

## MONTHLY ECONOMIC REVIEW

JULY 2012

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

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## OVERVIEW

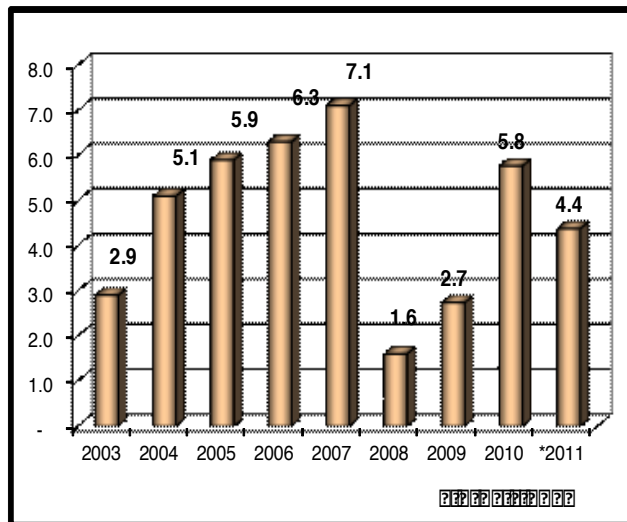
- Introduction** This Monthly Economic Review highlights recent economic developments through July 2012. This includes developments in inflation, money, credit and interest rates, the real sector, balance of payments and exchange rates. It also highlights developments in the banking sector, Government budgetary operations, public debt and the stock market.
- Inflation** Overall 12-month inflation eased further from 10.0 percent in June 2012 to 7.7 percent in July 2012 largely reflecting continued easing in food and fuel inflation. Non-food, non-fuel inflation declined from 9.3 percent in June 2012 to 8.5 percent in July 2012 while annual average inflation declined from 16.0 percent in June 2012 to 15.3 percent in July 2012.
- Money Supply** Growth in broad money supply, M3, decelerated to 14.2 percent in the year to July 2012 from 16.4 percent in the year to July 2011 and was within the 17.6 percent target for July 2012. This reflected slowdown in the growth of Net Domestic Assets (NDA) of the banking sector.
- Interest Rates** The Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) from 18.0 percent to 16.5 percent on July 5, 2012. The weighted average interbank rate decreased to 13.71 percent in July 2012 from 17.09 percent in June 2012.
- Real GDP Growth** The economy grew at 4.4 percent in 2011 compared with growth of 5.8 percent in 2010 and 2.7 percent in 2009. The growth momentum slowed in the first and second quarters of 2011 but improved beginning the third quarter of 2011. Real GDP growth in the June, September and December quarters of 2011 is estimated at 3.4 percent, 4.0 percent and 4.6 percent, respectively. Real GDP grew by 3.5 percent in the first quarter of 2012 compared with 5.1 percent in the first quarter of 2011.
- Balance of Payments** Kenya's overall Balance of Payments position improved from a surplus of US\$ 147 million in the year to July 2011 to a surplus of US\$ 858 million in the year to July 2012.

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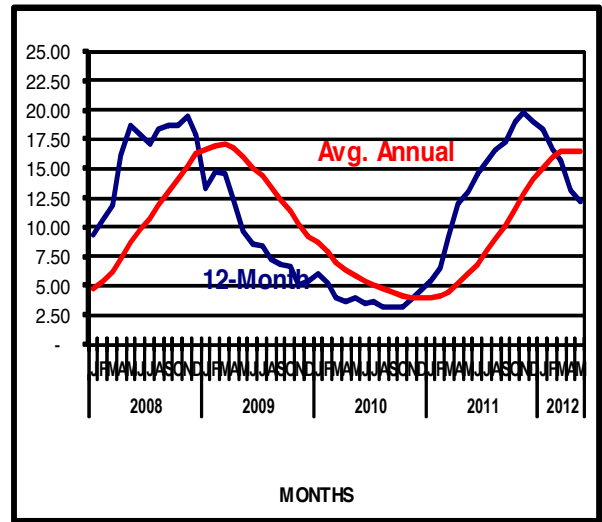
<b>Exchange Rates</b>	The Kenya Shilling appreciated against all major world currencies in July 2012.
<b>Banking Sector Developments</b>	During the period ended July 2012, the Kenyan Banking sector registered improved growth in assets driven by growth in deposits, injection of capital and retention of profits. The sector registered improved performance in earnings and capital and the level of non-performing loans reduced compared with a similar period in 2011.
<b>Government Debt Performance</b>	The central Government budgetary operations for July 2012 in the fiscal year 2012/13 resulted in a deficit of Ksh 3.8 billion on commitment basis compared with the target deficit of Ksh 13.3 billion and a deficit of Ksh 1.0 billion on commitment basis in July 2011.
<b>Public Debt</b>	Kenya's public and publicly guaranteed debt stood at Ksh 1,639.6 billion (Ksh 1.6 trillion), at the end of July 2012 in the 2012/13 fiscal year. This represented Ksh 6.2 billion increase during the first month of the 2012/13 fiscal year, from Ksh 1,633.4 billion held at the end of June 2012. The total debt-to-GDP ratio declined from 49.6 percent in June 2012 to 42.4 percent in July 2012. Similarly, domestic debt to GDP and external debt to GDP ratios declined from 26.1 percent and 23.5 percent in June 2012 to 22.6 percent and 19.8 percent, respectively, in July 2012. Domestic debt at the end of July 2012, which amounted to Ksh 872.2 billion, accounted for 53.2 percent of total public and publicly guaranteed debt.
<b>Stock Market</b>	Stock market performance was robust in July 2012 as reflected by gains in all four indices; NSE 20 Share, NASI, FTSE NSE Kenya 15 and FTSE NSE Kenya 25. Market capitalization was up from June 2012 level, but equity turnover declined due to equities supply constraints. The net foreign investor participation declined for the third consecutive month in July 2012. The bonds market was bullish with both turnover and number of deals higher than June 2012 levels.

## SELECTED ECONOMIC PERFORMANCE INDICATORS

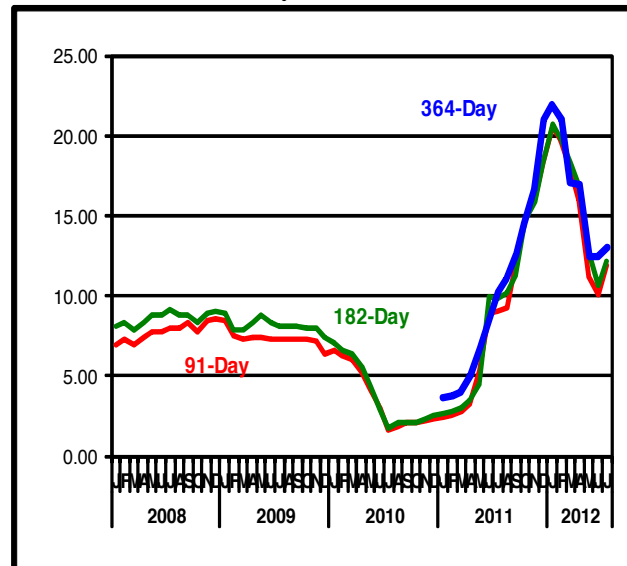
Real GDP Growth (%)



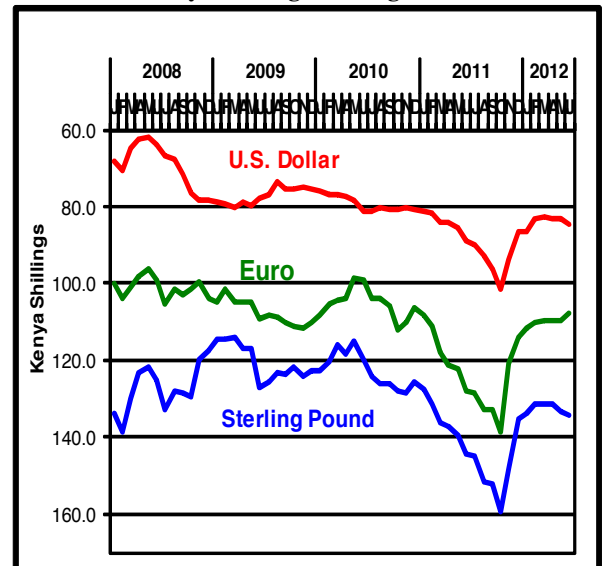
Inflation (%)



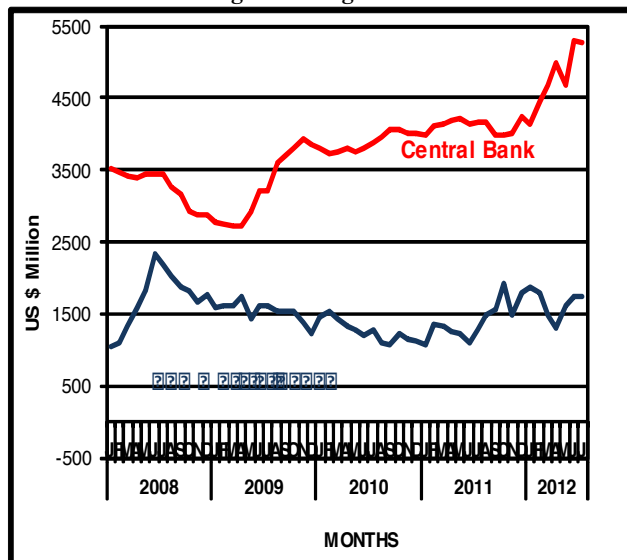
Treasury Bill Rates (%)



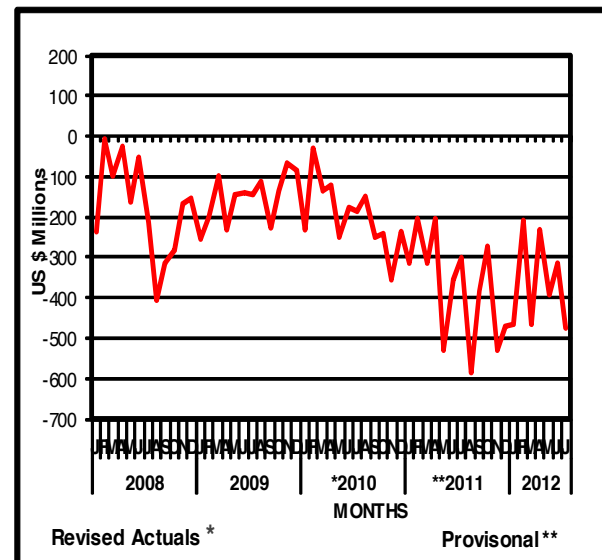
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



# SELECTED ANNUAL ECONOMIC INDICATORS

INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
<b>1. POPULATION*</b>												
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	NA
Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	0.78	3.11	NA
<b>2. NATIONAL ACCOUNTS**</b>												
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	1,858,371	2,090,948	2,238,630	2,671,285
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	2,107,589	2,366,984	2,549,825	3,024,782
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	1,336,846	1,357,263	1,394,387	1,474,763	1,539,306
Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.3	7.0	1.5	2.7	5.8	4.4
Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,480	34,574	37,316	36,933	36,962	38,332	38,925
<b>3. GROSS NATIONAL SAVINGS (% of GDP at mkt prices)<sup>3</sup></b>	<b>12.9</b>	<b>10.0</b>	<b>8.1</b>	<b>10.1</b>	<b>12.2</b>	<b>13.4</b>	<b>14.8</b>	<b>13.9</b>	<b>15.9</b>	<b>12.9</b>	<b>11.3</b>	<b>13.2</b>
<b>4. GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)<sup>3</sup></b>	<b>6.7</b>	<b>4.4</b>	<b>4.0</b>	<b>4.8</b>	<b>6.6</b>	<b>5.7</b>	<b>6.8</b>	<b>6.1</b>	<b>8.2</b>	<b>5.5</b>	<b>4.1</b>	<b>4.2</b>
<b>5. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)</b>	<b>17.4</b>	<b>18.8</b>	<b>14.9</b>	<b>16.4</b>	<b>17.1</b>	<b>16.9</b>	<b>17.9</b>	<b>19.0</b>	<b>19.2</b>	<b>19.9</b>	<b>19.8</b>	<b>20.9</b>
<b>6. OVERALL INFLATION BASE PERIOD= FEB 2009</b>												
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	14.02
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	18.93
<b>7. STOCK MARKET</b>												
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	3,205.02
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	0.46
<b>8. GOVERNMENT BUDGET (Ksh bn) ***</b>												
Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67	511.36	614.53	679.533
Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91	791.79	817.09
Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)	(177.26)	(137.56)
Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(0.97)	0.08	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)
<b>9. MONEY AND CREDIT (Ksh bn/end period)</b>												
Liquidity (L) <sup>1</sup>	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,091.93	1,280.44	1,558.16	1,854.93
Money Supply (M3) <sup>2</sup>	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.05	1,045.66	1,271.64	1,514.15
Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96	222.63	255.01
<b>Total Domestic Credit</b>	<b>331.29</b>	<b>334.00</b>	<b>364.93</b>	<b>405.20</b>	<b>473.61</b>	<b>498.66</b>	<b>575.76</b>	<b>668.90</b>	<b>815.52</b>	<b>955.82</b>	<b>1,188.40</b>	<b>1,505.13</b>
Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	155.32	205.07	277.78	311.58
Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	660.20	750.75	910.62	1,193.55
<b>10. BALANCE OF PAYMENTS (US\$ m)**</b>												
<b>Overall Balance</b>	<b>217.00</b>	<b>372.00</b>	<b>59.00</b>	<b>365.00</b>	<b>117.00</b>	<b>306.00</b>	<b>675.00</b>	<b>854.00</b>	<b>(469.00)</b>	<b>780.53</b>	<b>163.40</b>	<b>(42.94)</b>
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	-4,461.26
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	4,418.32
<b>11. FOREIGN EXCHANGE RESERVES (US\$ m) End Period</b>	<b>1,398.72</b>	<b>1,459.35</b>	<b>1,612.69</b>	<b>1,888.04</b>	<b>2,078.40</b>	<b>2,534.16</b>	<b>3,331.30</b>	<b>4,556.97</b>	<b>4,640.78</b>	<b>5,064.03</b>	<b>5,122.52</b>	<b>5,951.52</b>
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	4,247.60
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	3.7
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	1,703.92
<b>12. PUBLIC DEBT (US\$ bn) End Period***</b>	<b>7.58</b>	<b>7.85</b>	<b>8.09</b>	<b>9.39</b>	<b>9.14</b>	<b>9.84</b>	<b>10.68</b>	<b>12.04</b>	<b>13.46</b>	<b>13.66</b>	<b>14.96</b>	<b>16.60</b>
Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72	8.06	8.51
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	27.78
External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94	6.90	8.09
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	26.43
<b>13. EXCHANGE RATE (Ksh/US\$) (Annual Average)</b>	<b>76.20</b>	<b>78.60</b>	<b>78.70</b>	<b>75.93</b>	<b>79.28</b>	<b>75.55</b>	<b>72.10</b>	<b>67.32</b>	<b>69.18</b>	<b>77.35</b>	<b>79.23</b>	<b>88.81</b>

\* 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.

<sup>1</sup> Previously M3XT

<sup>2</sup> Previously M3X

<sup>3</sup> Revised

NA Not available

**Sources: Kenya National Bureau of Statistics, Ministry of Finance, Central Bank of Kenya and Nairobi Stock Exchange**

# SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2011				2012						
	Jun	Jul	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
<b>1. INFLATION (%)</b>											
CPI	120.91	122.44	129.13	130.09	130.82	130.76	132.51	133.74	134.09	133.06	131.92
Overall Inflation											
12-month overall inflation	14.48	15.53	19.72	18.93	18.31	16.69	15.61	13.06	12.22	10.05	7.74
Average annual overall inflation	6.88	7.88	12.82	14.02	15.10	15.93	16.45	16.50	16.40	15.97	15.27
<b>2. INTEREST RATES (%)</b>											
91-day Treasury bill interest rate	8.95	8.99	16.14	18.30	20.56	19.70	17.80	16.01	11.18	10.09	11.95
Overdraft interest rate	13.59	13.89	18.67	20.20	20.38	20.53	20.53	20.27	20.41	20.36	19.96
<b>3. STOCK MARKET</b>											
Nairobi Stock Exchange Price Index	3,968.12	3,738.46	3,155.46	3,205.02	3,224.00	3,303.75	3,366.89	3,546.66	3,650.85	3,703.94	3,832.42
Turnover Ratio (%)	0.58	0.61	0.54	0.46	0.48	0.47	0.50	0.71	0.74	0.52	0.51
<b>4. GOVERNMENT BUDGET* (Ksh bn.)</b>											
Revenue \$ Grants	679.50	42.70	265.47	345.66	398.16	450.53	510.89	585.16	656.32	734.43	46.3
Expenses	817.10	43.72	320.58	430.93	512.65	586.55	663.82	740.82	817.43	915.89	50.0
Budget Deficit (-) / Surplus (+)	(137.60)	(1.02)	(55.11)	(85.26)	(114.49)	(136.0)	(152.9)	(155.7)	(161.1)	(181.5)	(3.8)
<b>5. MONEY AND CREDIT (Ksh bn.)</b>											
Liquidity (L) <sup>1</sup>	1,720.57	1,743.30	1,837.68	1,854.93	1,864.44	1,889.87	1,906.47	1,920.42	1,944.24	1,970.47	1,991.41
Money Supply (M3) <sup>2</sup>	1,380.73	1,412.70	1,489.75	1,514.15	1,505.76	1,504.78	1,517.13	1,536.29	1,561.57	1,595.01	1,612.99
Reserve Money	220.44	222.70	245.37	255.01	244.14	231.67	257.91	244.52	236.99	259.26	260.79
Total Domestic Credit	1,344.23	1,392.14	1,516.78	1,505.13	1,495.66	1,512.09	1,530.95	1,557.31	1,572.98	1,550.52	1,605.98
Government	277.81	289.21	327.00	311.58	300.73	306.03	315.10	318.84	312.56	292.51	331.14
Private sector and other public sector	1,066.42	1,102.94	1,189.78	1,193.55	1,194.93	1,206.06	1,215.85	1,238.47	1,260.43	1,258.01	1,274.84
<b>6. MONEY AND CREDIT (Annual % Change)</b>											
Liquidity (L) <sup>1</sup>	19.20	17.44	19.16	19.05	18.16	18.09	17.25	17.23	17.11	15.29	15.30
Money Supply (M3) <sup>2</sup>	15.16	16.44	18.35	19.07	17.14	15.19	14.53	15.09	15.55	15.52	14.18
Reserve Money	4.85	11.50	9.52	14.54	17.21	10.42	23.17	14.74	13.15	17.61	17.08
Total Domestic Credit	23.69	27.59	29.11	26.65	23.87	22.14	21.39	23.16	20.41	15.35	15.36
Government	0.04	9.54	16.81	12.17	7.95	7.15	8.76	19.42	10.78	5.29	14.50
Private and other public sector	31.81	33.35	32.96	31.07	28.64	26.64	25.15	24.17	23.06	17.97	15.59
<b>7. BALANCE OF PAYMENTS (US\$ m)</b>											
Overall Balance	(55.13)	(44.76)	(26.00)	99.22	(95.81)	290.48	253.03	181.09	(302.88)	609.04	(28.07)
Current Account	(357.57)	(299.11)	(528.14)	(470.78)	(293.21)	(208.14)	(463.88)	(230.30)	(394.14)	(315.25)	(505.59)
Trade Balance	(679.29)	(647.76)	(873.09)	(865.62)	(686.72)	(697.09)	(968.19)	(754.03)	(1,023.99)	(834.96)	(956.88)
Capital and Financial Account	302.44	254.35	554.14	570.00	197.41	498.63	716.91	411.39	91.25	924.29	477.52
<b>8. FOREIGN EXCHANGE RESERVES (US\$ m)</b>											
Official**	4,142.39	4,159.07	4,010.55	4,247.60	4,144.10	4,434.58	4,687.62	4,980.22	4,677.34	5,282.58	5,262.05
Months of imports cover	3.95	3.82	3.57	3.74	3.59	3.80	3.94	4.15	3.82	4.27	4.19
Commercial banks	1,106.36	1,283.28	1,472.12	1,797.12	1,875.30	1,780.94	1,477.38	1,309.05	1,604.96	1,747.30	1,733.24
<b>9. PUBLIC DEBT (US\$ bn)</b>											
Domestic	16.60	16.75	17.08	17.47	17.90	18.56	18.84	19.19	18.54	19.39	19.47
As % of GDP	27.78	28.31	24.42	24.32	24.58	26.65	26.97	27.22	27.00	26.09	22.56
External	8.09	8.17	8.12	8.06	8.34	7.99	8.15	8.42	8.30	9.20	9.11
As % of GDP	26.43	26.96	22.13	20.82	21.42	20.13	20.55	21.29	21.90	23.53	19.85
<b>10. GROSS DOMESTIC DEBT (Ksh bn)***</b>											
	764.22	781.71	803.89	800.68	809.28	877.29	887.87	896.04	889.06	858.83	872.16
<b>11. AVERAGE EXCHANGE RATE</b>											
Ksh/US\$	89.0	89.90	93.68	86.66	86.34	83.18	82.90	83.19	84.38	84.79	84.14
Ksh/Pound Sterling	144.4	145.00	148.17	135.10	133.94	131.42	131.18	133.19	134.34	131.95	131.27
Ksh/ 100 Yen	110.6	109.07	120.85	111.33	112.23	106.10	100.60	102.26	105.83	106.91	106.50
Ksh/Euro	128.1	128.48	127.13	114.15	111.42	110.06	109.55	109.57	107.99	106.51	103.60

\* 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.

