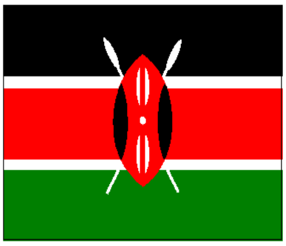

MONTHLY ECONOMIC REVIEW
DECEMBER 2015
The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at:
http://www.centralbank.go.ke

CONTENTS

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Overview

Introduction This Monthly Economic Review highlights recent economic developments through December 2015. 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 average inflation rose by 121 basis points to 7.35 percent in the fourth quarter of 2015 from 6.14 percent in the third quarter reflecting a rise in food, fuel and non-food-non-fuel inflation.

Money Supply Annual growth in broad money, M3, declined to 14.1 percent in December 2015 from 13.5 percent recorded in September 2015.

Interest Rates The Central Bank policy rate (CBR) was maintained at 11.5 percent in the fourth quarter. The commercial bank lending interest rates increased partly in tandem with the tighten monetary policy stance, while short term money market interest rates declined reflecting market conditions.

Real GDP Growth Kenya's growth performance remains resilient, with real gross domestic production (GDP) accelerating to 5.8 percent in the third quarter of 2015 from 5.6 percent in the second quarter of 2015.

Balance of Payments Kenya's overall balance of payments position improved by USD 1,353 million to a surplus of USD 853 million in the fourth quarter of 2015 from a deficit of USD 500 million in the third quarter of 2015. On the upside, receipts from the syndicated loan acquired during the quarter resulted in an increase of the capital and financial account surplus.

Exchange Rates The Kenya Shilling strengthened against the US Dollar, the Pound Sterling and the Euro but weakened against the Japanese Yen in the fourth quarter of 2015. The performance of the Kenya Shilling largely reflected developments on the domestic market In the EAC region, the Kenya shilling strengthened against the Tanzania Shilling and the Rwanda Franc but weakened against the Uganda Shilling and the Burundi Franc.

Banking Sector Developments

The Kenyan banking sector comprised 41 commercial banks, 1 mortgage finance company, 12 microfinance banks, 8 representative offices of foreign banks, 80 foreign exchange bureaus, 16 money remittance providers and 3 credit reference bureaus as at 31st December 2015. Upesi Money Transfer Ltd was granted approval to conduct money transfer business on 17th December 2015. Wanati Forex Bureau Ltd was voluntarily closed on 31st December 2015.

Government Budgetary Performance

The Government's budgetary operations during the six months of the FY 2015/16 resulted in a deficit of Ksh 184.7 billion (3.4 percent of GDP) on a commitment basis compared with a deficit of Ksh 89.0 billion (1.9 percent of GDP) incurred in the same period of the FY 2014/15. This was within the Ksh 319.2 billion (6.0 percent of GDP) deficit programmed target for the period.

Public Debt

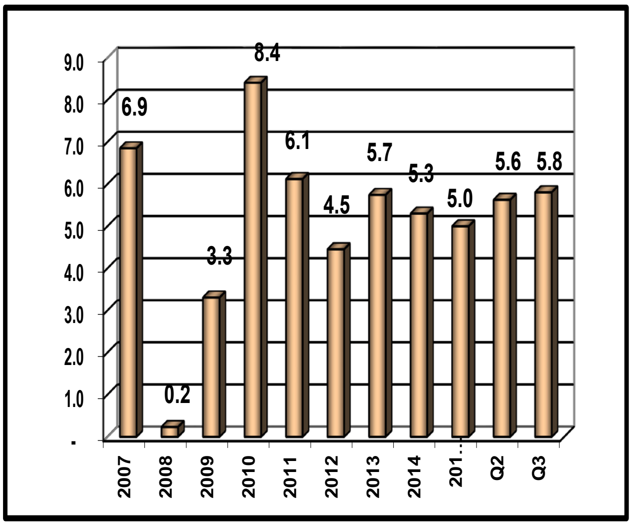
Kenya's public and publicly guaranteed debt increased by 7.4 percent in the second quarter of the FY 2015/16 with domestic debt accounting for much of the increase.

Stock Market

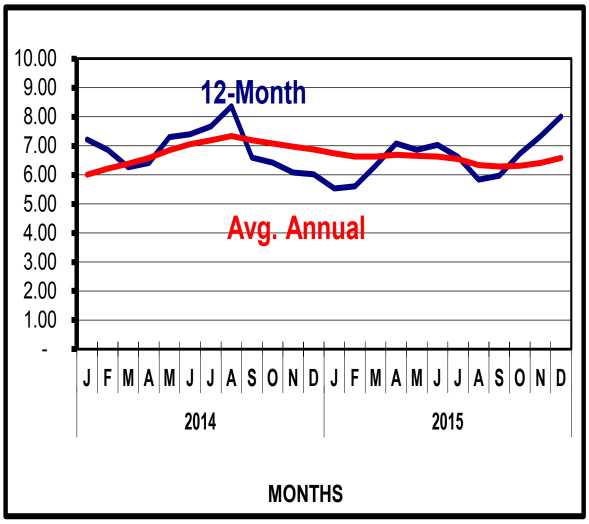
Capital markets recorded mixed performance in the fourth quarter of 2015 as reflected across leading market indicators.

SELECTED ECONOMIC PERFORMANCE INDICATORS

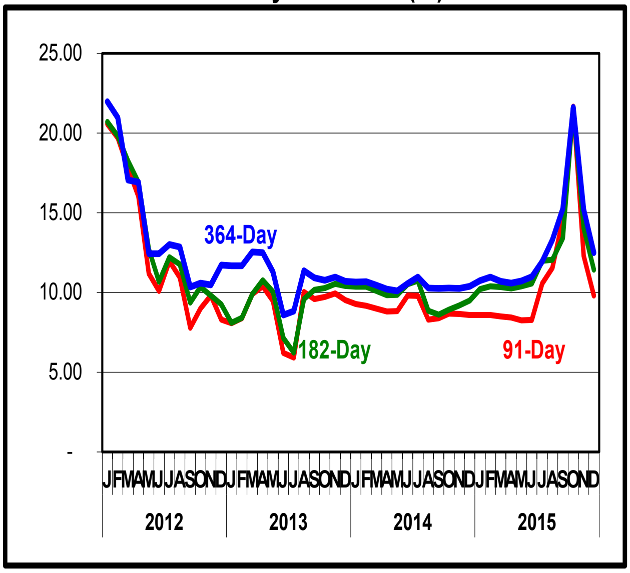
Real GDP Growth (%)



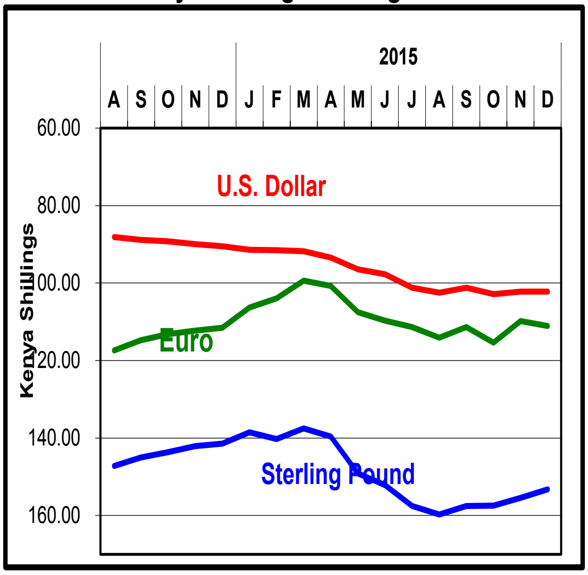
Inflation (%)



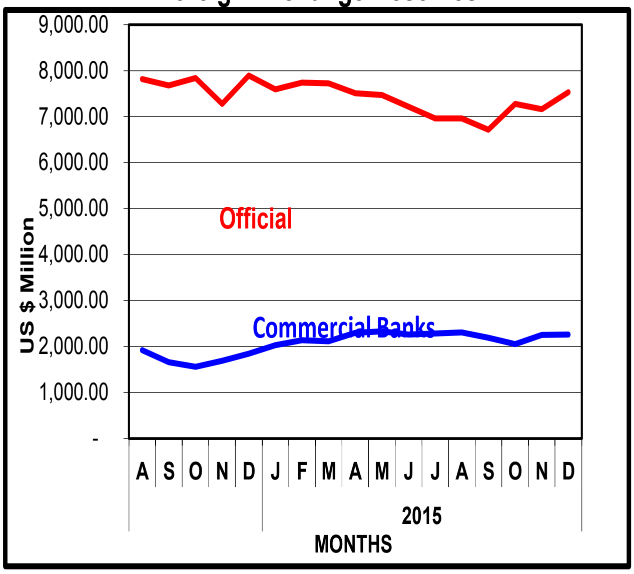
Treasury Bill Rates (%)



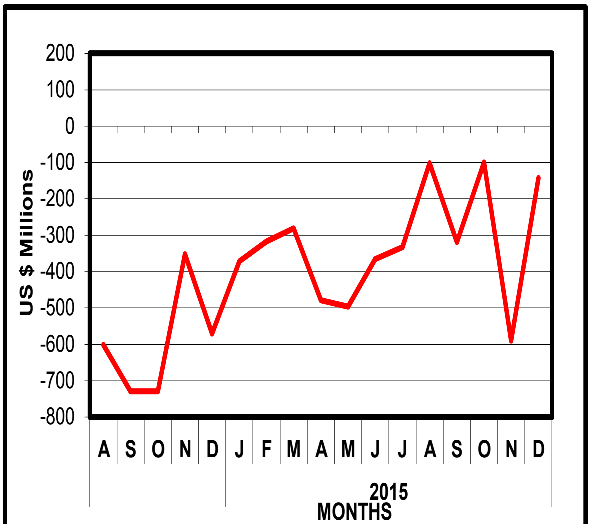
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



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SELECTED ANNUAL ECONOMIC INDICATORS

INDICATOR	2014 Dec	2015 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1. INFLATION (%)													
CPI	**152.51**	**153.43**	**154.14**	**155.86**	**158.70**	**159.98**	**160.46**	**160.57**	**160.90**	**161.33**	**162.13**	**162.97**	
Overall Inflation													
12-month overall inflation	6.02	5.53	5.61	6.31	7.08	6.87	7.03	6.62	5.84	5.97	6.72	7.32	8.01
Average annual overall inflation	6.88	6.74	6.63	6.63	6.69	6.65	6.63	6.54	6.34	6.29	6.31	6.42	6.58
2. INTEREST RATES (%)													
91-day Treasury bill interest rate	8.58	8.59	8.59	8.49	8.42	8.26	8.26	10.57	11.54	14.61	21.65	12.335	9.8
Overdraft interest rate	15.86	15.95	15.67	15.68	15.52	15.10	15.65	16.05	15.98	16.65	16.81	17.59	
3. STOCK MARKET													
Nairobi Stock Exchange 20 Share Price Index	5,112.65	5,212.00	5,491.00	5,248.16	5,091.00	4,788.00	4,906.00	4,405.00	4,177.00	4,173.00	3,869	**4016.2**	**4040.0**
Turnover Ratio (%)	1.07	0.50	0.72	0.74	0.59	0.82	0.82	0.86	0.88	0.52	0.65	0.53	0.57
4. GOVERNMENT BUDGET* (Ksh bn.)													
Revenue $ Grants	524.99	614.43	690.52	779.30	888.78	982.30	1,110.55	81.27	165.17	282.49	427.60	459.5	584.5
Expenses	613.96	765.22	864.18	1,133.10	1,264.32	1,347.64	1,610.76	56.98	138.70	254.20	640.87	610.0	769.2
Budget Deficit (-) / Surplus (+)	**(88.98)**	**(150.79)**	**(173.66)**	**(353.80)**	**(375.55)**	**(365.35)**	**(500.21)**	**24.29**	**26.47**	**28.29**	**(213.27)**	**(150.42)**	**(184.70)**
5. MONEY AND CREDIT (Ksh bn.)													
Liquidity (L)[1]	3,124.10	2,983.73	3,032.40	3,034.64	3,098.44	3,139.91	3,196.87	3,234.07	3,252.04	3,231.61	3,276.67	**3320.4**	
Money Supply (M3)[2]	2,329.98	2,350.80	2,407.83	2,398.76	2,464.48	2501.6	2553.0	2549.0	2569.9	2556.0	2566.6	2593.0	
Reserve Money	380.04	350.15	351.63	346.28	353.10	362.7	372.0	383.3	367.4	376.7	433.9	391.1	
Total Domestic Credit	2,137.14	2,332.85	2,415.81	2,444.31	2,492.23	2,558.67	2,638.93	2,724.30	2,775.46	2,785.32	2,768.69	**2807.5**	
Government	204.27	385.89	456.30	469.78	477.64	489.66	522.03	565.65	579.50	553.28	535.32	**555.8**	
Private sector and other public sector	1,932.86	1,946.96	1,959.51	1,974.53	2,014.59	2,069.01	2,116.90	2,158.65	2,195.96	2,232.04	2,233.37	2251.6	
6. MONEY AND CREDIT (Annual % Change)													
Liquidity (L)[1]	**23.81**	**16.62**	**18.45**	**17.05**	**16.92**	**16.2**	**17.6**	**15.0**	**12.9**	**12.6**	**13.8**	**13.6**	
Money Supply (M3)[2]	16.72	16.00	18.58	16.43	17.32	16.5	18.6	16.4	14.0	13.5	13.6	13.0	
Reserve Money	18.48	15.82	11.45	11.77	12.00	15.0	14.9	25.8	2.9	16.7	24.5	19.8	
Total Domestic Credit	**8.02**	**16.02**	**17.41**	**16.51**	**17.12**	**17.5**	**29.2**	**27.9**	**26.9**	**23.3**	**21.7**	**19.9**	
Government	(48.57)	(6.64)	3.99	4.43	8.07	5.3	84.4	63.1	55.5	38.3	34.5	**27.7**	
Private and other public sector	22.23	21.88	21.05	19.81	19.49	20.8	20.3	21.0	21.0	20.0	18.9	18.2	
7. BALANCE OF PAYMENTS (US$ m)													
Overall Balance	**626.49**	**-294.47**	**143.54**	**-13.26**	**-208.60**	**-34.99**	**-238.59**	**-248.64**	**-0.02**	**-251.78**	**568.41**	**-108.43**	**392.56**
Current Account	(621.04)	(371.93)	(317.51)	(281.84)	(479.68)	(496.36)	(365.80)	(334.11)	(101.94)	(310.12)	(99.66)	(589.80)	(142.72)
Trade Balance	(1,098.87)	(946.65)	(770.56)	(732.12)	(962.79)	(1,017.47)	(825.32)	(837.47)	(689.45)	(843.53)	(724.89)	(1,118.61)	(719.78)
Capital and Financial Account	1,247.53	76.68	460.47	267.82	270.18	461.37	127.22	85.47	101.91	58.34	668.07	481.37	535.28
8. FOREIGN EXCHANGE RESERVES (US$ m)	**9,737.55**	**9,619.76**	**9,873.29**	**9,834.29**	**9,805.54**	**9,798.73**	**9,473.11**	**9,248.79**	**9,265.36**	**8,899.41**	**9,324.30**	**9,411.03**	**9,793.56**
Official	7,894.92	7,593.04	7,736.58	7,723.31	7,509.44	7,469.23	7,211.56	6,962.93	6,962.90	6,711.13	7,274.30	7,160.73	7,534.48
*Months of import cover***	5.01	4.80	4.88	4.90	4.75	4.73	4.57	4.42	4.43	4.27	4.64	4.57	4.82
Commercial banks	1,842.64	2,026.72	2,136.71	2,110.98	2,296.10	2,329.50	2,261.55	2,285.86	2,302.45	2,188.29	2,050.00	2,250.30	2,259.08
9. PUBLIC DEBT (US$ bn)	**27.16**	**28.28**	**28.97**	**29.10**	**29.35**	**28.94**	**28.96**	**28.39**	**28.43**	**27.91**	**28.79**	**30.13**	**30.96**
Domestic	14.23	14.42	14.79	15.20	15.15	14.61	14.54	14.02	13.70	13.18	14.15	14.84	15.17
As % of GDP	*24.41*	*24.91*	*25.26*	*26.08*	*26.42*	*26.29*	*26.51*	*26.48*	*26.19*	*25.91*	*27.14*	*28.3*	*28.7*
External	*12.92*	*13.86*	*14.17*	*13.90*	*14.20*	*14.33*	*14.42*	*14.37*	*14.74*	*14.72*	*14.64*	*15.3*	*15.8*
As % of GDP	*21.85*	*23.64*	*24.20*	*23.86*	*24.77*	*25.78*	*26.29*	*27.50*	*28.57*	*28.93*	*28.51*	*29.2*	*30.1*
10. GROSS DOMESTIC DEBT (Ksh bn)***	1,287.40	1,317.48	1,353.30	1,397.10	1,415.43	1,408.43	1,420.44	1,418.57	1,403.10	1,387.97	1,454.25	1,516.37	1,540.02
11. AVERAGE EXCHANGE RATE													
Ksh/US$	90.44	91.36	91.49	91.73	93.44	96.39	97.70	101.20	102.43	105.27	102.79	102.17	102.2
Ksh/Pound Sterling	141.45	138.49	140.21	137.51	139.62	149.10	152.16	157.53	159.77	161.54	157.46	155.39	153.3
Ksh/ 100 Yen	75.79	77.19	77.17	76.22	78.18	79.89	79.00	82.10	83.12	87.64	85.62	83.5	83.9
Ksh/Euro	111.52	106.32	103.94	99.40	100.71	107.54	109.72	111.36	114.09	118.23	115.39	109.78	111.1

