

MONTHLY ECONOMIC REVIEW

SEPTEMBER 2011

The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at:

<http://www.centralbank.go.ke>

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OVERVIEW

Introduction This Monthly Economic Review highlights recent economic developments through September 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 The 12-month overall inflation rose further from 16.7 percent in August 2011 to 17.3 percent in September 2011, reflecting continued rise in the prices of food and fuel. The non-food, non-fuel inflation also increased to 8.5 percent in September 2011. The annual average inflation rose from 9.0 percent in August 2011 to 10.2 percent in September 2011.

Money Supply Broad money supply, M3, expanded by Ksh 240.6 billion (19.3 percent) in the year to September 2011 compared with Ksh 256.7 billion (26.0 percent) in a corresponding period in 2010 and 15.5 percent target for September 2011. The deceleration in growth of money supply in September 2011 was attributed to slowdown in growth of Net Domestic Assets (NDA) of the banking system.

Interest Rates The Special Monetary Policy Committee (MPC) meeting held in September 2011 raised the CBR by 75 basis points to 7.0 percent from 6.25 percent in an effort to tame inflation and stabilize the exchange rate. The committee also enhanced flexibility in the management of interbank liquidity by extending averaging on the 4.75 percent Cash Reserve Ratio (CRR) from weekly to monthly but subject to a daily minimum of 3.0 percent. The average interbank rate rose to 14.29 percent in August 2011 from 8.61 percent in July 2011 while the average lending rates increased to 14.32 percent in August 2011 from 14.08 percent in July 2011.

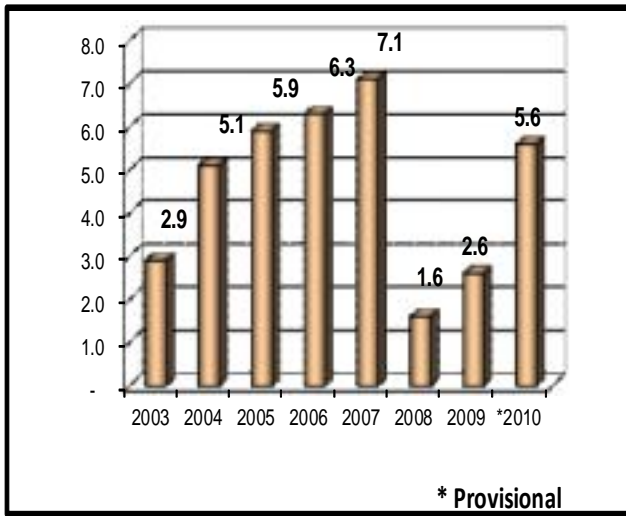
Real GDP Growth The economy grew at 5.6 percent in 2010 compared with growths of 2.6 percent in 2009 and 1.5 percent in 2008. The growth momentum was sustained in the first quarter of 2011 with quarterly growth rate of 4.9 percent. Growth decelerated to 4.1 percent growth in the second quarter of 2011 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.

Balance of Payments Kenya's overall balance of payments surplus narrowed to US\$ 85 million in the year to August 2011 compared with US\$ 362 million in the year to August 2010. The movement reflects a wider current account deficit as imports grew at a much faster pace compared to that of exports of goods and services.

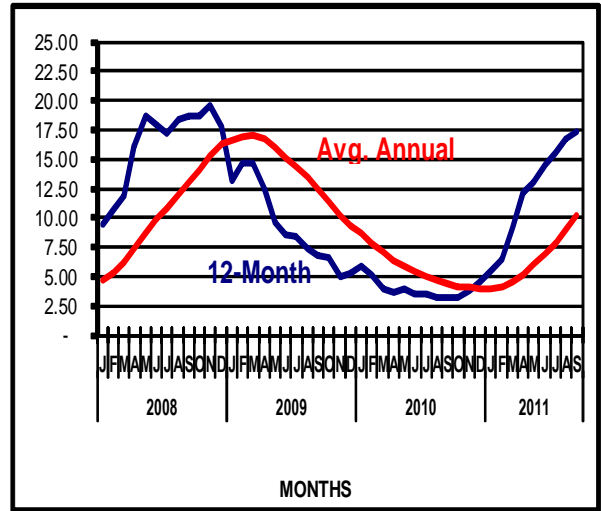
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- Exchange Rates** The Kenya Shilling weakened further against major world currencies in September 2011. Against the US dollar, the Shilling depreciated by 3.8 percent to exchange at an average of Ksh 96.4 per US dollar in August 2011 compared with Ksh 92.8 per US dollar in August 2011. Against the Sterling Pound and the Japanese Yen, the Shilling weakened by 0.1 percent and 4.3 percent, respectively, to trade at an average of Ksh 152.1 per Sterling Pound and Ksh 125.26 per 100 Japanese Yen in September 2011.
- Banking Sector Developments** During the period ended September 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 – September 2011 resulted in a deficit of Ksh 20.4 billion on commitment basis compared with a deficit of Ksh 36.0 billion incurred in the period July -September 2010. The deficit to GDP ratio at 0.7 percent was within the 2.0 percent target.
- Public Debt** Kenya’s public and publicly guaranteed debt increased by Ksh 72.6 billion in the period July-September 2011 to stand at Ksh 1,564.1 billion from Ksh 1,491.5 billion at the end of June 2011. The public and publicly guaranteed debt-to-GDP ratio rose to 56.6 percent during the period from 54.2 percent in June 2011. The external debt to GDP ratio increased from 26.4 percent in June 2011 to 29.0 percent in September 2011, while the domestic debt to GDP ratio declined from 27.8 percent to 27.7 percent during the period. The domestic debt accounted for Ksh 764.3 billion, or 48.9 percent of the public and publicly guaranteed debt, while the rest was in external debt.
- Stock Market** The capital markets performance decline in September, 2011 as reflected in key market indicators.

SELECTED ECONOMIC PERFORMANCE INDICATORS

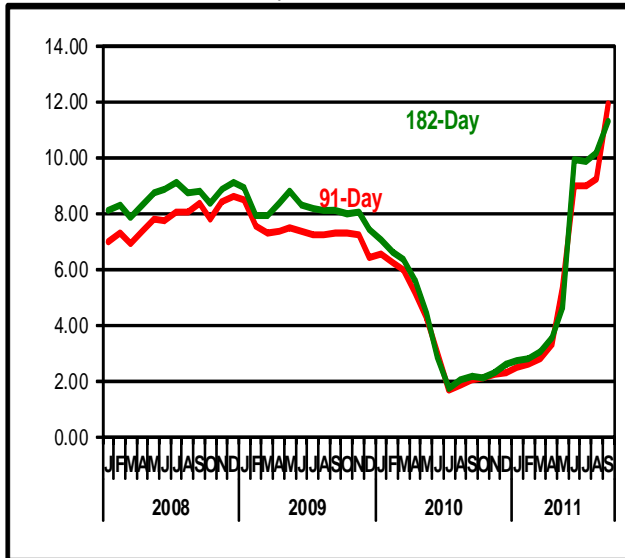
Real GDP Growth (%)



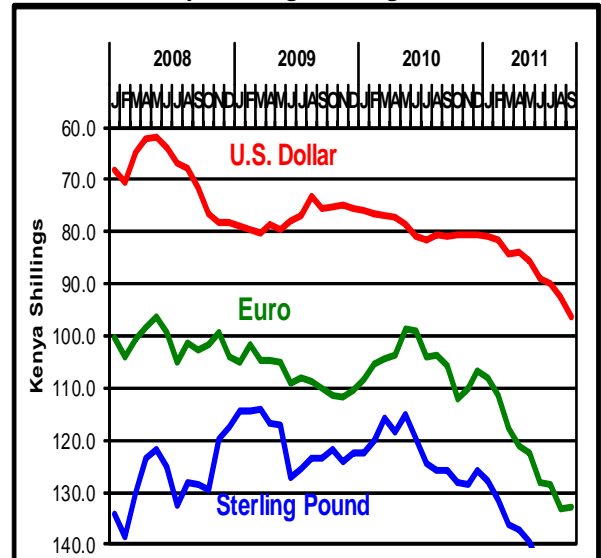
Inflation (%)



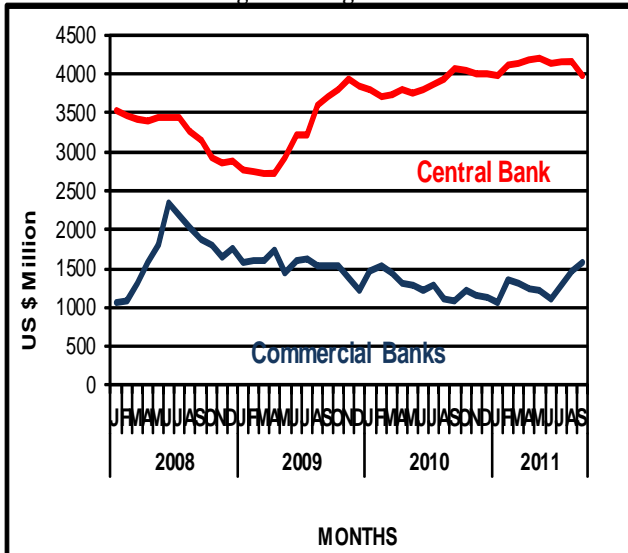
Treasury Bill Rates (%)



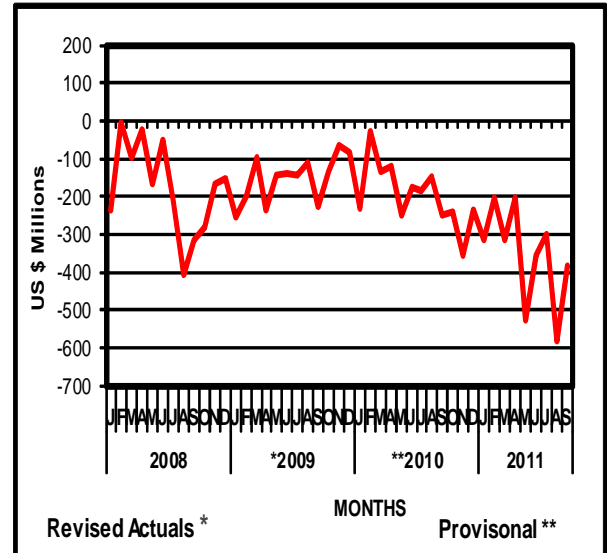
Kenya Shilling Exchange Rate



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					2011			
	Aug	Sept	Oct	Nov	Dec	Jun	Jul	Aug	Sep
1. INFLATION (%)									
CPI	106.25	106.74	106.97	107.86	109.38	120.91	122.44	123.97	125.23
Overall Inflation									
12-month overall inflation	3.22	3.21	3.18	3.84	4.51	14.48	15.53	16.67	17.32
Average annual overall inflation	4.69	4.40	4.12	4.02	3.96	6.88	7.88	9.00	10.18
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
Overdraft interest rate	13.97	13.81	13.64	13.77	13.69	13.59	13.89	14.28	14.64
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
Turnover Ratio(%)	1.60	1.24	0.77	0.76	0.55	0.58	0.61	0.77	0.79
4. GOVERNMENT BUDGET* (Ksh bn.)									
Revenue	83.00	142.43	193.09	243.16	309.23	679.50	42.70	91.27	159.23
Expenses	112.20	178.61	243.14	303.78	368.99	817.10	43.72	95.88	179.63
Budget Deficit (-) / Surplus (+)	(29.20)	(36.19)	(50.05)	(60.62)	(59.76)	(137.60)	(1.02)	(4.61)	(20.40)
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	1,800.32
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
Reserve Money	200.97	209.89	211.00	224.05	222.63	220.44	222.70	242.30	236.15
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
Government	258.04	278.21	279.80	279.94	277.78	277.81	289.21	292.70	300.49
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
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
Money Supply (M3) ²	23.66	26.01	24.10	23.12	21.61	15.16	16.44	18.08	19.35
Reserve Money	28.10	28.39	29.10	25.75	22.36	4.85	11.50	14.82	12.51
Total Domestic Credit	24.19	27.90	27.10	24.69	24.33	23.69	27.59	29.10	30.10
Government	41.17	48.69	45.47	29.36	35.45	0.04	9.54	13.43	8.01
Private and other public sector	19.78	22.37	22.19	23.29	21.30	31.81	33.35	33.90	37.24
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)
Current Account	(151.17)	(283.05)	(239.69)	(358.20)	(229.90)	(357.57)	(299.11)	(583.90)	(385.11)
Trade Balance	(548.84)	(688.67)	(640.00)	(812.17)	(677.35)	(679.29)	(647.76)	(968.38)	(803.71)
Capital and Financial Account	225.48	403.54	234.01	311.13	228.57	302.44	254.35	595.68	200.61
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
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
Months of imports cover	3.96	4.03	4.01	3.92	3.85	3.95	3.82	3.79	3.60
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
9. PUBLIC DEBT (US\$ bn)	15.59	15.52	16.02	16.19	16.34	16.60	16.75	16.90	15.66
Domestic	8.61	8.72	8.62	8.79	8.92	8.51	8.58	8.28	7.65
As % of GDP	28.29	28.22	27.54	27.82	27.84	27.78	28.31	28.13	27.68
External	6.98	7.36	7.40	7.40	7.42	8.09	8.17	8.62	8.01
As % of GDP	22.93	23.80	23.67	23.44	23.16	26.43	26.96	29.23	28.97
10. GROSS DOMESTIC DEBT (Ksh bn)***	698.05	704.70	696.13	711.45	720.33	764.22	781.71	776.85	764.27
11. AVERAGE EXCHANGE RATE									
Ksh/US\$	80.44	80.91	80.71	80.46	80.57	89.0	89.90	92.79	96.36
Ksh/Pound Sterling	125.94	125.94	127.98	128.52	125.65	144.4	145.00	151.90	152.12
Ksh/ 100 Yen	94.08	95.88	98.60	97.65	96.78	110.6	109.07	120.32	125.55
Ksh/Euro	103.79	105.61	112.20	110.07	106.54	128.1	128.48	133.04	132.68

* 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

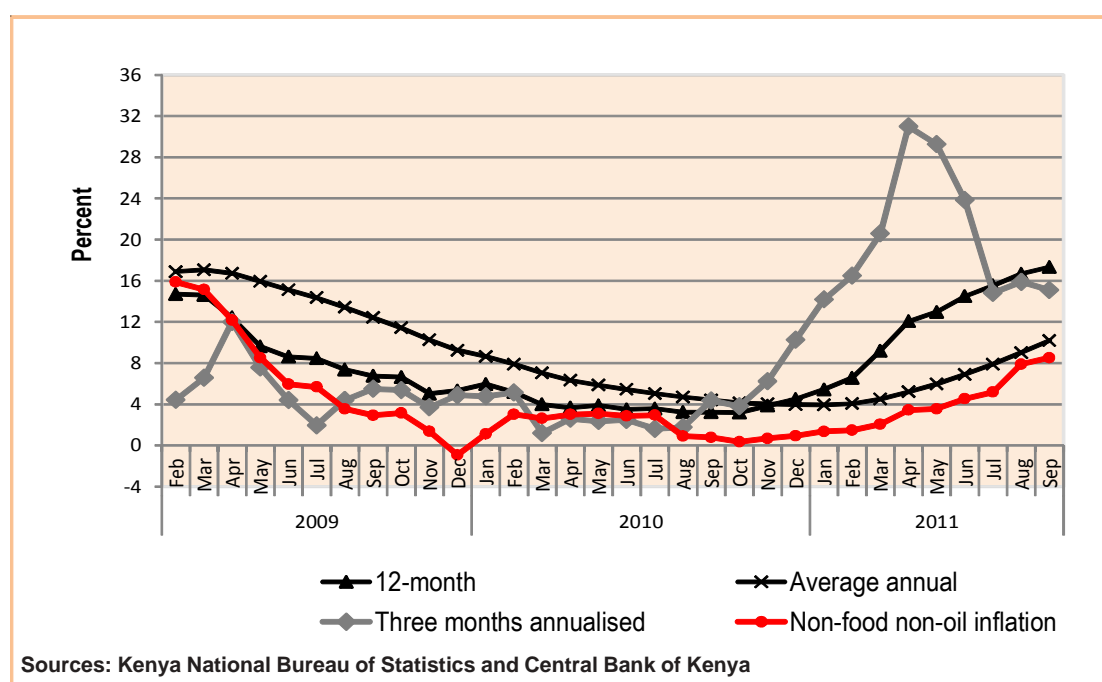
The 12-month overall inflation increased from 16.7 percent in August 2011 to 17.3 percent in September 2011 reflecting further increases in the prices of fuel and food. The 'Food and Non-Alcoholic Beverages' price index rose by 24.4 percent between September 2010 and September 2011, while the 'Transport' index rose by 24.8 percent over the same period. Non-food and non-fuel inflation rose to 8.5 percent in September 2011 and excluded the upper bound of the inflation target range of 3.7 percent. Annual average inflation rose from 9.0 percent in August 2011 to 10.2 percent in September 2011 although the three months annualized rate of inflation eased from 15.9 percent to 15.1 percent (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	
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	
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	
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	
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	

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

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



Inflation Across Categories of Goods & Services

The rise in food prices in September 2011 was reflected in the 'Food and Non-Alcoholic Beverages' and the 'Restaurants and Hotels' indices, which rose by 24.4 percent and 18.1 percent, respectively. Notable increases were recorded in the prices of sugar, beef, bread, milk and potatoes, while the prices of maize flour and maize grains declined. The 'Transport' index rose by 24.8 percent in September 2011 compared with an increase of 24.3 percent in August 2011. Inflation in the 'Housing,

Water, Electricity, Gas and Other Fuels' basket was 14.1 percent in September 2011, up from 13.1 percent in August 2011 owing to a rise in the cost of electricity, house rents and cooking fuels.

