

## MONTHLY ECONOMIC REVIEW

**MAY 2014**

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

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

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## OVERVIEW

**Introduction** This Monthly Economic Review highlights recent economic developments through May 2014. This includes developments in inflation, money, credit and interest rates, the real sector, balance of payments and exchange rates. It also highlights developments in the banking sector, Government budgetary operations, public debt and the stock market.

**Inflation** Overall 12-month inflation rose from 6.4 percent in April 2014 to 7.3 percent in May 2014. This was reflected in fuel inflation, which rose by 218 basis points to 8.1 percent, and in food inflation which rose by 80 basis points to 8.7 percent. Annual average inflation also rose from 6.6 percent in April 2014 to 6.8 percent in May 2014.

**Money Supply** Growth in broad money, M3, accelerated to 17.8 percent in the year to May 2014 from 16.8 percent in a corresponding period in 2013 and was above the respective target of 13.4 percent for May 2014. The acceleration in money supply was largely reflected in the increase of Net Domestic Assets (NDA) of the banking system.

**Interest Rates** The Monetary Policy Committee maintained the Central Bank Rate (CBR) at 8.50 percent in May, 2014 in order to continue anchoring inflation expectations and price stability. The weighted average interbank rate increased from 7.40 percent in April 2014 to 7.76 percent in May 2014.

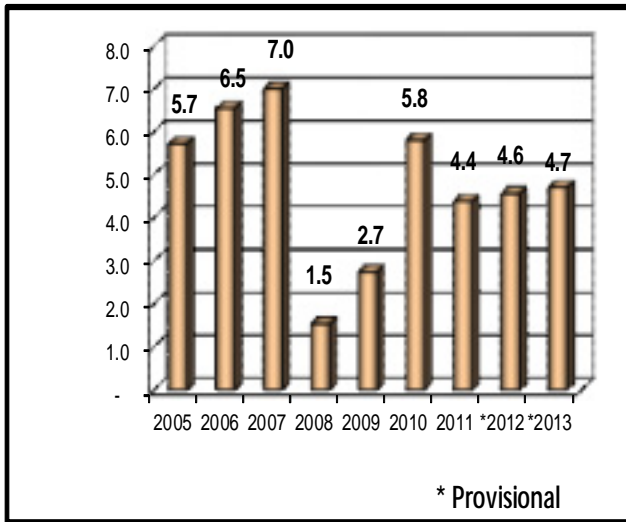
**Real GDP Growth** The economy was resilient, with output growth at 4.7 percent in 2013 compared with 4.6 percent in 2012. In the first quarter of 2014 the economy slowed down to 4.1 percent growth from 5.2 percent in a comparable quarter of 2013. The deceleration is reflected in growth of output from agriculture and forestry, which reduced to 2.7 percent from 6.8 percent. The slowed growth is attributed to erratic weather and suppressed external demand during the review period. Production of key crops, in particular cereals were negatively affected by the erratic rains. Export of vegetables contracted by 20.3 percent and exports of cut flowers recorded a marginal decline. Furthermore, the hotel industry contracted due to insecurity concerns coupled with negative travel advisories by some key tourist source countries.

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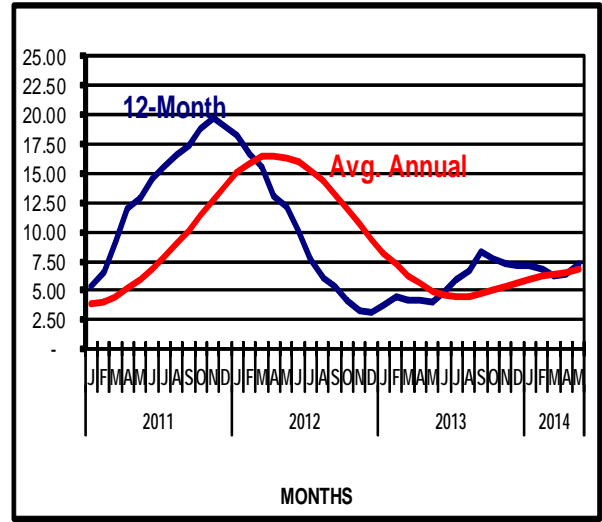
<b>Balance of Payments</b>	Kenya's overall balance of payments surplus deteriorated by USD 973.8 million during the 12 months to May 2014. The reduction in the surplus is attributed to narrowing of the Capital and Financial account surplus which more than offset the improvement in the Current account deficit.
<b>Exchange Rates</b>	The Kenya shilling remained stable during the month of May 2014.
<b>Banking Sector Developments</b>	The Kenyan Banking sector registered improved growth in assets in the year to May 2014 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 2013.
<b>Government Budgetary Performance</b>	The Government budgetary operations for the period July 2013 to May 2014 of the FY 2013/14 resulted in a deficit of Ksh 233.6 billion (6.1 percent of GDP) on commitment basis, which was slightly lower than the Ksh 236.9 billion deficit incurred in a similar period of the FY 2012/13. With respect to targets, the provisional deficit fell below the Ksh 354.3 billion (9.3 percent of GDP) programmed target for the period.
<b>Public Debt</b>	Kenya's public and publicly guaranteed debt increased by 15.6 percent to reach Ksh 2,190.4 billion in May 2014, from Ksh 1,894.1 billion in June, 2013. The total debt stock at the end of May 2014 was equivalent to 56.9 percent of GDP, compared with 51.7 percent of GDP in June 2013. The debt to GDP ratios for both domestic and external debts increased from 28.7 percent and 23.0 percent, respectively, in June 2013 to 32.5 percent and 25.2 percent in May 2014.
<b>Stock Market</b>	Capital markets recorded mixed performance in May 2014, with leading market indicators closing the month in opposite directions. Overall net foreign investor interest at the NSE declined, but with more sales than purchases.

# SELECTED ECONOMIC PERFORMANCE INDICATORS

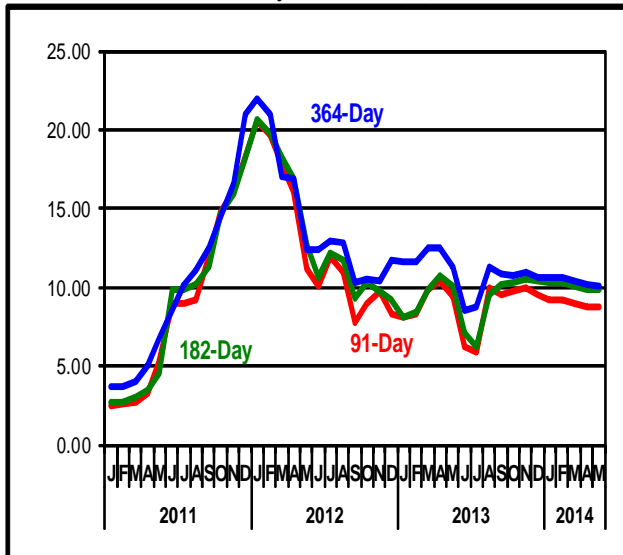
**Real GDP Growth (%)**



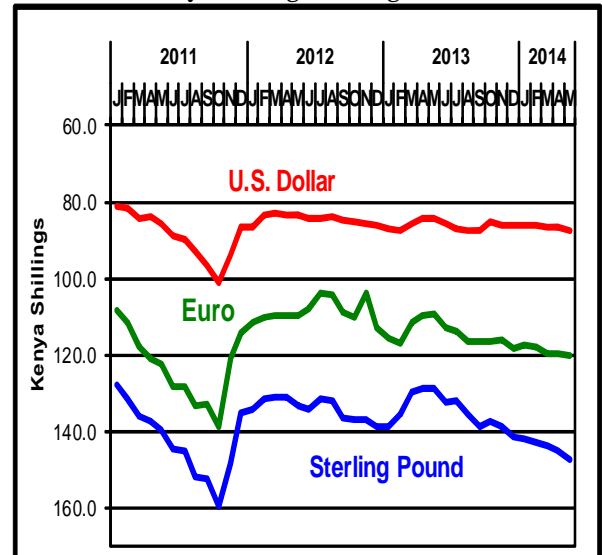
**Inflation (%)**



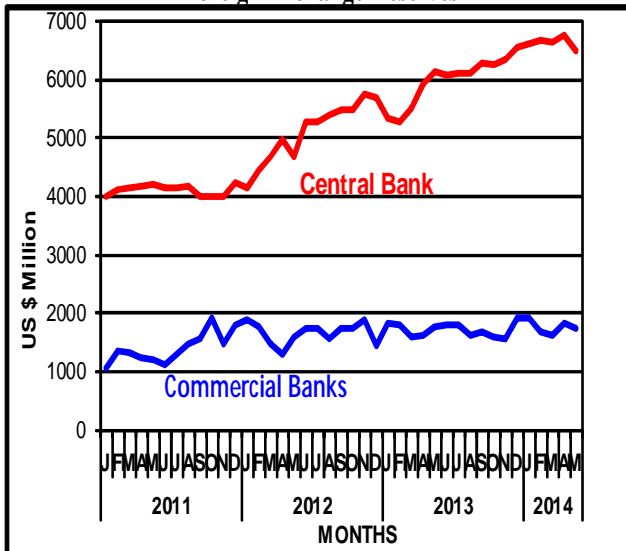
**Treasury Bill Rates (%)**



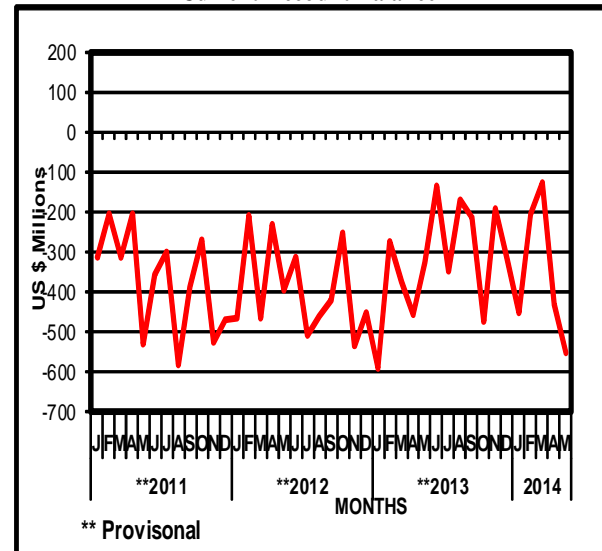
**Kenya Shilling Exchange Rate**



**Foreign Exchange Reserves**



**Current Account Balance**



# SELECTED ANNUAL ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
<b>1. POPULATION*</b>										
People in Millions	34.20	35.10	36.10	37.20	38.30	38.60	38.50	39.50	40.70	41.80
Growth (%)	3.01	2.63	2.85	3.05	2.96	0.78	-0.26	2.60	3.04	2.70
<b>2. NATIONAL ACCOUNTS**</b>										
Gross value added at basic prices (Ksh m)	1,132,850	1,261,625	1,444,113	1,616,010	1,858,371	2,099,935	2,258,171	2,696,226	3,026,293	3,385,308
GDP at Market Prices (Ksh m):										
At Current Prices	1,274,328	1,415,823	1,622,565	1,833,511	2,107,589	2,375,971	2,570,334	3,047,392	3,403,534	3,797,988
At Constant 2001 Market Prices	1,109,338	1,172,784	1,249,470	1,336,846	1,357,263	1,394,387	1,475,302	1,540,520	1,610,653	1,686,149
Real GDP Growth (%)	5.08	5.72	6.5	7.0	1.5	2.7	5.8	4.4	4.6	4.7
Per Capita Income Real 2001 prices (Ksh)	32,437	33,413	34,611	35,937	35,438	36,124	38,320	39,001	39,574	40,338
<b>3. GROSS NATIONAL SAVINGS (% of GDP at mkt prices)<sup>3</sup></b>	12.2	13.4	14.8	13.9	15.9	12.9	11.8	14.0	11.3	11.8
<b>4. GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)<sup>3</sup></b>	6.6	5.7	6.8	6.1	8.2	5.5	4.7	6.3	4.3	4.7
<b>5. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)</b>	17.1	16.9	17.9	19.0	19.2	19.9	19.8	20.5	20.1	27.3
<b>6. OVERALL INFLATION BASE PERIOD= FEB 2009</b>										
Annual Average Inflation	11.79	9.87	6.39	4.27	16.27	9.24	3.96	14.02	9.38	5.72
12-Month Inflation	17.08	4.70	7.98	5.70	17.83	5.32	4.51	18.93	3.20	7.15
<b>7. STOCK MARKET</b>										
Nairobi Stock Exchange Price Index (1966=100)	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44	4,432.60	3,205.02	4,133.02	4,926.97
Trade Turnover Ratio (%)	0.92	0.88	1.70	1.29	0.29	0.64	0.99	0.46	0.58	0.58
<b>8. GOVERNMENT BUDGET (Ksh bn)***</b>										
Revenue and Grants	270.92	303.85	331.21	383.59	457.67	511.36	614.53	679.53	734.43	989.46
Expenditure	289.54	298.13	368.65	405.20	534.84	621.91	791.79	817.09	915.89	1,303.23
Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)	(177.26)	(137.56)	(181.46)	(313.77)
Budget Deficit (% of GDP)	(0.97)	0.08	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)	(5.51)	(8.26)
<b>9. MONEY AND CREDIT (Ksh bn)(end period)</b>										
Liquidity (L) <sup>1</sup>	633.92	712.32	834.16	992.42	1,091.93	1,280.44	1,558.16	1,854.93	2,129.49	2,527.00
Money Supply (M3) <sup>2</sup>	513.16	565.49	666.84	797.54	901.05	1,045.66	1,271.64	1,514.15	1,727.32	2,000.02
Reserve Money	101.05	106.23	124.16	155.62	163.59	181.96	222.63	255.01	293.62	320.76
Total Domestic Credit	473.61	498.66	575.76	668.90	815.52	955.82	1,188.40	1,505.13	3,036.21	1,982.30
Government	132.34	122.16	137.81	137.40	155.32	205.07	277.78	311.58	368.83	397.16
Private sector and other public sector	341.27	376.50	437.94	531.49	660.20	750.75	910.62	1,193.55	1,333.69	1,585.13
<b>10. BALANCE OF PAYMENTS (US\$ m)</b>										
Overall Balance	117.00	306.00	675.00	854.00	(469.00)	780.53	163.40	(42.88)	1,261.00	684.72
Current Account	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,609.28	-2,511.91	-3,330.50	-4,538.37	-3,702.19
Capital and Financial Account	250.00	560.00	1,187.00	1,888.00	1,514.00	2,389.81	2,675.30	3,287.61	5,799.37	4,386.91
<b>11. FOREIGN EXCHANGE RESERVES (US\$ m) End Period</b>	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78	5,064.03	5,122.52	6,044.78	7,159.86	8,483.20
Official	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46	3,847.39	4,001.68	4,247.66	5,701.85	6,560.17
As % of GDP	4.1	4.0	3.9	4.8	3.4	4.1	3.9	3.7	4.3	4.6
Commercial Banks	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63	1,120.84	1,797.12	1,458.01	1,923.02
<b>12. PUBLIC DEBT (US\$ bn) End Period***</b>	9.14	9.84	10.68	12.04	13.46	13.66	14.96	16.60	19.27	22.00
Domestic	3.85	4.14	4.84	6.08	6.66	6.72	8.06	8.51	10.20	12.20
As % of GDP	25.32	23.40	23.18	23.56	21.15	21.67	25.90	27.78	26.06	27.66
External	5.29	5.70	5.84	5.96	6.80	6.94	6.90	8.09	9.08	9.80
As % of GDP	36.64	32.21	27.93	23.09	21.61	22.36	22.20	26.43	23.53	22.21
<b>13. EXCHANGE RATE (Ksh/US\$) (Annual Average)</b>	79.28	75.55	72.10	67.32	69.18	77.35	79.26	88.91	84.53	86.12

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

# SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2013								2014				
	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
<b>1. INFLATION (%)</b>													
CPI	139.52	139.59	139.87	140.29	142.82	142.75	143.14	143.85	145.40	145.95	146.61	148.20	149.70
Overall Inflation													
12-month overall inflation	4.05	4.91	6.02	6.67	8.29	7.76	7.36	7.15	7.21	6.86	6.27	6.41	7.30
Average annual overall inflation	4.96	4.56	4.44	4.50	4.75	5.05	5.39	5.72	6.01	6.21	6.39	6.58	6.85
<b>2. INTEREST RATES (%)</b>													
91-day Treasury bill interest rate	9.5	6.2	5.9	10.0	9.6	9.7	9.9	9.5	9.3	9.2	8.9	8.8	9.8
Overdraft interest rate	17.6	16.9	17.0	16.9	16.4	17.0	16.5	16.5	16.8	16.9	16.4	16.4	17.8
<b>3. STOCK MARKET</b>													
Nairobi Stock Exchange 20 Share Price Index	5,006.96	4,598.16	4,787.56	4,697.75	4,793.20	4,992.88	5,100.88	4,926.97	4,856.15	4,933.41	4,945.78	4,948.97	4,881.56
Turnover Ratio (%)	1.08	0.90	0.76	0.99	0.61	1.00	0.80	0.58	0.79	0.68	0.67	0.67	
<b>4. GOVERNMENT BUDGET* (Ksh bn.)</b>													
Revenue & Grants	758.31	851.19	58.60	128.42	210.23	286.22	363.59	468.97	548.10	611.90	694.30	795.75	880.77
Expenses	995.21	1,100.83	49.70	150.58	269.87	357.20	473.98	574.21	691.60	770.60	855.33	971.11	1,114.34
Budget Deficit (-) / Surplus (+)	(236.90)	(249.64)	8.90	(22.16)	(59.63)	(70.94)	(110.39)	(105.24)	(143.50)	(158.70)	(161.03)	(175.36)	(233.57)
<b>5. MONEY AND CREDIT (Ksh bn.)</b>													
Liquidity (L) <sup>1</sup>	2,273.12	2278.286	2310.734	2341.82	2405.817	2428.776	2480.134	2523.23	2558.557	2560.078	2592.544	2649.604	2683.119
Money Supply (M3) <sup>2</sup>	1,823.40	1,820.88	1,835.80	1,849.97	1,885.78	1,900.194	1,953.621	1,996.24	2,026.57	2,030.49	2,060.31	2,100.61	2,129.88
Reserve Money	281.85	287.44	283.98	309.81	290.35	307.25	316.78	320.76	302.3215	315.4884	311.962	316.3748	330.5945
Total Domestic Credit	1,778.27	1,782.95	1,774.49	1,807.29	1,875.279	1,889.31	1,967.189	1,978.52	2,010.72	2,057.507	2,097.873	2,127.932	2,159.753
Government	392.82	379.51	346.63	336.11	382.6023	368.7062	408.8127	397.1639	413.3241	438.797	449.8679	441.9579	447.5866
Private sector and other public sector	1,385.45	1,403.44	1,427.86	1,471.18	1,492.677	1,520.604	1,558.376	1,581.4	1,597.40	1,618.71	1,648.00	1,685.97	1,712.17
<b>6. MONEY AND CREDIT (Annual % Change)</b>													
Liquidity (L) <sup>1</sup>	16.92	15.58	11.13	10.45	16.69	15.78	16.02	18.4309	19.97	19.01	18.89	18.29	18.04
Money Supply (M3) <sup>2</sup>	16.77	14.16	13.81	12.89	12.83	11.58	12.23	15.54	17.15	16.17	17.35	16.55	16.81
Reserve Money	18.93	11.72	10.31	23.81	12.09	22.68	13.27	9.24	10.33	9.89	8.48	18.12	17.29
Total Domestic Credit	13.05	14.86	10.73	13.04	15.75	14.00	16.61	16.21202	15.27	17.77	19.73	16.41	21.45
Government	25.68	27.39	4.64	4.77	15.01	5.03	10.30	7.68	4.37	11.48	15.05	(3.53)	13.94
Private and other public sector	9.92	11.88	12.32	15.12	15.94	16.42	18.39	18.57	18.5	19.6	21.1	23.43	23.58
<b>7. BALANCE OF PAYMENTS (US\$ m)</b>													
Overall Balance	206.16	(35.34)	14.32	23.89	171.07	(21.69)	75.64	120.13	59.41	67.47	(25.47)	108.94	(260.43)
Current Account	(295.82)	(221.75)	(450.69)	(508.10)	(324.63)	(612.28)	(315.98)	(395.36)	(450.68)	(203.78)	(249.12)	(428.83)	(551.97)
Trade Balance	(891.37)	(741.57)	(1,010.87)	(963.16)	(874.43)	(1,160.47)	(898.50)	(970.78)	(1,009.74)	(746.71)	(683.99)	(1,041.20)	(1,173.89)
Capital and Financial Account	501.98	186.41	465.01	531.99	495.69	590.58	391.62	515.49	510.09	271.25	223.65	537.77	291.54
<b>8. FOREIGN EXCHANGE RESERVES (US\$ m)</b>	7,886.58	7,888.94	7,906.76	7,739.68	7,958.83	7,859.49	7,893.00	8,483.20	8,518.60	8,352.39	8,279.04	8,585.67	8,223.08
Official	6,128.10	6,089.00	6,095.76	6,119.65	6,290.71	6,263.25	6,333.14	6,560.17	6,611.91	6,679.39	6,653.92	6,757.05	6,490.84
Months of imports cover	4.40	4.35	4.32	4.29	4.39	4.32	4.36	4.49	4.50	4.53	4.52	4.54	4.34
Commercial banks	1,758.48	1,799.94	1,811.01	1,620.03	1,668.11	1,596.24	1,559.86	1,923.02	1,906.68	1,673.00	1,625.12	1,828.62	1,732.24
<b>9. PUBLIC DEBT (US\$ bn)</b>	22.40	22.02	22.39	22.88	23.54	23.55	24.18	24.46	24.61	24.59	24.60	25.00	25.01
Domestic	12.63	12.21	12.36	12.75	13.36	13.41	13.59	13.78	13.93	14.25	14.24	14.03	14.10
As % of GDP	28.47	28.68	29.12	29.53	30.13	30.30	30.18	30.67	30.98	31.92	31.97	31.60	32.45
External	9.78	9.81	10.03	10.13	10.17	10.14	10.59	10.69	10.68	10.34	10.36	10.97	10.91
As % of GDP	23.22	23.00	23.63	23.96	22.94	30.30	23.53	23.79	23.74	23.18	23.27	24.69	25.22
<b>10. GROSS DOMESTIC DEBT (Ksh bn)***</b>	1,074.80	1,050.56	1,078.60	1,116.68	1,168.23	1,174.78	1,170.05	1,189.18	1,200.90	1,229.30	1,231.20	1,216.76	1,232.49
<b>11. AVERAGE EXCHANGE RATE</b>													
Ksh/US\$	84.15	85.49	86.86	87.49	87.41	85.31	86.10	86.31	86.21	86.28	86.49	86.72	87.41
Ksh/Pound Sterling	128.72	132.42	132.00	135.47	138.54	137.31	138.64	141.37	141.99	142.81	143.76	145.08	147.29
Ksh/ 100 Yen	83.37	87.77	87.28	89.39	88.14	87.24	86.21	83.51	82.92	84.52	84.58	84.59	85.84
Ksh/Euro	109.18	112.81	113.74	116.51	116.67	116.33	116.22	118.18	117.50	117.81	119.58	119.78	120.09

\* Data on Government budget remain provisional until the books for the fiscal year are audited.