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

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

*** Excludes the IMF disbursements on-lent to the Govt. at the CBK, which is included in external public debt.

[1] Previously M3XT

[2] Previously M3X

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2014 Dec	2015 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1. INFLATION (%)													
CPI	152.51	153.43	154.14	155.86	158.70	159.98	160.46	160.57	160.90	161.33	162.13	162.97	164.72
Overall Inflation													
12-month overall inflation	6.02	5.53	5.61	6.31	7.08	6.87	7.03	6.62	5.84	5.97	6.72	7.32	8.01
Average annual overall inflation	6.88	6.74	6.63	6.63	6.69	6.65	6.63	6.54	6.34	6.29	6.31	6.42	6.58
2. INTEREST RATES (%)													
91-day Treasury bill interest rate	8.58	8.59	8.59	8.49	8.42	8.26	8.26	10.57	11.54	14.61	21.65	12.335	9.8
Overdraft interest rate	15.86	15.95	15.67	15.68	15.52	15.10	15.65	16.05	15.98	16.65	16.81	17.44	18.48
3. STOCK MARKET													
Nairobi Stock Exchange 20 Share Price Index	5,112.65	5,212.00	5,491.00	5,248.16	5,091.00	4,788.00	4,906.00	4,405.00	4,177.00	4,173.00	3,869	**4016.2**	**4040.0**
Turnover Ratio (%)	1.07	0.50	0.72	0.74	0.59	0.82	0.82	0.86	0.88	0.52	0.65	0.53	0.57
4. GOVERNMENT BUDGET* (Ksh bn.)													
Revenue $ Grants	524.99	614.43	690.52	779.30	888.78	982.30	1,110.55	81.27	165.17	282.49	427.60	459.5	584.5
Expenses	613.96	765.22	864.18	1,133.10	1,264.32	1,347.64	1,610.76	56.98	138.70	254.20	640.87	610.0	769.2
Budget Deficit (-) / Surplus (+)	(88.98)	(150.79)	(173.66)	(353.80)	(375.55)	(365.35)	(500.21)	24.29	26.47	28.29	(213.27)	(150.42)	(184.70)
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Liquidity (L)[1]	3,124.10	2,983.73	3,032.40	3,034.64	3,098.44	3,139.91	3,196.87	3,234.07	3,252.04	3,231.61	3,284.75	3331.8	3390.8
Money Supply (M3)[2]	2,329.98	2,350.80	2,407.83	2,398.76	2,464.48	2501.6	2553.0	2549.0	2569.9	2556.0	2574.7	2604.5	2658.2
Reserve Money	380.04	350.15	351.63	346.28	353.10	362.73	371.99	383.33	367.46	376.70	433.88	391.1	392.4
Total Domestic Credit	2,137.14	2,332.85	2,415.81	2,444.31	2,492.23	2,558.67	2,638.93	2,724.30	2,775.46	2,785.32	2,776.76	2818.9	2793.9
Government	204.27	385.89	456.30	469.78	477.64	489.66	522.03	565.65	579.50	553.28	543.39	567.3	524.0
Private sector and other public sector	1,932.86	1,946.96	1,959.51	1,974.53	2,014.59	2,069.01	2,116.90	2,158.65	2,195.96	2,232.04	2,233.37	2251.6	2269.9
6. MONEY AND CREDIT (Annual % Change)													
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Money Supply (M3)[2]	16.72	16.00	18.58	16.43	17.32	16.5	18.6	16.4	14.0	13.5	13.9	13.5	14.1
Reserve Money	18.48	15.82	11.45	11.77	12.00	15.0	14.9	25.8	2.9	16.7	24.5	19.8	3.4
Total Domestic Credit	8.02	16.02	17.41	16.51	17.12	17.5	29.2	27.9	26.9	23.3	22.0	20.4	20.8
Government	(48.57)	(6.64)	3.99	4.43	8.07	5.3	84.4	63.1	55.5	38.3	36.6	**30.3**	**38.2**
Private and other public sector	22.23	18.47	19.60	21.07	23.43	23.6	25.4	24.9	23.4	24.6	23.5	22.3	22.2
7. BALANCE OF PAYMENTS (US$ m)													
Overall Balance	626.49	-294.47	143.54	-13.26	-208.60	-34.99	-238.59	-248.64	-0.02	-251.78	568.41	-108.43	392.56
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Trade Balance	(1,098.87)	(946.65)	(770.56)	(732.12)	(962.79)	(1,017.47)	(825.32)	(837.47)	(689.45)	(843.53)	(724.89)	(1,118.61)	(719.78)
Capital and Financial Account	1,247.53	76.68	460.47	267.82	270.18	461.37	127.22	85.47	101.91	58.34	668.07	481.37	535.28
8. FOREIGN EXCHANGE RESERVES (US$ m)	9,737.55	9,619.76	9,873.29	9,834.29	9,805.54	9,798.73	9,473.11	9,248.79	9,265.36	8,899.41	9,324.30	9,411.03	9,793.56
Official	7,894.92	7,593.04	7,736.58	7,723.31	7,509.44	7,469.23	7,211.56	6,962.93	6,962.90	6,711.13	7,274.30	7,160.73	7,534.48
*Months of import cover***	5.01	4.80	4.88	4.90	4.75	4.73	4.57	4.42	4.43	4.27	4.64	4.57	4.82
Commercial banks	1,842.64	2,026.72	2,136.71	2,110.98	2,296.10	2,329.50	2,261.55	2,285.86	2,302.45	2,188.29	2,050.00	2,250.30	2,259.08
9. PUBLIC DEBT (US$ bn)	27.16	28.28	28.97	29.10	29.35	28.94	28.96	28.39	28.43	27.91	28.79	30.13	30.96
Domestic	14.23	14.42	14.79	15.20	15.15	14.61	14.54	14.02	13.70	13.18	14.15	14.84	15.17
As % of GDP	*24.41*	*24.91*	*25.26*	*26.08*	*26.42*	*26.29*	*26.51*	*26.48*	*26.19*	*25.91*	*27.14*	*28.3*	*28.7*
External	*12.92*	*13.86*	*14.17*	*13.90*	*14.20*	*14.33*	*14.42*	*14.37*	*14.74*	*14.72*	*14.64*	*15.3*	*15.8*
As % of GDP	*21.85*	*23.64*	*24.20*	*23.86*	*24.77*	*25.78*	*26.29*	*27.50*	*28.57*	*28.93*	*28.51*	*29.2*	*30.1*
10. GROSS DOMESTIC DEBT (Ksh bn)***	1,287.40	1,317.48	1,353.30	1,397.10	1,415.43	1,408.43	1,420.44	1,418.57	1,403.10	1,387.97	1,454.25	1,516.37	1,540.02
11. AVERAGE EXCHANGE RATE													
Ksh/US$	90.44	91.36	91.49	91.73	93.44	96.39	97.70	101.20	102.43	105.27	102.79	102.17	102.2
Ksh/Pound Sterling	141.45	138.49	140.21	137.51	139.62	149.10	152.16	157.53	159.77	161.54	157.46	155.39	153.3
Ksh/ 100 Yen	75.79	77.19	77.17	76.22	78.18	79.89	79.00	82.10	83.12	87.64	85.62	83.5	83.9
Ksh/Euro	111.52	106.32	103.94	99.40	100.71	107.54	109.72	111.36	114.09	118.23	115.39	109.78	111.1

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

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

*** Excludes the IMF disbursements on-lent to the Govt. at the CBK, which is included in external public debt.

[1] Previously M3XT

[2] Previously M3X

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

Developments in Inflation

Overall Inflation

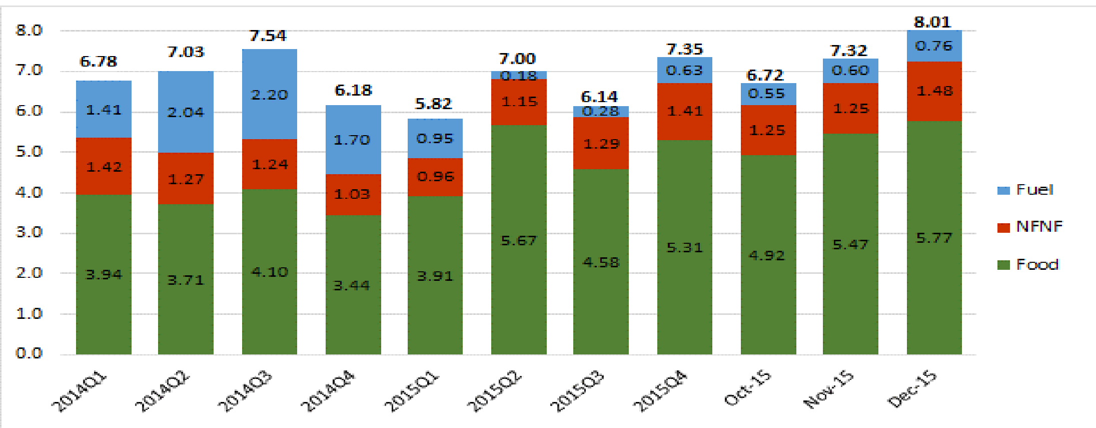
Overall average inflation rose by 121 basis points to 7.35 percent in the fourth quarter of 2015 from 6.14 percent in the third quarter, (Table 1). This reflects a rise in food, fuel and non-food-non-fuel (NFNF) inflation. Food inflation remained elevated, rising from 10.06 percent in the third quarter of 2015 to 11.62 percent in the fourth quarter of 2015 as a result of increases in prices of a few seasonal and fast growing food crops. NFNF inflation increased to 5.06 percent in the fourth quarter from 4.63 percent in the third quarter largely supported by increases in the prices of some alcoholic beverages and narcotics following revision of excise tax rates effective December 1, 2015. Fuel inflation also edged up in the fourth quarter reflecting increases in bus fares following increased demand for travel during end of year festivities.

TABLE 1. RECENT DEVELOPMENTS IN INFLATION

	2014				2015						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Oct-15	Nov-15	Dec-15
Overall Quarterly inflation	6.78	7.03	7.54	6.18	5.82	6.99	6.14	7.35	6.72	7.32	8.01
Food Inflation(KNBS)	8.93	8.29	9.14	7.62	8.67	12.50	10.06	11.62	10.60	11.82	12.42
Fuel Inflation	5.26	7.70	8.29	6.46	3.57	0.68	1.04	2.39	2.05	2.27	2.86
Non-(Food & Fuel) Inflation	4.91	4.45	4.34	3.63	3.37	4.10	4.63	5.06	4.80	4.75	5.64
Average annual	6.20	6.83	7.24	6.98	6.66	6.66	6.39	6.44	6.31	6.42	6.58
Three months annualised	7.87	9.31	6.45	1.27	6.43	14.28	3.10	5.96	3.94	5.25	8.68

In terms of sources of inflation, the contribution of food inflation to overall inflation rose to 5.31 percentage points in the fourth quarter of 2015 from 4.58 percentage points in the third quarter of 2015, largely on account of increases in the prices of a few fast growing and seasonal food items following adverse weather conditions associated with the El Nino rains which disrupted food supply chains in the fourth quarter of 2015 (Chart 1A).

Chart 1A: Contributions of broad Categories to Overall Inflation



Following the revision of the excise tax rates on December 1, 2015, the cost of selected alcoholic beverages and narcotics increased, thereby raising the contribution of the NFNF inflation to overall inflation to 1.41 percentage points in the fourth quarter of 2015 from 1.29 percentage points in the third quarter of 2015 (Chart 1A). In December 2015, the contribution of the revised excise tax rates on various items in the NFNF category resulted to an increase of overall inflation by 0.30 percentage points.

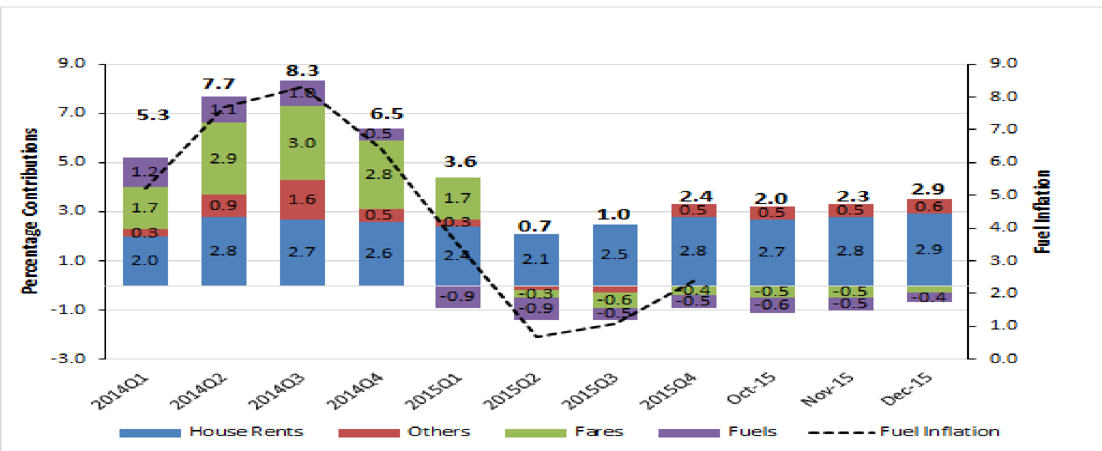
Although the international oil prices have remained low and supported low inflation, it is observed that the contribution of fuel inflation to overall inflation rose to 0.63 percentage points in the fourth quarter from 0.28 percentage points in the third quarter. This is largely on account of the seasonal fare increases, mainly in December, due to the increased demand for travel during the end of year festivities (Chart 1A).

Fuel Inflation

Fuel inflation rose to 2.39 percent in the fourth quarter of 2015 from 1.04 percent and 0.7 percent in the second and first quarters of 2015, respectively (Table 1). The increase in fuel inflation is largely on account of increases in the cost of items in the Housing, Water, Electricity, Gas and other Fuels' category. During this period house rents continued to be the main driver of fuel inflation contributing 2.8 percentage points in the fourth quarter of 2015 compared to 2.5 percentage points in the third quarter of 2015. The contribution of rents to fuel inflation started edging upwards in the second quarter largely reflecting increasing rental charges following aggressive campaign by the Kenya Revenue Authority to increase compliance of the Rental Income Tax law. Consequently, the landlords may have opted to shift the associated compliance costs to the tenants.

However, the low international and domestic oil prices continued to dampen fuel inflation as reflected in the contribution of fuels (diesel, petrol, kerosene and LPG gas) which remained at -0.5 percentage points in the last two quarters of 2015. The low and declining cost of fuel may have supported declines in the cost of fares as reflected in the muted contributions of fares on fuel inflation during this period. Its contribution stood at -0.4 percentage points in the fourth quarter of 2015 compared to -0.6 percentage points in third quarter of 2015. Generally, in the fourth quarters of each year, fares tend to rise in line with increased demand for travels during the end-year festivities.

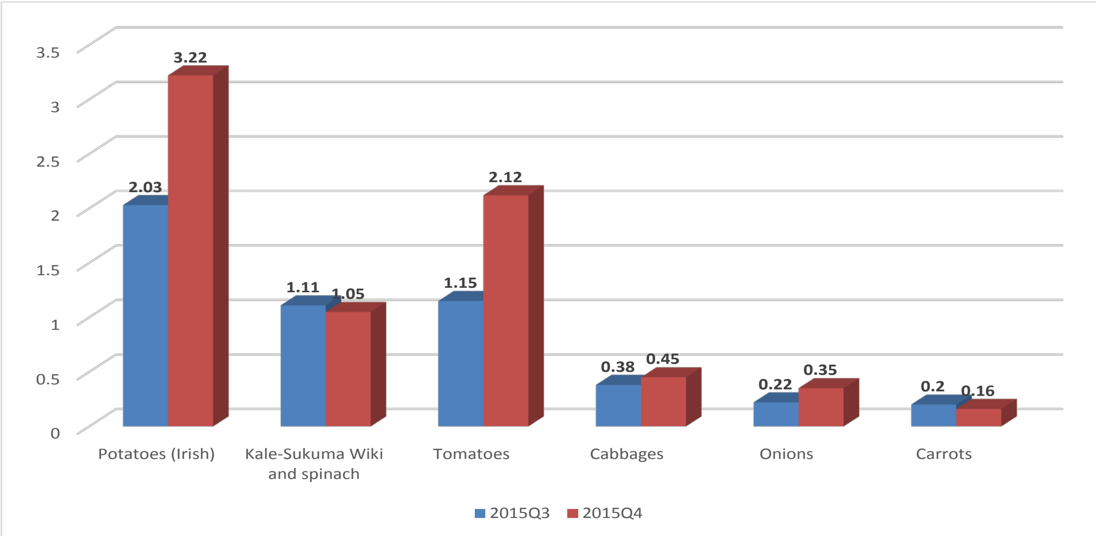
Chart 1B: Components of Fuel Inflation in 2015



Food Inflation

Food inflation remained elevated in the fourth quarter of 2015 largely on account of increases in prices of a few seasonal and fast growing foods crops. During this period the elevated prices of Irish potatoes, Kales/sukuma wiki and spinach, tomatoes, cabbage, onions and carrots had profound effect on food inflation. The collective contribution of these six food items to food inflation rose to 7.35 percentage points in the fourth quarter of 2015 from 5.10 percentage points in the third quarter of 2015. The elevated prices of these items is largely on account of the adverse weather conditions associated with the El Nino rains which disrupted food supply chains in the fourth quarter of 2015.

Chart 1C: Contributions of Main Food Items to Food Inflation



The price of Irish potatoes remained high in 2015, as result its contribution to food inflation remained elevated; accelerating from 2.03 percentage points in the third quarter of 2015 to 3.22 percentage points in the fourth quarter of 2015. This follows increases in the price of potatoes during the year following poor harvest in most of the Irish potato growing areas such as Nyandarua, Narok and Nyeri as a result of a pest (potato cyst Nematode) attack.

Non-food Non-Fuel Inflation

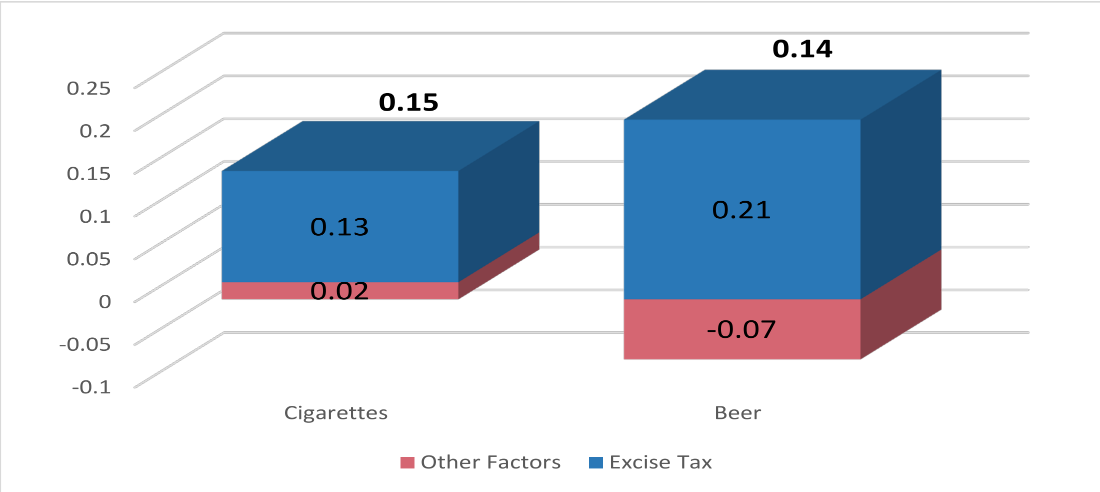
NFNF inflation increased from 4.63 percent in the third quarter of 2015 to 5.06 percent in the fourth quarter of 2015 largely driven by the influence of 'Alcoholic Beverages, Tobacco and Narcotics' category, (Table 2). The contribution of 'this category to NFNF inflation rose from 0.29 percentage points in the third quarter of 2015 to 0.59 percentage points in the fourth quarter of 2015. This increase is largely as a result of implementation of the revised excise tax rates on December 1, 2016 which mainly affected the prices of beer and cigarettes.

TABLE 2: RECENT DEVELOPMENT IN NON-FOOD-NON-FUEL INFLATION

	Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Furnishings, Household Equipment and Routine Household Maintenance	Health	Communi cation	Recreation & Culture	Educatio n	Miscella neous Goods & Services	**NFNF inflation**
	0.02	**0.07**	**0.06**	**0.03**	**0.04**	**0.02**	**0.03**	**0.05**	
2015Q1	0.08	1.00	0.82	0.40	-0.02	0.19	0.35	0.55	**3.37**
2015Q2	0.18	1.13	0.89	0.49	0.07	0.25	0.38	0.72	**4.10**
2015Q3	0.29	1.23	0.90	0.55	0.14	0.30	0.43	0.80	**4.63**
2015Q4	0.59	1.23	1.05	0.56	0.15	0.27	0.45	0.77	**5.06**
Oct	0.30	1.20	1.04	0.56	0.13	0.28	0.43	0.80	**4.80**
Nov	0.31	1.17	1.05	0.57	0.16	0.27	0.45	0.73	**4.75**
Dec	1.15	1.29	1.04	0.53	0.16	0.24	0.44	0.78	**5.63**

Following the implementation of revised excise tax rates on December 1, 2016 the price of cigarettes and beer increased substantially by 22.63 percent and 14.39 percent in December 2015. Consequently, the contribution of cigarettes to overall inflation stood at 0.15 percentage points of which 0.13 percentage points was due to excise tax rates revision. Also, the contribution of beer to overall inflation stood at 0.14 percentage points with excise tax rate revision on beer contributing 0.21 percentage points (Chart 1D). The combined contribution of cigarettes and beer to overall inflation is estimated at 0.33 percentage points. This one-off rise in excise tax is expected to continue to influence the level of inflation outcomes until November 2016, when it will dissipate.

Chart 1D: Contributions of Excise Tax and Other Factors on Inflation in December 2015



Developments in Money, Credit and Interest Rates

Monetary Aggregates

Annual growth in broad money, M3, increased to 14.1 percent in December 2015 from 13.5 percent recorded in September 2015 (Table 2.1). The residents' foreign currency deposits grew to 21.6 percent in the year to December from 17.9 percent recorded in September 2015 . The growth of narrow money (M1) picked up in the fourth quarter mainly driven by other deposits at CBK, comprising of county deposits and special project deposits. Growth in demand deposits, and Time and Savings deposits decelerated in the fourth quarter. This follows portfolio reallocation by the savers to the government securities market to take advantage of attractive yields.