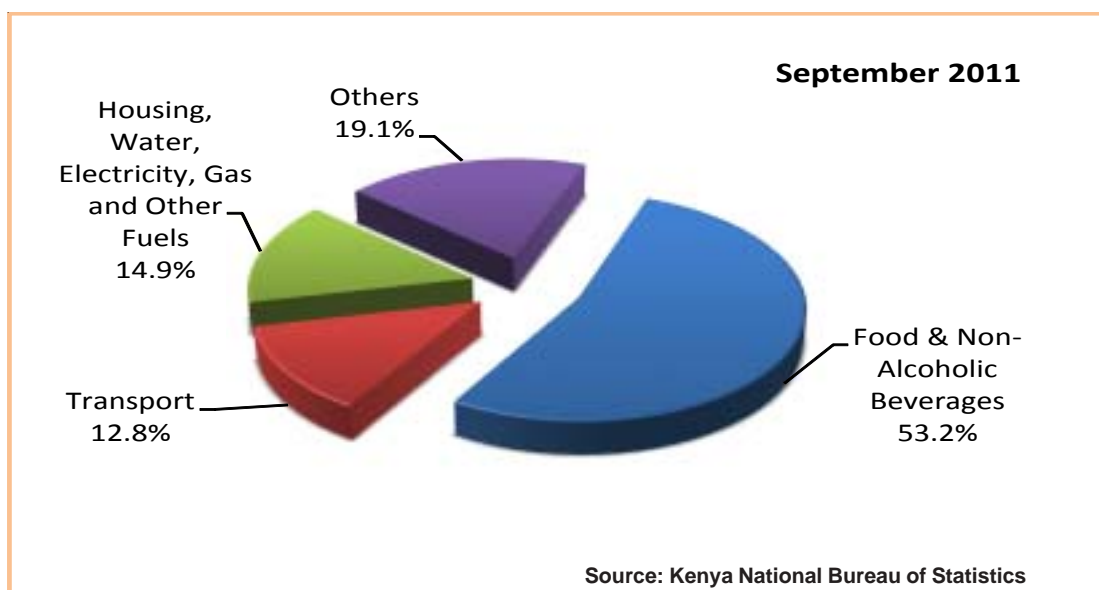
Developments across all categories of goods and services, and the distribution of weights in the Kenya consumer price index (CPI) are summarized in Table 1.2 and Chart 1B. Food inflation accounted for 53.2 percent of the 12-month overall inflation in September 2011, while inflation in Transport and Housing, Water, Electricity, Gas and Other Fuels categories contributed 12.8 percent and 14.9 percent, respectively (Chart 1C).

TABLE 1.2: OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (SEPTEMBER 2011)

SEPTEMBER 2011	Weight-CPI Kenya	NAIROBI				REST OF URBAN	TOTAL KENYA
		Lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya Combined	
Food & Non-alcoholic beverages	36.0	24.6	15.7	14.1	22.1	26.0	24.4
Alcoholic beverages, Tobacco & narcotics	2.1	10.0	12.5	5.6	10.4	12.8	11.9
Clothing & Footwear	7.4	5.3	8.6	7.6	6.1	10.5	8.7
Housing, Water, Electricity, Gas and other fuels	18.3	12.0	12.2	7.3	11.9	15.7	14.1
Furnishings, Household equipment and Routine household maintenance	6.2	8.0	12.0	4.4	8.8	10.5	9.8
Health	3.1	5.2	1.7	1.1	4.2	10.7	8.0
Transport	8.7	24.8	23.6	28.7	24.7	24.8	24.8
Communication	3.8	0.1	0.0	-3.4	-0.1	-1.9	-1.2
Recreation & culture	2.3	6.8	10.2	5.8	7.6	8.7	8.2
Education	3.1	4.4	10.0	3.8	5.8	3.5	4.4
Restaurants & hotels	4.5	27.3	8.6	9.0	22.2	15.3	18.1
Miscellaneous goods & services	4.5	7.0	4.2	3.7	6.2	10.2	8.6
ALL GROUPS	100.0	18.0	12.4	13.1	16.5	17.9	17.3

Source: Kenya National Bureau of Statistics

CHART 1B: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION IN SEPT 2011

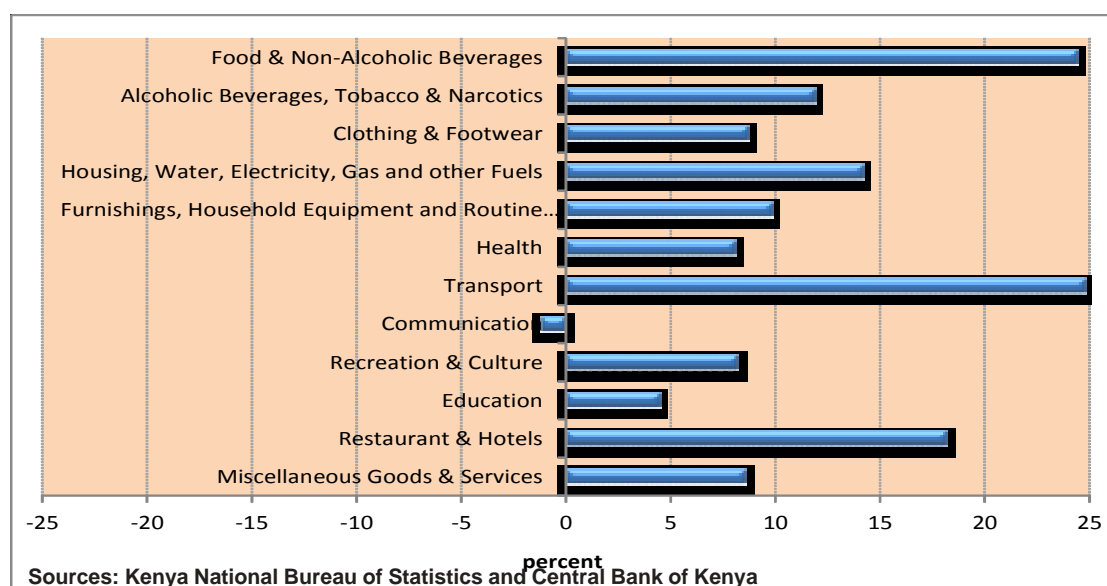


Inflationary pressures were higher in urban centres outside Nairobi as compared with inflation in Nairobi (Table 1.3). On average, the prices of goods and services sold in Nairobi rose by 16.5 percent in September 2011 compared with an average increase of 17.9 percent recorded across the rest of Kenya. The 'Combined Nairobi' index rose mainly due to increased food prices and transport costs. Similarly, the indices for the 'Nairobi Lower Income' group and the 'Nairobi Middle Income' rose by 18.0 percent and 12.4 percent, respectively, in September 2011. The index for the 'Nairobi Upper Income' group was largely driven upwards by higher transport costs.

TABLE 1.3: OVERALL 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
Combined Nairobi	3.67	3.69	3.20	3.61	4.16	12.22	12.44	14.24	14.47	15.61	16.50
Lower Income	4.39	4.32	3.63	4.02	4.70	14.04	13.97	15.96	16.00	17.14	17.97
Middle Income	1.30	1.65	1.63	2.10	2.40	7.56	8.73	9.57	10.15	11.28	12.42
Upper Income	4.71	4.20	4.71	5.19	4.63	6.39	6.18	10.14	11.67	12.92	13.15
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
TOTAL KENYA	3.22	3.21	3.18	3.84	4.51	12.05	12.95	14.48	15.53	16.67	17.32

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

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

Inflation Outlook

Although inflationary pressures are expected to ease on account of favourable weather predictions in the main food production areas in the coming months, the recent importation of maize, effects of monetary policy tightening, stabilization of international crude oil prices and the stabilizing shilling, there are challenges arising from cane sugar shortages and the continued increase in domestic energy and electricity prices.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Broad money supply, M3, expanded by Ksh 240.6 billion (19.3 percent) in the year to September 2011 compared with Ksh 256.7 billion (26.0 percent) in a corresponding period in 2010 and 15.5 percent target for September 2011. The deceleration in broad money supply growth in the year to September 2011 was attributed to a slow down in growth of the Net Domestic Assets (NDA) of the banking system. Money supply, M2, that is, M3 excluding foreign currency deposits, grew by 14.3 percent to Ksh 1,232.8 billion in the twelve months to September 2011 from Ksh 1,078.3 billion in September 2010 (Table 2.1 and Chart 2A).

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

	2009 Sep	2010 Sep	2011 Sep	Absolute		%age change	
				2009/10 Sep	2010/11 Sep	12 months Sep-10	12 months Sep-11
1. Money supply, M3 (2+3) 2/	986.9	1243.6	1484.2	256.7	240.6	26.0	19.3
1.1 Money supply, M2 3/	849.2	1078.3	1232.8	229.1	154.5	27.0	14.3
1.2 Money supply, M1	433.4	536.9	627.7	103.5	90.8	23.9	16.9
1.3 Currency outside banks	87.6	104.7	123.7	17.1	19.0	19.5	18.2
2. Net foreign assets 4/	255.3	278.1	310.1	22.8	32.0	8.9	11.5
Central Bank	209.4	257.7	292.0	48.3	34.3	23.0	13.3
Banking Institutions	45.8	20.4	18.1	-25.4	-2.3	-55.5	-11.4
3. Net domestic assets (3.1+3.2)	731.6	965.5	1174.1	233.9	208.6	32.0	21.6
3.1 Domestic credit (3.1.1+3.1.2)	890.6	1139.1	1482.0	248.5	342.9	27.9	30.1
3.1.1 Government (net)	187.1	278.2	300.5	91.1	22.3	48.7	8.0
3.1.2 Private sector and other public sector	685.8	842.9	1148.7	157.1	305.7	22.9	36.3
3.2 Other assets net (3-3.1)	-159.0	-173.6	-307.9	-14.6	-134.2	9.2	77.3
Memorandum items							
1. Overall liquidity, L 1/	1218.2	1527.4	1800.3	309.2	272.9	25.4	17.9
2. Reserve money	163.5	209.9	236.2	46.4	26.3	28.4	12.5
Currency outside banks	87.6	104.7	123.7	17.1	19.0	19.5	18.2
Bank reserves	75.9	105.2	112.4	29.3	7.2	38.6	6.9

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

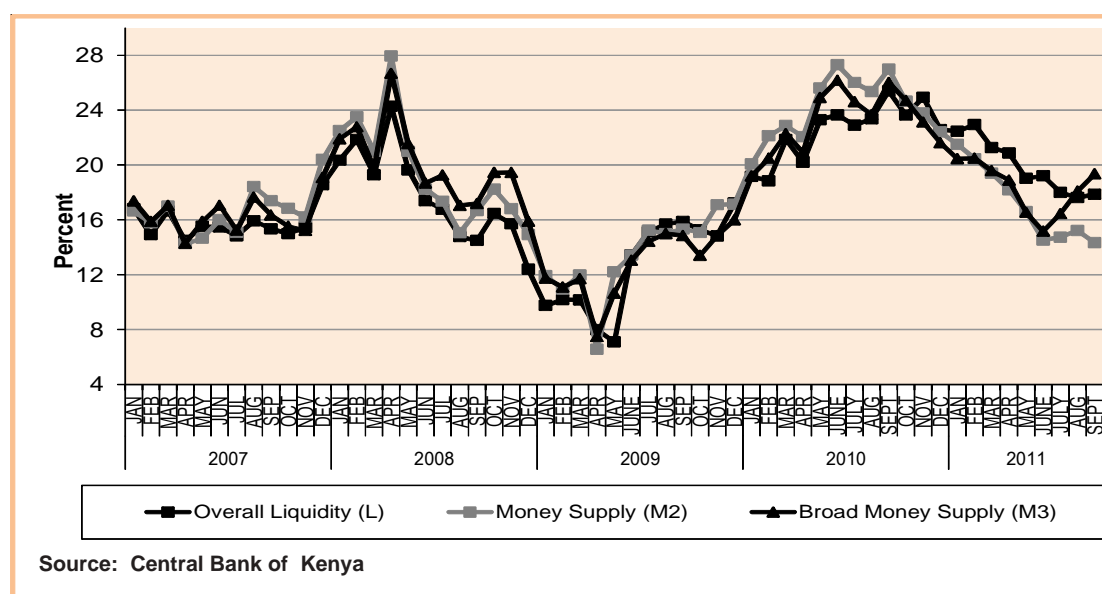
1/ Overall liquidity, L, comprises M3 and non banking public holding of Government securities. It is comparable to M3XT in the past publications.

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



The NDA of the banking system increased by Ksh 208.6 billion (21.6 percent) in the year to September 2011 compared with Ksh 233.9 billion (32.0 percent) a year earlier. The slow down reflected a decline in other domestic assets (net of liabilities) of the banking system by Ksh 134.2 billion in the year to September 2011 compared with a decline of Ksh 14.6 billion the previous year. On the other hand, the NFA of the banking system rose by 11.5 percent (Ksh 32.0 billion) in the twelve months to September 2011 from 8.9 percent (Ksh 22.8 billion) in a corresponding period in 2010. The increase in NFA of the banking system is reflected in the Central Bank of Kenya which rose by 13.3 percent to Ksh 292.0 billion from Ksh 257.9 billion in September 2010. Meanwhile, NFA of commercial banks declined by 11.4 percent (Ksh 2.3 billion) to Ksh 18.1 billion in the year to September 2011 from Ksh 20.4 billion in September the previous year (Table 2.2). Reflecting these trends in the sources of broad money, the contribution of NDA declined from 91.1 percent in September 2010 to 86.7 percent in September 2011, while that of NFA rose from 8.9 percent to 13.3 percent.

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

	2010 September		2011 September		Annual %age Change September	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2000/10	2010/11
1. Credit to Government	278.2	24.4	300.5	20.3	48.7	8.0
Central Bank	-0.6	-0.1	49.6	3.3	-96.43	-7761.8
Commercial Banks & NBFIs	278.9	24.5	250.9	16.9	35.9	-10.0
2. Credit to other public sector	17.9	1.6	32.8	2.2	1.5	82.8
Local government	-2.2	-0.2	3.0	0.2	48.5	-237.2
Parastatals	20.1	1.8	29.9	2.0	5.1	48.5
3. Credit to private sector	842.9	74.0	1148.7	77.5	22.9	36.3
Agriculture	40.5	3.6	55.9	3.8	9.8	38.0
Manufacturing	109.7	9.6	152.0	10.3	24.4	38.6
Trade	139.9	12.3	196.0	13.2	29.0	40.1
Building and construction	31.7	2.8	49.4	3.3	-16.3	55.6
Transport & communications	60.0	5.3	77.2	5.2	2.1	28.5
Finance & insurance	21.3	1.9	26.4	1.8	14.8	23.8
Real estate	93.0	8.2	104.5	7.1	100.4	12.4
Mining and quarrying	16.1	1.4	23.6	1.6	193.9	46.6
Private households	117.1	10.3	163.9	11.1	14.0	40.0
Consumer durables	52.5	4.6	72.8	4.9	16.9	38.6
Business services	83.5	7.3	110.7	7.5	17.7	32.5
Other activities	77.5	6.8	116.3	7.8	16.6	50.1
4. TOTAL (1+2+3) *	1139.1	100.0	1482.0	100.0	27.9	30.1

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

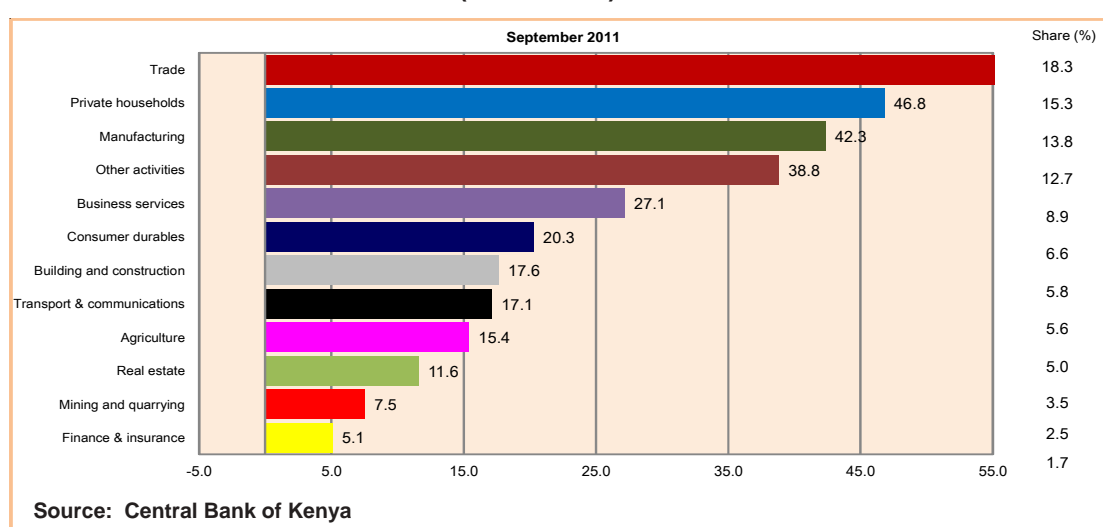
Source: Central Bank of Kenya

Domestic Credit Developments

Domestic credit grew by Ksh 342.9 billion (30.1 percent) in the year to September 2011 compared with Ksh 248.5 billion (27.9 percent) in a similar period in 2010. The banking system lending was largely absorbed by the private sector which accounted for 77.5 percent of total lending in September 2011 compared with 20.3 percent to the government. Credit extended to the private sector increased by 36.3 percent (Ksh 305.7 billion) in the year to September 2011 compared with a growth of 22.9 percent (Ksh 157.1 billion) in a similar period in 2010 and corresponding target of 28.9 percent for September 2011. Resident foreign currency loans grew by 63.3 percent (Ksh 102.3 billion) compared with 31.1 percent (Ksh 35.2 billion) over a similar period in 2010. This accounted for 21.9 percent of total credit to the private sector up from 17.6 percent in September 2010. The increase in foreign currency loans was partly attributed to the depreciation of the Kenya Shilling. Meanwhile, growth in net credit to Government slowed to Ksh 22.3 billion (8.0 percent) in the year to September 2011 from Ksh 91.1 billion (48.7 percent) in the corresponding period in 2010 (Table 2.1).

