



## MONTHLY ECONOMIC REVIEW

MAY 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>

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## OVERVIEW

**Introduction** This Monthly Economic Review highlights recent economic developments through May 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 12-month inflation declined from 7.1 percent in April 2015 to 6.9 percent in May 2015 largely reflecting a decline in fuel and food inflation. Fuel inflation eased by 125 basis points to 0.3 percent in May 2015 while food inflation eased by 13 basis points to 12.4 percent. Non-food non-fuel inflation rose by 62 basis points to 4.2 percent. Annual average inflation remained unchanged at 6.7 percent in April and May 2015.

**Money Supply** Growth in broad money, M3, declined to 16.5 percent in the year to May 2015 from 17.8 percent recorded in a comparable period to May 2014, and was above the May 2015 target of 13.4 percent. The slowdown is attributed to deceleration of growth Net Domestic Assets (NDA).

**Interest Rates** The Monetary Policy Committee maintained the Central Bank Rate (CBR) at 8.5 percent on May 6, 2015, in order to continue anchoring inflationary expectations. Meanwhile, the weighted average interbank rate increased to 11.2 percent in May 2015 from 8.8 percent in April 2015 consistent with the pursuit of current tightening bias stance in the money market in order to anchor inflationary expectations.

**Real GDP Growth** The economy grew by 5.3 percent in 2014 compared with growth of 5.7 percent registered in 2013. Quarterly growth estimates indicate that the economy, which slowed in the last half of 2013 gained some momentum particularly after the first quarter of 2014. The economy grew by 4.8 percent in the first quarter, 6.1 percent in the second quarter, 5.4 percent in the third quarter and 5.1 percent in the fourth quarter of 2014 compared with growth of 6.0 percent, 7.0 percent, 6.8 percent and 3.0 percent in comparable quarters of 2013. Growth in 2014 was largely supported by improved performance in construction; transport and storage; education; financial and insurance activities; real estate; and information and communication. In the first quarter of 2015, the economy expanded by 4.9 percent compared with 4.7 percent in the first quarter of 2014, and most sectors of the economy recorded positive

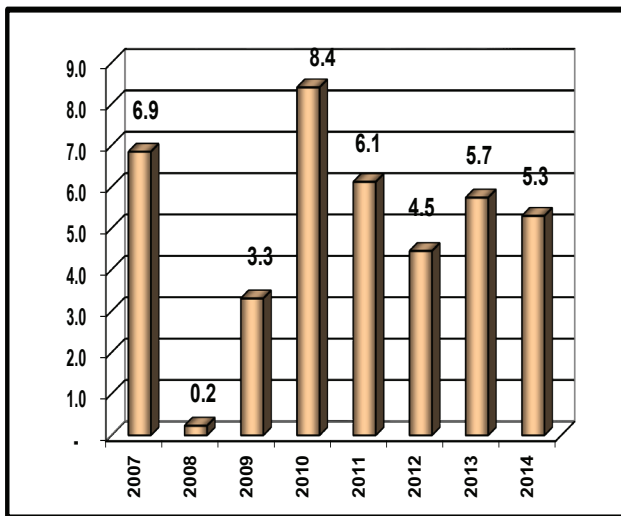
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growths of varying magnitudes. The tourism sector, however, declined owing to concerns over insecurity.

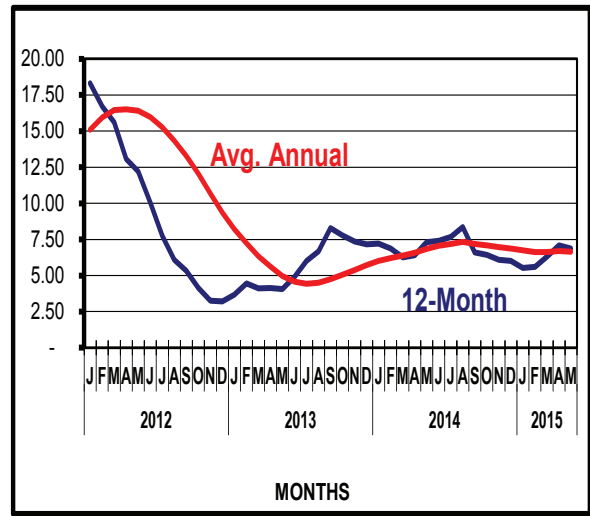
- Balance of Payments** Kenya's overall balance of payments surplus improved by USD 708.3 million to USD 1,013 million in the year to May 2015 from a surplus of USD 305 million in the year to May 2014 reflecting increase in the capital and financial account surplus.
- Exchange Rates** The Kenya shilling weakened against major international currencies and displayed mixed performance against EAC currencies during the month of May 2015. The weakening reflects developments on the international markets notably the strengthening of the US Dollar against major world currencies (anchored on positive sentiment on economic recovery) and high dollar demand on the domestic market.
- Banking Sector Developments** The Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 12 microfinance banks, 8 representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers and 3 credit reference bureaus as at 31st May 2015.
- Government Budgetary Performance** The Government's budgetary operations during the first eleven months of FY 2014/15 resulted in a deficit of KSh 365.3 billion (6.8 percent of GDP) on both commitment and cash basis compared with a deficit of KSh 233.6 billion (4.4 percent of GDP) incurred in the same period of the FY 2013/14. This was higher than the KSh 350 billion (6.5 percent of GDP) programmed target for the period and reflects frontloading, and a higher than projected absorption of development budget allocation to the Standard Gauge Railway project and a slower pace of revenue mobilization.
- Public Debt** Kenya's public and publicly guaranteed debt rose by KSh 419.4 billion to close at KSh 2,789.6 billion (52.1 percent of GDP) in May 2015 from KSh 2,370.2 billion (44.2 percent of GDP) in June 2014.
- Stock Market** The Nairobi Securities Exchange (NSM) recorded mixed performance in May 2015 as reflected in the leading equities and bonds segments indicators. The net foreign investor interest at the NSE was strong, with more sales than purchases.

# SELECTED ECONOMIC PERFORMANCE INDICATORS

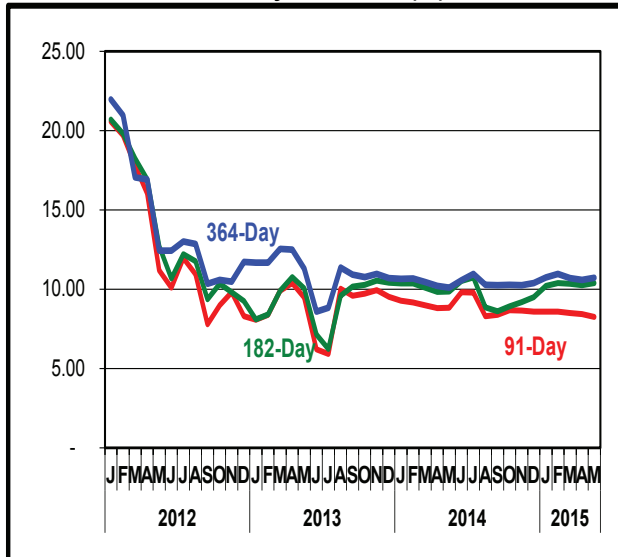
## Real GDP Growth (%)



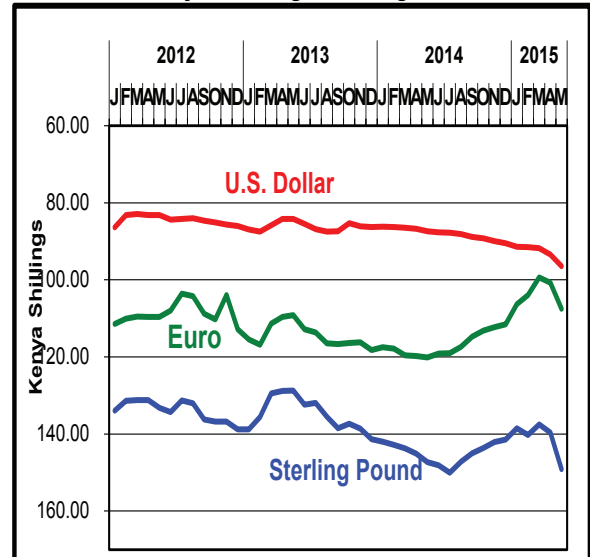
## Inflation (%)



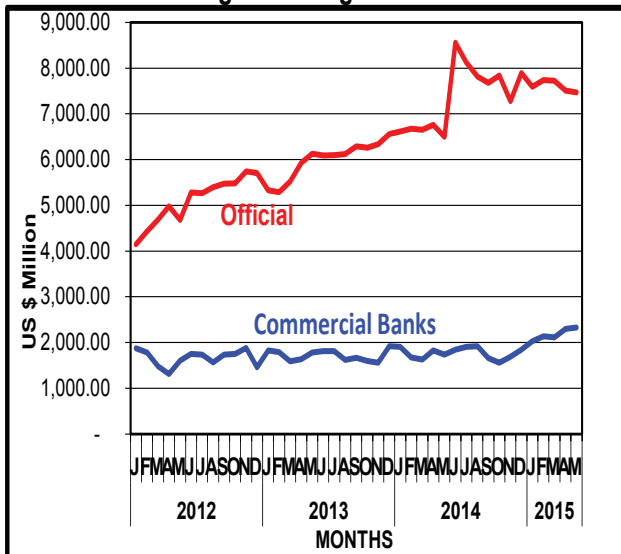
## Treasury Bill Rates (%)



