MONTHLY ECONOMIC REVIEW
OCTOBER 2011
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CONTENTS

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OVERVIEW

Introduction

This Monthly Economic Review highlights recent economic developments through October 2011. This includes developments in inflation, money, credit and interest rates, the real sector, balance of payments and exchange rates. It also highlights developments in the banking sector, Government budgetary operations, public debt and the stock market.

Inflation

Overall 12-month inflation rose from 17.3 percent in September 2011 to 18.9 percent in October 2011 reflecting continued rise in the prices of food and fuel. Non-food, non-fuel inflation also increased to 9.7 percent in October 2011 from 8.52 percent in September 2011. Annual average inflation rose from 10.2 percent in September 2011 to 11.5 percent in October 2011.

Money Supply

Growth in broad money supply, M3, decelerated to 20.7 percent in the year to October 2011 from 24.7 percent in a corresponding period in 2010 but was above the 15.4 percent target growth for October 2011. The decelaration was attributed to a slowdown in the growth of the net domestic assets (NDA) of the banking sector.

Interest Rates

The Monetary Policy Committee (MPC) raised the Central Bank Rate (CBR) by 400 basis points to 11.0 percent on October 5, 2011 from 7.0 percent in order to rein in inflation and inflationary expectations and to stabilize the exchange rate. Consistent with the tight monetary policy stance of the Central Bank, short term money market rates edged upwards in October 2011. The average interbank rate increased by 748 basis point to 14.95 percent in October 2011 from 7.46 percent in September 2011. The 91-day Treasury bill rate averaged at 14.80 percent in October 2011 compared to 11.93 percent in September 2011.

Real GDP Growth

The economy grew at 5.6 percent in 2010 compared with growth of 2.6 percent in 2009 and 1.5 percent in 2008. The growth momentum was sustained in the first quarter of 2011 with quarterly growth rates of 4.9 percent but slowed to 4.1 percent growth in the second quarter of 2011 quarter. Total output for the second quarter of 2011 amounted to Ksh 362.8 billion compared with output of Ksh 348.6 billion produced in the second quarter of 2010. Except for Electricity and Water Supply, all sectors recorded positive growth rates in the second quarter of 2011 as compared with output produced in the second quarter of 2010.

Balance of Payments

Kenya's overall balance of payments position reduced from surplus of US$ 365 million in the year to September 2010 to deficit of US$ 220 million in the year to September 2011. The movement follows the widening of the current account deficit which surpassed improvement in the capital and financial account.

Exchange Rates

The Kenya Shilling weakened against all major world currencies in October 2011. Against the US dollar, the shilling depreciated by 5.1 percent to exchange at an average of Ksh 101.27 per US dollar in October 2011 compared with Ksh 96.36 per US dollar in September 2011. The banking system's total foreign exchange holdings increased by 12.3 percent from US$ 5,270 million in October 2010 to US$ 5,915 million in October 2011.

Banking Sector Developments

During the period ended October 31, 2011, the banking sector recorded significant growth in assets driven by growth in deposits, injection of capital and retention of profits. The level of non-performing loans declined compared with a similar period in 2010.

Government Debt Performance

The central Government budgetary operations for July – October 2011 resulted in a deficit of Ksh 37.7 billion on commitment basis compared with a deficit of Ksh 50.1 billion incurred in the period July -October 2010.

Public Debt

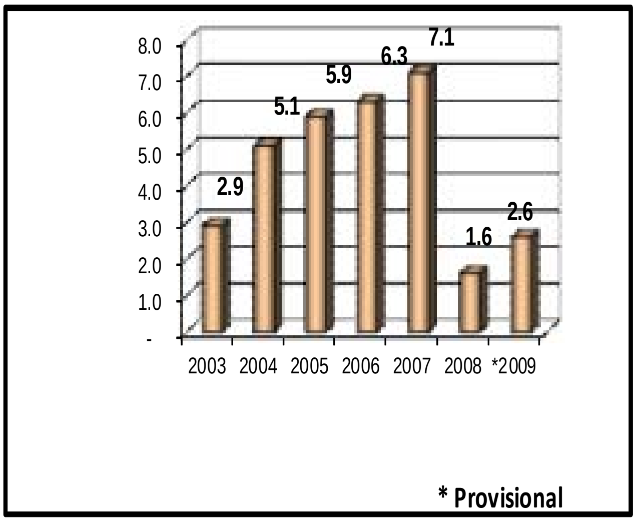
Kenya's public and publicly guaranteed debt increased by Ksh 113.7 billion in the period July-October 2011 closing at Ksh 1,605.2 billion from Ksh 1,491.5 billion at the end of June 2011. The public and publicly guaranteed debt-to-GDP ratio rose to 58.1 percent during the period from 54.2 percent in June 2011. External debt to GDP ratio increased from 26.4 percent in June 2011 to 29.3 percent in October 2011. Similarly, the domestic debt to GDP ratio increased from 27.8 percent to 28.8 percent during the period. Domestic debt accounted for Ksh 794.6 billion, or 49.5 percent of the public and publicly guaranteed debt, while the rest was in external debt.

Stock Market

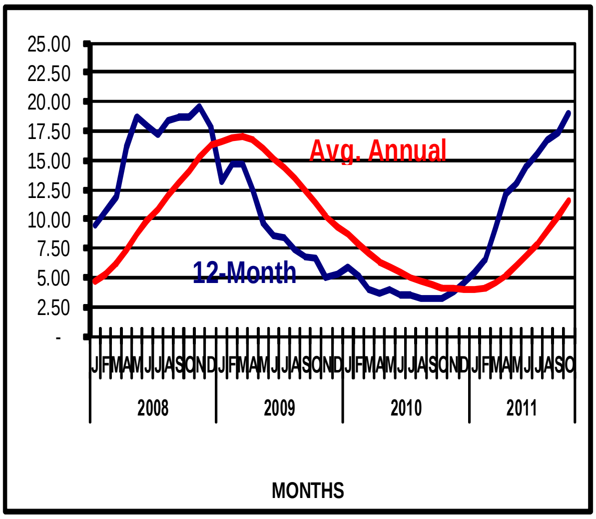
The capital markets performance recorded mixed fortunes during the month of October, 2011 as shown by key market indicators. While the two indices, market capitalization, and foreign participation improved the number of shares traded, Equity Turnover and the bond market activity declined.

SELECTED ECONOMIC PERFORMANCE INDICATORS

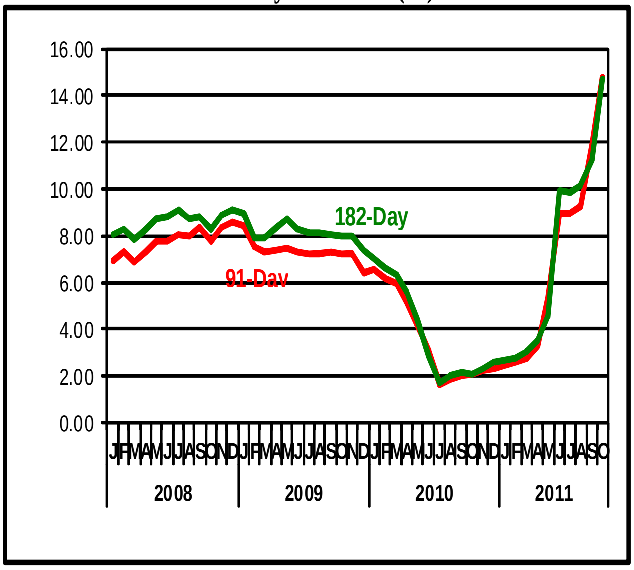
Real GDP Growth (%)



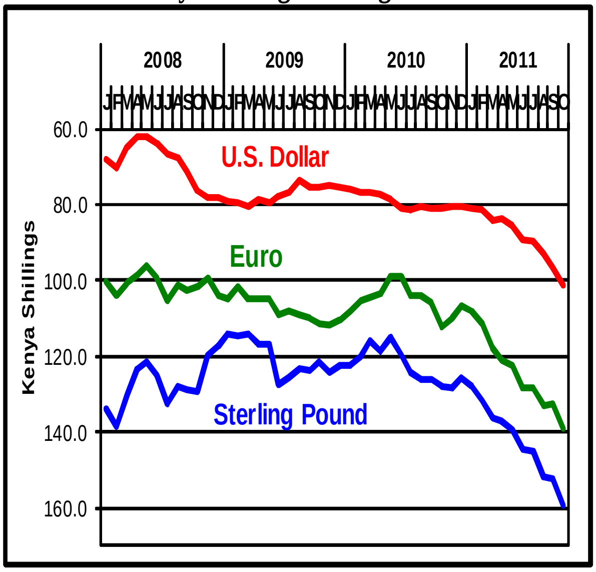
Inflation (%)



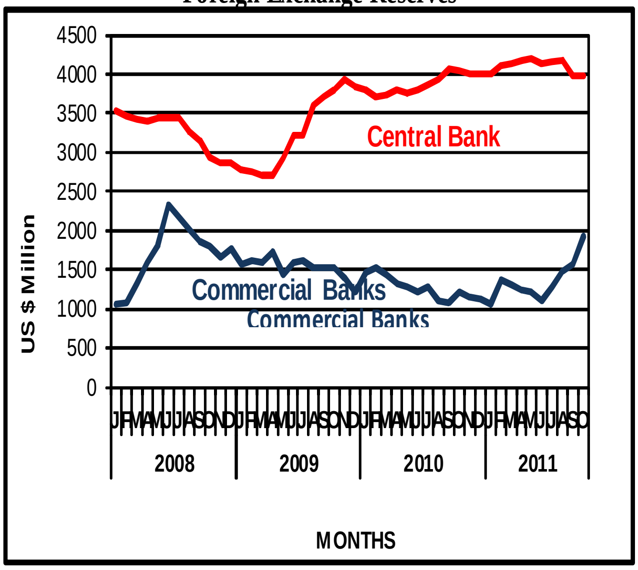
Treasury Bill Rates (%)



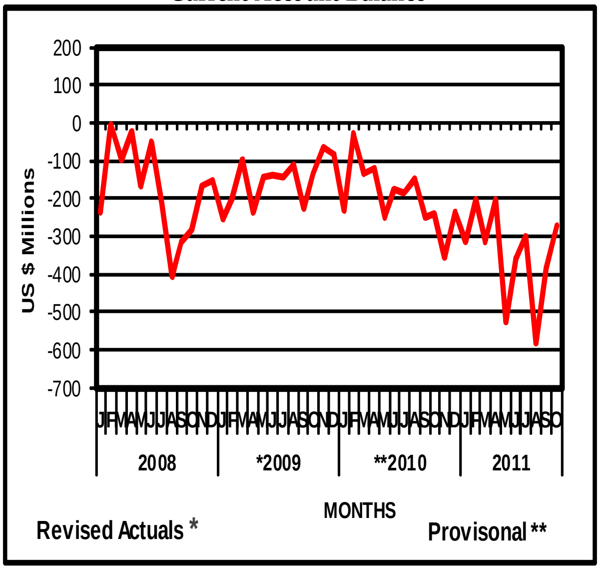
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
1.	**POPULATION***											
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	38.60	39.80
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	0.78	3.11
2.	**NATIONAL ACCOUNTS****											
	Gross value added at basic prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,625	1,444,113	1,616,010	1,858,856	2,080,003	2,232,676
	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	1,622,565	1,833,511	2,111,173	2,365,453	2,551,161
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,133	1,249,470	1,336,848	1,357,277	1,393,174	1,470,517
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.33	6.99	1.53	2.64	5.55
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,480	34,574	35,968	35,523	35,470	36,419
3.	**GROSS NATIONAL SAVINGS (% of GDP at mkt prices)[3]**	**12.9**	**10.0**	**8.1**	**10.1**	**12.2**	**13.4**	**14.8**	**13.9**	**16.0**	**13.3**	**12.2**
4.	**GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)[3]**	**6.7**	**4.4**	**4.0**	**4.8**	**6.6**	**5.7**	**6.8**	**6.1**	**8.4**	**5.9**	**5.1**
5.	**GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)**	**17.4**	**18.8**	**14.9**	**16.4**	**17.1**	**16.9**	**17.9**	**19.0**	**19.2**	**19.4**	**19.3**
6.	**OVERALL INFLATION BASE PERIOD= FEB 2009**											
	Annual Average Inflation	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27	9.24	3.96
	12-Month Inflation	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32	4.51
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	3,247.44	4,432.60
	Trade Turnover Ratio (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64	0.99
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	511.36	560.80
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91	718.60
	Budget Deficit (-) / Surplus (+)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)	157.90
	Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(1.54)	0.42	(2.39)	(1.18)	(3.68)	(4.79)	(6.40)
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	1,091.93	1,280.47	1,569.57
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.06	1,045.66	1,271.64
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96	222.63
	Total Domestic Credit	**331.29**	**334.00**	**364.93**	**405.20**	**473.61**	**498.66**	**575.76**	**668.90**	**827.41**	**978.32**	**1,188.40**
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	162.78	218.53	277.78
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	664.64	759.79	910.62
10.	**BALANCE OF PAYMENTS (US$ m)****											
	Overall Balance	**217.00**	**372.00**	**59.00**	**365.00**	**117.00**	**306.00**	**675.00**	**854.00**	**(469.00)**	**780.53**	**163.40**
	Current Account	(240.00)	(385.00)	(117.69)	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,609.28	-2,511.91
	Capital and Financial Account	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00	2,389.81	2,675.30
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**	**5,064.03**	**5,122.52**
	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	3,847.39	4,001.68
	*Months of imports**** *	*2.8*	*3.2*	*3.3*	*4.4*	*4.1*	*4.0*	*3.9*	*4.8*	*3.4*	*4.1*	*3.9*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63	1,120.84
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**	**13.66**	**14.96**
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72	8.06
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15	21.67	25.90
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94	6.90
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61	22.36	22.20
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**	**77.35**	**79.23**

* Provisional.
** Revised to reflect data in Economic Survey 2010.
*** 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, Ministry of Finance, Central Bank of Kenya and Nairobi Stock Exchange

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2010 Aug	Sept	Oct	Nov	Dec	2011 Jun	Jul	Aug	Sep	Oct
1. INFLATION (%)										
CPI	**106.25**	**106.74**	**106.97**	**107.86**	**109.38**	**120.91**	**122.44**	**123.97**	**125.23**	**127.20**
Overall Inflation										
12-month overall inflation	3.22	3.21	3.18	3.84	4.51	14.48	15.53	16.67	17.32	18.91
Average annual overall inflation	4.69	4.40	4.12	4.02	3.96	6.88	7.88	9.00	10.18	11.49
2. INTEREST RATES (%)										
91-day Treasury bill interest rate	1.83	2.04	2.12	2.21	2.28	8.95	8.99	9.23	11.93	14.80
Overdraft interest rate	13.97	13.81	13.64	13.77	13.69	13.59	13.89	14.28	14.64	14.87
3. STOCK MARKET										
Nairobi Stock Exchange Price Index	4,454.59	4,629.80	4,659.56	4,395.17	4,432.60	3,968.12	3,738.46	3,465.02	3,284.06	3,507.34
Turnover Ratio(%)	1.60	1.24	0.77	0.76	0.55	0.58	0.61	0.77	0.79	0.78
4. GOVERNMENT BUDGET* (Ksh bn.)										
Revenue	83.00	142.43	193.09	243.16	309.23	679.50	42.70	91.28	159.25	210.31
Expenses	112.20	178.61	243.14	303.78	368.99	817.10	43.72	95.88	179.63	248.30
Budget Deficit (-) / Surplus (+)	**(29.20)**	**(36.19)**	**(50.05)**	**(60.62)**	**(59.76)**	**(137.60)**	**(1.02)**	**(4.61)**	**(20.38)**	**(37.99)**
5. MONEY AND CREDIT (Ksh bn.)										
Liquidity (L)[1]	1,497.27	1,527.38	1,531.80	1,553.61	1,569.57	1,720.57	1,743.30	1,776.00	1,819.94	1,872.47
Money Supply (M3)[2]	1,216.83	1,243.60	1,248.50	1,258.81	1,271.64	1,380.73	1,412.70	1,440.90	1,484.20	1,513.66
Reserve Money	200.97	209.89	211.00	224.05	222.63	220.44	222.70	242.30	236.15	234.62
Total Domestic Credit	1,100.48	1,139.10	1,162.80	1,174.82	1,188.40	1,344.23	1,392.14	1,420.76	1,481.98	1,490.42
Government	258.04	278.21	279.80	279.94	277.78	277.81	289.21	292.70	300.49	288.98
Private sector and other public sector	842.45	860.89	883.00	894.87	910.62	1,066.42	1,102.94	1,128.06	1,181.49	1,201.44
6. MONEY AND CREDIT (Annual % Change)										
Liquidity (L)[1]	**23.36**	**25.38**	**23.20**	**24.93**	**22.58**	**19.20**	**18.00**	**17.62**	**17.87**	**20.49**
Money Supply (M3)[2]	23.66	26.01	24.10	23.12	21.61	15.16	16.44	18.08	19.35	20.66
Reserve Money	28.10	28.39	29.10	25.75	22.36	4.85	11.50	14.82	12.51	8.12
Total Domestic Credit	**24.19**	**27.90**	**27.10**	**24.69**	**24.33**	**23.69**	**27.59**	**29.10**	**30.10**	**28.18**
Government	41.17	48.69	45.47	29.36	35.45	0.04	9.54	13.43	8.01	3.28
Private and other public sector	19.78	22.37	22.19	23.29	21.30	31.81	33.35	33.90	37.24	36.07
7. BALANCE OF PAYMENTS (US$ m)										
Overall Balance	**74.31**	**120.49**	**(5.68)**	**(47.08)**	**(1.34)**	**(55.13)**	**(44.76)**	**11.78**	**(184.51)**	**(1.80)**
Current Account	(151.17)	(283.05)	(239.69)	(358.20)	(229.90)	(357.57)	(299.11)	(583.90)	(385.11)	(271.41)
Trade Balance	(548.84)	(688.67)	(640.70)	(812.17)	(677.35)	(679.29)	(647.76)	(968.38)	(803.71)	(695.85)
Capital and Financial Account	225.48	403.54	234.01	311.13	228.57	302.44	254.35	595.68	200.61	269.61
8. FOREIGN EXCHANGE RESERVES (US$ m)	5,046.07	5,140.85	5,269.66	5,155.87	5,122.52	5,248.75	5,442.35	5,644.67	5,557.17	5,915.30
Official**	3,942.28	4,062.77	4,053.95	4,006.87	4,001.68	4,142.39	4,159.07	4,170.85	3,986.34	3,984.54
Months of imports cover	3.96	4.03	4.01	3.92	3.85	3.95	3.82	3.79	3.60	3.59
Commercial banks	1,103.79	1,078.08	1,215.72	1,149.00	1,120.84	1,106.36	1,283.28	1,473.82	1,570.83	1,930.75
9. PUBLIC DEBT (US$ bn)	**15.59**	**15.52**	**16.02**	**16.19**	**16.34**	**16.60**	**16.75**	**16.90**	**15.66**	**16.09**
Domestic	8.61	8.72	8.62	8.79	8.92	8.51	8.58	8.28	7.65	7.97
As % of GDP	28.29	28.22	27.54	27.82	27.84	27.78	28.31	28.13	27.68	28.80
External	6.98	7.36	7.40	7.40	7.42	8.09	8.17	8.62	8.01	8.12
As % of GDP	22.93	23.80	23.67	23.44	23.16	26.43	26.96	29.23	28.97	29.34
10. GROSS DOMESTIC DEBT (Ksh bn)* **	698.05	704.70	696.13	711.45	720.33	764.22	781.71	776.85	764.27	795.21
11. AVERAGE EXCHANGE RATE										
Ksh/US$	80.44	80.91	80.71	80.46	80.57	89.0	89.90	92.79	96.36	101.27
Ksh/Pound Sterling	125.94	125.94	127.98	128.52	125.65	144.4	145.00	151.90	152.12	159.41
Ksh/ 100 Yen	94.08	95.88	98.60	97.65	96.78	110.6	109.07	120.32	125.55	131.97
Ksh/Euro	103.79	105.61	112.20	110.07	106.54	128.1	128.48	133.04	132.68	138.74