TABLE 2.1: MONETARY AGGREGATES

	2013 December	2014 December	2015 December	Absolute Change 2013/14 December	Absolute Change 2014/15 December	%age change 12 months Dec-14	%age change 12 months Dec-15
1. Money supply, M3 (2+3) 2/	**1,996.24**	**2,329.98**	**2,658.17**	**333.74**	**328.19**	**16.72**	**14.09**
1.1 Money supply, M2 3/	1,671.59	1,981.86	2,234.80	310.27	252.94	18.56	12.76
1.2 Money supply, M1	827.07	936.44	1,023.67	109.37	87.23	13.22	9.32
1.3 Currency outside banks	163.18	173.22	190.96	10.04	17.74	6.15	10.24
1.4 Foreign Currency Deposits	423.37	348.12	423.37	-75.25	75.25	-17.77	21.62
2. Net foreign assets 4/	**387.29**	**479.65**	**491.46**	**92.36**	**11.81**	**23.85**	**2.46**
Central Bank	432.01	588.80	621.38	156.79	32.58	36.29	5.53
Banking Institutions	-44.71	-109.14	-129.92	-64.43	-20.78		
3. Net domestic assets (3.1+3.2)	**1,608.95**	**1,850.32**	**2,166.70**	**241.37**	**316.38**	**15.00**	**17.10**
3.1 Domestic credit (3.1.1+3.1.2)	**1,978.52**	**2,312.18**	**2,793.92**	**333.66**	**481.75**	**16.86**	**20.84**
3.1.1 Government (net)	397.16	379.32	524.04	-17.85	144.72	-4.49	38.15
3.1.2 Private sector	1,541.74	1,884.46	2,223.56	342.72	339.10	22.23	17.99
3.1.3 Other public sector	39.62	48.40	46.32	8.78	-2.08	22.17	-4.30
3.2 Other assets net (3-3.1)	**-369.57**	**-461.85**	**-627.22**	**-92.28**	**-165.37**		
Memorandum items							
1. Overall liquidity, L 1/	**2,523.23**	**2,949.06**	**3,390.82**	**425.83**	**441.76**	**16.88**	**14.98**
2. Reserve money	**320.76**	**379.69**	**392.42**	**58.93**	**12.73**	**18.37**	**3.35**
Currency outside banks	163.18	173.22	190.96	10.04	17.74	6.15	10.24
Bank reserves	157.58	206.47	201.46	48.89	-5.01	31.02	-2.43

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

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

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

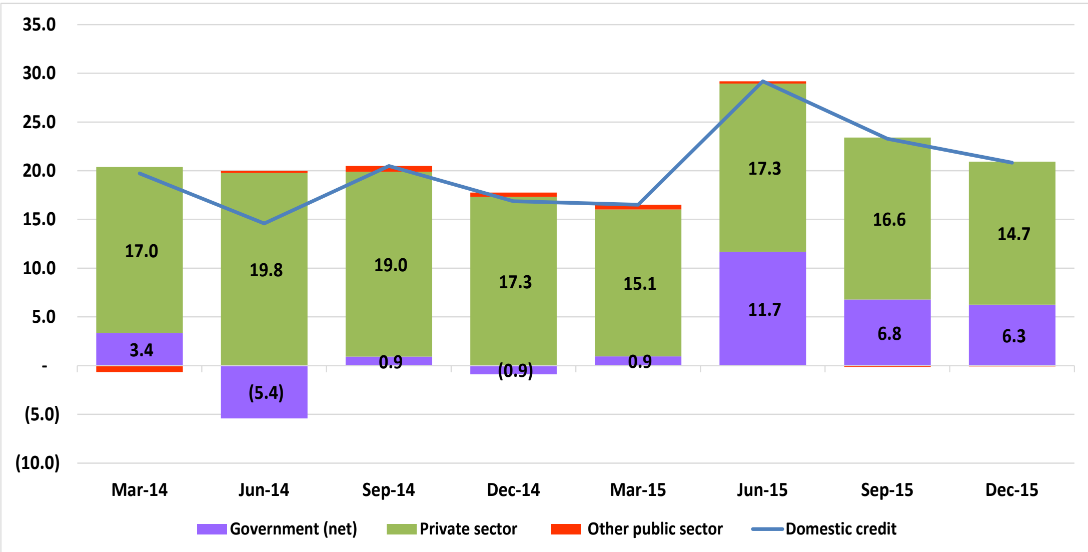
Consistent with the tight monetary policy stance adopted in June and July 2015, annual growth of domestic credit slowed to 20.8 percent in December 2015 from 23.3 percent September 2015. The slowdown reflects a decline in credit to the private sector whose contribution to the growth in domestic credit declined by 196 basis points to 14.7 percent by December 2015. The slowdown in private sector credit growth was largely to private households, consumer durables, mining and quarrying, real estate and finance and insurance sectors due to tight credit conditions. Quarterly credit flows decelerated to 1.8 percent in December from 5.4 percent in September 2015.

The annual contribution of net credit to government to money supply growth declined marginally from 6.8 percent in September 2015 to 6.3 percent in December 2015 as a result of the subdued uptake of credit by government from the domestic market following receipt of syndicated loan (Table 2.2 & Chart 2.1). In this regard, net Government uptake of domestic credit declined by 5.3 percent in the quarter ended December compared with the September 2015 quarter.

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

	END OF QUARTER LEVEL				ANNUAL GROWTH RATE			
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-15	Jun-15	Sep-15	Dec-15
1. Credit to Government	**469.8**	**522.0**	**553.3**	**524.0**	**4.4**	**84.4**	**38.3**	**38.2**
Central Bank	-61.2	-23.1	46.7	-43.6	-596.8	-86.9	-199.2	-52.6
Commercial Banks & NBFIs	531.0	545.1	506.6	567.7	21.4	18.7	13.3	20.4
2. Credit to other public sector	**43.8**	**44.7**	**48.0**	**46.3**	**30.1**	**11.7**	**-5.9**	**-4.3**
Local government	0.2	0.3	1.2	1.1	-108.7	-90.5	697.7	313.8
Parastatals	43.7	44.4	46.9	45.2	22.4	20.2	-7.9	-6.1
3. Credit to private sector	**1,930.7**	**2,072.2**	**2,184.0**	**2,223.6**	**19.6**	**20.5**	**20.8**	**18.0**
Agriculture	74.6	80.9	89.0	85.9	22.3	24.0	21.4	14.6
Manufacturing	244.6	265.4	280.4	290.1	21.1	20.0	19.3	22.2
Trade	321.9	356.9	381.1	378.0	18.8	25.9	29.7	23.2
Building and construction	79.8	87.5	100.8	106.3	12.7	15.5	27.9	32.2
Transport & communications	140.0	149.1	155.1	171.6	31.3	33.8	29.0	31.7
Finance & insurance	51.6	55.7	56.9	61.0	47.5	43.3	45.7	21.2
Real estate	255.0	268.9	279.2	282.6	19.6	19.4	12.5	7.6
Mining and quarrying	20.1	22.2	22.8	20.8	-20.1	-22.1	-5.4	-11.3
Private households	333.4	349.2	361.9	363.9	28.0	31.2	26.6	13.8
Consumer durables	112.4	125.2	128.9	128.5	12.4	21.6	19.0	14.3
Business services	181.5	188.0	198.8	204.9	27.8	15.8	15.9	20.9
Other activities	115.6	123.2	129.2	129.9	-8.9	-11.1	-0.9	11.9
4. TOTAL (1+2+3)	**2,444.3**	**2,638.9**	**2,785.3**	**2,793.9**	**16.5**	**29.2**	**23.3**	**20.8**

Chart 2.1: Contributions to Annual Growth in Domestic Credit (%)

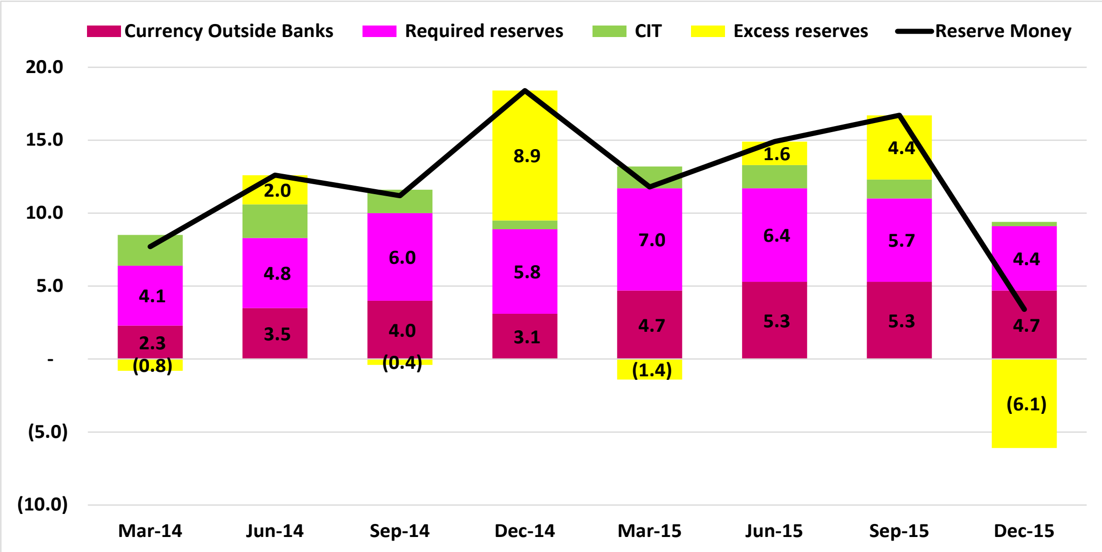


Reserve Money Annual growth in reserve money (RM) decelerated to 3.4 percent in December 2015 from 16.7 percent in September 2015 (Table 2.3). The decline reflects largely in bank reserves and in particular a sharp decline in excess reserves which contracted RM growth by 6.1 percent (Chart 2.2).

TABLE 2.3: RESERVE MONEY AND ITS SOURCES (KSH BILLION)

	END QUARTER LEVELS				ANNUAL GROWTH RATE					
	Mar-15	Jun-15	Sep-15	Dec-15	Jan-15	Feb-15	Mar-15	Jun-15	Sep-15	Dec-15
1. Net Foreign Assets	569.6	565.2	529.3	621.4	31.0	32.0	28.9	-8.2	-4.2	5.5
2. Net Domestic Assets	-223.3	-193.2	-152.6	-228.9	66.1	85.8	68.9	-33.8	-33.5	9.5
2.1 Government Borrowing (net)	-61.2	-23.1	46.7	-43.6	533.0	1703.1	-596.8	-86.9	-199.2	-52.6
2.2 Commercial banks (net)	-42.6	-29.7	-31.0	-21.7			131.8		-4.8	252.8
2.3 Other Domestic Assets (net)	-123.1	-143.9	-171.8	-167.2	-1.9	11.9	-5.3	20.6	11.9	45.9
3. Reserve Money	346.3	372.0	376.7	392.4	15.8	11.5	11.8	14.9	16.7	3.4
3.1 Currency outside banks	171.3	175.3	174.9	191.0	8.1	9.8	9.3	10.8	10.8	10.2
3.2 Bank reserves	175.0	196.7	201.8	201.5	24.1	13.1	14.3	18.8	22.4	-2.4

Chart 2.2: Contribution to Growth in Reserve Money



The Central Bank policy rate (CBR) remained unchanged at 11.5 percent during quarter ending December 2015.

Short Term Interest Rates

Short term interest rates trended downwards in the quarter ending December 2015 (Table 2.4 and Chart 2D). The weighted average interbank rate declined to 7.27 percent in December 2015 from 8.77 percent in November 2015 and a high of 19.85 percent in September 2015. This was on account of improved liquidity in the interbank market supported by OMO maturities. This liquidity, and a lower domestic borrowing requirement following the issuance of US Dollar denominated commercial loan by Government in November and December 2015, exerted downward pressure on the interbank rate. Furthermore, the liquidity distribution in the interbank was highly skewed in a few large banks as banks exercised cautious trading following placement of Imperial Bank under receivership. During this period the Central Bank supported the market, and in particular those institutions affected by the cautious lending condition in the interbank market, through reverse repos. Meanwhile the gradual pickup in the horizontal repo activity also helped improve the distribution of interbank market liquidity.

The 91-day Treasury bill rate declined to 9.81 percent in December 2015 from 12.34 percent in November 2015 and 21.65 percent in October 2015. Likewise, the 182-day Treasury bill rate declined to 11.43 percent in December 2015 from 14.02 percent in November 2015 and 21.52 percent in October 2015. The high rates on Government securities recorded from mid-September to October 2015 were associated with the high cost of borrowing in the interbank market arising from tight monetary policy measures taken to smoothen exchange rate volatility and anchor inflation expectations. Towards the end of the forth quarter, the interest rates on the government paper declined as the government substituted part of the local borrowing requirement with a foreign currency commercial loan.

Lending and Deposit Rates

In line with the tight monetary policy stance, the retail rates continued to rise in the quarter ending December 2015. The average commercial banks' lending rate increased to 18.30 percent in December 2015 from 16.82 percent recorded in September 2015 while the average deposit rate edged upwards to 8.02 percent from 7.28 percent. Consequently, the interest rate spread widened to 10.28 percent in December 2015 from 9.54 percent in September 2015 (Table 2.4 and Chart 2D).

TABLE 2.4: INTEREST RATES (%)

	2015											
	Jan	Feb	Mar	Apr	May	June	July	August	Sept	Oct	Nov	Dec
91-day Treasury bill rate	8.59	8.59	8.49	8.42	8.26	8.26	10.57	11.54	14.61	21.65	12.34	9.81
182-day Treasury bill rate	10.19	10.37	10.35	10.26	10.37	10.55	11.99	12.06	13.40	21.52	14.02	11.43
Overdraft rate	15.95	15.67	15.68	15.52	15.10	15.65	16.05	15.98	16.65	16.81	17.44	18.48
Interbank rate	7.12	6.77	6.85	8.77	11.17	11.77	13.48	18.80	19.85	14.82	8.77	7.27
Repo rate	8.09	7.87	8.08	8.38	8.50	9.70	10.61	11.50	11.50	11.50		9.23
Reverse Repo rate	-	-	-	-	-	-	-	-		18.12	14.21	11.93
Central Bank Rate (CBR)	8.50	8.50	8.50	8.50	8.50	10.00	11.50	11.50	11.50	11.50	11.50	11.50
Average lending rate (1)	15.93	15.47	15.46	15.40	15.26	16.06	15.75	15.68	16.82	16.58	17.16	18.30
Average deposit rate (2)	6.65	6.68	6.63	6.60	6.55	6.64	6.31	6.91	7.28	7.54	7.39	8.02
Over 3 months deposit	9.84	9.90	9.85	9.81	9.72	9.73	9.67	10.03	10.06	10.38	10.35	11.35
Savings deposits	1.58	1.53	1.53	1.90	1.48	1.85	1.37	1.50	1.71	1.68	1.32	1.56
Spread (1-2)	**9.28**	**8.78**	**8.82**	**8.80**	**8.70**	**9.42**	**9.44**	**8.77**	**9.54**	**9.04**	**9.77**	**10.28**

Cash Ratio Requirement

The proportion of cash to deposit liabilities held at the Central Bank for reserve requirements by commercial banks averaged 5.26 percent in December 2015 compared to 5.25 percent in September 2015 and was within the average 5.25 percent minimum requirement (Table 2.5). Commercial banks are required to maintain a Cash Reserve Ratio (CRR) monthly average of 5.25 percent in the 30 day maintenance cycle from 15th through 14th of every month, but subject to a daily minimum of 3.0 percent.

Both Commercial banks and non-bank financial institutions held strong liquidity positions in December 2015, at 38.3 percent and 25.4 percent respectively, in relation to the 20 percent minimum requirement.

TABLE 2.5: CASH & LIQUIDITY RATIOS (%)*

	2015											
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Commercial Banks												
Actual Average Liquidity	38.80	39.60	40.10	40.40	39.4	38.90	37.94	37.85	37.60	36.59	37.70	38.30
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.37	5.88	5.28	5.22	5.30	5.59	4.91	5.26	5.25	5.26	5.27	5.26
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
NBFIs												
Actual Average Liquidity Ratio	26.70	22.90	24.90	26.20	23.6	24.00	24.73	22.71	23.59	27.47	24.70	25.40
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
* Monthly average liquidity and cash ratios												

Performance of The Real Sector

Overview Kenya's economic performance remains robust despite headwinds from the global economic environment. Real GDP growth accelerated to 5.8 percent in the third quarter of 2015 from 5.0 percent and 5.6 percent in the first and second quarters of 2015 (Table 3.1). Growth in the third quarter of 2015 was largely supported by sustained higher public investment in infrastructure which boosted the construction sector; as well as improved weather conditions that boosted agriculture output and hydro-power electricity production.

TABLE 3.1: GROSS DOMESTIC PRODUCT GROWTH (%)

MAIN SECTORS	Annual			Quarterly						
				2014				2015		
	2012	2013	2014	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture	2.9	5.2	3.5	2.2	2.1	6.8	3.8	4.4	5.6	7.1
Mining & Quarrying	19.0	-8.9	14.2	10.5	27.0	1.5	22.0	4.6	7.5	12.5
Manufacturing	-0.6	5.6	3.4	6.4	8.3	1.5	-2.3	3.5	4.6	2.8
Electricity & water supply	9.5	6.6	5.7	3.9	4.6	7.2	7.3	8.4	10.2	11.0
Construction	11.3	5.8	13.1	7.6	16.6	8.8	19.4	11.2	9.7	14.1
Wholesale & Retail Trade	7.0	8.5	6.9	9.7	5.2	5.3	7.9	6.7	5.5	6.5
Accommodation & restaurant	3.1	-4.6	-17.2	-14.1	-19.3	-20.5	-16.0	-7.5	-0.8	-2.3
Transport & Storage	2.7	1.2	5.0	3.8	5.7	7.8	2.8	6.0	6.1	8.7
Information & Communication	2.4	12.3	13.4	12.7	8.1	16.1	15.8	9.4	7.7	8.9
Financial & Insurance	6.0	8.1	8.3	8.3	7.9	7.1	10.0	10.4	7.6	10.1
Public administration	4.0	3.1	5.8	-4.2	16.2	0.4	10.9	8.4	5.9	2.7
Professional, Administration & Support Services	4.0	3.6	2.7	3.2	2.5	1.9	3.3	4.2	5.8	2.6
Real estate	4.0	4.1	5.6	6.3	6.7	6.2	3.2	2.0	4.2	5.4
Education	11.1	6.3	7.4	8.2	8.2	7.5	7.2	1.7	3.5	4.7
Health	-2.8	7.7	7.2	5.1	7.5	7.8	8.3	7.5	8.1	4.8
Other services	2.3	4.6	4.2	5.5	4.4	4.1	3.0	3.0	1.7	2.3
FISIM	10.1	5.2	11.2	8.3	11.1	11.1	14.0	14.0	8.9	17.7
All economic activities	**4.1**	**5.3**	**5.3**	**4.6**	**6.1**	**5.4**	**5.4**	**5.1**	**5.6**	**6.2**
Taxes on products	7.7	8.7	5.2	5.9	5.0	3.8	6.3	4.5	5.6	3.0
GDP at market prices	**4.5**	**5.7**	**5.3**	**4.7**	**6.0**	**5.2**	**5.5**	**5.0**	**5.6**	**5.8**

Agriculture The Agriculture sector expanded by 7.1 percent in the third quarter of 2015 compared to 5.6 percent in the second quarter. The sector accounted for about 20 percent of GDP and contributed 1.4 percentage points to overall GDP growth (Table 3.7A and Table 3.7B). The improved performance in the sector is largely attributed to increased production of major crops such as tea, coffee and sugarcane, as well as improved performance in the dairy subsector, due to improved weather conditions.

While the sector recorded improved performance in the third quarter of 2015, available indicators point to mixed performance in the fourth quarter of 2015.

Tea

Production of tea rose by 33.7 percent in the fourth quarter of 2015, attributed to increased rainfall and favourable temperatures experienced in key tea growing areas (Table 3.2). The sector recorded improved performance after a drought in the first quarter of 2015 led to a significant decline in production. The larger output exerted downward pressure on auction prices, which declined by 4.5 percent in the period under review.