<sup>1</sup> Previously M3XT

<sup>2</sup> Previously M3X

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

## Overall Inflation

# TRENDS IN VARIOUS MEASURES OF INFLATION

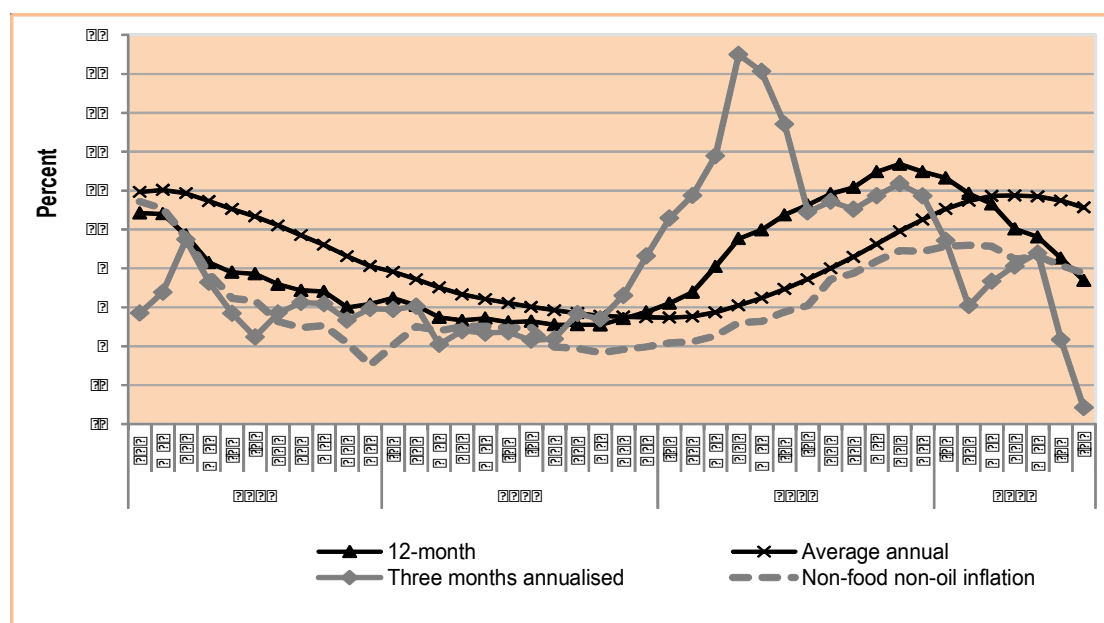
Overall 12-month inflation eased further from 10.0 percent in June 2012 to 7.7 percent in July 2012 largely reflecting continued easing in food and fuel inflation. 12-month inflation in the 'Food and Non-Alcoholic Beverages' category declined significantly from 10.5 percent in June 2012 to 6.6 percent in July 2012. Fuel inflation eased in July 2012 as indicated by a decline in 12 month inflation in the 'Transport' category from 7.6 percent in June 2012 to 5.2 percent in July 2012 and in the 'Housing, Water, Electricity, Gas and other Fuels' category from 9.7 percent in June 2012 to 8.6 percent in July 2012. Non-food, non-fuel inflation also declined in July 2012 denoting easing of demand pressure, while annual average inflation declined from 16.0 percent in June 2012 to 15.3 percent in July 2012. The three months annualized rate of inflation declined from 1.7 percent in June 2012 to -5.3 percent in July 2012 in the same period (Table 1.1 and Chart 1A).

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

Overall Inflation	2011							2012						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
12-month	14.48	15.53	16.67	17.32	18.91	19.72	18.93	18.31	16.69	15.61	13.06	12.22	10.05	7.74
Average annual	6.88	7.88	9.00	10.18	11.49	12.82	14.02	15.10	15.93	16.45	16.50	16.40	15.97	15.27
Three months annualised	23.82	14.81	15.88	15.08	16.47	17.71	16.45	11.86	5.16	7.66	9.24	10.57	1.65	-5.32
Non-food non-oil inflation	4.52	5.17	7.88	8.51	9.75	10.82	10.76	11.27	11.39	11.27	9.95	10.28	9.31	8.49

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

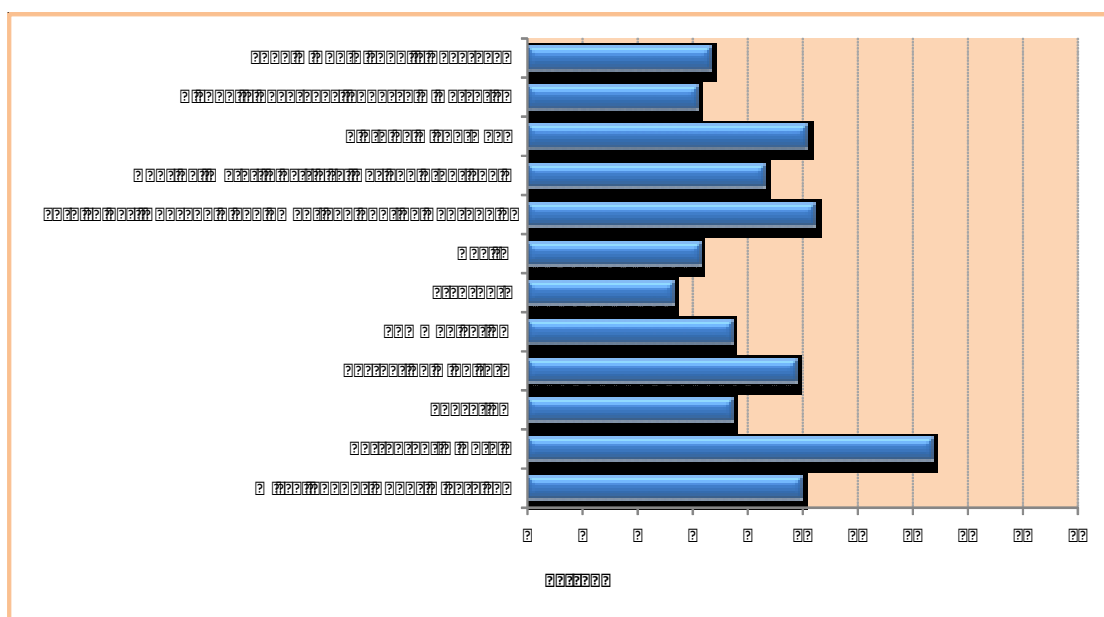
In the non-food non-fuel category, the 12-month inflation in 'Communication', 'Furnishings, Household Equipment and Routine Maintenance', 'Alcoholic Beverages, Tobacco and Narcotics', 'Recreation and Culture', 'Miscellaneous Goods and Services', 'Clothing and Footwear' and 'Health' consumption baskets eased to 7.4 percent, 10.4 percent, 6.1 percent, 9.7 percent, 10.0 percent, 10.2 percent and 6.2 percent, respectively, in July 2012 compared with 8.7 percent, 11.6 percent, 7.2



percent, 10.5 percent, 10.6 percent, 10.6 percent, and 6.4 percent respectively, in June 2012. However inflation in the 'Education' basket rose to 7.4 percent in July 2012 compared with 7.3 percent in June 2012. Consequently, non-food, non-fuel inflation declined from 9.3 percent in June 2012 to 8.5 percent in July 2012.

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. Chart 1C shows that 33.3 percent of overall 12-month inflation in July 2012 was attributed to Food and Non-Alcoholic Beverages while inflation in Transport and Housing, Water, Electricity, Gas and Other Fuels categories contributed 6.3 percent and 19.2 percent, respectively.

**CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES IN JULY 2012 (%)**



**TABLE 1.2: OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (JULY 2012)**

JULY 2012	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	5.2	9.4	9.1	6.3	6.9	6.6
Alcoholic beverages, Tobacco & narcotics	2.1	5.6	6.9	8.5	6.0	6.2	6.1
Clothing & Footwear	7.4	10.8	6.6	7.8	9.7	10.5	10.2
Housing, Water, Electricity, Gas and other fuels	18.3	10.5	6.6	3.6	9.4	8.0	8.6
Furnishings, Household equipment and Routine household maintenance	6.2	7.9	8.6	3.0	7.9	12.2	10.4
Health	3.1	4.3	8.0	4.6	5.1	6.9	6.2
Transport	8.7	6.0	3.3	-1.6	5.1	5.4	5.2
Communication	3.8	6.4	7.7	5.9	6.8	7.8	7.4
Recreation & culture	2.3	10.8	10.1	5.8	10.4	9.2	9.7
Education	3.1	3.5	4.1	6.8	3.8	10.0	7.4
Restaurants & hotels	4.5	19.5	11.7	12.5	17.5	12.6	14.7
Miscellaneous goods & services	4.5	10.7	5.8	4.4	9.3	10.3	9.9
ALL GROUPS	100.0	7.7	7.1	3.4	7.4	8.0	7.7

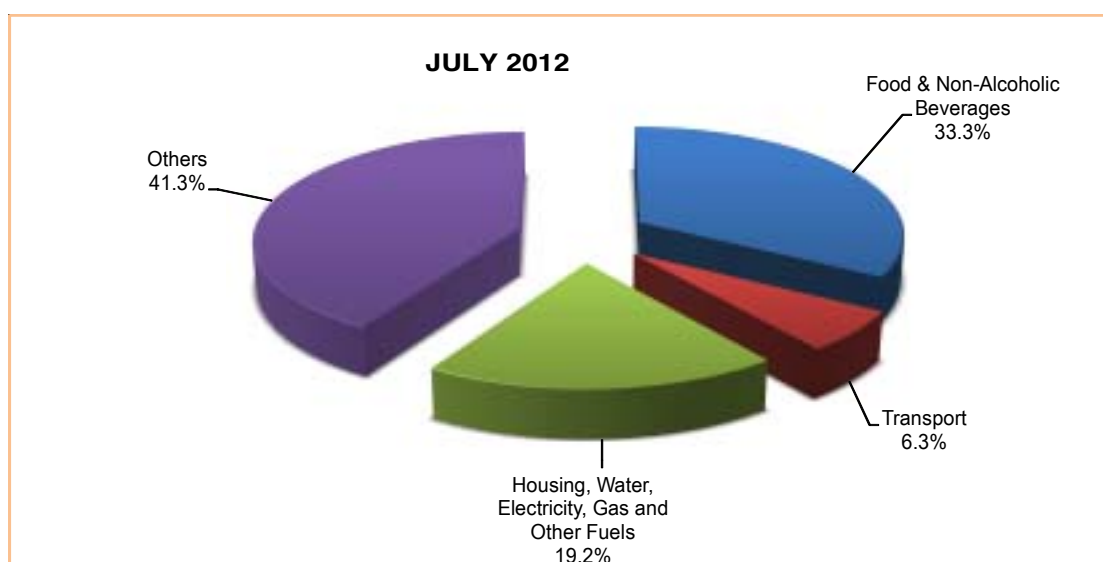
Source: Kenya National Bureau of Statistics

Inflationary pressures eased for all the income groups in Nairobi in July 2012 was higher in urban centres outside Nairobi (Table 1.3). On average, the prices of goods



and services sold in urban centres outside Nairobi rose by 8.0 percent in July 2012 compared with an average increase of 7.4 percent recorded in Nairobi. The slowdown of inflation in Nairobi largely reflected reduced food prices. The indices for the 'Nairobi Lower Income' group, the 'Nairobi Middle Income' and the 'Nairobi Upper Income' groups rose at slower rates of 7.7 percent, 7.1 percent and 3.4 percent respectively, in July 2012 compared with 10.1 percent, 9.2 percent and 5.5 percent in the previous month.

**CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION IN JULY 2012**



**TABLE 1.3: 12-MONTH INFLATION BY INCOME GROUPS (%)**

	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12
Combined Nairobi	14.24	14.47	15.61	16.50	18.16	19.18	19.23	18.49	16.48	15.39	12.75	12.44	9.73	7.41
Lower Income	15.96	16.00	17.14	17.97	19.58	20.62	20.63	20.27	17.80	16.50	13.43	13.33	10.11	7.69
Middle Income	9.57	10.15	11.28	12.42	14.33	15.57	15.75	14.07	13.15	12.56	10.90	10.00	9.17	7.15
Upper Income	10.14	11.67	12.92	13.15	14.48	13.99	13.69	11.56	11.09	10.87	10.41	9.70	5.54	3.39
Other provinces- excluding Nairobi	14.66	16.29	17.43	17.91	19.45	20.10	18.73	18.18	16.84	15.77	13.28	12.07	10.27	7.97
<b>TOTAL KENYA</b>	<b>14.48</b>	<b>15.53</b>	<b>16.67</b>	<b>17.32</b>	<b>18.91</b>	<b>19.72</b>	<b>18.93</b>	<b>18.31</b>	<b>16.69</b>	<b>15.61</b>	<b>13.06</b>	<b>12.22</b>	<b>10.05</b>	<b>7.74</b>

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

## Inflation Outlook

Inflationary pressures are expected to ease in the coming months on account of the stable exchange rate and improved supply of food due to favourable weather conditions.

# DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

## Monetary Aggregates

Growth in broad money supply, M3, decelerated to 14.2 percent in the year to July 2012 from 16.4 percent in the year to July 2011 and was within the 17.6 percent target for July 2012. Money supply, M2, that is, M3 excluding foreign currency deposits, grew by Ksh 166.3 billion (13.9 percent) in the year to July 2012 compared with an increase of Ksh 153.8 billion (14.7 percent) in a corresponding period in 2011 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits, in M3, increased by Ksh 33.9 billion (15.8 percent) in the year to July 2012 compared with an increase of Ksh 45.7 billion (27.0 percent) the previous year.

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

	2010 July	2011 July	2012 July	Absolute		%age change	
				2010/11 July	2011/12 July	12 months Jul-11	12 months Jul-12
<b>1. Money supply, M3 (2+3) 2/</b>	<b>1213.2</b>	<b>1412.7</b>	<b>1613.0</b>	<b>199.5</b>	<b>200.3</b>	<b>16.4</b>	<b>14.2</b>
1.1 Money supply, M2 3/	1044.0	1197.8	1364.2	153.8	166.3	14.7	13.9
1.2 Money supply, M1	522.3	624.5	638.5	102.2	14.1	19.6	2.3
1.3 Currency outside banks	104.3	124.3	128.9	20.0	4.6	19.2	3.7
<b>2. Net foreign assets 4/</b>	<b>280.4</b>	<b>293.0</b>	<b>316.0</b>	<b>12.5</b>	<b>23.1</b>	<b>4.5</b>	<b>7.9</b>
Central Bank	243.6	281.9	327.5	38.4	45.5	15.8	16.2
Banking Institutions	36.9	11.0	-11.5	-25.9	-22.5	-70.1	-204.3
<b>3. Net domestic assets (3.1+3.2)</b>	<b>932.8</b>	<b>1119.8</b>	<b>1296.9</b>	<b>187.0</b>	<b>177.2</b>	<b>20.0</b>	<b>15.8</b>
<b>3.1 Domestic credit (3.1.1+3.1.2)</b>	<b>1091.1</b>	<b>1392.1</b>	<b>1606.0</b>	<b>301.0</b>	<b>213.8</b>	<b>27.6</b>	<b>15.4</b>
3.1.1 Government (net)	264.0	289.2	331.1	25.2	41.9	9.5	14.5
3.1.2 Private sector and other public sector	827.1	1102.9	1274.8	275.8	171.9	33.3	15.6
<b>3.2 Other assets net (3-3.1)</b>	<b>-158.3</b>	<b>-272.4</b>	<b>-309.0</b>	<b>-114.1</b>	<b>-36.6</b>	<b>72.0</b>	<b>13.4</b>
<b>Memorandum items</b>							
1. Overall liquidity, L 1/	1463.8	1721.1	1984.3	257.2	263.3	17.6	15.3
2. Reserve money	199.8	222.7	260.8	23.0	38.0	11.5	17.1
Currency outside banks	104.3	124.3	128.9	20.0	4.6	19.2	3.7
Bank reserves	95.5	98.4	131.9	2.9	33.5	3.1	34.0

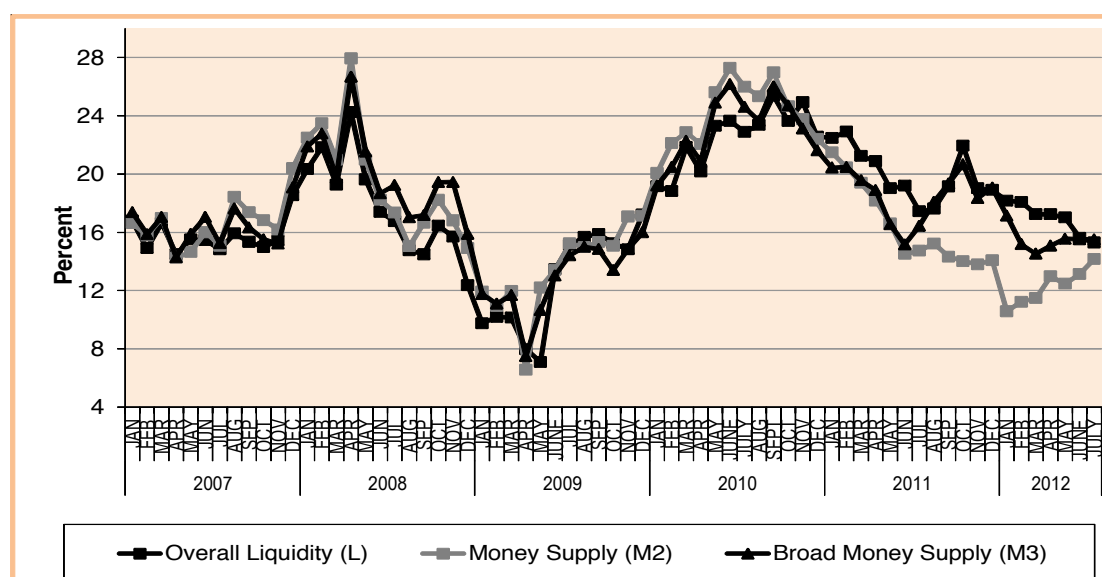
Absolute and percentage changes may not necessarily add up due to rounding

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.

**CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY**



Source: Central Bank of Kenya

The deceleration in the growth of broad money supply, M3, in the year to July 2012 was reflected in the Net Domestic Assets (NDA) of the banking sector (Table 2.1). Growth in the NDA slowed to 15.8 percent (Ksh 177.2 billion) in the year to July 2012 from 20.0 percent (Ksh 187.0 billion) recorded in the previous year on account of deceleration in private sector credit growth (Table 2.2) following tightening of monetary policy in October 2011. The NFA of the banking sector increased by Ksh 23.1 billion (7.9 percent) in the twelve months to July 2012 compared with an increase of Ksh 12.5 billion (4.5 percent) in a corresponding period in 2011. The increase in the NFA reflected holdings of the Central Bank which were 16.2 percent (Ksh 45.5 billion) higher than in the year to July 2011. The NFA of commercial banks declined by Ksh 22.5 billion (204.3 percent) to Ksh -11.5 billion from Ksh 11.0 billion in July 2011 due to increased foreign liabilities relative to foreign assets.

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

	2011 July		2012 July		Absolute Change July		Annual %age Change July	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2010/11	2011/12	2010/11	2011/12
<b>1. Credit to Government</b>	<b>289.2</b>	<b>20.8</b>	<b>331.1</b>	<b>20.6</b>	<b>25.2</b>	<b>41.9</b>	<b>9.5</b>	<b>14.5</b>
Central Bank	1.1	0.1	26.5	1.6	9.9	25.4	-112.5	2316.4
Commercial Banks & NBFIs	288.1	20.7	304.7	19.0	15.3	16.5	5.6	5.7
<b>2. Credit to other public sector</b>	<b>24.2</b>	<b>1.7</b>	<b>47.2</b>	<b>2.9</b>	<b>11.8</b>	<b>23.1</b>	<b>95.3</b>	<b>95.4</b>
Local government	2.3	0.2	2.8	0.2	6.3	0.5	-157.8	22.5
Parastatals	21.9	1.6	44.4	2.8	5.5	22.6	33.8	103.1
<b>3. Credit to private sector</b>	<b>1078.8</b>	<b>77.5</b>	<b>1227.6</b>	<b>76.4</b>	<b>264.0</b>	<b>148.8</b>	<b>32.4</b>	<b>13.8</b>
Agriculture	52.2	3.7	54.0	3.4	13.8	1.9	35.8	3.6
Manufacturing	136.0	9.8	161.9	10.1	30.2	25.9	28.5	19.0
Trade	184.9	13.3	204.2	12.7	52.3	19.4	39.5	10.5
Building and construction	45.5	3.3	62.3	3.9	12.7	16.7	38.7	36.7
Transport & communications	77.9	5.6	75.7	4.7	16.2	-2.3	26.1	-2.9
Finance & insurance	25.1	1.8	27.8	1.7	5.3	2.7	26.9	10.7
Real estate	121.7	8.7	153.8	9.6	39.0	32.2	47.2	26.4
Mining and quarrying	26.0	1.9	26.9	1.7	7.4	0.9	40.0	3.3
Private households	154.1	11.1	169.6	10.6	33.1	15.5	27.4	10.1
Consumer durables	67.1	4.8	76.3	4.8	16.9	9.2	33.5	13.7
Business services	84.7	6.1	83.6	5.2	7.0	-1.1	9.0	-1.3
Other activities	103.6	7.4	131.6	8.2	30.2	28.0	41.2	27.0
<b>4. TOTAL (1+2+3) *</b>	<b>1392.1</b>	<b>100.0</b>	<b>1606.0</b>	<b>100.0</b>	<b>301.0</b>	<b>213.8</b>	<b>27.6</b>	<b>15.4</b>

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

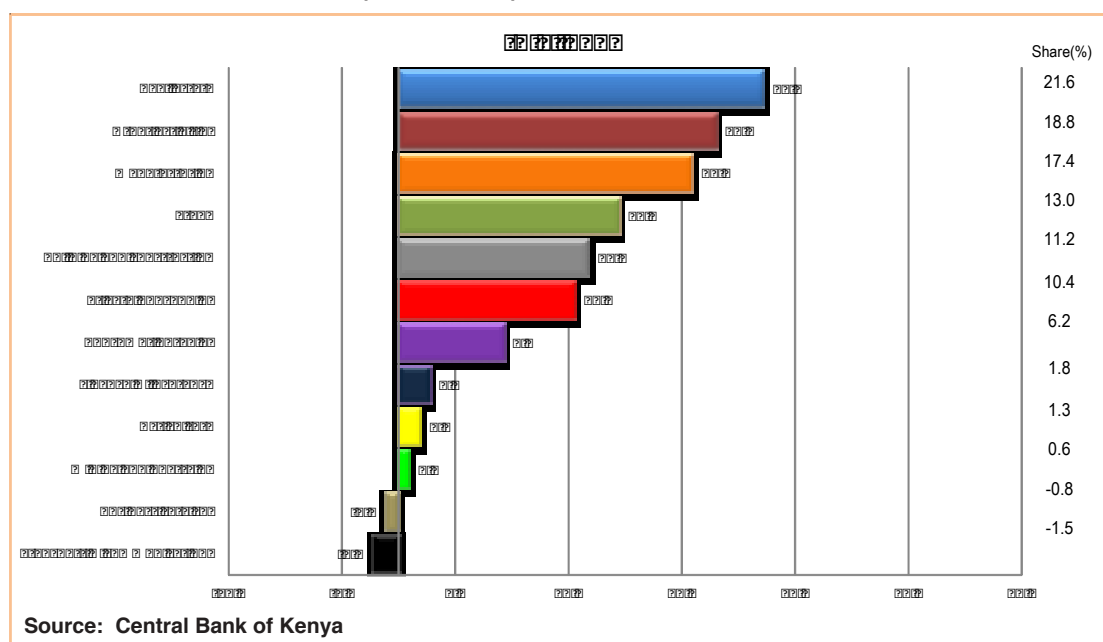
Source: Central Bank of Kenya

**Domestic Credit Developments** Domestic credit from the banking sector expanded by Ksh 213.8 billion (15.4 percent) in the twelve months to July 2012 compared with Ksh 301.0 billion (27.6 percent) in a similar period in 2011 (Table 2.2). The banking sector channeled its credit largely to the private sector which accounted for 76.4 percent of total lending in July 2012 compared with 77.5 percent in a similar period in 2011. The net increase in private sector credit in the year to July 2012 was Ksh 148.8 billion compared with Ksh 264.0 billion recorded in the year to July 2011. This translated into an annual growth rate of 13.8 percent compared with 32.4 percent in the year to July 2011 and corresponding target of 14.9 percent in July 2012.