* 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, Ministry of Finance, Nairobi Stock Exchange and Central Bank of Kenya

Trends in Various Measures of Inflation

Overall Inflation

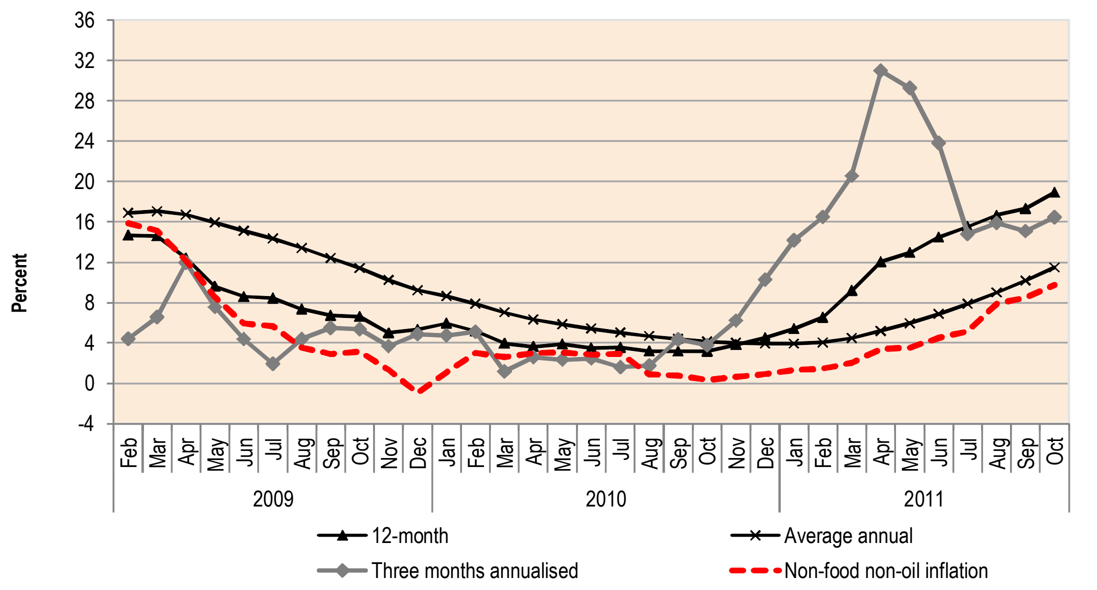
Overall 12-month inflation increased from 17.3 percent in September 2011 to 18.9 percent in October 2011 reflecting further increases in the prices of fuel and food. The 'Food and Non-Alcoholic Beverages' price index rose by 26.2 percent between October 2010 and October 2011, while the 'Transport' index rose by 26.2 percent over the same period. Non-food, non-fuel inflation rose to 9.7 percent in October 2011 from 8.5 percent in September 2011. Annual average inflation rose from 10.2 percent in September 2011 to 11.5 percent in October 2011 as the three months annualized rate of inflation increased from 15.1 percent to 16.5 percent in the same period (Table 1.1 and Chart 1A).

TABLE 1.1: 12-MONTHS OVERALL, AVERAGE ANNUAL & THREE MONTHS ANNUALISED INFLATION (%)

Overall Inflation	2010					2011									
	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
12-month	3.22	3.21	3.18	3.84	4.51	5.42	6.54	9.19	12.05	12.95	14.48	15.53	16.67	17.32	18.91
Average annual	4.69	4.40	4.12	4.02	3.96	3.93	4.05	4.49	5.20	5.96	6.88	7.88	9.00	10.18	11.49
Three months annualised	1.75	4.35	3.79	6.22	10.27	14.16	16.49	20.58	30.98	29.26	23.82	14.81	15.88	15.08	16.47
Non-food non-oil inflation	0.90	0.77	0.34	0.66	0.93	1.34	1.46	2.05	3.42	3.54	4.52	5.17	7.88	8.51	9.75

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

CHART 1A: 12-MONTHS OVERALL, AVERAGE ANNUAL & THREE MONTHS ANNUALISED INFLATION (%)



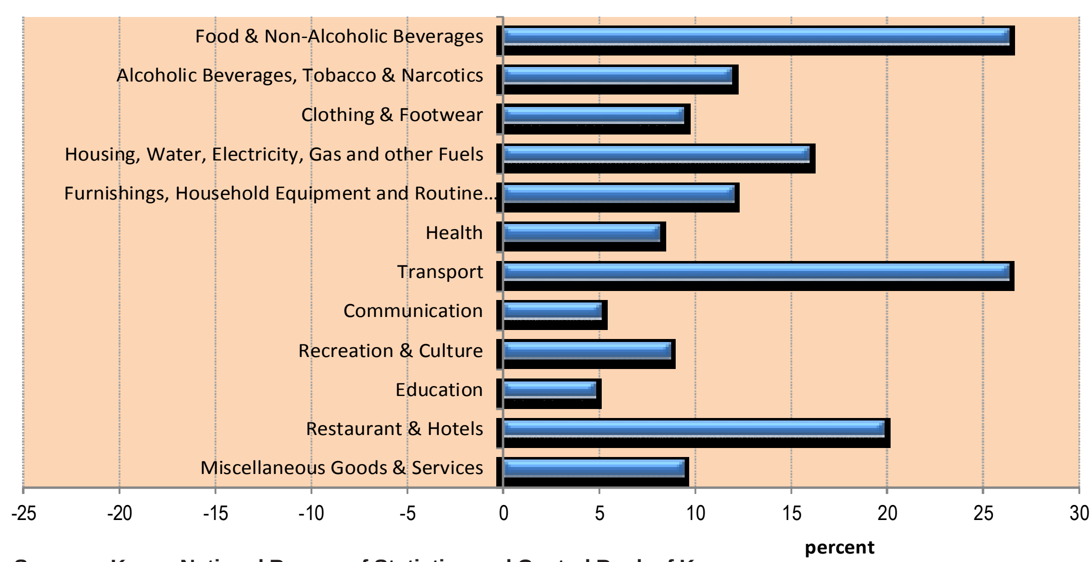
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

Inflation Across Categories of Goods & Services

The rise in food prices in October 2011 was reflected in the 'Food and Non-Alcoholic Beverages' and the 'Restaurants and Hotels' indices, which rose by 26.2 percent and 19.7 percent, respectively. Notable increases were recorded in the prices of sugar, beef, wheat flour, milk, rice and cooking fats. The 'Transport' index rose by 26.2 percent in October 2011 compared with an increase of 24.8 percent in September 2011. Inflation in the 'Housing, Water, Electricity, Gas and Other Fuels' basket was 15.8 percent in October 2011, up from 14.1 percent in September 2011 owing a rise in the cost of electricity, house rents and cooking fuels.

Inflation in all the other consumption baskets also edged upwards during the period under review as indicated by non-food, non-fuel inflation, which rose from 8.5 percent in September 2011 to 9.7 percent in October. Inflation in the 'Furnishings, Household Equipment and Routine Household Maintenance', 'Alcoholic Beverages, Tobacco and Narcotics', Clothing and Footwear', 'Recreation and Culture' and 'Health' baskets was 11.9 percent, 11.8 percent, 9.3 percent, 8.6 percent and 8.0 percent, respectively, in October 2011 compared with 9.8 percent, 11.9 percent, 8.7 percent, 8.2 percent and 8.0 percent a month earlier. Developments across all categories of goods and services, and the distribution of weights in the Kenya consumer price index (CPI) are summarized in Table 1.3 and Chart 1B. Chart 1C shows that 52.4 percent of overall 12-month inflation in October 2011 was attributed to food inflation while inflation in Transport and Housing, Water, Electricity, Gas and Other Fuels categories contributed 12.4 percent and 15.3 percent, respectively.

CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES OCTOBER 2011 (%)



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

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

	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11
Combined Nairobi	3.67	3.69	3.20	3.61	4.16	12.22	12.44	14.24	14.47	15.61	16.50	18.16
Lower Income	4.39	4.32	3.63	4.02	4.70	14.04	13.97	15.96	16.00	17.14	17.97	19.58
Middle Income	1.30	1.65	1.63	2.10	2.40	7.56	8.73	9.57	10.15	11.28	12.42	14.33
Upper Income	4.71	4.20	4.71	5.19	4.63	6.39	6.18	10.14	11.67	12.92	13.15	14.48
Other provinces- excluding Nairobi	2.90	2.87	3.16	4.00	4.76	11.94	13.31	14.66	16.29	17.43	17.91	19.45
TOTAL KENYA	**3.22**	**3.21**	**3.18**	**3.84**	**4.51**	**12.05**	**12.95**	**14.48**	**15.53**	**16.67**	**17.32**	**18.91**

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

Inflationary pressures remained higher in urban centres outside Nairobi as compared with inflation in Nairobi as shown in Table 1.2. On average, the prices of goods and services sold in Nairobi rose by 18.2 percent in October 2011 compared with an average increase of 19.5 percent recorded across the rest of Kenya. The 'Combined Nairobi' index rose mainly due to increased food prices and transport costs. The indices for the 'Nairobi Lower Income' group and the 'Nairobi Middle Income' rose by 19.6 percent and 14.3 percent, respectively, in October 2011. The price in theindex for the 'Nairobi Upper Income' group largely reflect higher transport costs.

CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION IN OCT 2011

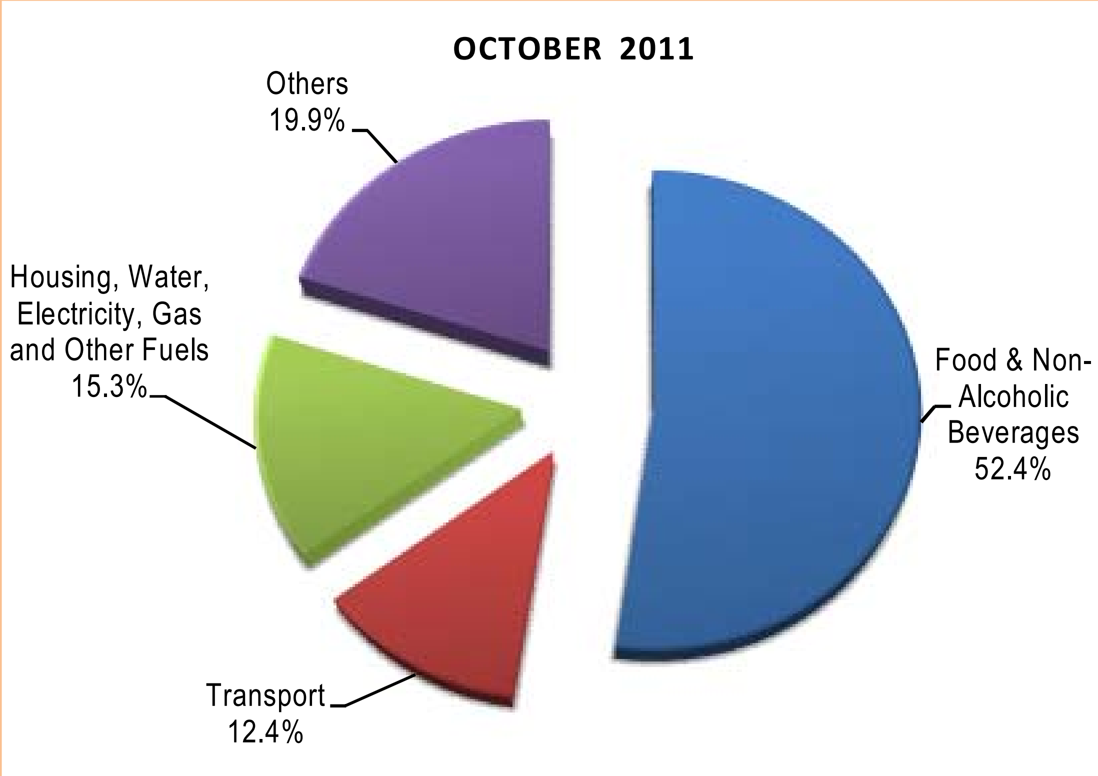


TABLE 1.3: OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (OCTOBER 2011)

OCTOBER 2011	Weight-CPI Kenya	NAIROBI Lower Income	Middle Income	Upper Income	Nairobi Combined	REST OF URBAN Rest of Kenya Combined	TOTAL KENYA
Food & Non-alcoholic beverages	**36.0**	27.4	18.0	15.8	24.7	27.2	**26.2**
Alcoholic beverages, Tobacco & narcotics	**2.1**	10.1	13.2	6.2	10.7	12.6	**11.8**
Clothing & Footwear	**7.4**	5.2	8.7	5.9	6.0	11.6	**9.3**
Housing, Water,Electricity,Gas and other fuels	**18.3**	12.9	15.3	11.7	13.4	17.5	**15.8**
Furnishings, Household equipment and Routine household maintenance	**6.2**	7.7	12.0	4.3	8.6	14.2	**11.9**
Health	**3.1**	5.4	1.9	0.9	4.4	10.6	**8.0**
Transport	**8.7**	25.7	24.5	29.6	25.6	26.7	**26.2**
Communication	**3.8**	6.4	7.3	2.3	6.5	4.0	**5.0**
Recreation & culture	**2.3**	7.8	10.5	6.1	8.3	8.7	**8.6**
Education	**3.1**	4.4	10.0	3.8	5.7	3.9	**4.7**
Restaurants & hotels	**4.5**	27.4	10.8	9.5	22.9	17.5	**19.7**
Miscellaneous goods & services	**4.5**	7.8	4.2	4.0	6.8	11.0	**9.3**
ALL GROUPS	**100.0**	**19.6**	**14.3**	**14.5**	**18.2**	**19.4**	**18.9**

Source: Kenya National Bureau of Statistics

Inflation Outlook

Inflationary pressures are expected to ease in the coming months on account of anticipated improvement in weather predictions that should support food production, and stabilization of international crude oil prices and the Shilling exchange rate, which should dampen domestic fuel prices.

Developments in Money, Credit and Interest Rates

Monetary Aggregates

Growth in broad money supply, M3, decelerated to 20.7 percent in the year to October 2011 from 24.7 percent in a corresponding period in 2010 but was above the 15.4 percent target growth for October 2011. This outturn was driven mainly by a slowdown in the growth of the net domestic assets (NDA) of the banking sector. Money supply, M2, that is, M3 excluding foreign currency deposits, grew by 14.0 percent to Ksh 1,238.8 billion in the twelve months to October 2011 from Ksh 1,086.5 billion in October 2010 (Table 2.1 and Chart 2A). The slowdown in the growth of M2 was mirrored in the acceleration of the growth of foreign currency deposits, partly driven by the depreciation of the Shilling against the US dollar. Foreign currency deposits rose by Ksh 106.8 billion (63.6 percent) in the year to October 2011 compared with an increase of Ksh 33.6 billion (24.7 percent) in October 2010.

TABLE 2.1: MONEY SUPPLY AND ITS SOURCES (KSH BILLION)

	2009 Oct	2010 Oct	2011 Oct	Absolute Change 2009/10 Oct	Absolute Change 2010/11 Oct	%age change 12 months Oct-10	%age change 12 months Oct-11
1. Money supply, M3 (2+3) 2/	**1006.0**	**1254.5**	**1513.7**	**248.5**	**259.2**	**24.7**	**20.7**
1.1 Money supply, M2 3/	871.6	1086.5	1238.8	214.8	152.4	24.6	14.0
1.2 Money supply, M1	447.4	553.4	661.7	105.9	108.4	23.7	19.6
1.3 Currency outside banks	94.0	111.8	129.9	17.7	18.1	18.9	16.2
2. Net foreign assets 4/	**253.9**	**274.4**	**330.5**	**20.5**	**56.1**	**8.1**	**20.4**
Central Bank	216.6	256.4	289.5	39.7	33.2	18.3	12.9
Banking Institutions	37.3	18.1	41.0	-19.2	22.9	-51.5	126.8
3. Net domestic assets (3.1+3.2)	**752.1**	**980.0**	**1183.1**	**227.9**	**203.1**	**30.3**	**20.7**
3.1 Domestic credit (3.1.1+3.1.2)	**915.0**	**1162.8**	**1480.5**	**247.8**	**317.7**	**27.1**	**27.3**
3.1.1 Government (net)	192.3	279.8	289.0	87.4	9.2	45.5	3.3
3.1.2 Private sector and other public sector	722.6	883.0	1191.5	160.3	308.5	22.2	34.9
3.2 Other assets net (3-3.1)	**-162.9**	**-182.7**	**-297.4**	**-19.9**	**-114.6**	**12.2**	**62.7**
Memorandum items							
1. Overall liquidity, L 1/	**1243.8**	**1537.8**	**1848.4**	**294.0**	**310.6**	**23.6**	**20.2**
2. Reserve money	**163.4**	**217.0**	**234.6**	**53.5**	**17.6**	**32.8**	**8.1**
Currency outside banks	94.0	111.8	129.9	17.7	18.1	18.9	16.2
Bank reserves	69.4	105.2	104.7	35.8	-0.5	51.6	-0.4

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

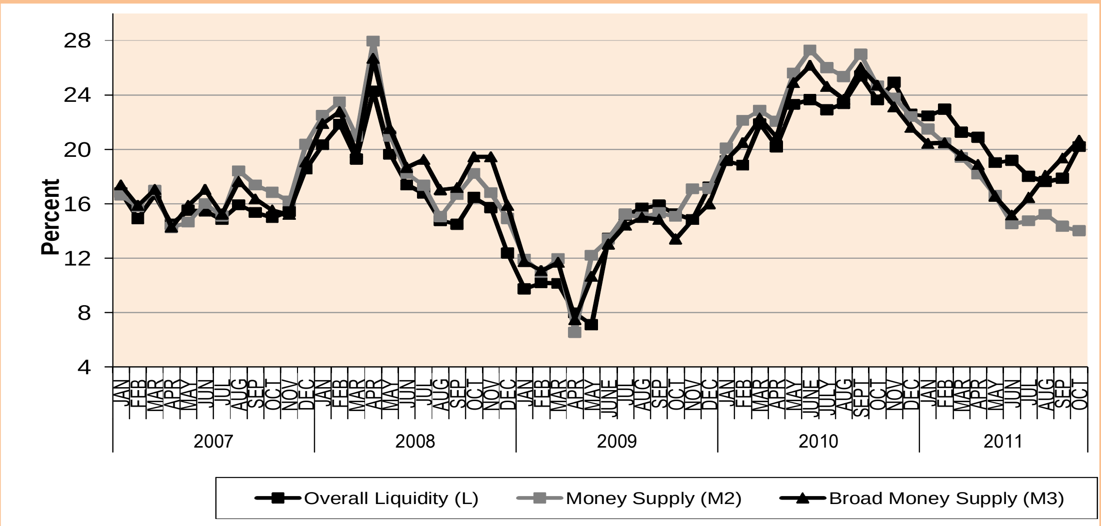
1/ Overall liquidity, L, comprises M3 and non banking public holding of Government securities. It is comparable to M3XT in the past publications.

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.

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The NDA of the banking sector increased by Ksh 203.1 billion (20.7 percent) in the year to October 2011 compared with an increase of Ksh 227.9 billion (30.3 percent) recorded the previous year. The current period NDA growth reflected increased credit provision to private sector. The NFA of the banking sector also increased by Ksh 56.1 billion (20.4 percent) in the twelve months to October 2011 compared with an increase of Ksh 20.5 billion (8.1 percent) in a corresponding period in 2010. The increase in the NFA was reflected in holdings of both the Central Bank of Kenya and commercial banks. However, the contribution of NDA to the annual change in M3 declined to 78.4 percent from 91.7 percent in October 2010 while that of NFA rose to 21.6 percent from 8.3 percent.