\*\*\* Excludes the IMF disbursements on-lent to the Govt. at 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, National Treasury, Nairobi Securities Exchange and Central Bank of Kenya

## TRENDS IN VARIOUS MEASURES OF INFLATION

### Overall Inflation

Overall 12-month inflation rose from 6.4 percent in April 2014 to 7.3 percent in May 2014 reflecting a rise in fuel inflation and food inflation by 218 basis points and 80 basis points, respectively. Non-food non-fuel inflation, however, declined by 17 basis points in May 2014. The three months annualized rate of inflation rose to 10.7 percent in May 2014 indicating a rise in domestic inflationary pressures (Table 1.1 and Chart 1A).

**TABLE 1.1: INFLATION (%)**

Overall Inflation	2013								2014				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
12-month	4.05	4.91	6.02	6.67	8.29	7.76	7.36	7.15	7.21	6.86	6.27	6.41	7.30
Average annual	4.96	4.56	4.44	4.50	4.75	5.05	5.39	5.72	6.01	6.21	6.39	6.58	6.85
Three months annualised	8.87	4.81	1.71	2.23	9.58	8.49	8.37	2.91	7.64	8.09	7.89	7.93	10.69
Non-food non-oil inflation	3.91	3.86	4.04	3.86	5.02	4.94	5.01	4.71	4.83	4.93	4.97	4.53	4.35

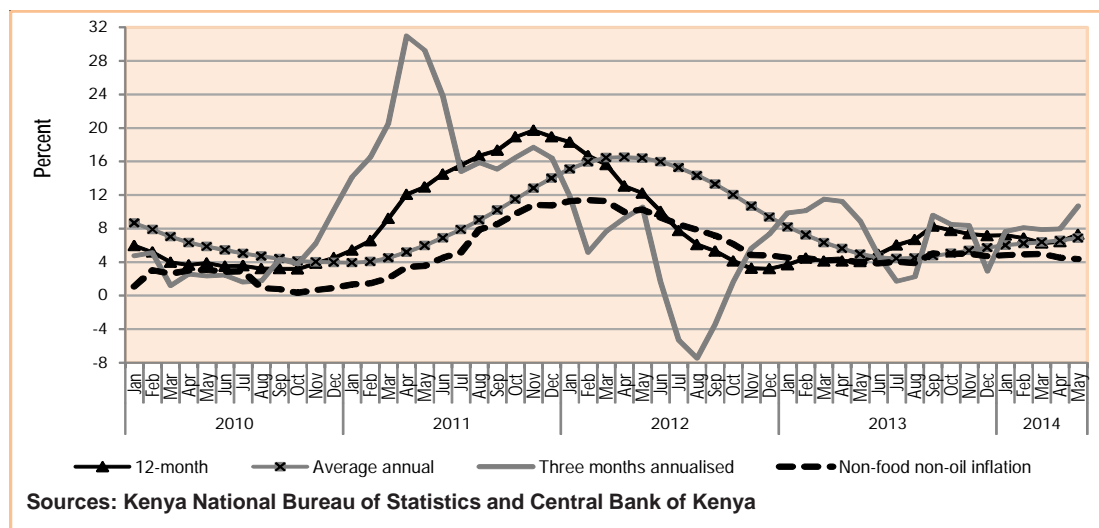
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

The decline in non-food non-fuel inflation in May 2014 was reflected in ‘furnishings, household equipment and routine household maintenance’ and ‘miscellaneous goods and services’ consumption baskets.

Food inflation rose from 7.9 percent in April 2014 to 8.7 percent in May 2014. This reflected a rise in 12-month inflation in the ‘food and non-alcoholic beverages’ index from 8.1 percent in April 2014 to 8.9 percent in May 2014 following a rise in the retail prices of maize and fresh produce.

Fuel inflation also rose from 5.9 percent in April 2014 to 8.1 percent in May 2014. This reflected a rise in the 12-month inflation in the ‘transport’ category from 8.8 percent in April 2014 to 11.4 percent in May 2014 owing to a rise in diesel, petrol and bus fares. 12-month inflation in the ‘housing, water, electricity, gas and other fuels’ category also rose from 4.5 percent in April 2014 to 6.4 percent in May 2014 following a rise in the price of electricity.

CHART 1A: INFLATION (%)



**Inflation Across Categories of Goods & Services**

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 47.3 percent of overall 12-month inflation in May 2014 was attributed to ‘food and non-alcoholic beverages’ category of goods, while inflation in ‘housing, water, electricity, gas and other fuels’ and ‘transport’ categories contributed 14.8 percent and 13.9 percent, respectively.

CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (MAY 2014 (%))

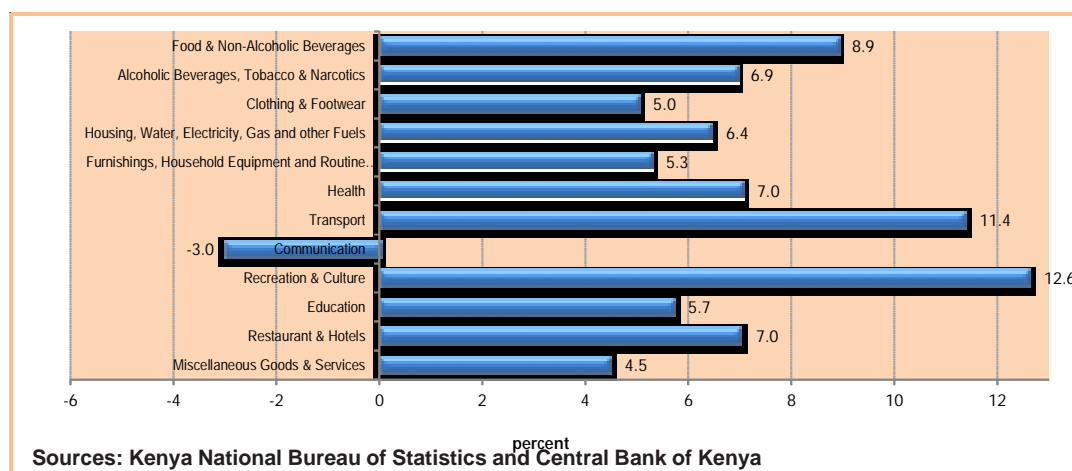
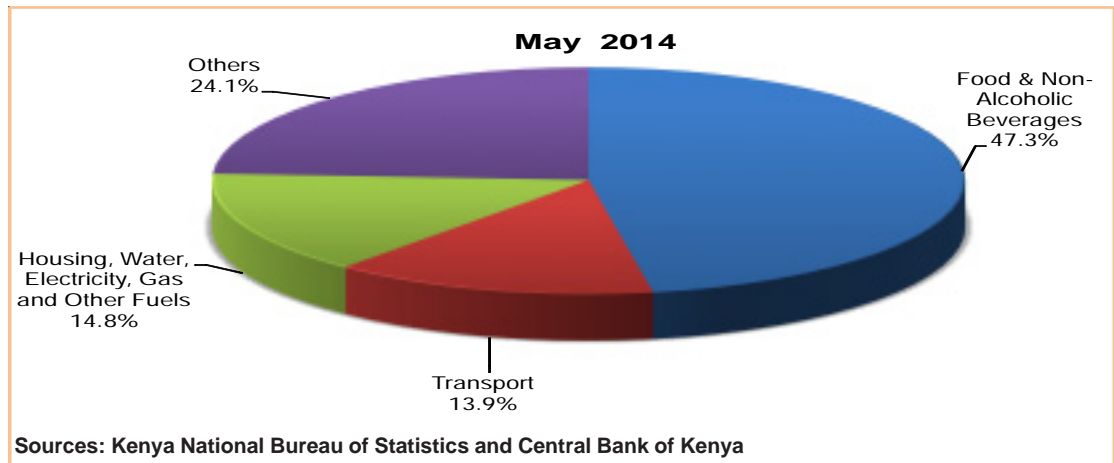


TABLE 1.2: 12 MONTHS OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (MAY 2014)

MAY 2014	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	7.12	9.8	11.1	7.9	9.6	8.9
Alcoholic beverages, Tobacco & narcotics	2.1	6.7	5.6	3.2	6.3	7.3	6.9
Clothing & Footwear	7.4	3.9	3.4	10.6	4.0	5.7	5.0
Housing, Water, Electricity, Gas and other fuels	18.3	5.7	3.7	2.0	5.1	7.4	6.4
Furnishings, Household equipment and Routine household maintenance	6.2	2.6	8.4	3.2	4.0	6.1	5.3
Health	3.1	6.9	6.2	1.0	6.5	7.4	7.0
Transport	8.7	9.8	5.5	10.4	8.9	13.3	11.4
Communication	3.8	-8.6	-9.1	0.0	-8.4	0.6	-3.0
Recreation & culture	2.3	12.7	13.5	10.0	12.8	12.5	12.6
Education	3.1	5.2	4.4	9.6	5.1	6.1	5.7
Restaurants & hotels	4.5	3.4	2.6	5.6	3.3	9.8	7.0
Miscellaneous goods & services	4.5	3.7	2.4	4.9	3.4	5.2	4.5
<b>ALL GROUPS</b>	<b>100.0</b>	<b>6.1</b>	<b>5.4</b>	<b>7.2</b>	<b>6.0</b>	<b>8.2</b>	<b>7.3</b>

Source: Kenya National Bureau of Statistics

**CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION (MAY 2014)**

On average, the rise in prices of goods and services in urban centers outside Nairobi accelerated to 8.2 percent in May 2014 while the rise in prices in Nairobi accelerated to 5.95 percent (Table 1.3). The 12-month consumer price inflation for the 'Nairobi Lower Income', 'Nairobi Middle Income' and 'Nairobi Upper Income' groups rose to 6.1 percent, 5.4 percent and 7.2 percent, respectively, in May 2014.

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

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Combined Nairobi	3.28	4.21	5.79	6.46	8.97	8.25	7.63	7.20	6.73	6.10	5.53	5.16	5.95
Lower Income	3.51	4.75	6.33	7.23	9.67	8.99	8.25	7.65	7.16	6.46	5.80	5.36	6.07
Middle Income	2.77	2.83	4.59	4.57	7.11	6.32	5.92	5.97	5.44	4.93	4.65	4.43	5.37
Upper Income	1.82	1.68	2.28	2.38	6.16	5.37	5.50	5.62	5.89	5.84	5.38	5.64	7.18
Other provinces- excluding Nairobi	4.59	5.40	6.18	6.83	7.82	7.43	7.17	7.11	7.54	7.38	6.78	7.27	8.23
<b>TOTAL KENYA</b>	<b>4.05</b>	<b>4.91</b>	<b>6.02</b>	<b>6.67</b>	<b>8.29</b>	<b>7.76</b>	<b>7.36</b>	<b>7.15</b>	<b>7.21</b>	<b>6.86</b>	<b>6.27</b>	<b>6.41</b>	<b>7.30</b>

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

### Inflation Outlook

Domestic inflation is expected to rise as unfavourable weather conditions impact negatively on domestic food supplies and energy prices.

# DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

## Monetary Aggregates

Growth in broad money, M3, accelerated to 17.8 percent in the year to May 2014 from 16.8 percent in a corresponding period in 2013 and was above the respective target of 13.4 percent for May 2014. The expansion in money supply, M2 defined as, M3 excluding foreign currency deposits, increased to 18.4 percent in the year to May 2014 from a growth of 17.8 percent in 2013 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits in M3, increased by KSh 39.8 billion (14.2 percent) compared with an increase of KSh 28.4 billion (11.3 percent) in the previous year.

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

	2012 May	2013 May	2014 May	Absolute Change		%age change	
				2012/13 May	2013/14 May	12 months May-13	12 months May-14
<b>1. Money supply, M3 (2+3) 2/</b>	<b>1561.6</b>	<b>1823.4</b>	<b>2147.5</b>	<b>261.8</b>	<b>324.1</b>	<b>16.8</b>	<b>17.8</b>
1.1 Money supply, M2 3/	1310.3	1543.7	1828.0	233.5	284.3	17.8	18.4
1.2 Money supply, M1	616.1	751.4	901.2	135.2	149.8	21.9	19.9
1.3 Currency outside banks	127.3	146.3	159.7	19.0	13.5	14.9	9.2
<b>2. Net foreign assets 4/</b>	<b>293.1</b>	<b>374.2</b>	<b>363.4</b>	<b>81.1</b>	<b>-10.8</b>	<b>27.7</b>	<b>-2.9</b>
Central Bank	299.6	399.5	435.6	99.9	36.0	33.4	9.0
Banking Institutions	-6.5	-25.3	-72.2	-18.8	-46.8		
<b>3. Net domestic assets (3.1+3.2)</b>	<b>1268.5</b>	<b>1449.2</b>	<b>1784.1</b>	<b>180.7</b>	<b>334.9</b>	<b>14.2</b>	<b>23.1</b>
<b>3.1 Domestic credit (3.1.1+3.1.2)</b>	<b>1573.0</b>	<b>1778.3</b>	<b>2177.4</b>	<b>205.3</b>	<b>399.1</b>	<b>13.1</b>	<b>22.4</b>
3.1.1 Government (net)	312.6	392.8	465.2	80.3	72.4	25.7	18.4
3.1.2 Private sector and other public sector	1260.4	1385.5	1712.2	125.0	326.7	9.9	23.6
<b>3.2 Other assets net (3-3.1)</b>	<b>-304.5</b>	<b>-329.1</b>	<b>-393.3</b>	<b>-24.5</b>	<b>-64.2</b>	<b>8.1</b>	<b>19.5</b>
<b>Memorandum items</b>							
1. Overall liquidity, L 1/	1944.2	2273.1	2701.3	328.9	428.2	16.9	18.8
2. Reserve money	237.0	281.9	330.6	44.9	48.7	18.9	17.3
Currency outside banks	127.3	146.3	159.7	19.0	13.5	14.9	9.2
Bank reserves	109.7	135.6	170.9	25.9	35.3	23.6	26.0

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.

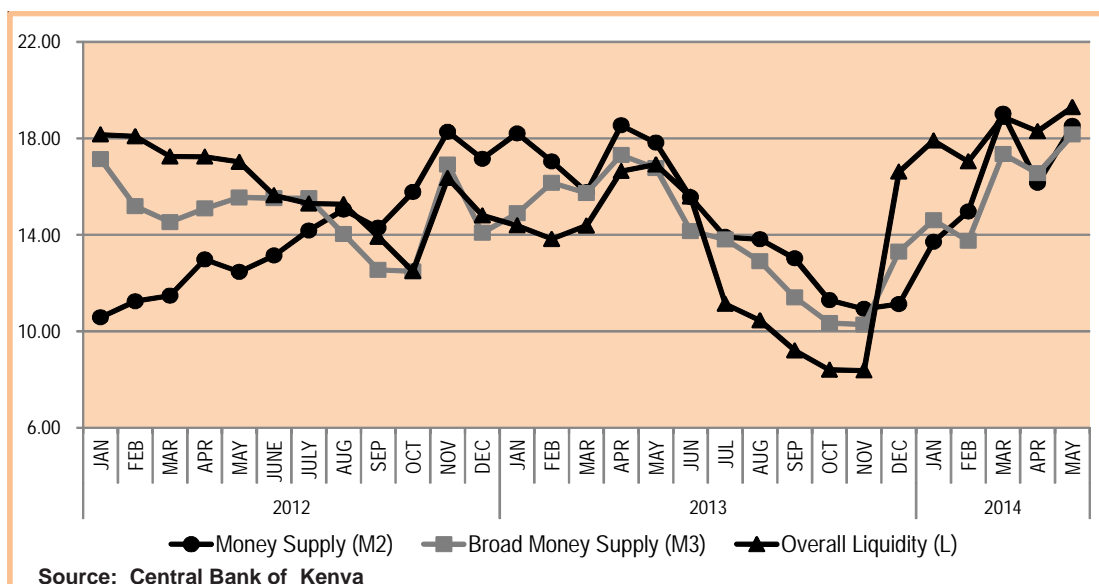
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

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.

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



The acceleration in money supply was largely reflected in the increase of Net Domestic Assets (NDA) of the banking system (Table 2.1). Annual growth in NDA of the banking system increased to 23.1 in the year to May 2014 from 14.2 percent in a similar period in 2013 on account of increased credit uptake by the private sector. Over the same period, NFA of the banking system grew by -2.9 percent (or KSh -10.8 billion) in twelve months to May 2014 compared with an increase of 27.7 percent (or KSh 81.1 billion) in a corresponding period in 2013 reflecting a decline in the NFA of banking institutions. The NFA of banking institutions declined by KSh 46.8 billion to KSh -72.2 billion from KSh -18.8 billion on account of increased loans from non-residents and accumulation of deposits, partly offsetting growth in NFA of the Central Bank (Table 2.1).

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

	2013 May		2014 May		Absolute Change May		Annual %age Change May	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2012/13	2013/14	2012/13	2013/14
<b>1. Credit to Government</b>	<b>392.8</b>	<b>22.1</b>	<b>465.2</b>	<b>21.4</b>	<b>80.3</b>	<b>72.4</b>	<b>25.7</b>	<b>18.4</b>
Central Bank	-5.0	-0.3	44.4	2.0	-29.8	49.4	-120.1	-990.2
Commercial Banks & NBFIs	397.8	22.4	420.8	19.3	110.1	23.0	38.3	5.8
<b>2. Credit to other public sector</b>	<b>46.7</b>	<b>2.6</b>	<b>38.9</b>	<b>1.8</b>	<b>8.5</b>	<b>-7.8</b>	<b>22.4</b>	<b>-16.8</b>
Local government	1.0	0.1	3.1	0.1	1.6	2.1	-274.2	199.3
Parastatals	45.6	2.6	35.8	1.6	6.9	-9.9	17.8	-21.6
<b>3. Credit to private sector</b>	<b>1338.8</b>	<b>75.3</b>	<b>1673.3</b>	<b>76.9</b>	<b>116.5</b>	<b>334.5</b>	<b>9.5</b>	<b>25.0</b>
Agriculture	53.8	3.0	62.8	2.9	1.1	9.0	2.0	16.7
Manufacturing	163.9	9.2	210.7	9.7	7.6	46.8	4.9	28.5
Trade	220.9	12.4	276.9	12.7	15.1	56.0	7.3	25.4
Building and construction	66.6	3.7	73.7	3.4	7.8	7.1	13.2	10.7
Transport & communications	76.3	4.3	114.5	5.3	-11.6	38.2	-13.2	50.1
Finance & insurance	28.8	1.6	36.5	1.7	1.2	7.7	4.2	26.5
Real estate	169.3	9.5	222.8	10.2	20.8	53.5	14.0	31.6
Mining and quarrying	23.0	1.3	25.1	1.2	-2.5	2.1	-9.8	9.2
Private households	208.2	11.7	259.6	11.9	41.3	51.4	24.8	24.7
Consumer durables	82.9	4.7	101.1	4.6	5.9	18.2	7.7	22.0
Business services	111.5	6.3	160.5	7.4	30.4	49.0	37.4	44.0
Other activities	133.5	7.5	128.9	5.9	-0.5	-4.5	-0.4	-3.4
<b>4. TOTAL (1+2+3) *</b>	<b>1778.3</b>	<b>100.0</b>	<b>2177.4</b>	<b>100.0</b>	<b>205.3</b>	<b>399.1</b>	<b>13.1</b>	<b>22.4</b>

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

Source: Central Bank of Kenya

### Domestic Credit Developments

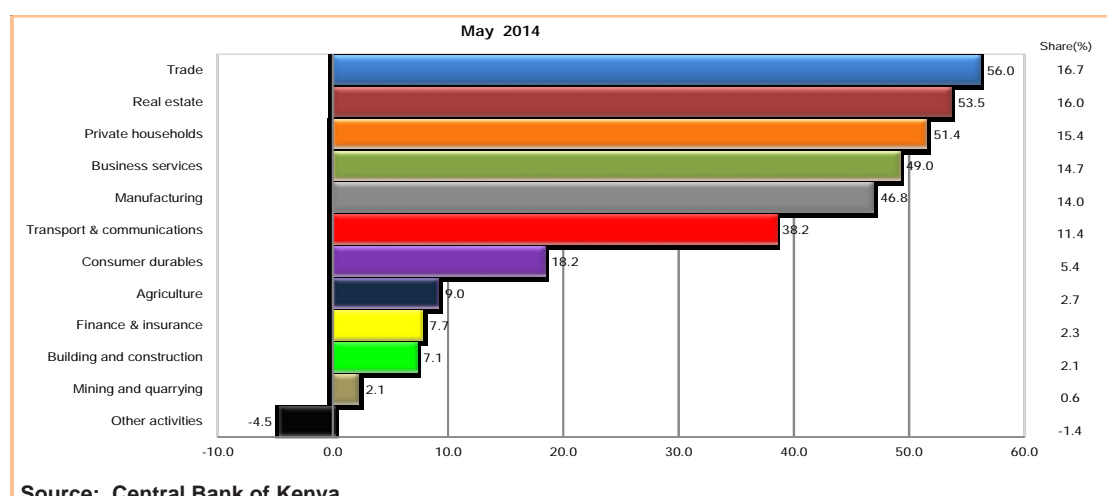
Domestic credit from the banking sector increased by KSh 399.1 billion (22.4 percent) in the twelve months to May 2014 compared with KSh 205.3 billion (13.1 percent) in a similar period in 2013 (Table 2.2). The increase was reflected in growth of credit to the private sector which accelerated to 25 percent in the year to May 2014 from 9.5 percent in a similar period in 2013. The private sector continued to dominate banking system lending; accounting for 76.9 percent of total lending in May 2014 compared with 21.4 percent share of government.