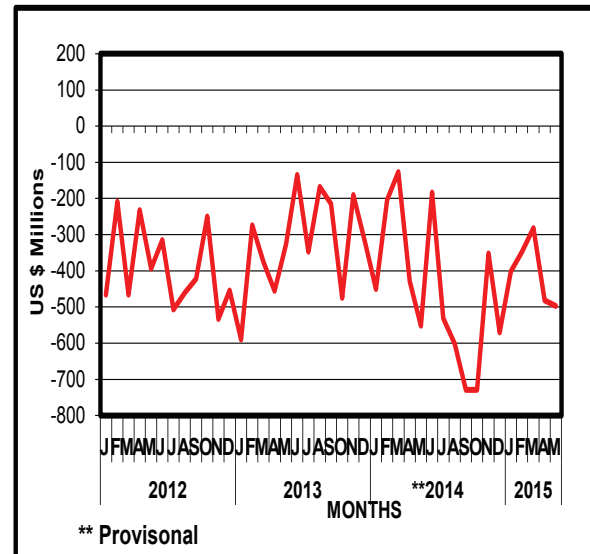
## Kenya Shilling Exchange Rate



## Foreign Exchange Reserves



## Current Account Balance



# SELECTED ANNUAL ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014*
<b>1. POPULATION*</b>									
People in Millions	36.10	37.20	38.30	38.60	38.50	39.50	40.70	41.80	43.00
Growth (%)	2.85	3.05	2.96	0.78	-0.26	2.60	3.04	2.70	2.87
<b>2. NATIONAL ACCOUNTS**</b>									
Gross value added at basic prices (Ksh m)	1,649,996	1,903,472	2,211,447	2,558,792	2,827,436	3,347,996	3,829,096	4,252,647	4,837,338
GDP at Market Prices (Ksh m):									
At Current Prices	1,862,041	2,151,349	2,483,058	2,863,688	3,169,301	3,725,918	4,261,151	4,730,801	5,357,672
At Constant 2009 Market Prices	2,588,279	2,765,595	2,772,019	2,863,688	3,104,303	3,294,026	3,444,066	3,639,938	3,833,876
Real GDP Growth (%)	...	6.9	0.2	3.3	8.4	6.1	4.6	5.7	5.3
Per Capita Income Real 2009 prices (Ksh)	74,862	77,197	75,431	75,910	80,689	83,298	84,721	87,105	89,240
<b>3. GROSS NATIONAL SAVINGS (% of GDP at mkt prices)<sup>3</sup></b>	<b>16.1</b>	<b>16.7</b>	<b>15.4</b>	<b>14.6</b>	<b>14.1</b>	<b>14.6</b>	<b>12.6</b>	<b>10.1</b>	<b>11.0</b>
<b>4. GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)<sup>3</sup></b>	<b>9.1</b>	<b>10.1</b>	<b>8.9</b>	<b>8.4</b>	<b>8.3</b>	<b>7.2</b>	<b>7.0</b>	<b>4.4</b>	<b>4.8</b>
<b>5. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)</b>	<b>18.6</b>	<b>20.5</b>	<b>19.6</b>	<b>19.3</b>	<b>20.8</b>	<b>21.7</b>	<b>21.5</b>	<b>20.1</b>	<b>21.4</b>
<b>6. OVERALL INFLATION BASE PERIOD= FEB 2009</b>									
Annual Average Inflation	6.39	4.27	16.27	9.24	3.96	14.02	9.38	5.72	6.88
12-Month Inflation	7.98	5.70	17.83	5.32	4.51	18.93	3.20	7.15	6.02
<b>7. STOCK MARKET</b>									
Nairobi Stock Exchange Price Index (1966=100)	5,645.65	5,444.83	3,521.18	3,247.44	4,432.60	3,205.02	4,133.02	4,926.97	5,112.65
Trade Turnover Ratio (%)	1.70	1.29	0.29	0.64	0.99	0.46	0.58	0.58	1.07
<b>8. GOVERNMENT BUDGET (Ksh bn) ***</b>									
Revenue and Grants	331.21	383.59	457.67	511.36	614.53	679.53	734.43	868.17	994.44
Expenditure	368.65	405.20	534.84	621.91	791.79	817.09	915.89	1,117.02	1,281.16
Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis)	(37.44)	(21.61)	(77.17)	(110.55)	(177.26)	(137.56)	(181.46)	(248.85)	(286.73)
Budget Deficit (% of GDP)	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)	(5.51)	(5.26)	(5.35)
<b>9. MONEY AND CREDIT (Ksh bn)(end period)</b>									
Liquidity (L) <sup>1</sup>	834.16	992.42	1,091.93	1,280.44	1,558.16	1,854.93	2,129.49	2,527.00	2,949.06
Money Supply (M3) <sup>2</sup>	666.84	797.54	901.05	1,045.66	1,271.64	1,514.15	1,727.32	2,000.02	2,329.98
Reserve Money	124.16	155.62	163.59	181.96	222.63	255.01	293.62	320.76	379.69
<b>Total Domestic Credit</b>	<b>575.76</b>	<b>668.90</b>	<b>815.52</b>	<b>955.82</b>	<b>1,188.40</b>	<b>1,505.13</b>	<b>3,036.21</b>	<b>1,982.30</b>	<b>2,312.18</b>
Government	137.81	137.40	155.32	205.07	277.78	311.58	368.83	397.16	379.32
Private sector and other public sector	437.94	531.49	660.20	750.75	910.62	1,193.55	1,333.69	1,585.13	1,932.86
<b>10. BALANCE OF PAYMENTS (US\$ m)</b>									
<b>Overall Balance</b>	<b>675.18</b>	<b>854.26</b>	<b>(468.84)</b>	<b>780.53</b>	<b>163.40</b>	<b>(42.88)</b>	<b>1,261.00</b>	<b>684.72</b>	<b>1,378.34</b>
Current Account	(510.80)	(1,033.75)	(1,985.76)	(1,688.88)	(2,526.32)	(3,329.76)	(4,252.77)	(4,785.96)	(6,097.07)
Capital and Financial Account	1,185.98	1,888.01	1,516.92	2,469.41	2,689.71	3,286.88	5,513.78	5,470.68	7,475.41
<b>11. FOREIGN EXCHANGE RESERVES (US\$ m) End Period</b>	<b>3,331.30</b>	<b>4,556.97</b>	<b>4,640.78</b>	<b>5,064.03</b>	<b>5,122.52</b>	<b>6,044.78</b>	<b>7,159.86</b>	<b>8,483.20</b>	<b>9,737.55</b>
Official	2,415.27	3,354.85	2,875.46	3,847.39	4,001.68	4,247.66	5,701.85	6,560.17	7,894.92
Months of import cover****	3.89	4.84	3.36	4.08	3.85	3.71	4.29	4.49	5.01
Commercial Banks	916.03	1,202.12	1,765.32	1,216.63	1,120.84	1,797.12	1,458.01	1,923.02	1,842.64
<b>12. PUBLIC DEBT (US\$ bn) End Period***</b>	<b>10.68</b>	<b>12.04</b>	<b>13.46</b>	<b>13.66</b>	<b>14.96</b>	<b>16.60</b>	<b>19.27</b>	<b>27.52</b>	<b>26.96</b>
Domestic	4.84	6.08	6.66	6.72	8.06	8.51	10.20	14.91	14.61
As % of GDP	18.77	19.00	18.54	18.16	20.15	20.26	20.27	27.02	27.15
External	5.84	5.96	6.80	6.94	6.90	8.09	9.08	12.61	12.35
As % of GDP	22.62	18.62	18.94	18.75	17.25	19.26	18.04	22.84	22.95
<b>13. EXCHANGE RATE (Ksh/US\$) (Annual Average)</b>	<b>72.10</b>	<b>67.32</b>	<b>69.18</b>	<b>77.35</b>	<b>79.26</b>	<b>88.87</b>	<b>84.52</b>	<b>86.13</b>	<b>87.92</b>

\* Provisional.

\*\* Rebased data

\*\*\* Fiscal year to June 30th.

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

<sup>1</sup> Previously M3XT

<sup>2</sup> Previously M3X

<sup>3</sup> Revised

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

# SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2014								2015				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
<b>1. INFLATION (%)</b>													
CPI	149.70	149.91	150.60	152.02	152.24	151.92	151.85	152.51	153.43	154.14	155.86	158.70	159.98
Overall Inflation													
12-month overall inflation	7.30	7.39	7.67	8.36	6.60	6.43	6.09	6.02	5.53	5.61	6.31	7.08	6.87
Average annual overall inflation	6.85	7.05	7.19	7.33	7.19	7.08	6.97	6.88	6.74	6.63	6.63	6.69	6.65
<b>2. INTEREST RATES (%)</b>													
91-day Treasury bill interest rate	8.82	9.81	9.78	8.29	8.38	8.67	8.64	8.58	8.59	8.59	8.49	8.42	8.26
Overdraft interest rate	17.85	15.88	17.12	16.20	15.79	15.77	15.66	15.86	15.95	15.67	15.68	15.52	15.10
<b>3. STOCK MARKET</b>													
Nairobi Stock Exchange 20 Share Price Index	4,881.56	4,885.04	4,906.09	5,139.39	5,256.00	5,194.89	5,156.00	5,112.65	5,212.00	5,491.00	5,248.16	5,091.00	4,788.00
Turnover Ratio (%)	1.06	0.90	0.77	0.77	0.93	0.61	0.80	1.07	0.50	0.72	0.74	0.59	0.82
<b>4. GOVERNMENT BUDGET* (Ksh bn.)</b>													
Revenue & Grants	880.77	1,001.37	69.58	142.36	248.08	335.24	410.52	524.99	614.43	690.52	779.30	888.78	982.30
Expenses	1,114.34	1,297.76	48.60	141.07	276.61	373.51	490.10	613.96	765.22	864.18	1,133.10	1,264.32	1,347.64
Budget Deficit (-) / Surplus (+)	(233.57)	(296.39)	20.97	1.29	(28.52)	(38.27)	(79.58)	(88.98)	(150.79)	(173.66)	(353.80)	(375.55)	(365.35)
<b>5. MONEY AND CREDIT (Ksh bn.)</b>													
Liquidity (L) <sup>1</sup>	2,701.27	2,718.34	2,812.44	2,880.19	3,020.09	3,037.95	3,102.53	3,124.10	3,162.64	3,222.47	3,034.64	3,098.44	3,140.0
Money Supply (M3) <sup>2</sup>	2,147.48	2,152.13	2,190.08	2,253.32	2,251.76	2,260.02	2,295.15	2,329.98	2,350.80	2,407.83	2,398.76	2,464.48	2,501.6
Reserve Money	315.34	323.73	304.65	357.05	322.76	348.60	346.20	380.04	350.15	351.63	346.28	353.10	362.7
Total Domestic Credit	2,177.36	2,042.87	2,130.25	2,187.85	2,110.42	2,117.77	2,162.29	2,137.14	2,153.91	2,225.71	2,444.26	2,492.26	2,558.7
Government	465.19	283.06	346.88	372.79	251.07	239.96	256.64	204.27	206.94	266.20	469.72	477.67	489.7
Private sector and other public sector	1,712.17	1,759.82	1,783.37	1,815.06	1,859.35	1,877.81	1,905.65	1,932.86	1,946.96	1,959.51	1,974.53	2,014.59	2,069.0
<b>6. MONEY AND CREDIT (Annual % Change)</b>													
Liquidity (L) <sup>1</sup>	18.84	19.32	19.11	22.99	25.53	25.08	25.10	23.81	23.61	25.87	17.05	16.92	16.2
Money Supply (M3) <sup>2</sup>	17.77	18.19	19.30	21.80	19.41	18.94	17.48	16.72	16.00	18.58	16.43	17.32	16.5
Reserve Money	11.88	12.63	7.28	15.25	11.16	13.46	9.29	18.48	15.82	11.45	11.77	12.00	15.0
Total Domestic Credit	22.44	14.58	20.05	21.06	12.54	12.09	9.92	8.02	7.12	8.17	16.51	17.12	17.5
Government	18.42	(25.41)	0.07	10.91	(34.37)	(34.91)	(37.21)	(48.57)	(49.93)	(39.33)	4.41	8.08	5.3
Private and other public sector	23.58	25.39	24.90	23.37	24.56	23.49	22.28	22.23	21.88	21.05	19.81	19.49	20.8
<b>7. BALANCE OF PAYMENTS (US\$ m)</b>													
Overall Balance	(261.11)	2,056.50	(419.32)	(313.45)	(137.65)	168.11	(559.44)	626.49	(294.47)	143.54	(13.26)	(208.60)	(34.99)
Current Account	(587.59)	(227.72)	(592.93)	(658.56)	(794.18)	(767.48)	(381.68)	(621.04)	(371.93)	(317.51)	(281.84)	(479.68)	(497.35)
Trade Balance	(1,209.30)	(826.00)	(1,238.33)	(1,164.49)	(1,374.36)	(1,304.50)	(904.62)	(1,098.87)	(946.65)	(770.56)	(732.12)	(962.79)	(1,017.47)
Capital and Financial Account	326.48	2,284.22	173.61	345.10	656.54	935.60	(177.76)	1,247.53	77.46	461.05	268.58	271.07	462.36
<b>8. FOREIGN EXCHANGE RESERVES (US\$ m)</b>	8,230.25	10,398.72	10,029.34	9,731.50	9,335.92	9,399.90	8,964.49	9,737.55	9,619.76	9,873.29	9,834.29	9,805.54	9,798.73
Official	6,498.02	8,554.52	8,127.54	7,814.08	7,676.44	7,838.99	7,273.99	7,894.92	7,593.04	7,736.58	7,723.31	7,509.44	7,469.23
Months of import cover**	4.32	5.67	5.33	5.10	4.96	5.00	4.64	5.01	4.80	4.88	4.90	4.75	4.73
Commercial banks	1,732.24	1,844.21	1,901.81	1,917.42	1,659.49	1,560.91	1,690.50	1,842.64	2,026.72	2,136.71	2,110.98	2,296.10	2,329.50
<b>9. PUBLIC DEBT (US\$ bn)</b>	25.01	27.05	27.19	26.92	26.44	26.17	26.56	27.16	28.28	28.97	29.10	29.35	28.94
Domestic	14.10	14.66	14.77	14.54	14.19	13.97	14.49	14.23	14.42	14.79	15.20	15.15	14.61
As % of GDP	23.00	23.97	24.20	23.91	23.53	23.41	24.33	24.41	24.91	25.26	26.08	26.42	26.29
External	10.91	12.39	12.42	12.38	12.25	12.20	12.08	12.92	13.86	14.17	13.90	14.20	14.33
As % of GDP	17.88	20.27	20.34	20.36	20.30	20.32	20.33	21.85	23.64	24.20	23.86	24.77	25.78
<b>10. GROSS DOMESTIC DEBT (Ksh bn)***</b>	1,232.49	1,284.33	1,296.44	1,281.09	1,260.87	1,246.14	1,303.35	1,287.40	1,317.48	1,353.30	1,397.10	1,415.43	1,408.43
<b>11. AVERAGE EXCHANGE RATE</b>													
Ksh/US\$	87.41	87.61	87.77	88.11	88.84	89.23	89.96	90.44	91.36	91.49	91.73	93.44	96.39
Ksh/Pound Sterling	147.29	148.15	150.04	147.24	144.99	143.66	142.05	141.45	138.49	140.21	137.51	139.62	149.10
Ksh/ 100 Yen	85.84	85.88	86.32	85.63	82.90	82.62	77.53	75.79	77.19	77.17	76.22	78.18	79.89
Ksh/Euro	120.09	119.16	119.02	117.40	114.74	113.21	112.28	111.52	106.32	103.94	99.40	100.71	107.54