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

	2010 October		2011 October		Annual %age Change October	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2009/10	2010/11
1. Credit to Government	**279.8**	**24.1**	**289.0**	**19.4**	**45.5**	**3.3**
Central Bank	9.7	0.8	31.0	2.1	-135.67	218.8
Commercial Banks & NBFIs	270.1	23.2	258.0	17.3	23.0	-4.5
2. Credit to other public sector	**18.3**	**1.6**	**32.4**	**2.2**	**66.3**	**76.4**
Local government	-0.6	0.0	3.5	0.2	-86.5	-716.2
Parastatals	18.9	1.6	28.8	1.9	23.9	52.4
3. Credit to private sector	**864.6**	**74.4**	**1169.1**	**78.4**	**21.5**	**35.2**
Agriculture	41.4	3.6	53.3	3.6	12.7	28.8
Manufacturing	112.7	9.7	157.4	10.6	31.4	39.6
Trade	143.7	12.4	198.1	13.3	29.4	37.8
Building and construction	31.5	2.7	48.3	3.2	-26.2	53.4
Transport & communications	59.0	5.1	78.2	5.2	1.8	32.6
Finance & insurance	22.6	1.9	28.1	1.9	-42.8	24.5
Real estate	95.9	8.3	130.2	8.7	90.6	35.7
Mining and quarrying	18.7	1.6	27.3	1.8	206.0	45.6
Private households	118.7	10.2	166.1	11.1	14.1	39.9
Consumer durables	55.3	4.8	75.1	5.0	31.6	35.8
Business services	85.1	7.3	88.0	5.9	30.5	3.4
Other activities	80.0	6.9	119.0	8.0	13.8	48.8
4. TOTAL (1+2+3) *	**1162.8**	**100.0**	**1490.4**	**100.0**	**27.1**	**28.2**

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

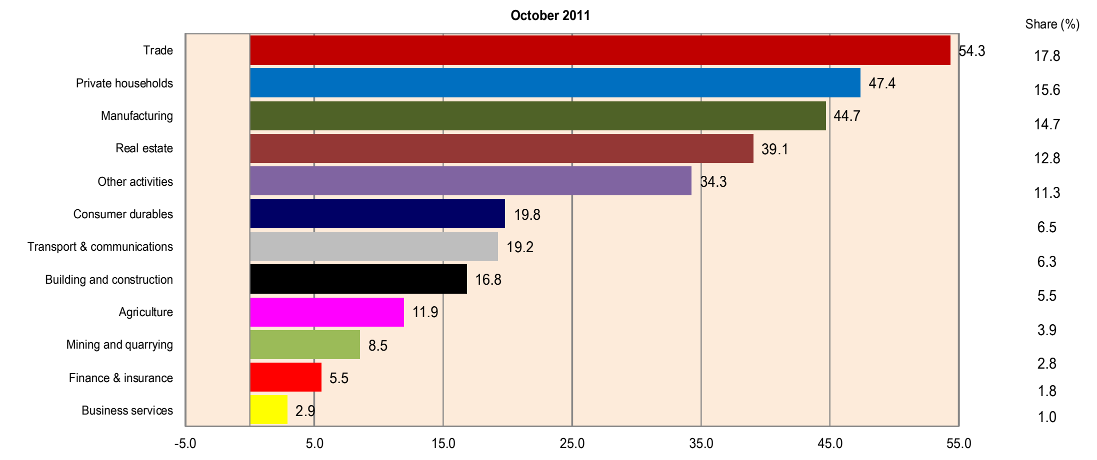
Source: Central Bank of Kenya

Domestic Credit Developments

Domestic credit expanded by Ksh 327.7 billion (28.2 percent) in the year to October 2011 compared with Ksh 247.8 billion (27.1 percent) in a similar period in 2010. The banking sector channeled its credit largely to the private sector which accounted for 78.4 percent of total lending in October 2011 compared with 74.4 percent in similar period in 2010 (Table 2.2). Private sector credit in the year to October 2011 increased by Ksh 304.5 billion compared with Ksh 153.0 billion recorded in the year to October 2010. This translated into an annual growth of 35.2 percent compared with 21.5 percent in October 2010 and the target of 25.7 percent growth for the twelve months to October 2011 (Table 2.2).

Commercial banks' credit to the key sectors of the economy - agriculture, manufacturing, transport and communication, building and construction, and trade sectors – grew faster in the year to October 2011 compared wtih the year to October 2010 (Table 2.2). In terms of shares to total net credit flows, trade continued to account for the largest share (Ksh 54.3 billion or17.8 percent), followed by private households (Ksh 47.4 billion or15.6 percent), manufacturing (Ksh 44.7 billion or14.7 percent), and real estate (Ksh 34.3 billion or11.3 percent) (Chart 2B).

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO OCTOBER 2011 (Ksh billion)



Source: Central Bank of Kenya

Credit to the government, which accounted for 19.4 percent of total bank credit in October 2011, increased by Ksh 9.2 billion (3.3 percent) to Ksh 289.0 billion during year under review from Ksh 279.8 billion (24.1 percent of total bank credit) in 2010. The net redemption by Government reflects challenges in accessing its borrowing requirement from the domestic market.

Reserve Money

Reserve money increased by 8.1 percent to Ksh 234.6 billion in October 2011 from Ksh 217.0 billion in October 2010. At Ksh 234.6 billion in October 2011, reserve money was Ksh 1.6 billion above respective target. The growth in reserve money comprised 16.2 percent in currency outside banks. Bank reserves declined marginally to Ksh 104.7 billion in October 2011 from Ksh 105.2 billion in October 2010 (Table 2.3).

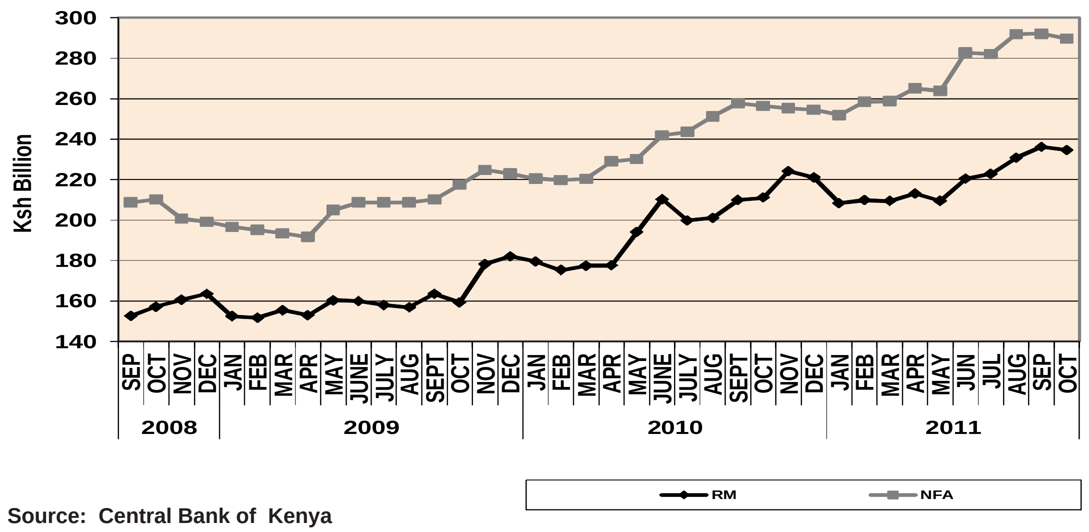
TABLE 2.3: RESERVE MONEY AND ITS SOURCES (Ksh billion)

	2009	2010	2011	Absolute change		Change (%)		2011	
	Oct	Oct	Oct	2009/10	2010/11	2009/10	2010/11	Oct Target	Deviation
1. Net Foreign Assets	216.6	256.4	289.5	39.7	33.2	18.3	12.9	281.1	8.4
2. Net Domestic Assets	-53.2	-39.4	-54.9	13.8	-15.5	-26.0	39.4	-48.0	-6.9
2.1 Government Borrowing (net)	-27.3	9.7	31.0	37.0	21.3	-135.7	218.8	-8.7	39.7
2.2 Advances & Discounts	9.0	2.9	24.2	-6.1	21.2	-67.4	722.3	16.6	7.6
2.3 Other Domestic Assets (net)	-34.9	-52.0	-110.1	-17.1	-58.0	49.1	111.6	-55.9	-54.2
3. Reserve Money	163.4	217.0	234.6	53.5	17.6	32.8	8.1	233.0	1.6
3.1 Currency outside banks	94.0	111.8	129.9	17.7	18.1	18.9	16.2	129.0	0.9
3.2 Bank reserves	69.4	105.2	104.7	35.8	-0.5	51.6	-0.4	104.0	0.7

Source: Central Bank of Kenya

The sources of reserve money in the twelve months to October 2011 were increases in the net foreign assets (NFA) of the Central Bank of Kenya. NFA of the Central

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



Source: Central Bank of Kenya

Bank of Kenya rose by Ksh 33.2 billion (12.9 percent) to Ksh 289.5 billion in the year to October 2011 reflecting purchases of foreign exchange from domestic banks to boost the level of gross reserves and the revaluation gains from the Shilling depreciation.

The NDA of the Central Bank of Kenya declined by Ksh 15.5 billion to Ksh -54.9 billion in the year to October 2011, from Ksh -39.4 billion in the previous year. The decrease in NDA reflected a reduction in other domestic assets (net of liabilities) of the Central Bank. Other domestic assets (net) of the Central Bank declined by Ksh 58.0 billion to Ksh -110.1 billion in the year to October 2011 from Ksh -52.0 billion in October the previous year. The decline was in repect of revaluation gains on foreign assets of the Central Bank

Net domestic credit of the Central Bank of Kenya increased by Ksh 42.5 billion to Ksh 55.2 billion in October 2011 from Ksh 12.7 billion a year ago mainly due to increases in net Government borrowing and advances and discounts to commercial banks. Net Government borrowing at the Central Bank increased by Ksh 21.3 billion to Ksh 31.0 billion in October 2011 from Ksh 9.7 million in October 2010, while advances and discounts to commercial banks rose to Ksh 24.2 billion in October 2011 from 2.9 million in October 2010.

The Central Bank Rate

The Monetary Policy Committee (MPC) raised the Central Bank Rate (CBR) by 400 basis points to 11.0 percent on October 5, 2011 from 7.0 percent in order to rein in inflation and inflationary expectations and to stabilize the exchange rate.

Interbank Interest Rate

Short term money market rates edged upwards during the month of October 2011. The 91-day Treasury bill rate averaged at 14.80 percent in October compared to 11.93 percent in September while the 182-day Treasury bill rate rose to 14.68 percent from 11.28 percent in September. Similar trends were bserved in the repo and interbank rates. The average interbank rate increased by 748 basis point to 14.95 percent in October from 7.46 percent in September 2011, while the repo rate rose to

18.89 percent in October from 5.73 percent in June 2011 (Table 2.4). The movement in short term money market rates was consistent with the tight monetary policy stance pursued by the Central Bank.

Lending and Deposit Rates

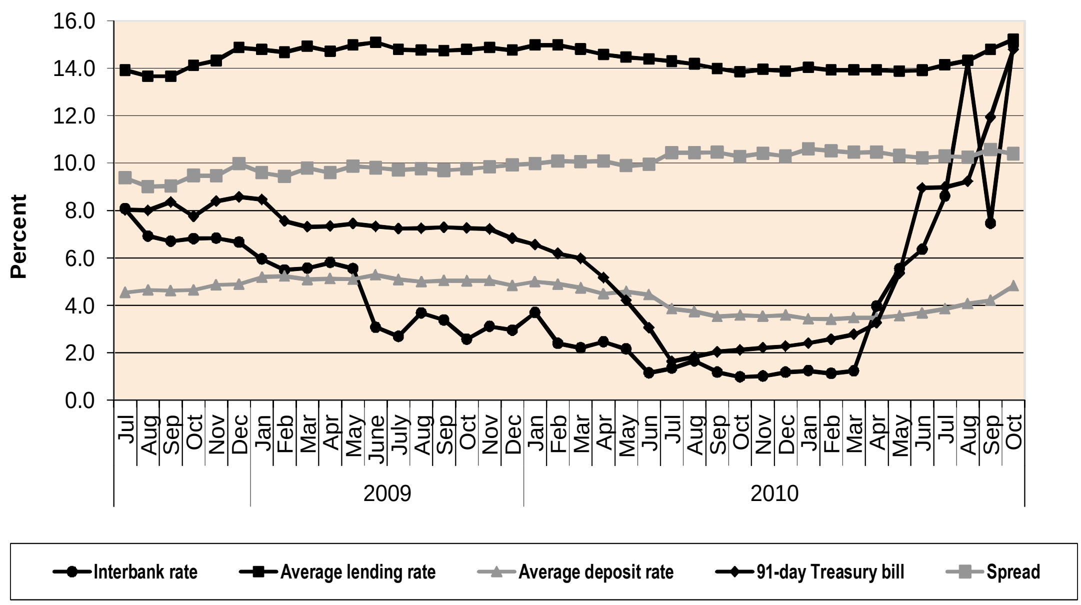
Commercial banks average lending rates increased by 42 basis points to 15.21 percent in October 2011 from 14.79 percent in September 2011, compared to 61 basis points rise in the average deposits deposit rate (to 4.83 percent in October 2011 from 4.21 in September 2011). The higher deposits interest rates reflect greater competition for deposits among banks and will encourage savings. The interest rate spread narrowed to 10.39 percent in October 2011 from 10.58 percent in September 2011.

TABLE 2.4: INTEREST RATES (%)

	2010							2011									
	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct
91-day Treasury bill rate	2.98	1.63	1.83	2.04	2.12	2.21	2.28	2.41	2.57	2.77	3.26	5.35	8.95	8.99	9.23	11.93	14.80
Overdraft rate	14.23	14.03	13.97	13.81	13.64	13.77	13.69	13.93	13.65	13.60	13.68	13.72	13.59	13.89	14.28	14.64	14.87
Interbank rate	1.15	1.35	1.66	1.18	0.98	1.01	1.18	1.24	1.13	1.24	3.97	5.54	6.36	8.61	14.29	7.46	14.95
Repo rate	-	-	-	-	-	-	-	-	-	1.66	4.50	5.72	-	5.75	5.75	-	18.89
Reverse Repo rate	1.95	1.72	1.81	-	-	1.53	1.41	1.19	1.18	1.18	2.99	-	-	6.25	6.25	5.75	-
Average lending rate (1)	14.39	14.29	14.18	13.98	13.85	13.95	13.87	14.03	13.92	13.92	13.92	13.88	13.91	14.14	14.32	14.79	15.21
Average deposit rate (2)	4.45	3.85	3.74	3.53	3.58	3.54	3.59	3.43	3.41	3.47	3.47	3.57	3.68	3.85	4.07	4.21	4.83
0 to 3 - month deposit	5.11	4.21	3.89	3.59	3.65	3.61	3.86	3.67	3.67	3.88	3.92	4.08	4.38	4.72	5.48	5.74	7.01
Savings deposits	1.75	1.55	1.50	1.47	1.46	1.40	1.45	1.25	1.41	1.37	1.39	1.38	1.37	1.37	1.37	1.35	1.33
Spread (1-2)	**9.94**	**10.44**	**10.44**	**10.45**	**10.27**	**10.41**	**10.28**	**10.60**	**10.51**	**10.45**	**10.46**	**10.31**	**10.23**	**10.29**	**10.25**	**10.58**	**10.39**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

Performance of The Real Sector

Overview

Real GDP for the year 2010 amounted to Ksh 1.47 trillion and was equivalent to 5.6 percent growth compared with an output of Ksh 1.39 trillion in 2009 (Table 3.1 and Chart 3A). The performance across key sectors of the economy was strong with agriculture and forestry, transport and communication, wholesale and retail trade and manufacturing sectors recording growth rates of 6.3 percent, 5.9 percent, 7.8 percent and 4.4 percent, respectively. Agriculture and forestry contributed 21.7 percent to total output in 2010, while transport and communication, wholesale and retail trade and manufacturing sectors contributed 12.4 percent, 10.5 percent and 9.7 percent, respectively, to total output in 2010.

TABLE 3.1: GROSS DOMESTIC PRODUCT BY ACTIVITY (Constant 2001 Prices, Ksh)

MAIN SECTORS	Share in 2010 Nominal GDP (%)	Share in 2010 Real GDP (%)	Kshs Million 2003	2004	2005	2006	2007	2008	2009	*2010
Agriculture and Forestry	*21.50*	*21.65*	276,089	280,518	299,798	312,926	320,423	307,354	299,431	318,382
Fishing	*0.60*	*0.39*	4,765	5,246	5,751	6,249	6,181	5,363	5,564	5,713
Mining	*0.70*	*0.46*	5,213	5,195	5,334	5,554	6,272	6,453	6,163	6,770
Manufacturing	*10.00*	*9.73*	105,822	110,544	115,699	122,953	130,673	135,291	136,992	143,028
Electricity and water supply	*2.40*	*2.27*	27,074	27,877	27,862	27,288	29,771	31,345	30,390	33,404
Wholesale and retail trade, repairs	*10.30*	*10.51*	92,604	100,486	106,095	118,361	131,754	138,053	143,388	154,558
Hotels & Restaurants	*1.70*	*1.35*	9,899	13,741	15,572	17,894	20,814	13,298	18,993	19,796
Construction	*4.30*	*3.49*	31,530	32,932	35,401	37,649	40,405	43,735	49,141	51,351
Transport, Storage & Communications	*9.80*	*12.38*	104,915	112,260	122,316	136,306	156,845	161,616	171,976	182,051
Financial intermediation	*5.60*	*4.00*	42,064	42,657	45,030	47,170	50,306	51,659	54,043	58,797
Real estate, renting and business services	*4.80*	*5.31*	61,864	63,740	65,882	68,446	70,860	73,503	75,674	78,089
Public administration and defense	*4.70*	*3.20*	46,991	47,062	46,460	45,974	45,031	45,317	46,029	47,035
Education	*5.70*	*5.91*	71,045	72,435	72,963	73,188	76,257	80,771	82,952	86,851
Health and social work	*2.60*	*2.16*	25,431	26,408	27,249	28,075	28,983	30,035	31,352	31,785
Other community, social and personal services	*3.30*	*3.65*	42,917	44,514	45,829	47,814	49,420	50,829	52,219	53,729
Private households with employed persons	*0.40*	*0.30*	3,855	3,932	4,011	4,091	4,173	4,256	4,342	4,428
Less : Financial services indirectly measured	*(0.80)*	*-0.69*	(10,315)	(10,800)	(11,261)	(11,835)	(12,174)	(10,484)	(12,762)	(10,189)
All industries at basic 2001 prices	**87.50**	**86.06**	**941,763**	**978,746**	**1,029,991**	**1,088,103**	**1,155,994**	**1,168,394**	**1,195,887**	**1,265,578**
Taxes less subsidies on products	*12.50*	*13.94*	113,895	130,795	145,143	161,367	180,855	188,882	197,286	204,938
Real GDP at 2001 market prices	**100.00**	**100.00**	**1,055,658**	**1,109,541**	**1,175,134**	**1,249,470**	**1,336,849**	**1,357,276**	**1,393,173**	**1,470,516**
GDP at Mkt Prices			1,055,658	1,109,541	1,175,134	1,249,470	1,336,849	1,357,276	1,393,173	1,470,516
Overall GDP Deflator			107	115	120	130	137	156	170	173