The key sectors of the economy - agriculture, transport and communication, and building and construction sectors – recorded reduced credit growth in the year to July 2012 compared to a similar period in 2011 (Table 2.2). In terms of shares in total net private sector credit flows, real estate accounted for the largest share (Ksh 32.2 billion or 21.6 percent), followed by manufacturing (Ksh 25.9 billion or 17.4 percent); trade (Ksh 19.4 billion or 13.0 percent); building and construction (Ksh

16.7 billion or 11.2 percent); private households (Ksh 15.5 billion or 10.4 percent); and Consumer durable (Ksh 9.2 billion or 6.2 percent) (Chart 2B).

**CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO JULY 2012 (Ksh billion)**



Net credit to the government, which accounted for 20.6 percent of total bank credit in July 2012, increased by Ksh 41.9 billion (14.5 percent) to Ksh 331.1 billion during the year under review from Ksh 289.2 billion (20.8 percent of total bank credit) in July 2011.

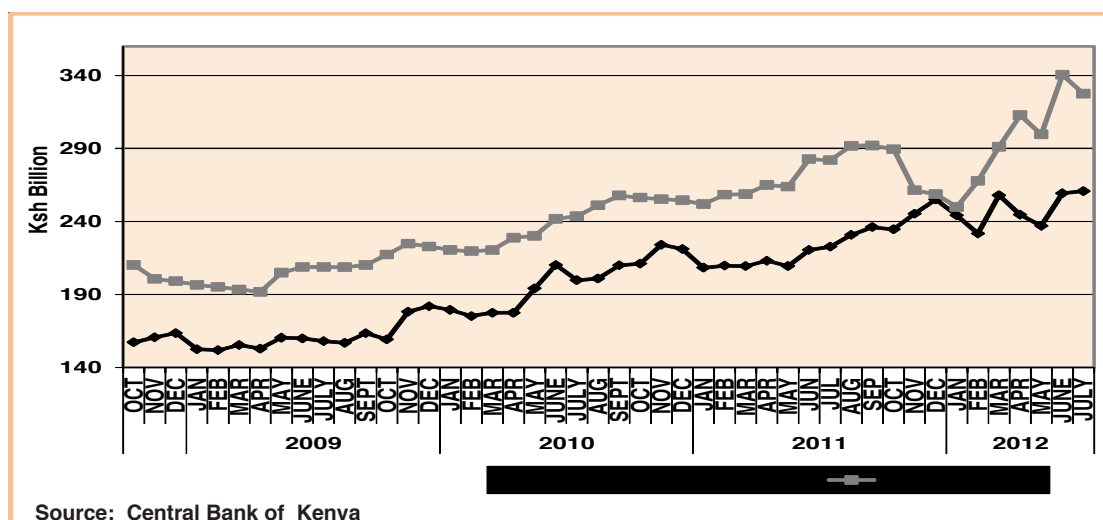
### Reserve Money

Reserve money increased by 17.1 percent to Ksh 260.8 billion in the twelve months to July 2012 from Ksh 222.7 billion in July 2011 (Table 2.3 and Chart 2C). At Ksh 260.8 billion in July 2012, reserve money was Ksh 5.8 billion above the target. The growth in reserve money comprised 34.0 percent increase in bank reserves and 3.7 percent growth in currency outside banks. Bank reserves increased by Ksh 33.5 billion (34.0 percent) in the year to July 2012 compared with an increase of Ksh 2.9 billion (3.1 percent) in June 2011, while currency outside banks rose by Ksh 4.6 billion (3.7 percent) compared with an increase Ksh 20.0 billion (19.2 percent) in a similar period in 2011.

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

	2011 July	2012 July	Absolute change		Change (%)		2012	
			2010/11	2011/12	2010/11	2011/12	July Target	Deviation
1. Net Foreign Assets	281.9	327.5	38.4	45.5	15.8	16.2	326.2	1.2
2. Net Domestic Assets	-59.2	-66.7	-15.4	-7.5	35.2	12.7	-71.3	4.6
2.1 Government Borrowing (net)	1.1	26.5	9.9	25.4	-112.5	2316.4	-11.5	38.0
2.2 Commercial banks (net)	24.5	-25.0	18.0	-49.5	277.1	-202.2	-13.9	-11.2
2.3 Other Domestic Assets (net)	-90.2	-73.9	-45.9	16.3	103.5	-18.0	-45.9	-28.0
3. Reserve Money	222.7	260.8	23.0	38.0	11.5	17.1	255.0	5.8
3.1 Currency outside banks	124.3	128.9	20.0	4.6	19.2	3.7	140.7	-11.8
3.2 Bank reserves	98.4	131.9	2.9	33.5	3.1	34.0	114.3	17.7

Source: Central Bank of Kenya

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

The source of reserve money growth in the twelve months to July 2012 was the net foreign assets (NFA) of the Central Bank, which rose by 16.2 percent to Ksh 327.5 billion in the year to July 2012 from Ksh 281.9 billion in July 2011. Meanwhile, the NDA of the Central Bank, decreased by Ksh 7.5 billion to Ksh -66.7 billion in the year to July 2012, from Ksh -59.2 billion in the previous year. This was reflected in a fall of net claims to commercial banks to Ksh -25.0 billion from Ksh 24.5 billion in the previous year on account of mop up operations conducted by the Central Bank in the review period. Meanwhile, Net credit to the Government from the Central Bank increased by Ksh 25.4 billion to Ksh 26.5 billion in the year to July 2012 from Ksh 1.1 billion in a similar period in July 2011 while other domestic assets (net) of the Central Bank increased by Ksh 16.3 billion to Ksh -73.9 billion in July 2012 from Ksh -90.2 billion in July 2011.

### Central Bank Rates

The Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) from 18.0 percent to 16.5 percent on July 5, 2012, signaling easing of monetary conditions following sustained easing of inflationary pressures.

### Short Term Interest Rates

Short term interest rates recorded mixed performance in July 2012 (Table 2.4 and Chart 2D). The weighted average interbank rate decreased to 13.71 percent in July 2012 from 17.09 percent in June 2012. The repo rate decreased to 14.31 percent in July 2012 from 17.60 percent in June 2012. The movements in short term rates reflect improved liquidity in the market. However, the 91-day Treasury bill rate increased to 11.95 percent in July 2012 from 10.09 percent in June 2012, while the 182-day Treasury bill rate rose to 12.21 percent in July 2012 from 10.67 percent in June 2012.

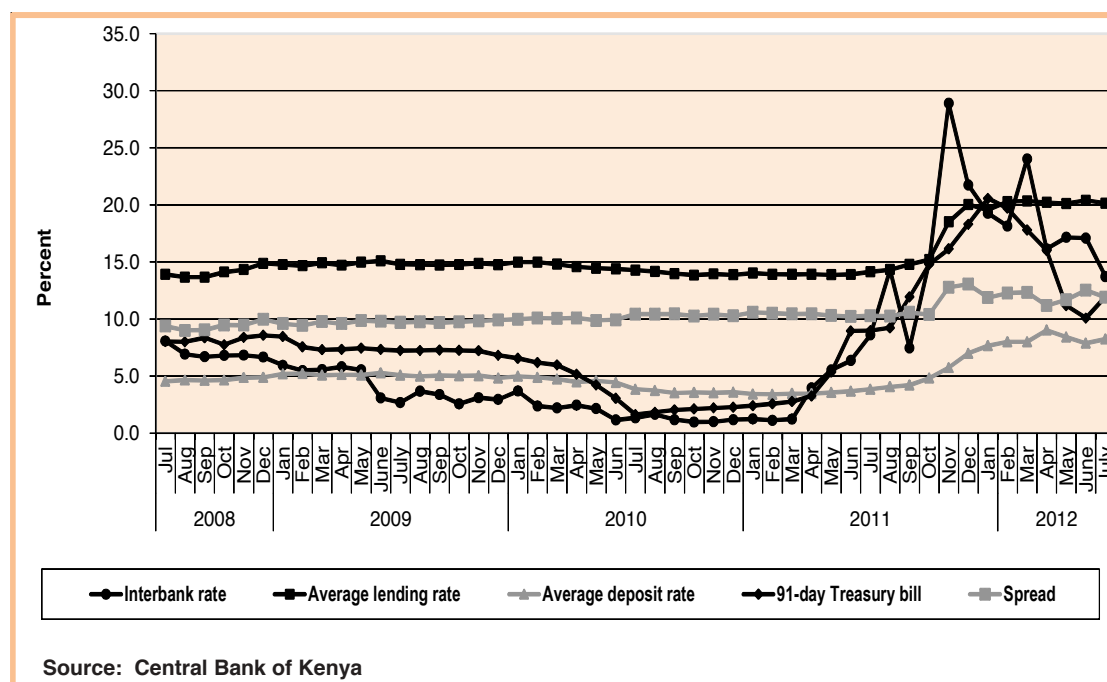
### Lending and Deposit Rates

Commercial banks average lending rates declined by 15 basis points to 20.15 percent in July 2012 from 20.30 percent in June 2012, as the average deposit rate increased to 8.25 percent from 7.88 percent in June 2012. Consequently, the interest rate spread narrowed to 11.90 percent in July 2012 from 12.52 percent in June 2012 (Chart 2D and Table 2.4).

**TABLE 2.4: INTEREST RATES (%)**

	2011							2012						
	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July
91-day Treasury bill rate	8.95	8.99	9.23	11.93	14.80	16.14	18.30	20.56	19.70	17.80	16.01	11.18	10.09	11.95
Overdraft rate	13.59	13.89	14.28	14.64	14.87	18.67	20.20	20.38	20.53	20.53	20.27	20.41	20.30	19.96
Interbank rate	6.36	8.61	14.29	7.46	14.95	28.90	21.75	19.27	18.15	24.02	16.15	17.16	17.09	13.71
Repo rate	-	5.75	0.00	0.00	18.89	0.00	17.75	17.88	13.78	-	15.47	16.97	17.60	14.31
Reverse Repo rate	-	6.25	6.25	5.75	-	-	-	-	-	-	-	-	-	-
Average lending rate (1)	13.91	14.14	14.32	14.79	15.21	18.51	20.04	19.54	20.28	20.34	20.22	20.12	20.41	20.15
Average deposit rate (2)	3.68	3.85	4.07	4.21	4.83	5.75	6.99	7.66	8.01	8.01	9.04	8.42	7.88	8.25
0 to 3 - month deposit	4.38	4.72	5.37	5.55	6.14	6.95	8.51	9.87	9.98	10.21	11.82	10.85	10.07	10.52
Savings deposits	1.37	1.37	1.37	1.35	1.33	1.41	1.59	1.62	1.69	1.72	1.58	1.59	1.46	1.66
Spread (1-2)	10.23	10.29	10.25	10.58	10.39	12.77	13.06	11.88	12.27	12.33	11.19	11.69	12.52	11.90

Source: Central Bank of Kenya

**CHART 2D : TRENDS IN INTEREST RATES**

# PERFORMANCE OF THE REAL SECTOR

**Overview** Real GDP for the year 2011 amounted to Ksh 1.54 trillion and was equivalent to 4.4 percent growth compared with output of Ksh 1.47 trillion in 2010 (Table 3.1 and Chart 3A). Wholesale and retail trade, and transport and communication contributed most to growth in total output in 2011. Other key contributing activities were agriculture (21.0 percent), transport and communication (12.4 percent), wholesale and retail trade (10.8 percent) and manufacturing sectors (9.6 percent).

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

MAIN SECTORS	Share in 2011 Nominal GDP (%)	Share in 2011 Real GDP (%)	Kshs Million									
			2003	2004	2005	2006	2007	2008	2009	2010	*2011	
Agriculture and Forestry	24.01	21.01	276,089	280,518	299,749	312,926	320,423	307,354	299,431	318,586	323,465	
Fishing	0.50	0.38	4,765	5,246	5,751	6,249	6,181	5,363	5,564	5,713	5,891	
Mining	0.68	0.47	5,213	5,195	5,334	5,554	6,272	6,453	6,163	6,763	7,246	
Manufacturing	9.45	9.61	105,822	110,544	115,699	122,953	130,673	135,291	137,060	143,263	147,989	
Electricity and water supply	0.86	2.11	27,074	27,877	27,898	27,288	29,769	31,341	30,397	33,335	32,465	
Construction	4.13	3.49	31,530	32,932	35,446	37,649	40,405	43,735	49,270	51,486	53,713	
Wholesale and retail trade, repairs	10.61	10.80	92,604	100,481	106,009	118,361	131,754	138,044	143,460	154,942	166,205	
Hotels & Restaurants	1.67	1.35	9,899	13,741	15,572	17,894	20,814	13,298	18,993	19,796	20,792	
Transport, Storage & Communications	9.67	12.37	104,915	112,251	122,243	136,306	156,845	161,615	171,994	182,181	190,382	
Financial intermediation	6.38	4.23	42,064	42,657	43,869	47,170	50,306	51,659	55,375	60,379	65,095	
Real estate, renting and business services	4.45	5.25	61,864	63,740	65,882	68,446	70,860	73,503	75,674	78,089	80,888	
Public administration and defense	5.00	3.14	46,991	47,062	46,461	45,974	45,031	45,317	46,031	47,085	48,270	
Education	5.84	5.90	71,045	72,268	72,908	73,188	76,257	80,771	82,952	86,651	90,873	
Health and social work	2.48	2.14	25,431	26,408	27,249	28,075	28,983	30,035	31,352	31,786	32,896	
Other community, social and personal services	3.19	3.64	42,917	44,514	45,876	47,814	49,420	50,829	52,156	53,557	55,988	
Private households with employed persons	0.44	0.29	3,855	3,932	4,011	4,091	4,173	4,256	4,342	4,428	4,517	
Less: Financial services indirectly measured	(1.05)	-0.77	(10,315)	(10,801)	(11,261)	(11,835)	(12,174)	(10,484)	(11,945)	(11,260)	(11,843)	
<b>All industries at basic 2001 prices</b>	<b>88.31</b>	<b>85.42</b>	<b>941,763</b>	<b>978,565</b>	<b>1,028,696</b>	<b>1,088,103</b>	<b>1,155,991</b>	<b>1,168,382</b>	<b>1,198,270</b>	<b>1,266,782</b>	<b>1,314,832</b>	
Taxes less subsidies on products	11.69	14.58	113,895	130,772	144,088	161,367	180,855	188,882	196,117	207,981	224,474	
<b>Real GDP at 2001 market prices</b>	<b>100.00</b>	<b>100.00</b>	<b>1,055,658</b>	<b>1,109,338</b>	<b>1,172,784</b>	<b>1,249,470</b>	<b>1,336,846</b>	<b>1,357,263</b>	<b>1,394,387</b>	<b>1,474,763</b>	<b>1,539,306</b>	
GDP at Mkt Prices			1,055,658	1,109,338	1,172,784	1,249,470	1,336,846	1,357,263	1,394,387	1,474,763	1,539,306	
Overall GDP Deflator			107	115	121	130	137	155	170	173	197	

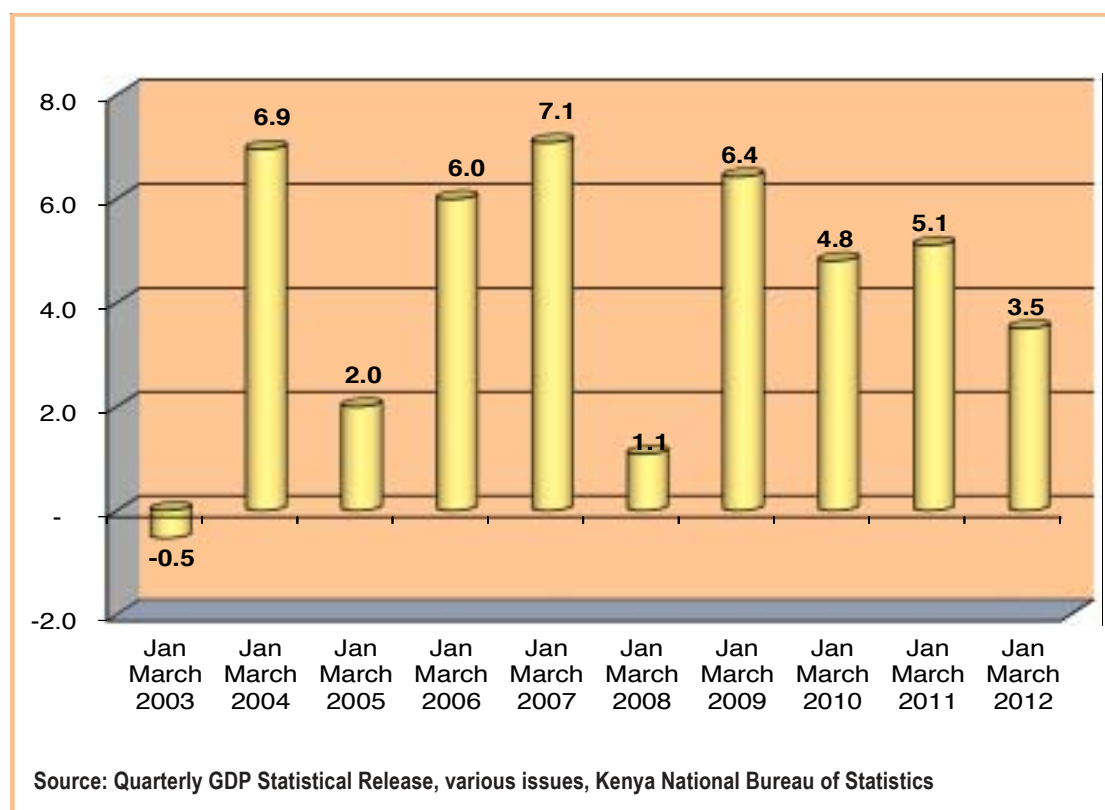
  

Annual Growth Rates in Percent												
	Share in 2011 Nominal GDP (%)	Share in 2011 Real GDP (%)	2003	2004	2005	2006	2007	2008	2009	2010	*2011	
Agriculture and Forestry	24.01	21.01	2.6	1.6	6.9	4.4	2.4	(4.1)	(2.6)	6.4	1.5	
Fishing	0.50	0.38	-6.9	10.1	9.6	8.7	-1.1	(13.2)	3.7	2.7	3.1	
Mining	0.68	0.47	3.5	-0.3	2.7	4.1	12.9	2.9	(4.5)	9.7	7.1	
Manufacturing	9.45	9.61	6.0	4.5	4.7	6.3	6.3	3.5	1.3	4.5	3.3	
Electricity and water supply	0.86	2.11	14.0	3.0	0.1	-2.2	9.1	5.3	(3.0)	9.7	(2.6)	
Construction	4.13	3.49	1.0	4.4	7.6	6.2	7.3	8.2	12.7	4.5	4.3	
Wholesale and retail trade, repairs	10.61	10.80	1.5	8.5	5.5	11.7	11.3	4.8	3.9	8.0	7.3	
Hotels & Restaurants	1.67	1.35	-20.3	38.8	13.3	14.9	16.3	(36.1)	42.8	4.2	5.0	
Transport, Storage & Communications	9.67	12.37	3.5	7.0	8.9	11.5	15.1	3.0	6.4	5.9	4.5	
Financial intermediation	6.38	4.23	1.5	1.4	2.8	7.5	6.6	2.7	7.2	9.0	7.8	
Real estate, renting and business services	4.45	5.25	2.3	3.0	3.4	3.9	3.5	3.7	3.0	3.2	3.6	
Public administration and defense	5.00	3.14	0.6	0.2	-1.3	-1.0	-2.1	0.6	1.6	2.3	2.5	
Education	5.84	5.90	9.7	1.7	0.9	0.4	4.2	5.9	2.7	4.5	4.9	
Health and social work	2.48	2.14	2.8	3.8	3.2	3.0	3.2	3.6	4.4	1.4	3.5	
Other community, social and personal services	3.19	3.64	-0.0	3.7	3.1	4.2	3.4	2.9	2.6	2.7	4.5	
Private households with employed persons	0.44	0.29	2	2	2	2	2.0	2.0	2.0	2.0	2.0	
Less: Financial services indirectly measured	-1.05	-0.77	-3.3	4.7	4.3	5.1	2.9	(13.9)	13.9	(5.7)	5.2	
<b>Total GDP at basic 2001 prices</b>	<b>88.31</b>	<b>85.42</b>	<b>3.1</b>	<b>3.9</b>	<b>5.1</b>	<b>5.8</b>	<b>6.2</b>	<b>1.1</b>	<b>2.6</b>	<b>5.7</b>	<b>3.8</b>	
Taxes less subsidies on products	11.69	14.58	1.3	14.8	10.2	12.0	12.1	4.4	3.8	6.0	7.9	
<b>Real GDP at 2001 market prices</b>	<b>100.00</b>	<b>100.00</b>	<b>2.9</b>	<b>5.1</b>	<b>5.7</b>	<b>6.5</b>	<b>7.0</b>	<b>1.5</b>	<b>2.7</b>	<b>5.8</b>	<b>4.4</b>	