Commercial banks channeled credit to the private sector to the key productive activities of the economy. The respective activities and credit growth include agriculture (38.0 percent); manufacturing (38.6 percent); trade (40.1 percent); construction (55.6 percent); transport and communication (28.5 percent); and finance and insurance (23.8 percent). Private households (40.0 percent); consumer durables (38.6 percent); business services (32.5 percent); and other activities (50.1 percent) also witnessed increased expansion in credit (Table 2.2). The main recipients of private sector credit flows were trade Ksh 56.1 billion (18.3 percent); private households Ksh 46.8 billion (15.3 percent); manufacturing Ksh 42.3 billion (13.8 percent); other activities Ksh 38.8 billion (12.7 percent); business services Ksh 27.1 billion (8.9 percent); and consumer durables Ksh 20.3 billion (6.6 percent) (Chart 2B).

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



Reserve Money

Reserve money increased by 12.5 percent to Ksh 236.2 billion in September 2011 from Ksh 209.9 billion in September 2010. The increase in reserve money reflected 18.2 percent and 6.3 percent growth in currency outside banks and bank reserves, respectively. At Ksh 236.2 billion in September 2011, reserve money was Ksh 11.2 billion above target (Table 2.3).

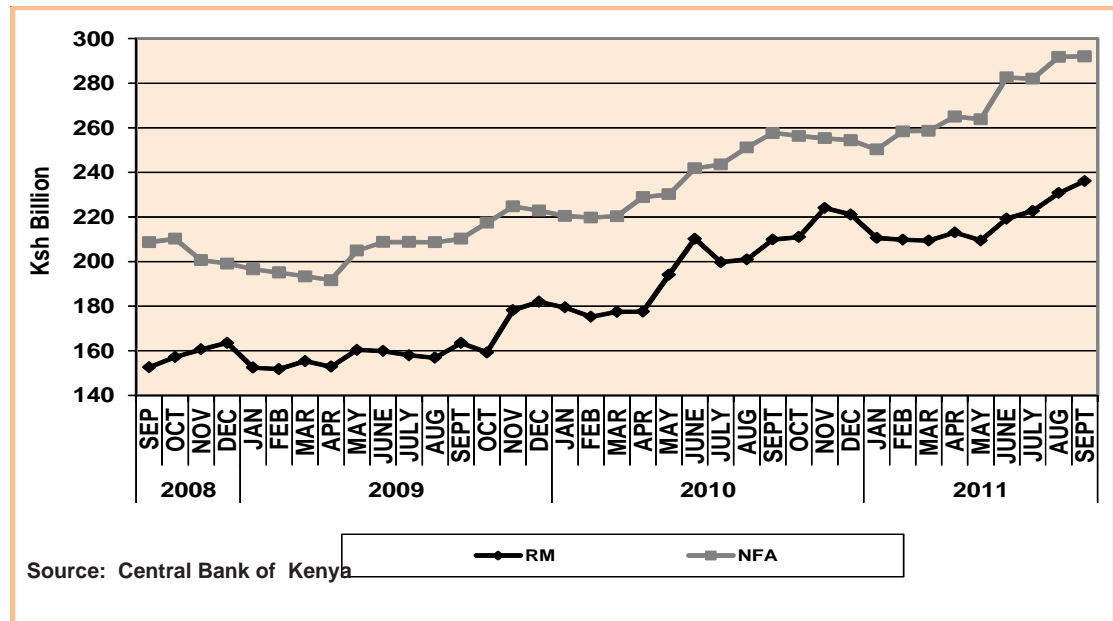
TABLE 2.3: RESERVE MONEY AND ITS SOURCES (Ksh billion)

	2009 Sep	2010 Sep	2011 Sep	Absolute change		Change (%)		2011 Sep Target	2011 Deviation
				2009/10	2010/11	2009/10	2010/11		
1. Net Foreign Assets	209.4	257.7	292.0	48.3	34.3	23.0	13.3	278.3	13.7
2. Net Domestic Assets	-46.0	-47.8	-55.9	-1.9	-8.0	4.0	16.8	-53.4	-2.5
2.1 Government Borrowing (net)	-18.1	-0.6	49.6	17.5	50.2	-96.4	-7761.8	-7.3	56.9
2.2 Advances & Discounts	3.6	2.9	5.9	-0.7	2.9	-18.1	99.4	7.9	-2.0
2.3 Other Domestic Assets (net)	-31.4	-50.1	-111.3	-18.7	-61.2	59.5	122.1	-54.0	-57.3
3. Reserve Money	163.5	209.9	236.2	46.4	26.3	28.4	12.5	224.9	11.2
3.1 Currency outside banks	87.6	104.7	123.7	17.1	19.0	19.5	18.2	122.0	1.8
3.2 Bank reserves	67.9	105.2	112.4	37.3	7.2	55.0	6.9	103.0	9.5

Source: Central Bank of Kenya

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

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



the Central Bank rose by Ksh 34.3 billion (13.3 percent) to Ksh 292.0 billion in the year to September 2011 reflecting purchases of foreign exchange from domestic banks to boost the level of gross reserves.

The NDA of the Central Bank of Kenya declined by Ksh 8.0 billion to Ksh -55.9 billion in the year to September 2011, from Ksh -47.8 billion in the previous year. The decrease in NDA reflected a reduction in other domestic assets (net of liabilities). Other domestic assets (net) of the Central Bank of Kenya declined by Ksh 61.2 billion to Ksh -111.3 billion in the year to September 2011 from Ksh -50.1 billion in September the previous year.

Net domestic credit of the Central Bank increased to Ksh 55.5 billion (by Ksh 53.1 billion) in September 2011 from Ksh 2.3 billion a year ago mainly due to an increase in net Government borrowing. Net Government borrowing at the Central Bank increased by Ksh 50.2 billion to Ksh 49.6 billion in September 2011 from Ksh 0.6 billion in September 2010, while advances and discounts to commercial banks rose to Ksh 5.9 billion in September 2011 from 2.9 million in September 2010.

The Central Bank Rate The Central Bank Rate (CBR) was raised by 75 basis points to 7.0 percent from 6.25 percent effective September 14, 2011, to cushion the economy from inflationary pressure and to stabilize the exchange rate.

Interbank Interest Rate Short term money market rates reflect mixed trends in September 2011 with the average 91-day Treasury bill rate increasing at 11.93 percent compared to 9.23 percent in August. Similarly, the 182-day Treasury bill rate rose to average at 11.28 percent compared to 11.7 percent in August. However, the average interbank rate dropped by 683 basis point to 7.46 percent in September from 14.29 percent in August 2011 as interbank liquidity improved following Government salary payments for September 2011 and reverse repo operations by the Central Bank in September 2011 (Table 2.4.).

Lending and Deposit Rates

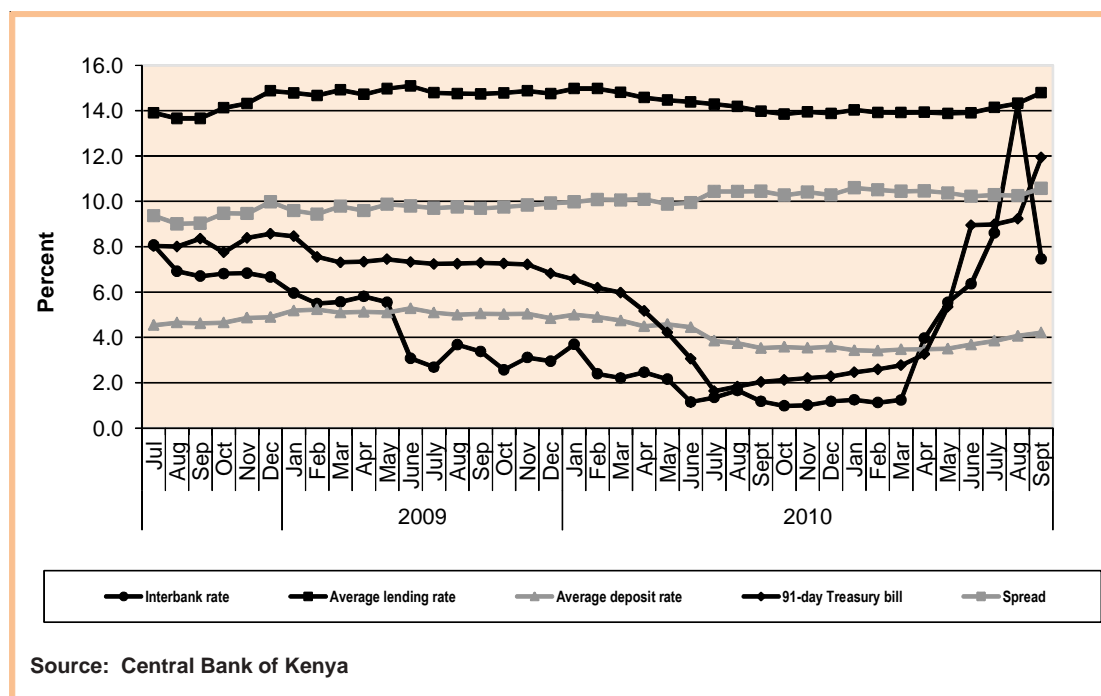
Commercial banks average lending rates increased by 47 basis points to 14.79 percent in September 2011 from 14.32 percent in August 2011. The average deposit rate rose by 14 basis points to 4.21 percent in September 2011 from 4.07 percent in August. Consequently, the interest rate spread widened from 10.25 percent in August 2011 to 10.58 percent in September 2011 (Table 2.4 and Chart 2D).

TABLE 2.4: INTEREST RATES (%)

	2010				2011								
	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep
91-day Treasury bill rate	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
Overdraft rate	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
Interbank rate	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
Repo rate	-	-	-	-	-	-	1.66	4.50	5.72	-	5.75	5.75	-
Reverse Repo rate	-	-	1.53	1.41	1.19	1.18	1.18	2.99	-	-	6.25	6.25	5.75
Average lending rate (1)	13.98	13.85	13.95	13.87	14.03	13.92	13.92	13.92	13.88	13.91	14.08	14.32	14.79
Average deposit rate (2)	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
0 to 3 - month deposit	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
Savings deposits	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
Spread (1-2)	10.45	10.27	10.41	10.28	10.60	10.51	10.45	10.46	10.31	10.23	10.23	10.25	10.58

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). 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)

	Share in 2010 Nominal GDP (%)	Share in 2010 Real GDP (%)	Kshs Million							
			2003	2004	2005	2006	2007	2008	2009	*2010
MAIN SECTORS										
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

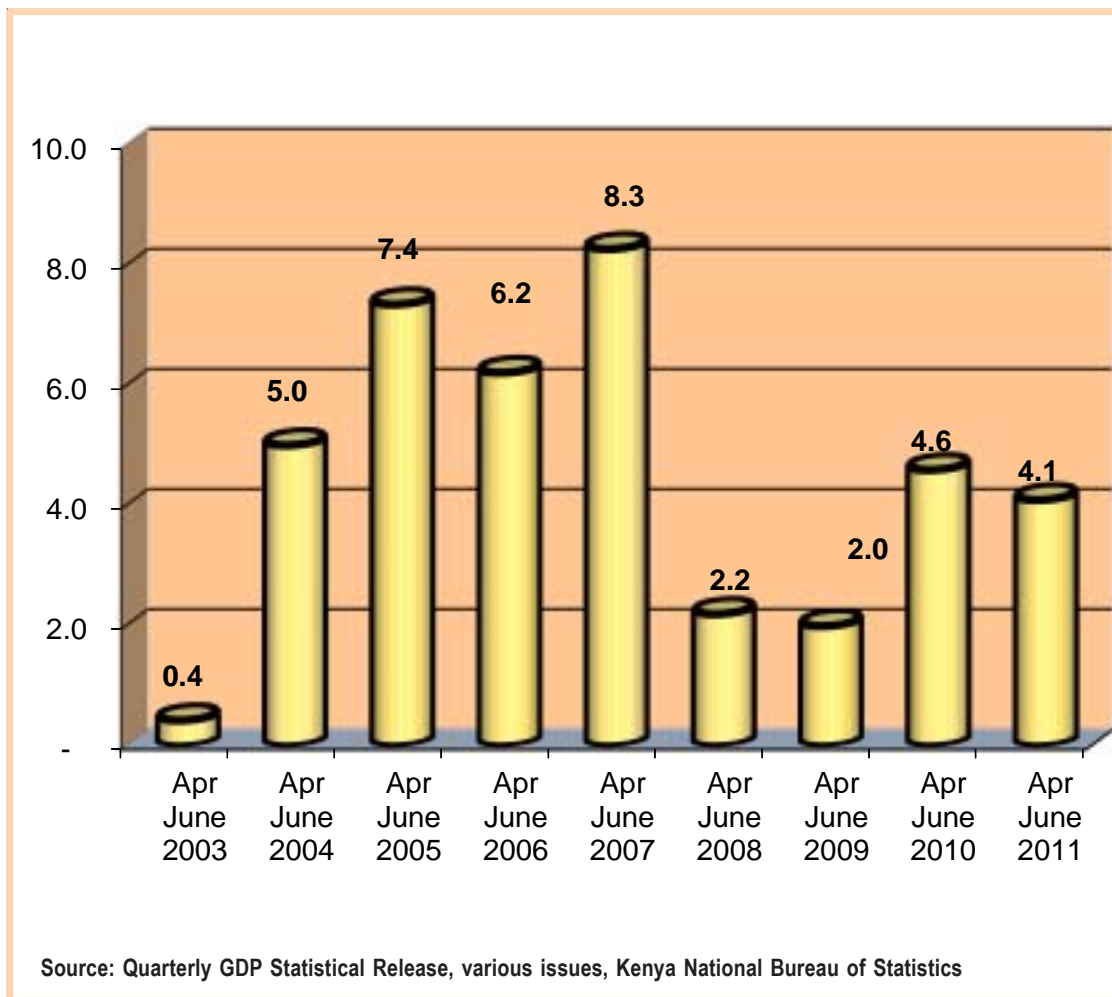
Annual Growth Rates in Percent

	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

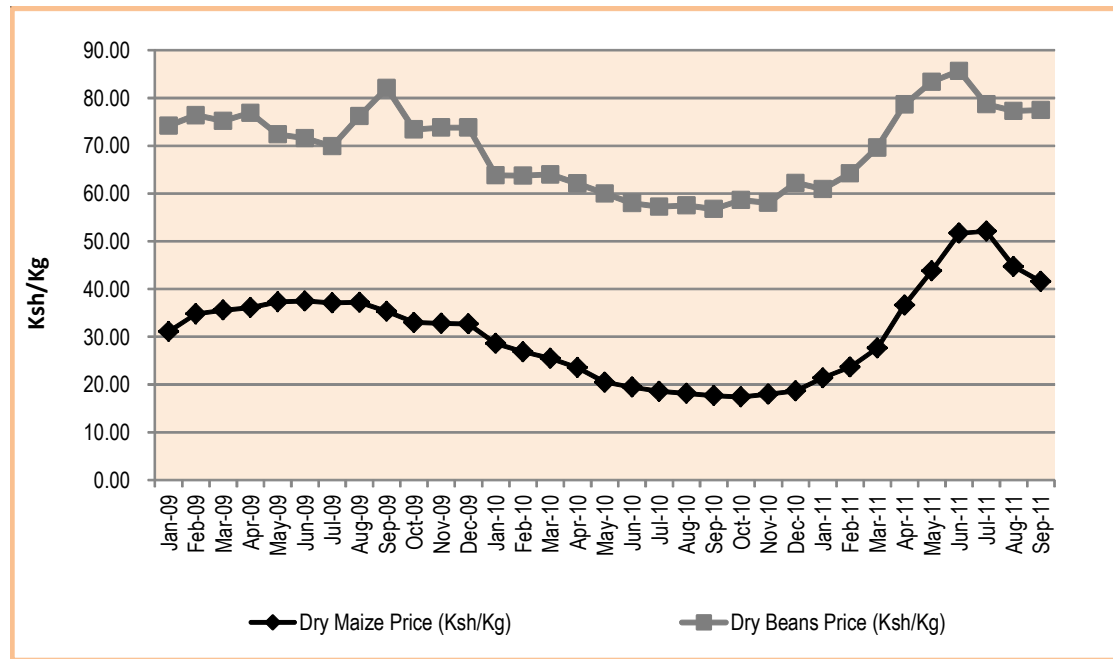
CHART 3A: REAL GDP GROWTH IN THE SECOND QUARTERS



The pace of economic expansion was sustained in the first quarter of 2011, with an estimated real growth rate of 4.9 percent for the quarter. The performance in the second quarter of 2011 was more subdued at the slower growth of 4.1 percent in the June 2011 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. Quarter two output was largely attributed to growth of 19.8 percent in agriculture and forestry, 12.3 percent in transport and communication, 10.2 percent in wholesale and retail trade and 10.0 percent in manufacturing sectors

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).