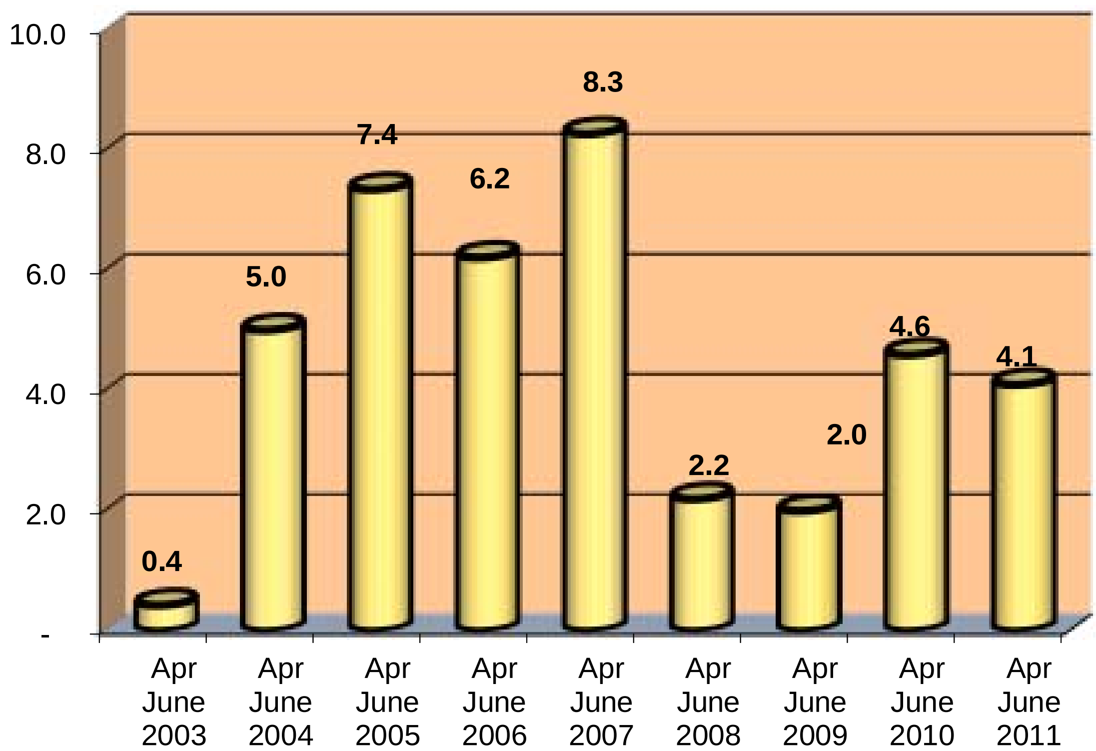
Annual Growth Rates in Percent

	Share in 2010 Nominal GDP	Share in 2010 Real GDP (%)	2003	2004	2005	2006	2007	2008	2009	*2010
Agriculture and Forestry	21.50	21.65	2.6	1.6	6.9	4.4	2.4	(4.1)	(2.6)	6.3
Fishing	0.60	0.39	-6.9	10.1	9.6	8.7	-1.1	(13.2)	3.7	2.7
Mining & Quarrying	0.70	0.46	3.5	-0.3	2.7	4.1	12.9	2.9	(4.5)	9.8
Manufacturing	10.00	9.73	6.0	4.5	4.7	6.3	6.3	3.5	1.3	4.4
Electricity and water supply	2.40	2.27	14.0	3.0	-0.1	-2.1	9.1	5.3	(3.0)	9.9
Wholesale and retail trade, repairs	10.30	10.51	1.5	8.5	5.6	11.6	11.3	4.8	3.9	7.8
Hotels & Restaurants	1.70	1.35	-20.3	38.8	13.3	14.9	16.3	(36.1)	42.8	4.2
Building & Construction	4.30	3.49	1.0	4.4	7.5	6.4	7.3	8.2	12.4	4.5
Transport & Communications	9.80	12.38	3.5	7.0	9.0	11.4	15.1	3.0	6.4	5.9
Financial intermediation	5.60	4.00	1.5	1.4	5.6	4.8	6.6	2.7	4.6	8.8
Real estate, renting and business services	4.80	5.31	2.3	3.0	3.4	3.9	3.5	3.7	3.0	3.2
Public administration and defense	4.70	3.20	0.6	0.2	-1.3	-1.0	-2.1	0.6	1.6	2.2
Education	5.70	5.91	9.7	2.0	0.7	0.3	4.2	5.9	2.7	4.7
Health and social work	2.60	2.16	2.8	3.8	3.2	3.0	3.2	3.6	4.4	1.4
Other community, social and personal services	3.30	3.65	-0.0	3.7	3.0	4.3	3.4	2.9	2.7	2.9
Private households with employed persons	0.40	0.30	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Less : Financial services indirectly measured	-0.80	-0.69	-3.3	4.7	4.3	5.1	2.9	(13.9)	21.7	(20.2)
Total GDP at basic 2001 prices	**87.50**	**86.06**	**3.1**	**3.9**	**5.2**	**5.6**	**6.2**	**1.1**	**2.4**	**5.8**
Taxes less subsidies on products	12.50	13.94	1.3	14.8	11.0	11.2	12.1	4.4	4.4	3.9
Real GDP at 2001 market prices	**100.00**	**100.00**	**2.9**	**5.1**	**5.9**	**6.3**	**7.0**	**1.5**	**2.6**	**5.6**

*Provisional

Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

CHART 3A: REAL GDP GROWTH IN THE SECOND QUARTERS



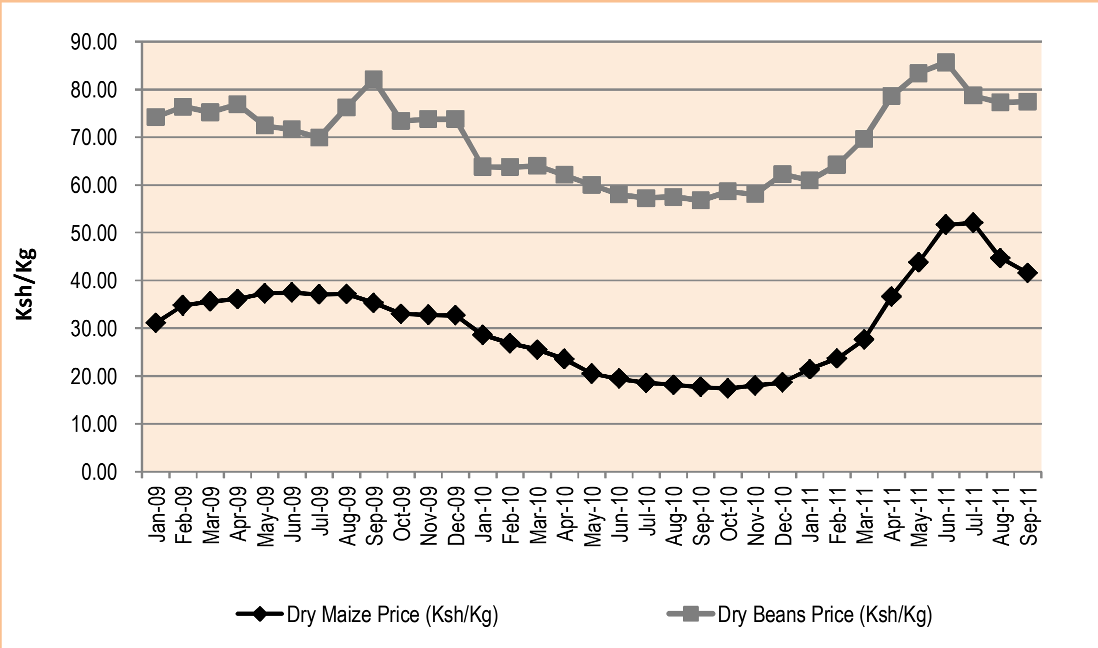
Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

The pace of economic expansion was sustained in the March quarter of 2011, with an estimated real growth rate of 4.9 percent for the quarter but slowed to 4.1 percent in the June 2011 quarter due to unfavourable weather conditions and high fuel prices. Output in the second quarter of 2011 amounted to Ksh 362.8 billion compared with output of Ksh 348.6 billion in the second quarter of 2010. 19.8 percent of 2011 quarter two output was attributed to agriculture and forestry, while the transport and communication, wholesale and retail trade and manufacturing sectors contributed 12.3 percent, 10.1 percent and 10.0 percent, respectively.

Agriculture

Agriculture contributed 21.7 percent of GDP in 2010. Output from the sector increased by 6.3 percent to Ksh 318.4 billion in 2010 compared with a decline of 2.6 percent in 2009. Improvement in the sector in 2010 was attributed to favourable weather conditions that prevailed during most of the year. Production of both food and industrial crops increased during the year. A subsequent decline in the prices of food items such as maize and beans was recorded (Chart 3B). This trend reversed in 2011 with prices of maize and beans 143.0 percent and 41.0 percent higher respectively in September 2011 compared with the levels in December 2010.

CHART 3B: MOVEMENT IN AVERAGE RETAIL PRICES FOR MAIZE AND BEANS



Tea

Indicators for agriculture for the January-September 2011 period are unfavourable. Production of tea declined by 10.3 percent from 289,473 metric tonnes in the period January to September 2010 to 259,769 metric tonnes in the period January to September 2011 (Table 3.2). The average auction price for tea however rose from Ksh 216 per kilogram in the January-September 2010 period to Ksh 263 per kilogram in the January-September 2011 period.

Horticulture

Exports of fresh horticultural crops also declined by 12.3 percent from 203,883 metric tonnes in the period January to September 2010 to 178,846 metric tonnes in the period January to September 2011. The decline in exports of fresh horticultural crops largely reflected reduced export of vegetables (Chart 3C).

Coffee

Performance of the coffee sub-sector was equally unfavourable with sales declining from 30,772 metric tonnes in the January-September 2010 period to 25,465 metric tonnes in the January-September 2011 period. The average auction price for coffee however rose from Ksh 317 per kilogram in the January-September 2010 period to Ksh 527 per kilogram in the January-September 2011 period.

Sugarcane

The sugar sub-sector also registered lower output during the period under review. Cane deliveries declined by 4.2 percent from 4.12 million tonnes in the January-September 2010 period to 3.95 million tonnes in the January-September 2011 period.

Dairy

Production from the dairy sector, however, improved as indicated by an increase in milk delivered to factories to 396 million litres in the January-September 2011 period compared with 383 million litres delivered in a comparable period in the previous year (Chart 3D).

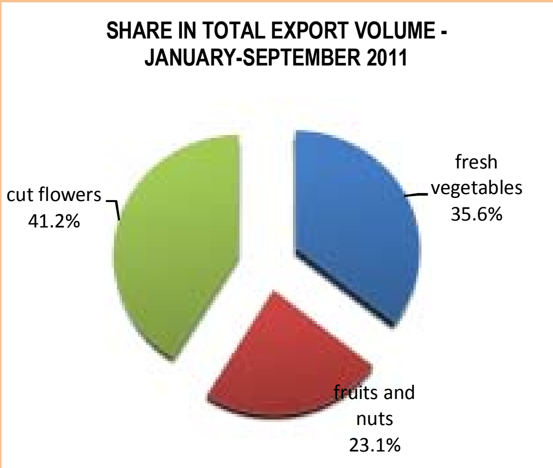
TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	Annual Totals			
	2009	2010*	Jan-Sep 2010*	Jan-Sep 2011*
Tea				
Output (Metric tonnes)	304,198	399,006	289,473	259,769
Growth (%)	*-12.0%*	*27.0%*	*38.2%*	*-10.3%*
Horticulture				
Exports (Metric tonnes)	248,158	268,533	203,883	178,846
Growth (%)	*-1.5%*	*8.2%*	*7.2%*	*-12.3%*
Coffee				
Sales (Metric tonnes)	49,498	38,938	30,772	25,465
Growth (%)	*27.9%*	*-21.3%*	*-30.2%*	*-17.2%*
Milk				
Output (million litres)	407	511	383	396
Growth %	*2.0%*	*25.7%*	*35.9%*	*3.5%*
Sugar Cane				
Output (Metric tonnes)	5,610,702	5,709,586	4,117,060	3,946,120
Growth (%)	*12.7%*	*1.8%*	*-0.5%*	*-4.2%*

***Provisional**

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

CHART 3C: HORTICULTURAL EXPORTS



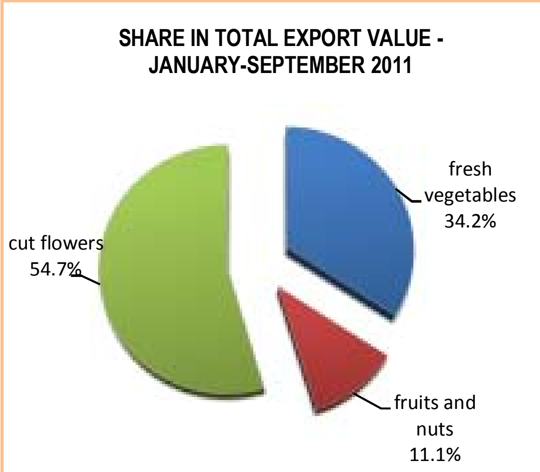
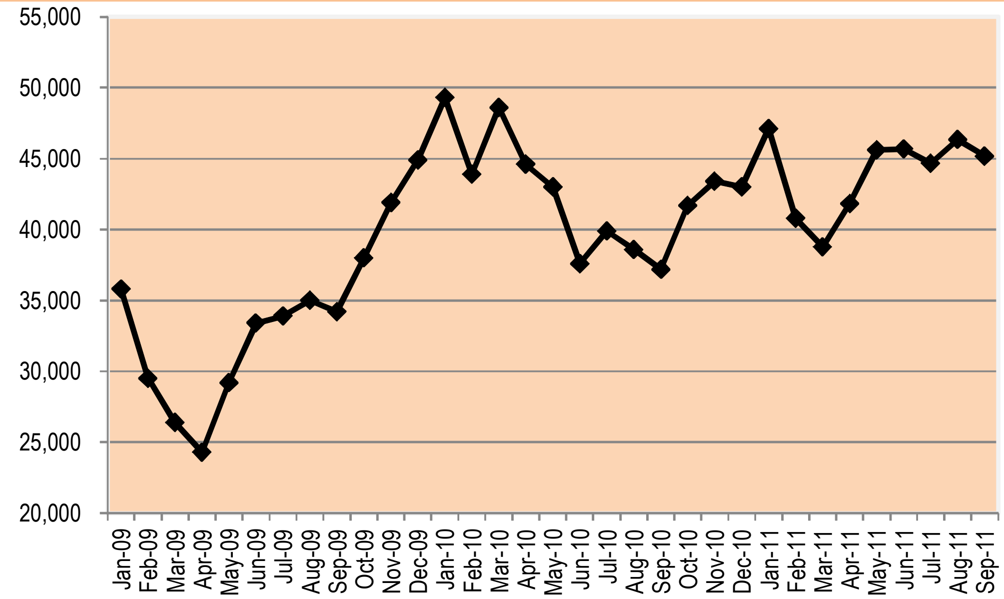


CHART 3D: PROCESSED MILK ('000 LITRES)



Source: Dairy Board of Kenya

Manufacturing

The contribution of the manufacturing sector to total GDP declined marginally to 9.7 percent in 2010 compared with 9.8 percent in 2009 reflecting moderate growth in the sector compared with growth registered by other sectors of the economy. Total manufactured output amounted to Ksh 143.0 billion in 2010 compared with Ksh 137.0 in 2009. The sub-sectors within manufacturing registered favourable performance in the first nine months of 2011 as indicated by increased production of cement, processed sugar, galvanized sheets, soft drinks and assembled vehicles (Table 3.3). Output of processed sugar rose to 376,112 metric tonnes in the January-September 2011 period, while the volume of soft drinks produced increased by 2.0 percent to 275,897 thousand litres in the same period. Production of cement increased by 11.8 percent during the period under review to 3,049,937 metric tonnes while the number of vehicles assembled locally increased from 4,269 in the January-September 2010 period to 4,359 in the January-September 2011 period.

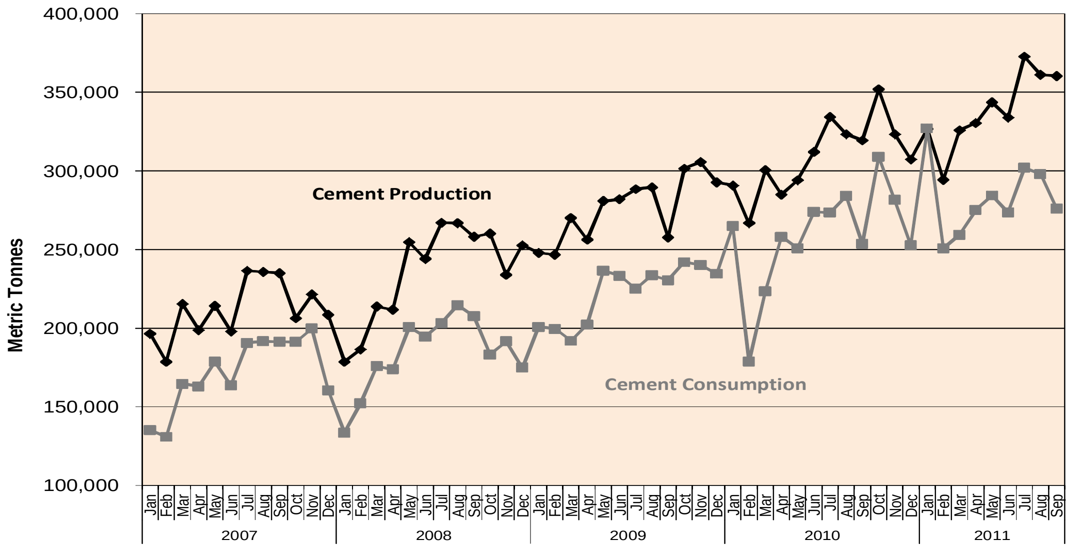
TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	Annual Totals		Jan-Sep 2010*	Jan-Sep 2011*
	2009	2010*		
Cement production				
Output (MT)	3,320,282	3,709,807	2,727,011	3,049,937
Growth %	*17.4%*	*11.7%*	*12.7%*	*11.8%*
Assembled vehicles				
Output (No.)	5,060	5,721	4,269	4,359
Growth %	*-12.0%*	*13.1%*	*10.7%*	*2.1%*
Galvanized sheets				
Output (MT)	182,151	201,410	151,372	208,104
Growth %	*-3.8%*	*10.6%*	*8.6%*	*37.5%*
Processed sugar				
Output (MT)	547,999	523,470	373,565	376,112
Growth %	*7.1%*	*-4.5%*	*-8.0%*	*0.7%*
Soft drinks				
Output ('000 litres)	361,273	361,333	270,402	275,897
Growth %	*5.8%*	*0.0%*	*2.3%*	*2.0%*

MT = Metric tonnes
* Provisional

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

CHART 3E: CEMENT PRODUCTION AND CONSUPTION



Source: Kenya National Bureau of Statistics

Energy Sector

Local generation of electricity increased by 15.2 percent from 4,655 million kilowatt hours in the January-September 2010 period to 5,361 million kilowatt hours in the January-September 2011 period (Table 3.4). Of the total electricity produced in the first nine months of 2011, 43.6 percent was hydro-power, 36.3 percent was thermal power and the remaining 20.2 percent was geo-thermal power. Production of hydro-electricity increased by 1.8 percent to 2,336 million kilowatt hours in the period January-September 2011 period. Production of thermal power increased by 51.2 percent to 1,944 million kilowatt hours in the same period to compensate for the drought induced reduction in hydropower generation. Estimated consumption of electricity increased by 5.3 percent to 4,578 million kilowatt hours in the January-September 2011 period as compared with consumption over the same period in 2010 while consumption of fuels increased by 14.5 percent to 2,675 thousand tonnes.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	Annual Totals		Jan-Sep 2010*	Jan-Sep 2011*
	2009	2010*		
Electricity Supply (Generation)				
Output (million KWH)	5,332	6,407	4,655	5,361
Growth %	*-6.4%*	*20.2%*	*15.6%*	*15.2%*
Of which:				
Hydro-power Generation (million KWH)	2,105	3,195	2,295	2,336
Growth (%)	*-35.0%*	*51.7%*	*33.9%*	*1.8%*
Geo-Thermal Generation (million KWH)	1,478	1,442	1,073	1,081
Growth (%)	*42.3%*	*-2.4%*	*-8.5%*	*0.7%*
Thermal (million KWH)	1,747	1,769	1,286	1,944
Growth (%)	*23.5%*	*1.3%*	*12.8%*	*51.2%*
Consumption of electricity (million KWH)	5,299	5,870	4,347	4,578
Growth %	*0.7%*	*11.2%*	*10.5%*	*5.3%*
Consumption of Fuels ('000 tonnes)	3,190	3,177	2,337	2,675
Growth %	*11.5%*	*-0.4%*	*-1.8%*	*14.5%*
Murban crude oil average price (US $ per barrel)	62.6	79.2	76.8	110.2
Growth %	*-36.0%*	*26.4%*	*30.9%*	*43.6%*

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

The number of tourists arriving in Kenya rose by 17.0 percent from 796,763 in the January-September 2010 period to 932,193 in the January-September 2011 period (Table 3.5). Most of the tourist arrivals (81.3 percent)were through the Jomo-Kenyatta International Airport, Nairobi, while 18.6 percent were through the Moi International Airport, Mombasa. The number of tourists arriving on-board cruise ships amounted to 586 (or 0.1 percent of the total arrivals) in the January-September 2011 period.