\*Provisional

Source: Economic Survey, various issues, Kenya National Bureau of Statistics

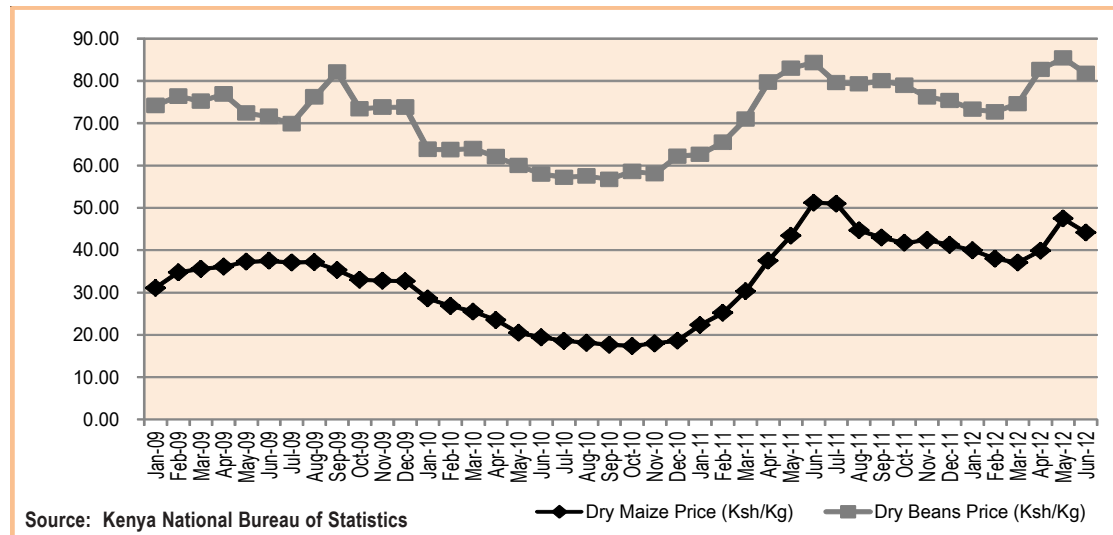


**CHART 3A: REAL GDP GROWTH IN THE THIRD QUARTERS**

The growth momentum slowed in the first and second quarters of 2011 but improved beginning the third quarter of 2011. Real GDP growth in the June, September and December quarters of 2011 is estimated at 3.4 percent, 4.0 percent and 4.6 percent, respectively. Real GDP grew by 3.5 percent in the first quarter of 2012 compared with 5.1 percent in the first quarter of 2011. Growth in the first quarter of 2012 was largely attributed to Transport and Communication, Wholesale and Retail Trade, Agriculture and Forestry and Manufacturing.

**Agriculture** Despite the deceleration in growth of agriculture from 6.4 percent in 2010 to 1.5 percent in 2011, the sector accounted for 21.0 percent of total GDP in 2011. The slowdown in the sector's performance is attributed to adverse weather conditions in 2011. Production of major food and industrial crops decreased during the year. The prices of food items such as maize and beans increased in the first half of 2011 but eased thereafter on account of better performance of the short rains during the last quarter of 2011 (Chart 3B).

Most of the selected indicators of agriculture for the year to June 2012 registered lower production growth rates compared to the previous period (Table 3.2). With the exception of the coffee sector which had a positive growth rate, other sectors including tea, horticulture, milk and sugar cane registered lower production growth rates compared to year 2011.

**CHART 3B: MOVEMENT IN AVERAGE RETAIL PRICES FOR MAIZE AND BEANS****TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS**

	2010	2011*	Year to Jun 11*	Year to Jun 12*
<b>Tea</b>				
Output (Metric tonnes)	399,006	377,913	364,456	357,625
Growth (%)	31.2%	-5.3%	-3.6%	-1.9%
<b>Horticulture</b>				
Exports (Metric tonnes)	268,533	238,562	258,388	234,764
Growth (%)	8.2%	-11.2%	3.9%	-9.1%
<b>Coffee</b>				
Sales (Metric tonnes)	38,938	29,984	30,574	41,343
Growth (%)	-21.3%	-23.0%	-11.8%	35.2%
<b>Milk</b>				
Output (million litres)	511	549	504	501
Growth %	25.7%	7.5%	1.8%	-0.4%
<b>Sugar Cane</b>				
Output (Metric tonnes)	5,709,586	5,338,571	6,039,241	5,376,060
Growth (%)	1.8%	-6.5%	11.2%	-11.0%

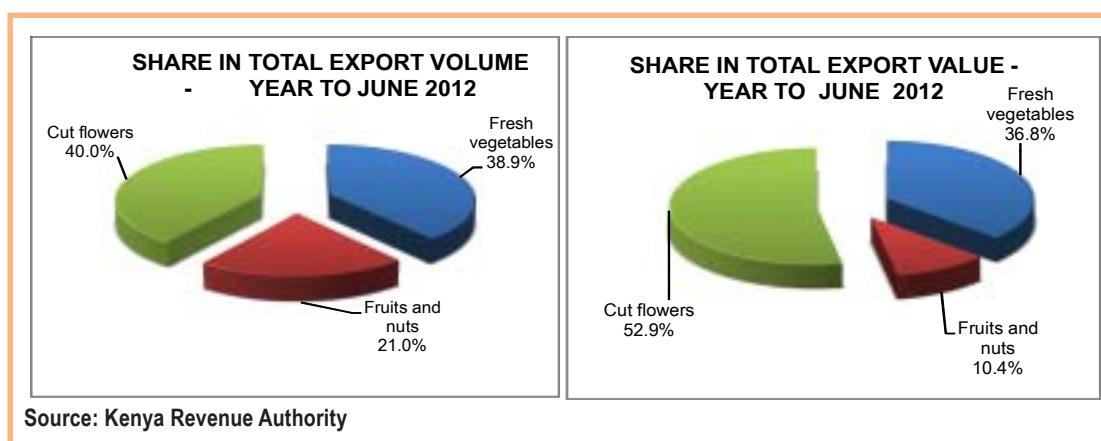
\* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

**Tea**

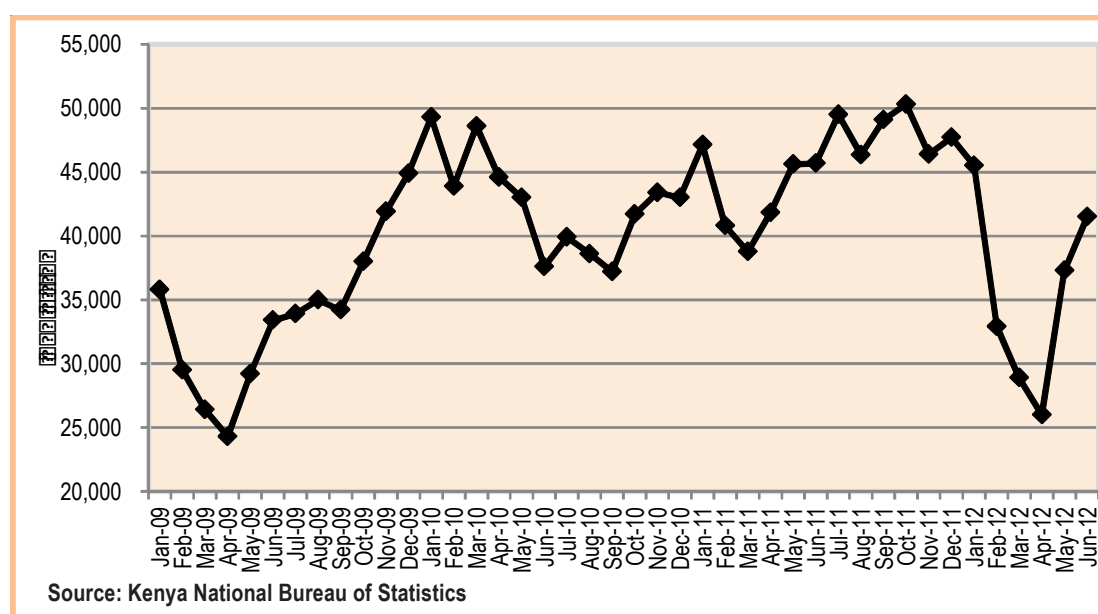
Indicators for agriculture for the year to June 2012 period show mixed performance. Production of tea declined by 1.9 percent from 364,456 metric tonnes in the year to June 2011 to 357,625 metric tonnes in the year to June 2012 (Table 3.2). Tea production was adversely impacted by frost in the first quarter of 2012. The average auction price for tea however rose from Ksh 236 per kilogram in the year to June 2011 period to Ksh 268 per kilogram in the year to June 2012.

**Horticulture** Exports of fresh horticultural products declined by 9.1 percent from 258,388 metric tonnes in the year to June 2011 to 234,764 metric tonnes in the year to June 2012 (Table 3.2 and Chart 3C). The reduced exports were largely explained by lower demand for the horticultural products in the Eurozone markets.

**CHART 3C: HORTICULTURAL EXPORTS**

**Coffee** Performance of the coffee sub-sector however improved with sales increasing from 30,574 metric tonnes in the year to June 2011 to 41,343 metric tonnes in the year to June 2012. The average auction price for coffee also rose from Ksh 442 per kilogram in the year to June 2011 to Ksh 491 per kilogram in the year to June 2012.

**Dairy** Production from the dairy sub-sector declined marginally as indicated by a decrease in milk delivered to factories from 504 million litres in the year to June 2011 to 501 million litres in the year to June 2012 (Table 3.2 and Chart 3D). Production of milk in the period January-April 2012 was largely on account of frost and dry weather effects on animal feeds in the main milk producing areas.

**CHART 3D: PROCESSED MILK ('000 LITRES)**

**Manufacturing** The contribution of manufacturing to total GDP declined marginally to 9.6 percent in 2011 compared with 9.7 percent in 2010. Total manufactured output amounted to Ksh 148.0 billion in 2011 compared with Ksh 143.3 in 2010. Activities within manufacturing registered mixed performance in the year to June 2012 as indicated by increased production of cement, assembled vehicles, galvanized sheets and soft drinks (Table 3.3). The amount of cement produced increased by 3.8 percent from 3,926,193 tonnes in the year to June 2011 to 4,073,845 tonnes in the year to June 2012 (Chart 3E). The number of vehicles assembled locally also increased from 5,600 in the year to June 2011 to 6,425 in the year to June 2012 while the volume of soft drinks produced increased marginally from 368,134 thousand litres in the year to June 2011 to 369,587 thousand litres in the year to June 2012. The amount of processed sugar produced, however, decreased by 20.6 percent to 454,718 tonnes in the year to June 2012.

**TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS**

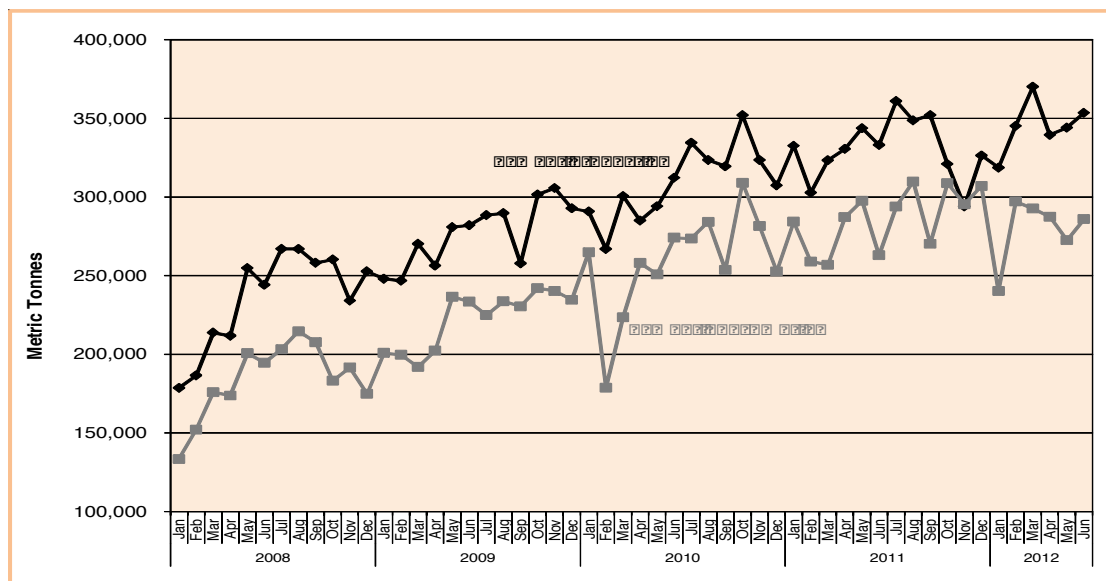
	2008 2009 2010 2011 2012		Year to Jun 11*	Year to Jun 12*
<b>Cement production</b>				
Output (MT)	3,709,806	3,969,003	3,926,193	4,073,845
Growth %	11.7%	7.0%	12.6%	3.8%
<b>Assembled vehicles</b>				
Output (No.)	5,721	6,049	5,600	6,425
Growth %	13.1%	5.7%	5.9%	14.7%
<b>Galvanized sheets</b>				
Output (MT)	201,410	268,095	237,370	261,657
Growth %	10.6%	33.1%	21.0%	10.2%
<b>Processed sugar</b>				
Output (MT)	523,470	475,061	572,800	454,718
Growth %	-4.5%	-9.2%	12.9%	-20.6%
<b>Soft drinks</b>				
Output ('000 litres)	361,333	371,353	368,134	369,587
Growth %	0.0%	2.8%	1.3%	0.4%

MT = Metric tonnes

\* Provisional

Source: Kenya National Bureau of Statistics

**CHART 3E: CEMENT PRODUCTION AND CONSUMPTION**



Source: Kenya National Bureau of Statistics

**Energy Sector**

Local generation of electricity increased by 4.0 percent from 7,006 million kilowatt hours in the year to June 2011 to 7,287 million kilowatt hours in the year to June 2012 (Table 3.4). Of the total electricity produced in the year to June 2012, 48.1 percent was hydro-power, 31.3 percent was thermal power and the remaining 20.6 percent was geo-thermal power. Production of hydro-electricity increased by 2.3 percent to 3,505 million kilowatt hours in the year to June 2012 while production of thermal power increased by 7.2 percent to 2,277 million kilowatt hours in the same period. Estimated consumption of electricity increased by 4.1 percent to 6,302 million kilowatt hours in the year to June 2012 as compared with consumption of 6,056 million kilowatt hours over the same period in 2011. Consumption of fuels also increased by 6.3 percent to 3,597 thousand tonnes in the year to June 2012.

**TABLE 3.4: ENERGY SECTOR PERFORMANCE**

	Annual Totals		Year to June 11*	Year to June 12*
	2010	2011*		
Electricity Supply (Generation)				
Output (million KWH)	6,407	7,161	7,006	7,287
Growth %	20.2%	11.8%	26.1%	4.0%
<b>Of which:</b>				
Hydro-power Generation (million KWH)	3,195	3,183	3,427	3,505
Growth (%)	51.7%	-0.4%	59.0%	2.3%
Geo-Thermal Generation (million KWH)	1,442	1,444	1,454	1,504
Growth (%)	-2.4%	0.1%	-4.6%	3.5%
Thermal (million KWH)	1,769	2,533	2,125	2,277
Growth (%)	1.3%	43.2%	13.2%	7.2%
Consumption of electricity (million KWH)	5,870	6,152	6,056	6,302
Growth %	10.8%	4.8%	8.1%	4.1%
Consumption of Fuels ('000 tonnes)	3,177	3,545	3,384	3,597
Growth %	-0.4%	11.6%	2.9%	6.3%
Murban crude oil average price (US \$ per barrel)	79.2	110.6	95.1	113.3
Growth %	26.4%	39.7%	26.7%	19.2%

\* Provisional

Source: Kenya National Bureau of Statistics

**Tourism**

The number of tourists arriving in Kenya rose by 10.3 percent from 1,161,407 in the year to June 2011 to 1,280,888 in the year to June 2012 (Table 3.5). Of the total tourist arrivals, 83.6 percent checked through the Jomo-Kenyatta International Airport, Nairobi and 16.4 percent checked through the Moi International Airport, Mombasa. The number of tourists arriving on-board cruise ships was 270 in the year to June 2012.

In terms of region of origin, Europe and Africa dominated accounting for 46.1 percent and 23.7 percent of total tourist arrivals, respectively in the year to June 2012 (Table 3.6). Oceanic countries, America and Africa were the three highest growth sources of tourist arrivals having recorded increase of 18.8 percent, 16.7 percent and 10.4 percent, respectively.

**TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY**

	2010	2011	Year to June 11	Year to June 12	Year to June 12 % Share	Year to June 12 % Growth
CRUISE	-	856	586	270	0.02%	-53.9%
MIAM	232,698	233,844	247,032	209,842	16.4%	-15.1%
JKIA	862,586	1,030,436	913,789	1,070,776	83.6%	17.2%
<b>TOTAL</b>	<b>1,095,284</b>	<b>1,265,136</b>	<b>1,161,407</b>	<b>1,280,888</b>	<b>100.0%</b>	<b>10.3%</b>

Source: Kenya Tourist Board

**TABLE 3.6: TOURIST ARRIVALS BY CONTINENT**

REGION	2010	2011	Year to June 11	Year to June 12	Year to June 12 % Share	Year to June 12 % Growth
Africa	257,132	303,886	274,992	303,635	23.7%	10.4%
Middle East	N/A	38,880	16,340	47,454	3.7%	N/A
America	142,087	158,268	143,847	167,926	13.1%	16.7%
Asia	137,657	137,707	136,416	141,293	11.0%	3.6%
Europe	536,422	597,443	564,396	590,805	46.1%	4.7%
Oceanic	21,985	28,952	24,829	29,505	2.3%	18.8%
Cruise	0	856	586	270	0.0%	N/A
<b>Total</b>	<b>1,095,284</b>	<b>1,265,136</b>	<b>1,161,407</b>	<b>1,280,888</b>	<b>100.0%</b>	<b>10.3%</b>

Source: Kenya Tourist Board

## Transport

The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) increased by 23.2 percent from 3,585,897 in the year to June 2011 to 4,416,420 in the year to June 2012. The number of incoming passengers increased by 22.5 percent to 2,219,345 in the year to June 2012, while the number of outgoing passengers increased by 23.8 percent to 2,197,075 in the same period (Table 3.7). The volume of oil put through the pipeline system also increased by 9.3 percent from 4,149 million litres in the year to June 2011 to 4,536 million litres in the year to June 2012.

**TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES**

	2010	2011	2011	2012
<b>Number of Passengers thro' JKIA</b>				
Total passenger flows	3,029,419	4,135,126	3,585,897	4,416,420
Growth (%)	15.4%	36.5%	33.7%	23.2%
o.w. Incoming	1,508,841	2,088,798	1,811,770	2,219,345
Growth (%)	13.1%	38.4%	35.7%	22.5%
Outgoing	1,520,578	2,046,328	1,774,127	2,197,075
Growth %	17.8%	34.6%	31.8%	23.8%
<b>Kenya Pipeline Oil Throughput</b>				
Output ('000 litres)	4,203,718	4,257,426	4,149,757	4,536,099
Growth %	-2.8%	1.3%	-3.9%	9.3%

\* Provisional

Source: Kenya National Bureau of Statistics

# DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

**Overview** Kenya's overall Balance of Payments position improved from a surplus of US\$ 147 million in the year to July 2011 to a surplus of US\$ 858 million in the year to July 2012. The surplus was wholly in the financial account. Official gross reserves increased by 0.4 months of import cover from 3.8 months to 4.2 months.