The additional private sector credit in the twelve months to May 2014 was allocated to the following activities, in order of magnitude: trade at 16.7 percent (or KSh 56.0 billion); real estate sector at 16.0 percent (or KSh. 53.5 billion); private households 15.4 percent (or KSh. 51.4 billion); business services 14.7 percent (or KSh. 49.0 billion); manufacturing 14.0 percent (or KSh. 46.8 billion); transport and communication 11.1 percent (or KSh. 37.2 billion); and consumer durables 5.4 percent (or KSh. 18.2 billion). Chart 2B below presents the sectorial distribution of private sector credit.

Reflecting accumulation of Government deposits at the Central Bank, growth in net credit to Government increased by 18.4 percent (or KSh 72.4 billion) in the year to May 2014 compared with an increase of 25.7 percent (or KSh 80.3 billion) in a corresponding period in 2013. Over a similar period, the 'other public sector' repaid

KSh 16.8 billion compared to a net credit of KSh 22.4 billion over a similar period in 2013 (Table 2.2).

**CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO MAY 2014 (Ksh billion)**



### Reserve Money

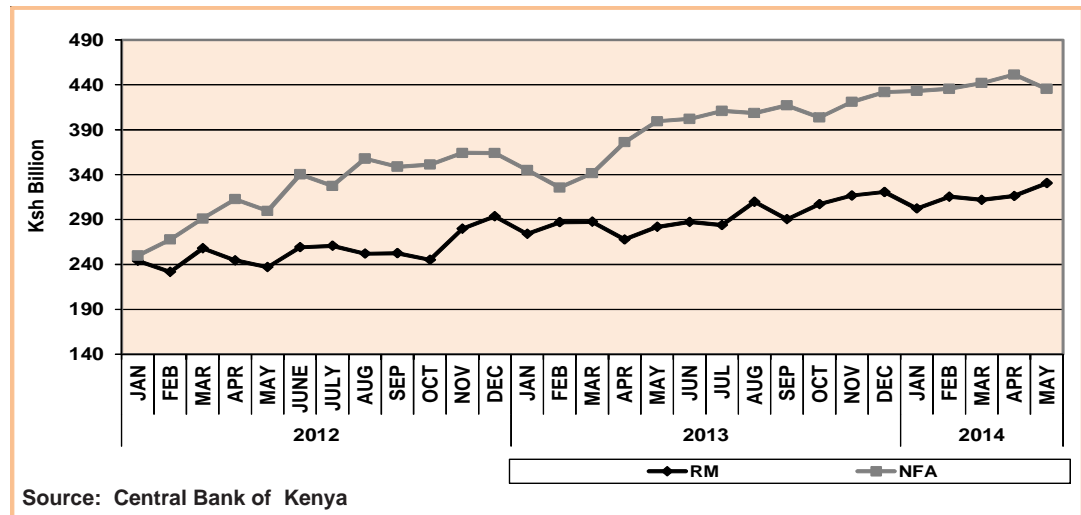
Reserve money (RM) comprises currency held by the non-bank public and commercial banks deposits at the Central Bank. It decreased by 17.3 percent in the year to May 2014 compared with 18.9 percent growth in the corresponding period in 2013 (Table 2.3 and Chart 2C). At KSh 330.6 billion in May 2014, reserve money was KSh 10.5 billion above respective target. The growth in reserve money reflected 26.0 percent increase in bank reserves and 9.2 percent growth in currency outside banks.

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

	2013 May	2014 May	Absolute change		Change (%)		2014	
			2012/13	2013/14	2012/13	2013/14	May Target	Deviation
1. Net Foreign Assets	399.5	435.6	99.9	36.0	33.4	9.0	476.4	-40.8
2. Net Domestic Assets	-117.7	-105.0	-55.1	12.7	87.9	-10.8	-156.3	51.3
2.1 Government Borrowing (net)	-5.0	26.8	-29.8	31.8	-120.1	-637.4	-37.6	64.4
2.2 Commercial banks (net)	-66.2	-20.4	-38.8	45.8	0.0	-69.22	-54.7	34.3
2.3 Other Domestic Assets (net)	-50.3	-115.1	15.4	-64.8	-23.5	128.8	-64.0	-51.1
3. Reserve Money	281.9	330.6	44.9	48.7	18.9	17.3	320.1	10.5
3.1 Currency outside banks	146.3	159.7	19.0	13.5	14.9	9.2	159.5	0.3
3.2 Bank reserves	135.6	170.9	25.9	35.3	23.6	26.0	160.6	10.2

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 May 2014 was largely an accumulation of Net Foreign Assets (NFA) of the Central Bank. The NFA of the Central Bank grew by 9.0 percent (or KSh 36.0 billion) to KSh 435.6 billion in May 2014 from KSh 399.5 billion in May 2013 reflecting purchases of foreign exchange to augment the stock of foreign exchange reserves in line with the statutory requirements of 4 months of import cover for goods and non-factor services.

Over a similar period, the NDA of the Central Bank increased by KSh 12.7 billion to KSh -105.0 billion from KSh -117.7 billion in May 2013. This was largely reflected in increase of net Government indebtedness at the Central Bank from KSh -5.0 billion in May 2013 to net deposits of KSh 26.8 billion in May 2014.

**Central Bank Rates** The Monetary Policy Committee maintained the Central Bank Rate (CBR) at 8.50 percent in May, 2014 in order to continue anchoring inflation expectations and price stability.

**Short Term Interest Rates** Short term interest rates recorded an upward trend in May 2014 (Table 2.4 and Chart 2D). The weighted average interbank rate increased from 7.40 percent in April 2014 to 7.76 percent in May 2014. The repo rate increased marginally to 8.42 percent in May 2014 from 8.39 percent in April 2014. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, increased marginally from 8.80 percent in April 2014 to 8.82 percent in May 2014 while the 182-day Treasury bill rate rose from 9.83 percent to 9.86 percent.

**Lending and Deposit Rates**

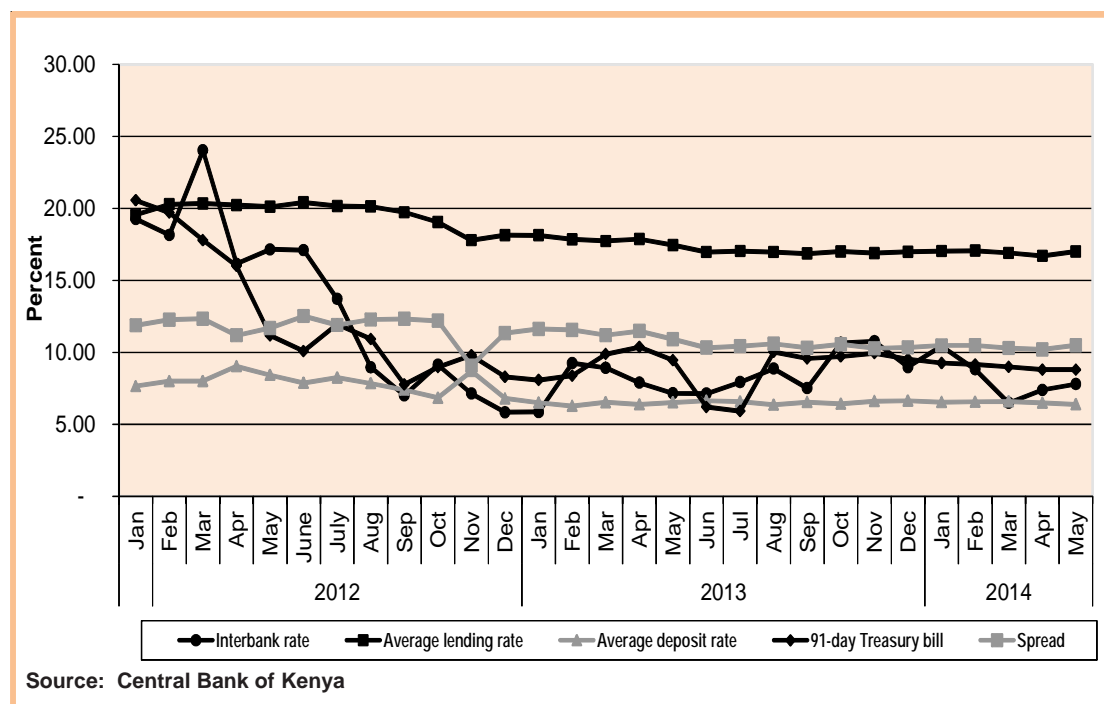
The average lending rate increased to 16.97 in May 2014 from 16.70 percent in April 2014, while the average deposit rate decreased marginally to 6.42 percent from 6.48 percent. The interest rate spread rose to 10.55 in May 2014 from 10.23 percent in April 2014 (Table 2.4 and Chart 2D).

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

	2013								2014				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
91-day Treasury bill rate	9.46	6.21	5.92	10.03	9.58	9.72	9.94	9.52	9.26	9.16	8.98	8.80	8.82
Overdraft rate	17.60	16.92	17.00	16.89	16.42	16.96	16.50	16.51	16.82	16.88	16.44	16.44	17.85
Interbank rate	7.16	7.14	7.93	8.88	7.52	10.66	10.77	8.98	10.43	8.83	6.51	7.40	7.76
Repo rate	7.96	7.93	7.48		7.11			7.95			6.92	6.71	8.42
Reverse Repo rate	-	-	-	8.77		10.85	12.35	11.28				-	-
Central Bank Rate (CBR)	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Average lending rate (1)	17.45	16.97	17.02	16.96	16.86	17.00	16.89	16.99	17.03	17.06	16.91	16.70	16.97
Average deposit rate (2)	6.53	6.65	6.59	6.36	6.55	6.43	6.61	6.65	6.55	6.57	6.61	6.48	6.42
0 to 3 - month deposit	8.96	8.77	8.70	8.39	8.44	8.36	8.78	8.98	9.39	9.43	10.02	9.63	9.65
Savings deposits	1.53	1.73	1.64	1.67	1.64	1.63	1.58	1.58	1.56	1.49	1.56	1.53	1.54
Spread (1-2)	<b>10.91</b>	<b>10.32</b>	<b>10.43</b>	<b>10.60</b>	<b>10.32</b>	<b>10.57</b>	<b>10.28</b>	<b>10.34</b>	<b>10.48</b>	<b>10.49</b>	<b>10.30</b>	<b>10.23</b>	<b>10.55</b>

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

# PERFORMANCE OF THE REAL SECTOR

## Overview

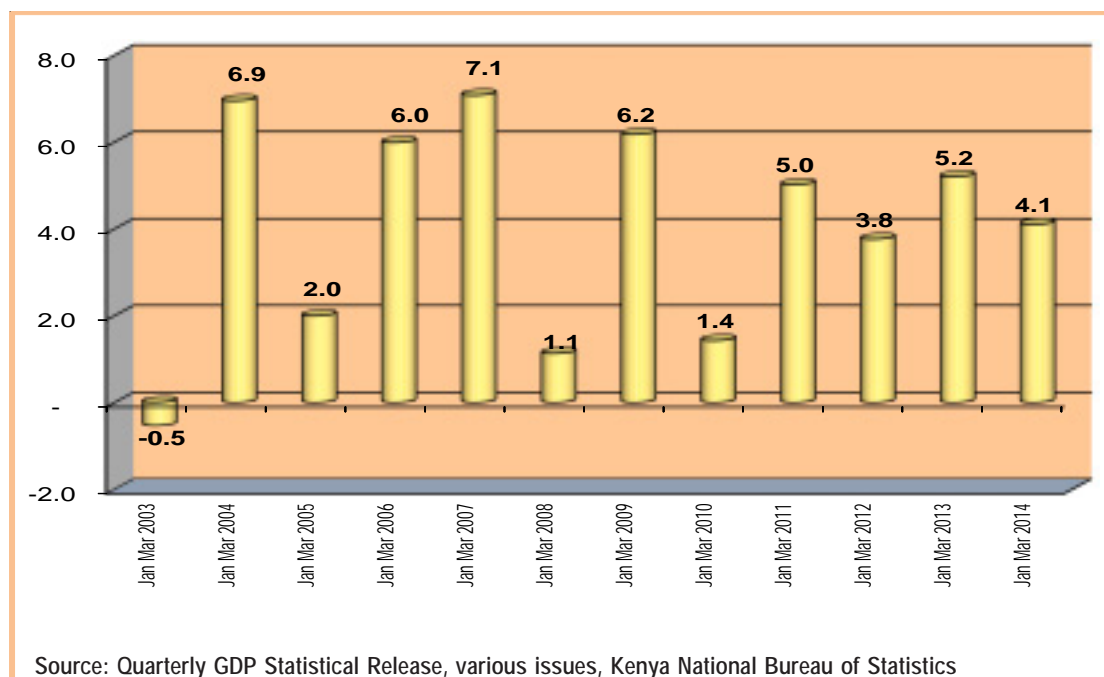
Real GDP in 2013 grew by 4.7 percent and amounted to Ksh 1.69 trillion compared with 4.6 percent growth in 2012 (Table 3.1). The real GDP is estimated to have increased by 4.1 percent in the first quarter of 2014 compared with 5.2 percent in comparable quarter of 2013 (Chart 3A). The slowdown is attributed to adverse weather which led to a reduction in output from agriculture; suppressed external demand which led to reduced export especially in horticulture; and insecurity which contributed to a contraction in the hotel and restaurants activity.

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

Main Sectors	Share in 2013 Nominal GDP (%)	Share in 2013 Real GDP (%)	Kshs Million										
			2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Agriculture and Forestry	25.32	20.58	276,089	280,518	299,749	312,926	320,423	307,354	299,431	318,586	323,415	337,064	346,935
Fishing	0.45	0.38	4,765	5,246	5,751	6,249	6,181	5,363	5,564	5,713	5,891	6,093	6,422
Mining and Quarrying	0.59	0.48	5,213	5,195	5,334	5,554	6,272	6,453	6,163	6,763	7,244	7,545	8,102
Manufacturing	8.91	9.50	105,822	110,544	115,699	122,953	130,673	135,291	137,060	143,263	148,198	152,959	160,247
Electricity and Water Supply	1.40	2.25	27,074	27,877	27,898	27,288	29,769	31,341	30,397	33,292	32,443	35,800	37,915
Construction	4.39	3.52	31,530	32,932	35,446	37,649	40,405	43,735	49,270	51,492	53,728	56,327	59,434
Wholesale and Retail Trade, Repairs	10.21	11.55	92,604	100,481	106,009	118,361	131,754	138,044	143,460	154,942	166,186	181,103	194,738
Hotels and Restaurants	1.49	1.21	9,899	13,741	15,572	17,894	20,814	13,298	18,993	19,796	20,775	21,322	20,366
Transport and Communication	9.10	12.59	104,915	112,251	122,243	136,306	156,845	161,615	171,994	182,181	191,248	200,289	212,282
Financial Intermediation	4.84	4.41	42,064	42,657	43,869	47,170	50,306	51,659	55,375	60,379	65,095	69,349	74,353
Real estate, Renting and Business Services	4.11	5.17	61,864	63,740	65,882	68,446	70,860	73,503	75,674	78,089	80,888	83,583	87,209
Public Administration and Defence	6.74	3.08	46,991	47,062	46,461	45,974	45,031	45,317	46,031	47,085	48,271	49,584	51,935
Education	6.68	5.96	71,045	72,268	72,908	73,188	76,257	80,771	82,952	86,651	90,836	95,746	100,466
Health and Social Work	1.92	2.08	25,431	26,408	27,249	28,075	28,983	30,035	31,352	31,786	32,892	34,009	35,143
Other Community, Social and Personal Services	3.48	3.54	42,917	44,514	45,876	47,814	49,420	50,829	52,156	53,507	55,952	57,753	59,624
Private Households with Employed Persons	0.45	0.28	3,855	3,932	4,011	4,091	4,173	4,256	4,342	4,428	4,517	4,607	4,699
less: Financial Services Indirectly Measured	-0.97	-0.82	-10,315	-10,801	-11,261	-11,835	-12,174	-10,484	-11,945	-11,260	-11,843	-11,729	-13,778
<b>All Industries at basic 2001 prices</b>	<b>89.13</b>	<b>85.76</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>1,266,694</b>	<b>1,315,734</b>	<b>1,381,404</b>	<b>1,446,091</b>
Taxes less Subsidies on Products	10.87	14.24	113,895	130,772	144,088	161,367	180,855	188,882	196,117	208,607	224,785	229,249	240,058
<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>1,475,302</b>	<b>1,610,520</b>	<b>1,610,653</b>	<b>1,686,149</b>
Overall GDP Deflator (2001=100)				115	121	130	137	155	170	174	198	211	225
Annual Growth Rates in Percent													
	Share in 2013 Nominal GDP (%)	Share in 2013 Real GDP (%)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Agriculture and Forestry	25.32	20.58	2.6	1.6	6.9	4.4	2.4	-4.1	-2.6	6.4	1.5	4.2	2.9
Fishing	0.45	0.38	-6.9	10.1	9.6	8.7	-1.1	-13.2	3.7	2.7	3.1	3.4	5.4
Mining and Quarrying	0.59	0.48	3.5	-0.3	2.7	4.1	12.9	2.9	-4.5	9.7	7.1	4.2	7.4
Manufacturing	8.91	9.50	6.0	4.5	4.7	6.3	6.3	3.5	1.3	4.5	3.4	3.2	4.8
Electricity and Water Supply	1.40	2.25	14.0	3.0	0.1	-2.2	9.1	5.3	-3.0	9.5	-2.6	10.3	5.9
Construction	4.39	3.52	1.0	4.4	7.6	6.2	7.3	8.2	12.7	4.5	4.3	4.8	5.5
Wholesale and Retail Trade, Repairs	10.21	11.55	1.5	8.5	5.5	11.7	11.3	4.8	3.9	8.0	7.3	9.0	7.5
Hotels and Restaurants	1.49	1.21	-20.3	38.8	13.3	14.9	16.3	-36.1	42.8	4.2	4.9	2.6	-4.5
Transport and Communication	9.10	12.59	3.5	7.0	8.9	11.5	15.1	3.0	6.4	5.9	5.0	4.7	6.0
Financial Intermediation	4.84	4.41	1.5	1.4	2.8	7.5	6.6	2.7	7.2	9.0	7.8	6.5	7.2
Real estate, Renting and Business Services	4.11	5.17	2.3	3.0	3.4	3.9	3.5	3.7	3.0	3.2	3.6	3.3	4.3
Public Administration and Defence	6.74	3.08	0.6	0.2	-1.3	-1.0	-2.1	0.6	1.6	2.3	2.5	2.7	4.7
Education	6.68	5.96	9.7	1.7	0.9	0.4	4.2	5.9	2.7	4.5	4.8	5.4	4.9
Health and Social Work	1.92	2.08	2.8	3.8	3.2	3.0	3.2	3.6	4.4	1.4	3.5	3.4	3.3
Other Community, Social and Personal Services	3.48	3.54	0.0	3.7	3.1	4.2	3.4	2.9	2.6	2.6	4.6	3.2	3.2
Private Households with Employed Persons	0.45	0.28	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
less: Financial Services Indirectly Measured	-0.97	-0.82	-3.3	4.7	4.3	5.1	2.9	-13.9	13.9	-5.7	5.2	-1.0	17.5
<b>All Industries at basic 2001 prices</b>	<b>89.13</b>	<b>85.76</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>3.9</b>	<b>5.0</b>	<b>4.7</b>
Taxes less Subsidies on Products	10.87	14.24	1.3	14.8	10.2	12.0	12.1	4.4	3.8	6.4	7.8	2.0	4.7
<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>	<b>4.6</b>	<b>4.7</b>

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

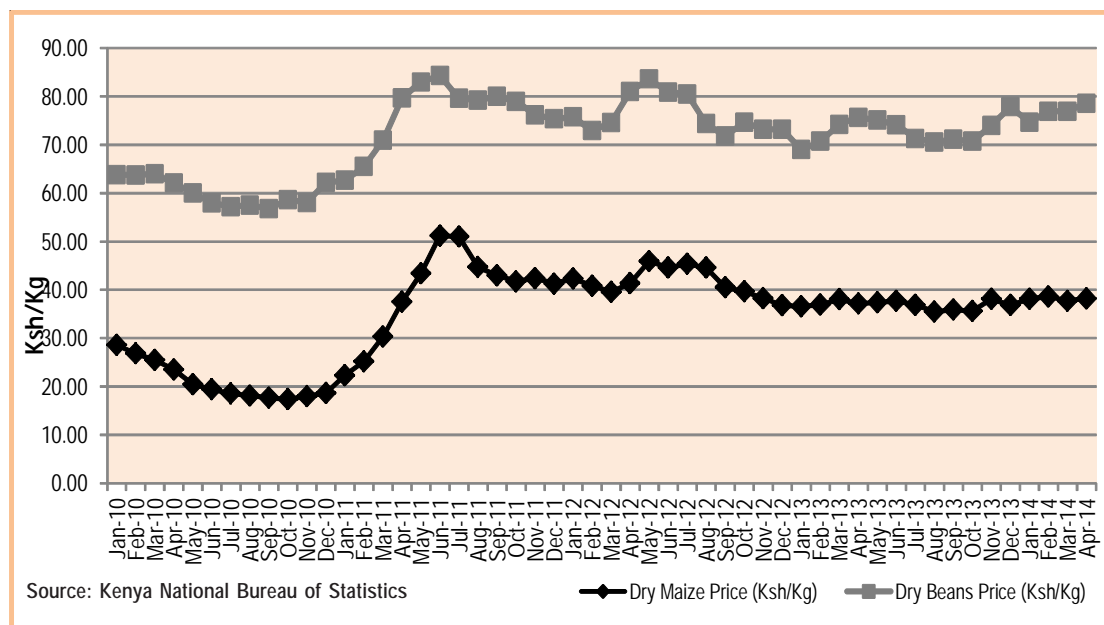
**CHART 3A: REAL GDP GROWTH IN THE FIRST QUARTERS**



**Agriculture**

Agriculture contributed 20.2 percent of GDP in the first quarter of 2014 and recorded 2.7 percent growth in output over the same period compared with 6.8 percent increase in the first quarter of 2013. Subdued performance in agriculture in the first quarter of 2014 is attributed to unfavorable weather conditions which resulted in increased prices of food items such as maize and beans (Chart 3B).