In terms of region of origin, Europe and Africa dominated accounting for 46.4 percent and 23.9 percent of tourist arrivals in the January - September 2011 period (Table 3.6). Oceanic and Africa were the two highest growth sources of tourist arrivals at 34 percent and 18.2 percent, respectively.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2009	2010	Jan - Sep 2010	Jan - Sep 2011	Jan - Sep 2011 % Share	Jan - Sep 2011 % Growth
CRUISE	12,096	0	0	586	*0.1%*	*N.A.*
MIAM	176,469	232,698	160,810	173,838	*18.6%*	*8.1%*
JKIA	763,916	862,586	635,953	757,769	*81.3%*	*19.2%*
TOTAL	**952,481**	**1,095,284**	**796,763**	**932,193**	***100.0%***	***17.0%***

Source: Kenya Tourist Board

TABLE 3.6: TOURIST ARRIVALS BY CONTINENT

REGION	2009	2010	Jan - Sep 2010	Jan - Sep 2011	Jan - Sep 2011 % Share	Jan - Sep 2011 % Growth
Africa	228,827	257,132	188,826	223,142	23.9%	18.2%
Middle East	0	0	0	28,751	3.1%	N.A.
America	128,658	142,087	107,296	119,415	12.8%	11.3%
Asia	108,524	137,657	103,348	106,978	11.5%	3.5%
Europe	456,427	536,422	381,646	432,348	46.4%	13.3%
Oceanic	17,949	21,985	15,647	20,973	2.2%	34.0%
Cruise	12,096	0	0	586	0.1%	N.A.
Total	**952,481**	**1,095,284**	**796,763**	**932,193**	**100.0%**	**17.0%**

Source: Kenya Tourist Board

Transport and Tele-communications

The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) increased from 2,157,192 in the January-September 2010 period to 3,015,140 in the January- September 2011 period. This increase largely comprised of incoming passengers, which increased by 43.9 percent to 1,526,534 in the January- September 2011 period (Table 3.7).

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2009	2010*	Jan-Sep 2010*	Jan-Sep 2011*
Number of Passengers thro' JKIA				
Incoming	1,334,482	1,508,841	1,061,168	1,526,534
Growth (%)	*-9.6%*	*13.1%*	*3.3%*	*43.9%*
Outgoing	1,291,278	1,520,578	1,096,024	1,488,606
Growth %	*-12.1%*	*17.8%*	*11.0%*	*35.8%*

* Provisional

Source: Kenya Ports Authority and Kenya Pipeline Company Ltd. & Kenya Revenue Authority

Developments in the Balance of Payments and Exchange Rates

Overview

Kenya's overall balance of payments position reduced from surplus of US$ 365 million in the year to September 2010 to deficit of US$ 220 million in the year to September 2011. The movement follows the widening of the current account deficit which surpassed improvement in the capital and financial account (Table 4.1).

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Sept 2010*	Q1 Oct-Dec	Jan- Mar	Apr- Jun	Jul- Sep	Year to Sept 2011*	Absolute Change
1. OVERALL BALANCE	365	-54	43	8	-217	-220	-586
2. CURRENT ACCOUNT	-2073	-828	-831	-1090	-1270	-4019	-1945
2.1 Goods	-6793	-2130	-2036	-2137	-2420	-8722	-1929
Exports (fob)	5010	1411	1435	1439	1476	5760	750
Imports (cif)	11803	3541	3471	3576	3895	14483	2679
2.2 Services	4720	1302	1205	1047	1150	4704	-16
Non-factor services (net)	2512	732	563	539	645	2479	-32
Income (net)	-82	-67	97	-26	-3	2	84
Current Transfers	2291	637	545	533	507	2222	-68
3. CAPITAL & FINANCIAL ACCOUNT	2439	774	874	1098	1053	3798	1360
3.1 Capital Tranfers (net)	149	86	94	35	29	244	94
3.2 Financial Account	2289	688	780	1064	1023	3554	1265
memo:							
Gross Reserves	5141	5123	5454	5249	5557	5557	416
Official	4063	4002	4138	4142	3986	3986	-76
*imports cover***	3.8	3.5	3.5	3.4	3.1	3.1	-0.7
*imports cover****	4.0	3.9	3.9	3.8	3.6	3.6	-0.4
Commercial Banks	1078	1121	1316	1106	1571	1571	493

* Provisional.
** Based on current year's imports of goods and non-factor services
*** Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

Current Account

The deficit in the current account widened from US$ 2,073 million in the year to September 2010 to US$ 4,017 million in the year to September 2011. The deterioration in current account comprised a 28.4 per cent or US$ 1,929 million widening of the merchandise account deficit and US$ 16 million decline in the services account (Table 4.2).

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

ITEM	Year to Sep 2010*	Year to September 2011* Q1 Oct-Dec	Q2 Jan- Mar	Q3 Apr- Jun	Q4 Jul- Sep	Year to Sep 2011*	Absolute Change
2. CURRENT ACCOUNT	-2073	-828	-831	-1090	-1270	-4019	-1945
2.1 Goods	-6793	-2130	-2036	-2137	-2420	-8722	-1929
Exports (fob)	5010	1411	1435	1439	1476	5760	750
Coffee	199	42	46	66	64	218	18
Tea	1152	270	291	286	283	1131	-21
Horticulture	713	200	188	181	150	719	6
Oil products	96	16	39	34	28	117	21
Manufactured Goods	598	160	169	182	206	718	120
Raw Materials	216	48	95	80	88	311	95
Chemicals and Related Products (n.e.s)	408	131	132	138	146	547	138
Miscelleneous Man. Articles	416	123	116	134	146	519	103
Re-exports	286	92	78	73	95	337	51
Other	927	327	282	266	269	1145	218
Imports (cif)	11803	3541	3471	3576	3895	14483	2679
Oil	2631	733	988	1017	1004	3742	1111
Chemicals	1528	423	515	493	461	1893	365
Manufactured Goods	1719	490	511	574	602	2177	458
Machinery & Transport Equipment	3430	1208	822	922	1006	3958	529
Other	2496	687	634	570	822	2712	217
2.2 Services	4720	1302	1205	1047	1150	4704	-16
Non-factor services (net)	2512	732	563	539	645	2479	-32
of which tourism	774	267	219	205	240	932	158
Income (net)	-82	-67	97	-26	-3	2	84
of which official interest	-73	-25	5	-21	-17	-58	16
Current Transfers	2291	637	545	533	507	2222	-68
Private (net)	2046	582	550	538	512	2182	136
Public (net)	244	55	-5	-5	-5	40	-204

* Provisional.

Source: Central Bank of Kenya

Merchandise Account

The merchandise account deficit worsened from US$ 6,793 million in the year to September 2010 to US$ 8,722 million in the year to September 2011 due to higher imports and slower growth in exports of goods.

Exports

The total value of exports increased by US$ 750 million to US$ 5760 million in the year to September 2011 reflecting increases in exports proceeds from coffee, manufactured goods, raw materials and chemicals and related products. The value of coffee and horticulture exports rose by US$ 18 million and US$ 6 million respectively, in the year to September 2011. The increase in the export values of coffee and horticulture largely reflected higher export prices. Receipts from tea exports which accounted for 19.6 per cent of the total exports declined from US$ 1,152 million in the year to September 2010 to US$ 1,131 million in the year to September 2011 this was as a result of reduced exports volume. The export values of manufactured goods which accounted for 12.5 per cent of total exports rose by US$ 120 million in the year to September 2011 following increased exports of cement and processed leather. Exports of raw materials rose by 44.0 percent to US$ 311 million in the year to September 2011, while the value of re-exports increased by 17.8 percent to US$ 337 million in the year to September 2011. The value of other miscellaneous exports rose from US$ 416 million to US$ 519 million over the same period.

Imports

The value of imports increased by 22.7 percent to US$ 14,483 million in the year to September 2011, mainly on account of increased payments for imports of oil, manufactured goods and machinery and transport equipment. The value of oil imports increased by 42.2 percent to US$ 3,742 in the year to September 2011 mainly attributed to high oil prices in the global market which had risen by 46 percent from US$ 76 per barrel in September 2010 to US$ 111 per barrel in September 2011. Imports of manufactured items mainly intermediate goods accounted for 15 percent of the import bill and increased by US$ 458 million in the year to September 2010 to US$ 2,177 million in the year to September 2011. The higher import bill was on account of imports of paper and paper products, textiles and non-ferrous metals (copper wire, aluminum and zinc). Imports of machinery and transport equipment account for 27.3 percent of total import bill and increased from US$ 3,430 million in the year to September 2010 to US$ 3,958 million in the year to September 2011, following increased imports of industrial machinery, telecommunication and sound recording equipment and electrical machinery.

Services Account

The surplus in the services declined by 0.3 percent or US$ 16 million to US$ 4,706 million in the year to September 2011 mainly due to a decline in net receipts of non-factor services and current transfers. Net non-factor service receipts declined by US$ 32 million to US$ 2,479 million in the year to September 2011. This was attributed to reduced earnings from transportation services by US$ 266 million. Receipts from foreigners travelling to Kenya increased by US$ 158 million from US$ 774 million in the year to September 2010 to US$ 932 million in the year to September 2011. Receipts on the current transfer account decreased from US$ 2,291 million in the year to September 2010 to US$ 2,222 million in the year to

September 2011, a decline of 3.0 percent. However, the monthly remittance inflows to Kenya amounted to US$ 81.3 million in October 2011 which was 39.3 percent higher than the level in October 2010. The source markets for remittances have on average maintained the same shares with North America contributing 47 percent and Europe 29 percent of total remittances to Kenya in October 2011.

Direction of Trade

The exports to African countries accounted for 47.4 percent of total exports in the year to September 2011 to the East African Community (EAC) region 26.5 percent, and the COMESA region 35.0 percent. Kenya's exports were by country of destination mainly to Uganda (14.8 percent), United Kingdom (9.0 percent), Tanzania (8.0 percent), Netherlands (6.6 percent) and USA (5.6 percent).

During the period under review, Kenya's imports were mainly from United Arab Emirates (13.4 percent), China (11.5 percent) India (11.8 percent), South Africa (5.6 percent), Japan (5.0 percent), United Kingdom (4.6 percent) and United States of America (3.5 percent). The imports from African countries accounted for 11.2 percent. Imports from the EAC region increased from US$ 245 million in the year to September 2010 to US$ 292 million (2.0 percent of total imports) in the year to September 2011. Imports from the COMESA region increased by US$ 87 million to US$ 551 million (3.9 percent of total imports) in the year to September 2011 (Table 4.3). Kenya's imports are increasingly from Developing Asia (includes among others China and India as per IMF classification) and less from the Advanced Economies (includes among others Japan, UK, US).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to Sept			Year to Sept		
Country	2009	2010	2011	2009	2010	2011
Africa	**1,343**	**1,429**	**1,629**	**13.2**	**12.1**	**11.2**
Of which						
South Africa	897	774	816	8.8	6.6	5.6
Egypt	122	209	216	1.2	1.8	1.5
Others	324	446	597	3.2	3.8	4.1
EAC	**163**	**245**	**292**	**1.6**	**2.1**	**2.0**
COMESA	**318**	**476**	**563**	**3.1**	**4.0**	**3.9**
Rest of the World	**8,859**	**10,375**	**12,854**	**86.8**	**87.9**	**88.8**
Of which						
India	1,055	1,251	1,705	10.3	10.6	11.8
United Arab Emirates	1,010	1,537	1,938	9.9	13.0	13.4
China	976	1,310	1,672	9.6	11.1	11.5
Japan	599	684	723	5.9	5.8	5.0
USA	512	569	509	5.0	4.8	3.5
United Kingdom	491	431	670	4.8	3.6	4.6
Singapore	327	386	463	3.2	3.3	3.2
Germany	312	332	349	3.1	2.8	2.4
Saudi Arabia	311	408	395	3.0	3.5	2.7
Indonesia	254	308	466	2.5	2.6	3.2
Netherlands	240	212	259	2.4	1.8	1.8
France	227	203	244	2.2	1.7	1.7
Bahrain	160	81	178	1.6	0.7	1.2
Italy	184	160	144	1.8	1.4	1.0
Others	2,200	2,502	3,139	21.6	21.2	21.7
Total	**10,202**	**11,803**	**14,483**	**100**	**100**	**100**

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to Sept			Year to Sept		
Country	2009	2010	2011	2009	2010	2011
Africa	**2,119**	**2,300**	**2,729**	**47**	**46**	**47**
Of which						
Uganda	585	626	850	12.9	12.5	14.8
Tanzania	390	414	459	8.6	8.3	8.0
Egypt	175	220	251	3.9	4.4	4.4
Sudan	162	220	250	3.6	4.4	4.3
Somalia	153	155	168	3.4	3.1	2.9
DRC	145	156	186	3.2	3.1	3.2
Rwanda	123	133	149	2.7	2.6	2.6
Others	386	377	415	8.5	7.5	7.2
EAC	**1,154**	**1,238**	**1,528**	**25.5**	**24.7**	**26.5**
COMESA	**1,453**	**1,645**	**2,013**	**32.1**	**32.8**	**35.0**
Rest of the World	**2,403**	**2,710**	**3,031**	**53.3**	**53.2**	**53.7**
Of which						
United Kingdom	481	520	520	10.6	10.4	9.0
Netherlands	337	335	382	7.4	6.7	6.6
USA	245	232	321	5.4	4.6	5.6
Pakistan	189	218	240	4.2	4.4	4.2
United Arab Emirates	125	214	233	2.8	4.3	4.1
Germany	94	94	90	2.1	1.9	1.6
India	72	96	107	1.6	1.9	1.9
Afghanistan	77	160	146	1.7	3.2	2.5
Others	785	840	991	17.4	16.8	17.2
Total	**4,522**	**5,010**	**5,760**	**100**	**100**	**100**

Source: Kenya Revenue Authority

Capital and Financial Account

The surplus in the capital and financial account improved by US$ 1,360 million, from US$ 2,439 million in the year to September 2010 to US$ 3,798 million in the year to September 2011, largely reflecting increased short term financial inflows of US$ 1,409 million. In the capital account, project grants to the Government increased by US$ 94 million to US$ 244 million during the year under review. Financial flows increased to US$ 3,554 million in the year to September 2011 compared with US$ 2289 million in the year to September 2010 this was mainly on account of increased private medium to long term flows which increased by US$ 211 million and short term net errors and omission which increased by US$ 1,409 million in the year to September 2011 (Table 4.4).

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

ITEM	Year to Sep 2010*	Year to September 2011* Q1 Oct-Dec	Q2 Jan- Mar	Q3 Apr- Jun	Q4 Jul- Sep	Year to Sep 2011*	Absolute Change
3. CAPITAL & FINANCIAL ACCOUNT	2439	774	874	1098	1053	3798	*1360*
3.1 Capital Tranfers (net)	149	86	94	35	29	244	*94*
3.2 Financial Account	2289	688	780	1064	1023	3554	*1265*
Official, medium & long-term	252	122	75	110	23	329	*77*
Inflows	474	164	153	164	104	586	*112*
Outflows	-222	-43	-78	-54	-81	-256	*-35*
Private, medium & long-term (net)	492	229	-110	364	-211	270	*-221*
Commercial Banks (net)	492	37	-115	340	-202	60	*-432*
Other private medium & long-term (net)	0	192	4	23	-9	211	*211*
Short-term (net) incl. errors & omissions	1545	337	815	590	1212	2955	*1409*

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by 12.2 percent from US$ 5,270 million in October 2010 to US$ 5,915 million in October 2011. The gross foreign exchange reserves held by the commercial banks increased by 58.8 percent or US$ 715 million, and wholly compensated for US$ 60 million decline in official reserves held by the Central Bank. In terms of months of import cover gross official foreign exchange reserves held by the Central Bank declined from 4.0 months of import cover (US$ 4,054 million)in October 2010 to 3.6 months of import cover (US$ 3,985 million) in October 2011 (Table 4.5 and Chart 4A). Gross reserves held by commercial banks increased by 58.8 percent from US$ 1,216 million to US$ 1,931 million during the period under review.

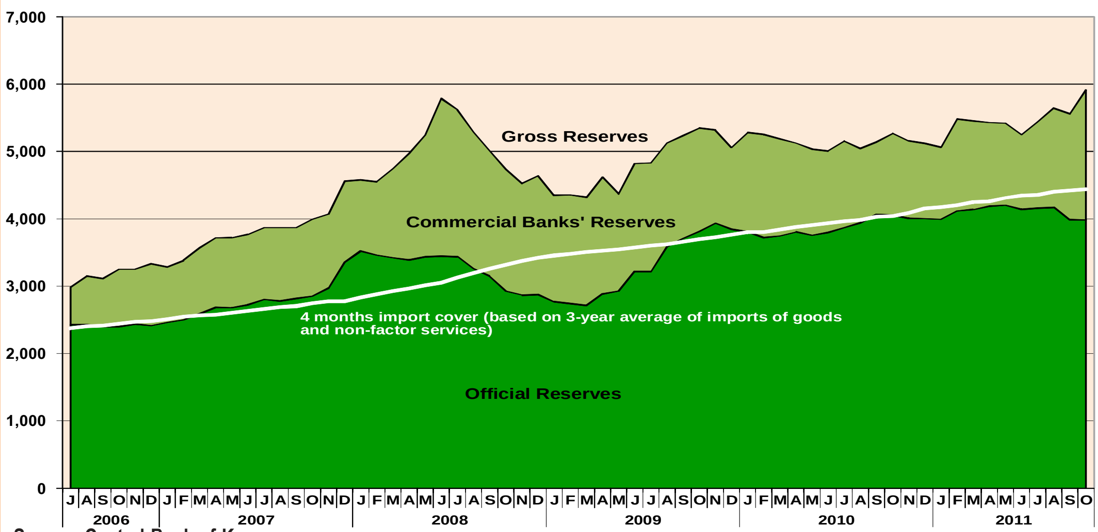
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11
1. Gross Foreign Exchange Reserves	5,270	5,156	5,123	5,062	5,481	5,454	5,430	5,420	5,249	5,442	5,645	5,557	5,915
of which:													
Official	4,054	4,007	4,002	3,992	4,118	4,138	4,189	4,202	4,142	4,159	4,171	3,986	3,985
*imports cover**	*4.1*	*4.0*	*3.9*	*3.8*	*3.9*	*3.9*	*3.9*	*3.9*	*3.8*	*3.8*	*3.8*	*3.6*	*3.6*
Commercial Banks	1,216	1,149	1,121	1,071	1,364	1,316	1,241	1,219	1,106	1,283	1,474	1,571	1,931
2. Residents' foreign currency deposits	2,221	2,247	2,275	2,257	2,302	2,330	2,428	2,328	2,331	2,502	2,652	2,852	2,945

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling weakened further against major world currencies in October 2011. Against the US dollar, the Shilling depreciated by 5.1 percent to exchange at an average of Ksh 101.27 in October 2011 compared with Ksh 96.36 in September 2011. Against the Sterling Pound, the Euro and the Japanese Yen, the Shilling weakened by 4.8 percent, 4.6 percent and 5.1 percent, respectively, to trade at an average of Ksh 159.4 per Sterling Pound, Ksh 138.74 per Euro and Ksh 132 per 100 Japanese Yen in October 2011 (Table 4.6 and Chart 4B).