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

ITEM	Year to July 2011*	Year to July 2012*				Year to July 2012*	Absolute Change	% Change
		Q1 Aug-Oct	Q2 Nov- Jan	Q3 Feb- Apr	Q4 May- Jul			
<b>1. OVERALL BALANCE</b>	<b>147</b>	<b>-174</b>	<b>29</b>	<b>725</b>	<b>278</b>	<b>858</b>	<b>711</b>	<b>483</b>
<b>2. CURRENT ACCOUNT</b>	<b>-2823</b>	<b>-958</b>	<b>-1105</b>	<b>-902</b>	<b>-1184</b>	<b>-4149</b>	<b>-1326</b>	<b>47</b>
<b>2.1 Goods</b>	<b>-8174</b>	<b>-2464</b>	<b>-2423</b>	<b>-2419</b>	<b>-2816</b>	<b>-10122</b>	<b>-1948</b>	<b>24</b>
Exports (fob)	5634	1439	1458	1546	1499	5942	308	5
Imports (cif)	13808	3903	3881	3966	4314	16064	2256	16
<b>2.2 Services</b>	<b>5351</b>	<b>1506</b>	<b>1318</b>	<b>1517</b>	<b>1632</b>	<b>5973</b>	<b>621</b>	<b>12</b>
Non-factor services (net)	2593	713	658	888	979	3237	644	25
Income (net)	-50	33	-56	-24	-32	-79	-29	58
Current Transfers	2808	761	716	653	685	2814	6	0
<b>3. CAPITAL &amp; FINANCIAL ACCOUNT</b>	<b>2970</b>	<b>783</b>	<b>1134</b>	<b>1627</b>	<b>1462</b>	<b>5007</b>	<b>2037</b>	<b>69</b>
<b>3.1 Capital Transfers (net)</b>	<b>256</b>	<b>32</b>	<b>67</b>	<b>47</b>	<b>45</b>	<b>191</b>	<b>-65</b>	<b>-26</b>
<b>3.2 Financial Account</b>	<b>2714</b>	<b>752</b>	<b>1068</b>	<b>1580</b>	<b>1417</b>	<b>4816</b>	<b>2102</b>	<b>77</b>
memo:								
<b>Gross Reserves</b>	<b>5442</b>	<b>5915</b>	<b>6019</b>	<b>6289</b>	<b>6995</b>	<b>6995</b>	<b>1553</b>	<b>29</b>
Official	4159	3985	4144	4980	5262	5262	1103	27
imports cover**	3.3	3.0	3.0	3.5	3.6	3.6	0.3	9.4
imports cover***	3.8	3.6	3.6	4.1	4.2	4.2	0.4	10.2
Commercial Banks	1283	1931	1875	1309	1733	1733	450	35

\* Provisional.

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

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

Source: Central Bank of Kenya

## Current Account

The Current Account deficit increased by 47 percent to US\$ 4,149 million in the year to July 2012 from US\$ 2,823 million in the year to July 2011 as a result of a 24 percent or US\$ 1,948 million widening in value of the Merchandise account (Table 4.2).

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

ITEM	Year to July 2011*	Year to July 2012*				Year to July 2012*	Absolute Change	% Change
		Q1 Aug-Oct	Q2 Nov- Jan	Q3 Feb- Apr	Q4 May- Jul			
<b>2. CURRENT ACCOUNT</b>	<b>-2823</b>	<b>-958</b>	<b>-1105</b>	<b>-902</b>	<b>-1184</b>	<b>-4149</b>	<b>-1326</b>	<b>47</b>
<b>2.1 Goods</b>	<b>-8174</b>	<b>-2464</b>	<b>-2423</b>	<b>-2419</b>	<b>-2816</b>	<b>-10122</b>	<b>-1948</b>	<b>24</b>
Exports (fob)	5634	1439	1458	1546	1499	5942	308	5
Coffee	210	65	42	83	82	272	62	29
Tea	1112	268	311	289	261	1128	16	1
Horticulture	727	156	153	180	173	662	-65	-9
Oil products	109	24	22	22	14	81	-28	-25
Manufactured Goods	676	194	181	180	185	740	64	9
Raw Materials	282	99	126	111	100	436	153	54
Chemicals and Related Products (n.e.s)	521	138	145	146	148	577	56	11
Miscellaneous Man. Articles	503	136	131	139	143	549	46	9
Re-exports	334	73	74	113	94	353	19	6
Other	1160	286	275	284	299	1144	-16	-1
Imports (cif)	13808	3903	3881	3966	4314	16064	2256	16
Oil	3380	1058	1071	1100	1083	4311	931	28
Chemicals	1870	416	535	550	518	2019	149	8
Manufactured Goods	2073	591	554	565	634	2344	272	13
Machinery & Transport Equipment	3848	1041	883	974	1298	4196	348	9
Other	2638	798	839	777	781	3194	557	21
<b>2.2 Services</b>	<b>5351</b>	<b>1506</b>	<b>1318</b>	<b>1517</b>	<b>1632</b>	<b>5973</b>	<b>621</b>	<b>12</b>
Non-factor services (net)	2593	713	658	888	979	3237	644	25
of which tourism	937	235	220	223	253	931	-6	-1
Income (net)	-50	33	-56	-24	-32	-79	-29	58
of which official interest	-61	-16	-22	-19	-30	-87	-26	42
Current Transfers	2808	761	716	653	685	2814	6	0
Private (net)	2612	716	688	658	689	2751	139	5
Public (net)	196	45	28	-5	-5	64	-133	-68

\* Provisional.

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

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

Source: Central Bank of Kenya



**Merchandise Account** The merchandise account deficit widened from US\$ 8,174 million in the year to July 2011 to US\$ 10,122 million in the year to July 2012 owing to an increase in the value of import of goods that offset the increased the value of export of goods.

**Exports** The total value of exports increased by US\$ 308 million to US\$ 5,942 million in the year to July 2012 following increase in receipts from coffee, tea, manufactured goods, raw materials, chemicals and related products, Miscellaneous manufactured articles and re-exports. The value of coffee exports, which accounted for 5 percent of the value of total export in the year to August 2012, increased by US\$ 62 million to US\$ 272 million in the year to July 2012 while the value of tea exports which accounted for 19 percent of the total export receipts in the year to July 2012, increased by US\$ 16 million to US\$ 1,128 million during the same period. The increase in value of both coffee and tea exports is attributed to an increase in both quantities and prices for coffee exports and an increase in prices for tea exports. The value of horticulture exports which accounted for 11 percent of total export values in the year to July 2012 however, declined by US\$ 65 million to US\$ 662 million due to a decrease in prices and quantities of cut flowers and a decrease in prices of Chilled, frozen or preserved fresh vegetables and Fruits and Nuts - fresh or dried. Export values of manufactured goods which accounted for 12 percent of the value of total export in the year to July 2012 went up by US\$ 64 million following increased export values of processed leather, Paper and Paperboard (including articles of paper), textile yarn materials, woven textile materials, Portland Cement, Glass ware, Iron and Steel. Export values of raw materials which consist of items such as Pyrethrum extracts, Soda Ash, Hides, skins and fur skins, crude animal and vegetable materials accounted for 7 percent of total export values, increased by US\$ 153 million to US\$ 436 million in the year to July 2012. Export values of Chemicals and related products which accounted for 10 percent of total export values rose by US\$56 million to US\$ 577 million in the year to July 2012 while values of re-exports which accounted for 6 percent of total export values increased by US\$ 19 million to US\$ 353 million over the same period.

**Imports** The value of imports increased by US\$ 2,256 million to US\$ 16,064 million in the year to July 2012, mainly on account of increased payments for oil, chemicals, manufactured goods, Machinery and Transport equipment. Payments for oil imports accounted for 27percent of the total import bill and increased by US\$ 931 million to US\$ 4,311 million in the year to July 2012 owing to high prices of crude oil and refined petroleum products in the international markets.

Imports of manufactured items, mainly intermediate goods, accounted for 15 percent of the total import bill and increased from US\$ 2,073 million in the year to July 2011 to US\$ 2,344 million in the year to July 2012 following increased import payments on Rubber manufactures, paper and paper board, textile yarn, fabrics and articles, Non-metal mineral manufactures and metal manufactures.

Machinery and transport equipment accounted for 26 percent of the total import bill and increased by US\$ 348 million from US\$ 3,848 million in the year to July 2011 to US\$ 4,196 million in the year to July 2012 on account of increases in payments on Power Generating Machinery and Equipment, Machinery specialised for particular industries, general industrial machinery and equipment, Office machines, electrical machinery, apparatus and appliances and road vehicles.

**Direction of Trade** The share of exports to African countries was stable at 48.8 percent in the year to July 2012 compared to 47.2 per cent in the year to July 2011, while the East African Community (EAC) region accounted for 26.3 percent of total exports with exports receipts from EAC increasing from US\$ 1,484 million in the year to July 2011 to US\$ 1,558 million in the year to July 2012. Exports to the COMESA region accounted for 32.6 percent and were stable at US 1,931 million in the year to July 2012 compared with US\$ 1,941 million in the year to July 2011. Kenya's exports were mainly to Uganda (13.7 percent), Tanzania (8.7 percent), the United Kingdom (8.4 percent), the Netherlands (6.1 percent) and the USA (5.1 percent).

In the year to July 2012, Kenya's imports were mainly from the United Arab Emirates (15.3 percent), India (13.7 percent), China (13.2 percent), Saudi Arabia (6.4 percent) and South Africa (5.3 percent). The share of imports from African countries accounted for 12.5 percent. Imports from the EAC region accounted for 2.2 percent of total imports and increased from US\$ 299 million in the year to July 2011 to US\$ 318 million in the year to July 2012. Imports from the COMESA region accounted for 5.6 percent of total imports in the year to July 2012 (Table 4.3). Kenya therefore, was a net exporter to the African Market.

**TABLE 4.3: KENYA'S DIRECTION OF TRADE**

IMPORTS (in millions of US dollars)				Share of Imports (%)		
Year to July				Year to July		
Country	2010	2011	2012	2010	2011	2012
<b>Africa</b>	<b>1,361</b>	<b>1,608</b>	<b>1,780</b>	<b>12.1</b>	<b>11.8</b>	<b>12.5</b>
Of which						
South Africa	777	818	755	6.9	6.0	5.3
Egypt	184	228	329	1.6	1.7	2.3
Others	400	562	695	3.6	4.1	4.9
<b>EAC</b>	<b>214</b>	<b>299</b>	<b>318</b>	<b>1.9</b>	<b>2.2</b>	<b>2.2</b>
<b>COMESA</b>	<b>409</b>	<b>534</b>	<b>791</b>	<b>3.6</b>	<b>3.9</b>	<b>5.6</b>
<b>Rest of the</b>	<b>9,890</b>	<b>12,047</b>	<b>12,434</b>	<b>87.9</b>	<b>88.2</b>	<b>87.5</b>
Of which						
India	1,221	1,581	1,950	10.8	11.6	13.7
United Arab	1,566	1,780	2,174	13.9	13.0	15.3
China	1,140	1,651	1,870	10.1	12.1	13.2
Japan	686	697	715	6.1	5.1	5.0
USA	572	483	715	5.1	3.5	5.0
United King	497	622	514	4.4	4.6	3.6
Singapore	302	551	102	2.7	4.0	0.7
Germany	308	353	428	2.7	2.6	3.0
Saudi Arab	434	350	913	3.9	2.6	6.4
Indonesia	295	389	684	2.6	2.9	4.8
Netherland	212	244	232	1.9	1.8	1.6
France	195	241	263	1.7	1.8	1.8
Bahrain	82	81	171	0.7	0.6	1.2
Italy	165	137	203	1.5	1.0	1.4
Others	2,215	2,887	1,502	19.7	21.1	10.6
<b>Total</b>	<b>11,251</b>	<b>13,655</b>	<b>14,214</b>	<b>100</b>	<b>100</b>	<b>100</b>

EXPORTS (in millions of US dollars)				Share of Exports (%)		
Year to July				Year to July		
Country	2010	2011	2012	2010	2011	2012
<b>Africa</b>	<b>2,259</b>	<b>2,629</b>	<b>2,887</b>	<b>46.3</b>	<b>47.2</b>	<b>48.8</b>
Of which						
Uganda	599	821	809	12.3	14.7	13.7
Tanzania	401	450	515	8.2	8.1	8.7
Egypt	215	238	257	4.4	4.3	4.3
Sudan	207	246	155	4.2	4.4	2.6
Somalia	169	150	239	3.5	2.7	4.0
DRC	148	184	209	3.0	3.3	3.5
Rwanda	134	143	169	2.7	2.6	2.9
Others	386	397	535	7.9	7.1	9.0
<b>EAC</b>	<b>1,199</b>	<b>1,484</b>	<b>1,558</b>	<b>24.5</b>	<b>26.7</b>	<b>26.3</b>
<b>COMESA</b>	<b>1,594</b>	<b>1,941</b>	<b>1,931</b>	<b>32.6</b>	<b>34.9</b>	<b>32.6</b>
<b>Rest of the</b>	<b>2,625</b>	<b>2,939</b>	<b>3,033</b>	<b>53.3</b>	<b>53.2</b>	<b>51.2</b>
Of which						
United King	530	511	495	10.9	9.2	8.4
Netherland	339	368	358	6.9	6.6	6.1
USA	217	315	303	4.4	5.7	5.1
Pakistan	214	235	242	4.4	4.2	4.1
United Arab	224	233	236	4.6	4.2	4.0
Germany	94	89	105	1.9	1.6	1.8
India	93	104	101	1.9	1.9	1.7
Afghanistan	157	151	129	3.2	2.7	2.2
Others	757	932	1,064	15.5	16.7	18.0
<b>Total</b>	<b>4,883</b>	<b>5,568</b>	<b>5,921</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Kenya Revenue Authority

**Services Account** The surplus in the services account increased by US\$ 621 million to US\$ 5,973 million in the year to July 2012 mainly due to growth in the Non- factor services account and the Current Transfers Account. The deficit in Net Income widened by US\$ 29 million to US\$ 79 million in the year to July 2012, mainly resulting from an increase in income outflows.

Credit from Non-factor services increased by US\$ 749 million to US\$ 4,667 million, owing to increased earnings from Transportation services and receipts from other services Government (Embassies and United Nations agencies) and Private (Insurance and communication services, Royalties and license fees) accounts. Net current transfers grew by US\$ 6 million on account of increased net private transfers which increased by US\$ 139 million to US\$ 2,751 million in the year to July 2012. Increase in net private transfers resulted from increased inflows. Remittances accounted for 40 percent of private transfer inflows and amounted to US\$ 1,100 million in the year to July 2012 up from US\$ 770 million in the year to July 2011. In the month of July 2012, remittances to Kenya amounted to US\$ 93 million, an increase over inflows in July 2011 which amounted to US\$ 73 million. Average remittances inflows in the year to July 2012 amounted to US\$ 92 million up from US\$ 64 million recorded in the year to July 2011. This increase can be attributed to reduced transaction charges for money transfer services due to increased competition among money transfer service providers and the convenience of sending money by mobile phones, improved data collection techniques and proper classification of remittances by some commercial banks, aggressive outreach to the Diaspora to invest in Government's Savings Development and Infrastructure bonds.

### Capital and Financial Account

The capital and financial account surplus grew from US\$ 2,970 million in the year to July 2011 to US\$ 5,007 million in the year to July 2012. The surplus was largely in the Financial Account, which increased from US\$ 2,714 million in the year to July 2011 to US\$ 4,816 million in the year to July 2012. The buildup of US\$ 2,102 million surplus accounted for 97 percent of surplus in the capital and financial accounts. This increase was mainly reflected in net official (medium to long-term) flows and net short term financial flows. Official medium and long-term inflows increased by USD 816 million from US\$ 611 million in the year to July 2011 to USD 1,427 million in the year to July 2012 due to flows from project loans. Net short term financial flows rose to US\$ 3,502 million in the year to July 2012 from US\$ 1,829 million in the year to July 2011. Net Private medium and long term flows however, declined from US\$ 525 million in the year to July 2011 to 175 million in July 2012 following a decline in Commercial banks (net) flows as well as a reduction of other private medium and long term inflows (Table 4.4).

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

ITEM	Year to July 2011*	Year to July 2012*				Year to July 2012*	Absolute Change	% Change
		Q1 Aug-Oct	Q2 Nov-Jan	Q3 Feb-Apr	Q4 May-Jul			
<b>3. CAPITAL &amp; FINANCIAL ACCOUNT</b>	<b>2970</b>	<b>783</b>	<b>1134</b>	<b>1627</b>	<b>1462</b>	<b>5007</b>	<b>2037</b>	<b>69</b>
3.1 Capital Transfers (net)	256	32	67	47	45	191	-65	-26
3.2 Financial Account	2714	752	1068	1580	1417	4816	2102	77
Official, medium & long-term	360	35	202	68	834	1139	779	217
Inflows	611	109	263	158	898	1427	816	134
Outflows	-251	-75	-61	-89	-63	-288	-37	15
Private, medium & long-term (net)	525	-299	-144	773	-155	175	-349	-67
Commercial Banks (net)	339	-290	-161	829	-121	257	-82	-24
Other private medium & long-term (net)	186	-8	17	-57	-34	-82	-268	-144
Short-term (net) incl. errors & omissions	1829	1016	1009	739	738	3502	1673	91

\* Provisional.

Source: Central Bank of Kenya

### Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by 34.8 percent from US\$ 5,442 million in July 2011 to US\$ 6,995 million in July 2012. The accumulation of foreign exchange reserves was largely in the holdings of the Central Bank, which accounted for 75 percent having increased by US\$ 1,103 million from

US\$ 4,159 million or 3.8 months of import cover in July 2011 to US\$ 5,262 million or 4.2 months of import cover in July 2012. Over the same period Residents' Foreign Currency Deposits increased from US\$ 2,502 million in the year to July 2011 to US\$ 3,145 million in the year to July 2012 (Table 4.5).

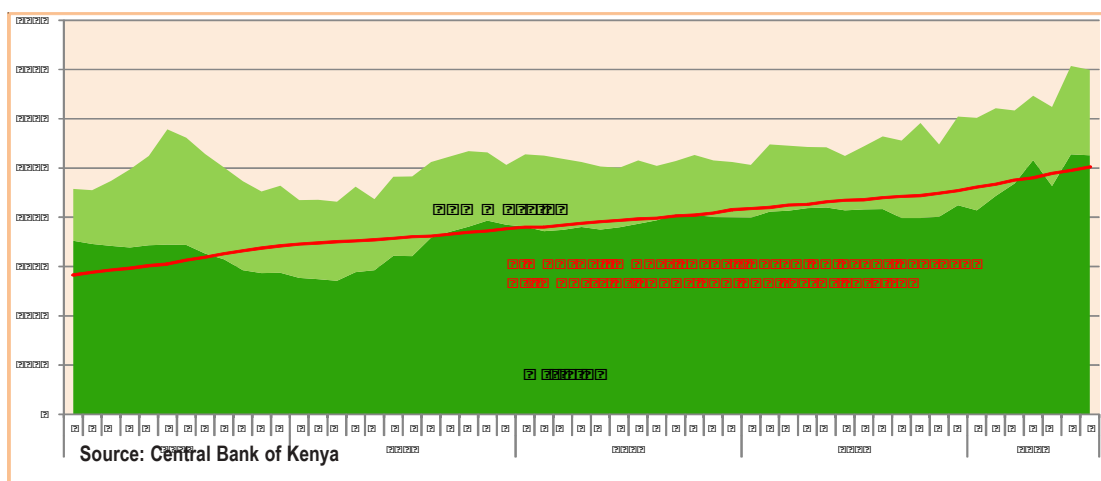
**TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US\$ MILLION)**

	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11	Apr 12	May 12	Jun 12	Jul 12
<b>1. Gross Foreign Exchange Reserves</b>	<b>5,442</b>	<b>5,645</b>	<b>5,557</b>	<b>5,915</b>	<b>5,483</b>	<b>6,045</b>	<b>6,289</b>	<b>6,282</b>	<b>7,030</b>	<b>6,995</b>
of which:										
Official	4,159	4,171	3,986	3,985	4,011	4,248	4,980	4,677	5,283	5,262
<i>imports cover*</i>										
<i>imports cover*</i>	3.8	3.8	3.6	3.6	3.6	3.7	4.1	3.8	4.3	4.2
Commercial Banks	1,283	1,474	1,571	1,931	1,472	1,797	1,309	1,605	1,747	1,733
<b>2. Residents' foreign currency deposits</b>	<b>2,502</b>	<b>2,652</b>	<b>2,852</b>	<b>2,945</b>	<b>2,950</b>	<b>3,226</b>	<b>3,108</b>	<b>3,106</b>	<b>3,236</b>	<b>3,145</b>

Source: Central Bank of Kenya

Source: Central Bank of Kenya

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



## Exchange Rates

The Kenya Shilling appreciated against all major world currencies in July 2012. Against the US dollar, the Shilling appreciated by 0.76 percent to trade at an average Ksh 84.14 in July 2012 compared to Ksh 84.79 in June 2012. Against the Sterling Pound, the Shilling appreciated by 0.52 percent to trade at an average of Ksh 131.27 in July 2012 compared to Ksh 131.95 in June 2012. The Shilling also appreciated by 2.73 percent against the Euro and 0.38 percent against the 100 Japanese Yen in July 2012, to trade at an average of Ksh 103.6 per Euro and Ksh 106.5 per Japanese Yen up from Ksh 106.51 per Euro and Ksh 106.91 per Japanese Yen in June 2012.

In the EAC region, the Kenya Shilling appreciated against all EAC currencies in July 2012. On average, the Uganda Shilling, the Tanzania Shilling, the Rwanda and Burundi Francs exchanged at Ush 29.42, Tsh 18.82, RWF 7.2 and BIF 16.81 compared with Ush 29.3, Tsh 18.68, RWF 7.12 and BIF 16.49 in July 2012 (Table 4.6 and Chart 4D).

However, the Kenya Shilling exchange rate has remained relatively stable since January 2012, consistent with prudent monetary policy.