\* 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.

<sup>1</sup> Previously M3XT

<sup>2</sup> Previously M3X

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

## Overall Inflation

# TRENDS IN VARIOUS MEASURES OF INFLATION

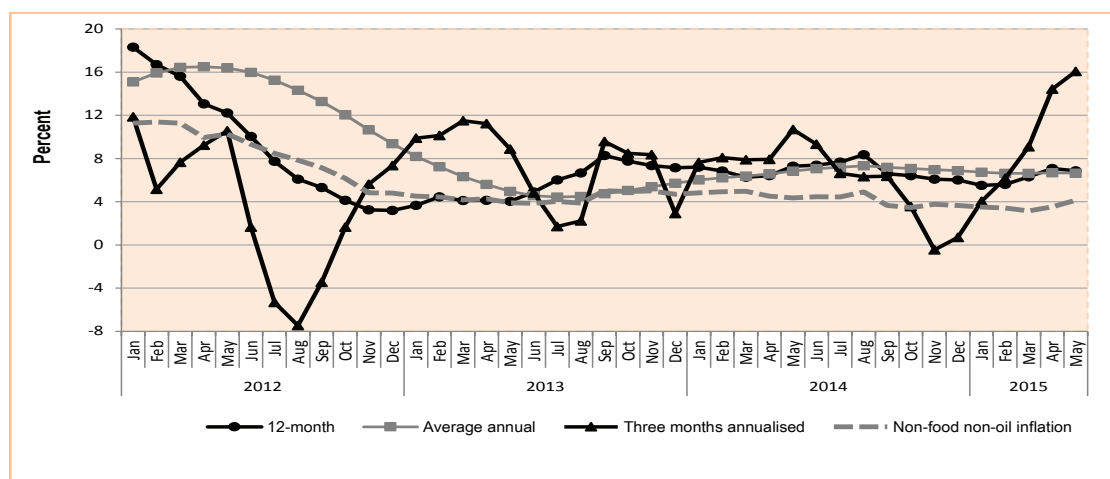
Overall 12-month inflation declined from 7.1 percent in April 2015 to 6.9 percent in May 2015 largely reflecting a decline in fuel and food inflation. Fuel inflation eased by 125 basis points to 0.3 percent in May 2015 while food inflation eased by 13 basis points to 12.4 percent. Non-food non-fuel (NFNF) inflation rose by 62 basis to 4.2 percent. Annual average inflation remained unchanged at 6.7 percent in April and May 2015. The three months annualized rate of inflation however, rose to 16.1 percent in May 2015 indicating sustained domestic inflationary pressures (Table 1.1 and Chart 1A).

**TABLE 1.1: INFLATION (%)**

Overall Inflation	2014									2015				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	
12-month	7.30	7.39	7.67	8.36	6.60	6.43	6.09	6.02	5.53	5.61	6.31	7.08	6.87	
Average annual	6.85	7.05	7.19	7.33	7.19	7.08	6.97	6.88	6.74	6.63	6.63	6.69	6.65	
Three months annualised	10.69	9.32	6.63	6.33	6.37	3.56	-0.44	0.70	4.05	6.16	9.09	14.44	16.06	
Non-food non-oil inflation	4.35	4.47	4.45	4.92	3.65	3.46	3.77	3.65	3.51	3.43	3.16	3.53	4.15	

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

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



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

The easing in food inflation from 12.5 percent in April 2015 to 12.4 percent in May 2015 largely reflects in the ‘food and non-alcoholic beverages’ category of goods and services where the average retail prices of milk and fresh produce declined on account of increased supply following improved weather conditions

Fuel inflation eased from 1.5 percent in April 2015 to 0.3 percent in May 2015. This reflects a decline in 12-month inflation in the ‘transport’ category of goods and

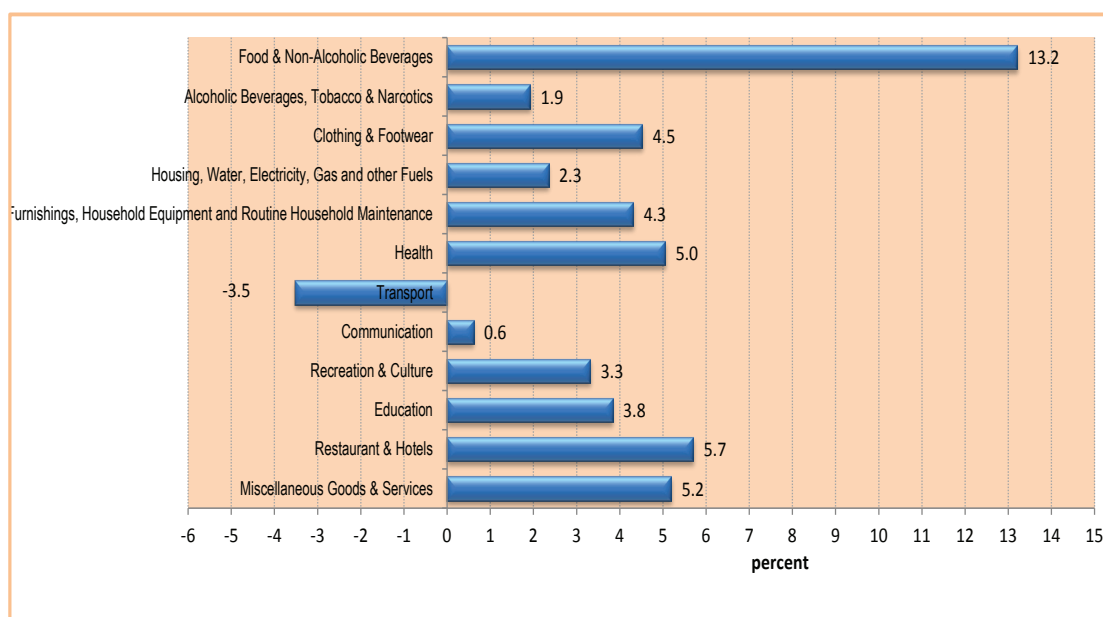


services from -0.8 percent in April 2015 to -3.5 percent in May 2015, and in the 12-month inflation in the ‘housing, water, electricity, gas and other fuels’ category of goods and services from 2.8 percent in April 2015 to 2.4 percent in May 2015. The decline in fuel inflation also reflects a fall in the average retail prices of LPG gas, and bus fares.

Meanwhile, the acceleration in NFNF inflation from 3.5 percent in April 2015 to 4.2 percent in May 2015 reflect higher inflation in the ‘health,’ ‘miscellaneous goods and services,’ ‘recreation and culture,’ and ‘clothing & footwear’ consumption baskets. The pickup in these prices is largely attributed to exchange rate pass-through effects.

Developments across all categories of goods and services, and the distribution of weights in the Kenya consumer price index (CPI) are summarized in Table 1.2 and Chart 1B.

**CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES**



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

**TABLE 1.2: 12 MONTH INFLATION ACROSS BASKETS AND INCOME GROUPS**

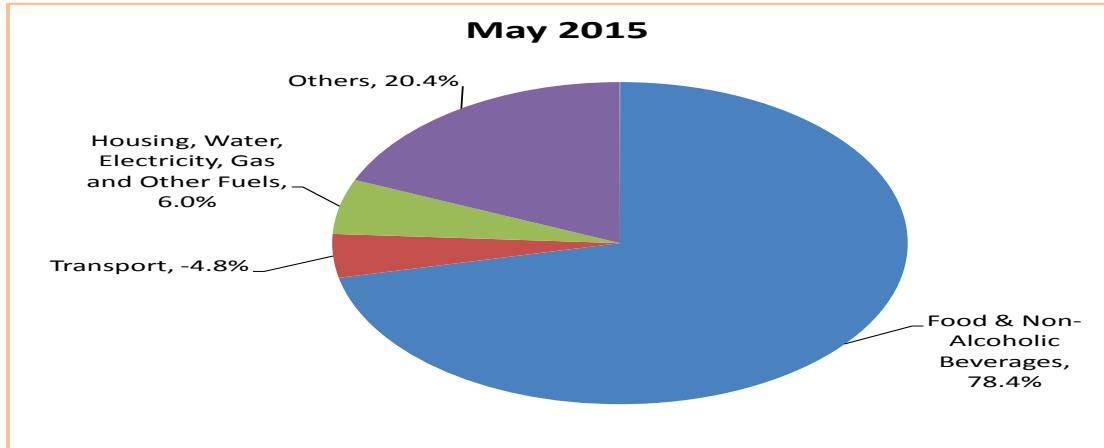
May 2015	Weight-CPI Kenya	NAIROBI				REST OF URBAN	TOTAL KENYA
		Lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya Combined	
Food & Non-alcoholic beverages	42.1	12.7	9.6	9.8	11.8	14.1	13.2
Alcoholic beverages, Tobacco & narcotics	2.0	2.1	1.0	3.1	1.9	1.9	1.9
Clothing & Footwear	6.7	2.9	4.8	7.5	3.6	5.1	4.5
Housing, Water, Electricity, Gas and other fuels	16.8	1.4	-0.8	-0.8	0.9	3.3	2.3
Furnishings, Household equipment and Routine household maintenance	5.5	2.1	2.8	3.2	2.3	5.6	4.3
Health	2.8	3.6	6.7	4.3	4.3	5.5	5.0
Transport	8.9	1.1	-3.6	-1.8	0.0	-6.2	-3.5
Communication	1.9	0.4	0.4	0.3	0.4	0.7	0.6
Recreation & culture	2.1	2.3	4.8	-2.2	2.8	3.7	3.3
Education	2.6	3.0	10.9	3.8	5.0	3.0	3.8
Restaurants & hotels	4.7	2.7	3.9	10.9	3.2	7.4	5.7
Miscellaneous goods & services	4.0	3.1	5.9	2.8	3.7	6.1	5.2
<b>ALL GROUPS</b>	<b>100.0</b>	<b>7.0</b>	<b>3.8</b>	<b>1.9</b>	<b>6.1</b>	<b>7.4</b>	<b>6.9</b>

Source: Kenya National Bureau of Statistics



Chart 1C shows that 78.4 percent of overall 12-month inflation in May 2015 was attributed to 'food and non-alcoholic beverages' category of goods while inflation in 'housing, water, electricity, gas and other fuels' and 'transport' categories contributed 6.0 percent and -4.8 percent respectively. As shown in Table 1.2 above, food and non-alcoholic drinks account for 43.1 percent of the weight in the CPI Basket.

**CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION (MAY 2015)**



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

The 12-month inflation declined both in Nairobi and in other urban centers across the country in May 2015 (Table 1.3). The respective inflation for the 'Nairobi Lower Income' group decreased from 7.5 percent in April 2015 to 7.0 percent in May 2015 while that for the 'Nairobi Middle Income' group rose to 3.8 percent in May 2015 from 3.4 percent in April 2015. The 'Nairobi Upper Income' group's inflation stabilized at 1.9 percent. The inflation registered in urban centers outside Nairobi declined marginally to 7.4 percent in May 2015 from 7.6 percent in the previous month.

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

	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
Combined Nairobi	5.95	6.15	6.21	7.32	4.52	4.46	4.22	4.53	4.38	4.66	5.48	6.39	6.09
Lower Income	6.07	6.10	6.13	7.49	4.84	4.79	4.50	4.87	4.83	5.22	6.32	7.49	6.98
Middle Income	5.37	6.06	6.19	6.39	3.34	3.38	3.30	3.61	3.22	3.23	3.24	3.39	3.76
Upper Income	7.18	7.81	8.04	9.58	5.19	4.33	4.25	3.19	2.05	1.74	1.81	1.90	1.86
Other provinces- excluding Nairobi	8.23	8.25	8.68	9.07	8.04	7.79	7.37	7.05	6.32	6.26	6.88	7.55	7.39
<b>TOTAL KENYA</b>	<b>7.30</b>	<b>7.39</b>	<b>7.67</b>	<b>8.36</b>	<b>6.60</b>	<b>6.43</b>	<b>6.09</b>	<b>6.02</b>	<b>5.53</b>	<b>5.61</b>	<b>6.31</b>	<b>7.08</b>	<b>6.87</b>

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

## Inflation Outlook

Overall domestic inflation is expected to remain within the government medium term target on account of improved weather conditions which are expected to boost supply of agricultural produce as well as increase water levels in power generation dams thus enhancing usage of hydro power, adding on electricity costs. However, the weaker Shilling may continue to exert upward pressure on some domestic prices.

# DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

## Monetary Aggregates

Growth in broad money, M3, declined to 16.5 percent in the year to May 2015 from 17.8 percent recorded in May 2014, and was above the May 2015 target of 13.4 percent. The M3 slowdown was mainly in M2 which grew by 14.8 percent in the year to May 2015 compared to a growth of 18.4 percent over a similar period in 2014. The foreign currency deposits component grew by 26.0 percent in the year to May 2015 compared with 14.2 percent in a similar period in 2014 (Table 2.1 and Chart 2A).

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

	2013	2014	2015	2013/14	2014/15	12 months	12 months
	May	May	May	May	May	May-14	May-15
<b>1. Money supply, M3 (2+3) 2/</b>	<b>1823.4</b>	<b>2147.5</b>	<b>2501.6</b>	<b>324.1</b>	<b>354.1</b>	<b>17.8</b>	<b>16.5</b>
1.1 Money supply, M2 3/	1543.7	1828.0	2099.0	284.3	271.0	18.4	14.8
1.2 Money supply, M1	751.4	901.2	991.2	149.8	90.0	19.9	10.0
1.3 Currency outside banks	146.3	159.7	175.2	13.5	15.4	9.2	9.7
1.4 Foreign Currency Deposits	279.7	319.5	402.6	39.8	83.1	14.2	26.0
<b>2. Net foreign assets 4/</b>	<b>319.6</b>	<b>363.4</b>	<b>447.5</b>	<b>43.8</b>	<b>84.1</b>	<b>13.7</b>	<b>23.2</b>
Central Bank	399.5	435.6	567.3	36.0	131.7	9.0	30.2
Banking Institutions	-25.3	-72.2	-119.8	-46.8	-47.6		
<b>3. Net domestic assets (3.1+3.2)</b>	<b>1449.2</b>	<b>1784.1</b>	<b>2054.0</b>	<b>334.9</b>	<b>270.0</b>	<b>23.1</b>	<b>15.1</b>
<b>3.1 Domestic credit (3.1.1+3.1.2)</b>	<b>1778.3</b>	<b>2177.4</b>	<b>2558.7</b>	<b>399.1</b>	<b>381.3</b>	<b>22.4</b>	<b>17.5</b>
3.1.1 Government (net)	392.8	465.2	489.7	72.4	24.5	18.4	5.3
3.1.2 Private sector	1338.8	1673.3	2023.4	334.5	350.1	25.0	20.9
3.1.3 Other public sector	46.7	38.9	45.6	-7.8	6.7	-16.8	17.4
<b>3.2 Other assets net (3-3.1)</b>	<b>-329.1</b>	<b>-393.3</b>	<b>-504.7</b>	<b>-64.2</b>	<b>-111.4</b>		
<b>Memorandum items</b>							
1. Overall liquidity, L 1/	2273.1	2701.3	3140.0	428.2	438.7	18.8	16.2
2. Reserve money	281.9	315.3	362.7	33.5	47.4	11.9	15.0
Currency outside banks	146.3	159.7	175.2	13.5	15.4	9.2	9.7
Bank reserves	135.6	155.6	187.6	20.0	31.9	14.8	20.5

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

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

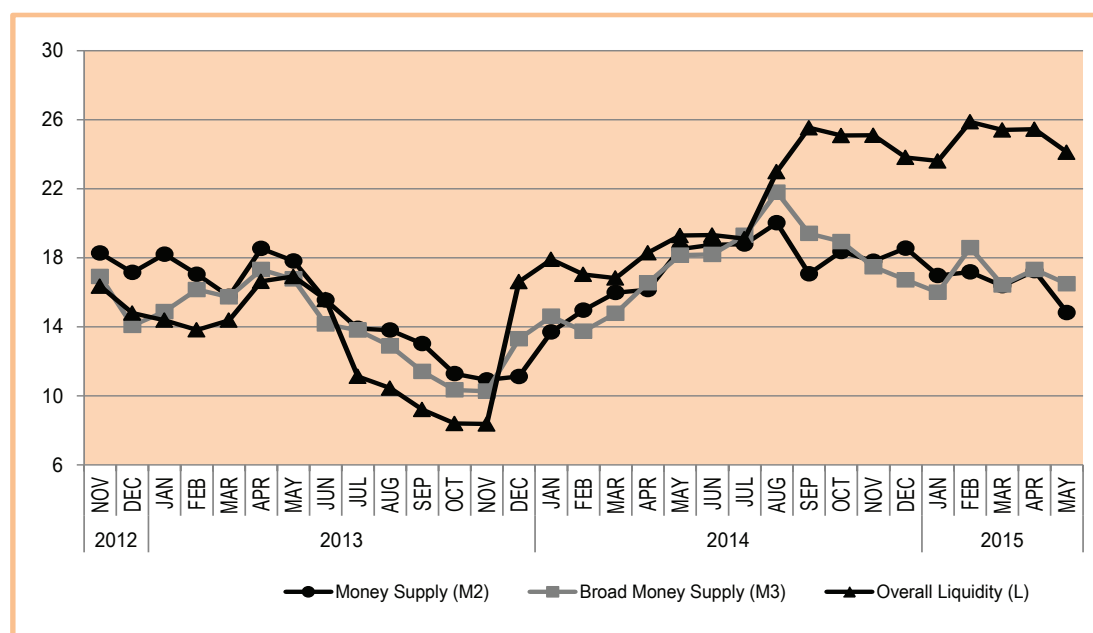
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

3/ Broad money, M2, comprises currency outside banking institutions, and all private and other public sector holdings of demand savings and time

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Growth in the Net Domestic Assets (NDA) slowed down to 15.1 percent from 23.1 percent. The deceleration is attributed to reduced uptake of domestic credit by both government and the private sector. With respect to Government, its net credit exposure to the domestic money market improved with a percent build up of Government deposits following slower spending in the review period of 5.3 percent in May 2015 compared with 18.4 percent growth in its net domestic borrowing in the corresponding period of May 2014. Credit to the private sector, albeit lower in annual growth remained strong through May 2015. Over the same period, the net foreign assets (NFA) of the banking system grew by 23.2 percent (or KSh 84.1 billion) compared with a contraction of 13.7 percent (or KSh 43.8 billion) over a similar period in 2014. The accumulation was reflected in Central Bank holdings and attributed to a boost from receipts through the Sovereign Bond issued in June 2014 and its re-issue in December 2014. The NFA held by other banking institutions however declined, on account of increased loans from non-residents and other accounts payable Table 2.2).