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



Tea Indicators for agriculture for the January-August 2011 period are unfavourable. Production of tea declined by 12.0 percent from 260,590 metric tonnes in the period January to August 2010 to 229,276 metric tonnes in the period January to August 2011 (Table 3.2). The average auction price for tea however, rose from Ksh 215 per kilogram in the January-August 2010 period to Ksh 260 per kilogram in the January-August 2011 period.

Horticulture Exports of fresh horticultural crops also declined by 11.6 percent from 182,977 metric tonnes in the period January to August 2010 to 161,833 metric tonnes in the period January to August 2011. The decline in total exports of horticultural crops reflected reduced export of vegetables and cut flowers (Chart 3C).

Coffee Performance of the coffee sub-sector was equally unfavourable with sales declining from 28,202 metric tonnes in the January-August 2010 period to 22,547 metric tonnes in the January-August 2011 period. The average auction price for coffee however, rose from Ksh 307 per kilogram in the January-August 2010 period to Ksh 519 per kilogram in the January-August 2011 period.

Dairy Production from the dairy sector stabilised at 347 million litres of milk delivered to factories in the January-August 2011 period compared with 346 million litres delivered in a comparable period in the previous year (Chart 3D).

Sugarcane The sugar sub-sector also registered lower output during the period under review. Cane deliveries declined by 1.2 percent from 3.66 million tonnes in the January-August 2010 period to 3.62 million tonnes in the January-August 2011 period.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS

	Annual Totals		Jan-Aug 2010*	Jan-Aug 2011*
	2009	2010		
Tea				
Output (Metric tonnes)	304,198	399,006	260,590	229,276
Growth (%)	-12.0%	27.0%	43.2%	-12.0%
Horticulture				
Exports (Metric tonnes)	248,158	268,533	182,977	161,833
Growth (%)	-1.5%	8.2%	5.7%	-11.6%
Coffee				
Sales (Metric tonnes)	49,498	38,938	28,202	22,547
Growth (%)	27.9%	-21.3%	-32.7%	-20.1%
Milk				
Output (million litres)	407	511	346	347
Growth %	2.0%	25.7%	39.6%	0.4%
Sugar Cane				
Output (Metric tonnes)	5,610,702	5,709,586	3,661,300	3,618,020
Growth (%)	12.7%	1.8%	-1.0%	-1.2%

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

CHART 3C: HORTICULTURAL EXPORTS

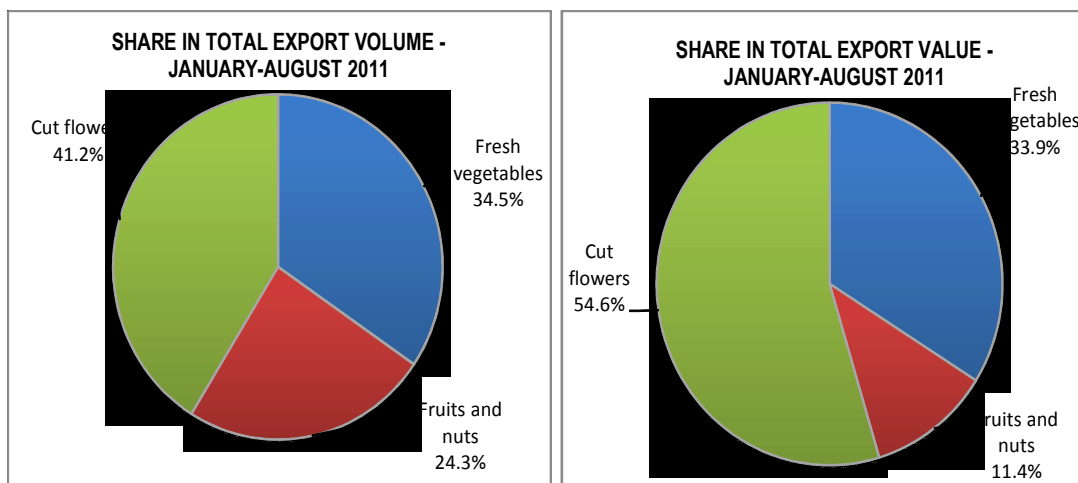
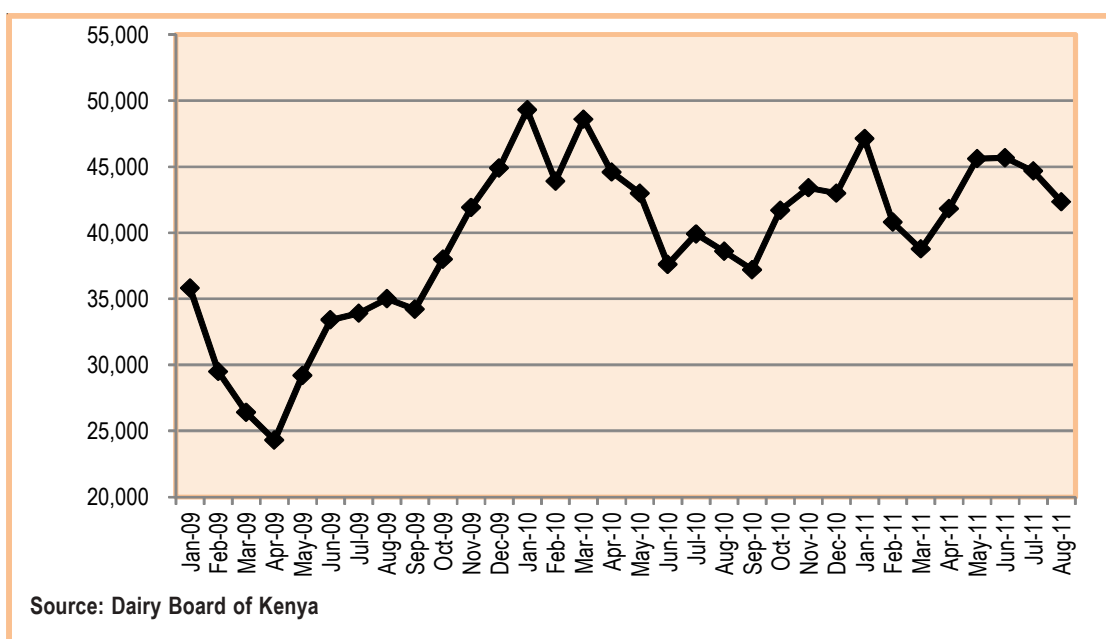


CHART 3D: PROCESSED MILK ('000 LITRES)



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 mixed performance in the first eight months of 2011. For instance, production of cement, processed sugar and soft drinks increased while production of assembled vehicles declined (Table 3.3 and Chart 3E). Output of processed sugar increased by 7.9 percent to 353,836 metric tonnes in the January-August 2011 period while the amount of soft drinks produced increased by 2.8 percent to 247,664 thousand litres in the same period. Production of cement increased by 11.7 percent during the period under review to 2,689,414 metric tonnes while the number of vehicles assembled locally declined from 3,808 in the January-August 2010 period to 3,779 in the January-August 2011 period.

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

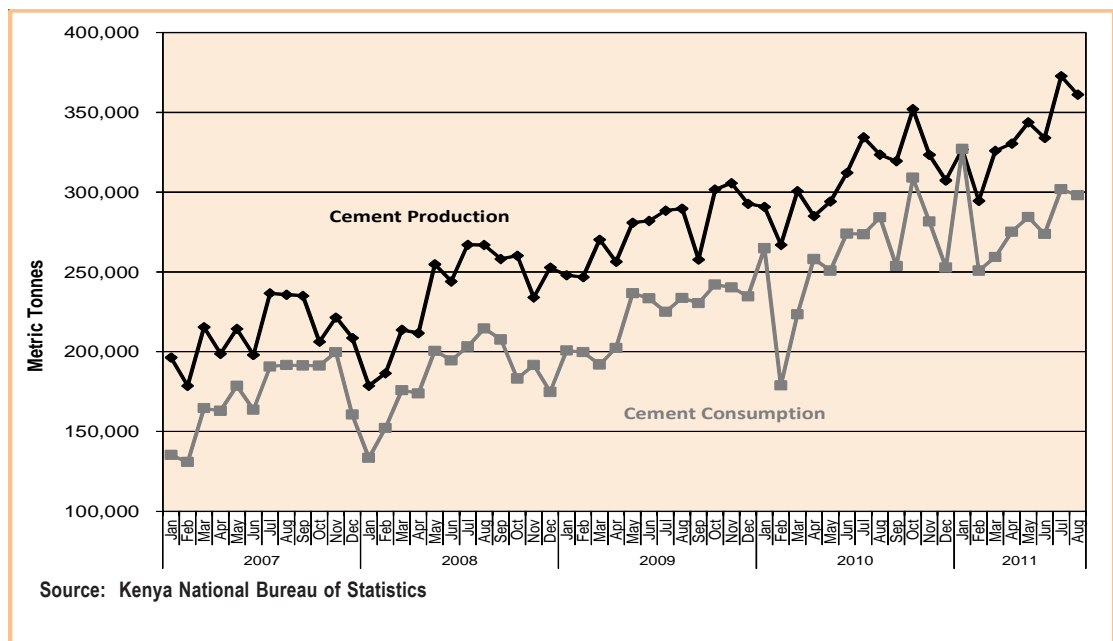
	Annual Totals		Jan-Aug 2010*	Jan-Aug 2011*
	2009	2010*		
Cement production				
Output (MT)	3,320,282	3,709,807	2,407,547	2,689,414
Growth %	17.4%	11.7%	11.3%	11.7%
Assembled vehicles				
Output (No.)	5,060	5,721	3,808	3,779
Growth %	-12.0%	13.1%	9.3%	-0.8%
Processed sugar				
Output (MT)	547,999	523,470	327,970	353,836
Growth %	7.1%	-4.5%	-9.7%	7.9%
Soft drinks				
Output ('000 litres)	361,273	361,333	240,809	247,664
Growth %	5.8%	0.0%	3.4%	2.8%

MT = Metric tonnes

* Provisional

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

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

Energy Sector

Local generation of electricity increased by 16.7 percent from 4,083 million kilowatt hours in the January-August 2010 period to 4,766 million kilowatt hours in the January-August 2011 period (Table 3.4). Of the total electricity produced in the first eight months of 2011, 43.8 percent was hydro-power, 36.1 percent was thermal power and the remaining 20.1 percent was geo-thermal power. Production of hydro-electricity increased by 5.3 percent to 2,087 million kilowatt hours in the period January-August 2011 period, while production of thermal power increased by 49.1 percent to 1,720 million kilowatt hours in the same period. Estimated consumption of electricity increased by 5.7 percent to 4,067 million kilowatt hours in the January-August 2011 period as compared with consumption over the same period in 2010.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	Annual Totals		Jan-Aug 2010*	Jan-Aug 2011*
	2009	2010*		
Electricity Supply (Generation)				
Output (million KWH)	5,332	6,407	4,083	4,766
Growth %	-6.4%	20.2%	13.4%	16.7%
Of which:				
Hydro-power Generation (million KWH)	2,105	3,195	1,981	2,087
Growth (%)	-35.0%	51.7%	23.9%	5.3%
Geo-Thermal Generation (million KWH)	1,478	1,442	949	960
Growth (%)	42.3%	-2.4%	-2.5%	1.2%
Thermal (million KWH)	1,747	1,769	1,154	1,720
Growth (%)	23.5%	1.3%	12.3%	49.1%
Consumption of electricity (million KWH)	5,299	5,870	3,849	4,067
Growth %	0.7%	11.2%	10.0%	5.7%
Murban crude oil average price (US \$ per barrel)	62.6	79.2	76.9	110.1
Growth %	-36.0%	26.4%	34.1%	43.3%

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

The number of tourists arriving in Kenya rose by 18.3 percent from 701,182 in the January-August 2010 period to 829,479 in the January-August 2011 period (Table 3.5). Most of the tourist arrivals were through the Jomo-Kenyatta International Airport, Nairobi while 18.9 percent were through the Moi International Airport, Mombasa. The number of tourists arriving on-board cruise ships amounted to 586 in the January-August 2011 period.

Growth in tourist arrivals was attributed to Europe, Africa and America (Table 3.6). The number of tourists arriving from Europe rose to 44,348 in the January-August 2011 period, while the number of tourists arriving from Africa and America rose by 35,706 and 10,322, respectively. These regions accounted for 34 percent and 8.0 percent of the total arrivals, respectively.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2009	2010	Jan - Aug 2010	Jan - Aug 2011	Jan - Aug 2011 % Share	Jan - Aug 2011 % Growth
CRUISE	12,096	0	0	586	0.1%	N.A.
MIAM	176,469	232,698	143,529	156,521	18.9%	9.1%
JKIA	763,916	862,586	557,653	672,372	81.1%	20.6%
TOTAL	952,481	1,095,284	701,182	829,479	100.0%	18.3%

Source: Kenya Tourist Board

TABLE 3.6: TOURIST ARRIVALS BY CONTINENT

REGION	2009	2010	Jan - Aug 2010	Jan - Aug 2011	Jan - Aug 2011 % Share	Jan - Aug 2011 % Growth
Africa	228,827	257,132	162,982	198,688	24.0%	21.9%
Middle East	0	0	0	26,187	3.2%	N.A.
America	128,658	142,087	96,211	106,533	12.8%	10.7%
Asia	108,524	137,657	89,858	95,864	11.6%	6.7%
Europe	456,427	536,422	339,229	383,577	46.2%	13.1%
Oceanic	17,949	21,985	12,902	18,044	2.2%	39.9%
Cruise	12,096	0	0	586	0.1%	N.A.
Total	952,481	1,095,284	701,182	829,479	100.0%	18.3%

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 1,874,570 in the January-August 2010 period to 2,618,235 in the January-August 2011 period. This increase was largely attributed to the number of incoming passengers, which increased by 43.9 percent to 1,326,873 in the January-August 2011 period (Table 3.7).

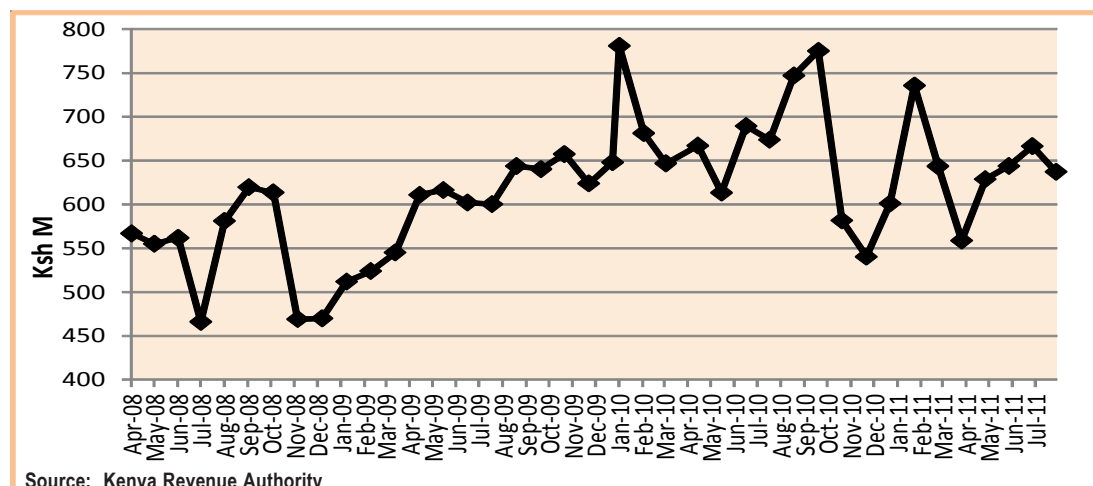
TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2009	2010*	Jan-Aug 2010*	Jan-Aug 2011*
Number of Passengers thro' JKIA				
Incoming	1,334,482	1,508,841	921,916	1,326,873
Growth (%)	-9.6%	13.1%	1.3%	43.9%
Outgoing	1,291,278	1,520,578	952,654	1,291,362
Growth %	-12.1%	17.8%	9.8%	35.6%

* Provisional

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

CHART3F: EXCISE TAX ON AIRTIME



Source: Kenya Revenue Authority

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview Kenya's overall balance of payments surplus narrowed to US\$ 85 million in the year to August 2011 from US\$ 362 million in the year to August 2010 (Table 4.1). The movement reflects a widening gap on the merchandise account following increased imports of oil as well as of intermediate and capital goods.