**CHART 3B: MOVEMENTS IN AVERAGE RETAIL PRICES FOR MAIZE & BEANS**



**Major Indicators in Agriculture**

Most indicators of performance in agriculture in the year to April 2014 point to slowed growth (Table 3.2). Among selected crops, growth in production of horticulture slowed while production of tea and coffee declined. Production of milk also declined during the year to April 2014 as production of sugarcane improved.

**TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK**

	2013	Year to Apr 13	Year to Apr 14*
<b>Tea</b>			
Output (Metric tonnes)	432,453	434,459	429,017
Growth (%)	17.0%	23.5%	-1.3%
<b>Horticulture</b>			
Exports (Metric tonnes)	309,029	274,263	307,617
Growth (%)	23.2%	15.2%	12.2%
<b>Coffee</b>			
Sales (Metric tonnes)	37,942	45,533	40,122
Growth (%)	-17.6%	27.1%	-11.9%
<b>Milk</b>			
Output (million litres)	523	539	540
Growth %	5.6%	4.8%	0.3%
<b>Sugar Cane</b>			
Output (Metric tonnes)	6,671,800	5,527,600	7,094,300
Growth (%)	16.7%	2.8%	28.3%

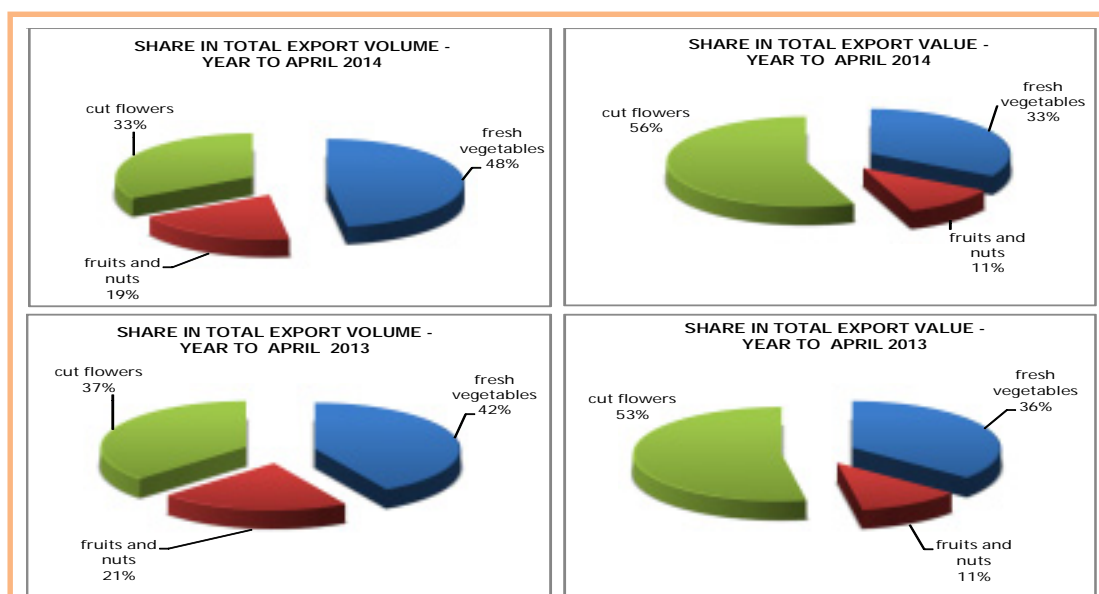
\* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

**Tea** Production of tea decreased by 1.3 percent in the year to April 2014 compared with growth of 23.5 percent recorded in the year to April 2013 (Table 3.2). The decline is attributed to unfavorable weather conditions. However, reflecting the larger volume supplied in 2014 compared with the previous year, the average auction price for tea declined from Ksh 270 per kilogram in the year to April 2013 to Ksh 202 per kilogram in the year to April 2014.

**Horticulture** Export of fresh horticultural products increased by 12.2 percent from 274,263 metric tonnes in the year to April 2013 to 307,617 metric tonnes in the year to April 2014. Exports of fresh vegetables dominated in terms of volume, while cut flowers brought in the largest contribution to total export value in the year to April 2014 (Table 3.2 and Chart 3C).

**CHART 3C: HORTICULTURAL EXPORTS**

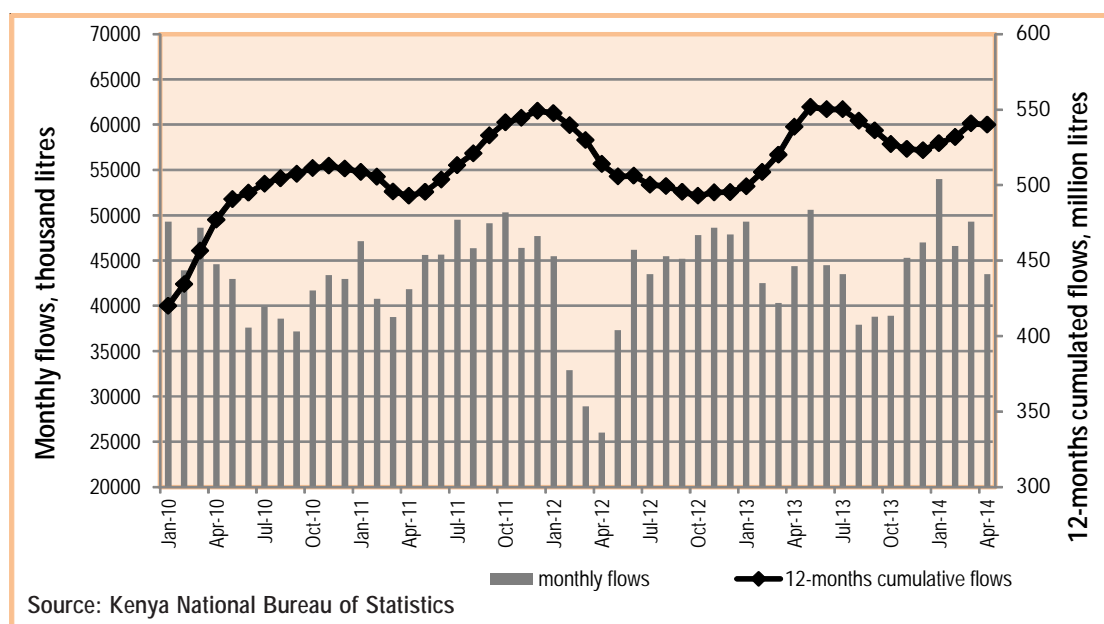


Source: Kenya Revenue Authority

**Coffee** Coffee sales declined by 11.9 percent from 45,533 metric tonnes in the year to April 2013 to 40,122 metric tonnes in the year to April 2014. The average auction price for coffee increased marginally from Ksh 293 per kilogram in the year to April 2013 to Ksh 297 per kilogram in the year to April 2014 owing to improved quality.

**Dairy** The volume of milk intake in the formal sector stabilized at 540 million litres in the year to April 2014 (Chart 3D). The improvement reflects a gradual increase in monthly uptake since November 2013 on account of increased investment in the activity. Consequently the 12 month cumulative supply in the formal sector has maintained an upward trend.

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



**Manufacturing** The manufacturing sector accounted for 9.5 percent of the overall GDP growth in 2013. This activity grew by 5.0 percent in the first quarter of 2014 compared with 2.5 percent growth in the first quarter of 2013. Indicators of the performance of manufacturing activity for the 12-month period to April 2014 (Table 3.3 and Chart 3E), show accelerating growth in production of cement, assembled vehicles, galvanized sheets, sugar and soft drinks. With local cement consumption below production level (Chart 3E), the industry continued to generate some surplus for export.

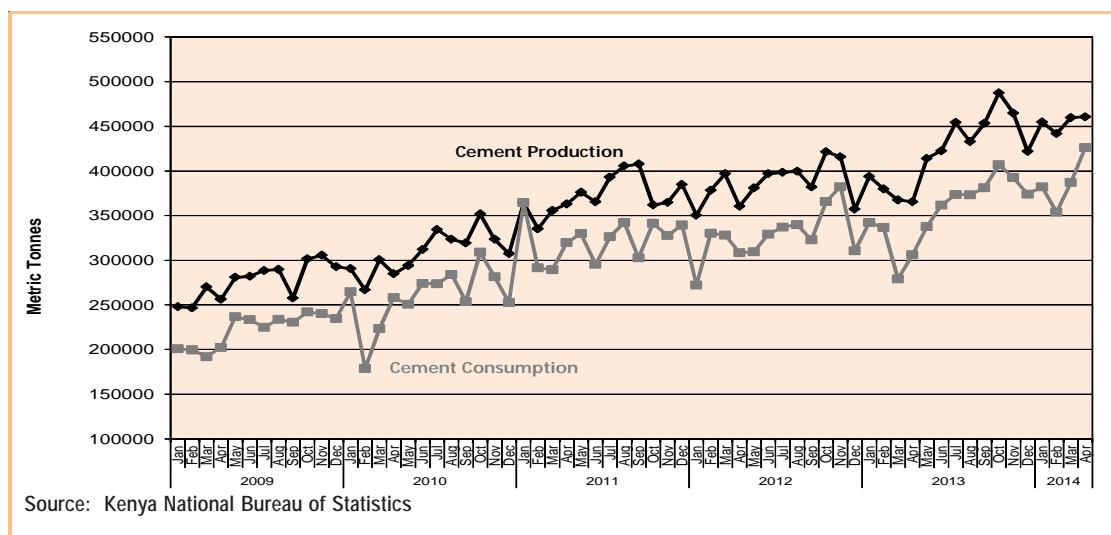
TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	Annual Totals 2013*	Year to Apr 13*	Year to Apr 14*
<b>Cement production</b>			
Output (MT)	5,059,129	4,660,311	5,369,470
Growth %	9.0%	2.5%	15.2%
<b>Assembled vehicles</b>			
Output (No.)	6,948	6,397	7,735
Growth %	11.7%	1.4%	20.9%
<b>Galvanized sheets</b>			
Output (MT)	305,152	271,530	298,997
Growth %	19.3%	2.6%	10.1%
<b>Processed sugar</b>			
Output (MT)	600,210	475,229	653,315
Growth %	21.5%	2.9%	37.5%
<b>Soft drinks</b>			
Output ('000 litres)	407,027	365,217	427,354
Growth %	13.2%	-1.3%	17.0%

MT = Metric tonnes  
\* Provisional

Source: Kenya National Bureau of Statistics

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



## Energy Sector

Annual growth in local generation of electricity accelerated from 5.8 percent in the year to April 2013 to 11.2 percent in the year to April 2014 (Table 3.4). The total amount of electricity generated thus increased from 7,672 million kilowatt hours to 8,529 million kilowatt hours. The supply in the current period comprised 49.1 percent of hydro-electricity, 28.4 percent of thermal power and 22.5 percent of geo-thermal power. The increase in the amount of electricity produced reflects accelerated generation of thermal and geo-thermal power (green energy) to 26.0 percent and 24.5 percent respectively from -19.6 percent and 3.7 percent in the comparable period of 2013. Generation of hydro-electricity, however, decreased by 0.5 percent in the year to April 2014 from 24.8 percent growth in the previous year, reflecting the unfavourable weather outcome. Growth in consumption of electricity increased from 0.7 percent in the year to April 2013 to 7.8 percent in the year to April 2014. The average price of murban crude oil declined from US\$ 109.7 per barrel in the year to April 2013 to US\$ 109.2 per barrel in the year to April 2014.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	2013	Year to Apr 13	Year to Apr 14*
Electricity Supply (Generation)			
Output (million KWH)	8,217	7,672	8,529
<i>Growth %</i>	8.9%	5.8%	11.2%
<i>Of which:</i>			
Hydro-power Generation (million KWH)	4,387	4,208	4,187
<i>Growth (%)</i>	8.8%	24.8%	-0.5%
Geo-Thermal Generation (million KWH)	1,781	1,539	1,917
<i>Growth (%)</i>	17.0%	3.7%	24.5%
Thermal (million KWH)	2,049	1,925	2,425
<i>Growth (%)</i>	3.0%	-19.6%	26.0%
Consumption of electricity (million KWH)	6,564	6,256	6,745
<i>Growth %</i>	4.7%	0.7%	7.8%
Murban crude oil average price (US \$ per barrel)	110.1	109.7	109.2
<i>Growth %</i>	-2.5%	-4.5%	-0.4%

\* Provisional

Source: Kenya National Bureau of Statistics

### Tourism

The number of tourist arrivals declined by 5.2 percent in the year to April 2014 (Table 3.5) compared with a decline of 8.2 percent in the year to April 2013. The unfavourable performance of tourism is attributed to adverse travel advisories from source countries regarding insecurity in the country. The ports of disembarkation tourist remained Jomo Kenyatta International Airport Nairobi (84.1 percent share), and the Moi International Airport, Mombasa (15.9 percent share).

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2013	Year to Apr 2013	Year to Apr 2014	Year to Apr 2014 % Share	Year to Apr 2014 % Growth
MIAM	189,654	181,951	175,109	15.9%	-3.8%
JKIA	912,998	980,334	926,796	84.1%	-5.5%
TOTAL	1,102,652	1,162,285	1,101,905	100.0%	-5.2%

Source: Kenya Tourist Board

### Transport

The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) declined by 1.3 percent in the year to April 2014, marginally unchanged from previous year's performance. The decline is attributed to both incoming and outgoing passengers which decelerated by 1.2 percent and 1.4 percent respectively (Table 3.7). On the other hand, the volume of oil passed through the Kenya pipeline increased by 8.3 percent in the year to April 2014, less rapidly compared with 11.2 percent in the year to April 2013.

TABLE 3.6: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

		Year to Apr 13*	Year to Apr 14*
	2013*		
<b>Number of Passengers thro' JKIA</b>			
Total passenger flows	4,290,349	4,315,883	4,260,472
Growth (%)	-0.3%	-1.2%	-1.3%
o.w. Incoming	2,144,002	2,152,885	2,127,879
Growth (%)	-0.2%	-2.9%	-1.2%
Outgoing	2,146,347	2,162,998	2,132,593
Growth %	-0.4%	0.5%	-1.4%
<b>Kenya Pipeline Oil Throughput</b>			
Output ('000 litres)	5,181,609	4,958,641	5,368,728
Growth %	6.7%	11.2%	8.3%

\* Provisional

Source: Kenya National Bureau of Statistics

# DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

**Overview** The overall balance of payments surplus worsened to USD 298 million in the year to May 2014 from a surplus of USD 1,272 million in the year to May 2013 (Table 4.1).

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

ITEM	Year to May 2013*	Year to May 2014*				Year to May 2014*	Absolute Change	% Change
		Q1 Jun-Aug	Q2 Sep- Nov	Q3 Dec-Feb	Q4 Mar-May			
1. OVERALL BALANCE	1272	3	225	247	-177	298	-973.8	-76.6
2. CURRENT ACCOUNT	-4760	-1181	-1253	-1050	-1230	-4713	47.0	-1.0
2.1 Goods	-10867	-2716	-2933	-2727	-2899	-11275	-407.8	3.8
Exports (fob)	6150	1388	1439	1458	1677	5963	-186.8	-3.0
Imports (cif)	17018	4104	4373	4185	4576	17239	221.0	1.3
2.2 Services	6107	1535	1681	1677	1669	6562	454.8	7.4
Non-factor services (net)	3535	863	920	988	1092	3863	328.4	9.3
Income (net)	-270	-78	-83	-50	-38	-249	21.2	-7.9
Current Transfers (net)	2843	750	843	739	615	2948	105.2	3.7
3. CAPITAL & FINANCIAL ACCOUNT	6032	1183	1478	1297	1053	5011	-1020.8	-16.9
3.1 Capital Transfers (net)	172	17	33	24	94	168	-4.0	-2.3
3.2 Financial Account	5859	1166	1445	1273	959	4843	-1016.8	-17.4
memo:								
Gross Reserves	7887	7740	7893	8352	8223	8223	336.5	4.3
Official	6128	6120	6333	6679	6491	6491	362.7	5.9
import cover**	4.0	4.1	4.2	4.4	4.2	4.2	0.2	4.5
import cover***	4.4	4.3	4.4	4.5	4.3	4.3	-0.1	-1.4
Commercial Banks	1758	1620	1560	1673	1732	1732	-26.2	-1.5

\* Provisional.

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

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

Source: Central Bank of Kenya

## Current Account

The deficit in the current account balance improved by USD 47 million to USD 4,713 million in the year to May 2014 from a deficit of USD 4,760 million in the year to May 2013. The improvement reflected an increase in the services account surplus (Table 4.2).

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

ITEM	Year to May 2013*	Year to May 2014*				Year to May 2014*	Absolute Change	% Change
		Q1 Jun-Aug	Q2 Sep- Nov	Q3 Dec-Feb	Q4 Mar-May			
2. CURRENT ACCOUNT	-4760	-1181	-1253	-1050	-1230	-4713	47.0	-1.0
2.1 Goods	-10867	-2716	-2933	-2727	-2899	-11275	-407.8	3.8
Exports (fob)	6150	1388	1439	1458	1677	5963	-186.8	-3.0
Coffee	222	55	45	36	67	203	-18.8	-8.4
Tea	1283	308	260	279	266	1113	-169.8	-13.2
Horticulture	729	163	192	202	214	771	42.7	5.9
Oil products	71	12	9	8	17	47	-24.0	-33.7
Manufactured Goods	691	177	180	154	165	677	-14.5	-2.1
Raw Materials	386	77	106	116	132	431	45.5	11.8
Chemicals and Related Products (n.e.s.)	511	116	116	112	117	461	-50.4	-9.9
Miscellaneous Man. Articles	573	150	153	149	167	619	46.0	8.0
Re-exports	487	111	172	183	311	777	290.1	59.5
Other	1197	218	206	219	221	863	-333.6	-27.9
Imports (cif)	17018	4104	4373	4185	4576	17239	221.0	1.3
Oil	4046	796	950	954	1152	3852	-193.8	-4.8
Chemicals	2116	546	575	621	576	2317	200.7	9.5
Manufactured Goods	2418	656	669	666	660	2651	232.8	9.6
Machinery & Transport Equipment	4954	1182	1149	1117	1436	4884	-69.2	-1.4
Other	3483	924	1030	828	752	3534	50.6	1.5
2.2 Services	6107	1535	1681	1677	1669	6562	454.8	7.4
Non-factor services (net)	3535	863	920	988	1092	3863	328.4	9.3
Non-factor services (credit)	4760	1167	1270	1304	1371	5113	352.9	7.4
of which transport	2105	515	560	519	531	2125	20.3	1.0
of which tourism (Travel)		216	211	185	189	802	-137.3	-14.6
Other services account: gov't	945	242	227	229	229	928	-16.1	-1.7
Other services account: private	772	194	272	371	422	1258	486.0	62.9
Income (net)	-270	-78	-83	-50	-38	-249	21.2	-7.9
of which official interest	-153	-21	-37	-27	-23	-109	44.5	-29.0
Current Transfers (net)	2843	750	843	739	615	2948	105.2	3.7
Private (net)	2632	701	795	726	619	2842	209.2	7.9
of which Remittances	1198	320	334	335	352	1340	141.9	11.8
Public (net)	210	49	49	13	-5	106	-104.0	-49.5

\* Provisional.

Source: Central Bank of Kenya

**Merchandise Account** The deficit in the merchandise account worsened to USD 11,275 million in the year to May 2014 from USD 10,867 million in the year to May 2013. The deterioration in the deficit was on account of slowdown in receipts from merchandise exports and an increase in payments for merchandise imports (Table 4.2).

**Imports** Payments for merchandise imports increased by USD 221 million to USD 17,239 million in the year to May 2014 on account of increased imports of chemicals, manufactured goods and other imports. The oil import bill decreased to USD 3,852 million from USD 4,046 million during the period under review, reflecting reduced importation of crude petroleum oils. The decline in payments for machinery and transport equipment was mainly on account of reduced imports of power generating machinery, metal working machinery, office machines, electrical machinery and other transport equipment.