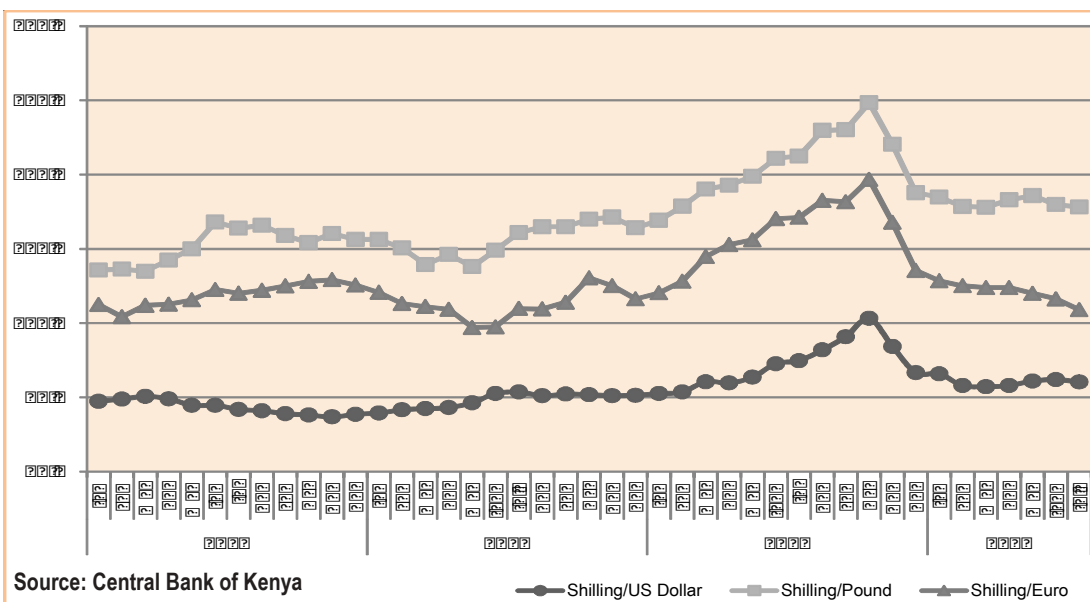
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2011			2012							
	July	Aug	Dec	Jan	Feb	Mar	Apr	May	June	July	% change June 12-July 12
US Dollar	89.90	92.79	86.66	86.34	83.18	82.90	83.19	84.38	84.79	84.14	-0.76
Pound Sterling	145.00	151.90	135.10	133.94	131.42	131.18	133.19	134.34	131.95	131.27	-0.52
100 Japanese Yen	109.07	120.32	111.33	112.23	106.10	100.60	102.26	105.83	106.91	106.50	-0.38
Uganda Shilling*	28.87	29.68	28.25	27.90	27.97	29.96	30.12	29.39	29.30	29.42	0.39
Tanzania Shilling*	17.59	17.40	18.65	18.44	19.17	19.23	19.08	18.78	18.68	18.82	0.78
Rwanda Franc*	6.68	6.46	6.96	6.98	7.25	7.29	7.26	7.16	7.12	7.20	1.10
Burundi Franc*	13.69	13.28	15.11	15.18	15.75	15.64	15.93	16.45	16.49	16.81	1.94
Euro	128.48	133.04	114.15	111.42	110.06	109.55	109.57	107.99	106.51	103.60	-2.73
Euro per US dollar	0.700	0.697	0.759	0.77	0.76	0.76	0.76	0.78	0.80	0.81	2.02

\* Data for 2011 and 2012 are preliminary estimates.

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



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## DEVELOPMENTS IN THE BANKING SECTOR

**Overview** During the period ended July 31, 2012, the Kenyan Banking sector recorded significant growth in assets driven by growth in deposits and retention of profits.

As at July 31, 2012, the sector comprised 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 112 foreign exchange bureaus and 2 credit reference bureaus.

**Structure of the Balance Sheet** The banking sector's aggregate balance sheet expanded by 15.1 percent from Ksh 1,912.7 billion in July 2011 to Ksh 2,202.2 billion in July 2012. The significant items of the balance sheet were loans and advances, government securities and placements, which accounted for 57.4 percent, 19.4 percent and 6.9 percent of total assets respectively.

**Loans & Advances** The banking sector gross loans and advances increased from Ksh 1,118.3 billion in July 2011 to Ksh 1,311.4 billion in July 2012, which translated to a growth of 17.3 percent. The growth was attributed to increase in lending to households, trade, manufacturing and real estate sectors. Loans and advances net of provisions stood at Ksh 1,263.6 billion in July 2012, up from Ksh 1,073.7 billion registered in a similar period in 2011.

**Deposit Liabilities** Deposits from customers were the main source of funding for the banking sector, accounting for 74.8 percent of total funding liabilities. The deposit base increased by 15.3 percent from Ksh 1,429.5 billion in July 2011 to Ksh 1,648.1 billion in July 2012 mainly due to branch expansion, remittances and receipts from exports.

**Capital & Reserves** The banking sector registered improved capital levels in July 2012 with total capital growing by 18.3 percent from 250.3 Ksh billion in July 2011 to Ksh 296.2 billion in July 2012, whereas shareholders' funds increased by 17.3 percent from Ksh 272.3 billion in July 2011 to Ksh 319.4 billion. As a result, the ratios of core and total capital to total risk-weighted assets increased from 16.5 percent and 19.1 percent to 17.6 percent and 20.2 percent respectively.

**Non-performing Loans** The stock of gross non-performing loans (NPLs) increased by 1.9 percent from Ksh 57.6 billion in July 2011 to Ksh 58.7 billion in July 2012 mainly due to default on loans occasioned by the high interest rate regime that prevailed during the last quarter of 2011 and the second quarter of year 2012. However, the ratio of gross NPLs to gross loans improved from 5.2 percent to 4.5 percent over the same period mainly due to the growth in loans. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs increased to 56.9 percent from 56.7 percent in July 2011 due to increase in provisions. The quality of assets, measured as a proportion of net non-performing loans to gross loans improved from 1.8 percent to 1.5 percent in July 2012 (Table 5.1).



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

		Jul-11	Jul-12
1	Gross loans and advances	1,118.30	1,311.40
2	Interest in Suspense	10.60	12.20
3	Loans and advances (net of interest suspended)	1,107.70	1,299.20
4	Gross non-performing loans	57.60	58.70
5	Specific Provisions	26.70	26.40
6	General Provisions	7.20	9.20
7	Total Provisions (5+6)	33.90	35.60
8	Net Advances (3-7)	1,073.70	1,263.60
9	Total Non-Performing Loans and advances (4-2)	47.00	46.50
10	Net Non-Performing Loans and advances (9-5)	20.30	20.20
11	Total NPLs as % of total advances (9/3)	4.20%	3.60%
12	Net NPLs as % of gross advances (10/1)	1.80%	1.50%
13	Specific Provisions as % of Total NPLs (5/9)	56.90%	56.70%

Source: Central Bank of Kenya

**Profitability** The banking sector registered a 27.2 percent growth in pre-tax profits, from Ksh 48.6 billion in July 2011 to Ksh 61.8 billion as at end of July 2012. Similarly, the annualised return on assets increased from 3.3 percent in July 2011 to 3.8 percent in July 2012 while return on equity increased from 30.6 percent to 33.2 percent during the same period. Total income went up by 57.0 percent from Ksh 131.2 billion in July 2011 to Ksh 205.9 billion in July 2012, while total expenses increased by 74.4 percent from Ksh 82.6 billion in July 2011 to Ksh 144.1 billion in July 2012 with the increase largely attributed to interest expense on deposits. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 63 percent, 17 percent and 13 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 42 percent, 24 percent and 20 percent respectively.

**Liquidity Ratio Requirement** For the month ended July 31, 2012, average liquid assets amounted to Ksh 605.9 billion while total short-term liabilities stood at Ksh 1,588.3 billion, resulting to an average liquidity ratio of 38.1 percent, against 40.4percent registered in July 2011. The ratio of gross loans to deposits ratio stood at 79.6 percent, an increase from 78.2 percent in July 2011.

**Cash Ratio Requirement** The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.67 percent in July 2012 compared with 5.48 percent in June 2012 and 5.25 percent statutory level (Table 5.3 and Chart 5A). Commercial banks maintained an average of Ksh 6.41 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in July 2012 compared with Ksh 3.50 billion in June 2012. Commercial banks are required to maintain Cash Reserve Ratio (CRR) monthly average of 5.25 percent in the 30 day maintenance cycle from 15th through 14th of every month but subject to a daily minimum of 3.0 percent.



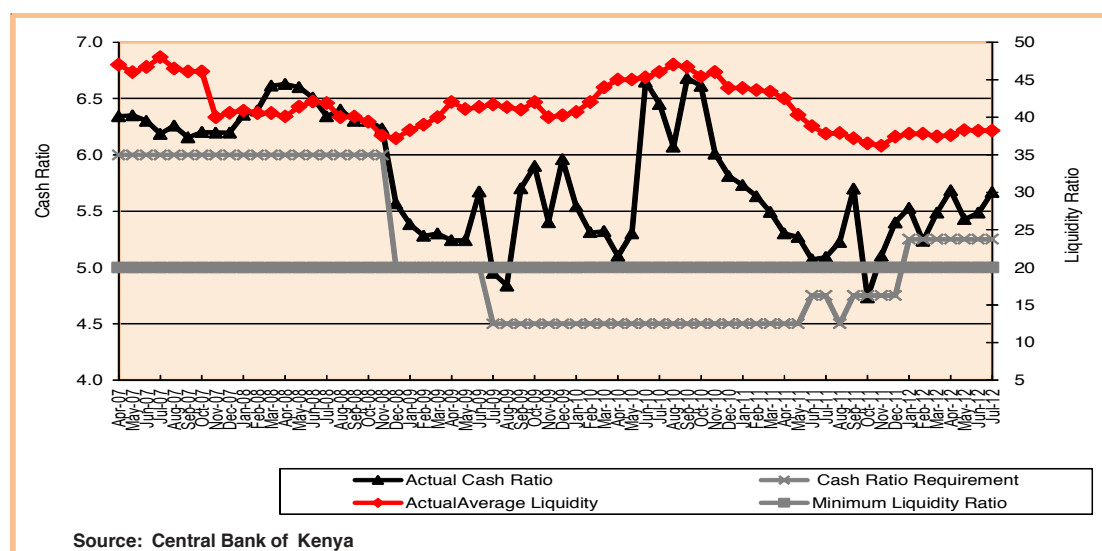
TABLE 5.2 : CASH AND LIQUIDITY RATIOS\* (%)

	2011					2012						
	Jun	Jul	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July
<b>Commercial Banks</b>												
Actual Average Liquidity	38.80	37.80	36.50	36.20	37.40	37.80	37.80	37.45	37.60	38.30	38.20	38.20
Minimum Liquidity Ratio	20.00	20.00	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	5.07	5.09	4.73	5.10	5.40	5.53	5.23	5.48	5.68	5.43	5.48	5.67
Minimum Cash Ratio Requirement	4.5	4.5	4.75	4.75	4.75	5.25	5.25	5.25	5.25	5.25	5.25	5.25
<b>NBFIs</b>												
Actual Average Liquidity Ratio	46.40	43.60	35.10	31.10	29.10	28.30	26.85	25.11	24.20	26.70	32.00	33.20
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00

\* 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 134,391 transaction messages worth Ksh 1,561 billion in July 2012 compared with a volume of 127,147 transaction messages valued at Ksh 1,693 billion moved in June 2012, representing 7.80 percent decrease in value and 5.70 percent increase in volume. Compared with July 2011, the volume increased by 30.05 percent from 103,338 transaction messages to 134,391 transaction messages in July 2012, while value decreased by 27.44 percent from 2,151 billion to 1,561 billion, indicating increased usage of KEPSS by the public but for lower values per transaction during the period under review. (Table 5.3)

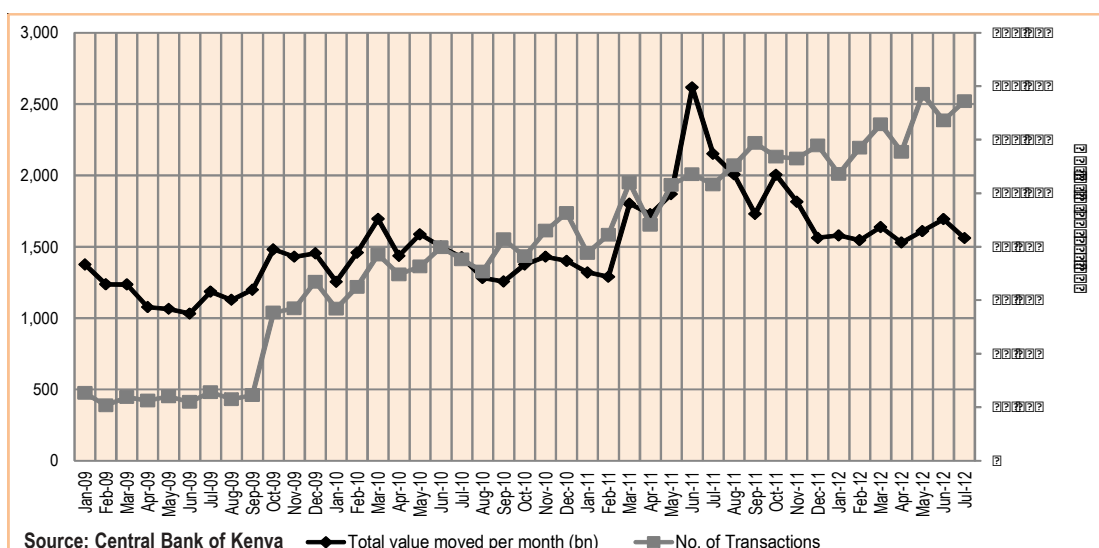
During the twelve months period to July 31, 2012 the value moved averaged Ksh 14 million per transaction. On average, 5,692 transaction messages with an average value of approximately Ksh 80 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted for 98.0 percent of the total settlements while payments processed through ACH and settled in KEPSS 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
Jun-11	1,868	26	103,112	0.02	21	89	4,910
Jul-11	2,617	24	107,063	0.02	21	125	5,098
Aug-11	2,151	24	103,338	0.02	21	102	4,921
Sep-11	2,007	25	110,498	0.02	22	91	5,023
Oct-11	1,730	27	118,798	0.01	22	79	5,400
Nov-11	2,004	25	113,658	0.02	20	100	5,683
Dec-11	1,816	28	112,923	0.02	22	83	5,133
Jan-12	1,562	30	117,916	0.01	20	78	5,896
Feb-12	1,579	28	107,230	0.01	21	75	5,106
Mar-12	1,546	27	116,990	0.01	21	74	5,571
Apr-12	1,638	26	125,739	0.01	22	74	5,715
May-12	1,529	26	115,514	0.01	19	80	6,080
Jun-12	1,610	26	137,135	0.01	22	73	6,233
Jul-12	1,693	26	127,147	0.01	20	85	6,357
Aug-12	1,561	26	134,391	0.01	22	71	6,109

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



### Third Party Messages

Multiple third party Messages Type (MT 102) decreased by 64.13 percent from 23,048 transaction messages in June 2012 to 8,268 transaction messages in July 2012 while single third party Message Type (MT 103) increased by 2.32 percent from 132,103 transaction messages to 135,173 transaction messages in the same period. Overall, total third party messages through KEPSS decreased by 7.55 percent from 155,151 transaction messages in June 2012 to 143,441 transaction messages in July 2012. The above outcome may be attributed to higher demand for detailed individual message content by commercial banks to facilitate faster reconciliations and application of funds.

Compared with July 2011, multiple third party messages (MT 102) increased by 9.02 percent from 7,584 transaction messages to 8,268 transaction messages in July 2012 while single third party messages (MT 103) increased by 36.57 percent

from 98,977 transaction messages to 135,173 transaction messages (Table 5.4 and Chart 5C).

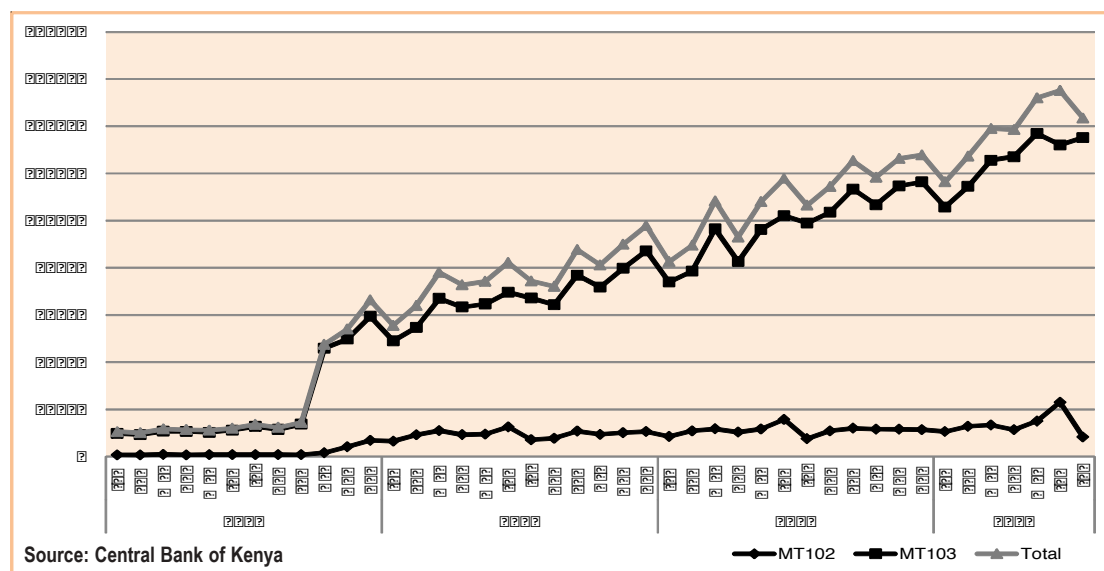
Inter-bank transfers (MT 202) accounted for 33.52 percent of the total value moved through KEPSS as at end of July 2012 while third party (MT 102 and MT 103) messages accounted for 66.48 percent. The total number of third party messages grew by 34.61 percent from 106,561 messages in July 2011 to 143,441 messages in July 2012. This signifies a continued growth in KEPSS usage by individuals and non-bank corporate bodies.

**TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS**

		MT102	MT103	Total
2011	Jan	8580	74,004	82,584
	Feb	10955	78,589	89,544
	Mar	11778	96,550	108,328
	Apr	10392	82,691	93,083
	May	11739	96,324	108,063
	Jun	15794	102,098	117,892
	Jul	7584	98,977	106,561
	Aug	10929	103,561	114,490
	Sep	12028	113,333	125,415
	Oct	11653	106,768	118,421
	Nov	11602	114,741	126,343
	Dec	11424	116,384	127,808
2012	Jan	10661	105,817	116,478
	Feb	12871	114,522	127,393
	Mar	13428	125,628	139,056
	Apr	11439	127,126	138,565
	May	15093	136,942	152,035
	Jun	23048	132,103	155,151
	Jul	8268	135,173	143,441

Source: Central Bank of Kenya

**CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS**

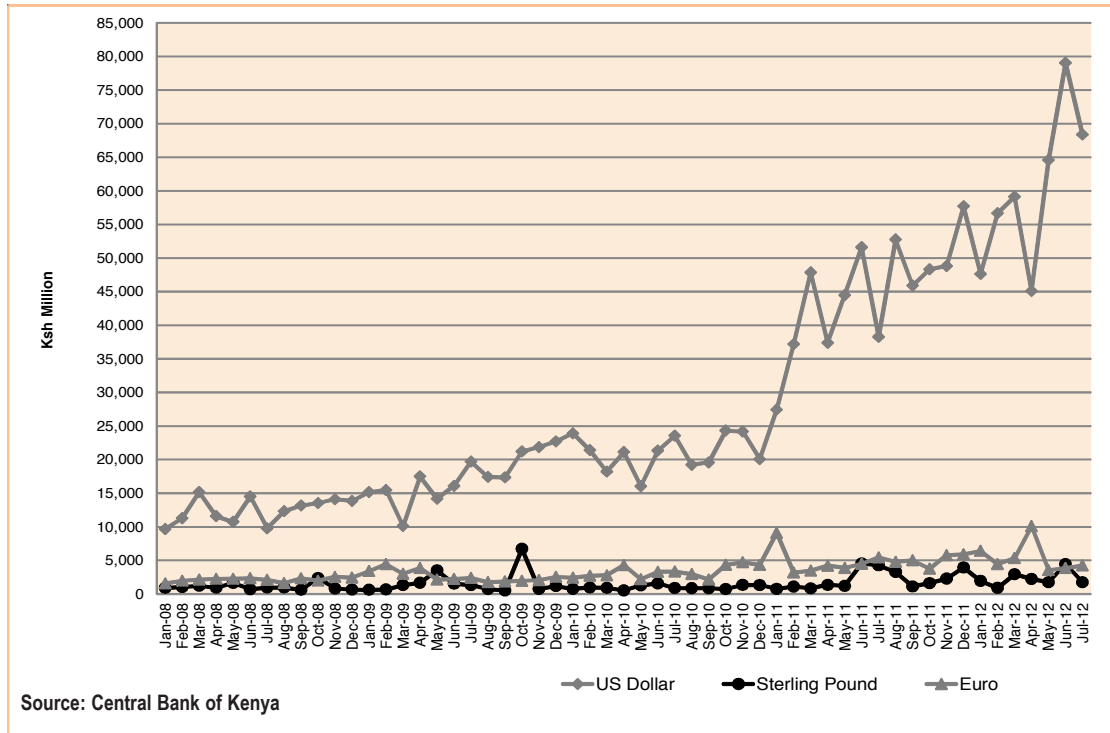


### Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 9.45 percent from 11,509 transaction messages in June 2012 to 12,597 transaction messages in July 2012. The corresponding value in Kenya Shillings equivalent moved in this period decreased by 7.54 percent from Ksh 124.1 billion to Ksh 114.8 billion. The

US dollar denominated transactions accounted for 96.14 percent of the value moved (Chart 5D) while the Sterling Pound and the Euro accounted for 0.74 percent and 3.12 percent, respectively.

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



## GOVERNMENT BUDGET PERFORMANCE

Central Government budgetary operations for July 2012 in the fiscal year 2012/13 resulted in a deficit of Ksh 3.8 billion on commitment basis compared with a deficit of Ksh 1.0 billion in the same period of fiscal year 2011/12 (Table 6.1). The deficit-to-GDP ratio stood at 0.1 percent on commitment basis and on cash basis during this period. The budget deficit for the period was within the programmed target of 0.3 percent of GDP.