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

ITEM	Year to Aug 2010*	Year to August 2011*				Year to Aug 2011*	Absolute Change
		Q1 Sep-Nov	Q2 Dec- Feb	Q3 Mar- May	Q4 Jun- Aug		
1. OVERALL BALANCE	362	68	21	84	-88	85	-277
2. CURRENT ACCOUNT	-2017	-881	-748	-1045	-1244	-3918	-1901
2.1 Goods	-6638	-2142	-1931	-2239	-2295	-8607	-1969
Exports (fob)	4960	1342	1422	1468	1488	5720	760
Imports (cif)	11599	3483	3353	3708	3783	14328	2729
2.2 Services	4621	1261	1183	1194	1052	4690	68
Non-factor services (net)	2443	689	615	566	596	2466	23
Income (net)	-97	-36	13	41	-29	-11	86
Current Transfers	2276	608	555	587	485	2235	-41
3. CAPITAL & FINANCIAL ACCOUNT	2379	949	769	1129	1156	4002	1623
3.1 Capital Transfers (net)	159	72	93	55	9	229	70
3.2 Financial Account	2220	877	677	1073	1147	3773	1553
memo:							
Gross Reserves	5046	5156	5481	5420	5645	5645	599
Official	3942	4007	4118	4202	4171	4171	229
imports cover**	3.7	3.6	3.5	3.4	3.2	3.2	-0.5
imports cover***	4.0	3.9	3.9	3.9	3.8	3.8	-0.2
Commercial Banks	1104	1149	1364	1219	1474	1474	370

* Provisional.

Source: Central Bank of Kenya

Current Account

The current account deficit widened by US\$ 1901 million to US\$ 3,918 million in year to August 2011. This reflects a 29.7 percent or US\$ 1,969 million widening of the merchandise account deficit which more than offset the 1.5 percent improvement in the services account. (Table 4.2)

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

ITEM	Year to Aug 2010*	Year to August 2011*				Year to Aug 2011*	Absolute Change
		Q1 Sep-Nov	Q2 Dec- Feb	Q3 Mar- May	Q4 Jun- Aug		
2. CURRENT ACCOUNT	-2017	-881	-748	-1045	-1244	-3918	-1901
2.1 Goods	-6638	-2142	-1931	-2239	-2295	-8607	-1969
Exports (fob)	4960	1342	1422	1468	1488	5720	760
Coffee	193	54	49	59	57	218	25
Tea	1158	250	285	291	304	1130	-28
Horticulture	709	192	194	186	156	729	19
Oil products	110	15	32	35	33	115	5
Manufactured Goods	589	153	167	176	199	694	106
Raw Materials	214	45	78	88	82	292	78
Chemicals and Related Products (n.e.s)	409	124	125	137	151	536	128
Miscellaneous Man. Articles	405	120	120	132	144	516	111
Re-exports	272	99	71	75	93	338	67
Other	901	291	302	287	270	1150	248
Imports (cif)	11599	3483	3353	3708	3783	14328	2729
Oil	2651	674	899	1057	1033	3663	1013
Chemicals	1497	419	474	499	489	1882	384
Manufactured Goods	1701	455	518	564	598	2135	434
Machinery & Transport Equipment	3373	1189	850	999	886	3924	552
Other	2377	745	613	588	777	2723	347
2.2 Services	4621	1261	1183	1194	1052	4690	68
Non-factor services (net)	2443	689	615	566	596	2466	23
of which tourism	765	237	240	213	224	914	149
Income (net)	-97	-36	13	41	-29	-11	86
of which official interest	-72	-25	-14	-3	-18	-61	11
Current Transfers	2276	608	555	587	485	2235	-41
Private (net)	2023	593	540	592	490	2174	151
Public (net)	252	55	15	-5	-5	60	-192

*Provisional

Source: Central Bank of Kenya

The merchandise account deficit worsened from US\$ 6,638 million in the year to August 2010 to US\$ 8,607 million in the year to August 2011 due to higher imports and slower growth in exports.

Exports

Export earnings increased by 15.3 percent from US\$ 4,960 million in the year to August 2010 to US\$ 5,720 million in the year to August 2011. The improvement in export performance was most pronounced in exports of coffee, horticulture, manufactured goods, raw materials and chemicals and related products. The value of coffee and horticulture exports rose by US\$ 25 million and US\$ 19 million respectively, in the year to August 2011. The increase in the export values of coffee and horticulture largely reflected higher export prices. Receipts from tea exports which accounted for 19.8 per cent of the total exports declined from US\$ 1158 million in the year to August 2010 to US\$ 1,130 million in the year to August 2011 as a result of reduced exports volume. The export values of manufactured goods which accounted for 12.1 of total exports rose by US\$ 106 million in the year to August 2011 following increased exports of cement, paper and paper board and processed leather. Exports of raw materials rose by 36.2 percent to US\$ 292 million in the year to August 2011 while the value of re-exports increased by US\$ 67 million to US\$ 337 million in the year to August 2011. The value of other miscellaneous exports rose from US\$ 405 million to US\$ 516 million over the same period.

Imports

The value of imports increased by 22.7 percent to US\$ 14,328 million in the year to September 2011, mainly on account of increased value of imports of oil, manufactured goods and machinery and transport equipment. The value of oil imports which accounted for 26 percent of the total import bill increased by 38.2 percent to US\$ 3,663 in the year to August 2011 this was mainly on account of high oil prices in the world market which increased by 46.18 percent from US\$ 74.6 per barrel in August 2010 to US\$ 109 per barrel in August 2011. Imports of machinery and transport equipment accounted for 27.4 percent of total imports and increased from US\$ 3373 million in the year to August 2010 to US\$ 3,924 million in the year to August 2011 following increased imports of industrial machinery, telecommunication and sound recording equipment, electrical machinery and roads vehicle. Imports of manufactured items mainly intermediate goods accounted for 15 percent of the total import bill and increased from US\$ 1,701 million in the year to August 2010 to US\$ 2,135 million in the year to August 2011 following increased imports of rubber, paper and paper products, textiles yarn and non-ferrous metals (copper wire, aluminum and zinc).

Services Account

The surplus in the services improved by US\$ 68 million from US\$ 4,621 million in the year to August 2010 to US\$ 4,690 million in the year to August 2011. Earnings from non factor services which mainly include; tourism, transport and financial services increased from US\$ 2,443 million in the year to August 2010 to US\$ 2,466 million in the year to August 2011. Receipts from foreigners travelling to Kenya increased by 19.4 percent from US\$ 765 million in the year to August 2010 to US\$ 914 million in the year to August 2011. Gross receipts from transportation services decreased from US\$ 1,478 million in the year to August 2010 to US\$ 1,418 million in the year to August 2011. Receipts on the current transfer account decreased from US\$ 2,276 million in the year to August 2010 to US\$ 2,235 million in the year to August 2011 a decline of 1.8 percent. Remittance transfers to Kenya rose from US\$ 51 million in August 2010 to US\$ 80 million in August 2011. The source markets for remittances

have on average maintained the same shares with North America contributing 51 percent and Europe 26 percent of total remittances to Kenya in August 2011.

Direction of Trade Kenya's exports were mainly to Uganda (14.7 percent), United Kingdom (9.1 percent), Tanzania (8.0 percent), Netherlands (6.5 percent) and USA (5.7 percent). The share of exports to African countries accounted for 47.1 percent, while those to the East African Community (EAC) region were 26.4 percent, and to the COMESA region was at 34.8 percent in the year to August 2011 (Table 4.3).

During the period under review, Kenya's imports were mainly from United Arab Emirates (13.6 percent), China (11.6 percent), India (11.3 percent), South Africa (5.7 percent), Japan (5.1 percent), United States of America (3.5 percent) and United Kingdom (4.3 percent). The share of imports from African countries accounted for 11.3 percent. Imports from the EAC region increased from US\$ 232 million in the year to August 2010 to US\$ 294 million (2.1 percent of total imports) in the year to August 2011. Imports from the COMESA region increased from US\$ 442 million in the year to August 2010 to US\$ 551 million (3.8 percent of total imports) in the year to August 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).

	IMPORTS (in millions of US dollars)			Share of Imports (%)			EXPORTS (in millions of US dollars)			Share of Exports (%)			
	Year to Aug			Year to Aug			Year to Aug			Year to Aug			
Country	2009	2010	2011	2009	2010	2011	Country	2009	2010	2011	2009	2010	2011
Africa	1,324	1,395	1,620	12.8	12.0	11.3	Africa	2,136	2,269	2,697	47.1	45.7	47.1
Of which							Of which						
South Africa	874	782	819	8.4	6.7	5.7	Uganda	591	609	840	13.0	12.3	14.7
Egypt	118	194	226	1.1	1.7	1.6	Tanzania	394	411	453	8.7	8.3	7.9
Others	332	419	574	3.2	3.6	4.0	Egypt	175	220	253	3.9	4.4	4.4
EAC	162	232	294	1.6	2.0	2.1	Sudan	162	212	248	3.6	4.3	4.3
COMESA	320	442	551	3.1	3.8	3.8	Somalia	153	153	161	3.4	3.1	2.8
Rest of the World	9,034	10,203	12,708	87.2	88.0	88.7	DRC	146	152	185	3.2	3.1	3.2
Of which							Rwanda	123	132	147	2.7	2.7	2.6
India	1,084	1,252	1,616	10.5	10.8	11.3	Others	392	380	409	8.6	7.7	7.2
United Arab Emirates	1,022	1,561	1,945	9.9	13.5	13.6	EAC	1,162	1,216	1,511	25.6	24.5	26.4
China	954	1,222	1,669	9.2	10.5	11.6	COMESA	1,466	1,616	1,993	32.3	32.6	34.8
Japan	585	690	735	5.7	6.0	5.1	Rest of the World	2,401	2,691	3,023	53.3	53.2	53.7
USA	495	565	507	4.8	4.9	3.5	Of which						
United Kingdom	461	456	649	4.5	3.9	4.5	United Kingdom	478	523	523	10.5	10.5	9.1
Singapore	328	352	497	3.2	3.0	3.5	Netherlands	336	338	372	7.4	6.8	6.5
Germany	331	326	351	3.2	2.8	2.5	USA	254	221	325	5.6	4.4	5.7
Saudi Arabia	341	434	379	3.3	3.7	2.6	Pakistan	186	221	239	4.1	4.5	4.2
Indonesia	260	295	456	2.5	2.5	3.2	United Arab Emirates	112	218	232	2.5	4.4	4.1
Netherlands	240	206	259	2.3	1.8	1.8	Germany	93	93	91	2.0	1.9	1.6
France	233	196	245	2.2	1.7	1.7	India	71	95	107	1.6	1.9	1.9
Bahrain	177	81	149	1.7	0.7	1.0	Afghanistan	70	162	147	1.5	3.3	2.6
Italy	191	165	140	1.8	1.4	1.0	Others	801	820	987	17.7	16.5	17.3
Others	2,331	2,401	3,111	22.5	20.7	21.7	Total	4,537	4,960	5,720	100	100	100
Total	10,359	11,599	14,328	100	100	100							

Source: Kenya Revenue Authority

Capital and Financial Account The capital and financial account surplus increased from US\$ 2,379 million in the year to August 2010 to US\$ 4,002 million in the year to August 2011. Financial flows increased to US\$ 3,773 million in the year to August 2011 compared with US\$ 2,220 million in the year to August 2010. Performance on the financial account reflected an increase in the short term private flows which include trade credits (Table 4.4).

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

ITEM	Year to Aug 2010*	Year to August 2011*				Year to Aug 2011*	Absolute Change
		Q1 Sep-Nov	Q2 Dec- Feb	Q3 Mar- May	Q4 Jun- Aug		
3. CAPITAL & FINANCIAL ACCOUNT	2379	949	769	1129	1156	4002	1623
3.1 Capital Transfers (net)	159	72	93	55	9	229	70
3.2 Financial Account	2220	877	677	1073	1147	3773	1553
Official, medium & long-term	269	109	73	84	53	318	49
Inflows	492	164	138	142	125	569	77
Outflows	-223	-56	-65	-58	-72	-251	-28
Private, medium & long-term (net)	356	350	-8	274	-246	370	14
Commercial Banks (net)	322	217	-17	254	-253	202	-120
Other private medium & long-term (net)	34	133	9	20	7	168	134
Short-term (net) incl. errors & omissions	1595	418	612	715	1340	3085	1490

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from US\$ 5,141 million in September 2010 to US\$ 5,557 million in September 2011. Gross official foreign exchange reserves held by the Central Bank declined from US\$ 4,063 million or 4.0 months of import cover in September 2010 to US\$ 3,986 million (3.6 months of import cover) in September 2011 (Table 4.5). Gross reserves held in commercial banks increased by 46.73 percent from US\$ 1,078 million to US\$ 1,571 million during the period under review. This was attributed to the accumulation of foreign deposits by commercial banks during the period.

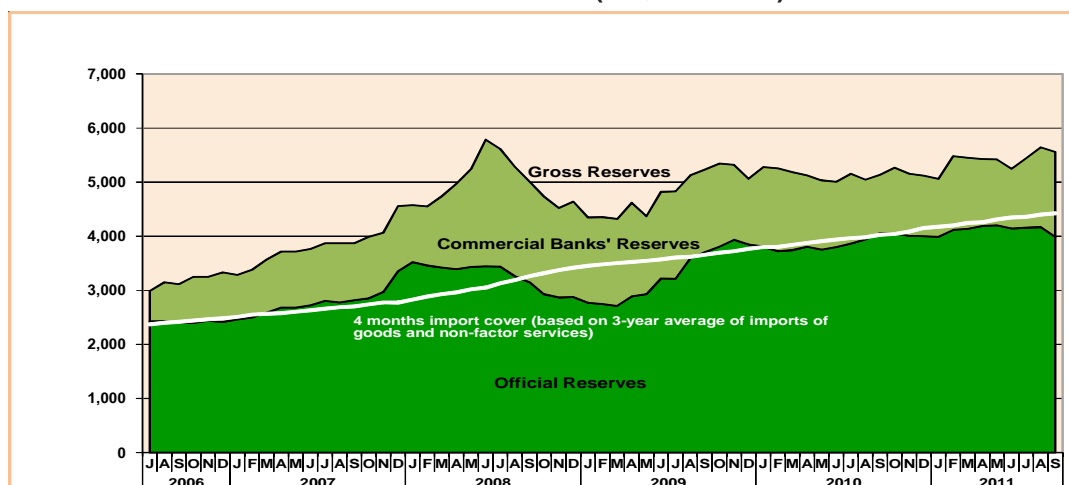
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US\$ MILLION)

	Aug 10	Sep 10	Dec 10	May 11	Jun 11	Jul 11	Aug 11	Sep 11
1. Gross Foreign Exchange Reserves	5,046	5,141	5,123	5,420	5,249	5,442	5,645	5,557
of which:								
Official	3,942	4,063	4,002	4,202	4,142	4,159	4,171	3,986
<i>imports cover*</i>	4.0	4.1	3.9	3.9	3.8	3.8	3.8	3.6
Commercial Banks	1,104	1,078	1,121	1,219	1,106	1,283	1,474	1,571
2. Residents' foreign currency deposits	2,250	2,191	2,275	2,328	2,331	2,502	2,652	2,852

*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 September 2011. Against the US dollar, the Shilling depreciated by 3.8 percent to exchange at an average of Ksh 96.4 per US dollar in August 2011 compared with Ksh 92.8 per US dollar in August 2011. Against the Sterling Pound and the Japanese Yen, the Shilling weakened by 0.1 percent and 4.3 percent, respectively, to trade at an average of Ksh 152.1 per Sterling Pound and Ksh 125.26 per 100 Japanese Yen in September 2011 (Table 4.6 and Chart 4B). The Shilling strengthened against the Euro to exchange at Ksh 132.7 per Euro in September 2011 compared to Ksh 133.0 per Euro in August 2011.

In the EAC region, the Kenya Shilling depreciated against all the East African Currencies. On average, the Kenya Shilling exchange for Ush 29.2, Tsh 17.0, RWF 6.2 and BIF 12.8 in September 2011, compared to Ush 29.7 per Kenya Shilling, Tsh 17.4 per Kenya Shilling, RWF 6.5 per Kenya Shilling and BIF 13.3 per Kenya Shilling, in August 2011 (Table 4.6 and Chart 4B).