In terms of imports by source, imports from Africa increased in value (Table 4.3). Imports from the Rest of the World increased, reflecting increased imports from India, China, Japan, the USA, Germany and the Netherlands. Imports from the United Arab Emirates, the United Kingdom, Singapore, Saudi Arabia, Indonesia, France, Bahrain and Italy decreased.

**Exports** Receipts from merchandise exports decreased by USD 186.8 million or 3 percent to USD 5,963 million in the year to May 2014. Reduced earnings from coffee, tea, oil products, manufactured goods; chemicals and related products and other exports contributed to this decline. Earnings from Coffee exports narrowed by USD 8.4 percent to USD 203 million in the year to May 2014 reflecting a reduction in export prices while the value of tea exports declined by 13.2 percent to USD 1,113million in the year to May 2014. The reduction in tea exports was largely on account of declined world tea prices. Receipts from exports of horticulture, raw materials, miscellaneous manufactured articles and re-exports increased during the period under review.

The value and share of Kenya's exports to Africa recorded a marginal decrease from the previous period (Table 4.3). This was largely reflected by a decline in exports from the EAC and COMESA. Exports to the rest of the world increased during the period under review largely on account of increased exports to the European Union, the USA and India.

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)			EXPORTS (in millions of US dollars)				Share of Exports (%)		
Country	Year to May			Year to May			Country	Year to May			Year to May		
	2012	2013	2014	2012	2013	2014		2012	2013	2014	2012	2013	2014
Africa	1,730	1,658	1,703	11.1	10.1	10.1	Africa	2,898	2,894	2,710	49.0	47.2	45.3
Of which							Of which						
South Africa	762	725	846	4.9	4.4	5.0	Uganda	829	802	727	14.0	13.1	12.2
Egypt	264	346	280	1.7	2.1	1.7	Tanzania	513	513	497	8.7	8.4	8.3
Others	705	588	577	4.5	3.6	3.4	Egypt	277	240	191	4.7	3.9	3.2
EAC	320	352	337	2.1	2.1	2.0	Sudan	186	68	73	3.1	1.1	1.2
COMESA	717	727	627	4.6	4.4	3.7	South Sudan	49	224	190	0.8	3.7	3.2
Rest of the World	13,846	14,827	15,117	88.9	89.9	89.9	Somalia	229	214	180	3.9	3.5	3.0
Of which							DRC	211	225	216	3.6	3.7	3.6
India	1,787	2,434	3,246	11.5	14.8	19.3	Rwanda	165	184	166	2.8	3.0	2.8
United Arab Emirates	2,146	1,852	1,024	13.8	11.2	6.1	Others	439	426	471	7.4	6.9	7.9
China	1,748	1,991	2,321	11.2	12.1	13.8	EAC	1,573	1,558	1,458	26.6	25.4	24.4
Japan	691	830	1,007	4.4	5.0	6.0	COMESA	2,001	1,835	1,688	33.8	29.9	28.2
USA	653	730	924	4.2	4.4	5.5	Rest of the World	3,015	3,239	3,272	51.0	52.8	54.7
United Kingdom	507	563	550	3.3	3.4	3.3	Of which						
Singapore	124	216	195	0.8	1.3	1.2	United Kingdom	490	482	425	8.3	7.9	7.1
Germany	414	477	507	2.7	2.9	3.0	Netherlands	368	374	421	6.2	6.1	7.0
Saudi Arabia	892	607	471	5.7	3.7	2.8	USA	295	333	383	5.0	5.4	6.4
Indonesia	638	573	556	4.1	3.5	3.3	Pakistan	248	284	245	4.2	4.6	4.1
Netherlands	225	223	270	1.4	1.4	1.6	United Arab Emirates	237	373	268	4.0	6.1	4.5
France	254	295	240	1.6	1.8	1.4	Germany	97	108	113	1.6	1.8	1.9
Bahrain	223	454	447	1.4	2.8	2.7	India	104	99	107	1.8	1.6	1.8
Others	192	249	229	1.2	1.5	1.4	Afghanistan	147	158	149	2.5	2.6	2.5
Others	3,352	3,334	3,130	21.5	20.2	18.6	Others	1,030	1,028	1,159	17.4	16.8	19.4
Total	15,577	16,486	16,820	100	100	100	Total	5,913	6,133	5,982	100	100	100
EU	2,254	2,458	2,468	14.5	14.9	14.7	EU	1,266	1,254	1,310	21.4	20.5	21.9
China	1,748	1,991	2,321	11.2	12.1	13.8	China	55	58	62	0.9	0.9	1.0

Source: Kenya Revenue Authority

### Services Account

The surplus in the services account expanded by 7.4 percent from USD 6,107 million in the year to May 2013 to USD 6,562 million in the year to May 2014. The increase in surplus was largely on account of increased flows from non-factor services and current transfers. Net non-factor services rose to USD 3,863 million over the same period on account of increases in receipts from transport and other private services (Insurance and Communication services). The deficit in the income account improved by 7.9 percent in the year to May 2014 to USD 249 million reflecting a slowdown in interest payments. The surplus in the current transfers account increased by USD 105.2 million to USD 2,948 million reflecting a USD 209.2 million increase in private transfer flows which was more than the USD 104.0 million decrease in public transfer flows. Remittance inflows (under private transfers) increased by USD 141.9 million to USD 1,340 million during the year to May 2014 from USD 1,198 million during the year to May 2013 (Table 4.2). Average remittance inflows in the 12 months to May 2014 increased to USD 111.7 million from USD 99.9 million during the year to May 2013.

### Capital and Financial Account

The surplus in the Capital and Financial account decreased to USD 5,011 million in the year to May 2014 from USD 6,032 million in the year to May 2013, largely reflecting a 17.4 percent deterioration in the Financial account surplus on account of a reduction in official flows; short term flows and net errors and omissions. Commercial bank flows increased from USD 205 million to USD 491 million in the year to May 2014 after commercial banks run down their net foreign assets. Short term flows (including net errors and omissions) decreased by USD 7.7 percent during the period under review.

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

ITEM	Year to May 2013*	Year to May 2014*				Year to May 2014*	Absolute Change	% Change
		Q1 Jun-Aug	Q2 Sep- Nov	Q3 Dec-Feb	Q4 Mar-May			
<b>3. CAPITAL &amp; FINANCIAL ACCOUNT</b>	<b>6032</b>	<b>1183</b>	<b>1478</b>	<b>1297</b>	<b>1053</b>	<b>5011</b>	<b>-1020.8</b>	<b>-16.9</b>
3.1 Capital Transfers (net)	172	17	33	24	94	168	-4.0	-2.3
3.2 Financial Account	5859	1166	1445	1273	959	4843	-1016.8	-17.4
Official, medium & long-term	1307	132	110	144	214	599	-708.4	-54.2
Inflows	1612	215	209	227	311	962	-650.4	-40.3
Outflows	-305	-84	-99	-83	-97	-363	-58.1	19.0
Private, medium & long-term (net)	141	33	175	43	-78	173	32.0	22.7
Commercial Banks (net)	205	53	291	82	65	491	285.8	139.5
Other private medium & long-term (net)	-64	-20	-115	-40	-143	-317	-253.7	398.8
Short-term (net) incl. errors & omissions	4411	1002	1159	1087	822	4070	-340.4	-7.7

\* Provisional.

Source: Central Bank of Kenya

### Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from USD 7,887 million at the end of May 2013 to USD 8,223 million at the end of May 2014. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased to USD 6,491 million (4.3 months of import cover) at the end of May 2014 from USD 6,128 million (4.4 months of import cover) at the end of May 2013. The build-up in foreign exchange reserves during the period was largely attributed to disbursements from the International Monetary Fund (IMF) and open Market operations by the Central Bank.

Foreign Exchange Reserves held by commercial banks decreased to USD 1,732 million at the end of May 2014 from USD 1,758 million at the end of May 2013 reflecting an increase in net foreign assets. During the same period, Residents' Foreign Currency Deposits increased to USD 3,805 million from USD 3,479 million (Table 4.5).

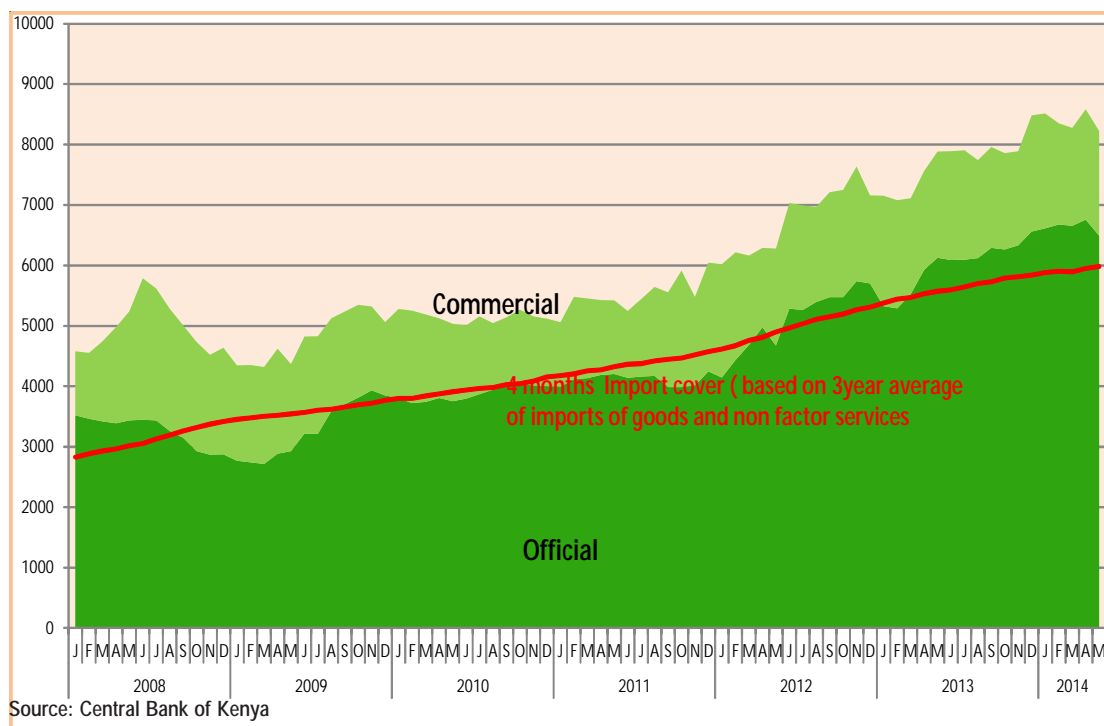
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US\$ MILLION)

	May 13	Jun 13	Jul 13	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14	May 14
<b>1. Gross Foreign Exchange Reserves</b>	<b>7,887</b>	<b>7,889</b>	<b>7,907</b>	<b>8,483</b>	<b>8,519</b>	<b>8,352</b>	<b>8,279</b>	<b>8,586</b>	<b>8,223</b>
of which:									
Official	6,128	6,089	6,096	6,560	6,612	6,679	6,654	6,757	6,491
<i>import cover**</i>	4.4	4.4	4.3	4.5	4.5	4.5	4.5	4.5	4.3
Commercial Banks	1,758	1,800	1,811	1,923	1,907	1,673	1,625	1,829	1,732
<b>2. Residents' foreign currency deposits</b>	<b>3,479</b>	<b>3,371</b>	<b>3,462</b>	<b>3,909</b>	<b>3,939</b>	<b>3,564</b>	<b>3,636</b>	<b>3,833</b>	<b>3,805</b>

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

Source: Central Bank of Kenya

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



### Exchange Rates

The Kenya shilling weakened against major international currencies in May 2014 to trade at an average of 87.41 per US Dollar, 147.29 per Pound Sterling, 120.09 per Euro and 85.84 per 100 Japanese Yen compared to 86.72 per US Dollar, 145.08 per Pound Sterling, 119.78 per Euro and 84.59 per 100 Japanese Yen. The weakening of the shilling to the US Dollar reflected increased dollar demand both from importers and corporates seeking to pay dividend to foreign shareholders.

In the EAC region, the Kenya shilling strengthened to the Tanzania shilling but weakened to all other EAC currencies to trade at an average of Ush 28.97, Tsh 18.92, RWF 7.76 and BIF 17.72 compared to Ush 29.19, Tsh 18.86, RWF 7.82 and BIF 17.88 in April 2014 (Table 4.6 and Chart 4D).

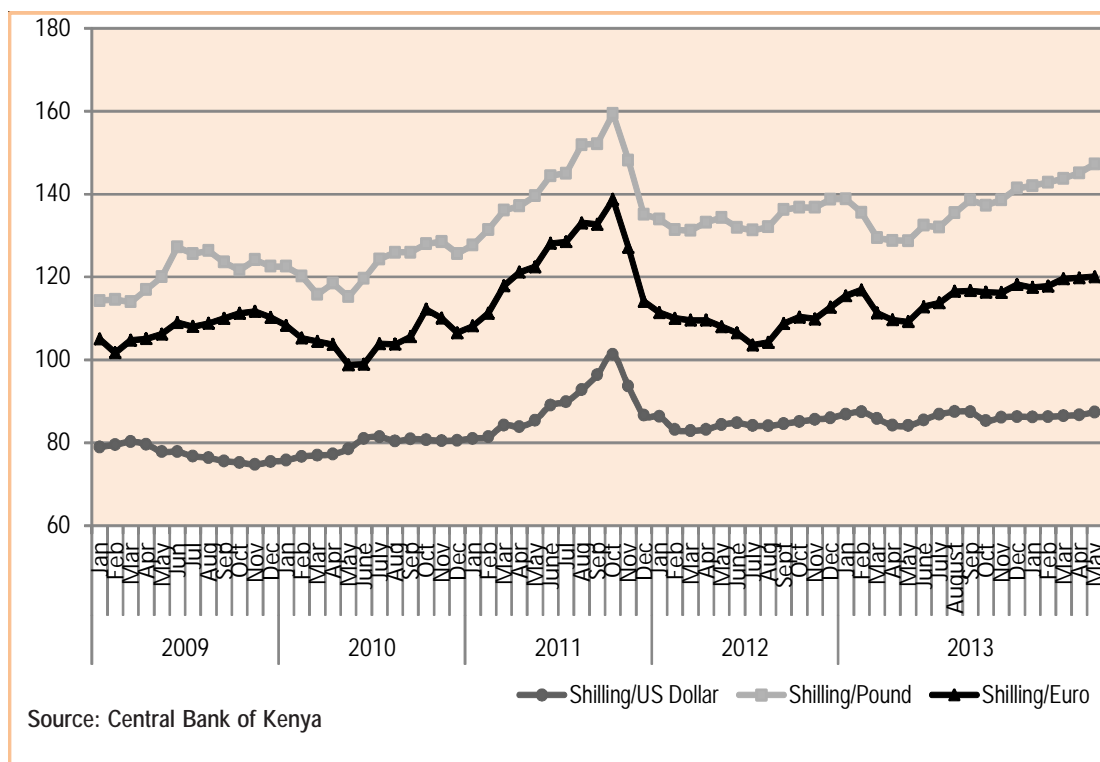
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2013								2014					% change April-May 2014
	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	
US Dollar	84.15	85.49	86.86	87.49	87.41	85.31	86.10	86.31	86.21	86.28	86.49	86.72	87.41	0.80
Pound Sterling	128.72	132.42	132.00	135.47	138.54	137.31	138.64	141.37	141.99	142.81	143.76	145.08	147.29	1.52
Euro	109.18	112.81	113.74	116.51	116.67	116.33	116.22	118.18	117.50	117.81	119.58	119.78	120.09	0.26
100 Japanese Yen	83.37	87.77	87.28	89.39	88.14	87.24	86.21	83.51	82.92	84.52	84.58	84.59	85.84	1.48
Uganda Shilling*	30.74	30.34	29.79	29.48	29.41	29.74	29.31	29.20	29.00	28.61	29.27	29.19	28.97	-0.75
Tanzania Shilling*	19.36	19.13	18.69	18.50	18.48	18.87	18.68	18.63	18.68	18.82	18.88	18.86	18.92	0.28
Rwanda Franc*	7.67	7.56	7.46	7.40	7.50	7.85	7.80	7.76	7.85	7.87	7.85	7.82	7.76	-0.71
Burundi Franc*	18.69	18.22	17.83	17.58	17.59	18.13	18.01	17.91	17.99	18.00	17.98	17.88	17.72	-0.91

\* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



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## DEVELOPMENTS IN THE BANKING SECTOR

- Overview** The Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 9 microfinance banks, 7 representative offices of foreign banks, 97 foreign exchange bureaus, 4 money remittance providers and 2 credit reference bureaus as at 31<sup>st</sup> May 2014.
- Structure of the Balance Sheet** The banking sector balance sheet expanded by 15.6 percent from Ksh 2,501.1 billion in May 2013 to Ksh 2,892.4 billion in May 2014. The major components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 58.5 percent, 21.0 percent and 5.0 percent of total assets, respectively.
- Loans & Advances** The banking sector gross loans and advances rose from Ksh 1,442.9 billion in May 2013 to Ksh 1,754.9 billion in May 2014, which translated to a growth of 21.6 percent. The growth was attributed to increase in lending to personal/households, trade, manufacturing, transport and communication and real estate sectors. Loans and advances net of provisions stood at Ksh 1,736.0 billion in May 2014, up from Ksh 1,427.6 billion registered in a similar period in 2013.
- Deposit Liabilities** Deposits from customers which form the main source of funding for the banking sector, accounted for 73.3 percent of total funding liabilities. The deposit base grew by 15.0 percent from Ksh 1,843.8 billion in May 2013 to Ksh 2,120.0 billion in May 2014 largely supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.
- Capital & Reserves** The banking sector registered enhanced capital levels in May 2014 with total shareholders' funds growing by 19.2 percent from Ksh 379.5 billion in May 2013 to Ksh 452.3 billion in May 2014. Core capital and Total capital increased from Ksh 314.8 billion and Ksh 359.2 billion to Ksh 376.2 billion and Ksh 439.3 billion, respectively over the same period. However, the ratios of core and total capital to total risk-weighted assets declined from 20.6 percent and 23.5 percent in May 2013 to 15.6 percent and 18.3 percent, respectively. The decline in capital adequacy ratios was as a result of increase in total risk weighted assets occasioned by the capital charge for market and operational risks that took effect from January 2014.
- Non-performing Loans** The value of gross non-performing loans (NPLs) grew by 22.7 percent from Ksh 80.3 billion in May 2013 to Ksh 98.5 billion in May 2014. The increase in NPLs is partly attributed to spill-over effects of high interest rates experienced in 2012 and lag-effects of reduced economic activities before and after the March 2013 general elections. The ratio of gross NPLs to gross loans remained at 5.6 percent in May 2014. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 42.2 percent to 39.7 percent in May 2014 due to a higher growth in NPLs than the increase in provisions.

The quality of assets, measured as a proportion of net non-performing loans to gross loans deteriorated from 2.6 percent in May 2013 to 2.7 percent in May 2014 (Table 5.1).

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

		May-13	May-14
1	Gross loans and advances	1442.9	1754.9
2	Interest in Suspense	15.3	18.9
3	Loans and advances (net of interest suspended)	1427.6	1736
4	Gross non-performing loans	80.3	98.5
5	Specific Provisions	27.4	31.6
6	General Provisions	14.5	12.9
7	Total Provisions (5+ 6)	41.9	44.5
8	Net Advances (3-7)	1385.7	1691.5
9	Total Non-Performing Loans and Advances (4-2)	65	79.6
10	Net Non-Performing Loans and Advances (9-5)	37.6	48
11	Total NPLs as % of total advances (9/3)	4.60%	4.60%
12	Net NPLs as % of gross advances (10/1)	2.60%	2.70%
13	Specific Provisions as % of Total NPLs (5/9)	42.20%	39.70%

Source: Central Bank of Kenya

**Profitability** The banking sector registered an increase of 12.5 percent growth in pre-tax profits, from Ksh 48.7 billion in May 2013 to Ksh 54.8 billion as at end of May 2014. The annualised return on assets declined from 3.7 percent to 3.1 percent over the same period. Similarly, return on equity declined from 30.8 percent to 29.1 percent over the same period. Total income increased by 11.7 percent from Ksh 145.9 billion in May 2013 to Ksh 163.0 billion in May 2014, while total expenses increased by 11.3 percent from Ksh 97.2 billion in May 2013 to Ksh 108.2 billion in May 2014. Interest on loans and advances, fees and commissions and government securities were the main sources of income accounting for 59.7 percent, 17.8 percent and 15.2 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 32.1 percent, 28.4 percent and 24.3 percent, respectively.

**Liquidity Ratio Requirement** For the month ended May 31, 2014, average liquid assets amounted to Ksh 818.3 billion while total short-term liabilities stood at Ksh 2,071.9 billion, resulting to an average liquidity ratio of 39.5 percent, against 42.7 percent registered in May 2013.