Coffee

The quantity of coffee sold declined by 46.1 percent in the fourth quarter of 2015, on account of lower production due to wet weather that delayed the drying process of the coffee beans (Table 3.2). On the other hand, auction prices improved by 1.6 percent in the same period due to better quality of the coffee beans obtained during the November-December harvest period, and the subsequent increase in the international demand for Kenyan coffee.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK

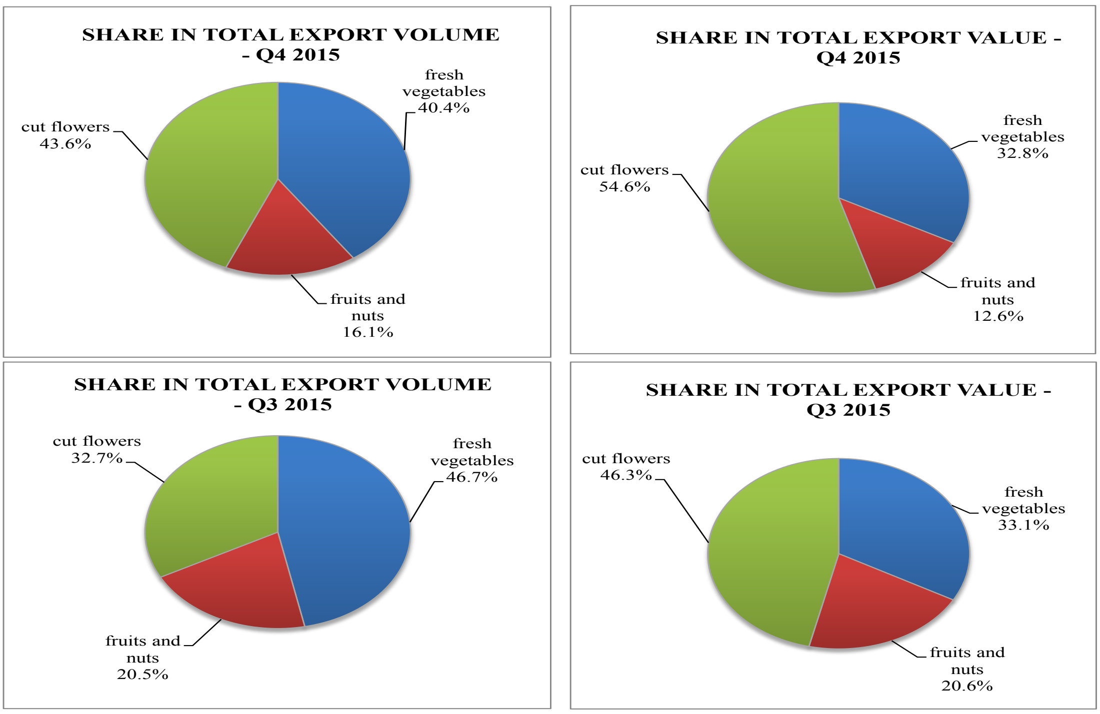
	2014				2015*						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Oct-15	Nov-15	Dec-15
Tea											
Output (Metric tonnes)	112,080	113,106	90,867	129,053	81,617	93,646	95,836	128,112	41,343	40,382	46,387
Growth (%)	*-7.7*	*0.9*	*-19.7*	*42.0*	*-36.8*	*14.7*	*2.3*	*33.7*	*13.3*	*-2.3*	*14.9*
Horticulture											
Exports (Metric tonnes)	80,267	77,263	78,381	67,342	76,838	67,050	100,428	66,143	24,634	19,458	22,051
Growth (%)	*2.8*	*-3.7*	*1.4*	*-14.1*	*14.1*	*-12.7*	*49.8*	*-34.1*	*-3.3*	*-21.0*	*13.3*
Coffee											
Sales (Metric tonnes)	14,444.00	13,218.00	7,930.00	6,858.00	13,203.06	6,679.53	8,014.93	4,318.82	1,768	1,268	1,282
Growth (%)	*158.2*	*-8.5*	*-40.0*	*-13.5*	*92.5*	*-49.4*	*20.0*	*-46.1*	*-33.1*	*-28.3*	*1.1*
Milk											
Output (million litres)	150	133	125.7	135	119.85	142.66	159.39	162.28	53.93	55.72	52.63
Growth %	*14.3*	*-11.2*	*-5.6*	*7.6*	*-11.4*	*19.0*	*11.7*	*1.8*	*4.4*	*3.3*	*-5.5*
Sugar Cane											
Output ('000 Metric tonnes)	1,960	1,601	1674.28	1,242	1877.624	1589.026	1764.07	1,612.93	550.81	496.55	565.57
Growth (%)	*8.0*	*-18.3*	*4.6*	*-25.8*	*51.1*	*-15.4*	*11.0*	*-8.6*	*-11.1*	*-9.9*	*13.9*

* Provisional

Horticulture

Horticultural exports declined by 34.1 percent in the fourth quarter of 2015 (Table 3.2). This was largely reflected in export volume of fresh vegetables fruits and nuts, which declined due to disruption of supply channels after the El Nino rains led to destruction of roads. However, cut flowers benefited from the increased rainfall to record improved production – and consequently increased export volumes and values – in the fourth quarter of 2015 (Chart 3A).

Chart 3A: Horticultural Exports



Manufacturing

The Manufacturing sector grew by 2.8 percent in third quarter of 2015, which was a slowdown from 4.6 percent recorded the previous quarter (Table 3.1). The sector's contribution to GDP remained at 10.5 percent, while its contribution to the economic growth witnessed in the third quarter remained low at 0.3 percentage points (Table 3.7A and Table 3.7B). The improved performance was largely on account of the declining costs in the sector arising from low and declining oil and electricity prices. In addition, the sector was boosted by improved commercial bank credit, which grew by 22.2 per cent from KSh 237.4 million by end-December 2014 to KSh 290.1 million by end-December 2015.

Available indicators in the manufacturing sector show declining performance in the fourth quarter of 2015 (Table 3.3). Sugar production declined due to declining earnings from the sale of sugarcane as well as structural inefficiencies. Cement production also declined in the period under review, as local cement faced stiff competition from cheaper imported cement.

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	2014				2015*					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Oct-15	Nov-15	Dec-15
Cement production										
Output (MT)	1,375,303	1,397,646	1,492,708	1,591,171	1,527,325	1,570,150	1,681,706	547,509	522,446	481,857
Growth %	*0.1*	*1.6*	*6.8*	*6.6*	*-4.0*	*2.8*	*7.1*	*-1.7*	*-4.6*	*-7.8*
Assembled vehicles										
Output (No.)	2,040	2,486	2,523	2,197	2,472	2,385	2,517	996	820	N/A
Growth %	*5.0*	*21.9*	*1.5*	*-12.9*	*12.5*	*-3.5*	*5.5*	*14.1*	*-17.7*	
Galvanized sheets										
Output (MT)	61,930	77,887	73,658	71,034	64,179.00	64,164.00	59,850.00	26,008	25,726	N/A
Growth %	*-20.5*	*25.8*	*-5.4*	*-3.6*	*-9.7*	*0.0*	*-6.7*	*26.5*	*-1.1*	
Processed sugar										
Output (MT)	187,707	134,238	153,957	140,950	184,533	136,459	163,115	56,360	43,401	48,089
Growth %	*16.2*	*-28.5*	*14.7*	*-8.4*	*30.9*	*-26.1*	*19.5*	*-7.7*	*-23.0*	*10.8*
Soft drinks										
Output ('000 litres)	118,473	107,021	103093	130,877	135691	115619	117677	43,215	41,323	N/A
Growth %	*3.5*	*-9.7*	*-3.7*	*27.0*	*3.7*	*-14.8*	*1.8*	*1.6*	*-4.4*	

MT = Metric tonnes
* Provisional
N/A - Not Available

Construction and Real Estate

The Construction sector recorded the highest sectoral growth rate at 14.1 percent in the third quarter of 2015, compared to 9.7 percent in the previous quarter (Table 3.1). However, its contribution to GDP remained low at 5.3 percent, and the sector contributed 0.75 percentage points to growth during the quarter (Table 3.7A and Table 3.7B). The improved performance follows the high public investment in infrastructure projects, which include the Standard Gauge Railway (SGR) and major road construction projects across the country.

Performance of the Real Estate sector was better in the third quarter of 2015 compared to the first two quarters, recording a growth rate of 5.4 percent. This was mirrored by increased cement consumption and credit advanced to this sector during the period under review.

Electricity and water

Electricity and Water Supply sector recorded accelerated growth of 11.0 percent in the third quarter of 2015 from 10.2 percent growth in the second quarter of 2015 (Table 3.2). The improvement in electricity generation is related to increased generation of hydro-electric and geothermal power following improved long rains and government investment towards expanding geothermal production capacity, respectively.

Electricity Generation

Electricity generation declined slightly in the fourth quarter of 2015. The decline was mainly reflected in generation of thermal electricity, which offset the increased production seen in geothermal electricity (Table 3.4).

TABLE 3.4: DEVELOPMENTS IN THE ENERGY SECTOR

	2014				2015						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Oct-15	Nov-15	Dec-15
Electricity Supply (Generation)											
Output (million KWH)	2,159	2,184	2,263	2,284	2235.43	2,297	2403.28	2379.47	811.82	781.43	786.22
Growth %	*-1.4*	*1.2*	*3.6*	*0.9*	*-2.1*	*2.8*	*4.6*	*-1.0*	*2.2*	*-3.7*	*0.6*
Of which:											
Hydro-power Generation (million KWH)	896	821	825	869	754	863	930	917	310	300	307
Growth (%)	*-17.7*	*-8.3*	*0.5*	*5.2*	*-13.2*	*14.4*	*7.8*	*-1.5*	*1.2*	*-3.2*	*2.2*
Geo-Thermal Generation (million KWH)	495	582	798	1,043	1,117	1,102	1,120	1,182	402	393	387
Growth (%)	*7.0*	*17.4*	*37.2*	*30.8*	*7.1*	*-1.4*	*1.6*	*5.6*	*3.4*	*-2.4*	*-1.3*
Thermal (million KWH)	768	781	640	372	364	333	353	281	100	89	92
Growth (%)	*20.5*	*1.8*	*-18.2*	*-41.8*	*-2.0*	*-8.6*	*6.2*	*-20.6*	*0.7*	*-10.8*	*3.6*
Consumption of electricity (million KWH)	1,697	1,812	1,894	2,004	1,943	2,225	2,093	1,995	695	673	627
Growth %	*0.7*	*6.8*	*4.5*	*5.8*	*-3.0*	*14.6*	*-6.0*	*-4.7*	*-7.9*	*-3.2*	*-6.8*
Consumption of Fuels ('000 tonnes)	965	991	1001	916	1,110	1,111	1,112	1,106	385	350	371
Growth %	*6.4*	*2.6*	*1.0*	*-8.5*	*21.2*	*0.1*	*0.1*	*-0.5*	*3.4*	*-9.1*	*5.9*
Murban crude oil average price (US $ per barrel)	109.3	109.6	103.9	75.0	53.0	63.3	51.1	42.7	47.3	43.6	37.3
Growth %	*-3.1*	*0.2*	*-5.2*	*-27.8*	*-29.3*	*19.5*	*-19.4*	*-16.4*	*1.5*	*-7.9*	*-14.5*

Service Sector

Generally, the services sector recorded improved performance in the third quarter of 2015, with the Financial and Insurance sector recording notable growth rate of 10.1 percent. Education, Information and Communication and Other Services also recorded accelerating growth while Health slowed down compared to the performance recorded in the second quarter of 2015 (Table 3.2).

While annual growth in the Accommodation and Restaurants sector remained subdued, recovery is anticipated following lifting of travel advisories by a number of tourist source countries such as France, United States and United Kingdom during the period under review. The sector recorded a higher decline in the third quarter of 2015 at -2.3 percent compared to -0.8 percent in the previous quarter. Whereas the lagged effect of the negative travel advisories and adverse security conditions continues to be felt in the sector, the steep reduction in the pace of decline (from double digits of 2014 to single digit in 2015) is a sign of recovery.

Tourist Arrivals

Overall, tourist arrivals declined in the fourth quarter of 2015 (Table 3.5). The number of tourist arrivals through Jomo Kenyatta International Airport (JKIA) declined, wholly offsetting the improvement seen at Moi International Airport Mombasa (MIAM). The recovery in the number of tourist arrivals through MIAM is attributed to improved security that led to the removal of negative travel advisories, increased government incentives to attract tourists and increased marketing of the country's tourism industry globally.

TABLE 3.5: DEVELOPMENTS IN TOURIST ARRIVALS

	2014				2015						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Oct-15	Nov-15	Dec-15
Total Tourist Arrivals	255,965	172,258	240,614	192,559	177,085	170,313	208,397	192,915	72,490	61,340	59,085
Growth (%)	*-22.5*	*-32.7*	*39.7*	*-20.0*	*-8.0*	*-3.8*	*22.4*	*-7.4*	*22.3*	*-15.4*	*-3.7*
o.w. JKIA - Nairobi	202,737	156,240	215,110	169,513	152,138	160,564	190,009	170,078	66,441	53,622	50,015
Growth (%)	*-26.0*	*-22.9*	*37.7*	*-21.2*	*-10.2*	*5.5*	*18.3*	*-10.5*	*22.7*	*-19.3*	*-6.7*
MIAM - Mombasa	53,228	16,018	25,504	23,046	24,947	9,749	18,388	22,837	6,049	7,718	9,070
Growth %	*-5.9*	*-69.9*	*59.2*	*-9.6*	*8.2*	*-60.9*	*88.6*	*24.2*	*18.3*	*27.6*	*17.5*

Transport

The total number of passengers received at the Jomo Kenyatta International Airport, Nairobi (JKIA) stabilised in the third quarter of 2015, with the number of incoming and outgoing passengers remaining fairly stable during the period under review (Table 3.6). Meanwhile, the volume of oil that passed through the Kenya pipeline increased in the fourth quarter of 2015.

TABLE 3.6: THROUGHPUT OF SELECTED TRANSPORT COMPANIES

	2014				2015					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Oct-15	Nov-15	Dec-15
Number of Passengers thro' JKIA										
Total passenger flows	1,056,142	1,040,458	1,047,633	1,088,290	1,093,150	1,083,521	1,082,120	360,384	362,478	N/A
Growth (%)	*-1.4*	*-1.5*	*0.7*	*3.9*	*0.4*	*-0.9*	*-0.1*	*-0.3*	*0.6*	
o.w. Incoming	527,508	515,935	518,086	541,357	544,470	542,619	539,865	180,054	181,239	N/A
Growth (%)	*-1.4*	*-2.2*	*0.4*	*4.5*	*0.6*	*-0.3*	*-0.5*	*0.0*	*0.7*	
Outgoing	528,634	524,523	529,547	546,933	548,680	540,902	542,255	180,330	181,239	N/A
Growth %	*-1.4*	*-0.8*	*1.0*	*3.3*	*0.3*	*-1.4*	*0.3*	*-0.5*	*0.50*	
Kenya Pipeline Oil Throughput										
Output ('000 litres)	1,361,907	1,378,151	1,474,444	1,409,126	1,453,716	1,412,774	1,428,822	481,681	451,045	509,905
Growth %	*1.7*	*1.2*	*7.0*	*-4.4*	*3.2*	*-2.8*	*1.1*	*3.2*	*-6.4*	*13.0*

N/A - Not Available

TABLE 3.7A: SECTORAL SHARE OF SECTORS TO GDP

Main Sectors	Annual			Quarterly						
	2012	2013	2014	2014				2015		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture	22.53	22.43	26.09	26.09	23.72	19.61	18.48	25.96	23.70	**19.84**
Mining & Quarrying	0.98	0.85	1.00	1.00	0.84	0.89	0.94	1.00	0.86	**0.94**
Manufacturing	11.09	11.08	11.17	11.17	10.82	10.81	10.70	11.01	10.71	**10.49**
Electricity & water supply	2.37	2.39	2.23	2.23	2.39	2.46	2.52	2.30	2.49	**2.58**
Construction	4.50	4.50	4.35	4.35	4.87	4.92	5.21	4.61	5.06	**5.31**
Wholesale & Retail Trade	7.38	7.58	7.09	7.09	7.51	8.55	7.63	7.21	7.51	**8.60**
Accommodation & restaurant	1.60	1.44	1.41	1.41	0.90	1.14	1.08	1.24	0.84	**1.05**
Transport & Storage	6.90	6.61	5.64	5.64	6.36	6.97	7.42	5.69	6.39	**7.17**
Information & Communicatior	3.14	3.34	3.37	3.37	2.91	3.29	4.84	3.51	2.97	**3.39**
Financial & Insurance	5.70	5.83	5.68	5.68	5.86	6.06	6.39	5.98	5.97	**6.31**
Public administration	4.00	3.90	3.57	3.57	4.36	3.72	4.03	3.69	4.38	**3.61**
Professional, Administration & Support Services	2.45	2.40	2.23	2.23	2.17	2.43	2.54	2.21	2.17	**2.35**
Real estate	8.22	8.10	7.81	7.81	8.04	8.32	8.31	7.59	7.93	**8.29**
Education	6.80	6.84	6.81	6.81	6.89	7.11	7.21	6.60	6.75	**7.03**
Health	1.71	1.75	1.60	1.60	1.80	1.82	1.90	1.63	1.85	**1.80**
Other services	1.33	1.32	1.25	1.25	1.26	1.33	1.37	1.23	1.22	**1.28**
FISIM	-2.40	-2.39	-2.34	-2.34	-2.45	-2.57	-2.73	-2.54	-2.52	**-2.86**
Taxes on products	11.72	12.05	11.15	11.15	11.74	13.15	12.15	11.10	11.73	**12.80**
GDP at market prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

TABLE 3.7B: SECTORAL CONTRIBUTIONS TO GDP GROWTH RATES

MAIN SECTORS	Annual			Quarterly						
	2012	2013	2014	2014				2015		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture	0.66	1.18	0.90	0.56	0.50	1.33	0.70	1.15	1.32	**1.40**
Mining & Quarrying	0.19	-0.08	0.14	0.11	0.23	0.01	0.21	0.05	0.06	**0.12**
Manufacturing	-0.06	0.62	0.38	0.71	0.90	0.17	-0.25	0.39	0.49	**0.29**
Electricity & water supply	0.23	0.16	0.13	0.09	0.11	0.18	0.18	0.19	0.25	**0.28**
Construction	0.51	0.26	0.57	0.33	0.81	0.44	1.01	0.51	0.49	**0.75**
Wholesale & Retail Trade	0.52	0.64	0.49	0.69	0.39	0.45	0.60	0.49	0.42	**0.56**
Accommodation & restaurant	0.05	-0.07	-0.24	-0.20	-0.17	-0.23	-0.17	-0.09	-0.01	**-0.02**
Transport & Storage	0.18	0.08	0.28	0.21	0.36	0.54	0.21	0.34	0.39	**0.63**
Information & Communication	0.08	0.41	0.45	0.43	0.23	0.53	0.76	0.33	0.23	**0.30**
Financial & Insurance	0.34	0.47	0.47	0.47	0.46	0.43	0.64	0.62	0.45	**0.64**
Public administration	0.16	0.12	0.21	-0.15	0.71	0.02	0.44	0.31	0.26	**0.10**
Professional, Administration & Support Services	0.10	0.09	0.06	0.07	0.06	0.05	0.08	0.09	0.13	**0.06**
Real estate	0.33	0.33	0.43	0.49	0.54	0.51	0.27	0.15	0.33	**0.45**
Education	0.76	0.43	0.50	0.56	0.57	0.53	0.52	0.11	0.24	**0.33**
Health	-0.05	0.13	0.12	0.08	0.14	0.14	0.16	0.12	0.15	**0.09**
Other services	0.03	0.06	0.05	0.07	0.06	0.05	0.04	0.04	0.02	**0.03**
FISIM	-0.24	-0.12	-0.26	-0.19	-0.27	-0.29	-0.38	-0.36	-0.23	**-0.51**
Taxes on products	0.90	1.05	0.58	0.66	0.59	0.49	0.76	0.50	0.65	0.38
GDP at market prices	**4.5**	**5.7**	**5.3**	**4.7**	**6.0**	**5.2**	**5.5**	**5.0**	**5.6**	**5.8**

Developments in the Balance of Payments and Exchange Rates

Overview

Kenya's overall balance of payments position improved by USD 1,353 million to a surplus of USD 853 million during the fourth quarter of 2015 from a deficit of USD 500 million during the third quarter of 2015. On the upside, receipts from the syndicated loan acquired during the quarter resulted in an increase of the capital and financial account surplus, which more than offset a marginal increase in the current account deficit. The stock of official reserves increased by 12 percent to USD 7,534 million equivalent to 4.8 months of import cover.