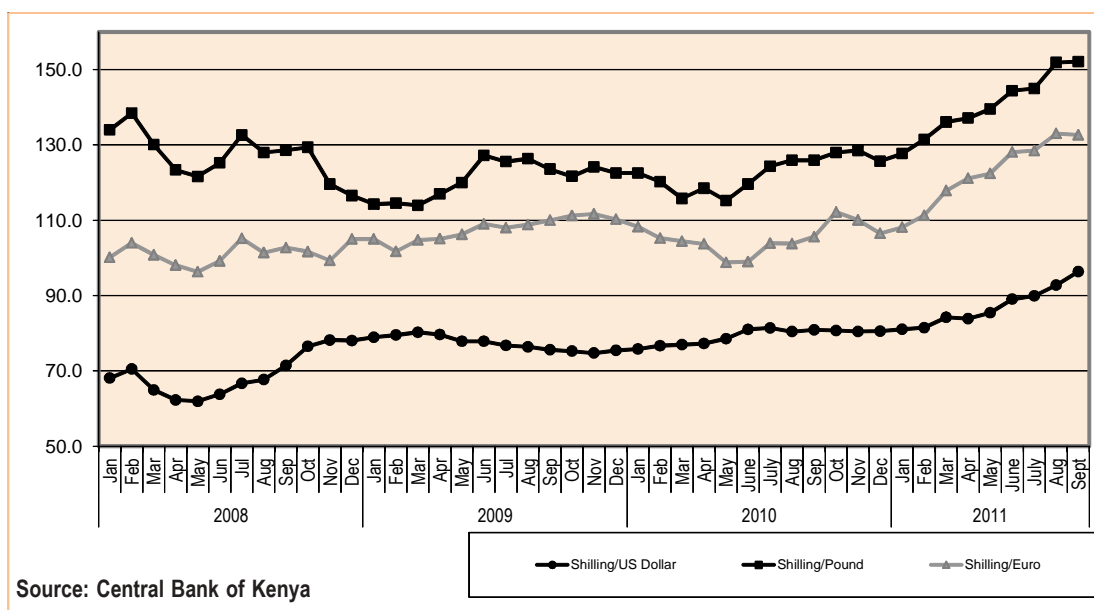
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2010								% change August 11 September 11
	September	October	November	Dec	June	July	August	September	
US Dollar	80.91	80.71	80.46	80.57	89.05	89.90	92.79	96.36	3.85
Pound Sterling	125.94	127.98	128.52	125.65	144.40	145.00	151.90	152.12	0.15
100 Japanese Yen	95.88	98.60	97.65	96.78	110.62	109.07	120.32	125.55	4.35
Uganda Shilling*	27.83	28.05	28.45	28.59	27.61	28.87	29.68	29.22	-1.56
Tanzania Shilling*	18.76	18.52	18.56	18.17	17.79	17.59	17.40	17.03	-2.13
Rwanda Franc*					6.74	6.68	6.46	6.23	-3.55
Burundi Franc*					13.84	13.69	13.28	12.81	-3.58
Euro	105.61	112.20	110.07	106.54	128.11	128.48	133.04	132.68	-0.27
Euro per US dollar	0.766	0.719	0.731	0.756	0.695	0.700	0.697	0.726	4.13

* Units of currency per Kenya shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



DEVELOPMENTS IN THE BANKING SECTOR

Overview For the period ended September 30, 2011, the Kenyan Banking sector recorded improved 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.

As at September 30, 2011, the sector comprised of 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 122 foreign exchange bureaus and 2 credit reference bureaus.

Structure of the Balance Sheet The banking sector's aggregate balance sheet expanded by 23.6 percent from Ksh 1,638.2 billion in September 2010 to Ksh 2,024.5 billion in September 2011. The major components of the balance sheet were loans and advances, government securities and placements, which accounted for 56 percent, 19 percent and 8 percent of total assets, respectively.

Loans & Advances The banking sector gross loans and advances increased from Ksh 878.8 billion in September 2010 to Ksh 1,192.5 billion in September 2011 translating to a growth of 35.7 percent. The growth was attributed to increased lending to households, trade and manufacturing sectors. Loans and advances net of provisions stood at Ksh 1,146.8 billion in September 2011, up from Ksh 834.4 billion registered in a similar period in 2010.

Deposit Liabilities Deposits from customers were the main source of funding for the banking sector, accounting for 75 percent of total funding liabilities. The deposit base increased by 20.0 percent from Ksh 1,270.6 billion in September 2010 to Ksh 1,524.6 billion in September 2011 mainly due to branch expansion, remittances and receipts from exports.

Capital & Reserves The banking sector registered increased capital levels in September 2011 with total capital growing by 19.6 percent from Ksh 209.9 billion in September 2010 to Ksh 251.1 billion in September 2011, whereas shareholders' funds increased by 13.1 percent from Ksh 248.1 billion in September 2010 to Ksh 280.5 billion. However, the ratios of total and core capital to total risk-weighted assets declined from 20.6 percent and 18.6 percent to 18.1 percent and 16.0 percent respectively mainly due to a more than proportionate increase in total risk weighted assets than the increase in both core and total capital.

Non-performing Loans The stock of gross non-performing loans (NPLs) declined by Ksh. 3.5 billion or 5.7 percent from Ksh 61.2 billion in September 2010 to Ksh 57.7 billion in September 2011. Consequently, the ratio of gross NPLs to gross loans improved from 7.0 percent to 4.8 percent over the same period. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs increased to 58.0 percent from 56.6 percent in September 2010 mainly due to increase in provisions. The quality of assets, measured as a proportion of net non-performing loans to

gross loans improved from 2.5 percent to 1.7 percent in September 2011 as shown in the table.

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

		September 2011	September 2010
1	Gross loans and advances	1,192.5	878.8
2	Interest in Suspense	10.8	10.1
3	Loans and advances (net of interest suspended)	1,181.7	868.7
4	Gross non-performing loans	57.7	61.2
5	Specific Provisions	27.2	28.9
6	General Provisions	7.7	5.4
7	Total Provisions (5+6)	34.9	34.3
8	Net Advances (3-7)	1,146.8	834.4
9	Total Non-Performing Loans and advances (4-2)	46.9	51.1
10	Net Non-Performing Loans and advances (9-5)	19.7	22.2
11	Total NPLs as % of total advances (9/3)	4.00%	5.90%
12	Net NPLs as % of gross advances (10/1)	1.70%	2.50%
13	Specific Provisions as % of Total NPLs (5/9)	58.00%	56.60%

Source: Central Bank of Kenya

Profitability The sector registered a 19.4 percent growth in pre-tax profits, from Ksh 53.2 billion in September 2010 to Ksh 63.5 billion as at end of September 2011. However, the annualised return on assets declined from 3.4 percent in September 2010 to 3.1 percent in September 2011 due to a higher growth in assets than growth in profits, while the annualised return on equity improved from 28.6 percent to 30.2 percent over the same period. Total income increased by 12.1 percent from Ksh 157.1 billion in September 2010 to Ksh 176.1 billion in September 2011, while total expenses increased by 8.4 percent from Ksh 103.9 billion in September 2010 to Ksh 112.6 billion in September 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 while staff costs, other expenses and interest on deposits were the key components of expenses, accounting for 35 percent, 29 percent and 21 percent, respectively.

Liquidity Ratio Requirement For the month ended September 30, 2011, average liquid assets amounted to Ksh 535.5 billion while total short-term liabilities stood at Ksh 1,436.1 billion, resulting to an average liquidity ratio of 37.3 percent compared with 46.7 percent registered in September 2010. The ratio of gross loans to deposits stood at 78.2 percent in September 2011 from 69.2 percent in September 2010.

Cash Ratio Requirement The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.70 percent in September 2011 compared with 5.47 percent in August 2011 and 4.75 percent statutory level (Table 5.3 and Chart 5A). Commercial banks held excess reserves at the Central Bank averaging Ksh 12.91 billion in September 2011 compared with Ksh 9.65 billion in August 2011. To facilitate commercial banks' liquidity management, the Monetary Policy Committee decided that commercial banks are to maintain Cash Reserve Ratio

(CRR) on a monthly average of 4.75 percent but subject to a daily minimum of 3.0 percent.

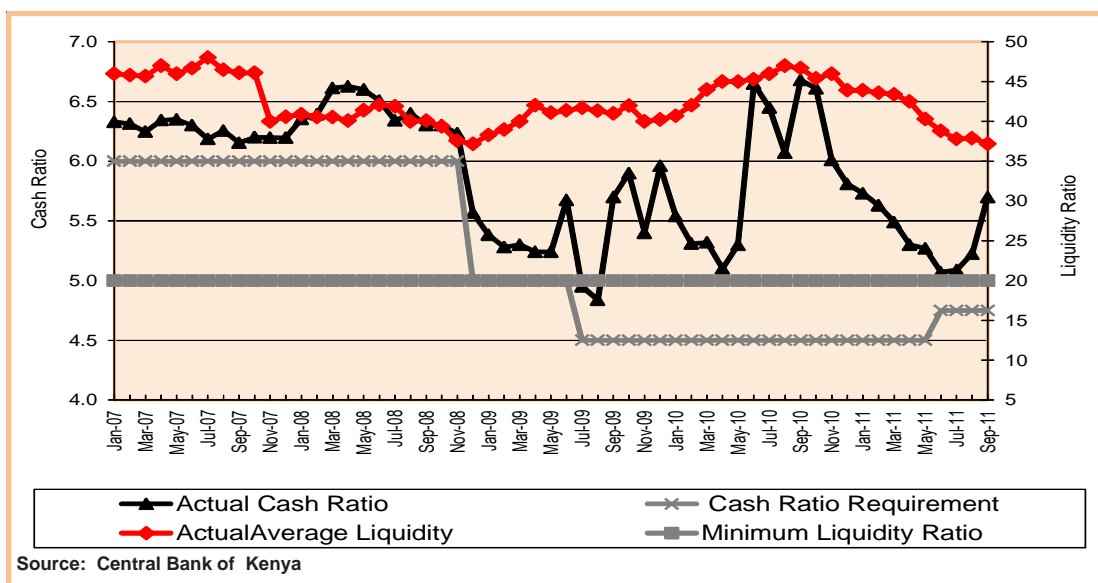
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2010					2011				
	Aug	Sept	Oct	Nov	Dec	May	June	July	Aug	Sept
Commercial Banks										
Actual Average Liquidity	46.7	46.70	45.4	46.0	43.90	40.30	38.80	37.80	37.90	37.20
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	5.28	5.07	5.09	5.22	5.70
Minimum Cash Ratio Requirement	4.50	4.50	4.50	4.50	4.50	4.5	4.5	4.5	4.5	4.75
NBFIs										
Actual Average Liquidity Ratio	30.5	30.70	64.8	58.9	56.00	46.70	46.40	43.60	38.20	41.80
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 (%)



KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 118,798 transaction messages worth Ksh 1,730 billion in September 2011 compared with a volume of 110,498 transaction messages valued at Ksh 2,007 billion moved in August 2011 representing 13.81 percent decrease in value and 7.51 percent increase in volume.

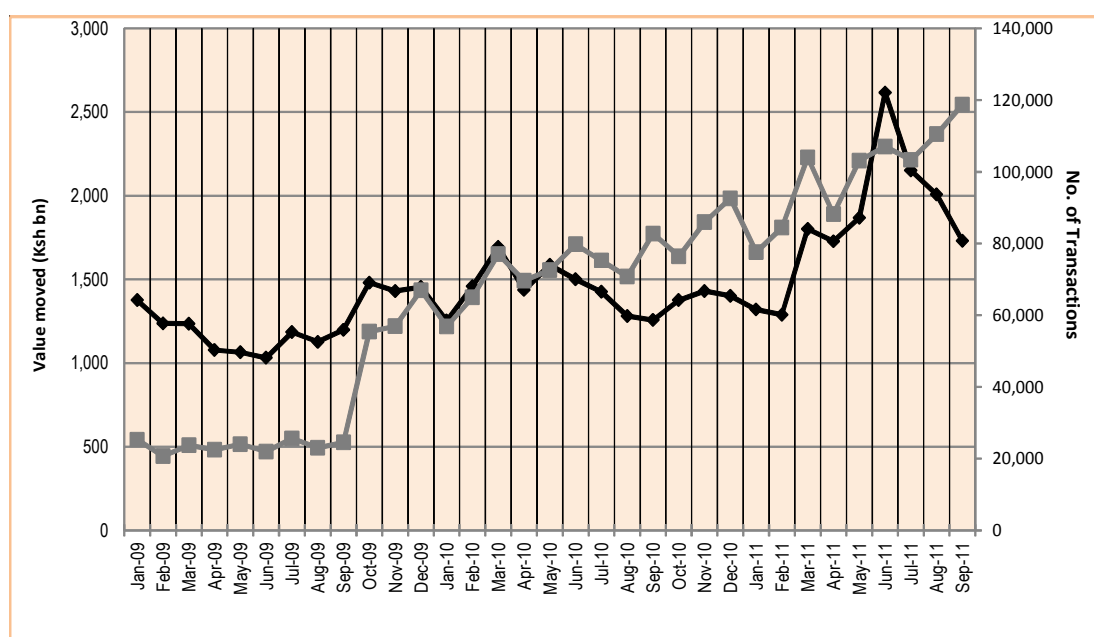
During the twelve months period to September 30, 2011 the value moved averaged Ksh 18 million per transaction. On average 4,548 transaction messages valued at approximately Ksh 82 billion per message were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS accounted for 98.0 percent of the total settlements while indirect payments (ACH Net settlement) averaged 2.0 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

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Third Party Messages

Multiple third party Message Type (MT 102) increased by 10.55 percent from 10,929 transaction messages in August 2011 to 12,082 transaction messages in September 2011, while single third party Message Type (MT 103) increased by 9.44 percent from 103,561 transaction messages to 113,333 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 9.54 percent from 114,490 transaction messages in August 2011 to 125,415 transaction messages in September 2011.

Compared with September 2010, multiple third party messages (MT 102) increased by 11.81 percent from 10,806 transaction messages to 12,082 transaction messages in September 2011 while single third party messages (MT 103) increased by 47.36

percent from 76,910 transaction messages to 113,333 transaction messages (Table 5.4 and Chart 5C).

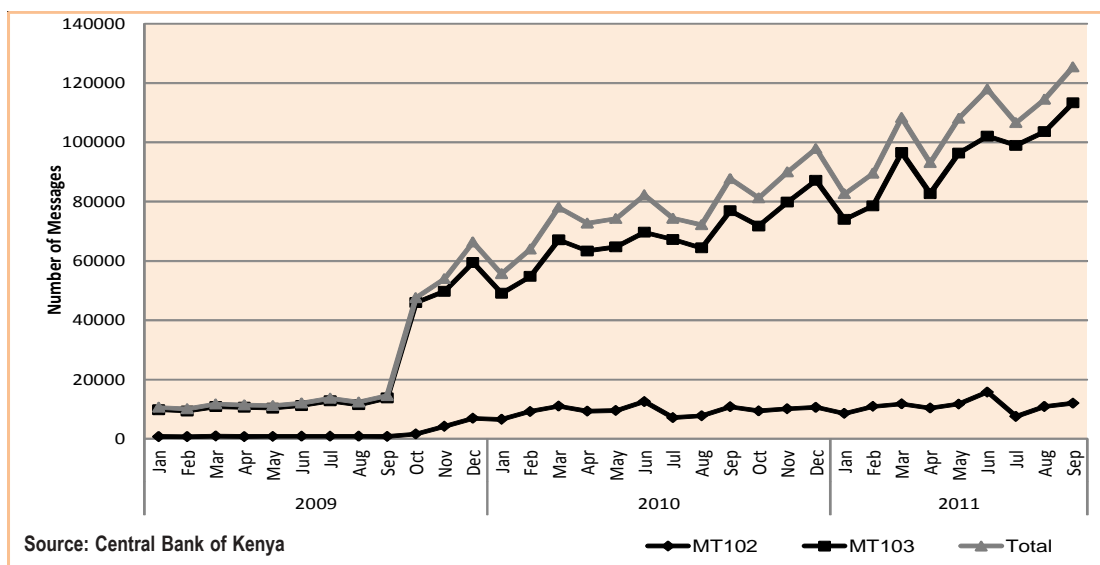
Inter-bank transfers (MT 202) accounted for 54.90 percent of the total value moved through KEPSS as at end of September 2011, while third party messages accounted for 45.10 percent. The total number of third party messages (MT 102 and MT 103) grew by 42.98 percent from 87,716 messages in September 2010 to 125,415 messages in September 2011.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2010	Jan	6570	49,061	55,631
	Feb	9238	54,747	63,985
	Mar	11038	67,052	78,090
	Apr	9345	63,396	72,741
	May	9564	64,707	74,271
	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

Source: Central Bank of Kenya

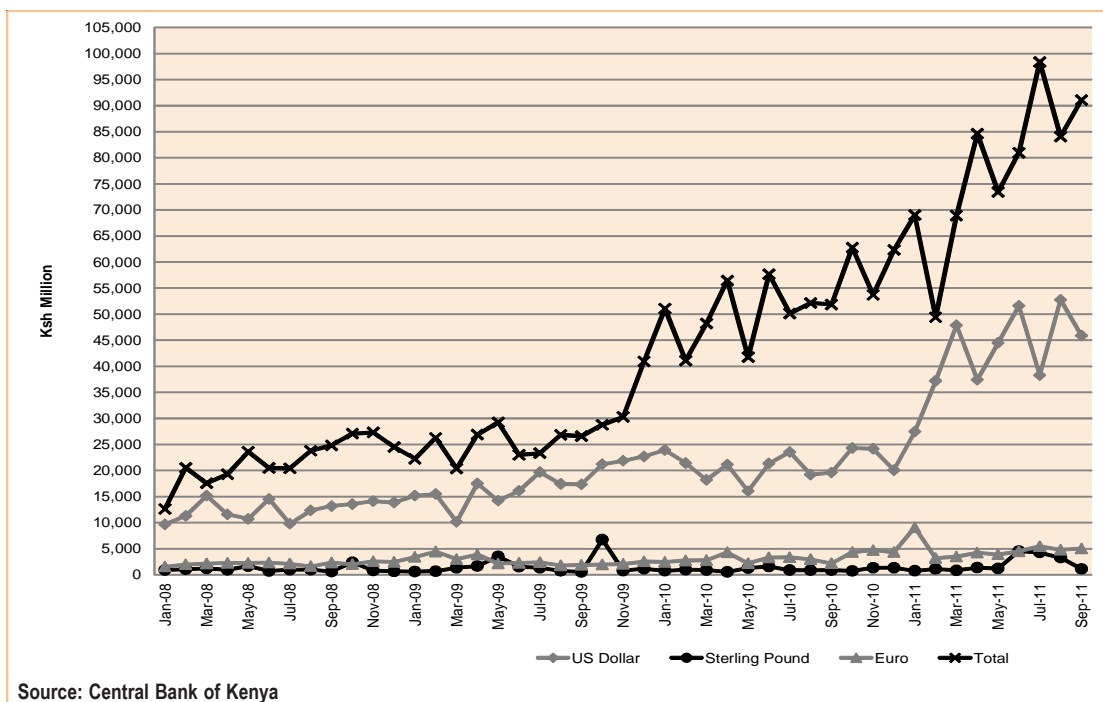
CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS



Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 2.48 percent from 9,494 transaction messages in August 2011 to 9,730 transaction messages in September 2011. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period increased by 34.13 percent from Ksh 91.10 billion to Ksh 122.20 billion. The US dollar accounted for 95.58 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.33 percent and 3.09 percent, respectively.