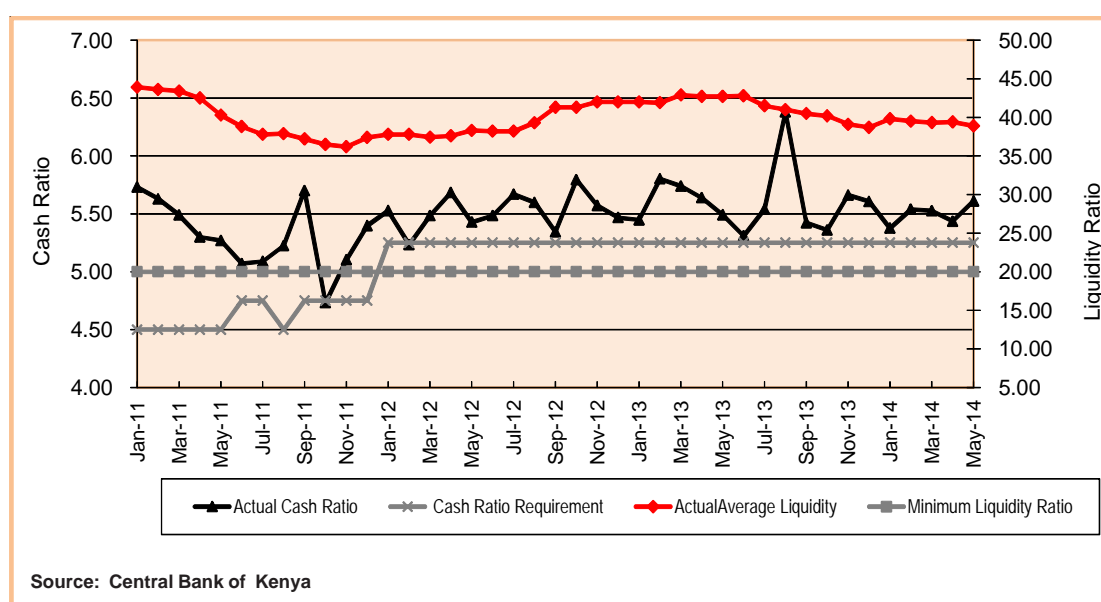
**Cash Ratio Requirement** The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for reserve requirements averaged 5.61 percent in May 2014 compared with 5.44 percent in April 2014, and 5.25 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of KSh 7.09 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in May 2014 compared with KSh 3.61 billion in April 2014. Commercial banks are required to maintain Cash Reserve Ratio (CRR) on a monthly average of 5.25 percent in the 30 day maintenance cycle from 15<sup>th</sup> through 14<sup>th</sup> of every month but subject to a daily minimum of 3.0 percent.

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

	2013								2014				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
<b>Commercial Banks</b>													
Actual Average Liquidity	42.70	42.80	41.50	41.00	40.50	40.20	39.10	38.70	39.80	39.50	39.32	39.40	39.40
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	20.00
Actual Cash Ratio - All Banks	5.49	5.31	5.54	6.38	5.42	5.36	5.66	5.61	5.38	5.54	5.53	5.44	5.44
Minimum Cash Ratio Requirement	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
<b>NBFIs</b>													
Actual Average Liquidity Ratio	34.40	33.10	39.50	36.50	36.80	33.10	32.60	32.60	34.20	34.13	32.69	29.90	29.90
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	20.00

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

### KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 209,019 transaction messages worth Ksh 2,188 billion in May 2014 compared with a volume of 200,151 transaction messages valued at Ksh 2,047 billion moved in April 2014, representing an increase of 6.89 percent and 4.43 percent in value and volume respectively. Compared to May 2013, the volume increased by 15.45 percent from 181,045 transaction messages to 209,019 transaction messages in May 2014 while value increased by 17.07 percent from 1,869 billion to 2,188 billion, indicating increased uptake of KEPSS services by the public.

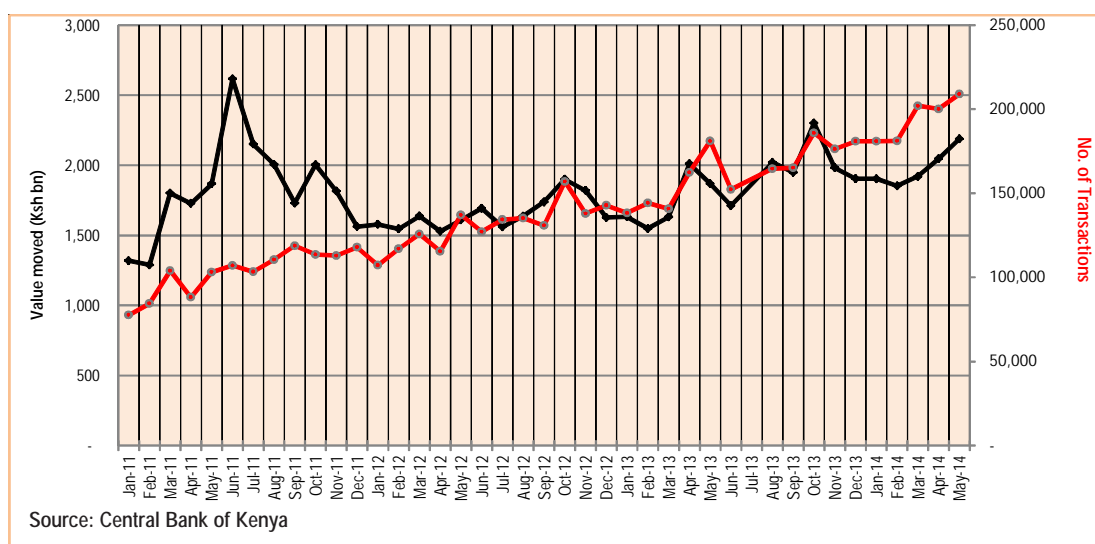
During the twelve months period to May 31, 2014 the value moved averaged Ksh 11 million per transaction. On average, 8,763 transaction messages with an average value of approximately Ksh 96 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted 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-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	22	85	6,357
Aug-12	1,561	26	134,391	0.01	23	71	6,109
Sep-12	1,637	26	135,243	0.01	23	71	6,109
Oct-12	1,739	26	130,874	0.01	20	87	6,544
Nov-12	1,900	26	157,020	0.01	23	83	6,827
Dec-12	1,820	26	137,975	0.01	22	83	6,272
Jan-13	1,627	30	142,867	0.01	18	90	7,937
Feb-13	1,632	25	138,297	0.01	22	74	6,286
Mar-13	1,548	25	144,248	0.01	20	77	7,212
Apr-13	1,631	28	140,781	0.01	20	82	7,039
May-13	2,011	32	162,432	0.01	20	101	8,122
Jun-13	1,869	31	181,045	0.01	22	85	8,229
Jul-13	1,712	28	152,310	0.01	20	86	7,616
Aug-13	2,109	35	185,773	0.01	23	92	8,077
Sep-13	2,021	24	164,650	0.01	21	96	7,840
Oct-13	1,949	31	165,175	0.01	21	93	7,865
Nov-13	2,301	30	185,920	0.01	22	105	8,451
Dec-13	1,982	29	176,330	0.01	21	94,381	8,397
Jan-14	1,905	30	180,926	0.01	18	105,811	10,051
Feb-14	1,904	31	180,897	0.01	22	86	8,223
Mar-14	1,853	28	181,123	0.01	20	87	9,056
Apr-14	1,920	31	202,035	0.01	21	91	9,621
May-14	2,047	27	200,151	0.01	20	102	10,008
May-14	2,188	28	209,019	0.01	21	104	9,953

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

### Third Party Messages

Multiple third party Message Type (MT 102) used for multiple credit transfers increased by 20.71 percent from 17,019 transaction messages in April 2014 to 20,543 transaction messages in May 2014, while single third party Message Type (MT 103) used for single credit transfers increased by 0.98 percent from 216,820 transaction messages to 218,936 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 2.41 percent from 233,839 transaction messages in April 2014 to 239,479 transaction messages in May 2014.

Compared with May 2013, multiple third party messages (MT 102) increased by 30.93 percent from 15,690 transaction messages to 20,543 transaction messages in May 2014 while single third party messages (MT 103) increased by 20.34 percent from 181,934 transaction messages to 218,936 transaction messages (Table 5.4 and Chart 5C).

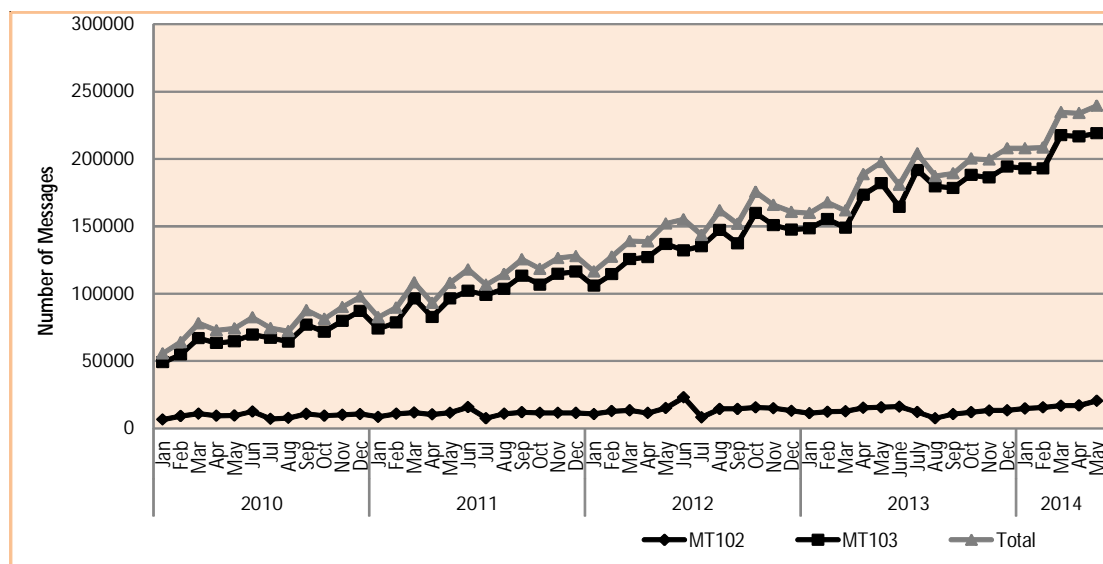
Inter-bank transfers (MT 202) accounted for 32.45 percent of the total value moved through KEPSS as at end of May 2014 while third party (MT 102 and MT 103) messages accounted for 67.55 percent. The total number of third party messages grew by 21.18 percent from 197,624 messages in May 2013 to 239,479 messages in May 2014. This signifies continued growth in KEPSS usage by individuals and non-bank corporate bodies.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

2012	Jan	10,661	105,817	116,478
	Feb	12,871	114,522	127,393
	Mar	13,428	125,628	139,056
	Apr	11,439	127,126	138,565
	May	15,093	136,942	152,035
	Jun	23,048	132,103	155,151
	Jul	8,268	135,173	143,441
	Aug	14,459	147,373	161,832
	Sep	14,527	137,268	151,795
	Oct	15,616	159,847	175,463
	Nov	15,008	150,800	165,808
	Dec	13,123	147,510	160,633
2013	Jan	11,267	148,497	159,764
	Feb	12,405	155,349	167,754
	Mar	12,681	148,954	161,635
	Apr	15,247	173,453	188,700
	May	15,690	181,934	197,624
	Jun	16,254	164,422	180,676
	Jul	12,189	191,864	204,053
	Aug	7,530	179,629	187,159
	Sep	10,655	178,480	189,135
	Oct	12,087	188,162	200,249
	Nov	13,265	186,194	199,459
	Dec	13,328	194,427	207,755
2014	Jan	14,858	192,905	207,763
	Feb	15,596	192,858	208,454
	Mar	16,935	217,572	234,507
	Apr	17,019	216,820	233,839
	May	20,543	218,936	239,479

Source: Central Bank of Kenya

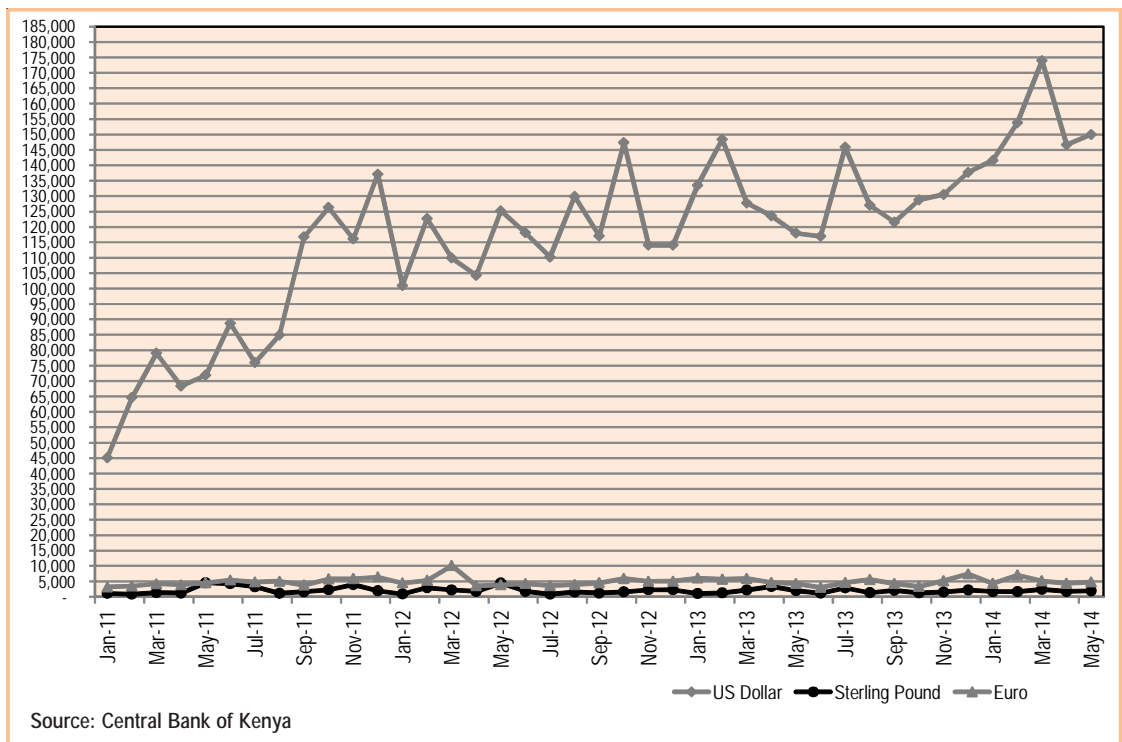
CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS



### Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 3.29 percent from 16,666 transaction messages in April 2014 to 17,214 transaction messages in May 2014. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period increased by 2.59 percent from Ksh 152.8 billion to Ksh 156.7 billion. The US dollar denominated transactions accounted for 95.69 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.24 percent and 3.07 percent, respectively.

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



## GOVERNMENT BUDGET PERFORMANCE

The Government budgetary operations for the period July 2013 to May 2014 of the FY 2013/14 resulted in a deficit of Ksh 233.6 billion (6.1 percent of GDP) on commitment basis, this was slightly lower than the Ksh 236.9 billion deficit incurred in a similar period of the FY 2012/13. With respect to targets, the provisional deficit fell below the Ksh 354.3 billion (9.3 percent of GDP) programmed target for the period.

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

	FY 2012/13	FY 2013/14		
	May Actual	May Provisional	Target	Over (+) / below(-) Target
<b>1. TOTAL REVENUE &amp; GRANTS</b>	<b>758.3</b>	<b>880.8</b>	<b>991.7</b>	<b>-110.9</b>
<b>Revenue</b>	<b>741.2</b>	<b>860.2</b>	<b>917.9</b>	<b>-57.7</b>
Tax Revenue	655.4	783.1	811.2	-28.1
Non Tax Revenue	39.7	49.8	45.0	4.8
Appropriations-in-Aid	46.1	27.2	61.7	-34.5
External Grants	17.1	20.6	73.8	-53.2
<b>2. TOTAL EXPENSES &amp; NET LENDING</b>	<b>995.2</b>	<b>1114.3</b>	<b>1346.0</b>	<b>-231.7</b>
Recurrent Expenses	736.4	712.5	712.7	-0.2
Development Expenses	258.8	241.9	439.9	-198.0
County Transfers	0.0	159.9	193.4	-33.5
<b>3. DEFICIT ON A COMMITMENT BASIS (1-2)</b>	<b>-236.9</b>	<b>-233.6</b>	<b>-354.3</b>	<b>120.8</b>
As percent of GDP	-6.3	-6.1	-9.3	
<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>-236.9</b>	<b>-233.6</b>	<b>-354.3</b>	<b>120.8</b>
As percent of GDP	-6.3	-4.3	-9.4	
<b>6. DISCREPANCY: Expenditure (+) / Revenue (-)</b>	<b>-8.5</b>	<b>12.5</b>	<b>0.0</b>	<b>12.5</b>
<b>7. FINANCING</b>	<b>228.4</b>	<b>246.0</b>	<b>354.3</b>	<b>-108.3</b>
Domestic (Net)	180.8	206.8	48.6	158.2
External (Net)	47.6	39.2	305.7	-266.5
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: National Treasury

### Revenue

Total government revenues and grants amounted to Ksh 880.8 billion in the period July 2013– May 2014, signifying an increase of Ksh 122.5 billion from Ksh 758.3 billion collected in a similar period of the FY 2012/13 (Table 6.2). Nonetheless, total tax revenue and external grants underperformed by Ksh 28.1 billion and Ksh 53.2 billion, respectively, with respect to the targeted amounts of Ksh 811.2 billion and Ksh 73.8 billion during this period (Table 6.1).

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

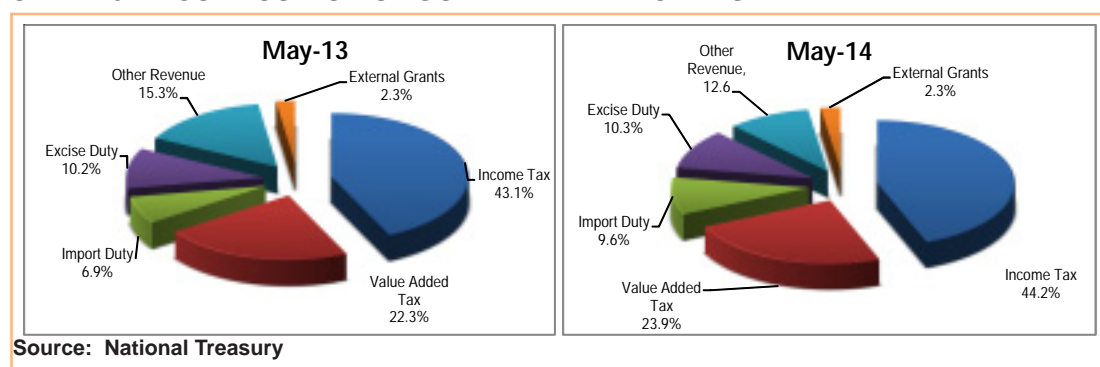
	May-13 Ksh bn	May-14 Ksh bn	Change
<b>1. Revenue (2+3+4)</b>	<b>741.2</b>	<b>860.2</b>	<b>119.0</b>
2. Tax Revenue	655.4	783.1	127.7
Income Tax	326.9	389.2	62.4
Value Added Tax	168.8	210.2	41.4
Import Duty	52.4	84.5	32.1
Excise Duty	77.5	90.4	12.9
Others	29.8	8.7	-21.1
3. Appropriations-in-Aid	46.1	27.21	-18.9
4. Other Revenue	39.7	49.8	10.2
<b>5. External Grants</b>	<b>17.1</b>	<b>20.6</b>	<b>3.5</b>
<b>TOTAL RECEIPTS (1+5)</b>	<b>758.3</b>	<b>880.8</b>	<b>122.5</b>

Source: National Treasury

Tax revenue grew by Ksh 127.7 billion, equivalent to 19.5 percent increase, from Ksh 655.4 billion collected at the end of the eleven months of the FY 2012/13 to Ksh 783.1 billion for a similar period of FY 2013/14 (Table 6.2). The increase was largely on account of income tax, which grew by Ksh 62.4 billion (19.1 percent) during the period. Excise, import duty and value added tax increased by Ksh 12.9 billion, Ksh

32.1 billion and Ksh 41.4 billion respectively. On the other hand, other tax revenue and appropriation in aid declined by Ksh 21.1 billion and Ksh 18.9, respectively during the period under review. All taxes except VAT, underperformed with respect to targets, which may suggest that the level of economic activity during this period was below expectation. The VAT may have performed well on account of implementation of the VAT law on September 1, 2013 that saw companies dealing in goods and services that were previously exempt and zero-rated being VAT table under the new VAT Act.

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



### Expenditure and Net Lending

Government expenditure and net lending increased by Ksh 119.1 billion in the period July 2013– May 2014 from Ksh 995.2 billion expended during the same period in the FY 2012/13. Total expenditure during this period amounted to Ksh 1114.3 billion, comprising Ksh 712.5 billion, Ksh 241.9 billion and Ksh 159.9 billion in recurrent expenditure, development expenditure and county transfers, respectively.

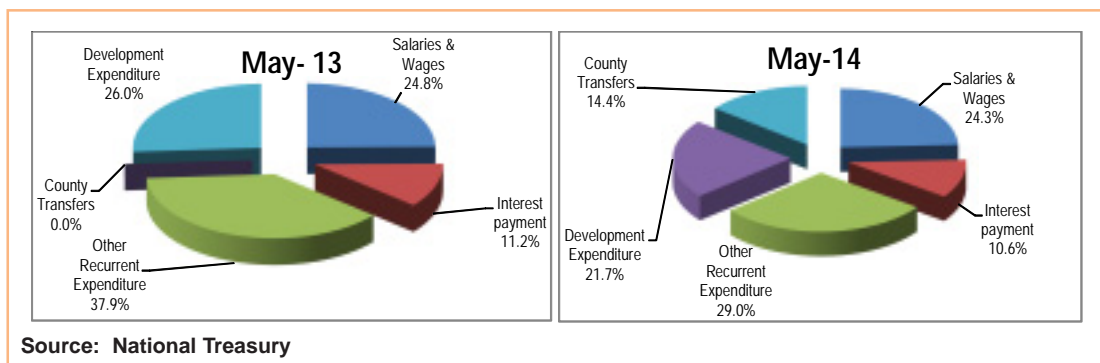
Recurrent expenditure decreased by Ksh 23.8 billion during the period under review of which Ksh 54.1 billion, of this decline was in other recurrent expenditure and Ksh 0.8 billion in foreign interest payment. However salaries and wages, and domestic interest payment increased by 10 billion and Ksh 3 billion, respectively. The increase in interest payments was wholly on domestic debt interest at Ksh 3 billion which offset Ksh 0.7 billion decline in foreign interest payments. The development expenditure declined by Ksh 16.9 billion and in relation to the target reflects Ksh 198 billion under absorption. Meanwhile, County transfers at Ksh 159.9 billion also underperformed by Ksh 33.5 billion compared to target (Table 6.1). The lower than projected absorption in the development budget and transfers to Counties is attributed to slow absorption of funds from external sources and incomplete institutional and legal framework for spending money at the counties.