The foreign exchange market remained stable since November 2015, despite the rise in U.S. interest rates, impact of the slowdown in China, and volatility in other global financial markets. Stability in the foreign exchange market was supported by a narrowing current account deficit largely due to a lower import bill for petroleum products, enhanced earnings from tea exports, and diaspora remittances.

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	2015* Q3 Jul-Sep	2015* Q4 Oct-Dec	Change	% Change
1. OVERALL BALANCE	**-500**	**853**	**1353**	**-270.4**
2. CURRENT ACCOUNT	**-754**	**-832**	**-79**	**10.4**
2.1 Goods	**-2370**	**-2563**	**-193**	**8.1**
Exports (fob)	1599	1482	-118	-7.4
Imports (cif)	3970	4045	75	1.9
2.2 Services	**1617**	**1731**	**114**	**7.1**
Non-factor services (net)	933	962	29	3.1
Income (net)	-56	-60	-3	6.0
Current Transfers (net)	740	829	89	12.0
3. CAPITAL & FINANCIAL ACCOUNT	**253**	**1685**	**1432**	**565.5**
3.1 Capital Tranfers (net)	**25**	**26**	**1**	**4.3**
3.2 Financial Account	**229**	**1659**	**1431**	**626.0**
memo:				
Gross Reserves	**8899**	**9794**	**9794**	**10**
Official	6711	7534	7534	12
*import cover***	*4.4*	*5.2*	*5.2*	*17.8*
*import cover****	*4.3*	*4.8*	*4.8*	*12.8*
Commercial Banks	*2188*	*2259*	*2259*	*3.2*

* 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

Balance of Payments Developments

The overall balance of payments position improved to a surplus of USD 853 million in Quarter 4 2015 from a deficit of USD 500 million in Quarter 3 2015 (Table 4.1) reflecting increase in the capital and financial account surplus. The turnaround is attributed to receipts from the syndicated loan acquired during the quarter.

Current Account

The current account balance worsened by USD 79 million (10.4 percent) to a deficit of USD 832 million in the fourth quarter of 2015 from a deficit of USD 754 million during the third quarter (Table 4.2). The deterioration is attributed to 8.1 percent increase in the merchandise account deficit. As a share of GDP the current account deficit improved to 6.4 percent from 7.9 percent during the review period.

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

ITEM	2015* Q3 Jul-Sep	2015* Q4 Oct-Dec	Change	% Change
2. CURRENT ACCOUNT	**-754**	**-832**	**-79**	**10.4**
2.1 Goods	**-2370**	**-2563**	**-193**	**8.1**
Exports (fob)	1599	1482	-118	-7.4
Coffee	53	43	-10	-18.4
Tea	301	385	84	27.9
Horticulture	232	172	-61	-26.0
Oil products	22	11	-11	-50.2
Manufactured Goods	147	117	-30	-20.7
Raw Materials	108	96	-12	-10.7
Chemicals and Related Products (n.e.s)	127	104	-24	-18.6
Miscelleneous Man. Articles	157	155	-2	-1.0
Re-exports	241	216	-26	-10.6
Other	210	183	-27	-13.0
Imports (cif) of which	3970	4045	75	1.9
Oil	617	598	-19	-3.1
Chemicals	565	546	-20	-3.5
Manufactured Goods	683	624	-58	-8.5
Machinery & Transport Equipment	1330	1518	188	14.1
Other	637	657	21	3.3
2.2 Services	**1617**	**1731**	**114**	**7.1**
Non-factor services (net)	933	962	29	3.1
Non-factor services (credit)	1218	1270	52	4.2
of which transport	436	465	29	6.6
of which tourism (Travel)	170	184	13	7.9
Other services account: gov't	232	232	1	0.3
Other services account: private	380	389	9	2.3
Income (net)	-56	-60	-3	6.0
of which official interest	-55	-92	-37	67.5
Current Transfers (net)	740	829	89	12.0
Private (net)	655	744	89	13.5
of which Remittances	392	402	9	2.4
Public (net)	85	85	0	0.0

* Provisional.

Merchandise Account

The widening of the merchandise account deficit resulted from lower receipts from exports (with the exception of tea) and an increase in the value of merchandise imports of machinery and transport equipment and other imports during the fourth quarter of 2015.

Imports

Values of all other major imports declined in the quarter under review. Oil import declined by 3.1 percent mainly reflecting the lower oil prices in the international market. Manufactured goods and chemicals also declined by 8.5 percent and 3.5 percent, respectively, during quarter four of 2015. The decline reflected reduced quantities of imported iron and steel under the manufactured goods category and reduced quantities of imported manufactured fertilizer and inorganic chemicals under the chemicals category. Kenya sourced most imports from China, although China’s share in total imports decreased from 23 per cent in the third quarter to 18 percent in the fourth quarter of the review period. The share of Kenya’s imports from the European Union also decreased to 13 percent from 16 percent, while that from India increased to 16 percent from 14 percent. Imports from Africa accounted for 9 percent in the fourth quarter of 2015(Table 4.3).

Exports

The value of merchandise exports declined by 7.4 percent in the fourth quarter of 2015 resulting from decrease in earnings from coffee, horticulture, oil products, manufactured goods, raw materials, chemicals and related products, miscellaneous manufactured articles, re-exports and other products, which wholly offset the increase in value of merchandise tea exports.

Kenya’s exports to Africa declined in the fourth quarter of 2015 (Table 4.3) driven by decrease in exports to the EAC (Uganda and Rwanda) and COMESA regions. The share of exports to the rest of the world increased.

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)			Share of imports (%)	
	2015		2015	
	Jul-Sep	Oct-Dec	Jul-Sep	Oct-Dec
Country	**Q3**	**Q4**	**Q3**	**Q4**
Africa	**377**	**358**	**10**	**9**
Of which				
South Africa	164	152	4	4
Egypt	62	67	2	2
Others	151	139	4	3
EAC	**98**	**85**	**2**	**2**
COMESA	**151**	**173**	**4**	**4**
Rest of the World	**3,592**	**3,686**	**90**	**91**
Of which				
India	553	649	14	16
United Arab Emirates	286	232	7	6
China	929	735	23	18
Japan	235	227	6	6
USA	129	597	3	15
United Kingdom	134	88	3	2
Singapore	26	33	1	1
Germany	127	92	3	2
Saudi Arabia	111	106	3	3
Indonesia	125	97	3	2
Netherlands	65	45	2	1
France	58	58	1	1
Bahrain	30	21	1	1
Italy	63	51	2	1
Others	722	654	18	16
Total	**3,970**	**4,045**	**100**	**100**
EU	627	509	16	13
China	929	735	23	18

EXPORTS (in millions of US dollars)			Share of exports (%)	
	2015		2015	
	Jul-Sep	Oct-Dec	Jul-Sep	Oct-Dec
Country	**Q3**	**Q4**	**Q3**	**Q4**
Africa	**676**	**593**	**42**	**40**
Of which				
Uganda	236	144	15	10
Tanzania	80	95	5	6
Egypt	51	58	3	4
Sudan	15	15	1	1
South Sudan	33	36	2	2
Somalia	36	49	2	3
DRC	50	53	3	4
Rwanda	58	40	4	3
Others	118	103	7	7
EAC	**395**	**292**	**25**	**20**
COMESA	**492**	**370**	**31**	**25**
Rest of the World	**923**	**888**	**58**	**60**
Of which				
United Kingdom	111	103	7	7
Netherlands	116	93	7	6
USA	122	101	8	7
Pakistan	81	131	5	9
United Arab Emirates	89	68	6	5
Germany	25	27	2	2
India	29	20	2	1
Afghanistan	39	40	2	3
Others	312	305	19	21
Total	**1,599**	**1,482**	**100**	**100**
EU	362	318	23	21
China	19	19	1	1

Source: Kenya Revenue Authority

The share of exports to China stabilised at 1 percent while that to the European Union decreased to 21 percent in the fourth quarter of 2015 from 23 percent. The share of exports in the category of 'others' to the rest of the world increased to 21 percent.

Services Account

The services account surplus increased by 7.1 percent in the fourth quarter of 2015 mainly on account of build-up in receipts from non-factor services and net private current transfers. The increase in receipts from non-factor services was mainly driven by improvement of inflows from tourism and other private services (insurance services).

The primary income account deficit widened by 6 percent (or USD 3 million), while the surplus in the current transfers account increased by USD 89 million. Remittance inflows (under private transfers) increased by 2.4 percent in the fourth quarter of 2015 (Table 4.2).

Capital and Financial Account

The surplus in the capital and financial account improved by USD 1,432 million in the fourth quarter of 2015, largely reflecting receipts of a commercial loan and project loan for the construction of the Standard Gauge Railway during the fourth quarter of 2015. Short term flows (including net errors and omissions) also increased by USD 641 million during the period under review.

However, over the review period, private medium and long term financial flows decreased by USD 420 million. The decline was mainly in the other private flows, which declined by USD 340 million and reflected reduced private inflows during the fourth quarter of 2015 compared to the third quarter of 2015. During the same period, net inflows to commercial banks also declined by USD 80 million and reflected a build-up of net foreign assets.

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

ITEM	2015* Q3 Jul-Sep	2015* Q4 Oct-Dec	Change	% Change
3. CAPITAL & FINANCIAL ACCOUNT	**253**	**1685**	**1432**	**565.5**
3.1 Capital Tranfers (net)	**25**	**26**	**1**	**4.3**
3.2 Financial Account	**229**	**1659**	**1431**	**626.0**
Official, medium & long-term	68	1278	1209	1768.5
Inflows	152	1362	1210	796.7
Outflows	-84	-84	-1	0.9
Private, medium & long-term (net)	264	-156	-420	-159.3
Commercial Banks (net)	19	-61	-80	-421.5
Other private medium & long-term (net)	245	-95	-340	-139.0
Short-term (net) incl. errors & omissions	-103	537	641	-619.6

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by 10 percent in the fourth quarter of 2015. Official reserves held by the Central Bank constituted 76.9 percent of gross reserves. In terms of months of import cover, the ratio increased from 4.3 months in the third quarter of 2015 to 4.8 months during the fourth quarter of 2015. Foreign exchange reserves held by commercial banks increased by 3.2 percent during the review period (Table 4.5).

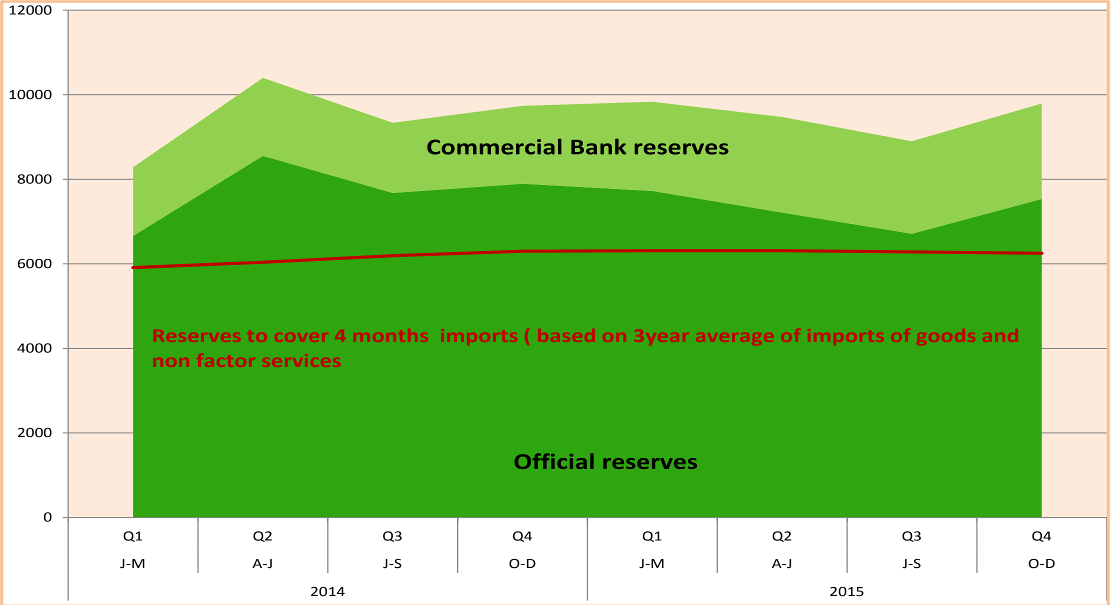
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
1. Gross Reserves	**8,285**	**10,399**	**9,336**	**9,738**	**9,834**	**9,473**	**8,899**	**9,794**
of which:								
Official	6,660	8,555	7,676	7,895	7,723	7,212	6,711	7,534
*import cover***	*4.5*	*5.7*	*5.0*	*5.0*	*4.9*	*4.6*	*4.3*	*4.8*
Commercial Banks	1,625	1,844	1,659	1,843	2,111	2,262	2,188	2,259
2. Residents' foreign currency deposits	**3,636**	**3,776**	**4,148**	**4,080**	**4,154**	**4,488**	**4,278**	**4,389**

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

Source: Central Bank of Kenya

Chart 4A: Foreign Exchange Reserves (US$ Million)



Source: Central Bank of Kenya

Exchange Rates

The foreign exchange market remained stable since November 2015, despite the rise in U.S. interest rates, impact of the slowdown in China, and volatility in other global financial markets. Stability in the foreign exchange market was supported by a narrowing current account deficit largely due to a lower import bill for petroleum products, enhanced earnings from tea exports, and diaspora remittances.

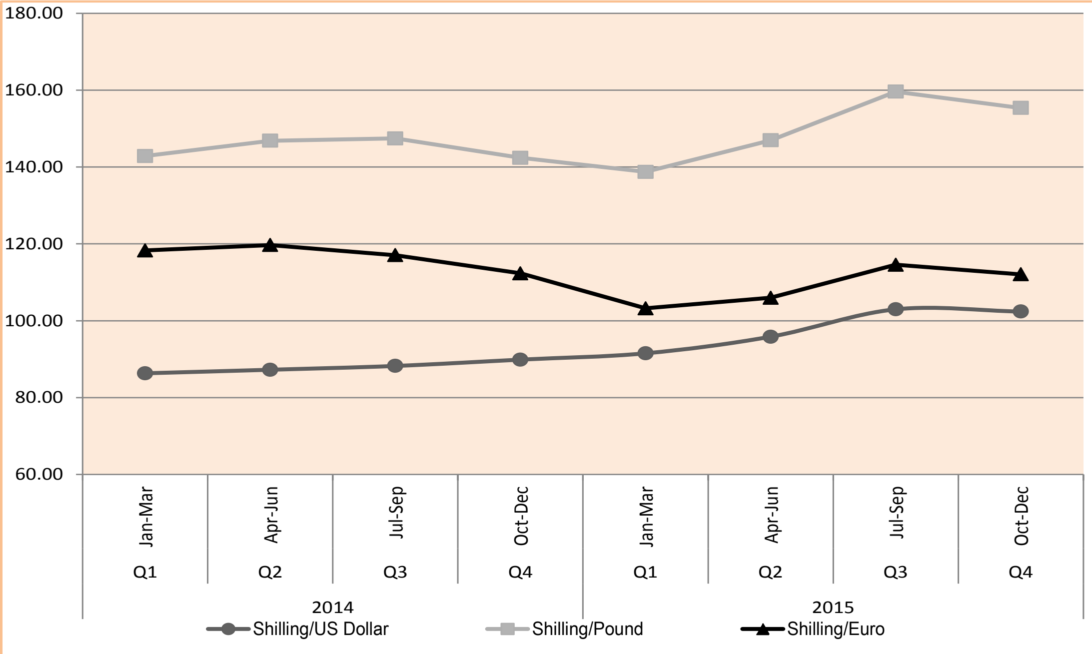
In the EAC region, the Kenya shilling strengthened against the Tanzania Shilling and the Rwanda Franc but weakened against the Uganda Shilling and the Burundi Franc (Table

TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2014	2015				
	Q4 Oct-Dec	Q1 Jan-Mar	Q2 Apr-Jun	Q3 Jul-Sep	Q4 Oct-Dec	% change Q4 2015 - Q3 2015
US Dollar	89.88	91.52	95.84	102.97	102.38	-0.57
Pound Sterling	142.39	138.74	146.96	159.61	155.37	-2.66
Euro	112.34	103.22	105.99	114.56	112.08	-2.16
100 Japanese Yen	78.65	76.86	79.02	84.29	84.31	0.03
Uganda Shilling*	30.34	31.61	31.96	34.23	33.96	-0.81
Tanzania Shilling*	19.08	19.80	21.25	20.73	21.13	1.94
Rwanda Franc*	7.66	7.54	7.30	7.06	7.24	2.54
Burundi Franc*	17.38	17.10	16.34	15.23	15.16	-0.47

Nominal Effective Exchange Rate
Real Effective Exchange Rate
* Units of currency per Kenya Shilling

Chart 4B: Kenya Shilling Exchange Rate



Source: Central Bank of Kenya

Developments in The Banking Sector

Structure of the Balance Sheet

The balance sheet in terms of total assets grew from Ksh. 3,261.1 billion in December 2014 to Ksh. 3,704.2 billion in December 2015 which translates to an annual growth of 13.6 percent. The main components of banking sector assets were loans and advances, government securities and placements, which accounted for 59.7 percent, 19.6 percent and 5.5 percent respectively.

Loans & Advances

The banking sector gross loans were Ksh. 2,299.1 billion in December 2015 compared to Ksh. 1,972.1 billion in December 2014 which translates to an annual growth of 16.6 percent. There was increased lending to all economic sectors except Mining and Quarrying which registered a decrease of Ksh. 4.94 billion.

Deposit Liabilities

The deposit base was Ksh. 2,615.5 billion in December 2015 compared to Ksh. 2,331.6 billion in December 2014 which translates to an annual growth of 12.2 percent. In December 2015, deposits were the main components of the balance sheet on the liabilities side accounting for 70.6 percent of total liabilities. This was a drop of 1.4 percent from the proportion in December 2014 when deposits accounted for 72 percent of the total liabilities.

Capital & Reserves

The banking sector recorded an improved capital position in December 2015 with total shareholders' funds increasing by 8.6 percent from Ksh. 529.1 billion in December 2014 to Ksh. 574.5 billion in December 2015. Core capital and total capital increased from Ksh. 422.1 billion and Ksh. 508.4 billion to Ksh. 473.6 billion and Ksh. 564.1 billion respectively over the same period. The core capital to total risk-weighted assets ratio decreased marginally from 15.9 percent in December 2014 to 15.6 percent in December 2015. Total capital to total risk-weighted assets ratio also decreased marginally from 19.2 percent in December 2014 to 18.6 percent in December 2015. The decrease in capital ratios was as a result of higher increase in the total risk-weighted assets as compared to increase in the Core capital and Total capital over the same period.

Non-performing Loans

The gross non-performing loans (NPLs) increased by 30.2 percent from Ksh. 107.1 billion in December 2014 to Ksh. 139.4 billion in December 2015. The gross NPLs to gross loans ratio increased from 5.4 percent in December 2014 to 6.1 percent in December 2015. Similarly, the coverage ratio, measured as a percentage of specific provisions to total NPLs decreased from 41.1 percent in December 2014 to 37.5 percent in December 2015. The increase in gross non-performing loans (NPLs) was mainly attributed to unfavourable weather conditions, insecurity, delayed regulatory framework for in the Mining sector and unfavourable business environment during part of the 12 month period.

The quality of assets, measured as a proportion of net non-performing loans to gross loans increased from 2.6 percent in December 2014 to 3 percent in December 2015. A summary of asset quality for the banking sector over the period is shown in Table 1 below.

TABLE 5.1: KEY INDICATORS OF THE BANKING SECTOR IN KENYA (KSH BILLION)

		Dec-14 (Ksh Bn)	Dec-15 (Ksh'Bn)
1	Gross loans and advances (Kshs. Bn)	1972.1	2299.1
2	Interest in Suspense (Kshs. Bn)	21.3	27.8
3	Loans and advances (net of interest suspended) (Kshs. Bn)	1950.7	2271.3
4	Gross non-performing loans (Kshs. Bn)	107.1	139.4
5	Specific Provisions (Kshs. Bn)	35.3	41.9
6	General Provisions (Kshs. Bn)	13.9	16.2
7	Total Provisions (5+6) (Kshs. Bn)	49.2	58.1
8	Net Advances (3-7) (Kshs. Bn)	1901.5	2213.2
9	Total Non-Performing Loans and Advances (4-2) (Kshs. Bn)	85.8	111.6
10	Net Non-Performing Loans and Advances (9-5) (Kshs. Bn)	50.5	69.7
11	Total NPLs as % of total advances (9/3)	4.40%	4.90%
12	Net NPLs as % of gross advances (10/1)	2.60%	3.00%
13	Specific Provisions as % of Total NPLs (5/9)	41.10%	37.50%

Source: Central Bank of Kenya

Profitability

The banking sector's pre-tax profits grew by 2.8 percent from Ksh 140.9 billion reported in the year ended 31st December 2014 to Ksh 144.9 billion for the year ended 31st December 2015. The annual return on assets decreased to 3.1 percent in December 2015 from 3.4 percent in December 2014. Similarly, return on shareholders' funds reduced to 25.2 percent in December 2015 from 26.6 percent in December 2014.