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



GOVERNMENT BUDGET PERFORMANCE

Central Government budgetary operations for the period July - September 2011 resulted in a deficit of Ksh 20.4 billion on commitment basis compared with a deficit of Ksh 36.0 billion in July - September 2010 (Table 6.1). The deficit-to-GDP ratio stood at 0.7 percent both on commitment and cash basis in July -September 2011. The budget deficit for the period was within the programmed target of 2.0 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		
	September Actual	September Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	142.4	159.2	183.6	-24.3
Revenue	141.2	156.5	179.4	-22.9
Tax Revenue	124.9	143.9	157.3	-13.4
Non Tax Revenue	4.5	3.1	4.5	-1.4
Appropriations-in-Aid	11.8	9.4	17.5	-8.1
External Grants	1.2	2.8	4.2	-1.4
2. TOTAL EXPENSES & NET LENDING	178.4	179.6	239.9	-60.3
Recurrent Expenses	138.9	136.5	166.7	-30.2
Development Expenses	39.6	43.2	73.2	-30.1
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-36.0	-20.4	-56.3	-36.0
As percent of GDP	-1.4	-0.7	-2.0	
4. ADJUSTMENT TO CASH BASIS	-5.0	0.0	0.0	0.0
5. DEFICIT ON A CASH BASIS	-41.0	-20.4	-56.3	-36.0
As percent of GDP	-1.6	-0.7	-2.0	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-8.8	-5.1	0.0	
7. FINANCING	32.2	15.240	56.3	-41.1
Domestic (Net)	30.2	12.3	49.8	-37.5
External (Net)	2.0	2.9	6.5	-3.5
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

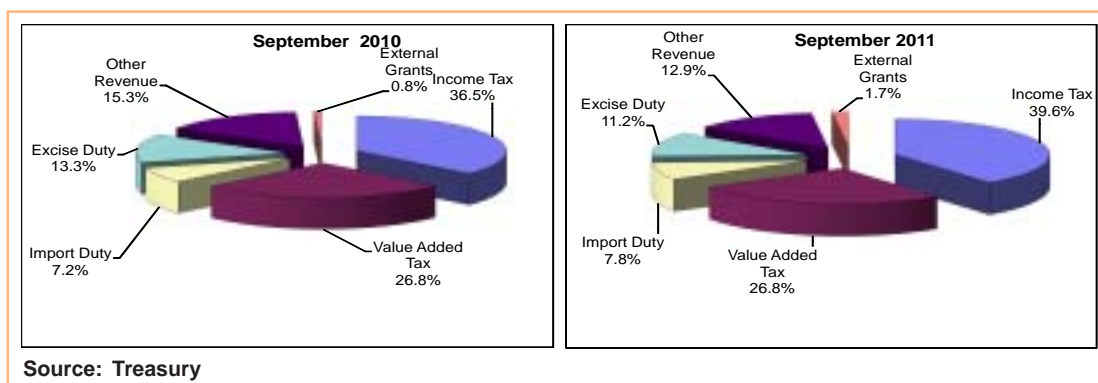
Revenue In the July - September 2011 period, government revenues and grants increased by Ksh 16.8 billion to Ksh 159.2 billion compared with Ksh 142.4 billion collected in the July - September 2010 period. Total revenue and grants were below target by Ksh 24.3 billion, despite the Ksh 16.8 billion increase in collections during the period. The targets on government revenue and external grants were, respectively, Ksh 179.4 billion and Ksh 4.2 billion against the realized amounts of Ksh 156.5 billion and Ksh 2.8 billion. Tax revenue underperformed by 12.8 percent during the period.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Sep-10 Ksh bn	Sep-11 Ksh bn	Change
1. Revenue (2+3+4)	141.2	156.5	15.2
2. Tax Revenue	124.9	143.9	19.0
Income Tax	52.0	63.0	11.0
Value Added Tax	38.2	42.7	4.5
Import Duty	10.3	12.4	2.1
Excise Duty	19.0	17.8	-1.2
Others	5.5	8.0	2.6
3. Appropriations-in-Aid	11.8	9.4	-2.4
4. Other Revenue	4.5	3.1	-1.4
5. External Grants	1.2	2.8	1.6
TOTAL RECEIPTS (1+5)	142.4	159.2	16.8

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Tax revenue increased by Ksh 19.0 billion, equivalent to 15.2 percent, from Ksh 124.9 billion collected in the period July - September 2010 to Ksh 143.9 billion in July - September 2011. Increases in income tax, value added tax and import duty collections amounted to Ksh 11.0, Ksh 4.5 and Ksh 2.1 billion respectively, during the period under review. Excise duty declined from Ksh 19.0 billion collected between July and September 2010 to Ksh 17.8 billion collected during the same period in 2011, while appropriations-in-aid at Ksh 9.4 billion had declined by Ksh 2.4 billion.

Expenditure and Net Lending

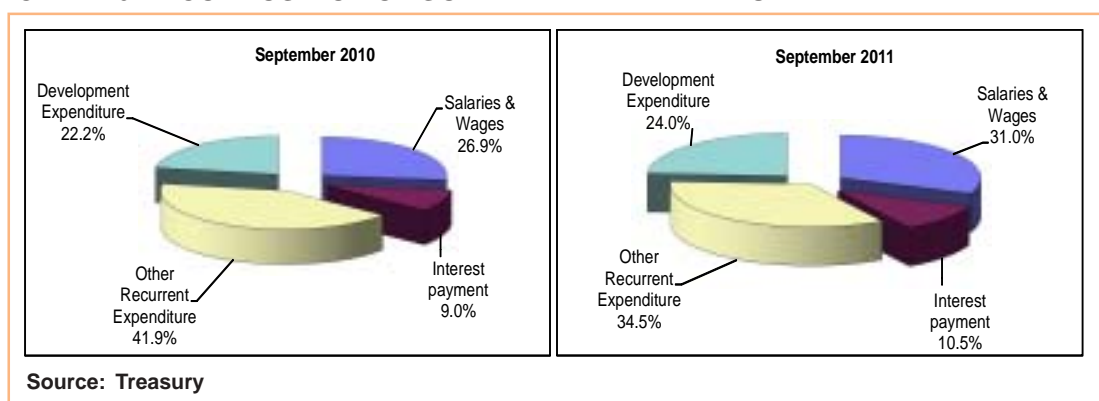
Government expenditure and net lending increased by Ksh 1.2 billion in the period July – September 2011 from Ksh 178.4 billion during the same period in the 2010/11 fiscal year. Total expenditure for the period July – September 2011 amounted to Ksh 179.6 billion, comprising Ksh 136.5 billion and Ksh 43.2 billion in recurrent and development expenditure, respectively.

The increase in recurrent expenditure during the period under review was in the main expenditure items including salaries and wages and interest on domestic debt. These items expanded respectively by Ksh 7.7 billion and Ksh 2.9 billion (Table 6.3). Expenditure and net lending was Ksh 60.3 billion below target. The shortfall comprised Ksh 30.2 billion recurrent expenditure and Ksh 30.1 billion development expenditure.

TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Sep-10 Ksh bn	Sep-11 Ksh bn	Movement
1.Recurrent	138.9	136.5	-2.4
Salaries & Wages	47.9	55.6	7.7
Total Interest	16.1	18.9	2.8
of which			
Domestic*	14.5	17.4	2.9
Foreign interest due	1.6	1.6	0.0
Others	74.9	61.9	-12.9
2. Development	39.6	43.2	3.6
TOTAL EXPENSES	178.4	179.6	1.2

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE

Financing In the first quarter of the 2011/12 fiscal year, budgetary operations of the Government resulted in a financing requirement of Ksh 38.6 billion, or 91.0 percent of Ksh 42.4 billion financing requirement in the same period in 2010/11. The Government sourced the July - September 2011 financing requirement through net domestic borrowing amounting to Ksh 20.0 billion and net external debt borrowing of Ksh 2.9 billion. In addition, the Government drew down its deposits at the Central Bank by Ksh 15.6 billion (Table 6.4).

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

I. FINANCING REQUIREMENTS	Sep-10	Sep-11
1. Budget deficit	32.2	15.2
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	23.4
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	23.4
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	10.2	0.0
TOTAL	42.4	38.6
II. FINANCING SOURCES	Sep-10	Sep-11
1. Budget surplus	0.0	0.0
2. External debt increase	2.2	2.9
3. Increase in domestic debt	40.4	20.0
3.1 Central Bank	2.7	18.4
3.2 Commercial banks	10.1	0.0
3.3 Non-bank sources	27.6	1.6
4. Reduction in GoK deposits at CBK	0.0	15.6
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	42.6	38.6

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank Government gross debt to the Central Bank amounted to Ksh 58.1 billion in the first quarter of the fiscal year 2011/12, or Ksh 5.0 billion above the Ksh 53.2 billion debt in the same quarter of the previous fiscal year. This followed the increase in the Government overdraft following an upward revision in the authorized limit from Ksh 22.9 billion to Ksh 25.3 billion, based on the recently revised 2009/ 2010 Government accounts. Rediscounted Treasury bills increased by Ksh 1.5 billion in the first quarter of the fiscal year 2011/12 as banks restructured their balance sheets to mitigate tight liquidity in the interbank market. During the same period, amortization of the pre-1997 overdraft reduced Government indebtedness by Ksh 1.1 billion while the IMF funds on-lent to Government, equivalent to Ksh 0.3 billion were cleared in April 2011 (Table 6.5).

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

	2010	2011	Movement
	September	September	
Total Credit	53.2	58.1	5.0
1. Overdraft	20.6	25.4	4.8
2. Rediscounted securities	0.0	1.5	1.5
Treasury bills	0.0	1.5	1.5
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	0.3	0.0	-0.3
5. Cleared items in transit	0.1	0.1	0.0
Memorandum			
Authorised overdraft limit	22.9	25.4	2.4
Amount utilised to date	20.6	25.4	4.8
Amount available	2.4	0.0	-2.4

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 1066.8 billion or 38.6 percent of GDP. The main components of expenditure include 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	1,066.80	38.60
Recurrent Expenses	663.70	24.00
Development Expenses	401.10	14.50
Civil Contingency 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 financing include 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 1,564.1 billion in the July – September 2011 period equivalent to 56.6 percent of GDP. The debt had increased by Ksh 72.6 billion from Ksh 1,491.5 billion equivalent to 54.2 percent of GDP in June 2011 (Table 7.1). The external debt to GDP ratio increased from 26.4 percent in June 2011 to 29.0 percent in July - September 2011, while the domestic debt to GDP ratio declined from 27.8 percent to 27.7 percent during the period. Domestic debt constituted 48.9 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	Change 2011/12
EXTERNAL***							
Bilateral	185.9	196.3	257.0	267.7	257.0	258.5	1.5
Multilateral	327.6	348.6	445.3	451.7	525.1	514.7	69.5
Export Credit	23.8	20.5	25.0	25.2	25.0	26.6	1.6
Sub-Total	537.4	565.5	727.3	744.5	807.17	799.83	72.6
(As a % of GDP)	22.5	22.2	26.4	27.0	29.2	29.0	
(As a % of total debt)	50.9	46.1	48.8	48.8	51.0	51.1	
DOMESTIC^{/1}							
Banks	290.8	401.8	418.1	437.8	424.1	413.1	-4.9
Central Bank	40.1	51.9	39.7	60.0	65.1	58.1	18.4
Commercial Banks	250.7	350.0	378.4	377.9	359.0	355.0	-23.4
Non-banks	225.1	255.3	338.3	336.5	344.9	343.1	4.8
Non-bank Financial Institutions	1.0	3.0	2.6	2.6	2.6	2.1	-0.5
Other Non-bank Sources	224.1	252.4	335.7	333.9	342.4	341.0	5.2
Non-residents	2.6	3.1	7.9	7.4	7.8	8.1	0.2
Sub-Total	518.5	660.3	764.2	781.7	776.9	764.3	0.1
(As a % of GDP)	21.7	25.9	27.8	28.3	28.1	27.7	
(As a % of total debt)	49.1	53.9	51.2	51.2	49.0	48.9	
GRAND TOTAL	1055.9	1225.7	1491.5	1526.2	1584.0	1564.1	72.6
(As a % of GDP)	44.1	48.0	54.2	55.3	57.4	56.6	

External Debt Revised
External Debt Provisional

*** 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 0.1 billion from a stock of Ksh 764.2 billion at the end of June 2011 to Ksh 764.3 billion at the end of September 2011 (Table 7.2). The rise during the period was attributed to Ksh 17.8 billion increase in the Government overdraft at the Central Bank which was partially offset by Ksh 12.9 billion, Ksh 4.1 billion and Ksh 0.6 billion net redemptions of Treasury bills, Treasury bonds and non-interest bearing debt, respectively. The Government overdraft at the Central Bank was, however, within the statutory limit of Ksh 25.4 billion.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2011								Change June-11 - Sept-11
	June	%	July	%	August	%	Sept	%	
Total Stock of Domestic Debt (A+B)	764.2	100.0	781.7	100.0	776.9	100.0	764.3	100.0	0.1
A. Government Securities	753.9	98.7	759.0	97.1	748.4	96.3	736.4	96.3	-17.6
1. Treasury Bills (excluding Repo Bills)	126.6	16.6	126.4	16.2	113.5	14.6	113.7	14.9	-12.9
Banking institutions	87.7	11.5	85.9	11.0	67.5	8.7	72.9	9.5	-14.9
Others	38.9	5.1	40.5	5.2	45.9	5.9	40.9	5.3	2.0
2. Treasury Bonds	595.7	77.9	601.0	76.9	603.8	77.7	591.5	77.4	-4.1
Banking institutions	288.4	37.7	289.3	37.0	288.7	37.2	279.8	36.6	-8.6
Others	307.3	40.2	311.6	39.9	315.1	40.6	311.7	40.8	4.4
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	31.7	4.1	31.1	4.0	31.1	4.1	-0.6
Of which: Repo T/Bills	30.8	4.0	23.7	3.0	30.2	3.9	30.8	4.0	0.0
B. Others:	10.29	1.3	22.74	2.9	28.42	3.7	27.91	3.7	17.6
Of which CBK overdraft to Government	7.6	1.0	19.9	2.5	25.4	3.3	25.4	3.3	17.8

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

The uptake of Treasury bills declined persistently throughout the fiscal year 2010/11 and into the first quarter of fiscal year 2011/12, from Ksh 159.0 billion in June 2010 to Ksh 126.6 billion in June 2011 and further down to Ksh 113.7 billion at the end of September 2011 (Table 7.3). Consequently, the proportion of Treasury bills in total domestic debt decreased from 16.6 percent in June 2011 to 14.9 percent at the end of September 2011 (Table 7.2). Commercial banks remained the largest holders of Treasury bills despite Ksh 14.9 billion decline in their total holdings between June 2011 and September 2011, while holdings by insurance companies increased by Ksh 3.9 billion, during the period.