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

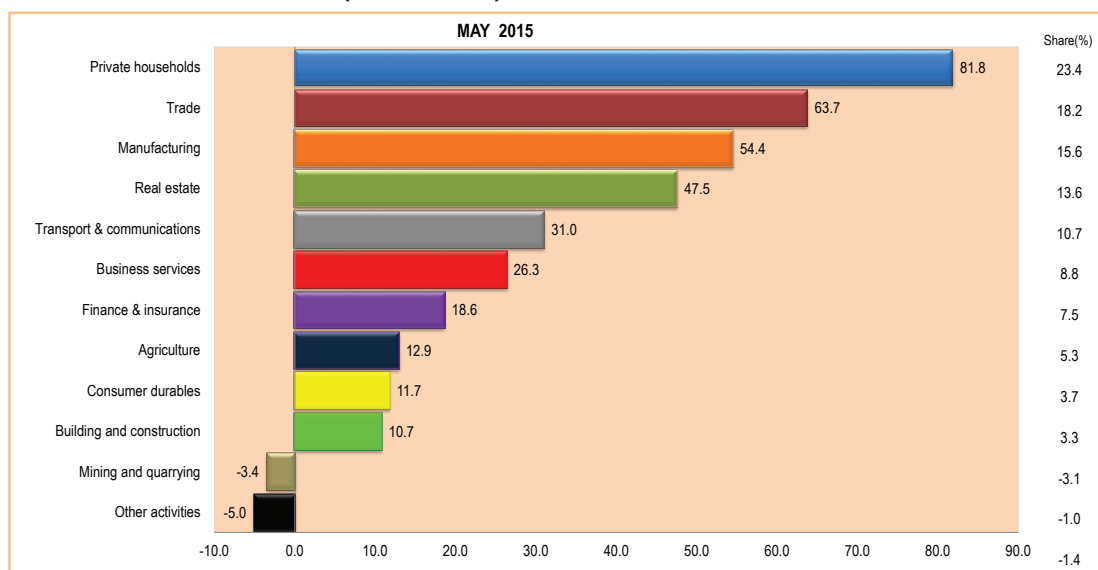
	2014 May		2015 May		Absolute Change May		Annual %age Change May	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2013/14	2014/15	2012/13	2013/14
<b>1. Credit to Government</b>	<b>465.2</b>	<b>21.4</b>	<b>489.7</b>	<b>19.1</b>	<b>72.4</b>	<b>24.5</b>	<b>18.4</b>	<b>5.3</b>
Central Bank	44.4	2.0	-59.1	-2.3	49.4	-103.5		
Commercial Banks & NBFIs	420.8	19.3	548.8	21.4	23.0	128.0	5.8	30.4
<b>2. Credit to other public sector</b>	<b>38.9</b>	<b>1.8</b>	<b>45.6</b>	<b>1.8</b>	<b>-7.8</b>	<b>6.7</b>	<b>-16.8</b>	<b>17.4</b>
Local government	3.1	0.1	0.3	0.0	2.1	-2.8	199.3	-90.1
Parastatals	35.8	1.6	45.3	1.8	-9.9	9.5	-21.6	26.6
<b>3. Credit to private sector</b>	<b>1673.3</b>	<b>76.9</b>	<b>2023.4</b>	<b>79.1</b>	<b>334.5</b>	<b>350.1</b>	<b>25.0</b>	<b>20.9</b>
Agriculture	62.8	2.9	75.7	3.0	9.0	12.9	16.7	20.5
Manufacturing	210.7	9.7	265.2	10.4	46.8	54.4	28.5	25.8
Trade	276.9	12.7	340.6	13.3	56.0	63.7	25.4	23.0
Building and construction	73.7	3.4	84.4	3.3	7.1	10.7	10.7	14.5
Transport & communications	114.5	5.3	145.5	5.7	38.2	31.0	50.1	27.0
Finance & insurance	36.5	1.7	55.0	2.2	7.7	18.6	26.5	50.8
Real estate	222.8	10.2	270.3	10.6	53.5	47.5	31.6	21.3
Mining and quarrying	25.1	1.2	21.7	0.8	2.1	-3.4	9.2	-13.7
Private households	259.6	11.9	341.4	13.3	51.4	81.8	24.7	31.5
Consumer durables	101.1	4.6	112.8	4.4	18.2	11.7	22.0	11.6
Business services	160.5	7.4	186.8	7.3	49.0	26.3	44.0	16.4
Other activities	128.9	5.9	123.9	4.8	-4.5	-5.0	-3.4	-3.9
<b>4. TOTAL (1+2+3) *</b>	<b>2177.4</b>	<b>100.0</b>	<b>2558.7</b>	<b>100.0</b>	<b>399.1</b>	<b>381.3</b>	<b>22.4</b>	<b>17.5</b>

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

Source: Central Bank of Kenya

### Domestic Credit Developments

The credit flow to the private sector in May 2015 was allocated to the following activities in order of magnitude: private households 23.4 percent (or KSh 81.8 billion); trade 18.2 percent (or KSh 63.7 billion); manufacturing 15.6 percent (or KSh 54.4 billion); real estate at 13.6 percent (or KSh 47.5 billion); transport and communication 8.8 percent (or KSh 31.0 billion); business services 7.5 percent (or KSh 26.3 billion); finance and insurance 5.3 percent (or KSh 18.6 billion); agriculture 3.7 percent (or KSh 12.9 billion); consumer durables 3.3 percent (or KSh 11.7 billion); and building and construction 3.1 percent (or KSh 10.7 billion). Mining and quarrying and other activities repaid KSh 3.4 billion and KSh 5.0 billion respectively (Chart 2B). In terms of shares to the total lending, the private sector accounted for 86.2 percent compared with 11.8 percent share to government in the period under review.

**CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO MAY 2015 (Ksh billion)**

Source: Central Bank of Kenya

### Reserve Money

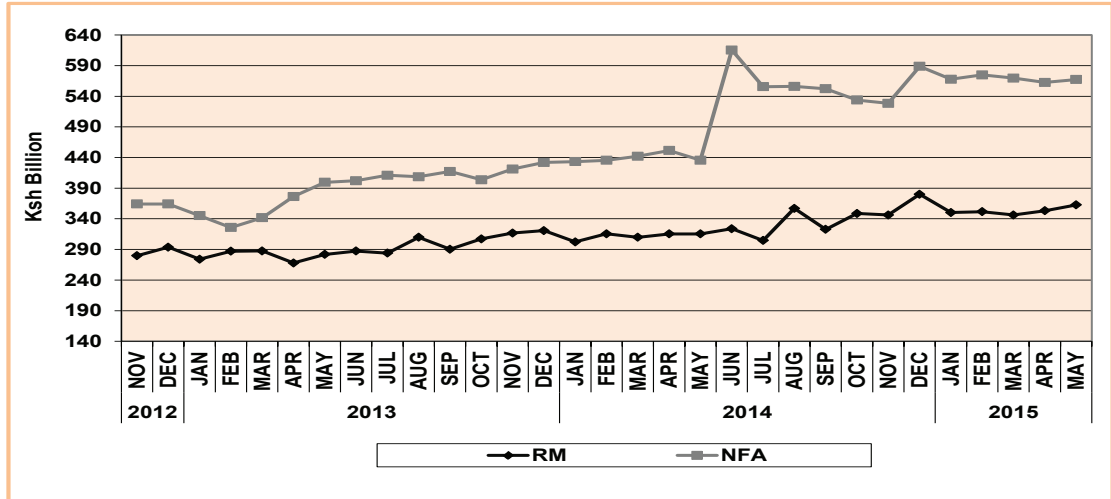
Reserve money (RM) comprises currency held by the non-bank public and commercial banks reserves (comprising deposits at the Central Bank and cash in their tills). Reserve money increased by 15.0 percent in the year to May 2015 compared with 11.9 percent growth in May 2014 (Table 2.3 and Chart 2C). At KSh 362.7 billion in May 2015, reserve money was KSh 17.4 billion above the respective target. The growth in reserve money reflected a 20.5 percent increase in bank reserves and a 9.7 percent increase in currency outside banks.

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

	2013	2014	2015	Absolute change		Change (%)		2015	
	May	May	May	2013/14	2014/15	2013/14	2014/15	May Target	
1. Net Foreign Assets	399.5	435.6	567.3	36.0	131.7	9.0	30.2	585.1	-17.8
2. Net Domestic Assets	-117.7	-120.2	-204.6	-2.5	-84.3	2.2	70.1	-239.8	35.2
2.1 Government Borrowing (net)	-5.0	44.4	-59.1	49.4	-103.5			-11.3	-47.8
2.2 Commercial banks (net)	-66.2	-35.6	-4.2	30.6	31.5			-45.2	41.0
2.3 Other Domestic Assets (net)	-50.3	-132.7	-144.9	-82.4	-12.1			-187.2	42.3
3. Reserve Money	281.9	315.3	362.7	33.5	47.4	11.9	15.0	345.3	17.4
3.1 Currency outside banks	146.3	159.7	175.2	13.5	15.4	9.2	9.7	169.2	5.9
3.2 Bank reserves	135.6	155.6	187.6	20.0	31.9	14.8	20.5	176.1	11.5

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The accumulation of NFA at the Central Bank, which was largely the main source of reserve money growth in the year to May 2015, reflected receipts of proceeds of the Sovereign Bond issued in June 2014 and its subsequent re-issue in December 2014. These Bond proceeds provided a reasonable buffer in gross foreign exchange reserves above the statutory minimum requirements of 4 months of imports of goods and non-factor services.

The NDA of the Central Bank decreased by KSh 84.3 billion to KSh -204.6 billion in May 2015 from KSh -120.2 billion in May 2014 on account of accumulation of Government deposits and a decrease in other domestic assets of the Central Bank.

**Central Bank Rates** The Monetary Policy Committee maintained the Central Bank Rate (CBR) at 8.5 percent on May 6, 2015, in order to continue anchoring inflationary expectations. Meanwhile, the weighted average interbank rate increased to 11.2 percent in May 2015 from 8.8 percent in April 2015 consistent with the pursuit of current tightening bias stance in the money market in order to anchor inflationary expectations.

**Short Term Interest Rates** Short term interest rates showed mixed performance in May 2015 (Table 2.4 and Chart 2D). The weighted average interbank rate increased to 11.17 percent in May 2015 from 8.77 percent in April 2015. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, declined marginally to 8.26 percent in May 2015 from 8.42 percent in April 2015 while, the 182-day Treasury bill rate increased to 10.37 percent in May 2015 from 10.26 percent in April 2015.

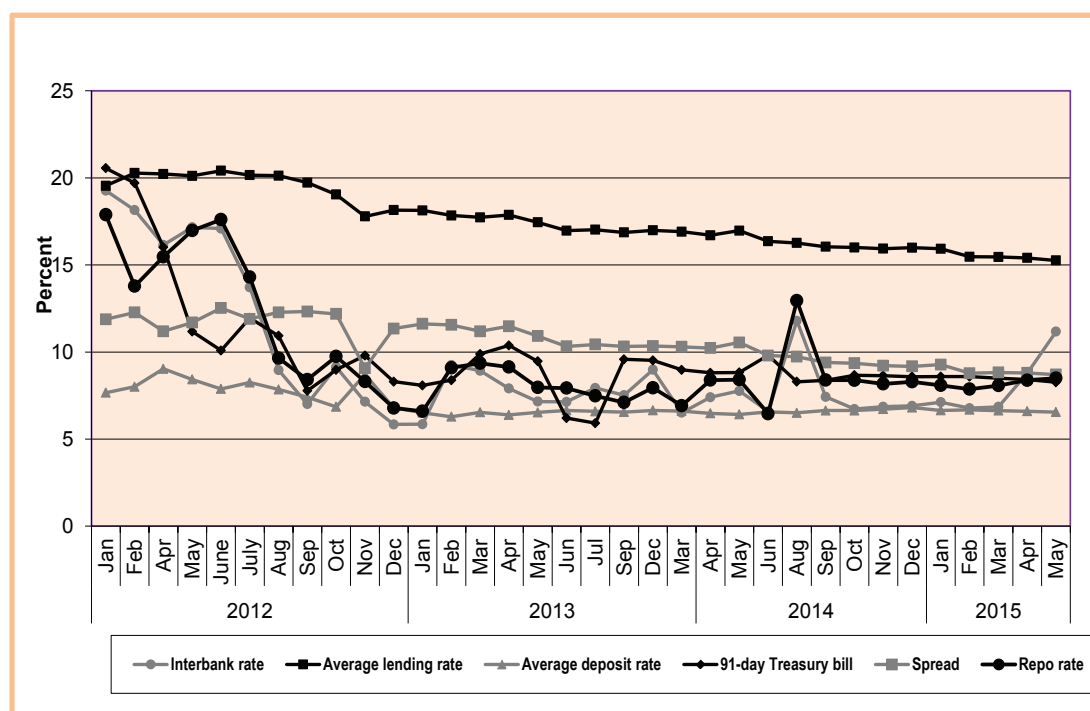
**Lending and Deposit Rates** The average lending rate declined to 15.26 percent in May 2015 from 15.4 percent recorded in April 2015, while the average deposit rate decreased to 6.55 percent in May 2015 from 6.60 percent in April 2015. Consequently, the interest rate spread recorded a marginal reduction to 8.7 percent in May 2015 from 8.8 percent in March 2015 (Table 2.4 and Chart 2D).