Total income increased by 14.5 percent from Ksh 414.8 billion in December 2014 to Ksh 475 billion in December 2015, while total expenses increased by 20.4 percent from Ksh 274 billion in December 2014 to Ksh 330 billion in December 2015. The major sources of income were interest on advances, other income and interest on government securities accounting for 60.9 percent, 16.1 percent and 14.7 percent of total income respectively. On the other hand, interest on deposits, salaries and wages, and other expenses were the key components of expenses, accounting for 36.6 percent, 24.2 percent and 21.4 percent of total expenses respectively.

Liquidity Ratio Requirement

For the month ended 31st December 2015, average liquid assets amounted to Ksh 963 billion while total short-term liabilities stood at Ksh 2,530.7 billion, resulting to an average liquidity ratio of 38.1 percent which was higher than the ratio of 37.7 percent registered in December 2014. The liquidity ratio remained above the minimum stipulated limit of 20 percent.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held at the Central Bank for reserve requirements by commercial banks averaged 5.26 percent in December 2015 compared to 5.25 percent in September 2015 and was within the average 5.25 percent minimum requirement (Table 2.5). Commercial banks are required to maintain a Cash Reserve Ratio (CRR) monthly average of 5.25 percent in the 30 day maintenance cycle from 15th through 14th of every month, but subject to a daily minimum of 3.0 percent.

Both Commercial banks and non-bank financial institutions held strong liquidity positions in December 2015, at 38.3 percent and 25.4 percent respectively, in relation to the 20 percent minimum requirement.

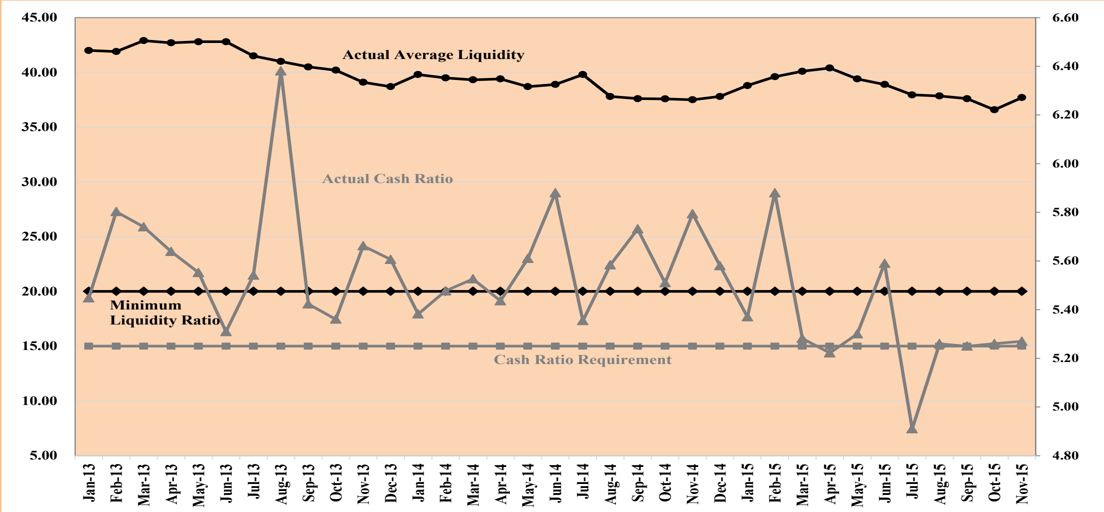
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2014				2015											
	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Commercial Banks																
Actual Average Liquidity	37.60	37.58	37.50	37.80	38.80	39.60	40.10	40.40	39.4	38.90	37.94	37.85	37.60	36.59	37.70	38.30
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	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.73	5.51	5.79	5.58	5.37	5.88	5.28	5.22	5.30	5.59	4.91	5.26	5.25	5.26	5.27	5.26
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	5.25	5.25	5.25
NBFIs																
Actual Average Liquidity Ratio	26.10	25.19	25.30	27.80	26.70	22.90	24.90	26.20	23.6	24.00	24.73	22.71	23.59	27.47	24.70	25.40
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	20.00	20.00	20.00

* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

Chart 5A: Commercial Banks' Cash and Liquidity Ratios (%)



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 310,853 transaction messages worth 2,442 billion in December 2015 compared with a volume of 248,109 transaction messages worth 2,104 billion in November 2015. This represents an increase of 16.07 per cent and 25.29 per cent in value and volume respectively. Compared to December 2014, the volume increased by 19.36 percent from 260,441 transaction messages to 310,853 transaction messages in December 2015 while value increased by 2.70 percent from 2,278 billion to 2,442 billion, indicating an increase in the uptake of KEPSS services by the public.

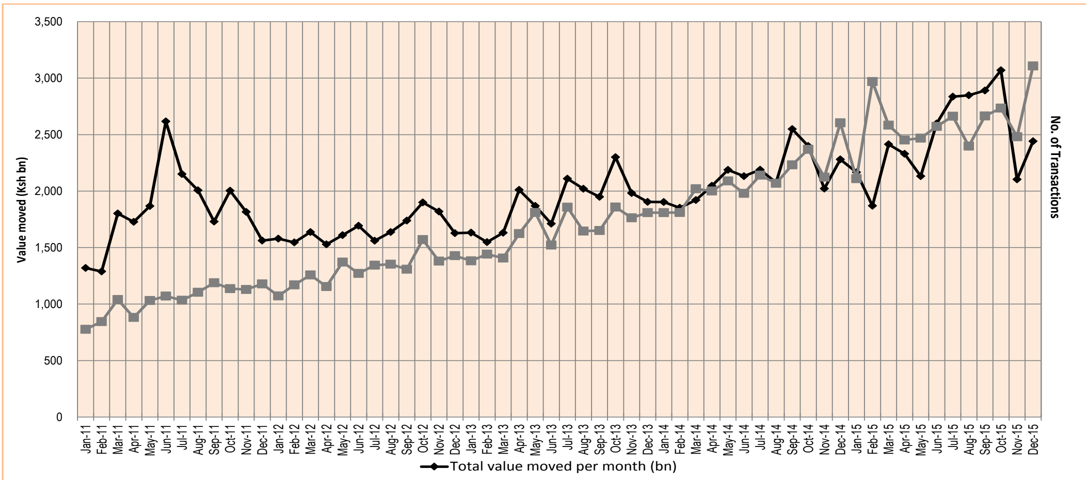
During the twelve months period to December 31, 2015 the value moved averaged Ksh 8 million per transaction. On average, 14,130 transaction messages with an average value of approximately Ksh 111 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted for 99.0 percent of the total settlements while payments processed through the Automated Clearing House (ACH) and settled in KEPSS averaged 1.0 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	Of which indirect {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Dec-14	2,280	32	260,441	0.01	20	114	13,022
Jan-15	2,167	28	210,940	0.01	21	103	10,045
Feb-15	1,870	26	297,018	0.01	20	93	14,851
Mar-15	2,414	32	258,357	0.01	22	109	11,697
Apr-15	2,330	28	245,227	0.01	20	116	12,261
May-15	2,132	29	246,925	0.01	20	107	12,346
Jun-15	2,598	29	257,240	0.01	21	124	12,250
Jul-15	2,836	31	266,342	0.01	23	123	11,878
Aug-15	2,849	28	239,842	0.01	21	136	11,421
Sep-15	2,891	29	266,523	0.01	22	131	12,115
Oct-15	3,070	30	273,487	0.01	21	146	13,023
Nov-15	2,104	30	248,109	0.01	21	100	11,815
Dec-15	2,442	36	310,853	0.01	22	111	14,130

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 several credit transfers increased by 18.36 percent from 20,529 transaction messages in November 2015 to 24,299 transaction messages in December 2015. Compared with December 2014, MT 102 messages increased by 14.87 percent from 21,154 transaction messages to 24,299 transaction messages in December 2015.

Single third party Message Type (MT 103) used for single credit transfers increased by 16.16 percent from 268,683 transaction messages to 312,111 transaction messages in the same period. MT 103 messages increased by 17.76 percent from 265,040 transaction messages in December 2014 to 312,111 transaction messages in December 2015.

Overall, total third party messages through KEPSS increased by 16.32 percent from 289,212 transaction messages in November 2015 to 336,410 transaction messages in December 2015. (Table 5.4 and Chart 5C).

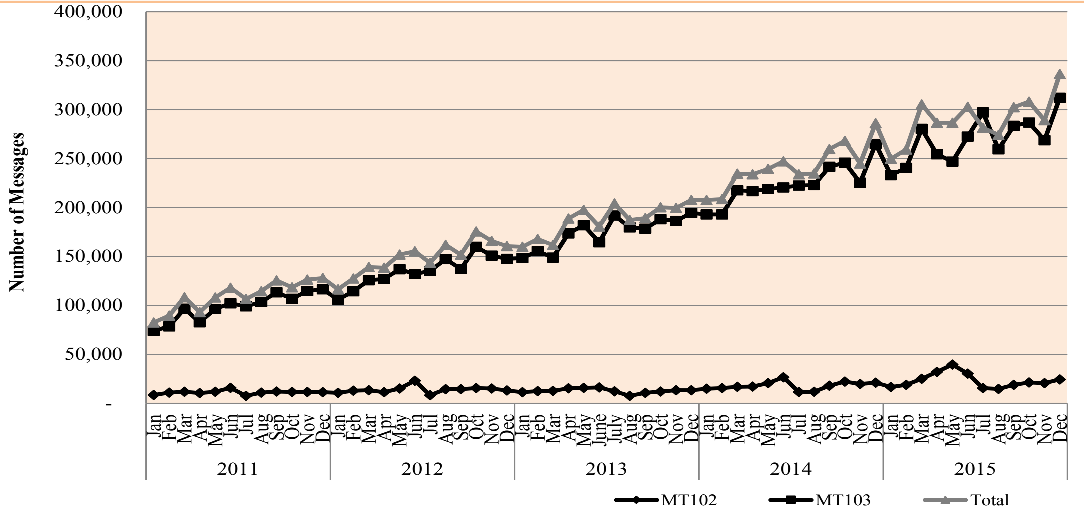
Inter-bank transfers (MT 202) accounted for 33.02 percent of the total value moved through KEPSS as at end of December 2015 while third party (MT 102 & MT 103) messages accounted for 66.98 percent.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
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
	Jun	26,649	220,504	247,153
	Jul	11,546	222,388	233,934
	Aug	11,903	222,826	234,729
	Sep	18,074	241,606	259,680
	Oct	22,080	245,888	267,968
	Nov	19,626	225,312	244,938
	Dec	21,154	265,040	286,194
2015	Jan	16,749	232,962	249,711
	Feb	18,762	240,962	259,251
	Mar	24,952	280,360	305,312
	Apr	32,074	254,422	286,496
	May	39,486	247,003	286,489
	Jun	30,402	272,405	302,807
	Jul	15,553	281,594	297,147
	Aug	14,761	259,425	274,186
	Sep	18,836	302,356	321,192
	Oct	21,224	286,817	308,041
	Nov	20,529	268,683	289,212
	Dec	24,299	312,111	336,410

Source: Central Bank of Kenya

Chart 5C: Trends in MT102 and MT103 Through Kepss

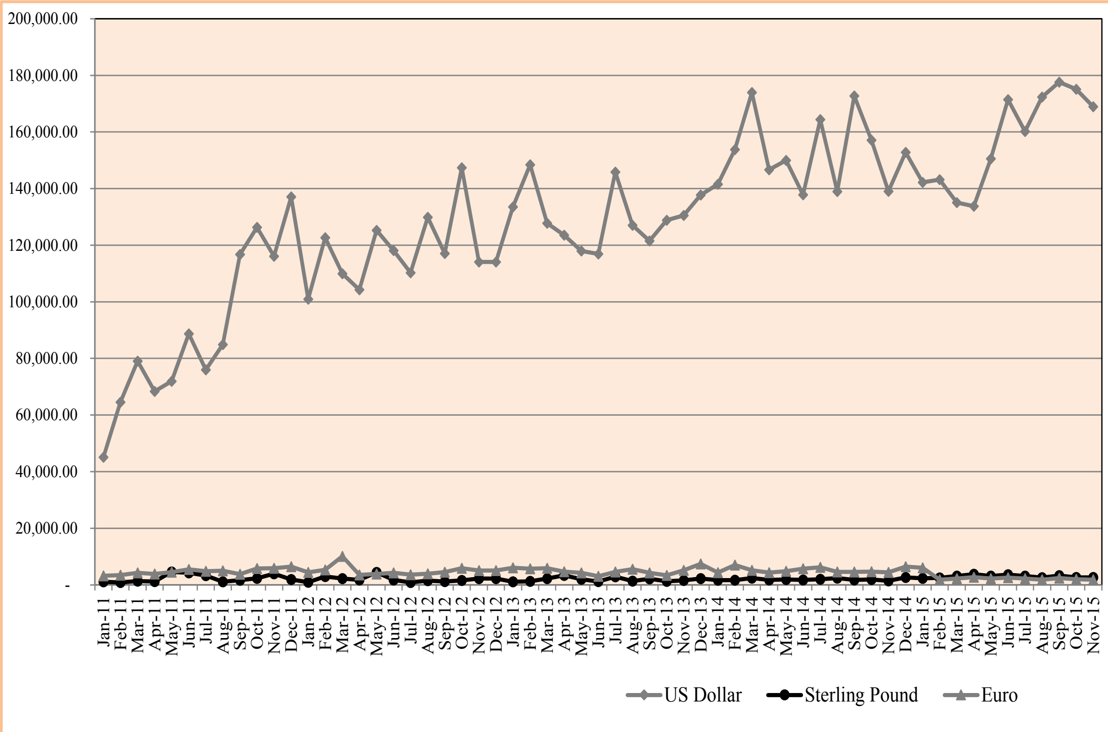


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 18.61 per cent from 22,239 transaction messages in November 2015 to 26,378 transaction messages in December 2015. Consequently, the corresponding value in Kenya Shillings equivalent moved in this period decreased by 3.52 per cent from Ksh. 179.747 billion to Ksh 173.427 billion. The US dollar denominated transactions accounted for 89.22 percent of the value moved (Chart 5D) while the Sterling Pound and the Euro accounted for 1.26 percent and 9.52 percent, respectively.

Chart 5D: Domestic Foreign Currency Cheque Clearing Kenya Shilling Equivalent Flow Through KEPSS



Source: Central Bank of Kenya

Government Budget Performance

During the second quarter of the FY 2015/16, the cumulative Government's budgetary operations resulted in a deficit of 4.0 percent of GDP compared with a surplus of 0.5 percent of GDP in first quarter of the FY 2015/2016. The cumulative deficit was, however, within the 6.0 percent deficit programmed for the period (Table 6.1). The usual sluggish absorption of expenditure in the first quarter of government spending pattern explains the marginal surplus realized in first quarter of the fiscal year.

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

	FY 2015/16				
	Q 1 Sept	Q 2 Dec	Cumulative to Dec 2015	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	**282.5**	**302.0**	**584.5**	**678.0**	**-93.5**
Revenue	**261.0**	**283.2**	**544.2**	**591.8**	**-47.6**
Tax Revenue	256.6	**269.4**	526.0	576.5	-50.5
Non Tax Revenue	4.4	**13.8**	18.2	15.3	2.9
Appropriations-in-Aid	16.0	**15.0**	31.0	51.1	-20.0
External Grants	5.5	**3.7**	9.2	35.1	-25.8
2. TOTAL EXPENSES & NET LENDING	**254.2**	**515.0**	**769.2**	**997.2**	**-228.1**
Recurrent Expenses	181.6	**295.4**	477.0	512.8	-35.8
Development Expenses	41.2	**151.8**	193.0	332.2	-139.2
County Transfers	31.4	**67.8**	99.2	149.7	-50.5
Others	0.0	**0.0**	0.0	0.0	0.0
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**28.3**	**-213.0**	**-184.7**	**-319.2**	**134.5**
As percent of GDP	0.5	-4.0	-3.4	-6.0	2.5
4. ADJUSTMENT TO CASH BASIS	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
5. DEFICIT ON A CASH BASIS	**28.3**	**-213.0**	**-184.7**	**-319.2**	**134.5**
As percent of GDP	0.5	-3.3	-3.4	-6.0	2.5
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**21.3**	**-42.3**	**-20.9**	**0.0**	**-20.9**
7. FINANCING	**-6.9**	**170.7**	**163.8**	**319.2**	**-155.5**
Domestic (Net)	-14.4	40.7	26.3	107.7	-81.4
External (Net)	7.2	130.3	137.5	211.5	-74.1
Capital Receipts (domestic loan receipts)	0.3	-0.3	0.0	0.0	0.0
Others(Euro Bond sale proceeds)	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0

Source: Provisional Budget Outturn from the National Treasury
NB: using the new re-based GDP figures as per 2015 economic survey

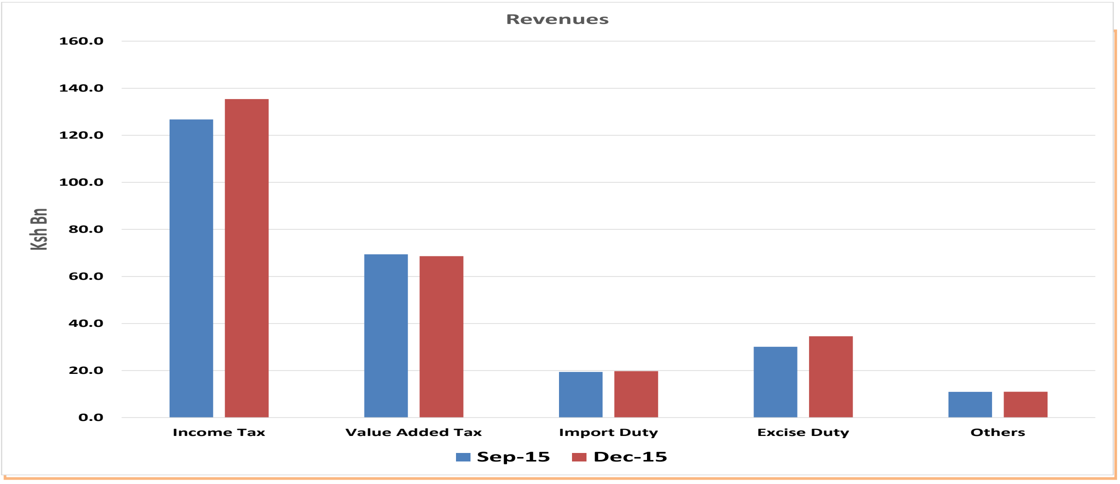
Source: National Treasury

Revenue

In second quarter of the FY 2015/2016, total revenues including grants grew by 6.9 percent to Ksh 302.0 billion from Ksh 282.5 billion in First quarter. Historically, revenue collection begins to pick up in the second quarter of the fiscal year. On a cumulative basis, revenues collected and grants received amounted to Ksh 584.5 billion by end of second quarter of the FY 2015/16 against a target of Ksh 678 billion, resulting in a shortfall of Ksh 93.5 billion. Total revenues (excluding grants) increased by 8.5 percent in second quarter from the Ksh 261.0 billion realized in First quarter of the FY 2015/16. However, on cumulative basis, revenues excluding grants stood at Ksh 544.2 billion against a target of Ksh 591.8 billion set for end December 2015. Tax revenue registered a 5 percent growth in the second quarter whereas appropriations in Aid (A-in-A) declined by 6.1 percent over the same period. Cumulatively, by end of second quarter, tax revenues underperformed by Ksh 50.5 billion or 8.8 percent of the programmed target for the quarter.