In the EAC region, the Kenya Shilling depreciated against all the East African Currencies. On average, the Kenya Shilling exchanged at Ush 27.7, Tsh 16.9, RWF 5.9 and BIF 12.2 in October 2011, compared to Ush 29.2, Tsh 17.0, RWF 6.2 and BIF 12.8, in September 2011(Table 4.6 and Chart 4B).

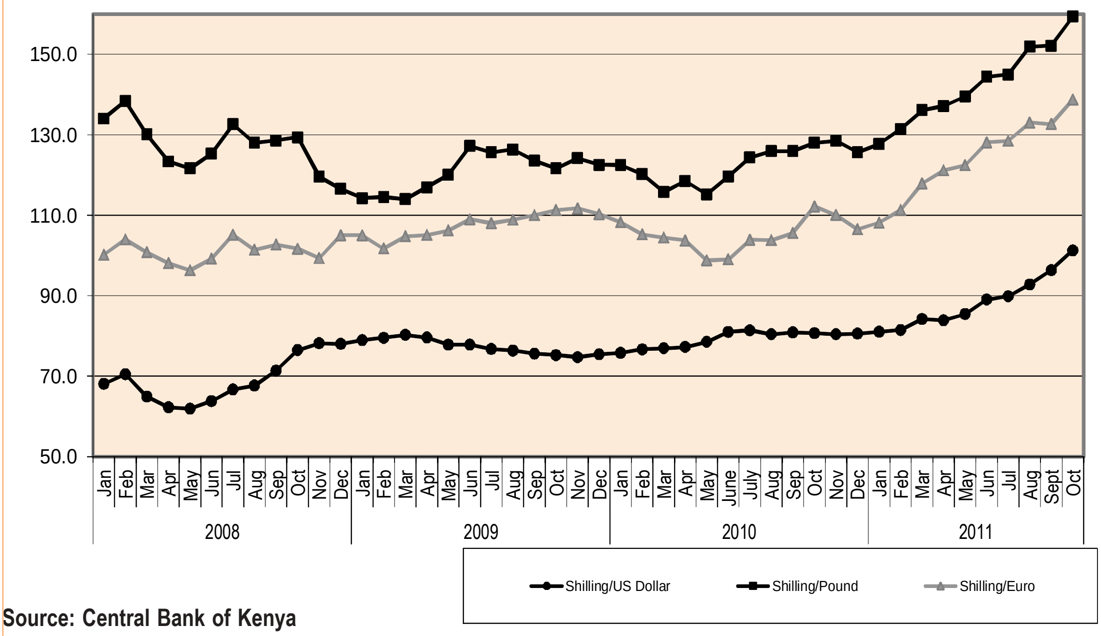
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2010										
	June	Sept	Oct	Nov	Dec	June	July	Aug	Sept	Oct	% change Sept 11 - Oct 11
US Dollar	81.02	80.91	80.71	80.46	80.57	89.05	89.90	92.79	96.36	101.27	5.0983
Pound Sterling	119.62	125.94	127.98	128.52	125.65	144.40	145.00	151.90	152.12	159.41	4.7862
100 Japanese Yen	89.18	95.88	98.60	97.65	96.78	110.62	109.07	120.32	125.55	131.97	5.1088
Uganda Shilling*	27.91	27.83	28.05	28.45	28.59	27.61	28.87	29.68	29.22	27.69	-5.2587
Tanzania Shilling*	17.99	18.76	18.52	18.56	18.17	17.79	17.59	17.40	17.03	16.90	-0.7491
Rwanda Franc*						6.74	6.68	6.46	6.23	5.93	-4.7852
Burundi Franc*						13.84	13.69	13.28	12.81	12.17	-5.0173
Euro	98.99	105.61	112.20	110.07	106.54	128.11	128.48	133.04	132.68	138.74	4.5653
Euro per US dollar	0.818	0.766	0.719	0.731	0.756	0.695	0.700	0.697	0.726	0.730	0.5097

* Units of currency per Kenya shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

During the period ended October 31, 2011, the Kenyan Banking sector registered improved growth in assets driven by growth in deposits, injection of capital and retention of profits. The sector registered improved performance in earnings and capital and the level of non-performing loans reduced compared with a similar period in 2010.

As at October 31, 2011, the sector comprised of 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 118 foreign exchange bureaus and 2 credit reference bureaus.

Structure of the Balance Sheet

The banking sector's aggregate balance sheet grew by 24.1 percent from Ksh 1,675.4 billion in October 2010 to Ksh 2,080.0 billion in October 2011. The main components of the balance sheet were loans and advances, government securities and placements, which accounted for 56 percent, 19 percent and 10 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances grew from Ksh 900.0 billion in October 2010 to Ksh 1,213.5 billion in October 2011 representing a 34.8 percent growth (Table 5.1). The growth was attributed to increased lending to households, trade and manufacturing sectors. Loans and advances net of provisions stood at Ksh 1,167.1 billion in October 2011, having increased from Ksh 854.9 billion registered as at October 2010.

Deposit Liabilites

Deposits from customers were the primary source of funding for the banking sector, accounting for 74.6 percent of total funding liabilities. The deposit base stood at Ksh 1,535.6 billion reflecting an increase of 20.8 percent compared with Ksh 1,271.6 billion as at October 2010. The growth was supported by branch expansion, remittances and receipts from exports.

Capital & Reserves

The banking sector registered strong capital levels in October 2011. Total capital increased by 16.2 percent from Ksh 216.0 billion in October 2010 to Ksh 251.0 billion in October 2011, while shareholders' funds increased by 9.1 percent from Ksh 255.1 billion to Ksh 278.3 billion as at October 2011. However, the ratios of total and core capital to total risk-weighted assets declined from 20.7 percent and 18.5 percent to 17.6 percent and 15.5 percent, respectively, on account of a more than proportionate increase in total risk weighted assets than the increase in core and total capital.

Non-performing Loans

The stock of gross non-performing loans (NPLs) declined by Ksh 0.6 billion or 1.0 percent from Ksh 61.3 billion in October 2010 to Ksh 60.7 billion in October 2011. As a result, the ratio of non-performing loans to gross loans improved from 6.8 percent in October 2010 to 5.0 percent as at October 2011. The quality of assets, measured as a proportion of net non-performing loans to gross loans improved from 2.4 percent to 1.8 percent in October 2011 (Table 5.1).

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

		Oct-11	Oct-10
1	Gross loans and advances	1,213.5	900
2	Interest in Suspense	11.2	10.8
3	Loans and advances (net of interest suspended)	1,202.3	889.2
4	Gross non-performing loans	60.7	61.3
5	Specific Provisions	27.3	28.9
6	General Provisions	7.9	5.4
7	Total Provisions (5+6)	35.2	34.3
8	Net Advances (3-7)	1,167.1	854.9
9	Total Non-Performing Loans and advances (4-2)	49.5	50.5
10	Net Non-Performing Loans and advances (9-5)	22.2	21.6
11	Total NPLs as % of total advances (9/3)	4.10%	5.70%
12	Net NPLs as % of gross advances (10/1)	1.80%	2.40%
13	Specific Provisions as % of Total NPLs (5/9)	55.20%	57.20%

Source: Central Bank of Kenya

Profitablility

The banking sector's un-audited pre-tax profit grew by 13.3 percent from Ksh 62.6 billion in October 2010 to Ksh 71.0 billion as at October 2011. Total income increased by 13.4 percent from Ksh 177.7 billion in October 2010 to Ksh 201.5 billion as at October 2011. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 55 percent, 22 percent and 14 percent of total income respectively. Total expenses increased by 13.5 percent from Ksh 115.0 billion in October 2010 to Ksh 130.5 billion in October 2011 with staff costs, other expenses and interest on deposits as the major components accounting for 33 percent, 28 percent and 22 percent, respectively. However, the return on assets declined from 3.6 percent registered in October 2010 to 3.1 percent in October 2011 occasioned by a higher growth in assets compared to growth in profits, while return on equity improved from 29.5 percent to 30.6 percent during the same period.

Liquidity Ratio Requirement

During the period ended October 31, 2011, average liquid assets amounted to Ksh 539.7 billion while total short-term liabilities stood at Ksh 1,479.0 billion, resulting to an average liquidity ratio of 36.5 percent, having declined from 46.0 percent reported in a similar period in 2010 (Table 5.2). The ratio of gross loans to deposits stood at 79.0 percent in October 2011 from 70.8 percent in October 2010.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 4.73 percent in October 2011 compared with 5.70 percent in September 2011 and 4.75 percent statutory level as shown in Table 5.2 and Chart 5A. Commercial banks reserve requirements' deposits at the Central Bank were Ksh 249 million below the Cash Reserve Requirement (CRR) in October 2011 compared with Ksh 12.91 billion excess in September 2011. The CRR was maintained at a monthly average of 4.75 percent but subject to a daily minimum of 3.0 percent.

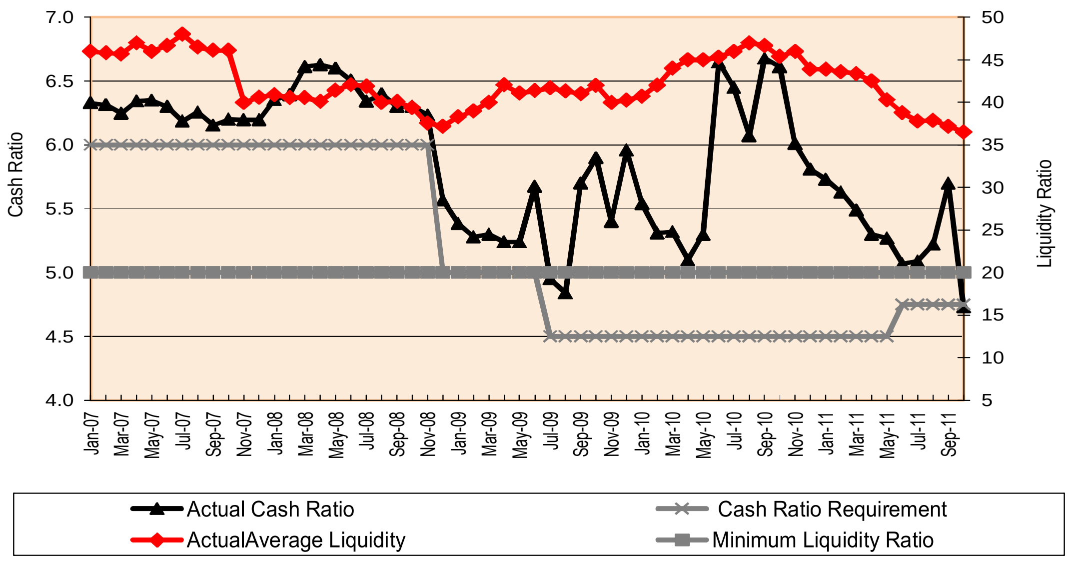
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2010					2011				
	Aug	Sept	Oct	Nov	Dec	Jun	Jul	Aug	Sep	Oct
Commercial Banks										
Actual Average Liquidity	46.7	46.70	45.4	46.0	43.90	38.80	37.80	37.90	37.20	36.50
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	6.07	6.68	6.61	6.01	5.81	5.07	5.09	5.22	5.70	4.73
Minimum Cash Ratio Requirement	4.50	4.50	4.50	4.50	4.50	4.5	4.5	4.5	4.75	4.75
NBFIs										
Actual Average Liquidity Ratio	30.5	30.70	64.8	58.9	56.00	46.40	43.60	38.20	41.80	35.10
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Minimum Cash Ratio Requirement	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50

* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS (%)



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 113,658 transaction messages worth Ksh 2,004 billion in October 2011 compared with a volume of 118,798 transaction messages valued at Ksh 1,730 billion moved in September 2011 representing 15.85 percent increase in value and 4.33 percent decrease in volume. Compared with October 2010, the volume increased by 48.7 percent from 76,415 transaction messages to 113,658 transaction messages in October 2011, while value increased by 45.7 percent from 1,376 billion to 2,004 billion indicating increased usage of KEPSS by the public (Table 5.3).

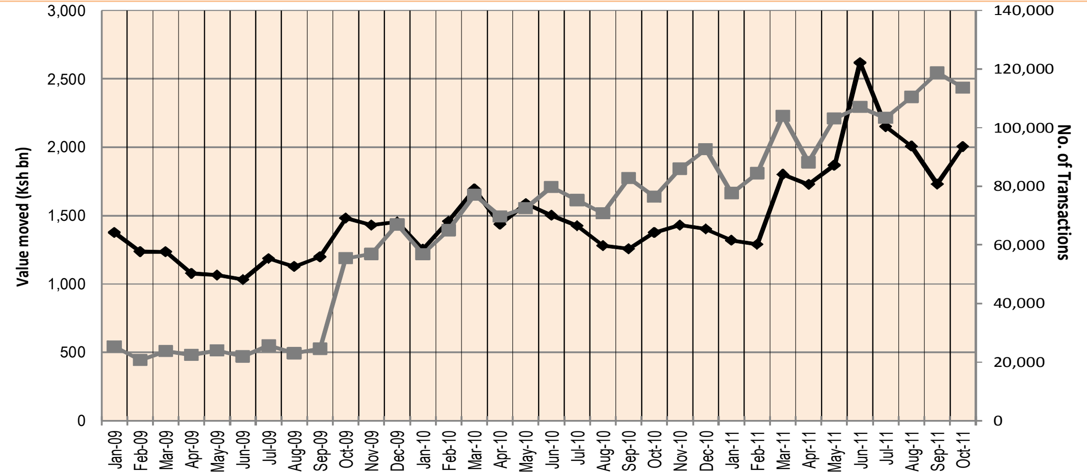
During the twelve months period to October 31, 2011 the value moved averaged Ksh 18 million per transaction. On average 4,703 transaction messages valued at approximately Ksh 85 billion per message were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS accounted for 99.0 percent of the total settlements while indirect payments (ACH Net settlement) averaged 1.0 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-10	1,254	18	56,862	0.02	20	63	2,843
Feb-10	1,458	22	65,010	0.02	20	73	3,251
Mar-10	1,694	26	77,058	0.02	23	74	3,350
Apr-10	1,436	23	69,634	0.02	20	72	3,482
May-10	1,587	22	72,588	0.02	21	76	3,457
Jun-10	1,501	23	79,760	0.02	21	71	3,798
Jul-10	1,426	21	75,289	0.02	22	65	3,422
Aug-10	1,280	23	70,771	0.02	20	64	3,539
Sep-10	1,256	25	82,770	0.02	22	57	3,762
Oct-10	1,376	29	76,415	0.02	23	60	3,322
Nov-10	1,430	26	85,968	0.02	22	65	3,908
Dec-10	1,401	29	92,592	0.02	23	61	4,026
Jan-11	1,320	21	77,625	0.02	21	63	3,696
Feb-11	1,289	23	84,448	0.02	20	64	4,222
Mar-11	1,802	26	103,986	0.02	22	82	4,727
Apr-11	1,728	21	88,168	0.02	19	91	4,640
May-11	1,868	26	103,112	0.02	21	89	4,910
May-11	1,868	26	103,112	0.02	21	89	4,910
Jun-11	2,617	24	107,063	0.02	21	125	5,098
Jul-11	2,151	24	103,338	0.02	21	102	4,921
Aug-11	2,007	25	110,498	0.02	22	91	5,023
Sep-11	1,730	27	118,798	0.01	22	79	5,400
Oct-11	2,004	25	113,658	0.02	20	100	5,683

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third Party Messages

Multiple third party Message Type (MT 102) decreased by 3.55 percent from 12,082 transaction messages in September 2011 to 11,653 transaction messages in October 2011, while single third party Message Type (MT 103) decreased by 5.79 percent from 113,333 transaction messages to 106,768 transaction messages in the same period. Overall, total third party messages through KEPSS decreased by 5.58 percent from 125,415 transaction messages in September 2011 to 118,421 transaction messages in October 2011.

Compared with October 2010, multiple third parties messages (MT 102) increased by 23.05 percent from 9,470 transaction messages to 11,653 transaction messages in October 2011, while single third party messages (MT 103) increased by 48.75 percent from 71,779 transaction messages to 106,768 transaction messages (Table 5.4 and Chart 5C).

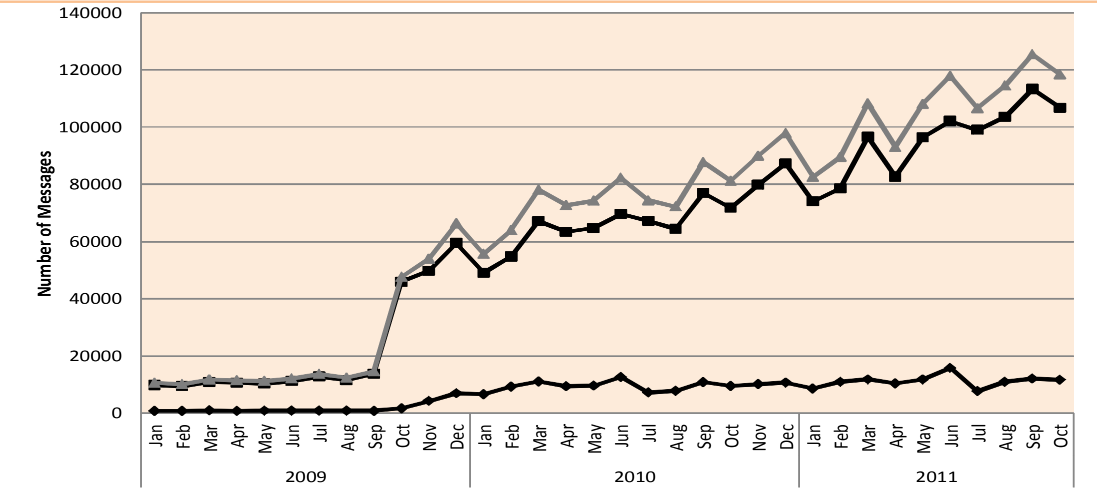
Inter-bank transfers (MT 202) accounted for 27.30 percent of the total value moved through KEPSS as at end of October 2011, while third party messages accounted for 72.70 percent. The total number of third party messages (MT 102 and MT 103) grew by 45.75 percent from 81,249 messages in October 2010 to 118,421 messages in October 2011.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2010	Jun	12601	69,659	82,260
	Jul	7165	67,216	74,381
	Aug	7787	64,385	72,172
	Sep	10806	76,910	87,716
	Oct	9470	71,779	81,249
	Nov	10150	79,819	89,969
	Dec	10646	87,204	97,850
2011	Jan	8580	74,004	82,584
	Feb	10955	78,589	89,544
	Mar	11778	96,550	108,328
	Apr	10392	82,691	93,083
	May	11739	96,324	108,063
	Jun	15794	102,098	117,892
	Jul	7584	98,977	106,561
	Aug	10929	103,561	114,490
	Sep	12028	113,333	125,415
	Oct	11653	106,768	118,421

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

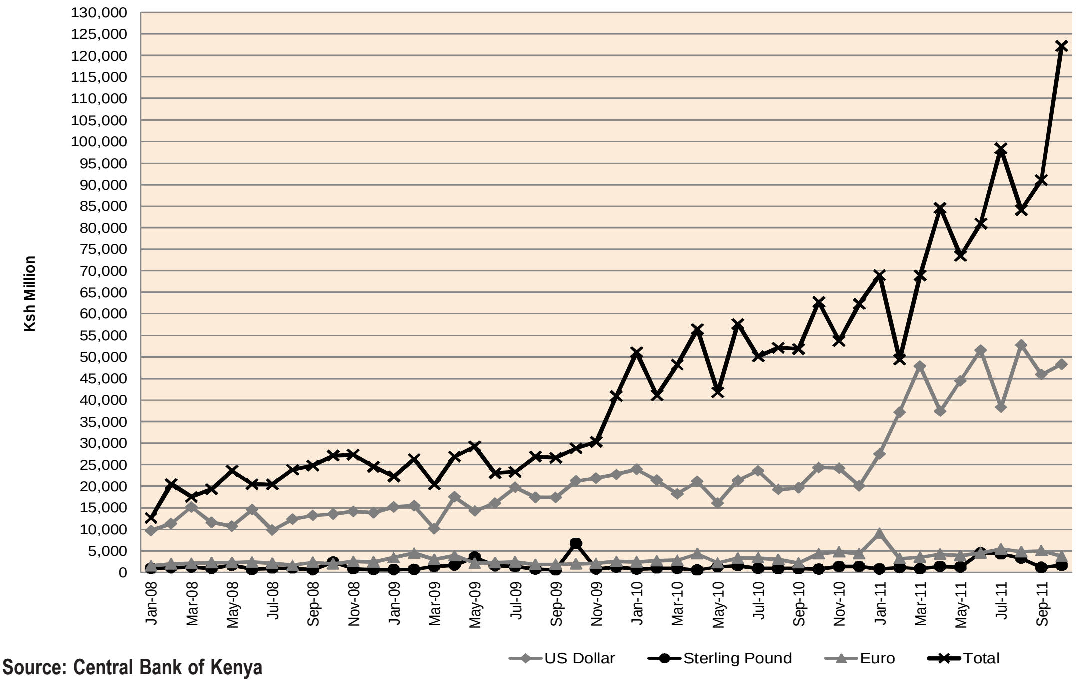


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS decreased by 0.72 percent from 9,730 transaction messages in September 2011 to 9,659 transaction messages in October 2011. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period increased by 9.99 percent from Ksh 122.2 billion to Ksh 134.4 billion. The US dollar accounted for 93.99 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.71 percent and 4.30 percent, respectively.