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

	2014						2015				
	May	June	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
91-day Treasury bill rate	8.82	9.81	8.38	8.67	8.64	8.58	8.59	8.59	8.49	8.42	8.26
Overdraft rate	17.85	15.88	15.79	15.77	15.66	15.86	15.95	15.67	15.68	15.52	15.10
Interbank rate	7.76	6.60	7.43	6.73	6.86	6.91	7.12	6.77	6.85	8.77	11.17
Repo rate	8.42	6.46	8.39	8.39	8.17	8.29	8.08	7.87	8.08	8.38	8.50
Reverse Repo rate	-	-	-	-	-	-	-	-	-	-	-
Central Bank Rate (CBR)	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Average lending rate (1)	16.97	16.36	16.04	16.00	15.94	15.99	15.93	15.47	15.46	15.40	15.26
Average deposit rate (2)	6.42	6.56	6.64	6.64	6.72	6.81	6.65	6.68	6.63	6.60	6.55
Over 3 months deposit	9.65	10.05	9.96	9.80	10.51	9.84	9.84	9.90	9.85	9.81	9.72
Savings deposits	1.54	1.50	1.51	1.55	1.57	1.85	1.58	1.53	1.53	1.90	1.48
Spread (1-2)	<b>10.55</b>	<b>9.80</b>	<b>9.40</b>	<b>9.36</b>	<b>9.22</b>	<b>9.18</b>	<b>9.28</b>	<b>8.78</b>	<b>8.82</b>	<b>8.80</b>	<b>8.70</b>

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

# PERFORMANCE OF THE REAL SECTOR

## Overview

Real GDP in 2014 grew by 5.3 percent and amounted to KSh 3.83 trillion compared with 5.7 percent growth in 2013 (Table 3.1). The real GDP is estimated to have increased by 4.8 percent in the first quarter, 6.1 percent in the second quarter, 5.4 percent in the third quarter and 5.1 percent in the fourth quarter of 2014 (Chart 3A) compared with growth of 6.0 percent, 7.0 percent, 6.8 percent and 3.0 percent in comparable quarters of 2013. The economy grew by 4.9 percent in the first quarter of 2015 compared to a growth of 4.7 percent in the first quarter of 2014. The performance of all the sectors of the economy was positive except for hotels and restaurant, which contracted by 7.5 percent due to insecurity concerns that

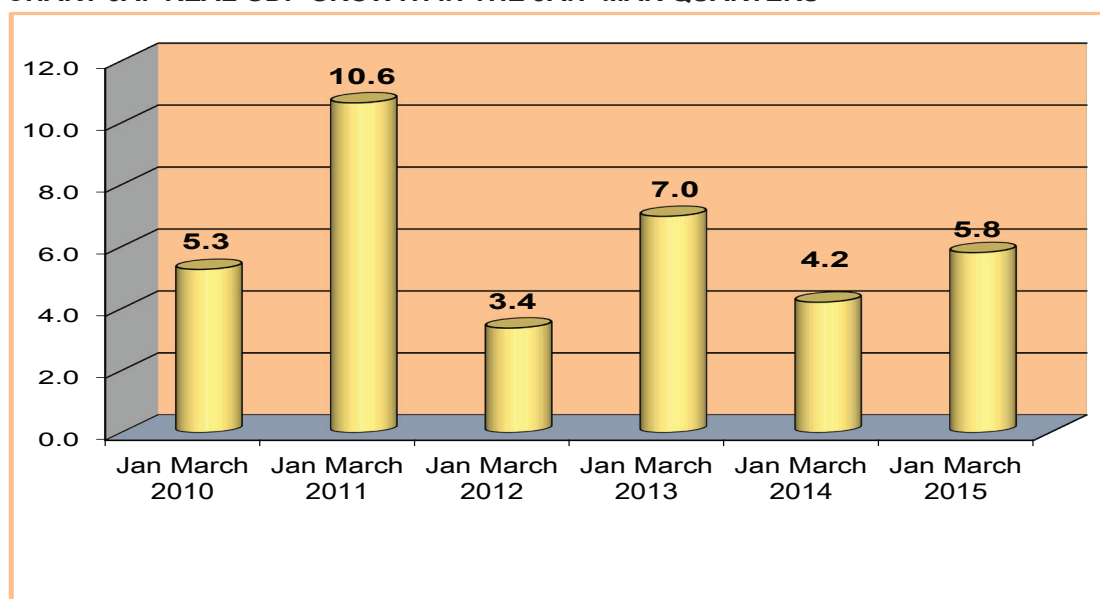
**TABLE 3.1: GROSS DOMESTIC PRODUCT BY ACTIVITY (Constant 2001 Prices, Ksh)**

Main Sectors	Share in 2014	Share in 2014									
	Nominal GDP (%)	Real GDP (%)	2006	2007	2008	2009	2010	2011	2012	2013	2014
Agriculture, forestry and fishing	27.33	22.03	685,710	720,612	684,702	668,969	736,270	753,596	775,798	816,509	844,720
Mining and quarrying	0.79	0.92	13,849	16,289	16,296	18,134	23,884	28,429	33,838	30,814	35,197
Manufacturing	10.03	10.87	327,918	342,267	346,177	342,532	357,957	383,890	381,750	403,128	416,891
Electricity supply	1.03	1.60	34,035	39,792	36,947	39,162	40,545	45,949	52,187	57,301	61,218
Water supply; sewerage, waste management	0.79	0.80	22,769	22,558	22,885	24,869	27,493	28,489	29,358	29,616	30,690
Construction	4.85	4.83	89,513	97,119	95,474	112,219	133,650	139,050	154,816	163,841	185,302
Wholesale and retail trade; repairs	8.16	7.69	172,625	186,328	189,326	200,032	219,214	237,502	254,222	275,756	294,794
Transport and storage	8.29	6.59	173,502	185,955	191,536	205,774	215,976	231,333	237,495	240,429	252,474
Accommodation and food service activities	0.93	1.13	50,040	57,300	39,471	51,510	51,238	53,333	54,972	52,441	43,395
Information and communication	1.23	3.59	51,720	61,952	67,574	73,691	86,492	105,606	108,186	121,447	137,779
Financial and insurance activities	6.71	6.00	133,353	139,918	146,815	150,411	176,961	185,163	196,220	212,153	229,851
Real estate	7.85	8.12	214,219	224,439	235,102	246,546	258,953	272,055	283,061	294,747	311,148
Professional, scientific and technical activities	0.97	1.06	26,509	29,836	31,343	33,085	34,091	34,518	36,654	39,108	40,526
Administrative and support service activities	1.14	1.28	40,829	43,849	39,645	44,151	45,422	46,546	47,619	48,201	49,174
Public administration and defence	4.48	3.91	109,013	111,635	119,363	127,807	129,544	132,612	137,872	142,137	149,954
Education	5.21	6.99	145,223	154,720	168,955	177,993	196,170	210,928	234,345	249,055	267,842
Human health and social work activities	1.69	1.78	50,447	53,561	56,076	58,686	62,345	60,723	59,023	63,582	68,181
Arts, entertainment and recreation	0.14	0.14	3,887	3,951	3,945	4,326	4,853	5,025	4,892	5,039	5,200
Other service activities	0.65	0.68	20,144	20,703	21,004	20,885	21,618	21,853	22,732	24,403	25,990
Activities of households as employers	0.52	0.49	16,623	16,873	17,126	17,383	17,643	17,908	18,177	18,449	18,726
FISIM	-2.48	-2.52	-49,597	-51,383	-53,675	-59,373	-68,827	-75,076	-82,648	-86,932	-96,644
<b>All economic activities</b>	<b>90.29</b>	<b>87.96</b>	<b>2,332,335</b>	<b>2,478,274</b>	<b>2,476,088</b>	<b>2,558,791</b>	<b>2,771,493</b>	<b>2,919,431</b>	<b>3,040,567</b>	<b>3,201,223</b>	<b>3,372,409</b>
Taxes on products	9.71	12.04	255,944	287,322	295,931	304,896	332,810	374,594	403,499	438,715	461,467
<b>GDP at market prices</b>	<b>100.00</b>	<b>100.00</b>	<b>2,588,279</b>	<b>2,765,595</b>	<b>2,772,019</b>	<b>2,863,688</b>	<b>3,104,303</b>	<b>3,294,026</b>	<b>3,444,066</b>	<b>3,639,938</b>	<b>3,833,876</b>
Annual Growth Rates in Percent											
	Share in 2014	Share in 2014	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Nominal GDP (%)	Real GDP (%)									
Agriculture, forestry and fishing	27.33	22.03	...	5.1	-5.0	-2.3	10.1	2.4	2.9	5.2	3.5
Mining and quarrying	0.79	0.92	...	17.6	0.0	11.3	31.7	19.0	19.0	-8.9	14.2
Manufacturing	10.03	10.87	...	4.4	1.1	-1.1	4.5	7.2	-0.6	5.6	3.4
Electricity supply	1.03	1.60	...	16.9	-7.1	6.0	3.5	13.3	13.6	9.8	6.8
Water supply; sewerage, waste management	0.79	0.80	...	-0.9	1.4	8.7	10.6	3.6	3.1	0.9	3.6
Construction	4.85	4.83	...	8.5	-1.7	17.5	19.1	4.0	11.3	5.8	13.1
Wholesale and retail trade; repairs	8.16	7.69	...	7.9	1.6	5.7	9.6	8.3	7.0	8.5	6.9
Transport and storage	8.29	6.59	...	7.2	3.0	7.4	5.0	7.1	2.7	1.2	5.0
Accommodation and food service activities	0.93	1.13	...	14.5	-31.1	30.5	-0.5	4.1	3.1	-4.6	-17.2
Information and communication	1.23	3.59	...	19.8	9.1	9.1	17.4	22.1	2.4	12.3	13.4
Financial and insurance activities	6.71	6.00	...	4.9	4.9	2.4	17.7	4.6	6.0	8.1	8.3
Real estate	7.85	8.12	...	4.8	4.8	4.9	5.0	5.1	4.0	4.1	5.6
Professional, scientific and technical activities	0.97	1.06	...	12.6	5.1	5.6	3.0	1.3	6.2	6.7	3.6
Administrative and support service activities	1.14	1.28	...	7.4	-9.6	11.4	2.9	2.5	2.3	1.2	2.0
Public administration and defence	4.48	3.91	...	2.4	6.9	7.1	1.4	2.4	4.0	3.1	5.5
Education	5.21	6.99	...	6.5	9.2	5.3	10.2	7.5	11.1	6.3	7.5
Human health and social work activities	1.69	1.78	...	6.2	4.7	4.7	6.2	-2.6	-2.8	7.7	7.2
Arts, entertainment and recreation	0.14	0.14	...	1.6	-0.2	9.7	12.2	3.5	-2.6	3.0	3.2
Other service activities	0.65	0.68	...	2.8	1.5	-0.6	3.5	1.1	4.0	7.4	6.5
Activities of households as employers	0.52	0.49	...	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
FISIM	-2.48	-2.52	...	3.6	4.5	10.6	15.9	9.1	10.1	5.2	11.2
<b>All economic activities</b>	<b>90.29</b>	<b>87.96</b>	...	<b>6.3</b>	<b>-0.1</b>	<b>3.3</b>	<b>8.3</b>	<b>5.3</b>	<b>4.1</b>	<b>5.3</b>	<b>5.3</b>
Taxes on products	9.71	12.04	...	12.3	3.0	3.0	9.2	12.6	7.7	8.7	5.2
<b>GDP at market prices</b>	<b>100.00</b>	<b>100.00</b>	...	<b>6.9</b>	<b>0.2</b>	<b>3.3</b>	<b>8.4</b>	<b>6.1</b>	<b>4.6</b>	<b>5.7</b>	<b>5.3</b>