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

	May-13 Ksh bn	May-14 Ksh bn	Movement
<b>1. Recurrent</b>	<b>736.4</b>	<b>712.5</b>	<b>-23.8</b>
Salaries & Wages	247.2	270.8	23.7
Total Interest	111.6	118.2	6.6
of which	0.0		
Domestic*	101.3	108.7	7.4
Foreign interest due	10.3	9.5	-0.8
Others	377.6	323.5	-54.1
<b>2. Development</b>	<b>258.8</b>	<b>241.9</b>	<b>-16.9</b>
<b>3. County Transfers</b>	<b>0.0</b>	<b>159.9</b>	<b>159.9</b>
<b>TOTAL EXPENSES</b>	<b>995.2</b>	<b>1114.3</b>	<b>119.1</b>

\*Includes commission and other charges paid to CBK  
Source: National Treasury

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



**Financing**

Budgetary operations of the Government resulted in a financing requirement of Ksh 211.8 billion in the period July – May 2014 compared with Ksh 263.5 billion in the same period in the FY 2012/13. The Government sourced the funds through domestic borrowing amounting to Ksh 172.6 billion and net external debt borrowing of Ksh 39.2 billion. The funds were allocated to bridge the Government budgetary deficit of Ksh 233.6 billion and buildup of government deposits by Ksh 22.8 billion (Table 6.4). The build-up of Government deposits in part mirror lower than budgeted uptake in development and County transfers.

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

	May-13	May-14
<b>I. FINANCING REQUIREMENTS</b>		
1. Budget deficit	236.9	233.6
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	25.1	22.8
5. Adjustment to cash basis	1.5	-44.6
<b>TOTAL</b>	<b>263.5</b>	<b>211.8</b>
<b>II. FINANCING SOURCES</b>		
1. Budget surplus	0.0	0.0
2. External debt increase	47.6	39.2
3. Increase in domestic debt	216.0	172.6
3.1 Central Bank	16.7	31.7
3.2 Commercial banks	120.0	44.4
3.3 Non-bank sources	79.4	96.5
4. Reduction in GoK deposits at CBK	0.0	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
<b>TOTAL</b>	<b>263.5</b>	<b>211.8</b>

Sources: National Treasury and Central Bank of Kenya

**Government Borrowing from the Central Bank**

Government indebtedness to the Central Bank amounted to Ksh 68.1 billion in the period July 2013 – May 2014, which was Ksh 4.1 billion higher than the Ksh 64 billion in the same period of the FY 2012/13. The increase in Government liability to the Central Bank was attributed to an increase in the overdraft facility at the Central Bank, increase in holdings of Treasury Bills by Ksh 0.5 billion during the period under review. Treasury bonds reduced by Ksh 0.3 billion in April 2014. Amortization of the pre-1997 overdraft reduced Government indebtedness at the Central Bank by Ksh 1.1 billion.

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

	2013	2014	Movement
	May	May	
<b>Total Credit</b>	<b>64.0</b>	<b>68.1</b>	<b>4.1</b>
1. Overdraft	34.2	39.1	4.9
2. Rediscounted securities	0.3	0.6	0.3
Treasury bills	0.0	0.5	0.5
Treasury bonds	0.3	0.0	-0.3
3. Pre-1997 Government Overdraft at CBK	29.4	28.3	-1.1
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.1	0.0	0.0
<b>Memorandum</b>			
Authorised overdraft limit	34.2	39.1	4.9
Amount utilised to date	34.2	39.1	4.9
Amount available	0.0	0.0	0.0

Source: Central Bank of Kenya

**Outlook for FY 2013/14** In the revised budget estimates for the FY 2013/14, ordinary revenue is estimated at Ksh 950.5 billion (25.2 percent of GDP) while external grants are estimated at Ksh 78.9 billion (2.1 percent of GDP). Government expenditure is estimated at Ksh 1,470.6 billion (or 38.9 percent of GDP), of which, Ksh 821.9 billion (21.8 percent of GDP) will be in recurrent expenses, transfer to the county government of Ksh 193.5 billion and the rest in development expenses (Table 6.6).

TABLE 6.6: BUDGET ESTIMATES FOR THE FISCAL YEAR 2013/14 (Ksh Billion)

	Ksh (Bn)	% of GDP
<b>1. TOTAL REVENUE</b>	<b>1,097.64</b>	<b>29.07</b>
Ordinary Revenue	950.50	25.17
Appropriations-in-Aid	68.23	1.81
External Grants	78.91	2.09
<b>2. TOTAL EXPENSES &amp; NET LENDING</b>	<b>1,470.61</b>	<b>38.94</b>
Recurrent Expenses	821.89	21.76
Development Expenses	455.26	12.06
County Transfer	193.47	5.12
<b>3. DEFICIT ON A COMMITMENT BASIS (1-2)</b>	<b>(372.97)</b>	<b>-9.88</b>
<b>4. ADJUSTMENT TO CASH BASIS</b>	<b>-</b>	<b>0.00</b>
<b>5. DEFICIT ON A CASH BASIS</b>	<b>(372.97)</b>	<b>-9.88</b>
<b>6. DISCREPANCY: Expenditure (+) / Revenue (-)</b>	<b>-</b>	<b>0.00</b>
<b>7. FINANCING</b>	<b>372.97</b>	<b>9.88</b>
Domestic (Net)	134.68	3.57
External (Net)	238.29	6.31

Source: Central Bank of Kenya

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 373 billion (9.9 percent of GDP) in 2013/14. The deficit is expected to be financed through net external borrowing of Ksh 238.3 billion and net domestic borrowing of Ksh 134.7 billion.

## DEVELOPMENTS IN PUBLIC DEBT

**Overall Debt** Kenya's public and publicly guaranteed debt increased by 15.6 percent to reach Ksh 2,190.4 billion in May 2014, from Ksh 1,894.1 billion in June, 2013. The total debt stock at the end of May 2014 was equivalent to 56.9 percent of GDP, compared with 51.7 percent of GDP in June 2013. The debt to GDP ratios for both domestic and external debts increased from 28.7 percent and 23.0 percent, respectively, in June 2013 to 32.5 percent and 25.2 percent in May 2014 (Table 7.1).

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

	Jun-13	Jul-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Change 2013/14
Bilateral	257.6	270.6	273.9	283.7	284.9	284.2	244.2	283.7	288.5	288.4	30.7
Multilateral	511.8	529.1	539.9	553.3	562.6	561.7	573.3	581.9	587.5	595.6	83.8
Commercial Banks	58.9	59.9	58.7	59.5	59.1	59.0	59.1	59.2	59.1	59.6	0.7
Supplier Credits	15.2	15.6	15.5	15.8	15.8	15.6	15.7	15.7	15.9	14.3	-0.9
<b>Sub-Total</b>	<b>843.56</b>	<b>875.23</b>	<b>887.99</b>	<b>912.23</b>	<b>922.37</b>	<b>920.41</b>	<b>892.30</b>	<b>940.45</b>	<b>950.98</b>	<b>957.89</b>	<b>114.33</b>
(As a % of GDP)	23.0	23.6	22.9	23.5	23.8	23.7	23.6	24.4	24.7	25.2	
(As a % of total debt)	44.5	44.8	43.0	43.8	43.7	43.4	42.1	43.3	43.9	43.7	
<b>DOMESTIC<sup>1</sup></b>											
<b>Banks</b>	<b>563.5</b>	<b>573.7</b>	<b>612.8</b>	<b>609.2</b>	<b>627.6</b>	<b>633.4</b>	<b>664.4</b>	<b>663.5</b>	<b>632.5</b>	<b>644.1</b>	<b>80.7</b>
Central Bank	36.4	47.7	57.4	67.2	64.6	56.6	73.3	77.2	63.2	68.1	31.7
Commercial Banks	527.1	526.0	555.4	542.0	563.0	576.8	591.1	586.3	569.3	576.0	49.0
<b>Non-banks</b>	<b>477.5</b>	<b>496.1</b>	<b>551.6</b>	<b>550.6</b>	<b>551.3</b>	<b>557.0</b>	<b>553.2</b>	<b>553.7</b>	<b>570.8</b>	<b>575.3</b>	<b>97.8</b>
Pension Funds	263.1	272.4	284.9	288.2	294.1	306.0	304.8	310.6	311.1	313.6	50.5
Insurance Companies	108.6	111.9	117.8	117.6	114.4	116.6	117.3	117.8	118.3	120.1	11.5
Other Non-bank Sources	105.9	111.8	149.0	144.8	142.8	134.4	131.1	125.3	141.4	141.7	35.8
<b>Non-residents</b>	<b>9.6</b>	<b>8.9</b>	<b>10.3</b>	<b>10.3</b>	<b>10.3</b>	<b>10.5</b>	<b>11.7</b>	<b>14.0</b>	<b>13.4</b>	<b>13.1</b>	<b>3.5</b>
<b>Sub-Total</b>	<b>1050.6</b>	<b>1078.6</b>	<b>1174.8</b>	<b>1170.1</b>	<b>1189.2</b>	<b>1200.9</b>	<b>1229.3</b>	<b>1231.2</b>	<b>1216.8</b>	<b>1232.5</b>	<b>181.9</b>
(As a % of GDP)	28.7	29.1	30.3	30.2	30.7	31.0	32.6	32.0	31.6	32.5	
(As a % of total debt)	55.5	55.2	57.0	56.2	56.3	56.6	57.9	56.7	56.1	56.3	
<b>GRAND TOTAL</b>	<b>1894.1</b>	<b>1953.8</b>	<b>2062.8</b>	<b>2082.3</b>	<b>2111.6</b>	<b>2121.3</b>	<b>2121.6</b>	<b>2171.7</b>	<b>2167.7</b>	<b>2190.4</b>	<b>296.3</b>
(As a % of GDP)	51.7	52.7	53.2	53.7	54.5	55.1	55.1	56.4	56.3	56.9	

Sources: National Treasury and Central Bank of Kenya

**Domestic Debt** The total stock of domestic debt increased by Ksh 181.9 billion at the beginning of the end of the first eleven months of the FY 2013/14 to reach Ksh 1,232.5 billion in May 2014. This was as a result of increases of Ksh 142.7 billion in Treasury bonds, Ksh 7.1 billion in Treasury bills and Ksh 32.1 billion in Government overdraft at the Central Bank (Table 7.2). Consequently, domestic debt-to-total debt ratio increased from 55.5 percent in June, 2013 to 56.3 percent in May 2014, while domestic debt-to-GDP edged up to 32.5 percent in May 2014, from 28.7 percent in June 2013 (Table 7.1).

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2013				2014						Change Jun-13 -May-14
	June	%	Dec	%	Jan	%	Apr	%	May	%	
<b>Total Stock of Domestic Debt (A+B)</b>	<b>1,050.6</b>	<b>100.0</b>	<b>1,189.2</b>	<b>100.0</b>	<b>1,200.9</b>	<b>100.0</b>	<b>1,216.8</b>	<b>100.0</b>	<b>1,232.5</b>	<b>100.0</b>	<b>181.9</b>
<b>A. Government Securities</b>	<b>1,040.8</b>	<b>99.1</b>	<b>1,152.4</b>	<b>96.9</b>	<b>1,175.9</b>	<b>97.9</b>	<b>1,179.6</b>	<b>96.9</b>	<b>1,190.1</b>	<b>96.6</b>	<b>149.3</b>
<b>1. Treasury Bills (excluding Repo Bills)</b>	<b>267.7</b>	<b>25.5</b>	<b>307.3</b>	<b>25.8</b>	<b>316.3</b>	<b>26.3</b>	<b>276.7</b>	<b>22.7</b>	<b>274.8</b>	<b>22.3</b>	<b>7.1</b>
Banking institutions	183.5	17.5	191.1	16.1	193.1	16.1	151.9	12.5	152.9	12.4	(30.5)
Others	84.2	8.0	116.2	9.8	123.2	10.3	124.8	10.3	121.9	9.9	37.6
<b>2. Treasury Bonds</b>	<b>744.2</b>	<b>70.8</b>	<b>816.3</b>	<b>68.6</b>	<b>831.3</b>	<b>69.2</b>	<b>874.7</b>	<b>71.9</b>	<b>886.9</b>	<b>72.0</b>	<b>142.7</b>
Banking institutions	341.0	32.5	369.5	31.1	381.4	31.8	414.8	34.1	420.5	34.1	79.5
Pension Funds	220.1	21.0	230.9	19.4	233.4	19.4	240.5	19.8	244.6	19.8	24.5
Others	183.0	17.4	215.9	18.2	216.5	18.0	219.3	18.0	221.8	18.0	38.8
<b>4. Non-Interest Bearing Debt</b>	<b>28.9</b>	<b>2.7</b>	<b>28.9</b>	<b>2.4</b>	<b>28.3</b>	<b>2.4</b>	<b>28.3</b>	<b>2.3</b>	<b>28.3</b>	<b>2.3</b>	<b>(0.6)</b>
Of which: Repo T/Bills	28.9	2.8	28.8	2.4	28.3	2.4	28.3	2.3	28.3	2.3	(0.6)
<b>B. Others:</b>	<b>9.8</b>	<b>0.9</b>	<b>36.7</b>	<b>3.1</b>	<b>25.0</b>	<b>2.1</b>	<b>37.2</b>	<b>3.1</b>	<b>42.4</b>	<b>3.4</b>	<b>32.6</b>
Of which CBK overdraft to Government	7.0	0.7	34.2	2.9	22.5	1.9	34.2	3.1	39.1	3.2	32.1

Source: Central Bank of Kenya

### Treasury Bills

Treasury bill holdings, excluding repos, increased by Ksh 7.1 billion from Ksh 267.7 billion in June 2013 to Ksh 274.8 billion in May 2014 (Table 7.2). However, despite this increase, the proportion of Treasury bills to total domestic debt decreased to 22.3 percent in May 2014 from 25.5 percent in June 2013. The dominant investors were commercial banks and pension funds, with shares of 55.5 percent, and 25.1 percent respectively, by May 2014 compared with shares of 68.5 percent and 16 percent as at June 2013 (Table 7.3).

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

Holders	2013				2014								Change Jun 13-May-14		
	Jun	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%		May	%
Banking Institutions	0.0	68.5	191.1	62.2	193.1	61.0	204.4	64.3	190.3	62.9	151.9	54.9	152.9	55.7	-30.5
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	10.7	3.3	14.6	4.8	0.5	0.2	0.5	0.2	0.5
Comm. Banks	0.0	68.5	191.1	62.2	193.1	61.0	193.7	61.0	175.8	58.1	151.4	54.7	152.4	55.5	-31.1
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	14.9	5.6	20.5	6.7	19.7	6.2	20.2	6.4	20.1	6.6	20.4	7.4	19.9	7.3	5.0
Parastatals	5.6	2.1	4.1	1.3	4.0	1.3	4.3	1.4	4.2	1.4	4.3	1.6	5.1	1.9	-0.5
Building Societies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	42.9	16.0	69.9	22.7	72.5	22.9	69.7	21.9	72.7	24.0	70.6	25.5	68.9	25.1	26.0
Others	-63.5	7.8	21.7	7.1	26.9	8.5	19.2	6.0	15.5	5.1	29.5	10.7	27.9	10.2	7.1
<b>Total</b>	<b>0.0</b>	<b>100.0</b>	<b>307.3</b>	<b>100.0</b>	<b>316.3</b>	<b>100.0</b>	<b>317.8</b>	<b>100.0</b>	<b>302.8</b>	<b>100.0</b>	<b>276.7</b>	<b>100.0</b>	<b>274.8</b>	<b>100.0</b>	<b>7.1</b>

Source: Central Bank of Kenya

### Treasury Bonds

Outstanding Treasury bonds increased by Ksh 142.7 billion, from Ksh 744.2 billion in June 2013 to Ksh 886.9 billion in May 2014. The proportion of bonds to total domestic debt increased from 70.8 percent in June 2013 to 72 percent in May 2014 following a decrease in the acquisition of Treasury bills (Table 7.2). The increase in the holding of Treasury bonds was as follows: Ksh 79.4 billion, Ksh 6.5 billion and Ksh 56.8 billion absorbed by commercial banks, insurance companies and other holders, respectively. Treasury Bonds held by non-bank financial institutions, pension funds, parastatals and Central Bank remained unchanged during the period under review. The shares of Treasury bonds held by Commercial banks and other holders increased from 45.8 percent and 6.2 percent to 47.4 percent and 9.9 percent, respectively. However, the shares held by insurance companies, parastatals and pension funds declined from 12.6 percent, 5.7 percent and 29.6 percent in June,

2013 to 11.2 percent, 3.9 percent and 27.5 percent, respectively in May 2014. Meanwhile, the share held by building societies, Central Bank and non-bank financial institutions remained unchanged during the period under review (Table 7.4)

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

Holders	2013				2014								Change Jun-13 to May-14		
	June	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%		May	%
Banking Institutions	341.2	45.9	369.7	45.3	381.5	45.9	391.6	46.4	407.9	47.2	414.8	47.2	420.5	47.4	79.3
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	341.0	45.8	369.5	45.3	381.4	45.9	391.6	46.4	407.9	47.2	414.7	47.2	420.5	47.4	79.4
NBFIs	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.0
Insurance Companies	93.7	12.6	96.7	11.8	96.9	11.7	97.2	11.5	97.7	11.3	97.9	11.3	100.1	11.2	6.5
Parastatals	42.7	5.7	39.4	4.8	39.2	4.7	39.4	4.7	39.4	4.6	34.4	4.6	42.7	3.9	0.0
Of which: NSSF	22.7	3.1	21.2	2.6	21.2	2.5	21.2	2.5	21.2	2.5	16.2	2.5	22.7	1.8	0.0
Building Societies	0.6	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.6	0.1	0.0
Pension Funds	220.1	29.6	230.9	28.3	233.4	28.1	235.1	27.9	238.0	27.6	240.5	27.6	220.1	27.5	0.0
Others	45.8	6.2	79.1	9.7	79.7	9.6	79.6	9.3	79.9	9.3	86.4	9.3	102.7	9.9	56.8
<b>Total</b>	<b>744.2</b>	<b>100.0</b>	<b>816.3</b>	<b>100.0</b>	<b>831.3</b>	<b>100.0</b>	<b>843.6</b>	<b>100.0</b>	<b>863.6</b>	<b>100.0</b>	<b>874.7</b>	<b>100.0</b>	<b>886.9</b>	<b>100.0</b>	<b>142.7</b>

Source: Central Bank of Kenya

### Domestic Debt Maturity structure

Total domestic debt as at April 2014 amounted to Ksh 1,232.5 billion with government securities accounting for 96.6 percent of this debt (Table 7.2). In terms of maturity structure, Government securities worth Ksh 309.5 billion will fall due between May and June 2014, and will comprise Ksh 278.9 billion in Treasury bills. Treasury bills maturities in the period will comprise Ksh 53.4 billion, Ksh 84.7 billion and Ksh 140.9 billion in 91-day, 182-day and 364-day Treasury bills, respectively.