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

	FY 2011/12	FY 2012/13		
	July Actual	July Provisional	Target	Over (+) / below (-) Target
<b>1. TOTAL REVENUE &amp; GRANTS</b>	<b>42.7</b>	<b>46.3</b>	<b>61.9</b>	<b>-15.6</b>
Revenue	42.1	46.3	60.8	-14.5
Tax Revenue	36.8	42.5	53.4	-10.9
Non Tax Revenue	2.6	0.7	2.2	-1.5
Appropriations-in-Aid	2.8	3.1	5.2	-2.1
External Grants	0.6	0.0	1.1	-1.1
<b>2. TOTAL EXPENSES &amp; NET LENDING</b>	<b>43.7</b>	<b>50.0</b>	<b>75.2</b>	<b>-25.1</b>
Recurrent Expenses	38.4	40.1	56.9	-16.7
Development Expenses	5.3	9.9	18.3	-8.4
<b>3. DEFICIT ON A COMMITMENT BASIS (1-2)</b>	<b>-1.0</b>	<b>-3.8</b>	<b>-13.3</b>	<b>-9.5</b>
As percent of GDP	<b>-0.04%</b>	<b>-0.1</b>	<b>-0.3</b>	
<b>4. ADJUSTMENT TO CASH BASIS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>5. DEFICIT ON A CASH BASIS</b>	<b>-1.0</b>	<b>-3.8</b>	<b>-13.3</b>	<b>-9.5</b>
As percent of GDP	<b>-0.04</b>	<b>-0.1</b>	<b>-0.3</b>	
<b>6. DISCREPANCY: Expenditure (+) / Revenue (-)</b>	<b>-1.9</b>	<b>25.0</b>	<b>0.0</b>	
<b>7. FINANCING</b>	<b>-0.9</b>	<b>28.7</b>	<b>13.3</b>	<b>15.5</b>
Domestic (Net)	-1.4	30.5	12.3	18.2
External (Net)	0.5	-1.8	1.0	-2.8
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

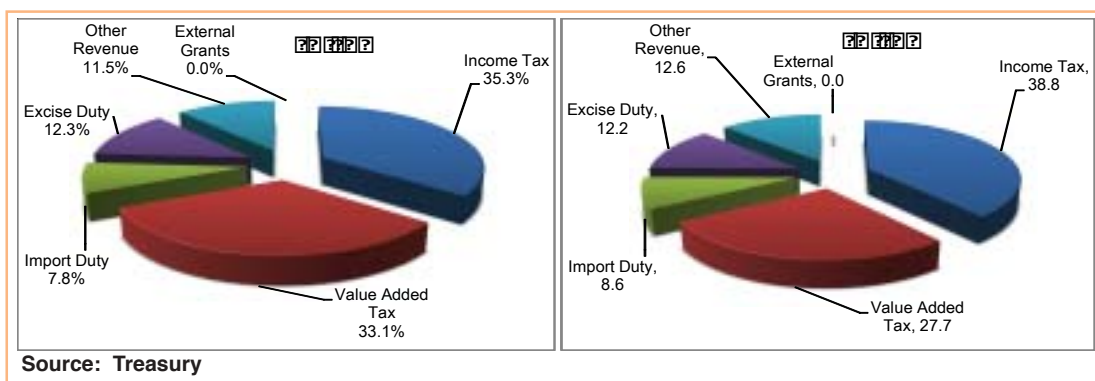
Source: Treasury

**Revenue** In July 2012, total government revenues and grants increased by Ksh 3.6 billion to Ksh 46.3 billion, compared with Ksh 42.7 billion collected in a similar period of the fiscal year 2011/2012. Despite this increase, total government revenue and external grants underperformed by Ksh 14.5 billion and Ksh 1.1 billion, respectively, with respect to the targeted amounts of Ksh 60.8 billion and Ksh 1.1 billion during the period (Table 6.1). The underperformance was attributed to slowdown in economic activity.

**TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)**

	Jul-11 Ksh bn	Jul-12 Ksh bn	Change
<b>1. Revenue (2+3+4)</b>	<b>42.1</b>	<b>46.3</b>	<b>4.1</b>
2. Tax Revenue	38.8	42.5	3.8
Income Tax	14.7	18.0	3.3
Value Added Tax	13.7	12.8	-0.9
Import Duty	3.2	4.0	0.7
Excise Duty	5.1	5.6	0.5
Others	2.0	2.1	0.1
3. Appropriations-in-Aid	2.8	3.1	0.31
4. Other Revenue	0.6	0.7	0.1
<b>5. External Grants</b>	<b>0.6</b>	<b>0.0</b>	<b>-0.6</b>
<b>TOTAL RECEIPTS (1+5)</b>	<b>42.7</b>	<b>46.3</b>	<b>3.6</b>

Source: Treasury

**CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS**

Tax revenue increased by Ksh 3.8 billion, equivalent to 9.7 percent, from Ksh 38.8 billion collected in July 2011 to Ksh 42.5 billion in July 2012 (Table 6.2). The increase was largely on account of income tax, which increased by Ksh 3.3 billion (22.7 percent) during the period, but fell short of its programmed target by Ksh 4.5 billion. Import duty and excise duty increased from Ksh 3.2 billion and Ksh 5.1 billion in July 2011 to Ksh 4.0 billion and Ksh 5.6 billion, respectively, in July 2012. All taxes underperformed with respect to the programmed targets in July 2012.

**Expenditure and Net Lending** Government expenditure and net lending increased by Ksh 6.3 billion in July 2012 from Ksh 43.7 billion expended during the same period in the fiscal year 2011/12. Total expenditure for July 2012 comprised Ksh 40.16 billion and Ksh 9.89 billion in recurrent and development expenditure, respectively.

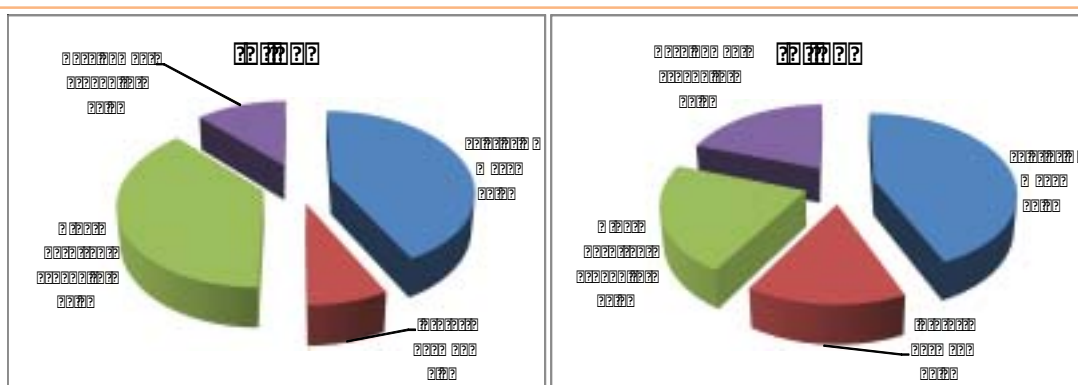
Total recurrent expenditure increased by Ksh 1.8 billion, during the period under review. The largest recurrent expenditure item was salaries and wages, which amounted to Ksh 21.8 billion in July 2012, equivalent to 54.2 percent of total recurrent expenditure. Expenditure related to the Defense and NSIS department amounted to Ksh 3.2 billion (8.0 percent of recurrent expenditure), while interest on domestic debt increased by Ksh 4.1 billion to Ksh 6.8 billion (17.0 percent of recurrent expenditure), in July 2012. Development expenditure increased by Ksh 4.6 billion in July 2012 from Ksh 5.3 billion expended in July 2011. Overall, expenditure and net lending targets were missed by Ksh 25.1 billion of which Ksh 16.7 billion was on account of recurrent expenditure (Table 6.1).

**TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)**

	Jul-11 Ksh bn	Jul-12 Ksh bn	Movement
<b>1.Recurrent</b>	<b>38.4</b>	<b>40.16</b>	<b>1.8</b>
Salaries & Wages	18.5	21.8	3.2
Total Interest	3.3	7.5	4.2
of which			
Domestic*	2.7	6.8	4.1
Foreign interest	0.6	0.7	0.1
Others	16.6	10.8	-5.7
<b>2. Development</b>	<b>5.3</b>	<b>9.89</b>	<b>4.6</b>
<b>TOTAL EXPENSES</b>	<b>43.7</b>	<b>50.05</b>	<b>6.3</b>

\*Includes commission and other charges paid to CBK

Source: Treasury

**CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE**

Source: Treasury

**Financing** Budgetary operations of the Government resulted in a financing requirement of Ksh 35.9 billion in July 2012 compared with Ksh 20.8 billion in July 2011. This was financed through domestic borrowing amounting to Ksh 19.4 billion, and by a reduction of Ksh 16.5 billion in the total Government deposits (Table 6.4).

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

<b>I. FINANCING REQUIREMENTS</b>	<b>Jul-11</b>	<b>Jul-12 *</b>
1. Budget deficit	-0.9	28.7
2. External debt reduction	0.0	1.8
3. Domestic debt reduction	2.5	6.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.5	6.0
3.3 Non-bank sources	2.0	0.0
4. Increase in GoK deposits at CBK	19.2	0.0
5. Adjustments to cash basis	0.0	-0.7
<b>TOTAL</b>	<b>20.8</b>	<b>35.9</b>
<b>II. FINANCING SOURCES</b>	<b>Jul-11</b>	<b>Jul-12</b>
1. Budget surplus	0.0	0.0
2. External debt increase	0.5	0.0
3. Increase in domestic debt	20.3	19.4
3.1 Central Bank	20.3	16.2
3.2 Commercial banks	0.0	0.0
3.3 Non-bank sources	0.0	3.2
4. Reduction in GoK deposits at CBK	0.0	16.5
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
<b>TOTAL</b>	<b>20.8</b>	<b>35.9</b>

\* Provisional

Sources: Treasury and Central Bank of Kenya



### Government Borrowing from the Central Bank

Government indebtedness to the Central Bank increased by Ksh 3.6 billion to stand at Ksh 63.6 billion in July 2012, compared with Ksh 60.0 billion in July 2011. The increase in indebtedness was largely on account of the Government overdraft and rediscounted Treasury bonds. Government overdraft at the Central Bank increased by Ksh 5.4 billion, from Ksh 19.9 billion in July 2011, to reach the statutory limit of Ksh 25.4 billion at the end of July 2012. Rediscounted Treasury bills declined by Ksh 2.6 billion on maturity during the period while amortization of the pre-1997 overdraft reduced Government indebtedness at the Central Bank by Ksh 1.7 billion, during the period under review.

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

	2011	2012	Movement
	July	July	
<b>Total Credit</b>	<b>60.0</b>	<b>63.6</b>	<b>3.6</b>
1. Overdraft	19.9	25.4	5.4
2. Rediscounted securities	8.3	8.1	-0.2
Treasury bills	8.3	5.7	-2.6
Treasury bonds	0.0	2.4	2.4
3. Pre-1997 Government Overdraft at CBK	31.7	30.0	-1.7
4. Cleared items in transit	0.1	0.1	0.0
<b>Memorandum</b>			
Authorised overdraft limit	<b>22.9</b>	<b>25.4</b>	<b>2.4</b>
Amount utilised to date	19.9	25.4	5.4
Amount available	3.0	0.0	-3.0

Source: Central Bank of Kenya

### Outlook for FY 2012/13

In the budget estimates for the fiscal year 2012/13, total domestic revenue is estimated at Ksh 955.0 billion, equivalent to 24.7 percent of GDP. External grants are estimated at Ksh 56.2 billion or 1.5 percent of GDP. Government expenditure is estimated at Ksh 1,263.3 billion (or 32.7 percent of GDP), of which Ksh 802.7 billion (20.8 percent of GDP) will be in recurrent expenses and the rest in development expenses (Table 6.6).

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

	Ksh (Bn)	% of GDP
<b>1. TOTAL REVENUE</b>	<b>1011.20</b>	<b>26.15</b>
Revenue	955.03	24.70
Tax Revenue	816.47	21.12
Non Tax Revenue	53.71	1.39
Appropriations-in-Aid	84.84	2.19
External Grants	56.18	1.45
<b>2. TOTAL EXPENSES &amp; NET LENDING</b>	<b>1,263.32</b>	<b>32.67</b>
Recurrent Expenses	802.65	20.76
Development Expenses	455.68	11.78
Civil Contingency Fund	5.00	0.13
<b>3. DEFICIT ON A COMMITMENT BASIS (1-2)</b>	<b>-252.12</b>	<b>-6.52</b>
<b>4. ADJUSTMENT TO CASH BASIS</b>	<b>1.32</b>	<b>0.03</b>
<b>5. DEFICIT ON A CASH BASIS</b>	<b>-250.80</b>	<b>-6.49</b>
<b>6. DISCREPANCY: Expenditure (+) / Revenue (-)</b>	<b>0.00</b>	<b>0.00</b>
<b>7. FINANCING</b>	<b>-250.80</b>	<b>-6.49</b>
Domestic (Net)	106.74	2.76
External (Net)	144.06	3.73

Source: Central Bank of Kenya

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 252.1 billion (or 6.5 percent of GDP) in 2012/13. The deficit is expected to be financed through net external borrowing of Ksh 144.1 billion and net domestic borrowing of Ksh 106.7 billion.

## DEVELOPMENTS IN PUBLIC DEBT

**Overall Debt** Kenya's public and publicly guaranteed debt amounted to Ksh 1,639.6 billion at the end of July 2012 in the 2012/13 fiscal year, an increase of Ksh 6.2 billion, from June 2012. The total debt stock at the end of July 2012 was equivalent to 42.4 percent of GDP. Domestic debt to GDP ratio and external debt to GDP ratio declined from 26.1 percent and 23.5 percent in June 2012 to 22.6 percent and 19.8 percent, respectively, in July 2012. Domestic debt constituted 53.2 percent of total debt in July 2012. In July 2012, total domestic debt increased by Ksh 13.3 billion while total external debt declined by Ksh 7.2 billion.

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

	Jun-09	Jun-10	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Jul-12	Change 2012/13
<b>EXTERNAL***</b>									
Bilateral	185.9	196.3	257.0	258.5	240.7	243.0	246.2	243.4	-2.9
Multilateral	327.6	348.6	445.3	514.7	422.9	417.1	463.0	458.9	-4.1
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	50.5	50.5	0.0
Supplier Credits	23.8	20.5	25.0	26.6	22.0	16.5	14.8	14.6	-0.2
<b>Sub-Total</b>	<b>537.4</b>	<b>565.5</b>	<b>727.3</b>	<b>799.83</b>	<b>685.61</b>	<b>676.61</b>	<b>774.56</b>	<b>767.39</b>	<b>-7.2</b>
(As a % of GDP)	22.5	22.2	26.4	29.0	20.8	20.5	23.5	19.8	
(As a % of total debt)	50.9	46.1	48.8	51.1	46.1	43.2	47.4	46.8	
<b>DOMESTIC<sup>/1</sup></b>									
<b>Banks</b>	<b>290.8</b>	<b>401.8</b>	<b>418.1</b>	<b>413.1</b>	<b>431.2</b>	<b>474.9</b>	<b>459.2</b>	<b>469.4</b>	<b>10.1</b>
Central Bank	40.1	51.9	39.7	58.1	68.5	61.0	47.4	63.5	16.2
Commercial Banks	250.7	350.0	378.4	355.0	362.7	414.0	411.9	405.8	-6.0
<b>Non-banks</b>	<b>225.1</b>	<b>255.3</b>	<b>338.3</b>	<b>343.1</b>	<b>360.5</b>	<b>400.0</b>	<b>388.5</b>	<b>392.5</b>	<b>3.9</b>
Non-bank Financial Institutions	1.0	3.0	2.6	2.1	1.9	1.5	1.5	0.6	-0.9
Other Non-bank Sources	224.1	252.4	335.7	341.0	358.6	398.5	387.0	391.9	4.8
<b>Non-residents</b>	<b>2.6</b>	<b>3.1</b>	<b>7.9</b>	<b>8.1</b>	<b>9.1</b>	<b>12.9</b>	<b>11.0</b>	<b>10.3</b>	<b>-0.7</b>
<b>Sub-Total</b>	<b>518.5</b>	<b>660.3</b>	<b>764.2</b>	<b>764.3</b>	<b>800.7</b>	<b>887.9</b>	<b>858.8</b>	<b>872.2</b>	<b>13.3</b>
(As a % of GDP)	21.7	25.9	27.8	27.7	24.3	26.9	26.1	22.6	
(As a % of total debt)	49.1	53.9	51.2	48.9	53.9	56.8	52.6	53.2	
<b>GRAND TOTAL</b>	<b>1055.9</b>	<b>1225.7</b>	<b>1491.5</b>	<b>1564.1</b>	<b>1486.3</b>	<b>1564.5</b>	<b>1633.4</b>	<b>1639.6</b>	<b>6.2</b>
(As a % of GDP)	44.1	48.0	54.2	56.6	45.1	47.48	49.57	42.40	

\*\*\* Includes IMF Loans

<sup>/1</sup> 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 13.3 billion in July 2012 to stand at Ksh 872.2 billion, from Ksh 858.8 billion held at the end of June 2012 (Table 7.2). This followed increases of Ksh 18.1 billion and Ksh 6.0 billion in Government overdraft at the Central Bank and outstanding Treasury bonds, respectively and partially offsetting decline of Ksh 10.2 billion in Treasury bills.

**TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)**

	2011		2012						Change
	June	%	Mar	%	Jun	%	Jul	%	June-12 - Jul-12
<b>Total Stock of Domestic Debt (A+B)</b>	764.2	100.0	887.9	100.0	858.8	100.0	872.2	100.0	13.3
<b>A. Government Securities</b>	753.9	98.7	859.6	96.8	849.0	98.9	844.9	96.9	-4.1
<b>1. Treasury Bills (excluding Repo Bills)</b>	126.6	16.6	145.5	16.4	132.05	15.4	121.88	14.0	-10.2
Banking institutions	87.7	11.5	80.8	9.1	75.50	8.8	66.82	7.7	-8.7
Others	38.9	5.1	64.6	7.3	56.55	6.6	55.06	6.3	-1.5
<b>2. Treasury Bonds</b>	595.7	77.9	683.6	77.0	686.95	80.0	692.99	79.5	6.0
Banking institutions	288.4	37.7	330.4	37.2	334.11	38.9	337.25	38.7	3.1
Others	307.3	40.2	353.2	39.8	352.84	41.1	355.74	40.8	2.9
<b>4. Non-Interest Bearing Debt</b>	31.7	4.1	30.6	3.4	30.00	3.5	30.00	3.4	0.0
Of which: Repo T/Bills	30.8	4.0	29.8	3.4	29.78	3.5	29.78	3.4	0.0
<b>B. Others:</b>	10.29	1.3	28.28	3.2	9.83	1.1	27.29	3.1	17.5
Of which CBK overdraft to Government	7.6	1.0	25.4	2.9	7.26	0.8	25.37	2.9	18.1

Source: Central Bank of Kenya

**Treasury Bills**

Treasury bill holdings excluding repos declined from Ksh 132.0 billion in June 2012 to Ksh 121.9 billion at the end of July 2012, resulting in a decline in the proportion of Treasury bills in total domestic debt from 15.4 percent in June 2012 to 14.0 percent in July 2012 (Table 7.2). During the same period, holdings by commercial banks declined from 57.2 percent to 54.8 percent, while pension funds holdings increased from 21.7 percent to 23.5 percent (Table 7.3).

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

Holders	2010		2011		2012					
	Jun	%	Jun	%	Mar	%	Jun	%	Jul	%
Banking Institutions	134.0	84.3	87.7	69.3	80.8	56	75.5	57.2	66.8	54.8
Central Bank	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	87.7	69.3	80.8	55.6	75.5	57.2	66.8	54.8
NBFIs	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	8.8	5.5	4.7	3.7	7.4	5.1	7.2	5.5	7.3	6.0
Parastatals	1.9	1.2	3.2	2.6	3.3	2.2	1.2	0.9	1.0	0.8
Of which: NSSF	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	4.8	3.8	26.7	18.4	28.7	21.7	28.7	23.5
Others	9.7	6.1	26.1	20.6	27.2	18.7	19.5	14.7	18.0	14.8
<b>Total*</b>	<b>159.0</b>	<b>100.0</b>	<b>126.6</b>	<b>100.0</b>	<b>145.5</b>	<b>100.0</b>	<b>132.0</b>	<b>100.0</b>	<b>121.9</b>	<b>100.0</b>

\* Excludes repurchase order bills

Source: Central Bank of Kenya

**Treasury Bonds**

Treasury bonds increased by Ksh 6.0 billion from Ksh 687.0 billion in June 2012 to Ksh 693.0 billion at the end of July 2012, following successful bond issues during the period (Table 7.5). Despite the increase, the proportion of Treasury bonds in total domestic debt declined from 80.0 percent in June 2012 to 79.5 percent in July 2012 (Table 7.2). Treasury bonds held by commercial banks and pension funds increased from 48.6 percent and 24.0 percent in June 2012 to 48.7 percent and 24.7 percent, respectively, in July 2012. Holdings of all other holders declined during the period (Table 7.2).

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

Holders	2011				2012			
	June	%	Dec	%	Mar	%	Jun	%
Banking Institutions	290.9	48.8	307.8	48.6	331.9	48.6	335.6	48.9
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	288.4	48.4	305.9	48.3	330.4	48.3	334.1	48.6
NBFIs	2.5	0.4	1.9	0.3	1.5	0.2	1.5	0.2
Insurance Companies	77.1	12.9	79.9	12.6	84.9	12.4	85.1	12.4
Parastatals	46.6	7.8	48.7	7.7	47.6	7.0	46.1	6.7
Of which: NSSF	23.6	4.0	25.7	4.1	24.7	3.6	24.5	3.6
Building Societies	0.3	0.0	0.6	0.1	0.6	0.1	0.6	0.1
Pension Funds	118.5	19.9	147.2	23.2	172.5	25.2	164.5	24.0
Others	62.2	10.4	49.3	7.8	46.0	6.7	54.9	8.0
<b>Total</b>	<b>595.7</b>	<b>100.0</b>	<b>633.5</b>	<b>100.0</b>	<b>683.6</b>	<b>100.0</b>	<b>687.0</b>	<b>100.0</b>

Source: Central Bank of Kenya

### Domestic Debt Maturity structure

Total domestic debt at the end of July 2012 amounted to Ksh 872.2 billion, which comprised of Ksh 693.0 billion, Ksh 121.9 billion, Ksh 25.4 billion, Ksh 29.8 billion and Ksh 2.1 billion in Treasury bonds, Treasury bills, Government overdraft at the Central Bank, Repo Treasury bills and other domestic debt, respectively. Of these, Government securities worth Ksh 105.65 billion will fall due between August 2012 and October 2012, and will comprise of Ksh 79.14 billion and Ksh 26.5 billion in Treasury bills and bonds, respectively. Treasury bill maturities in the period will comprise Ksh 23.07 billion, Ksh 50.61 billion and Ksh 5.46 billion in 91-day, 182-day and 364-day Treasury bills, respectively, while Treasury bonds maturing during this period will comprise of Ksh 13.8 billion and Ksh 12.7 billion in 5-year and 2 year discounted fixed rate bonds, respectively.