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



Source: Central Bank of Kenya

GOVERNMENT BUDGET PERFORMANCE

Central Government budgetary operations for the period July - October 2011 in the fiscal year 2011/12 resulted in a deficit of Ksh 37.7 billion on commitment basis compared with a deficit of Ksh 50.1 billion in July - October 2010 (Table 6.1). The deficit-to-GDP ratio stood at 1.4 percent both on commitment and cash basis in July -October 2011 period. The budget deficit for the period was within the programmed target of 2.7 percent of GDP on commitment and cash basis.

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

	FY 2010/11	FY 2011/12		
	October Actual	October Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	**193.1**	**210.3**	**245.5**	**-35.2**
Revenue	187.9	207.1	238.8	-31.7
Tax Revenue	170.2	190.0	209.4	-19.4
Non Tax Revenue	4.7	3.7	6.0	-2.3
Appropriations-in-Aid	13.0	13.3	23.3	-10.0
External Grants	5.2	3.2	6.7	-3.5
2. TOTAL EXPENSES & NET LENDING	**243.1**	**248.0**	**319.2**	**-71.2**
Recurrent Expenses	180.9	188.3	218.7	-30.4
Development Expenses	62.2	59.7	100.5	-40.8
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-50.1	-37.7	**-73.7**	**-36.0**
As percent of GDP	**-1.93**	**-1.37**	**-2.67**	
4. ADJUSTMENT TO CASH BASIS	**9.4**	**0.0**	0.0	**0.0**
5. DEFICIT ON A CASH BASIS	-40.7	-37.7	**-73.7**	**-36.0**
As percent of GDP	**-1.57**	**-1.37**	**-2.7**	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**1.7**	**-7.8**	**0.0**	
7. FINANCING	**42.4**	**30.0**	**73.7**	**-43.7**
Domestic (Net)	32.8	24.6	61.1	-36.5
External (Net)	9.6	5.3	12.6	-7.2
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: Treasury

Revenue

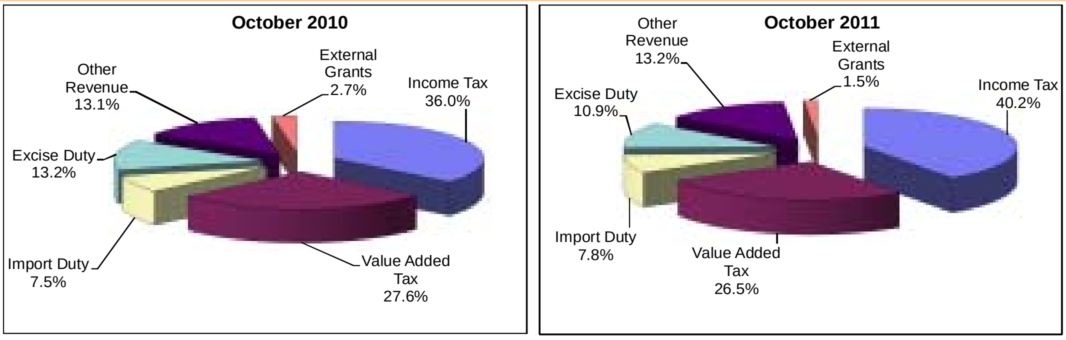
In the July- October 2011 period, government revenues and grants increased by Ksh 17.2 billion to Ksh 210.3 billion compared with Ksh 193.1 billion collected in a similar period of the financial year 2010/11. Total revenue and grants were below target by Ksh 35.2 billion, despite the Ksh 17.2 billion increase in collections during the period. The realised receipts on government revenue and external grants were Ksh 207.1 billion and Ksh 3.2 billion, respectively, against targets of Ksh 238.8 billion and Ksh 6.7 billion. Tax revenue, therefore, underperformed by 9.3 percent during the period.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Oct-10 Ksh bn	Oct-11 Ksh bn	Change
1. Revenue (2+3+4)	**187.9**	**207.1**	**19.2**
2. Tax Revenue	170.2	190.0	19.8
Income Tax	69.5	84.5	15.1
Value Added Tax	53.2	55.7	2.4
Import Duty	14.4	16.4	2.0
Excise Duty	25.6	22.9	-2.7
Others	7.6	10.6	3.0
3. Appropriations-in-Aid	12.96	13.34	0.38
4. Other Revenue	4.7	3.7	-1.0
5. External Grants	**5.2**	**3.2**	**-2.0**
TOTAL RECEIPTS (1+5)	**193.1**	**210.3**	**17.2**

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue expanded by Ksh 19.8 billion, equivalent to 11.6 percent, from Ksh 170.2 billion collected in the period July - October 2010 to Ksh 190.0 billion in July - October 2011. The increae was on account of income tax, value added tax, import duty and appropriations-in-aid collections amounting to Ksh 15.1, Ksh 2.4, Ksh 2.0 billion and Ksh 0.4 billion, respectively, during the period under review. Excise duty declined from Ksh 25.6 billion collected between July and October 2010 to Ksh 22.9 billion collected during the same period in 2011.

Expenditure and Net Lending

Government expenditure and net lending expanded by Ksh 4.9 billion in the period July – October 2011 from Ksh 243.1 billion expended during the same period in the 2010/11 fiscal year. Total expenditure for the period July – October 2011 amounted to Ksh 248.0 billion, comprising Ksh 188.3 billion and Ksh 59.7 billion in recurrent and development expenditure, respectively.

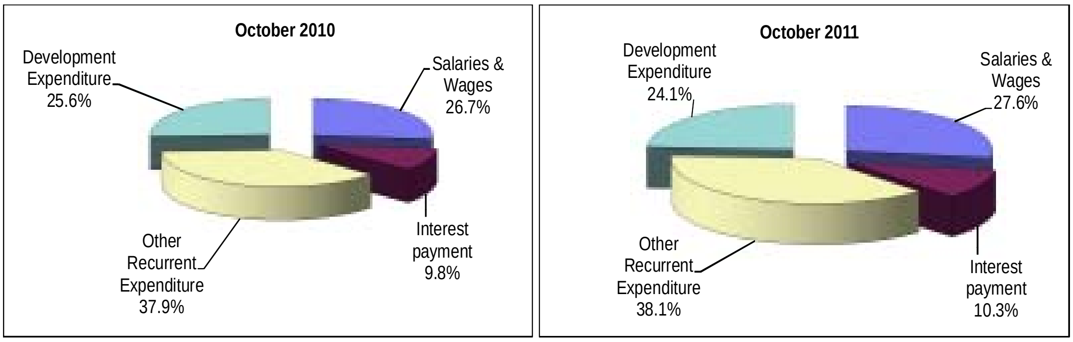
Recurrent expenditure increased by 4.1percent or Ksh 7.4 billion during the period under review. The main expenditure items included salaries and wages and interest on domestic debt which recorded increases of Ksh 3.5 billion and Ksh 1.9 billion, respectively (Table 6.3). Expenditure and net lending targets were missed by Ksh 71.2 billion, with the development expenditure performance at Ksh 40.8 billion below the target. The underperformance in expenditure was as a result of lack of funds to carry out the planned projects.

TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Oct-10 Ksh bn	Oct-11 Ksh bn	Movement
1.Recurrent	**180.9**	**188.3**	**7.4**
Salaries & Wages	64.9	68.3	**3.5**
Total Interest	23.9	25.6	**1.7**
of which			
Domestic*	21.6	23.5	1.9
Foreign interest due	2.3	2.1	-0.2
Others	92.1	94.4	2.2
2. Development	**62.2**	**59.7**	**-2.5**
TOTAL EXPENSES	**243.1**	**248.0**	**4.9**

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

In the July-October 2011 period, budgetary operations of the Government resulted in a financing requirement of Ksh 44.1 billion compared with Ksh 42.4 billion in the same period in 2010. The Government sourced the funds through net domestic borrowing amounting to Ksh 22.1 billion net external debt borrowing of Ksh 5.3 billion. and a net reduction in Government deposits at the Central Bank of Ksh 16.7 billion (Table 6.4).

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

I. FINANCING REQUIREMENTS	Oct-10	Oct-11
1. Budget deficit	42.4	30.0
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	14.1
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	14.1
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0
TOTAL	**42.4**	**44.1**
II. FINANCING SOURCES	**Oct-10**	**Oct-11**
1. Budget surplus	0.0	0.0
2. External debt increase	9.6	5.3
3. Increase in domestic debt	31.8	22.1
3.1 Central Bank	1.9	21.4
3.2 Commercial banks	2.9	0.0
3.3 Non-bank sources	27.0	0.7
4. Reduction in GoK deposits at CBK	1.0	16.7
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	**42.4**	**44.2**

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank increased by Ksh 8.8 billion to stand at Ksh 61.1 billion in the first four months of the fiscal year 2011/12, compared with Ksh 52.3 billion in the same period of the previous fiscal year. Among the various components the Government overdraft increased by Kshs 6.1 billion. Rediscounted Treasury bills increased by Ksh 3.8 billion in the first four months of the fiscal year 2011/12. During the same period, amortization of the pre-1997 overdraft reduced Government indebtedness by Ksh 1.1 billion while the cleared items in transit remained constant at Ksh 0.1 billion (Table 6.5).

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

	2010	2011	Movement
	October	October	
Total Credit	**52.3**	**61.1**	**8.8**
1. Overdraft	20.0	26.0	6.1
2. Rediscounted securities	0.0	3.9	3.8
Treasury bills	0.0	3.8	3.8
Treasury bonds	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	32.2	31.1	-1.1
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.1	0.1	0.0
Memorandum			
Authorised overdraft limit	**22.9**	**25.4**	14.0
Amount utilised to date	20.0	26.0	26.0
Amount available	3.0	-0.6	-11.9

Source: Central Bank of Kenya

Outlook for FY 2011/12

In the Budget Estimates for the fiscal year 2011/12, Government revenue excluding external grants is estimated at Ksh 789.5 billion (28.6 percent of GDP), while external grants are estimated at Ksh 41.1 billion (1.5 percent of GDP). Government expenditure is estimated at Ksh 1,066.8 billion or 38.6 percent of GDP. The main components of expenditure includes Ksh 663.7 billion (24.0 percent of GDP) in recurrent expenditure and Ksh 401.1 billion or 14.5 percent of GDP in development expenditure (Table 6.6).

TABLE 6.6: BUDGET ESTIMATES FOR THE FISCAL YEAR 2011/12 (Ksh Billion)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE	**830.60**	**30.10**
Revenue	789.50	28.60
Tax Revenue	645.80	23.40
Non Tax Revenue	67.90	2.50
Appropriations-in-Aid	75.90	2.70
External Grants	41.10	1.50
2. TOTAL EXPENSES & NET LENDING	**1066.80**	**38.60**
Recurrent Expenses	663.70	24.00
Development Expenses	401.10	14.50
Civil Contigency Fund	2.00	0.10
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-236.20**	**-8.60**
4. ADJUSTMENT TO CASH BASIS	**0.00**	**0.00**
5. DEFICIT ON A CASH BASIS	**-236.20**	**-8.60**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.00**	**0.00**
7. FINANCING	**236.20**	**8.60**
Domestic (Net)	119.50	4.30
External (Net)	116.70	4.20

Source: Central Bank of Kenya

The overall budget deficit including grants is therefore estimated at Ksh 236.2 billion (8.6 percent of GDP) in 2011/12. The deficit will be financed through net external borrowing of Ksh 116.7 billion (4.2 percent of GDP) and net domestic borrowing of Ksh 119.5 billion (4.3 percent of GDP).

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt

Kenya's public and publicly guaranteed debt amounted to Ksh 1,605.2 billion by October 2011, an increase of Ksh 113.7 billion since July 2011. The debt stock by October 2011 was equivalent to 58.1 percent of GDP, up from Ksh 1,491.5 billion, equivalent to 54.2 percent of GDP in June 2011 (Table 7.1). External debt to GDP ratio increased from 26.4 percent in June 2011 to 29.3 percent in October 2011, while the domestic debt to GDP ratio increased from 27.8 percent to 28.8 percent during the period. Domestic debt constituted 49.5 percent of total debt during the period.

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

	Jun-09	Jun-10	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Change 2011/12
EXTERNAL* **								
Bilateral	185.9	196.3	257.0	267.7	249.6	258.5	257.1	0.1
Multilateral	327.6	348.6	445.3	451.7	492.7	514.7	525.7	80.5
Export Credit	23.8	20.5	25.0	25.2	26.1	26.6	27.2	2.1
Sub-Total	**537.4**	**565.5**	**727.3**	**744.5**	**768.51**	**799.83**	**810.01**	**82.7**
(As a % of GDP)	22.5	22.2	26.4	27.0	27.8	29.0	29.3	
(As a % of total debt)	50.9	46.1	48.8	48.8	49.7	51.1	50.5	
DOMESTIC/[1]								
Banks	**290.8**	**401.8**	**418.1**	**437.8**	**424.1**	**413.1**	**425.3**	**7.2**
Central Bank	40.1	51.9	39.7	60.0	65.1	58.1	61.1	21.4
Commercial Banks	250.7	350.0	378.4	377.9	359.0	355.0	364.2	-14.1
Non-banks	**225.1**	**255.3**	**338.3**	**336.5**	**344.9**	**343.1**	**360.9**	**22.6**
Non-bank Financial Institutions	1.0	3.0	2.6	2.6	2.6	2.1	2.1	-0.5
Other Non-bank Sources	224.1	252.4	335.7	333.9	342.4	341.0	358.8	23.1
Non-residents	**2.6**	**3.1**	**7.9**	**7.4**	**7.8**	**8.1**	**9.0**	1.1
Sub-Total	**518.5**	**660.3**	**764.2**	**781.7**	**776.9**	**764.3**	**795.2**	**31.0**
(As a % of GDP)	21.7	25.9	27.8	28.3	28.1	27.7	28.8	
(As a % of total debt)	49.1	53.9	51.2	51.2	50.3	48.9	49.5	
GRAND TOTAL	**1055.9**	**1225.7**	**1491.5**	**1526.2**	**1545.4**	**1564.1**	**1605.2**	**113.7**
(As a % of GDP)	44.1	48.0	54.2	55.3	56.0	56.6	58.1	

*** Includes IMF Loans

/[1] Domestic Debt is reported on a gross basis

Note

From January 2001 domestic debt is reported on a gross basis, that is, without netting out government deposits and Treasury advances to parastatals. The debt is, however, net of IMF disbursements on-lent to the Government by CBK and which are considered as part of external debt.

Sources: Treasury and Central Bank of Kenya

Domestic Debt

Total domestic debt increased by Ksh 31.0 billion from a stock of Ksh 764.2 billion at the end of June 2011 to Ksh 795.2 billion at the end of October 2011 (Table 7.2). The rise was largely attributed to increases of Ksh 18.4 billion, Ksh 10.2 billion and Ksh 2.0 billion in the Government overdraft at the Central Bank, and outstanding Treasury bonds and Treasury bills, respectively, during the period.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2011								Change
	June	%	August	%	Sept	%	Oct	%	June-11 - Oct-11
Total Stock of Domestic Debt (A+B)	**764.2**	**100.0**	**776.9**	**100.0**	**764.3**	**100.0**	**795.2**	**100.0**	**31.0**
A. Government Securities	**753.9**	**98.7**	**748.4**	**96.3**	**736.4**	**96.3**	**765.5**	**96.3**	**11.6**
1. Treasury Bills (excluding Repo Bills)	**126.6**	**16.6**	**113.5**	**14.6**	**113.7**	**14.9**	**128.6**	**16.2**	**2.0**
Banking institutions	87.7	11.5	67.5	8.7	72.9	9.5	78.0	9.8	**-9.7**
Others	38.9	5.1	45.9	5.9	40.9	5.3	50.5	6.4	**11.7**
2. Treasury Bonds	**595.7**	**77.9**	**603.8**	**77.7**	**591.5**	**77.4**	**605.8**	**76.2**	**10.2**
Banking institutions	288.4	37.7	288.7	37.2	279.8	36.6	282.7	35.6	**-5.7**
Others	307.3	40.2	315.1	40.6	311.7	40.8	323.1	40.6	**15.9**
3. Long Term Stocks	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
4. Non-Interest Bearing Debt	31.7	**4.1**	31.1	**4.0**	31.1	**4.1**	31.1	**3.9**	**-0.6**
Of which: Repo T/Bills	30.8	4.0	30.2	3.9	30.8	4.0	30.8	3.9	**0.0**
B. Others:	**10.29**	**1.3**	**28.42**	**3.7**	**27.91**	**3.7**	**29.68**	**3.7**	**19.4**
Of which CBK overdraft to Government	7.6	1.0	25.4	3.3	25.4	3.3	26.0	3.3	**18.4**

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

Source: Central Bank of Kenya

Treasury Bills

Overall uptake of Treasury bills improved in October 2011, reversing the declining trend experienced throughout the fiscal year 2010/11, and at the beginning of fiscal year 2011/2012. This resulted in Ksh 2.0 billion rise in outstanding Treasury bills, from Ksh 126.6 billion in June 2011 to Ksh 128.6 billion at the end of October 2011 (Table 7.2). Consequently, the proportion of Treasury bills in total domestic debt increased from 14.9 percent in September 2011 to 16.2 percent at the end of October 2011 (Table 7.2). Commercial banks remained the largest holders of Treasury bills Table 7.3).

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

	2010								2011					
Holders	Jun	%	Sept	%	Oct	%	Dec	%	Jun	%	Sep	%	Oct	%
Banking Institutions	134.0	84.3	122.6	82.3	116.6	80.9	106.9	79.9	87.7	69.3	72.9	64.1	78.0	60.7
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
Comm. Banks	133.8	84.1	122.6	82.3	116.6	80.8	106.9	79.9	87.7	69.3	72.9	64.1	78.0	60.7
NBFIs	0.2	0.1	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	8.8	5.5	6.7	4.5	6.6	4.6	4.2	3.1	4.7	3.7	8.6	7.5	9.3	7.3
Parastatals	1.9	1.2	1.1	0.7	2.6	1.8	2.5	1.9	3.2	2.6	3.6	3.1	3.4	2.7
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	0.0	0.0
Pension Funds	4.6	2.9	5.0	3.3	5.0	3.5	5.2	3.8	4.8	3.8	2.6	2.3	6.6	5.1
Others	9.7	6.1	13.6	9.1	13.3	9.2	15.1	11.3	26.1	20.6	26.1	23.0	31.2	24.3
Total*	**159.0**	**100.0**	**148.9**	**100.0**	**144.2**	**100.0**	**133.9**	**100.0**	**126.6**	**100.0**	**113.7**	**100.0**	**128.6**	**100.0**

* Excludes repurchase order bills

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds outstanding increased from Ksh 595.7 billion in June 2011 to Ksh 605.8 billion at the end of October 2011, following successful bond issues during the period, which included the 12-year infrastructure bond, the 30-year special development bond and other discounted fixed rate bonds (Table 7.2). The share of Treasury bonds in total domestic debt, however, declined from 77.9 percent in June 2011 to 76.2 percent in October 2011, resulting in an average maturity profile of domestic debt (by days to maturity) of 5 years and 10 months in October 2011, unchanged from June 2011.