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

Holders	2010						2011							
	Jun	%	Sept	%	Dec	%	Jun	%	Jul	%	Aug	%	Sep	%
Banking Institutions	134.0	84.3	122.6	82.3	106.9	79.9	87.7	69.3	85.9	68.0	67.6	59.5	72.9	64.1
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	106.9	79.9	87.7	69.3	85.9	68.0	67.5	59.5	72.9	64.1
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	4.2	3.1	4.7	3.7	5.5	4.3	8.9	7.8	8.6	7.5
Parastatals	1.9	1.2	1.1	0.7	2.5	1.9	3.2	2.6	2.0	1.6	3.7	3.3	3.6	3.1
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	5.2	3.8	4.8	3.8	4.1	3.3	4.8	4.2	2.6	2.3
Others	9.7	6.1	13.6	9.1	15.1	11.3	26.1	20.6	28.9	22.9	28.6	25.2	26.1	23.0
Total*	159.0	100.0	148.9	100.0	133.9	100.0	126.6	100.0	126.4	100.0	113.5	100.0	113.7	100.0

* Excludes repurchase order bills

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds outstanding declined from Ksh 595.7 billion in June 2011 to Ksh 591.5 billion at the end of September 2011 (Table 7.4). The share of Treasury bonds in total domestic debt declined from 77.9 percent in June 2011 to 77.4 percent in September 2011 following net redemptions during the period (Table 7.2). Despite the decrease in outstanding Treasury bonds during the period, the average maturity profile of domestic debt (by days to maturity) increased to 5 years and 11 months in September 2011 from 5 years 10 months in June 2011.

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

Holders	2010						2011			
	Jun	%	Sept	%	Dec	%	June	%	Sept	%
Banking Institutions	215.3	48.0	246.0	49.1	261.4	49.3	290.9	48.8	281.9	47.7
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	212.5	47.4	243.2	48.5	258.8	48.8	288.4	48.4	279.8	47.3
NBFIs	2.8	0.6	2.7	0.5	2.6	0.5	2.5	0.4	2.1	0.4
Insurance Companies	54.8	12.2	62.1	12.4	65.9	12.4	70.9	11.9	76.8	13.0
Parastatals	38.2	8.5	44.2	8.8	44.5	8.4	46.6	7.8	48.7	8.2
Of which: NSSF	20.2	4.5	21.0	4.2	26.4	5.0	23.6	4.0	25.7	4.3
Building Societies	0.4	0.1	0.4	0.1	0.3	0.1	0.3	0.0	0.6	0.1
Pension Funds	80.1	17.8	89.3	17.8	98.9	18.7	118.5	19.9	136.6	23.1
Others	59.9	13.4	59.2	11.8	58.8	11.1	68.4	11.5	46.9	7.9
Total	448.6	100.0	501.2	100.0	529.9	100.0	595.7	100.0	591.5	100.0

Source: Central Bank of Kenya

Maturity Profile of Treasury Bills and Bonds

Government securities worth Ksh 85.6 billion will fall due between October and December 2011 in the 2011/12 fiscal year. Of the total maturing debt, Ksh 78.2 billion, equivalent to 91.4 percent will be in Treasury bills, and the balance in Treasury bonds. Treasury bill maturities in the period will comprise Ksh 54.4 billion, Ksh 10.8 billion and Ksh 13.0 billion in 91-days, 182-days and 364-days Treasury bills, respectively, while Treasury bonds maturing during this period will comprise of Ksh 7.4 billion in 6-year fixed rate bonds.

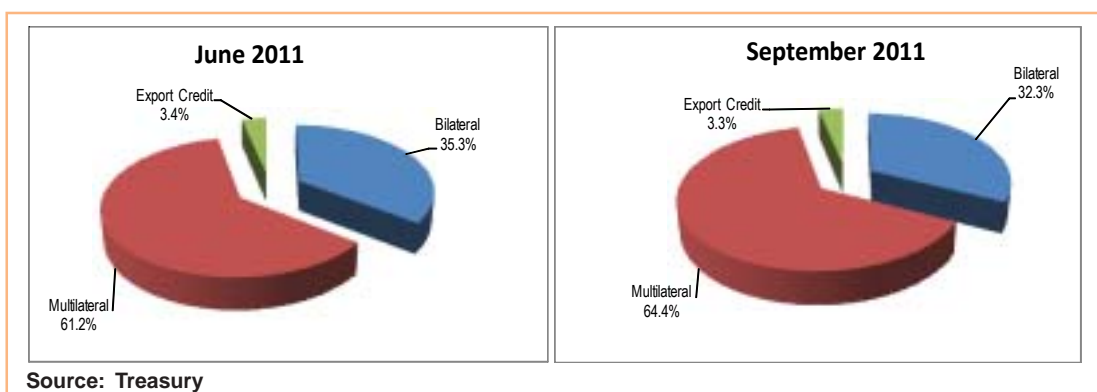
External Debt

Kenya's external debt increased by Ksh 72.6 billion from Ksh 727.3 billion (USD 7.88 billion) in June 2011 to Ksh 799.8 billion (USD 8.01 billion) at the end of September 2011 (Table 7.1). During the period, debt owed to multilateral creditors increased by Ksh 69.5 billion largely on account of the depreciation of the Kenya Shilling against major world currencies to Ksh 514.7 billion in September 2011.

Composition of External Debt by Creditor

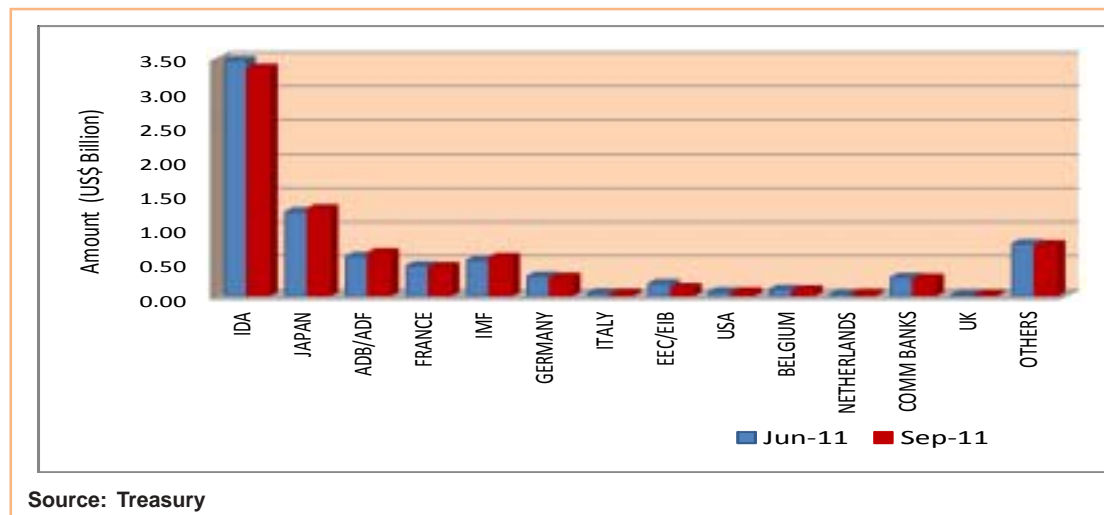
Kenya's official creditors, the multilateral and bilateral lenders, accounted for over 96 percent of total external debt in September 2011. The proportion of external debt owed to multilateral creditors increased from 61.2 percent in June 2011 to 64.4 percent in September 2011. Bilateral creditors accounted for 32.3 percent in September 2011 while debt contracted through export credit declined from 3.4 percent in June 2011 to 3.3 percent in September 2011 (Chart 7A).

CHART 7A: COMPOSITION OF EXTERNAL DEBT



Debt owed to Japan and the African Development Bank (ADB) increased from US\$ 1,244.6 million and US\$ 585.8 million in June 2011 to US\$ 1,289.3 and US\$ 642.4 million in September 2011, while debt owed to International Development Association (IDA) decreased by US\$ 112.9 million to US\$ 3,360.8 million, during the same period (Chart 7B).

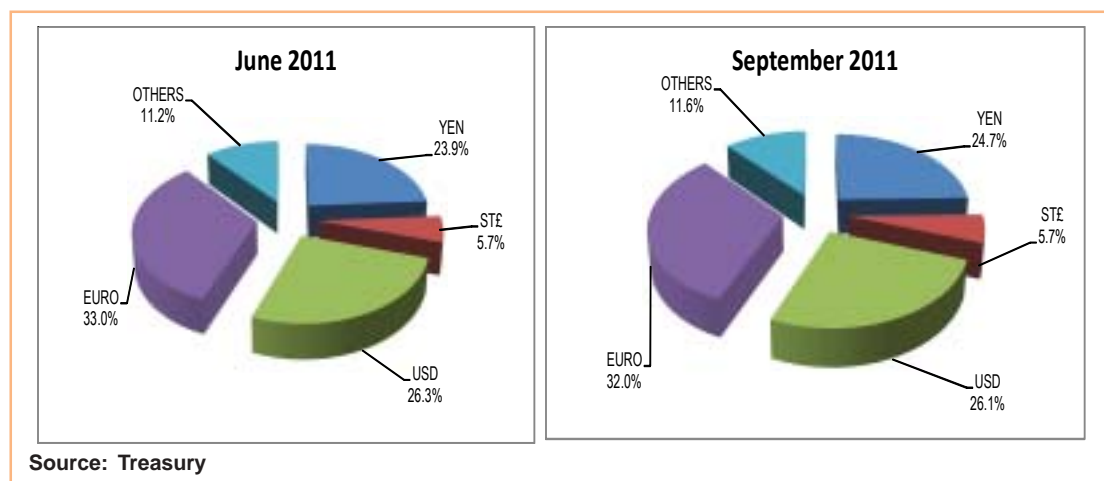
CHART 7B: EXTERNAL DEBT BY CREDITOR



Currency Composition of External Debt

The percentage of external debt held in Japanese Yen increased from 23.9 percent in June 2011 to 24.7 percent in September 2011. Holdings of debt in all the other major currencies, except for the Sterling Pound, declined during September 2011 as shown in Chart 7C below.

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 17.4 billion for the fiscal year 2011/12 to September 2011. This comprised Ksh 14.6 billion, Ksh 2.5 billion and Ksh 0.3 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 September 2011 amounted to Ksh 8.3 billion and comprised Ksh 6.8 billion in principal repayments and Ksh 1.5 billion in interest cost.

Outlook for the FY 2011/12 The budget estimates for fiscal year 2011/12 project domestic and external borrowing at to Ksh 119.5 and Ksh 116.7 billion, respectively.

ACTIVITY IN THE STOCK MARKET

Equity Market

Performance at stock market declined in the equities and fixed income securities segments.

The equities market had subdued demand as reflected in all key market indicators (Table 8.1). The NSE 20 Share Index and NASI edged lower 5.2 percent and 8.9 percent to close at 3,283.06 points and 69.38 points in September from 3,464.02 points and 76.15 points in August 2011, respectively. Market Capitalization shed off Ksh 66 billion to close at Ksh 884 billion from Ksh 950 billion in August 2011. Equity turnover closed lower by Ksh 656 million 23.26 percent to Ksh 5,453 million in September 2011, from Ksh 6,109 million in August 2011. The Turnover Ratio as a measure of market liquidity, increased by 2 basis points to 0.79 percent in September from 0.77 percent in August 2011, reflecting more volatility at the exchange in the month. The number of shares traded, however, rose to 582 million from 552 million in the month, a sign of net divestiture into other investment opportunities.

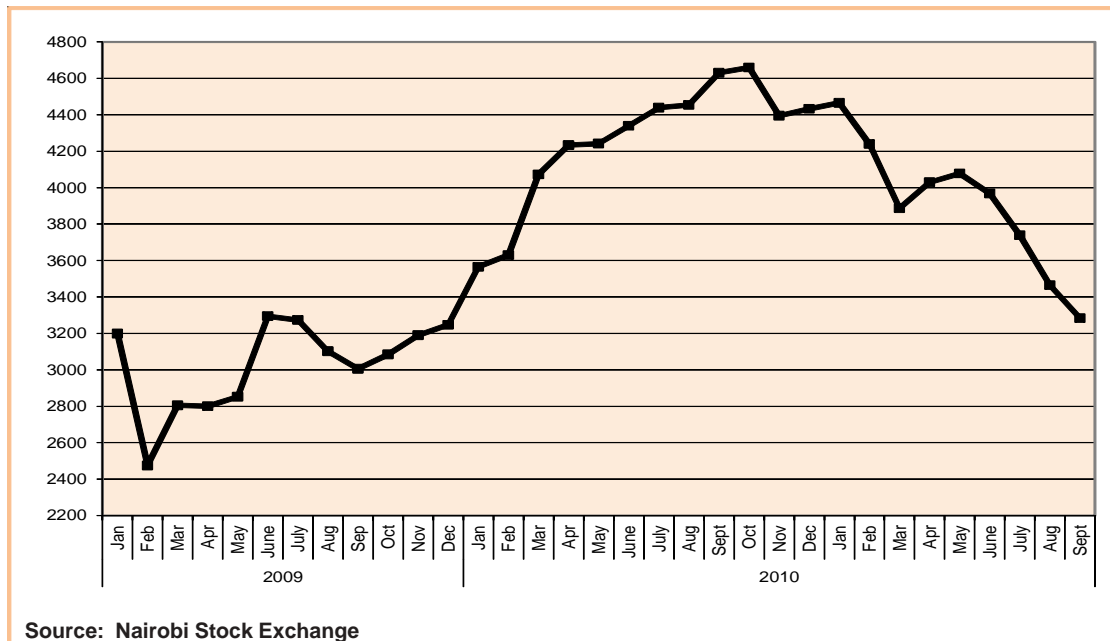
TABLE 8.1: SELECTED STOCK MARKET INDICATORS

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

Source: Nairobi Stock Exchange

Net foreign investors' participation declined to 43.62 percent from 50.74 percent of total market equity turnover during the period. Foreign investor purchases exceeded sales at 48.52 percent against 38.71 percent of total equity turnover.

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



Telecommunications and Technology sector dominated the equities market in September 2011, with 391.67 million shares traded which accounted for 67.36 percent of the entire market activity. Safaricom was the most active counter, trading 389.13 million shares or 66.92 percent of the entire market. Banking sector came in second, with 101.03 million shares changing hands or 17.37 percent. Equity Bank dominated the sector at 34 percent or 34.51 million of its shares traded. Energy and Petroleum closed the third best active sector, with 31.64 million shares or 5.44 percent of market activity, where Kenol Kobil Co. Ltd. dominated with 18.22 million shares.

Bond Market Bond trading at the Fixed Income Securities segment of NSE declined by 18.14 percent from a total of 617 deals valued at Ksh 44,112 million transacted in August 2011 to 537 deals worth Ksh 36,112 million traded in September 2011. The lukewarm performance of the bond market may be attributed to continued tightening of market liquidity and investor nervousness in the financial markets as a similar scenario was unfolded in the equities market and the primary market for Treasury securities.

STATEMENT OF FINANCIAL POSITION OF THE CENTRAL BANK OF KENYA (KENYA SHILLINGS MILLION)

	Sep-11	Sep-10	Sept 11/Sept 10 Movement
ASSETS			
Balances due from Banking Institutions and Gold holdings	396,317	298,475	97,842
Items in the course of collection	131	90	41
Advances to commercial banks	1,514	31	1,483
Loans and Advances	32,577	23,736	8,841
Other Assets	3,967	3,506	461
Retirement Benefits Assets	1,897	1,894	3
Property and Equipment	2,363	1,010	1,353
Prepaid operating lease rentals	267	270	(3)
Intangible Assets	1,171	867	304
Due from Government of Kenya	31,109	32,219	(1,110)
TOTAL ASSETS	471,313	362,098	109,215
LIABILITIES			
Balances due to Banking Institutions (RAMP A/Cs)	0	0	
Currency in Circulation	154,990	130,672	24,318
Repos sold to Banks	0	0	
Deposits	121,821	152,946	(31,125)
International Monetary Fund	97,579	36,977	60,602
Other Liabilities	6,509	5,606	903
Provisions	75	50	25
TOTAL LIABILITIES	380,974	326,251	54,723
EQUITIES AND RESERVES	90,339	35,847	54,492
Share capital	5,000	5,000	0
General Reserve Fund	62,722	23,104	39,618
Period Surplus	21,248	7,743	13,505
Asset Revaluation	1,369	0	1,369
Dividends Payable	0	0	0
TOTAL LIABILITIES AND EQUITY	471,313	362,098	109,215

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 97,842 million or 32.8 percent, to Ksh 396,317 million in September 2011 from Ksh 298,475 million in September 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 September 2011 were Ksh 131 million, an increment of 41 million compared with Ksh 90 million as at September 2010.

Advances to commercial banks are balances of money lend by Central Bank to commercial banks through reverse Repo (injection of liquidity) for a short duration of up to 7 days only. These advances are secured against government securities of any maturity. The category also includes the discounted government securities by commercial banks. The balance outstanding increased to Ksh 1,514 million in September 2011 compared with Ksh 31 million in September 2010.

Loans and Advances class of asset includes 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 8,841 million to Ksh 32,577 million in September 2011 compared with Ksh 23,736 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 increased by Ksh 461 million to Ksh 3,967 million in September 2011 mainly due to deposits for production of bank notes.

Due from Government of Kenya 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.

Currency in circulation increased by Ksh 24,318 million or 18.6 percent to Ksh 154,990 million in September 2011 from Ksh 130,672 million in September 2010. This reflected increased demand for cash to fund economic activities.

Liabilities **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 -20.4 percent or Ksh 31,125 million to Ksh 121,821 million in the year to September 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 60,602 million to Ksh 97,579 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 903 million to Ksh 6,509 million in the year to September 2011 compared with Ksh 5,606 million in the year to September 2010.

Equities and reserves increased by Ksh 54,492 million to Ksh 90,339 million in the year to September 2011 largely due to increased period's surplus of Ksh 13,505 million and Ksh 39,618 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.