,913	47,737
Currency in Circulation	116,068	108,550	7,518
Repo Securities	0	310	(310)
Deposits	168,587	127,792	40,795
Banks - Kenya	62,113	52,106	10,007
External	91	90	1
Non-Bank Financial Institutions	0	0	0
Other Public Entities and Project A/Cs	13,051	11,532	1,519
International Monetary Fund	37,332	21,339	15,993
Government of Kenya	52,292	40,739	11,553
Local Banks Forex Settlement Fund	3,708	1,986	1,722
Other Liabilities	1,784	4,197	(2,413)
Capital and Reserves	31,211	29,064	2,147
Capital	5,000	1,500	3,500
General Reserve Fund	26,982	7,759	19,223
Surplus b/f from previous year	(177)	8,995	(9,172)
Period's Surplus	(3,735)	10,810	(14,545)
Dividend payable	3,141	0	3,141

Source: Central Bank of Kenya

NOTES ON THE BALANCE SHEET

Asset **Foreign exchange reserves of the Bank** increased by Ksh 41,881 million to Ksh 265,900 million in November 2009 from Ksh 224,019 million in November 2008 reflecting forex purchases from the interbank market.

Government accounts increased by Ksh 4,208 million to Ksh 43,711 million in November 2009 from Ksh 39,503 million in November 2008. The increase was wholly in the overdraft which increased by Ksh 5,934 million. This was partly offset by a decline of Ksh 1,110 million in non-interest bearing Government debt, a reduction by Ksh 169 million in clearing account balances due and repayment of Ksh 447 million on IMF funds on-lent to government.

Other assets increased by Ksh 2,723 million in the year to November 2009 on account of increases in the value of retirement benefits by Ksh 1,370 million, debtors by Ksh 1,010 million and value of property and equipment by Ksh 168 million. Prepaid leases, however, declined by Ksh 4 million.

Liabilities **Currency in circulation** increased by Ksh 7,518 million to Ksh 116,068 million in November 2009 from Ksh 108,550 million in November 2008.

The stock of **repo securities** fell by Ksh 310 million in the year to November 2009, following repayment of outstanding loans secured with the securities by commercial banks.

Deposits increased by Ksh 40,795 million to Ksh 168,587 million in November 2009 on account of Ksh 11,553 million increase in Government of Kenya deposits, increase of Ksh 15,993 million in IMF deposits held with the Bank and Ksh 1,722 million increase in local banks forex settlement balances, Ksh 10,007 million increase in commercial banks' deposits at the Central Bank and Ksh 1,519 million increase in other public entities and project account deposits.

Other liabilities and provisions declined by Ksh 2,413 million to Ksh 1,784 million in the year to November 2009.

Capital and reserves increased by Ksh 2,147 million to Ksh 31,211 million in the year to November 2009, mainly due to increases of Ksh 19,223 million in the general reserve fund and Ksh 3,141 in the dividend payable. The increases were partially offset by a decline in period's surplus of the Bank and in the surplus brought forward from the previous year.