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

	2010								2011					
Holders	Jun	%	Sept	%	Oct	%	Dec	%	Jun	%	Sep	%	Oct	%
Banking Institutions	134.0	84.3	122.6	82.3	116.6	80.9	106.9	79.9	87.7	69.3	72.9	64.1	78.0	60.7
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
Comm. Banks	133.8	84.1	122.6	82.3	116.6	80.8	106.9	79.9	87.7	69.3	72.9	64.1	78.0	60.7
NBFIs	0.2	0.1	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	8.8	5.5	6.7	4.5	6.6	4.6	4.2	3.1	4.7	3.7	8.6	7.5	9.3	7.3
Parastatals	1.9	1.2	1.1	0.7	2.6	1.8	2.5	1.9	3.2	2.6	3.6	3.1	3.4	2.7
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	0.0	0.0
Pension Funds	4.6	2.9	5.0	3.3	5.0	3.5	5.2	3.8	4.8	3.8	2.6	2.3	6.6	5.1
Others	9.7	6.1	13.6	9.1	13.3	9.2	15.1	11.3	26.1	20.6	26.1	23.0	31.2	24.3
Total*	**159.0**	**100.0**	**148.9**	**100.0**	**144.2**	**100.0**	**133.9**	**100.0**	**126.6**	**100.0**	**113.7**	**100.0**	**128.6**	**100.0**

* Excludes repurchase order bills

Source: Central Bank of Kenya

Maturity Profile of Treasury Bills and Bonds

Government securities worth Ksh 114.5 billion will fall due between November 2011and January 2012 in the 2011/12 fiscal year. Of the total maturing debt, Ksh 97.1 billion, equivalent to 84.8 percent will be in Treasury bills, while the remainder will be in Treasury bonds. Treasury bill maturities in the period will comprise Ksh 69.8 billion, Ksh 14.3 billion and Ksh 13.1 billion in 91-days, 182-days and 364-days Treasury bills, respectively, while Treasury bonds maturing during this period will comprise Ksh 2.8 billion and Ksh 7.2 billion in 5-year and 2 year discounted fixed rate bonds, respectively.

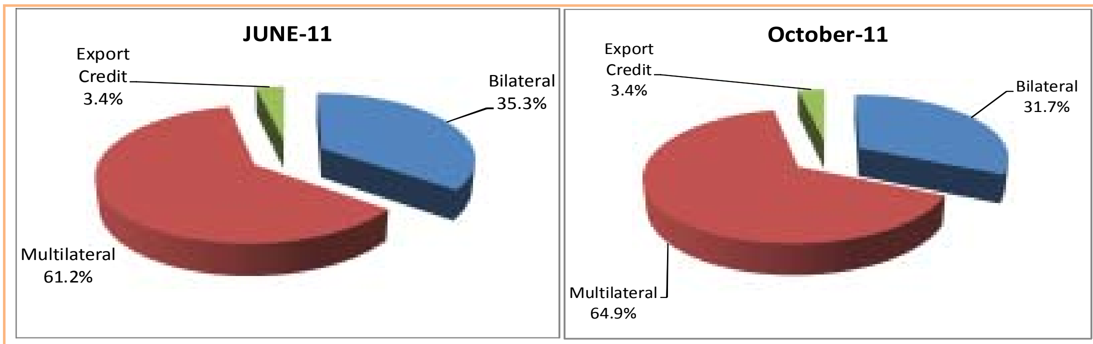
External Debt

Kenya's external debt increased by Ksh 82.7 billion from Ksh 727.3 billion (US$ 7.88 billion) in June 2011 to Ksh 810.0 billion (US$ 8.12 billion) at the end of October 2011 (Table 7.1). During the period, debt owed to multilateral creditors increased by Ksh 80.5 billion from Ksh 445.3 billion in June 2011to Ksh 525.7 billion in October 2011, on account of depreciation of the Kenya shilling against major world currencies.

Composition of External Debt by Creditor

Kenya's official creditors, the multilateral and bilateral lenders, accounted for over 96 percent of total external debt in October 2011. The proportion of external debt owed to multilateral creditors increased from 61.2 percent in June 2011 to 64.9 percent in October 2011, largely due to the depreciation of the Kenya Shilling against the major world currencies. Bilateral creditors accounted for 31.7 percent in October 2011, while debt contracted through export credit accounted for 3.4 percent of total external debt in June and October 2011 (Chart 7A).

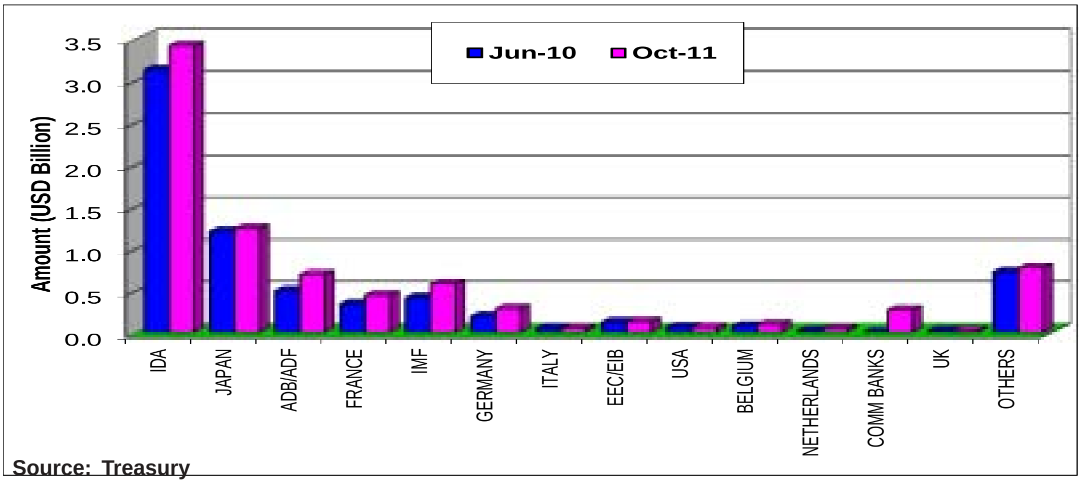
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

Debt owed to the African Development Bank (ADB) and the International Monetary Fund (IMF) increased from US$ 585.8 million and US$ 529.5 million in June 2011, respectively, to US$ 692.1 million and US$ 581.6 million in October 2011, while debt owed to International Development Association (IDA) declined by US$ 58.8 million from US$ 3,473.7 million, to US$ 3,414.9 million, during the same period (Chart 7B).

CHART 7B: EXTERNAL DEBT BY CREDITOR

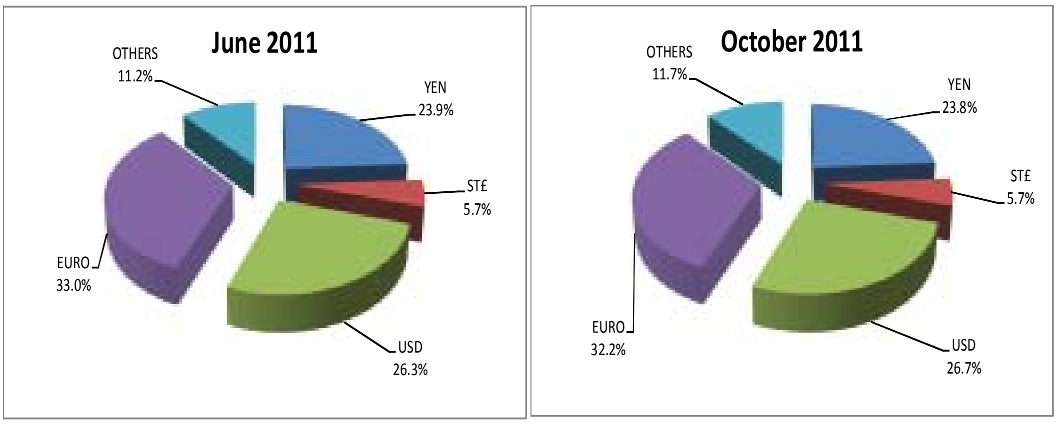


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in Japanese Yen and Euro declined from 23.9 percent and 33.0 percent, respectively, in June 2011 to 23.8 percent and 32.2 percent in October 2011. Holdings of debt in the other major currencies increased, except for the Sterling Pound, which remained constant (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 23.7 billion in the period July to October 2011. This comprised Ksh 19.6 billion, Ksh 3.5 billion and Ksh 0.6 billion, respectively, in interest and other charges on Treasury bonds, Treasury bills and Government overdraft at the Central Bank. External debt service for the fiscal year to October 2011 amounted to Ksh 12.7 billion comprising Ksh 10.1 billion in principal repayments and Ksh 2.6 billion in interest cost .

Outlook for the FY 2011/12

The budget estimates for fiscal year 2011/12 indicate projected domestic and external borrowing equivalent to Ksh 119.5 and Ksh 116.7 billion, respectively.

ACTIVITY IN THE STOCK MARKET

Equity Market

The capital markets performance recorded mixed fortunes during the month of October, 2011 as shown by key market indicators.

The equities market had mixed performance as reflected in key market indicators (Table 8.1 and Chart 8.4). The NSE 20 Share Index and NASI added 223.28 points and 3.33 points to level 3507.34 points and 72.71 points in October from 3284.06 points and 69.38 points in September 2011, respectively. Market Capitalization added Ksh 43 billion to close at Ksh 927 billion from 884 billion during the period. Equity turnover declined by Ksh 987 million or 18.1 percent in October 2011, to close at Ksh 4,466 million from Ksh 5,453 million in September 2011. The Turnover Ratio as a measure of market liquidity added 1 basis point to reach 0.79 percent in October from 0.78 percent in September 2011, reflecting less volatile exchange and stability in investor optimism on the recovery of the stock exchange. The number of shares traded fell to 570 million from 581 million within the month, a sign of investor hold back for prices to rise.

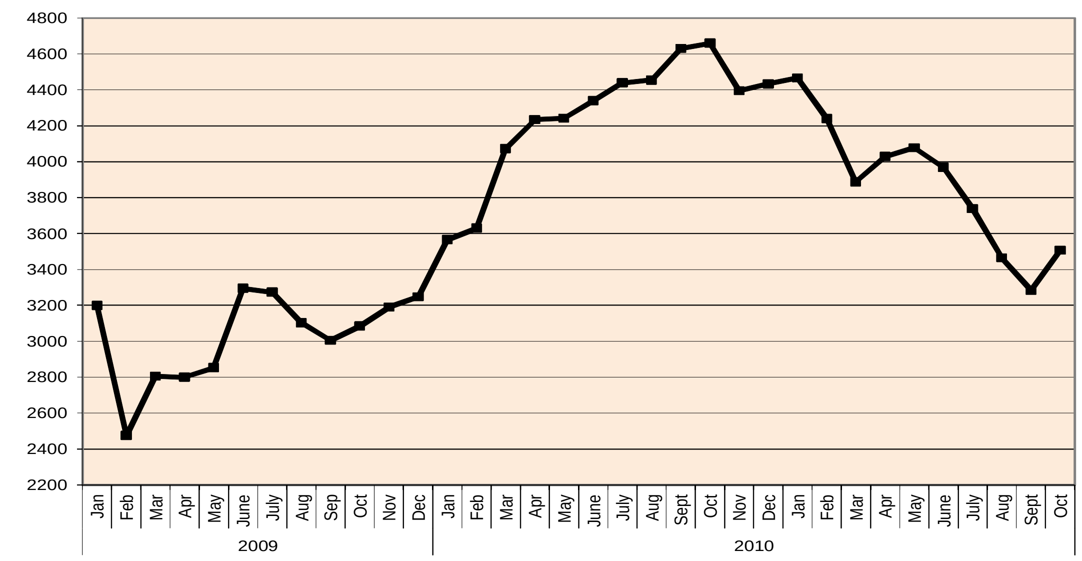
Net foreign investors' participation was up, to 64.54 percent from 43.62 percent of total equity turnover during the period. Foreign investors bought more at 72.59 percent of total equity turnover against 56.49 percent of sales, implying confidence in the exchange.

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)
January-10	3,565.28	603.91	6,358.02	910.02	26,750.00
February-10	3,629.41	369.76	4,214.87	922.10	41,638.70
March-10	4,072.93	627.00	8,325.6	983.12	50,411.00
April-10	4,233.24	398.53	6,754.90	1,062.00	23,241.00
May-10	4,241.81	933.53	10,342.00	1,073.00	37,204.50
June-10	4,339.28	364.71	6,804.00	1,108.65	95,241.75
July-10	4,438.58	691.34	11,383.00	1,142.60	63,517.00
August-10	4,454.59	1,030.54	16,173.55	1,136.10	23,189.80
September-10	4,629.80	804.41	7,731.50	1,173.70	30,875.50
October-10	4,659.56	500.96	10,233.33	1,221.85	34,110.00
November-10	4,395.17	498.78	9,301	1,169.17	33, 691.00
December-10	4,432.60	357.61	5,885.41	1,166.99	23,280.00.
January-11	4,464.92	725.05	9,462.18	1,192.28	19,891.30
February-11	4,240.18	335.25	6,215.78	1,176.85	49,040.10
March-11	3,887.07	469.03	7,984.12	1,090.23	40,116.05
April-11	4,029.23	497.18	7,883.04	1,154.92	33,376.20
May-11	4,078.10	410.00	8,405.61	1,144.00	33,646.10
June-11	3,968.12	411.00	7,047.50	1,121.00	69,415.48
July-11	3,738.46	434.00	7,132.18	1,050.00	33,414.55
August-11	3,465.02	551.88	6,109.01	950.41	44,111.70
September-11	3,283.06	581.00	5,453.00	884.00	3,611.00
October-11	3,507.34	570.00	4,466.00	927.00	3,474.00

Source: Nairobi Stock Exchange

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



Source: Nairobi Stock Exchange

Telecommunications and Technology sector dominated the market, with 402.19 million shares being traded during the month, which accounted for 70.54 percent of the entire market activity. Safaricom was the most active counter, trading 396.33 million shares or 69.51 percent of the entire market. Banking sector came second, with 112.27 million shares changing hands or 19.69 percent, where Equity bank led the sector with 53.23 million of its shares traded. Energy and Petroleum sector was third best with 22 million shares or 4 percent of market activity, where Kenol Kobil Co. Ltd. dominated with 9.25 million shares.

Bond Market

Bonds trading at the NSE recorded 3.79 percent drop in volume from a total of 537 deals valued Ksh 36,112 million transacted in September 2011 to 521 deals worth Ksh 34,737 million traded in October 2011. The continued decline may be attributed to traders' fear of incurring losses as interest rates skyrocket in the primary issuance. This is confirmed by increased activity in the newly introduced Sell/Buy Back Window.

Statement of Financial Position Of The Central Bank of Kenya
(Kenya shillings million)

	Oct-11	Oct-10	Oct 11/Oct 10 Movement
ASSETS			
Balances due from Banking Institutions and Gold holdings	393,801	328,064	65,737
Items in the course of collection	94	98	(4)
Advances to commercial banks	3,851	29	3,822
Loans and Advances	50,167	22,880	27,287
Other Assets	3,172	3,461	(289)
Retirement Benefits Assets	1,897	1,894	3
Property and Equipment	3,131	1,143	1,988
Prepaid operating lease rentals	267	270	(3)
Intangible Assets	1,169	929	240
Due from Government of Kenya	31,109	32,219	(1,110)
TOTAL ASSETS	**488,658**	**390,987**	**97,671**
LIABILITIES			
Balances due to Banking Institurions (RAMP A/Cs	0	0	
Currency in Circulation	161,708	136,646	25,062
Repos sold to Banks	350	0	
Deposits	127,598	143,290	(15,692)
International Monetary Fund	96,805	67,444	29,361
Other Liabilities	6,311	4,856	1,455
Provisions	75	55	20
TOTAL LIABILITIES	**392,847**	**352,291**	**40,556**
EQUITIES AND RESERVES	**95,811**	**38,696**	**57,115**
Share capital	5,000	5,000	0
General Reserve Fund	62,722	23,103	39,619
Period Surplus	26,720	10,593	16,127
Asset Revaluation	1,369	0	1,369
Dividends Payable	0	0	0
TOTAL LIABILITIES AND EQUITY	**488,658**	**390,987**	**97,671**

Source: Central Bank of Kenya

NOTES ON THE FINANCIAL POSITION

Assets

Balances due from Banking institutions and Gold holdings category consist of foreign reserves held in external current accounts, deposits and special/projects accounts, foreign travelers cheques, Domestic Foreign Currency Clearing Accounts, Gold, Special Drawing Rights and RAMP securities invested with World Bank. The category increased by Ksh 65,737 million or 20.0 percent, to Ksh 393,801 million in October 2011 from Ksh 328,064 million in October 2010. The increase reflect net forex purchases from the interbank market, loan receipts from the IMF and the revaluation gains due to depreciation of the Kenya Shilling against major international currencies.

Items in course of collection represent the value of clearing instruments which are held by the Bank, while awaiting clearing by respective commercial banks. The balances as at October 2011 were Ksh 94 million, a decline of 4 million compared with Ksh 98 million as at October 2010.

Advances to commercial banks capture loans provided by the Central Bank to commercial banks through reverse Repo (injection of liquidity) for a short duration of up to 7 days. These advances are secured against government securities. The category also include government securities discounted by commercial banks. The balance outstanding increased to Ksh 3,851 million in October 2011 from Ksh 29 million in October 2010.

Loans and Advances include mainly outstanding balances on advances to commercial bank under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF fund on-lent to Government. The balances increased by Ksh 27,287 million to Ksh 50,167 million in October 2011 from Ksh 22,880 million over a similar period in 2010 largely reflecting increased utilization of the OLF window by commercial banks and overdraft facility by the Government.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets decreased by Ksh 289 million or 8.4 percent to Ksh 3,172 million in October 2011 mainly due to deposits for production of bank notes.

Due from Government of Kenya (GoK) liability category arose from overdrawn accounts which were converted to a long term debt with effect from 1 July 1997 after an amendment to the Central Bank of Kenya Act to limit lending to GoK to 5 percent of GoK audited revenue. The change in the balances represents partial payment of the loan.

Liabilities

Currency in circulation increased by Ksh 25,062 million or 18.3 percent to Ksh 161,708 million in October 2011 from Ksh 136,646 million in October 2010. This reflected increased demand for cash to fund economic activities.

Deposits liability represents deposits held by Government of Kenya, local commercial bank deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances decreased by 11.0 percent or Ksh 15,692 million to Ksh 127,598 million in the year to October 2011 largely on account of reduced local commercial banks and government deposits.

Amount due to International Monetary Fund represents the Banks obligations to the IMF. The balances increased by Ksh 29,361 million to Ksh 96,805 million. The increase reflected the weakening of the Shilling against the SDR denominated liability and receipts of loan disbursement from the IMF.

Other liabilities and provisions include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance increased by Ksh 1,455 million to Ksh 6,311 million in the year to October 2011 from Ksh 4,856 million in October 2010.

Equities and reserves increased by Ksh 57,115 million to Ksh 95,811 million in the year to October 2011 largely due to increased period's surplus of Ksh 16,127 million and Ksh 39,619 million build up in the general reserve fund. The increments were mainly on account of foreign exchange revaluation gains as the Kenya shilling weakened against major convertible currencies compared with similar period in 2010.