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



**CHART 3A: REAL GDP GROWTH IN THE JAN -MAR QUARTERS**

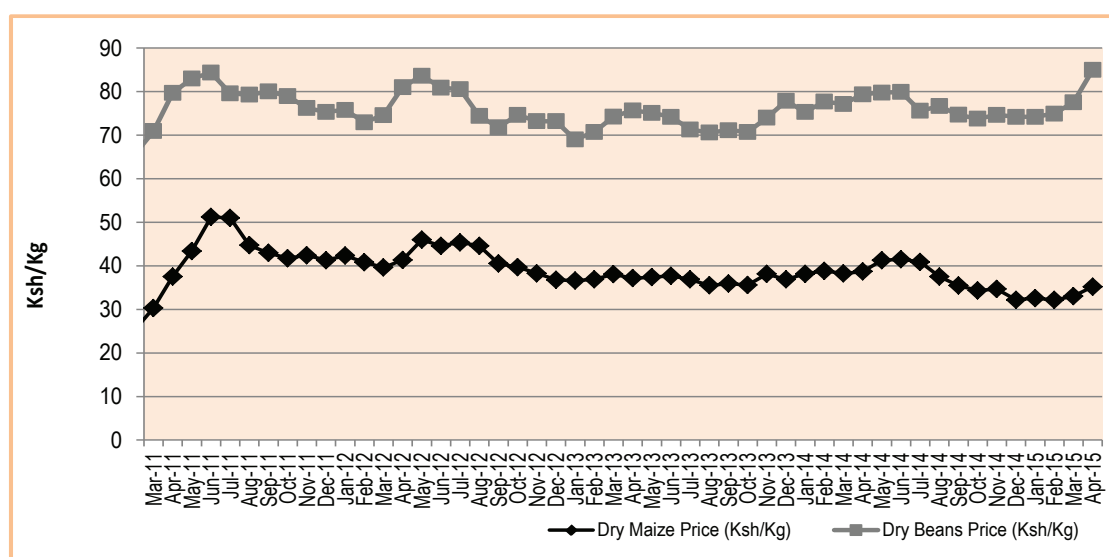


Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

occasioned issuance of adverse travel advisories in some key European source markets for tourism. Real GDP growth in the first quarter of 2015 was supported by construction; finance and insurance; information and communication; electricity and water supply; wholesale and retail trade; and transport and storage.

**Agriculture** Agriculture output declined to record 3.5 percent growth in 2014 from 5.2 percent in 2013. The down turn, reflected in the first two quarters, offset the impact of the recovery in the latter two quarters of 2014. Specifically, agriculture output grew by 2.2 percent growth in the first quarter of 2014, 2.1 percent growth in the second quarter, 6.8 percent growth in the third quarter and 3.8 percent growth in the fourth quarter compared with increases of 6.3 percent in the first quarter of 2013, 6.6 percent in the second quarter, 6.4 percent in the third quarter and 0.9 percent

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



Source: Kenya National Bureau of Statistics

## Major Indicators in Agriculture

in the fourth quarter of 2013. Agriculture output grew by 4.4 percent in the first quarter of 2015 due to increased use of agricultural inputs. Dry weather conditions in the early part of 2015 however resulted in higher prices in some food items such as beans (Chart 3B).

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

	Annual Totals			Year to April 2014*	Year to April 2015*
	2012	2013	2014*		
<b>Tea</b>					
Output (Metric tonnes)	369,562	432,453	445,106	429,017	398,505
Growth (%)	-2.2%	17.0%	2.9%	-1.3%	-7.1%
<b>Horticulture</b>					
Exports (Metric tonnes)	250,814	309,029	303,254	307,617	303,496
Growth (%)	5.1%	23.2%	-1.9%	12.2%	-1.3%
<b>Coffee</b>					
Sales (Metric tonnes)	46,051	37,942	42,450	40,122	38,310
Growth (%)	53.6%	-17.6%	11.9%	-11.9%	-4.5%
<b>Milk</b>					
Output (million litres)	495	523	541	541	497
Growth %	-9.8%	5.6%	3.5%	0.5%	-8.3%
<b>Sugar Cane</b>					
Output (Metric tonnes)	5,716,300	6,671,800	6,477,650	7,121,610	6,409,960
Growth (%)	7.1%	16.7%	-2.9%	28.8%	-10.0%

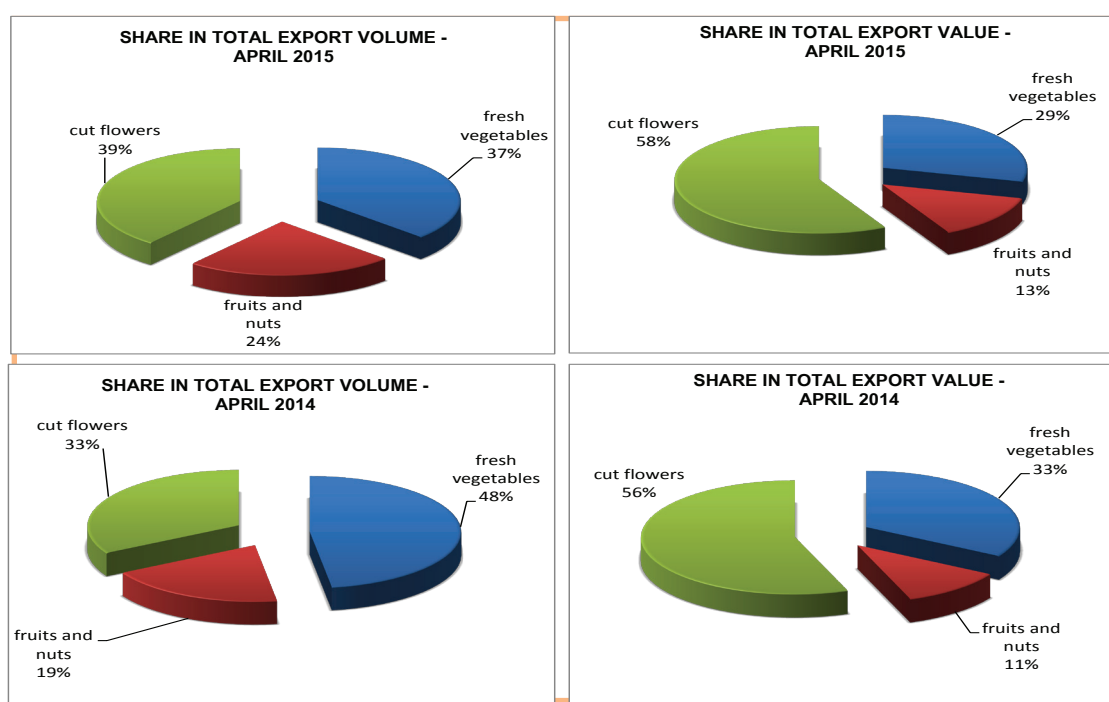
\* Provisional  
N/A - data not available

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

**Tea** Growth in production of tea slowed to 7.1 percent in the year to April 2015 compared with decline of 1.2 percent recorded in the year to April 2014 (Table 3.2) largely on account of a base effect commodity prices. The average auction price for tea at KSh 195.81 per kilogram in the year to April 2015 was 2.9 percent lower than KSh 201.63 per kilogram in the year to April 2014.

**Horticulture** Export of fresh horticultural products contracted by 1.3 percent from 309,029 metric tonnes in the year to April 2014 to 303,254 metric tonnes in the year to April 2015. During the period under review, exports of fresh vegetables dominated in terms of volume, while cut flowers brought in the largest contribution in terms of value (Table 3.2 and Chart 3C).

**CHART 3C: HORTICULTURAL EXPORTS**

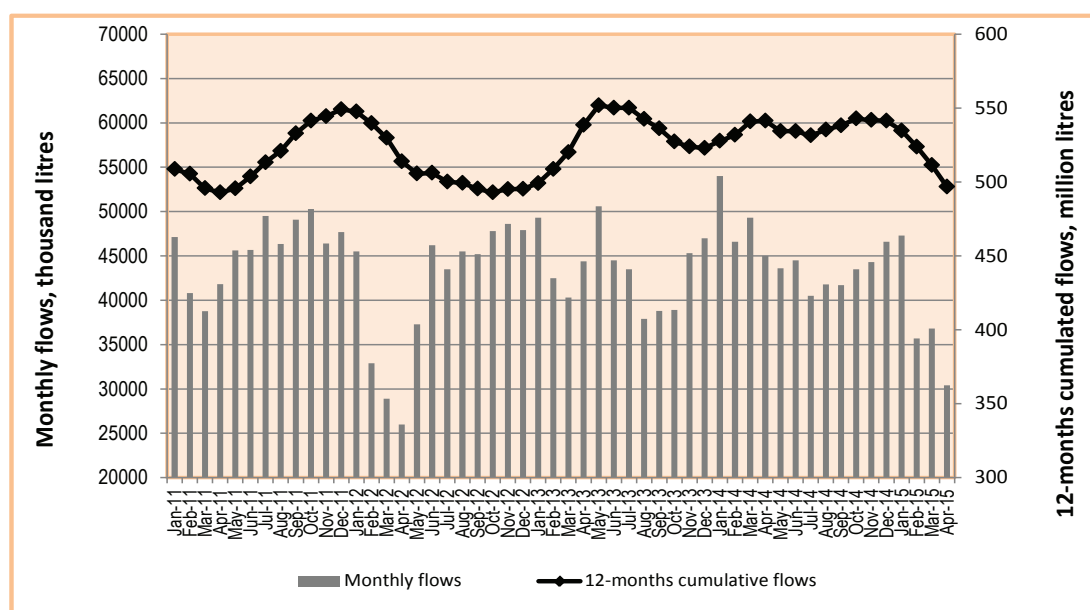


Source: Kenya Revenue Authority

**Coffee** Annual growth in coffee sales declined to 4.5 percent in the year to April 2015 compared with 11.9 percent contraction recorded in the year to April 2014. The average auction price for coffee increased by 30.0 percent, from KSh 298.74 per kilogram in the year to April 2014 to KSh 387.01 per kilogram in the year to April 2015. The price hike is attributed to improvement in quality.

**Dairy** The volume of milk intake in the formal sector in the year to March 2015 declined by 12.6 percent to 472 million litres in the year to March 2015 from 541 million litres recorded in the year to March 2014 (Chart 3D). The sharp drop in milk intake in March 2015 which pulled down the twelve month cumulative average to 472 million litres, the lowest volume since 2011, is attributed to dry weather conditions.

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



Source: Kenya National Bureau of Statistics

**Manufacturing** The manufacturing sector output, which accounted for 10.9 percent of the overall GDP growth in 2014, is estimated to have increased by 3.4 percent in 2014 compared with 5.6 percent growth in 2013. Available indicators of performance of manufacturing sector in the year to April 2015 (Table 3.3 and Chart 3E) show acceleration in production of cement and assembled vehicles and a deceleration of processed sugar.