In terms of days remaining to maturity of the existing domestic debt stock, the average length of maturity declined from 5 years and 4 months in June 2012 to 5 years and 3 months in July 2012.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2011				2012				Change Jun-12 to Jul-12
		June	%	Mar	%	Jun	%	Jul	%	
Treasury bills	91-Day	69.1	9.0	56.3	6.3	24.3	2.8	23.1	2.6	-1.3
	182-Day	22.5	2.9	59.2	6.7	75.7	8.8	67.9	7.8	-7.8
	364-Day	34.9	4.6	29.9	3.4	32.1	3.7	30.9	3.5	-1.1
Treasury Bonds	1-Year	0.0	0.0	51.5	5.8	51.5	6.0	51.5	5.9	0.0
	2-Year	73.0	9.6	80.0	9.0	86.5	10.1	86.5	9.9	0.0
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	5-Year	114.6	15.0	110.4	12.4	115.3	13.4	123.3	14.1	7.9
	6-Year	70.8	9.3	63.4	7.1	57.4	6.7	57.4	6.6	0.0
	7-Year	24.3	3.2	22.5	2.5	22.5	2.6	22.5	2.6	0.0
	8-Year	25.7	3.4	17.6	2.0	17.6	2.0	17.6	2.0	0.0
	9-Year	27.7	3.6	27.7	3.1	25.4	3.0	18.2	2.1	-7.2
	10-Year	91.4	12.0	95.3	10.7	95.7	11.1	101.0	11.6	5.3
	11-Year	4.0	0.5	4.0	0.5	4.0	0.5	4.0	0.5	0.0
	12-Year	20.1	2.6	63.5	7.2	63.5	7.4	63.5	7.3	0.0
	15-Year	75.4	9.9	75.4	8.5	75.4	8.8	75.4	8.7	0.0
	20-Year	29.7	3.9	29.7	3.3	29.7	3.5	29.7	3.4	0.0
	25-Year	20.2	2.6	20.2	2.3	20.2	2.4	20.2	2.3	0.0
	30-Year	18.8	2.5	22.1	2.5	22.1	2.6	22.1	2.5	0.0
Repo T bills		30.78	4.0	29.8	3.4	29.2	3.4	29.8	3.4	0.6
Overdraft		7.57	1.0	25.4	2.9	7.3	0.8	25.4	2.9	18.1
Other Domestic debt		3.60	0.5	3.7	0.4	3.3	0.4	2.1	0.2	-1.2
<b>Total Debt</b>		<b>764.2</b>	<b>100.0</b>	<b>887.9</b>	<b>100.0</b>	<b>858.83</b>	<b>100.0</b>	<b>872.16</b>	<b>100.0</b>	

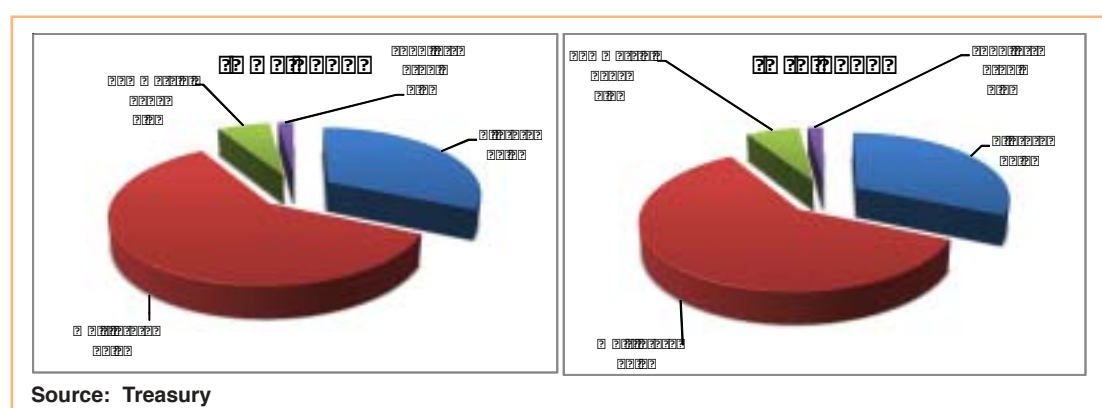
Source: Central Bank of Kenya

**External Debt**

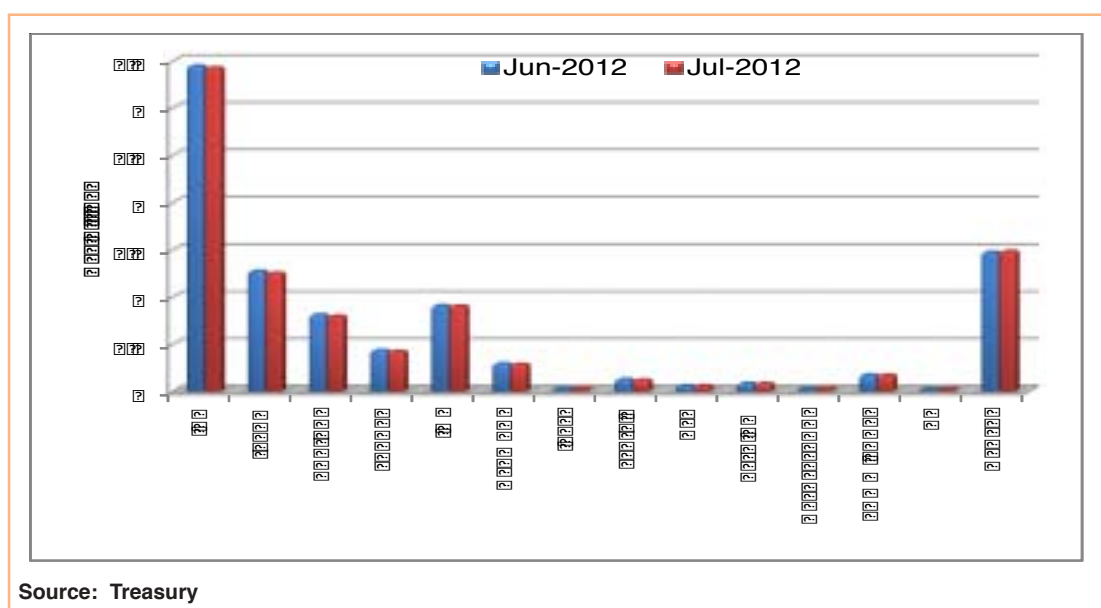
Kenya's external debt declined by Ksh 7.2 billion from Ksh 774.6 billion (USD 9.2 billion) in June 2012 to Ksh 767.4 billion (USD 9.1 billion) at the end of July 2012 (Table 7.1). The bulk of this, 59.8 percent, was owed to multilateral creditors, with the International Development association (IDA) accounting for 62.9 of total multilateral debt. Debt owed to multilateral creditors, bilateral creditors and that acquired through suppliers' credits declined by Ksh 4.1 billion, Ksh 2.9 billion and Ksh 0.2 billion, respectively, following repayments of suppliers' credits and revaluations caused by exchange rate movements during the period.

**Composition of External Debt by Creditor**

Kenya's official creditors, the multilateral and bilateral lenders, accounted for over 90 percent of total external debt in July 2012. Exchange rate movements resulted in increases in the percentage holdings of debt by multilateral creditors and commercial banks from 59.7 percent and 6.5 percent in June 2012, to 59.8 percent and 6.6 percent, respectively, in July 2012. External debt holdings by bilateral lenders declined while debt extended through supplier's credits remained constant at 1.9 percent of total debt in July 2012 (Chart 7A).

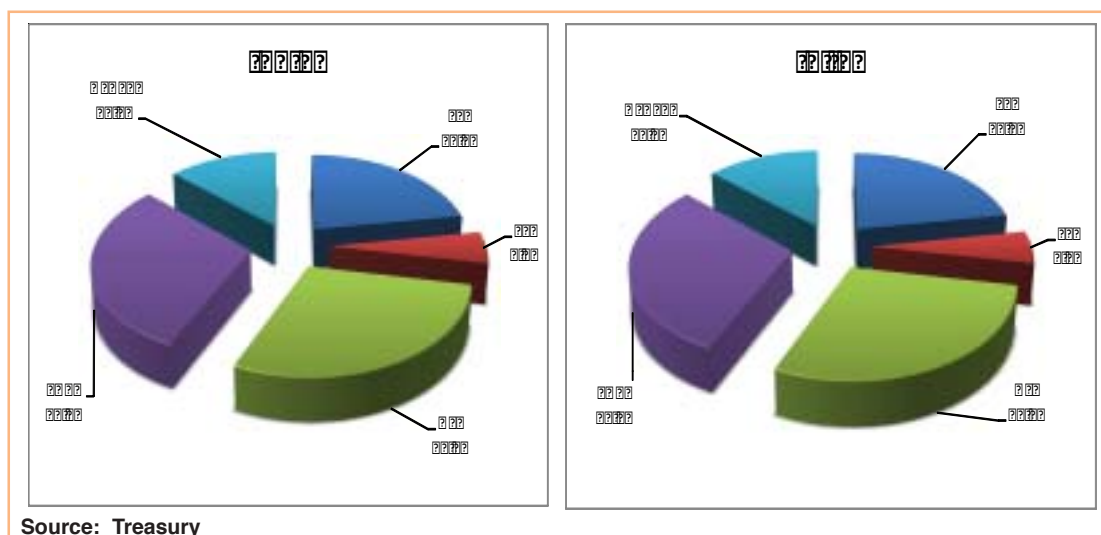
**CHART 7A: COMPOSITION OF EXTERNAL DEBT**

Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 3.4 billion or 37.6 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender amounted to USD 1.25 billion at the end of July 2012. During the period under review, debt owed to ADB/ADF and the IMF declined by USD 12.5 million and USD 5.5 million from USD 811.1 million and USD 909.6 million, respectively, to USD 798.6 million and USD 904.1 million in July 2012 (Chart 7B).

**CHART 7B: EXTERNAL DEBT BY CREDITOR**

### Currency Composition of External Debt

The percentage of external debt held in US dollars increased from 28.8 percent in June 2012 to 28.9 percent in July 2012. Holdings of external debt in Japanese Yen and the Euro declined from 22.4 percent and 30.1 percent to 22.3 percent and 29.9 percent, respectively, during the period under review. Collectively, external debt held in other currencies increased from 13.1 percent in June 2012 to 13.3 percent in July 2012. Movements in currency composition of external debt reflected exchange rate fluctuations during the period (Chart 7C).

**CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY**

### Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt for July 2012 in the 2012/13 fiscal year amounted to Ksh 6.8 billion, compared with Ksh 4.0 billion incurred for the same period of the previous fiscal year. This comprised Ksh 4.6 billion, Ksh 2.0 billion and Ksh 0.2 billion, respectively, in interest and other charges on Treasury bonds, Treasury bills and Government overdraft at the Central Bank. External debt service for the July 2012 amounted to Ksh 0.9

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billion comprising Ksh 0.6 billion in principal repayments and Ksh 0.3 billion in interest cost.

**Outlook for the FY 2012/13** In the fiscal year 2012/13, external debt is estimated at Ksh 904.9 billion while gross and net domestic debt are estimated at Ksh 933.1 billion (24.1 percent of GDP) and Ksh 799.3 billion ( 20.7 percent of GDP), respectively.



## ACTIVITY IN THE STOCK MARKET

Performance of the capital markets was strong in July 2012, with most key market indicators on an upward trend. As indicated in Table 8.1 and Chart 8.A, most market indices have continued on a positive trend since January 2012. Equity turnover was however, constrained by low supply. Market capitalization maintained strong rally to stay above the trillion shillings mark, with the bonds market activity also recording substantial increase in turnover.

### Equity Market

The NSE 20 Share Index added 347 basis points to level 3,832.42 points in July from 3,703.94 points in June 2012. The July level is the highest attained since June 2011 when it closed the month at 3,968.12 points. NASI gained 311 basis points from 80.75 points in June 2012 to 83.26 points in July 2012, just 1.06 points shy of the July 2011 level. Market Capitalization, which measures total shareholders' wealth at NSE, gained Ksh 50.18 billion to close at Ksh 1,098.90 billion from Ksh 1,048.72 billion in June 2012. Equity turnover was down Ksh 176.35 million from Ksh 6,214.24 million in June 2012 to close the month at Ksh 6,037.89 million. Turnover Ratio, a measure of market liquidity remained relatively stable, shedding only one basis point to reach 0.51 percent from 0.52 percent in June 2012. The number of shares traded was 383 million in July from 385 million in June, reflecting constrained supply.

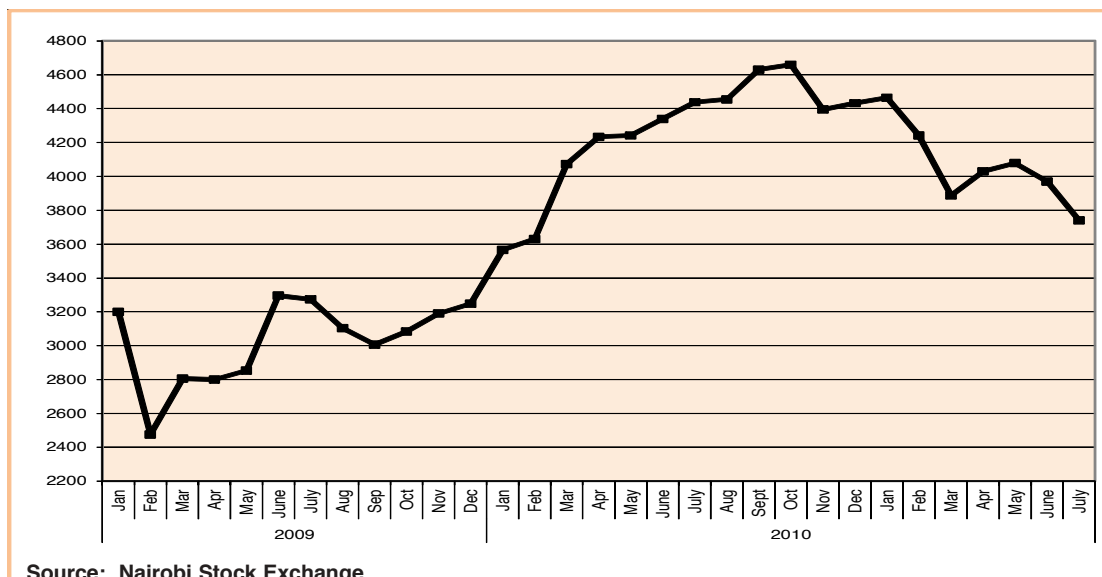
**TABLE 8.1: SELECTED STOCK MARKET INDICATORS**

Month	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded ( Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
Jan-11	4,464.92	99.02	725.05	9,462.18	1,192.28	19,891.30
Feb-11	4,240.18	96.66	335.25	6,215.78	1,176.85	49,040.10
Mar-11	3,887.07	89.50	469.03	7,984.12	1,090.23	40,116.05
Apr-11	4,029.23	94.18	497.18	7,883.04	1,154.92	33,376.20
May-11	4,078.10	93.15	410.00	8,405.61	1,144.00	33,646.10
Jun-11	3,968.12	91.36	411.00	7,047.50	1,121.00	69,415.48
Jul-11	3,738.46	84.32	434.00	7,132.18	1,050.00	33,414.55
Aug-11	3,465.02	75.15	551.88	6,109.01	950.41	44,111.70
Sep-11	3,284.06	69.68	582.39	5,453.00	885.57	36,112.40
Oct-11	3,507.34	72.71	570.14	4,466.00	927.00	34,737.60
Nov-11	3,155.46	66.33	398.90	3,928.00	854.68	26,691.60
Dec-11	3,205.02	68.03	336.50	3,973.00	868.24	24,999.05
Jan-12	3,224.00	69.00	351.00	3,544.00	880.00	24,513.50
Feb-12	3,303.75	72.07	342.00	3,493.00	920.00	27,121.66
Mar-12	3,369.89	73.47	366.00	6,386.00	940.00	47,811.97
Apr-12	3,546.66	76.91	526.15	7,640.23	985.00	35,503.62
May-12	3,650.85	78.48	543.29	8,815.35	1,005.19	47,343.28
Jun-12	3,703.94	80.75	385.51	6,214.24	1,048.72	28,259.68
Jul-12	3,832.42	83.26	383.61	6,037.89	1,098.90	34,170.82

Source: Nairobi Stock Exchange

Net foreign investor participation was down to 45.05 percent from 49.25 percent of total equity turnover during the period, with purchases of 51.90 percent of total equity turnover outweighing 38.19 percent of sales. Net foreign investors' participation has however, been on the decline since April 2012 when it registered 52.70 percent. This is despite the upward trend of the four indices on the bourse, namely; NSE 20 share index, NASI, FTSE NSE Kenya 15 Index and FTSE NSE Kenya 25 Index. Foreign purchases have, however, remained above sales since February 2012.

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



Telecommunication and Technology sector dominated trading, 161.53 million shares, which accounted for 42.11 percent of the entire market activity. Banking sector followed with 112.46 million shares, or 29.32 percent, while the Insurance sector closed top three with 31.78 million shares or 8.29 percent of the market. Safaricom, Kenya Commercial Bank Ltd and Equity Bank Ltd were the leading counters with 159.63 million, 35.92 million shares and 35.06 million shares traded, respectively.

#### FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks ranked by market capitalization at NSE and FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks trading at the exchange, closed the month up at 109.37 points and 111.81 points from 106.25 points and 109.02 points, respectively, as at end June 2012. The two indices have registered highest levels in July 2012 since their launch in November 2011, indicating growing investor confidence in the equities market.

#### Bond Market

The bonds turnover at the NSE was up 20.92 percent with corresponding deals rising to 593 in July 2012 from 355 deals in June 2012. A total of bonds valued Ksh 34.17 billion up from Ksh 28.26 billion were traded during the period. The Infrastructure Bond IFB1/2011/012 dominated trading, accounting for 32.82 percent of total turnover, with high and low yields of 17.0 percent and 12.20 percent respectively, against a coupon rate of 12 percent. Overall, yields are correcting to reflect falling inflation and declining interest rates in the market.

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

	Jul-12	Jun-12 Audited	Jul 12/Jun 12 Movement
<b>ASSETS</b>			
Balances due from Banking Institutions and Gold holdings	430,890	437,961	(7,071)
Items in the course of collection	92	333	(241)
Funds held with International Monetary Fund	1,562	2,200	(638)
Advances to commercial banks	8,376	9,973	(1,597)
Loans and Advances	29,890	10,817	19,073
Other Assets	(10,431)	2,224	(12,655)
Retirement Benefits Assets	2,193	21,933	(19,740)
Property and Equipment	7,422	12,083	(4,661)
Prepaid operating lease rentals	1,750	0	1,750
Intangible Assets	1,355	1,412	(57)
Due from Government of Kenya	29,999	30,874	(875)
<b>TOTAL ASSETS</b>	<b>503,098</b>	<b>529,810</b>	<b>(26,712)</b>
<b>LIABILITIES</b>			
Balances due to Banking Institutions (RAMP A/Cs)	0	0	0
Currency in Circulation	162,906	159,216	3,690
Repos sold to Banks	10,689	35,673	(24,984)
Deposits	179,064	160,642	18,422
International Monetary Fund	96,372	101,868	(5,496)
Other Liabilities	19,014	1,755	17,259
Dividends Payable	-	0	0
Provisions	67	149	(82)
<b>TOTAL LIABILITIES</b>	<b>468,112</b>	<b>459,303</b>	<b>8,809</b>
<b>EQUITIES AND RESERVES</b>	<b>34,986</b>	<b>50,767</b>	<b>(15,781)</b>
Share capital	5,000	5,000	0
General Reserve Fund	41,185	36,857	4,328
Period Surplus	(17,623)	0	(17,623)
Asset Revaluation	6,424	1,500	4,924
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>503,098</b>	<b>510,070</b>	<b>(6,972)</b>

Source: Central Bank of Kenya

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## 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 decreased by Ksh 7,071 million to Ksh 430,890 million in July 2012 from Ksh 437,961 million in June 2012.

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 July 2012 were Ksh 92 million, a decrease of 241 million from Ksh 333 million as at June 2012.

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 and the rediscounted Treasury bills and bonds by commercial banks. The balance outstanding decreased by Ksh 1,587 million to Ksh 8,376 million in July 2012 from Ksh 9,973 million in June 2012.

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 19,073 million to Ksh 29,890 million in July 2012 from Ksh 10,817 million in June 2012.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets decreased by Ksh 12,655 million to Ksh 10,431 million in July 2012 from Ksh 2,224 million in June 2012.

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.

**Liabilities** Currency in circulation increased by Ksh 3,690 million to Ksh 162,906 million in July 2012 from Ksh 159,216 million in June 2012.

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 increased by Ksh 18,422 million to Ksh 179,064 million in July 2012 from Ksh 160,642 million in June 2012.

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**Amount due to International Monetary Fund** represents the Banks obligations to the IMF. The balances decreased to Ksh 96,372 million in July 2012 from Ksh 101,868 million in June 2012.

**Other liabilities and provisions** include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance increased by Ksh 17,259 million to Ksh 19,014 million in July 2012 from Ksh 1,755 million in June 2012.

**Equities and reserves** decreased by Ksh 15,781 million to Ksh 34,986 million in July 2012 from Ksh 50,767 million in June 2012 reflecting an increase in the General Reserve Fund of Ksh 36,857 million.