The average length of maturity of existing domestic debt declined to 4 years and 11 months in May 2014, from 5 years and 2 months in June 2013.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2013				2014								Change Jun-13 to May-14		
		Jun	%	Dec	%	Jan	%	Feb	%	Mar	%	Apr	%		May	%
Treasury bills	91-Day	36.2	3.4	30.3	2.5	30.8	2.6	29.4	2.6	33.9	2.8	33.4	2.8	41.2	2.7	-2.8
	182-Day	52.2	5.0	47.6	4.0	55.0	4.6	57.4	4.6	66.0	5.4	75.3	5.4	77.9	6.2	23.1
	364-Day	179.3	17.1	229.4	19.3	230.5	19.2	230.9	19.2	202.9	16.5	168.0	16.5	155.7	13.8	-11.3
Treasury Bonds	1.5-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	122.0	11.6	140.8	11.8	140.8	11.7	140.9	11.7	160.8	13.1	154.4	13.1	154.4	12.7	32.4
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	19.1	1.8	25.1	2.1	25.1	2.1	29.9	2.1	29.9	2.4	29.9	2.4	29.9	2.5	10.8
	5-Year	138.4	13.2	127.0	10.7	127.0	10.6	141.4	10.6	141.4	11.5	141.4	11.5	141.4	11.6	3.0
	6-Year	40.7	3.9	40.7	3.4	40.7	3.4	40.7	3.4	40.7	3.3	40.7	3.3	40.7	3.3	0.0
	7-Year	19.3	1.8	17.0	1.4	17.0	1.4	17.0	1.4	17.0	1.4	17.0	1.4	17.0	1.4	-2.3
	8-Year	31.8	3.0	38.7	3.3	38.7	3.2	40.9	3.2	40.9	3.3	40.9	3.3	40.9	3.4	9.1
	9-Year	18.2	1.7	18.2	1.5	18.2	1.5	18.2	1.5	18.2	1.5	18.2	1.5	18.2	1.5	0.0
	10-Year	109.4	10.4	116.1	9.8	131.1	10.9	131.1	10.9	131.1	10.6	131.1	10.6	131.1	10.8	21.7
	11-Year	4.0	0.4	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	0.0
	12-Year	30.2	2.9	54.7	4.6	54.7	4.6	45.4	4.6	45.4	3.7	45.4	3.7	45.4	3.7	15.2
	15-Year	119.8	11.4	127.3	10.7	127.3	10.6	142.9	10.6	142.9	11.6	142.9	11.6	142.9	11.7	23.1
	20-Year	49.0	4.7	49.0	4.1	49.0	4.1	49.0	4.1	49.0	4.0	49.0	4.0	49.0	4.0	0.0
	25-Year	20.2	1.9	20.2	1.7	20.2	1.7	20.2	1.7	20.2	1.6	20.2	1.6	20.2	1.7	0.0
30-Year	22.1	2.1	22.1	1.9	22.1	1.8	22.1	1.8	22.1	1.8	22.1	1.8	22.1	1.8	0.0	
Repo T bills	28.9	2.8	28.83	2.4	28.83	2.4	28.30	2.4	28.3	2.3	28.3	2.30	28.30	2.3	-0.6	
Overdraft	7.0	0.7	27.98	2.4	27.98	2.3	32.19	2.3	34.2	2.8	34.2	2.78	39.12	2.8	27.2	
Other Domestic debt	2.79	0.3	24.16	2.0	11.85	1.0	11.85	1.0	2.3	0.2	20.5	0.19	33.08	1.7	17.7	
<b>Total Debt</b>	<b>1050.56</b>	<b>100.0</b>	<b>1189.18</b>	<b>100.0</b>	<b>1200.90</b>	<b>100.0</b>	<b>1229.30</b>	<b>100.0</b>	<b>1231.2</b>	<b>100.0</b>	<b>1216.8</b>	<b>100.00</b>	<b>1232.5</b>	<b>100.0</b>	<b>166.24</b>	

Source: Central Bank of Kenya

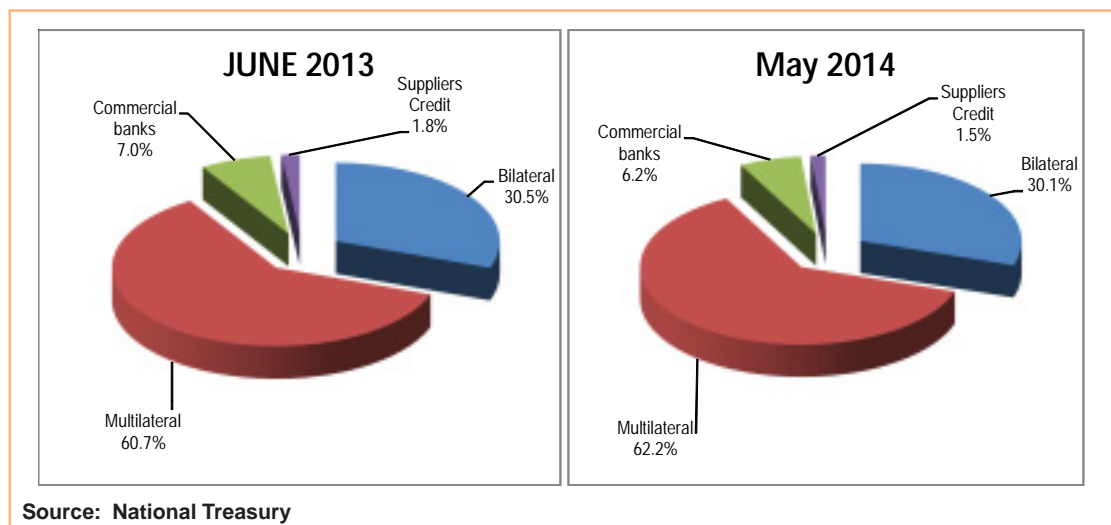
## External Debt

Kenya's public and publicly guaranteed external debt increased by Ksh 114.3 billion to Ksh 957.9 billion (USD 11 billion), at the end of the first eleven months of the fiscal year 2013/14, from Ksh 843.6 billion (USD 9.8 billion) in June, 2013 (Table 7.1). The amount of total external debt to the central government was Ksh 912.8 billion (USD 10.4 billion), while the rest was to parastatals guaranteed by the government. The African Development Bank (ADB) and International Development Association (IDA) collectively accounted for Ksh 67.6 billion of the increase in multilateral debt, while France and China accounted for Ksh 12.6 billion and Ksh 10.6 billion, respectively, of the increase in bilateral debt. These increases were largely due to additional disbursements and exchange rate revaluations during the period. Japan's contribution to the bilateral debt reduced by Ksh 2.1 billion during the period under review.

## Composition of External Debt by Creditor

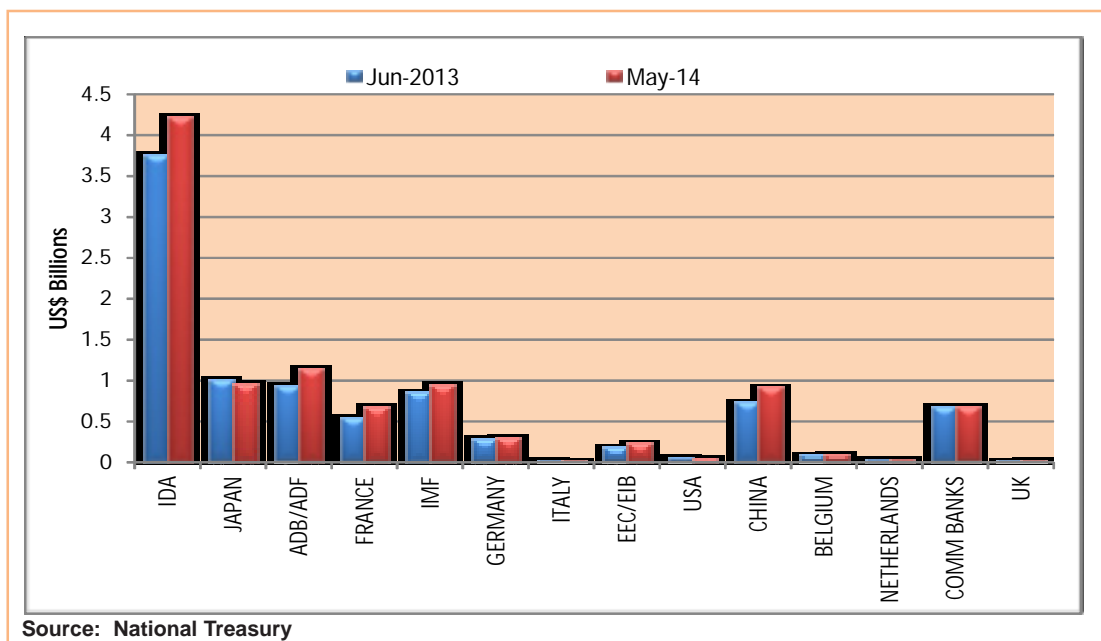
Kenya's official external creditors, the multilateral and bilateral lenders, accounted for 43.7 percent of total public and publicly guaranteed debt by May 2014. The proportion of external debt owed to multilateral lenders increased from 60.7 percent in June 2013 to 62.2 percent in May 2014 while that owed to commercial banks, bilateral lenders and suppliers credit declined from 7.0 percent, 30.5 percent and 1.8 percent in June 2013 to 6.2 percent, 30.1 percent and 1.5 percent in May 2014 (Chart 7A).

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



Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 4.2 billion or 38.7 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender, amounted to USD 1.0 billion which is equivalent to 8.8 percent of the total external debt at the end of May 2014 (Chart 7B).

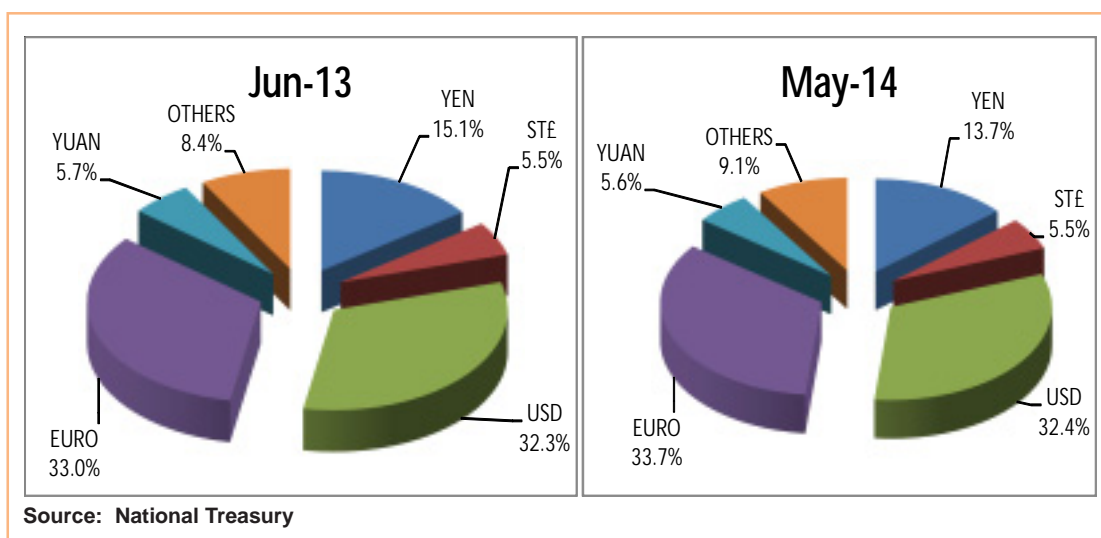
CHART 7B: EXTERNAL DEBT BY CREDITOR



Currency Composition of External Debt

External debt held in the Euro, other currencies' and the US dollar increased from 33.0 percent, 8.4 percent and 32.4 percent of total external debt, respectively, in June 2013 to 33.7 percent, 9.1 percent, 5.6 percent and 32.4 percent in April 2014. Debt held in Japanese Yen and in the Yuan declined from 15.1 percent and 5.7 percent to 13.7 percent and 5.6 percent during the same period. The proportion of debt held in Sterling Pound remained constant at 5.5 percent (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



**Public Debt Service** Cumulative interest and other charges on domestic debt for the period July, 2013 to May, 2014 in the FY 2013/14 fiscal year amounted to Ksh 108.7 billion compared with Ksh 101.7 billion during a similar period of the previous fiscal year. This comprised interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 28.9 billion and Ksh 78.2 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 2 billion and Ksh 1.1 billion, respectively. External debt service for the period July 2013 – May 2014 amounted to Ksh 1.4 billion, comprising Ksh 0.7 billion in principal repayments, and Ksh 0.7 billion in interest payments.

**Performance for the FY 2013/14** In the fiscal year 2013/14, external debt is estimated at Ksh 900.8 billion while gross and net domestic debt are estimated at Ksh 996.0 billion (26.4 percent of GDP) and Ksh 844.1 billion (22.4 percent of GDP), respectively.

## ACTIVITY IN THE STOCK MARKET

Both equities and bond markets had mixed performance in May 2014. The equities segment saw NASI, NSE 20 Share Index, and market capitalization decline. However equity turnover was up by 46.18 percent on account of increased share supply. Bond market turnover declined by 34.48 percent. Net foreign investor interest declined to 54.5 percent of total equity turnover from the previous 57.84 percent, with more outflows than inflows.

### Equity Market

NSE 20 Share Index closed 67.41 points lower in May 2014 from its level in April 2014 and NASI lost 0.93 points. Market Capitalization lost Ksh 14.07 billion, to close at Ksh 2,092 billion. Improved share supply lifted equities turnover to Ksh 23,022 million in May 2014 (Chart 8.1).

**TABLE 8.1: SELECTED STOCK MARKET INDICATORS**

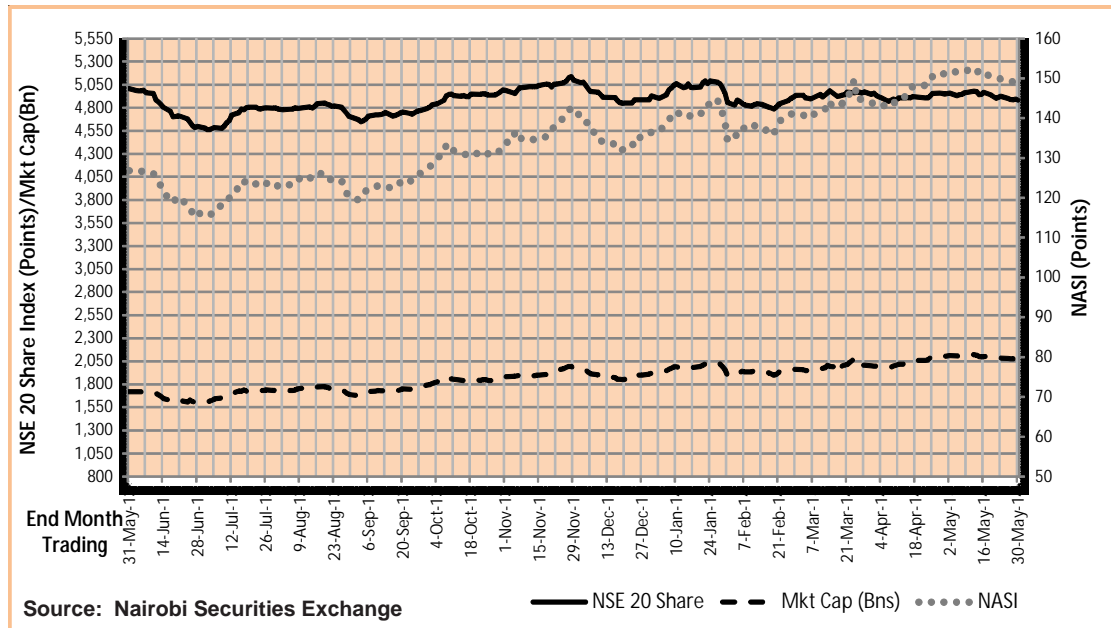
Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)	FP to Equity Turnover	FS to Equity Turnover	Overall net FP to Equity Turnover
May-12	3,650.85	78.48	543.29	8,815.35	1,005.19	47,343.28	58.32%	45.85%	52.09%
Jun-12	3,703.94	80.75	385.51	6,214.24	1,048.72	28,259.68	62.44%	36.06%	49.25%
Jul-12	3,832.42	83.26	383.61	6,037.89	1,098.90	34,170.82	51.90%	38.19%	45.05%
Aug-12	3,865.76	84.66	338.92	5,680.73	1,117.39	86,918.78	58.56%	40.12%	49.34%
Sep-12	3,972.03	87.38	470.26	9,781.50	1,155.99	95,866.77	68.67%	35.08%	51.88%
Oct-12	4,147.28	91.67	458.43	11,082.25	1,217.09	72,596.46	68.61%	41.85%	55.23%
Nov-12	4,083.52	92.20	836.90	10,537.05	1,234.47	38,895.86	67.02%	25.88%	46.45%
Dec-12	4,133.02	94.86	461.89	7,582.42	1,272.00	26,672.11	73.58%	45.50%	59.54%
Jan-13	4,416.60	103.50	518.71	8,464.46	1,387.81	20,999.59	59.06%	33.86%	46.46%
Feb-13	4,518.59	106.91	692.28	14,693.27	1,451.01	20,240.18	42.73%	69.45%	56.09%
Mar-13	4,860.83	117.91	571.29	11,182.65	1,599.80	25,690.98	55.92%	39.74%	47.83%
Apr-13	4,765.23	118.07	596.83	9,856.50	1,601.93	35,190.25	56.75%	26.73%	42.67%
May-13	5,006.96	126.80	867.77	16,070.53	1,720.43	73,523.70	53.22%	31.60%	42.41%
Jun-13	4,598.16	116.31	727.78	13,021.29	1,618.27	85,904.11	66.13%	46.15%	56.14%
Jul-13	4,787.56	122.86	615.90	11,205.17	1,727.83	34,170.82	65.88%	51.38%	58.63%
Aug-13	4,697.75	119.96	670.38	20,797.41	1,681.66	24,520.25	75.75%	28.44%	52.10%
Sep-13	4,793.20	127.35	488.79	10,062.50	1,790.85	29,304.17	65.89%	45.39%	55.64%
Oct-13	4,992.88	133.24	804.51	15,937.19	1,873.66	51,674.82	64.28%	47.19%	55.73%
Nov-13	5,100.88	141.17	645.20	13,128.66	1,975.00	27,310.57	48.21%	41.47%	44.84%
Dec-13	4,926.97	136.65	466.25	11,329.23	1,920.72	23,695.80	54.95%	61.04%	57.99%
Jan-14	4,856.15	134.66	638.48	15,970.23	1,898.00	42,549.39	48.28%	53.77%	51.03%
Feb-14	4,933.41	141.05	545.32	14,745.87	1,960.55	27,671.60	47.52%	57.72%	52.62%
Mar-14	4,945.78	143.89	544.06	13,042.51	2,003.52	32,371.60	50.55%	53.61%	52.08%
Apr-14	4,948.97	151.13	727.99	15,749.93	2,106.08	58,572.78	62.32%	53.37%	57.84%
May-14	4,881.56	150.20	853.71	23,022.92	2,091.66	38,379.11	48.90%	60.10%	54.50%

Source: Nairobi Securities Exchange

Foreign Investors dominated the NSE, with Overall Net participation at 54.50 percent in May 2014 from 57.84 percent of total equity turnover in April 2014. Foreign purchases accounted for 48.90 percent of total equity turnover against 60.10 percent sales, reflecting net outflow.

Despite mixed performance, overall stock market activity remained high as shown in Chart 8A. Shareholders' wealth measured by market capitalization remained above Ksh 2 trillion mark.

CHART 8A: NSE 20 SHARE INDEX, NASI AND MARKET CAPITALIZATION



### Most Active Sectors & FTSE NSE Kenya Index Series

Telecommunication and Technology, Banking, and Energy and Petroleum sectors dominated trading, with 407.31 million shares (47.7 percent), 234.49 million shares (27.5 percent) and 64.80 million shares (7.6 percent), respectively. Agriculture was least active with 551,000 shares traded.

FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at NSE, and FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks, closed at 192.29 points and 194.03 points in May 2014, up from 192.10 points and 193.92 points in April 2014, respectively. FTSE NSE Kenyan Government Bond Index decreased marginally to 93.98 points from to 94.17 points, reflecting relative uptick in secondary market yields.

**Bond Market** Bonds turnover declined by 34.50 percent in May 2014, with a total of 390 deals worth Ksh 38,379.11 million traded down from 797 deals worth Ksh 58,572.78 million in April 2014. The IFB 1/2013/12 dominated trading, at 31.37 percent of total turnover, with yields ranging from 11 percent to 10.04 percent against a coupon rate of 11 percent. The Corporate bonds segment accounted for 0.30 percent of the market, where KENB had 10 deals worth Ksh 32.57 million of the total Ksh 114.35 million in this segment.

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

	May-14	Jun-13	May 14/ Jun 2013 Movement
<b>ASSETS</b>			
Balances due from Banking Institutions and Gold hold	576,676	527,944	48,732
Funds held with International Monetary Fund	692	2,694	(2,002)
Items in the course of collection	39	154	(115)
Advances to commercial banks	50	351	(301)
Loans and Advances	43,325	10,887	32,438
Other Assets	2,763	2,545	218
Retirement Benefits Assets	2,967	2,967	0
Property and Equipment	12,972	12,052	920
Intangible Assets	659	973	(314)
Due from Government of Kenya	28,334	28,889	(555)
<b>TOTAL ASSETS</b>	<b>668,477</b>	<b>589,456</b>	<b>79,021</b>
<b>LIABILITIES</b>			
Currency in Circulation	196,757	183,047	13,710
Investments by Banks	20,387	10,633	9,754
Deposits	252,979	221,927	31,052
International Monetary Fund	129,874	118,568	11,306
Other Liabilities	1,039	2,203	(1,164)
Provisions	123	123	0
<b>TOTAL LIABILITIES</b>	<b>601,159</b>	<b>536,501</b>	<b>64,658</b>
<b>EQUITY AND RESERVES</b>	<b>67,318</b>	<b>52,955</b>	<b>14,363</b>
Share Capital	5,000	5,000	0
General reserve fund	39,044	40,545	(1,501)
Period surplus	14,375	0	14,375
Asset revaluation reserve	8,899	7,410	1,489
Dividends payable	0	0	0
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>668,477</b>	<b>589,456</b>	<b>79,021</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 increased by KSh 48,732 million to KSh 576,676 million in May 2014 from KSh 527,944 million in June 2013. The expansion reflected largely CBK purchases of foreign exchange from domestic interbank market to build official reserves.

**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 May 2014 were KSh 39 million, representing 74.7 percent recovery from Ksh 154 million outstanding as at June 2013.

**Advances to commercial banks** are balances of money advanced by Central Bank to commercial banks through reverse Repo (injection of liquidity) for a short duration of 7 days and rediscounted Treasury bills and bonds by commercial banks. The balance outstanding decreased by KSh 301 million to KSh 50 million in May 2014 from KSh 351 million in June 2013.

**Loans and Advances** class of asset includes mainly outstanding balances on advances to commercial banks under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF fund on-lent to Government. The balances increased by KSh 32,438 million to KSh 43,325 million in May 2014 from KSh 10,887 million in June 2013.

**Other Assets** largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets increased by KSh 218 million to KSh 2,763 million in May 2014 from KSh 2,545 million in June 2013.

**Due from Government of Kenya** liability category rose 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 13,710 million to KSh 196,757 million in May 2014 from KSh 183,047 million in June 2013.

**Deposits** liability represents deposits held by Government of Kenya, local commercial banks deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances increased by KSh 31,053 million to KSh 252,979 million in May 2014 from KSh 221,927 million in June 2013.

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**Amount due to International Monetary Fund** represents the Banks obligations to the IMF. The balances increased by KSh 11,306 million to KSh 129,874 in May 2014 from KSh 118,568 million in June 2013.

**Other liabilities** include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance decreased by KSh 1,165 million to KSh 1,039 million in May 2014 from KSh 2,203 million in June 2013.

**Equities and reserves** increased by KSh 14,363 million to KSh 67,318 million in May 2014 from KSh 52,955 million in June 2013 reflecting increases of KSh 14,375 million in the period surplus and KSh 1,489 million in asset revaluation which offset a decrease of KSh 1,501 million in the General reserve fund leaving a balance of Kshs 12 million.