Performance of Tax revenues was adversely affected by external factors such as VAT forgone on donor funded projects. Additionally the increase in exemptions undermined the collections of Import VAT, Railway development levy and Import Declaration Fees (IDF). The A-I-A under performance reflects the problem of under reporting by the ministry's expenditure return for the period under review.

Chart 6A: Composition of Government Receipts



Source: National Treasury

In terms of composition, the income tax component of tax revenues increased by 6.8 percent while Excise Duty and Import Duty increased by 14.9 percent and 1.7 percent, respectively, from first quarter to second quarter of the FY 2015/2016. Value Added Tax, however, recorded a decline of 1.1 percent over the review period (Chart 6.1).

Despite the growth in most of the tax revenue components in the second quarter, all revenues fell short of their respective targets with the exception of non-tax revenues which were Ksh 2.9 billion above the target. There were challenges in the collection of VAT, as well as a delay in approving new excise tax measures. The cumulative underperformance of revenues can also be attributed to changes in the economic environment, in particular exchange rate depreciation, and the rise in interest rates during period under review. In addition, government policy with respect to exemptions and taxation of state corporations continue to have an adverse effect on the collection of revenues.

However, with the new measures on Excise tax now being fully operational and with the continued decline of global oil prices and the stabilization of the exchange rate, the outlook of revenue collection remains optimistic.

Expenditure and Net Lending

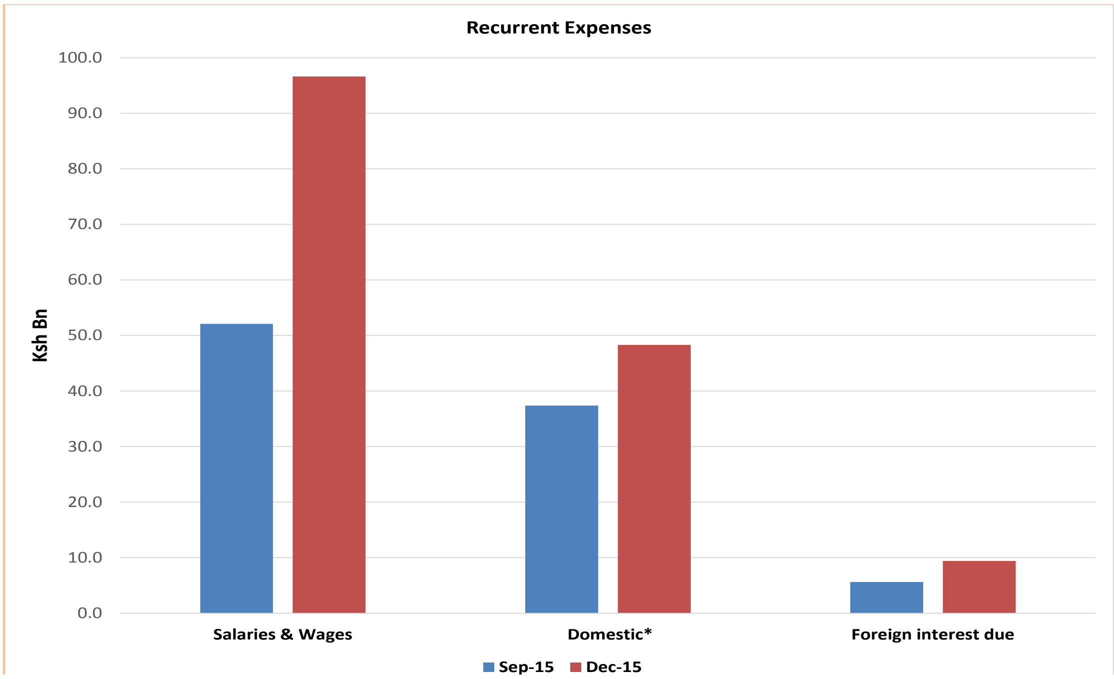
Government expenditure and net lending rose by 102.6 percent between in the second quarter of the FY 2015/2016. Recurrent expenditure, development expenditure and County transfers grew by 62.7 percent, 268.3 percent and 116 percent, respectively. In terms of composition, recurrent expenditure accounted for 57.4 percent of government spending in second quarter compared with 71.4 percent in first quarter. Development expenditure and County transfers accounted for 29.5 and 13.2 percent of government spending in second quarter, respectively compared with 16.2 and 12.3 percent in first quarter (Table 6.1).

Cumulatively expenditure and net lending for the first half of the FY 2015/2016 amounted to Ksh 769.2 billion, against a target of Ksh 997.2 billion. The shortfall in expenditure can be attributed to lower absorption in both recurrent and development expenditures by the National Government and County Governments.

Increase in recurrent expenditure between quarter one and two can be explained by the growth in all recurrent expenditure items. Total interest payment grew by 34.2 percent with foreign interest payments growing by 29.2 percent and foreign interest payments by 67.3 percent in period under review (Chart 6.2). Expenditure on salaries and wages rose by 85.5 percent in the period under review. The rise in salaries observed in second quarter can be attributed to delayed salaries for teachers arising from industrial dispute between the teachers union and Teachers Service Commission in the first quarter of the FY 2015/2016.

Although development expenditure increased by 34.5 percent over the review period, cumulatively it was still below the programmed target. This can be attributed to a slower absorption of development expenditures by both national and county governments.

Chart 6.B: Composition of Recurrent Expense



Sources: Provisional Budget Outrun from the National Treasury

External financing increased from Ksh 7.2 billion in first quarter to Ksh 130.3 billion in second quarter of the FY 2015/2016. (Table 6.2). The increase in external financing in second quarter can be attributed to the proceeds of the 2-year syndicated loan of USD 750 million in November 2015.

In the quarter ending December 2015, net domestic borrowing amounted to Ksh 44.96 billion which was Ksh 42.1 billion higher than amount in the previous quarter (Table 2). The repayment comprised Ksh 27.9 billion to commercial banks, Ksh 37.7 billion to non-bank financial institutions and Ksh 1.8 billion from non-residents. A repayment of Ksh 22.4 billion was made to the Central Bank (Table 6.2).

Access to domestic financing was constrained during the first quarter of the fiscal year as a result of tight liquidity conditions in the money markets However in the second quarter, liquidity conditions in the money market stabilized and the government made strides with its domestic borrowing. The Government also externalized part of its planned domestic financing by drawing on a two-year syndicated loan of USD 750 million in November 2015

TABLE 6.2: NET CREDIT TO GOVERNMENT 2015/2016 (Ksh Million)

	Sep-15	Dec-15
1. From CBK	**67,481**	**(22,452)**
Overdraft	9,430	8,738
Cleared Items awaiting transfer to PMG	(35)	(56)
Pre-1997 Government Overdraft	-	(562)
Treasury bills rediscounts	25,506	20,549
Fixed rate bonds discounted	9,400	9,381
Central Government deposits	23,179	(60,503)
2.From commercial banks	**(35,908)**	**27,925**
Bank advances	(938)	2,852
Treasury bills	(41,904)	23,774
Fixed rate bonds	9,024	8,910
Zero Coupon bonds	-	-
Special Bonds	-	-
Savings and Development Bond	-	-
Infrastructure Bonds	(9,371)	(4,683)
less central government Budgetary deposits	7,281	(2,928)
3.Adv.by Treasury to:	-	-
NCPB	0	-
C&SFC	0	-
Other parastatals	0	-
4.From Non-banks	**(29,467)**	**37,673**
Treasury bills	(33,401)	16,266
T.R.C's	-	-
Fixed&special bonds	10,930	22,228
Zero coupon bonds	-	-
Infrastructure Bonds	(6,996)	(821)
Savings and Development Bond	-	-
5. From Non-Residents	**743**	**1,820**
Treasury bills	634	1,215
Fixed&special bonds	109	493
Zero coupon bonds	-	-
Infrastructure Bonds	0	112
Savings and Development Bond	0	-
Change in Credit from banks (From 30th June 2015)$^{+}$	**31573**	**5473**
Change in Credit from non-banks(From 30th June 2015)$^{+}$	**-29467**	**37673**
Change in Credit from non-residents(From 30th June 2015)$^{+}$	**743**	**1820**
6.Total Change in Dom. Credit (From 30th June 2015)	**2,849**	**44,967**
NB. Treasury Bills are reflected at Cost		

Outlook for FY 2015/16

In the budget estimates for the FY 2015/16, ordinary revenue is estimated at Ksh 1,358.0 billion (20.8 percent of GDP) while external grants are estimated at Ksh 73.4 billion (1.1 percent of GDP). Government expenditure is estimated at Ksh 2,000.6 billion (30.7 percent of GDP), of which Ksh 1,013.0 billion (15.5 percent of GDP) will be in recurrent expenses, transfer to the county governments at Ksh 264.2 billion, and development expenses at Ksh 718.5 billion (Table 6.3).

TABLE 6.3: BUDGET ESTIMATES FOR THE FISCAL YEAR (KS H BILLION)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE	**1,358.0**	**20.8**
Ordinary Revenue	1,254.9	19.2
Appropriations-in-Aid	103.2	1.6
External Grants	73.4	1.1
2. TOTAL EXPENSES & NET LENDING	**2,000.6**	**30.7**
Recurrent Expenses	1,013.0	15.5
Development Expenses	718.5	11.0
County Transfer	264.2	4.1
Contigency Fund	5.0	0.1
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-642.6**	**-9.9**
4. ADJUSTMENT TO CASH BASIS	**0.0**	**0.0**
5. DEFICIT ON A CASH BASIS	**-642.6**	**-9.9**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.0**	**0.0**
7. FINANCING	**569.2**	**8.7**
Domestic (Net)	228.7	3.5
External (Net)	340.5	5.2

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 642.6 billion (9.9 percent of GDP) in 2015/16. The deficit was expected to be financed through net external borrowing of Ksh 340.5 billion and net domestic borrowing of Ksh 221.5 billion**.**

Developments in Public Debt

Overall Debt Kenya's public and publicly guaranteed debt increased by 7.4 percent in the second quarter of the FY 2015/16 (ending December 2015) with domestic debt accounting for much of the increase. As percentage of GDP, total debt stock at the end of the second quarter stood at 58.9 percent, a 410 basis points increase from the ratio reported at the end of the first quarter of the FY 2015/16. External debt and domestic debt to GDP ratio increased from 28.9 percent and 25.9 at the end of first quarter to 30.1 percent and 28.7 percent by the end of the second quarter, respectively (Table 7.1).

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

	2014/15			2015/16		
	Q2	Q3	Q4	Q1	Q2	Change Q on Q
EXTERNAL**						
Bilateral	287.2	384.6	430.4	477.5	481.3	3.8
Multilateral	612.4	618.5	684.6	759.3	751.2	-8.2
Commercial Banks	255.2	259.7	276.9	295.6	366.2	70.6
Supplier Credits	16.0	15.3	16.6	17.8	16.5	-1.3
Sub-Total	**1170.7**	**1278.1**	**1408.6**	**1550.2**	**1615.2**	**65.0**
(As a % of GDP)	21.9	23.9	26.3	28.9	30.1	
(As a % of total debt)	47.2	47.8	49.8	52.8	51.2	
DOMESTIC						
Banks	**708.0**	**779.8**	**793.8**	**790.3**	**865.8**	**75.5**
Central Bank	58.3	64.8	63.3	107.6	101.4	-6.3
Commercial Banks	649.738945	715.0	730.4	682.7	764.4	81.7
Non-banks	**585.9**	**604.4**	**616.0**	**586.1**	**661.7**	**75.6**
Pension Funds	310.6	348.1	352.7	345.4	389.0	43.6
Insurance Companies	129.3	125.2	127.9	121.1	129.1	8.0
Other Non-bank Sources	146.1	131.2	135.4	119.6	143.6	24.0
Non-residents	**13.8**	**12.9**	**10.7**	**11.5**	**12.6**	**1.0**
Sub-Total	**1307.7**	**1397.1**	**1420.4**	**1388.0**	**1540.0**	**152.1**
(As a % of GDP)	24.4	26.1	26.5	25.9	28.7	
(As a % of total debt)	52.8	52.2	50.2	47.2	48.8	
GRAND TOTAL	**2478.4**	**2675.2**	**2829.1**	**2938.2**	**3155.2**	**217.0**
(As a % of GDP)	46.3	49.9	52.8	54.8	58.9	

Computed using the re-based GDP figures
** External debt is inclusive of guaranteed debt

Sources: National Treasury and Central Bank of Kenya

Domestic Debt Total domestic debt increased by 11.0 percent in the second quarter of the FY 2015/16. This increase was attributed to a spike of interest rates on short dated securities which made investment in debt securities attractive. Reflecting this increase, the share of domestic debt to GDP increased by 280 basis points to 28.7 percent reported at the end of the second quarter of the FY 2015/16. Treasury Bills accounted for 81.7 percent of the increase in domestic debt in the second quarter ending December 2015. The significant increase in Treasury Bills relative to Treasury Bonds reflects investors' preferences during periods of rising interest rates. The share of domestic debt to total debt increased from 47.2 percent at the end of the first quarter to 48.8 percent at the end of the second quarter of the FY 2015/16 (Table 7.1).

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2014/15				2015/16				Change
	Q2	%	Q4	%	Q1	%	Q2	%	Q on Q
Total Stock of Domestic Debt (A+B)	**1,307.7**	**100.0**	**1,420.4**	**100.0**	**1,388.0**	**100.0**	**1,540.0**	**100.0**	**152.1**
A. Government Securities	**1,273.6**	**97.4**	**1,354.6**	**95.5**	**1,313.5**	**94.6**	**1,463.1**	**95.0**	**149.6**
1. Treasury Bills (excluding Repo Bills)	**291.4**	**22.3**	**318.9**	**22.5**	**266.6**	**19.2**	**390.8**	**25.4**	**124.2**
Banking institutions	191.2	14.6	217.7	15.3	159.3	11.5	216.7	14.1	57.4
The Central Bank	0.1	0.0	0.0	0.0	25.5	1.8	20.6	1.3	(5.0)
Commercial Banks	191.1	65.6	217.7	15.3	133.7	9.6	196.1	12.7	62.4
Pension Funds	48.0	16.5	40.9	2.9	33.2	2.4	65.0	4.2	31.8
Insurance Companies	24.7	8.5	20.8	1.5	13.5	1.0	17.6	1.1	4.1
Others	27.5	2.1	39.4	2.8	60.6	4.4	91.6	5.9	30.9
2. Treasury Bonds	**955.0**	**73.0**	**1,035.7**	**72.9**	**1,046.9**	**75.4**	**1,072.3**	**69.6**	**25.4**
Banking institutions	456.1	34.9	510.3	**35.9**	518.1	37.3	535.9	34.8	17.8
The Central Bank	0.0	0.0	0.0	0.0	9.4	0.7	9.4	0.6	(0.0)
Commercial Banks	456.1	47.8	510.2	35.9	508.6	36.6	514.9	33.4	6.3
Insurance Companies	104.6	10.9	107.0	7.5	107.6	7.8	111.4	7.2	3.9
Pension Funds	262.6	27.5	307.1	21.6	312.2	22.5	324.1	21.0	11.9
Others	131.8	10.1	111.3	7.8	109.1	7.9	100.9	6.6	(8.1)
4. Frozen account	**27.2**	**2.1**	**26.7**	1.9	**26.7**	**1.9**	**26.1**	**1.7**	**(0.6)**
Of which: Repo T/Bills	27.2	2.1	26.6	1.9	26.6	1.9	25.5	1.7	(1.1)
B. Others:	**34.2**	**2.6**	**39.1**	**2.8**	**47.8**	**3.4**	**50.8**	**3.3**	**3.0**
Of which CBK overdraft to Government	30.9	2.4	36.5	2.6	45.9	3.3	45.2	2.9	(0.7)

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holding, excluding those held by the CBK for open market operations (Repos) increased by 46.6 percent during the second quarter of the FY 2015/16. This significant increase is reflective of increase in investors' appetite for short dated securities during periods of rising interest rates. Similarly, the proportion of Treasury bills to total domestic debt increased by 620 basis points during the second quarter of the FY 2015/16. The dominant investors of Treasury Bills were commercial banks (with a share of 48.9 percent) and pension funds (with a share of 16.6 percent) by the end of the second quarter of the FY 2015/16. The pension funds holdings increased by 94.1 percent mainly on account of portfolio realignment triggered by a depressed stock market (the NSE 20 Shares Index declined mainly on account of adjustment of other asset classes to revaluation in the bond market.

Treasury Bonds

During the second quarter of the FY 2015/16, increase in interest rates shifted the investors' preference to short-dated securities. Consequently, the bonds' yield curve was inverted at the beginning of the second quarter but it normalized towards the end of the quarter under review. Outstanding Treasury bonds recorded marginal increase of 2.4 percent mainly on account of a one year Fixed rate Treasury bond and a 9 year infrastructure Bond. The dominant holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial banks holdings accounted for half of the total Treasury Bonds outstanding. The perpetual dominance of commercial banks in the debt securities market reflects the underdevelopment of institutional investor sectors that is insurance, pension funds and foreign investors.

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

		2014/15				2015/16				Change Q on Q
		Q2	%	Q4	%	Q1	%	Q2	%	
Treasury bills	91-Day	27.2	2.1	18.6	1.3	33.0	2.4	103.3	6.7	70.3
	182-Day	49.9	3.8	75.3	5.3	41.8	3.0	79.6	5.2	37.8
	364-Day	214.3	16.4	225.1	15.8	191.8	13.8	207.9	13.5	16.1
Treasury Bonds	1-Year	0.00	0.00	0.00	0.00	24.3	1.75	44.74	2.91	20.48
	2-Year	132.6	10.1	143.4	10.1	137.1	9.9	111.8	7.3	-25.3
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	29.9	2.3	21.4	1.5	2.3	0.2	2.3	0.1	0.0
	5-Year	175.5	13.4	177.4	12.5	189.8	13.7	205.5	13.3	15.7
	6-Year	40.7	3.1	40.7	2.9	40.7	2.9	31.5	2.0	-9.2
	7-Year	8.7	0.7	8.7	0.6	8.7	0.6	8.7	0.6	0.0
	8-Year	40.9	3.1	38.2	2.7	38.2	2.8	38.2	2.5	0.0
	9-Year	18.2	1.4	15.1	1.1	15.1	1.1	38.8	2.5	23.6
	10-Year	146.7	11.2	163.9	11.5	163.9	11.8	163.9	10.6	0.0
	11-Year	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	0.0
	12-Year	80.9	6.2	132.1	9.3	132.1	9.5	132.1	8.6	0.0
	15-Year	168.2	12.9	168.2	11.8	168.2	12.1	168.2	10.9	0.0
	20-Year	60.5	4.6	74.3	5.2	74.3	5.4	74.3	4.8	0.0
	25-Year	20.2	1.5	20.2	1.4	20.2	1.5	20.2	1.3	0.0
	30-Year	28.1	2.2	28.1	2.0	28.1	2.0	28.1	1.8	0.0
	Repo T bills	27.2	2.1	26.6	1.9	26.6	1.9	25.5	1.7	-1.1
	Overdraft	30.9	2.4	36.5	2.6	45.9	3.3	45.2	2.9	-0.7
	Other Domestic debt	3.2	0.2	2.7	0.2	1.9	0.1	6.2	0.4	4.3
Total Debt		1307.7	100.0	1420.4	100.0	1,388.0	100.0	1540.0	100.0	152.1

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Government securities issued during the period under review were mainly the short-dated. The current debt securities portfolio is dominated by short and medium term domestic debt thus reducing the cost associated with longer dated securities. The benchmark Treasury Bonds; 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 46.9 percent of the total of Treasury Bonds by the end of the second quarter of the FY 2015/16.

Other domestic debt consists of uncleared effects, advances from commercial banks and Tax Reserve Certificates. The significant increase in the stock of other domestic debt is on account of Ksh 4.0 billion increase in advances from commercial banks. This change is attributable to a shortfall in revenue collection by Ksh 9.8 billion during December 2015 and under subscription of all debt securities categories at the end of December 2015.

In terms of the maturity structure, the average length to maturity of existing domestic debt declined to 4 years and 9 months by the end of the second quarter of the FY 2015/16 from 5 years and 2 months reported at the end of the quarter ending September 2015. This decline reflects the increase in the proportion of short-dated debt securities in the domestic debt portfolio during the review period thereby worsening the refinancing risk.

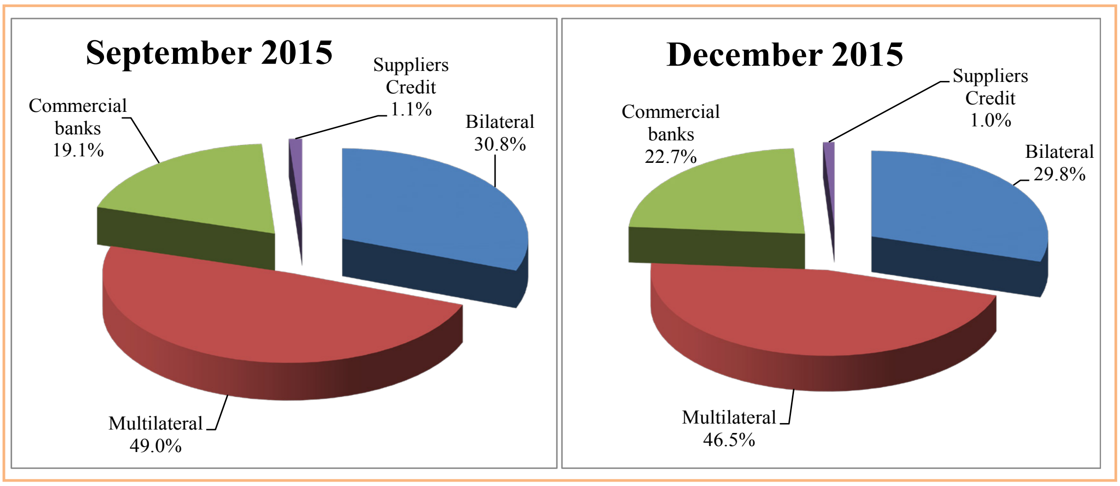
External Debt

Public and publicly guaranteed external debt increased by 4.1 percent during the second quarter of the FY 2015/16, a slower build up in local currency terms than the previous quarter (10.1 percent increase in the first quarter due to the depreciation of the Kenyan shilling against the dollar in September 2015). However, in foreign currency terms the second quarter recorded USD 1.1 billion increase while the first quarter recorded USD 0.4 billion increase. Therefore the slower build up in local currency terms was mainly on account of the strengthening of the Kenyan shilling against the US dollar during the review period. The key driver of growth in external debt during the second quarter was a disbursement from the USD 750 million 2-year syndicated loan contracted in October 2015.

Composition of External Debt by Creditor

Since the elevation of the country to a lower middle income economy in September 2014, the country has experienced dwindling of concessional debt and a pick-up in commercial and semi-concessional borrowing. Official multilateral and bilateral lenders who lend on both concessional and semi-concessional terms, accounted for 76.3 percent of total public and publicly guaranteed debt by the end of review period reflecting a 350 basis points decline from the 79.2 percent held by the end of the first quarter of the FY 2015/16. Similarly, the share of commercial debt increased by 360 basis points during the review period. This increase in the proportion held by commercial banks was on account of disbursements from the Syndicated Medium Term Loan floated in October 2015 (Chart 7A).

Chart 7A: Composition of External Debt

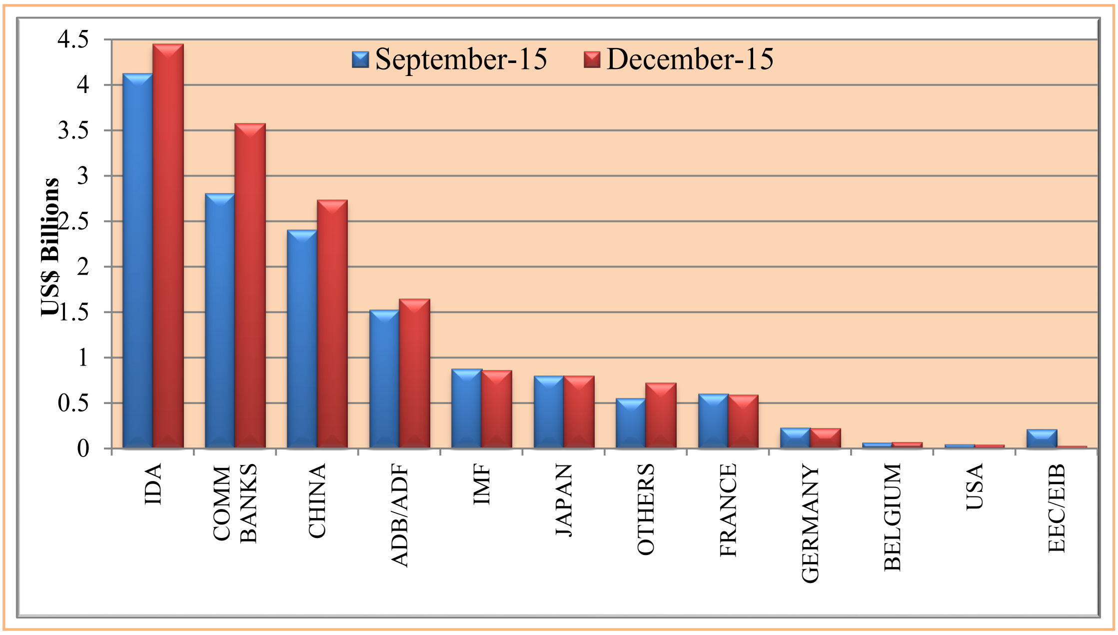


Source: National Treasury

Debt owed to the International Development Association (IDA), Kenya's largest multilateral lender, amounted to USD 4.5 billion or 28.2 percent of total external debt while that owed to China, Kenya's largest bilateral lender, amounted to USD 2.7 billion, or 17.3 percent of the total external debt by the end of the second quarter of the FY 2015/16 (Chart 7B). The main contributors of build-up in external debt were IDA, China and commercial banks (Syndicated loan). The proportion of debt owed to Belgium declined significantly due to the repayment of USD 5.7 million owed to the government of Belgium.

Kenya's Public and publicly guaranteed external debt is denominated in several currencies thus mitigating against currency risk. The dominant currencies include the US dollar and the Euro which accounted for 82.1 percent of the total currency composition at the end of the second quarter of the FY 2015/16. This was partly consistent with the currency composition of the Central Bank's forex reserve holdings. All currency categories other than the US dollar declined compared with share in June 2015. The increase in the proportion held in US dollar was mainly on account of the syndicated medium term loan (USD 750 million), Exim Bank (USD 198.5 mn) and International Development Association (USD 156.9 million) (Chart 7C).

Chart 7B: External Debt By Creditor



Source: National Treasury

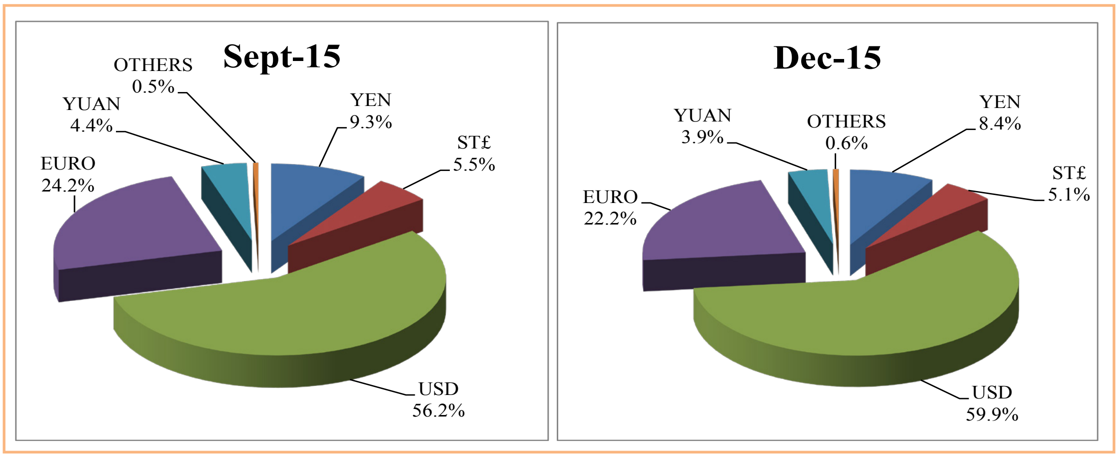
Currency Composition of External Debt

Domestic debt service stood at 19.0 percent of the total revenues collected by the end of the second quarter of the FY 2015/16. The largest component of domestic debt service was interest payments on debt securities at 13.9 percent of total revenues. External debt service stood at Ksh 34.5 billion and was within sustainable levels.

Public Debt Service

Debt service ratios to resource basis such as revenues and exports are debt burden liquidity indicators. Analysis of the debt services to revenues and exports ratios (debt liquidity indicators) for both domestic and external debt service show that they all were within sustainable the thresholds (25 percent of exports and 22 percent of revenues) (Table 7.4).

Chart 7C: Distribution of External Debt By Currency



Source: National Treasury

Outlook for FY 2015/16

According to the September 2015 Debt sustainability update for Kenya, the country faces low risk of external debt distress. All the liquidity and solvency debt burden indicators were below the Country Policy and Institutional Assessment (CPIA) based thresholds.

Total public and publicly guaranteed external debt is estimated at Ksh 1,691.5 billion equivalent to 26.2 percent of GDP, 123.2 percent of exports and 129.0 percent of revenue. Meanwhile gross and net domestic debt amount to Ksh1, 547.1 billion (24.0 percent of GDP) and Ksh 1,304.8 billion (20.2 percent of GDP), respectively (Revised estimates-BPS 2016).

Activity in the Stock Market

Equity Market Segment

The equities market recorded mixed performance during the fourth quarter of 2015. The NASI and NSE 20 declined by 2 points and 133 points respectively at the end of the fourth quarter 2015 compared to end of third quarter 2015. Similarly, market Capitalization lost KSh 14.64 billion. Equities turnover, however, increased by 5.10 percent on account of 9.9 percent increase in number of shares traded (Table 8.1).

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

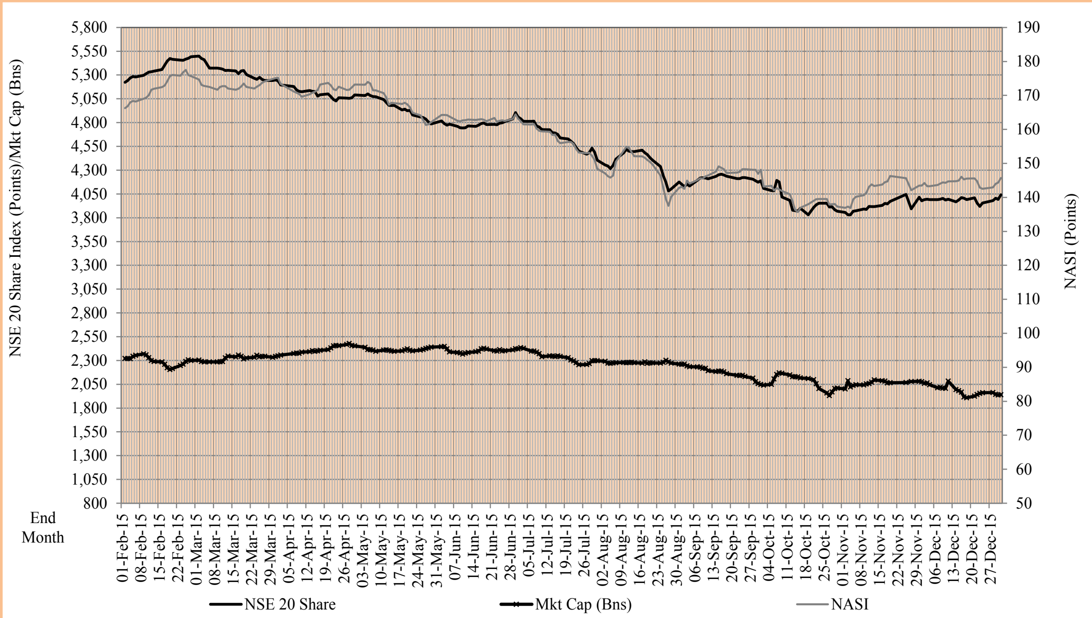
Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)	FP to Equity Turnover (%)	FS to Equity Turnover (%)	Overall net FP to Equity Turnover (%)
Dec-13	4,926.97	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	14,742.87	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	728.00	15,750.00	2,106.08	58,572.78	62.32	53.37	57.84
May-14	4,881.56	150.20	854.00	23,022.00	2,092.00	38,379.11	48.90	60.10	54.50
Jun-14	4,885.00	150.00	731.00	18,190.00	2,107.00	28,541.83	63.40	49.18	56.29
Jul-14	4,906.09	151.69	625.20	15,043.00	2,125.31	49,467.93	56.19	55.25	55.72
Aug-14	5,139.39	157.94	628.64	15,512.78	2,216.57	55,003.41	55.06	34.08	44.57
Sep-14	5,256.00	163.00	767.18	19,241.28	2,293.49	41,859.78	43.71	48.13	45.92
Oct-14	5,194.89	159.23	506.05	19,286.82	2,246.61	38,080.27	50.82	57.08	53.95
Nov-14	5,156.00	163.00	665.97	14,341.06	2,303.15	50,483.94	65.37	47.69	56.53
Dec-14	5,113.00	170.00	899.75	31,583.30	2,316.32	43,068.58	33.99	30.76	32.37
Jan-15	5,212.00	166.00	414.28	9,714.78	2,350.33	38,369.93	45.30	48.11	46.71
Feb-15	5,491.00	176.00	593.24	16,109.49	2,460.83	45,145.38	44.55	43.30	43.92
Mar-15	5,346.00	174.00	614.20	20,516.57	2,452.47	45,854.64	45.66	60.70	53.18
Apr-15	5,091.00	173.00	487.84	14,641.57	2,430.26	25,378.31	55.83	56.29	56.06
May-15	4,788.00	162.00	683.76	21,331.42	2,341.00	22,342.01	57.94	67.46	62.70
Jun-15	4,906.00	164.00	680.71	24,250.87	2,302.00	12,176.84	72.82	74.66	73.74
Jul-15	4,405.00	148.00	714.88	21,554.17	2,080.00	12,399.58	67.51	72.74	70.13
Aug-15	4,177.00	143.00	733.76	20,792.29	2,006.00	18,419.00	82.47	76.78	79.63
Sep-15	4,173.00	147.00	433.96	14,375.44	2,063.64	13,693.38	84.56	39.35	61.95
Oct-15	3,869.00	137.00	540.00	17,837.00	1,931.00	29,928.04	69.69	64.70	67.19
Nov-15	4,016.00	143.00	441.00	13,148.61	2,018.13	19,473.99	63.71	70.01	66.86
Dec-15	4,040.00	145.00	474.00	15,109.00	2,049.00	21,918.51	57.54	57.53	57.53

Source: Nairobi Securities Exchange

The Foreign investor activity was lower in the quarter ending December 2015 compared to the performance in the quarter ended September 2015. Overall net foreign investor trades to total equity turnover declined by 4.42 percent; purchases to total equity turnover declined by 27.02 percent but sales to total equity turnover rose by 18.2 percent, reflecting net outflow (Table 8.1).

The NSE 20 Share Index, NASI and Market Capitalization all improved on average during the quarter under review, but still below the historical high recorded in first quarter of 2015 (Chart 8A).

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



Source: Nairobi Securities Exchange

Most Active Sectors & FTSE NSE Kenya Index Series

Banking and Telecommunication and Technology dominated trading at 76.31 percent of all shares traded in the quarter ended December 2015. Three counters; Safaricom, Equity Bank and KCB were the most active across the entire market, accounting for 64.48 percent of shares traded.

The FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at the NSE, declined by 6.4 percent while FTSE NSE Kenya 25 Index, which measures performance of 25 most liquid stocks was down 6.5 percent. The decline in equities market reflects less investor appetite explained by unfavourable financial results of listed companies, where close to 20 companies reported profits warning.

Bond Market

The volume of bonds traded and corresponding deals rose 60.07 percent and 11.73 percent in the quarter ended December 2015 compared to the quarter ended September 2015. FXD2/2015/001 dominated trading with 34.23 percent of bonds traded. The Corporate bonds segment accounted for 2.32 percent of total bonds traded. The FTSE NSE Kenyan Government Bond Index declined to 90.04 points from 90.41 points, reflecting a marginal increase in secondary market yields.

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

1.0 ASSETS	JUNE 2015	SEP 2015	DEC 2015
1.1 BALANCES DUE FROM BANKING INSTITUTIONS AND GOLD HOLDINGS	704,874	678,711	763,638
1.2 FUNDS HELD WITH IMF	4,385	4,670	1,489
1.3 ITEMS IN THE COURSE OF COLLECTION	82	47	26
1.4 ADVANCES TO COMMERCIAL BANKS	75	37,123	45,182
1.5 LOANS AND OTHER ADVANCES	2,478	2,695	2,648
1.6 OTHER ASSETS	4,299	4,303	3,191
1.7 RETIREMENT BENEFIT ASSET	4,668	4,668	4,668
1.8 PROPERTY AND EQUIPMENT	20,746	21,167	20,265
1.81 INTANGIBLE ASSETS	495	256	220
1.9 DUE FROM GOVERNMENT OF KENYA	63,163	72,726	71,684
TOTAL ASSETS	**805,265**	**826,366**	**913,010**
2.0 LIABILITIES			
2.1 CURRENCY IN CIRCULATION	222,178	221,990	240,931
2.2 INVESTMENTS BY BANKS	-	-	26,256
2.3 DEPOSITS	331,314	317,843	384,647
2.4 INTERNATIONAL MONETARY FUND	125,775	134,215	125,872
2.5 OTHER LIABILITIES	4,373	2,911	812
TOTAL LIABILITIES	683,640	676,959	778,518
3.0 EQUITY AND RESERVES	121,625	149,407	134,493
Share Capital	5,000	5,000	5,000
General reserve fund -Unrealized	78,592	78,592	78,442
-Realized	11,130	11,130	11,130
-Capital Projects	7,445	7,445	7,445
Period surplus	-	27,782	13,017
Asset Revaluation	14,790	14,790	14,790
Retirment Benefit Asset Reserves	4,668	4,668	4,668
4.0 TOTAL LIABILITIES AND EQUITY	**805,265**	**826,366**	**913,010**

Source: Central Bank of Kenya

Notes on the Financial Position

Assets

Balances due from Banking institutions and Gold holdings category comprise of foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold, special drawing rights and RAMP securities invested with the World Bank. These balances increased by KSh 84,927 million in the fourth quarter largely on account of deposits in other Depository Non-residents Financial Corporations.

Items in course of collection represent the value of clearing instruments which are held by the Central Bank of Kenya, while awaiting clearing by respective commercial banks. The balances as at December 2015 were KSh 26 million compared to KSh 42 million outstanding as at September 2015.

Advances to commercial banks are balances of money advanced by the Central Bank of Kenya to commercial banks in the management of interbank liquidity. The balance outstanding increased by KSh 8,059 million in the fourth quarter of 2015. The funds were advanced as reverse repos to augment interbank liquidity.

Loans and other advances include outstanding balances on advances to commercial banks under the Overnight Loan Facility (OLF), and IMF funds on-lent to Government. The outstanding balance declined by KSh 47 million to KSh 2,648 million in the quarter ended December 2015.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. These assets declined by KSh 1,112 million in the fourth quarter of 2015.

Debt due from Government of Kenya category has been revised to include Government utilization of the overdraft facility at the Central bank and the legacy overdrawn accounts which were converted to a long term debt with effect from 1 November 1997 after an amendment to the Central Bank of Kenya Act to limit lending to Government to 5 percent of previous year's Government's audited revenue. Initially, the overdraft to the government was classified under 'Loans and advances'. The overall debt declined marginally in the fourth quarter of 2015.

Liabilities

Currency in circulation increased by KSh 18,941 million to KSh 240,931 million in the quarter ended December 2015.

Deposits represent deposits held by CBK for the Government of Kenya, local commercial banks deposits, other public entities and project accounts and local banks' forex settlement accounts. The balances increased by KSh 66,804 million in the fourth quarter of 2015.

Amount due to International Monetary Fund represents the Bank's obligations to the IMF. The balances declined by KSh 8,343 million to KSh 125,872 in the quarter ended December 2015.

Other liabilities include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance declined by KSh 2,099 million to KSh 812 million in the fourth quarter of 2015.

Equity and reserves declined by KSh 14,914 million, largely reflected in the period surplus.