**Energy Sector** Annual growth in local generation of electricity decreased to 5.4 percent in the year to April 2015 from 11.2 percent in the year to April 2014 (Table 3.4). The decline is reflected in hydro power generation (due to the dry weather in first four months of 2015) and thermal sources. The total amount of electricity generated in the year to April 2015 was 8,993 million kilowatt hours compared with 8,529 million kilowatt hours generated in the year to April 2014. The supply in the year to April 2015 comprised 35.9 percent hydro-electricity, 41.5 percent geo-thermal power and 22.7 percent thermal power. The increase in the amount of electricity produced reflects accelerated generation of geo-thermal power by 94.6 percent in the year

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

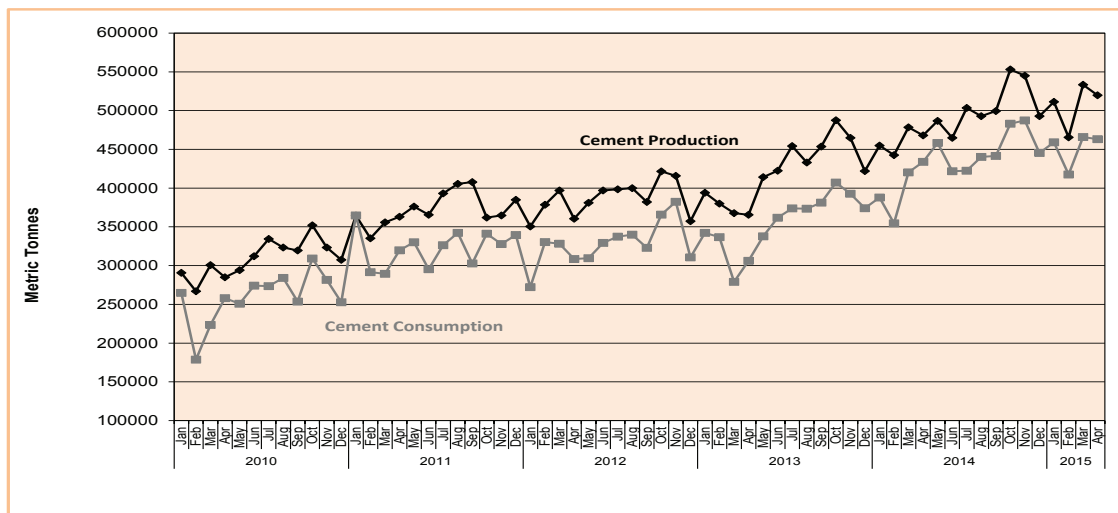
	Annual Totals			Year to April 2014*	Year to April 2015*
	2012	2013	2014*		
<b>Cement production</b>					
Output (MT)	4,639,723	5,059,129	5,882,537	5,395,958	6,068,387
Growth %	3.6%	9.0%	16.3%	15.8%	12.5%
<b>Assembled vehicles</b>					
Output (No.)	6,218	6,948	9,246	7,735	9,658
Growth %	2.8%	11.7%	33.1%	20.9%	24.9%
<b>Processed sugar</b>					
Output (MT)	493,937	600,210	616,863	653,316	612,590
Growth %	4.0%	21.5%	2.8%	37.5%	-6.2%

MT = Metric tonnes

\* Provisional

Source: Kenya National Bureau of Statistics

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

to April 2015 compared with 24.5 percent in the year to April 2014. Generation of hydro-electricity power contracted by 23.0 percent while that of thermal power contracted by 15.9 percent in the year to April 2015. Meanwhile, the average price of murban crude oil declined from US\$ 109.5 per barrel in the year to April 2014 to US\$ 81.4 per barrel in the year to April 2015.

**Tourism** The number of tourist arrivals declined by 30.1 percent in the year to April 2015 (Table 3.5) due to unfavorable performance is attributed to adverse travel advisories from source countries on account of insecurity concerns in Kenya. The ports of disembarkation for tourists remained Jomo Kenyatta International, Airport Nairobi (88.8 percent share), and the Moi International Airport, Mombasa (11.2 percent share).

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	2012	2013	2014*	Year to April 2014*	Year to April 2015*
Electricity Supply (Generation)					
Output (million KWH)	7,544	8,217	8,889	8,529	8,993
Growth %	5.4%	8.9%	8.2%	11.2%	5.4%
<b>Of which:</b>					
Hydro-power Generation (million KWH)	4,032	4,387	3,411	4,187	3,225
Growth (%)	26.6%	8.8%	-22.2%	-0.5%	-23.0%
Geo-Thermal Generation (million KWH)	1,522	1,781	2,917	1,917	3,729
Growth (%)	5.4%	17.0%	63.8%	24.5%	94.6%
Thermal (million KWH)	1,990	2,049	2,561	2,425	2,039
Growth (%)	-21.4%	3.0%	24.9%	26.0%	-15.9%
Consumption of electricity (million KWH)	6,270	6,552	7,406	6,745	7,769
Growth %	1.9%	4.5%	13.0%	7.8%	15.2%
Murban crude oil average price (US \$ per barrel)	113.0	110.1	99.5	109.5	81.4
Growth %	2.1%	-2.5%	-9.7%	-0.1%	-25.6%

\* Provisional

Source: Kenya National Bureau of Statistics

**Transport** The total number of passengers (both incoming and outgoing) received at the Jomo Kenyatta International Airport, Nairobi (JKIA) declined by 1.3 percent in 2014, compared with a decline of 0.3 percent recorded in the previous year (Table 3.6). In the year to March 2015 the passenger volume improved marginally by 0.03 percent compared with a decline of 0.83 percent in the year to March 2014. Meanwhile, the volume of oil passed through the Kenya pipeline increased by 6.6 percent in the year to April 2015 compared with 8.3 percent growth in the year to April 2014.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2013	2014	Year to April 2014	Year to April 2015	Year to April 2015 % Share	Year to April 2015 % Growth
MIAM	189,654	117,796	175,109	86,242	11.2%	-50.7%
JKIA	912,998	743,600	926,796	683,577	88.8%	-26.2%
<b>TOTAL</b>	<b>1,102,652</b>	<b>861,396</b>	<b>1,101,905</b>	<b>769,819</b>	<b>100.0%</b>	<b>-30.1%</b>

Source: Kenya Tourist Board

TABLE 3.6: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2012	2013	2014*	Year to April 2014*	Year to April 2015*
<b>Number of Passengers thro' JKIA</b>					
Total passenger flows	4,302,244	4,290,349	4,232,521	4,260,472	N/A
Growth (%)	4.0%	-0.3%	-1.3%	-1.3%	
o.w. Incoming	2,148,105	2,144,002	2,102,886	2,127,879	N/A
Growth (%)	2.8%	-0.2%	-1.9%	-1.2%	
Outgoing	2,154,139	2,146,347	2,129,637	2,132,593	N/A
Growth %	5.3%	-0.4%	-0.8%	-1.4%	
<b>Kenya Pipeline Oil Throughput</b>					
Output ('000 litres)	4,855,573	5,181,609	5,625,626	5,368,728	5,724,812
Growth %	14.0%	6.7%	8.6%	8.3%	6.6%
* Provisional					
N/A - Data not available					

Source: Kenya National Bureau of Statistics

# DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

**Overview** The overall Balance of Payments surplus improved to USD 1,013 million in the year to May 2015 from a surplus of USD 305 million in the year to May 2014 (Table 4.1). The improvement reflects larger increase in the capital and financial account surplus in relation to the widening of the current account deficit.

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

ITEM	Year to May 2014*	Year to May 2015*				Year to May 2015*	Change	% Change
		Q1 Jun-Aug	Q2 Sep-Nov	Q3 Dec-Feb	Q4 Mar-May			
<b>1. OVERALL BALANCE</b>	<b>305</b>	<b>1324</b>	<b>-529</b>	<b>476</b>	<b>-257</b>	<b>1013</b>	<b>708.3</b>	<b>232.2</b>
<b>2. CURRENT ACCOUNT</b>	<b>-4882</b>	<b>-1479</b>	<b>-1943</b>	<b>-1310</b>	<b>-1259</b>	<b>-5992</b>	<b>-1109.6</b>	<b>22.7</b>
<b>2.1 Goods</b>	<b>-11427</b>	<b>-3229</b>	<b>-3583</b>	<b>-2816</b>	<b>-2712</b>	<b>-12341</b>	<b>-913.4</b>	<b>8.0</b>
Exports (fob)	6018	1526	1456	1382	1424	5789	-229.5	-3.8
Imports (cif)	17445	4755	5040	4198	4136	18129	683.8	3.9
<b>2.2 Services</b>	<b>6545</b>	<b>1750</b>	<b>1640</b>	<b>1506</b>	<b>1454</b>	<b>6349</b>	<b>-196.3</b>	<b>-3.0</b>
Non-factor services (net)	3538	936	721	801	955	3413	-124.8	-3.5
Income (net)	-320	-208	-96	-116	-239	-659	-339.0	105.8
Current Transfers (net)	3328	1021	1015	822	737	3595	267.5	8.0
<b>3. CAPITAL &amp; FINANCIAL ACCOUNT</b>	<b>5187</b>	<b>2803</b>	<b>1414</b>	<b>1786</b>	<b>1002</b>	<b>7005</b>	<b>1818.0</b>	<b>35.0</b>
3.1 Capital Transfers (net)	66	5	5	29	57	97	31.0	47.1
3.2 Financial Account	5122	2798	1409	1757	945	6909	1787.0	34.9
memo:								
<b>Gross Reserves</b>	<b>8230</b>	<b>9731</b>	<b>8964</b>	<b>9873</b>	<b>9799</b>	<b>9799</b>	<b>1568.5</b>	<b>19.1</b>
Official	6498	7814	7274	7737	7469	7469	971.2	14.9
import cover**	4.2	4.8	4.3	4.6	4.5	4.5	0.4	8.7
import cover***	4.3	5.1	4.6	4.9	4.7	4.7	0.4	9.5
Commercial Banks	1732	1917	1691	2137	2330	2330	597.3	34.5

\* Provisional.

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

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

Source: Central Bank of Kenya

**Current Account** The deficit in the current account balance increased by USD 1,109.6 million to USD 5,992 million in the year to May 2015 from USD 4,882 million in the year to May 2014 (Table 4.2). The deterioration reflects in the merchandise account deficit, which increased by 8 percent, and a reduction in the services account surplus by 3 percent.

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

ITEM	Year to May 2014*	Year to May 2015*				Year to May 2015*	Change	% Change
		Q1 Jun-Aug	Q2 Sep-Nov	Q3 Dec-Feb	Q4 Mar-May			
<b>2. CURRENT ACCOUNT</b>	<b>-4882</b>	<b>-1479</b>	<b>-1943</b>	<b>-1310</b>	<b>-1259</b>	<b>-5992</b>	<b>-1109.6</b>	<b>22.7</b>
<b>2.1 Goods</b>	<b>-11427</b>	<b>-3229</b>	<b>-3583</b>	<b>-2816</b>	<b>-2712</b>	<b>-12341</b>	<b>-913.4</b>	<b>8.0</b>
<b>Exports (fob)</b>	<b>6018</b>	<b>1526</b>	<b>1456</b>	<b>1382</b>	<b>1424</b>	<b>5789</b>	<b>-229.5</b>	<b>-3.8</b>
Coffee	203	68	58	42	66	234	30.5	15.0
Tea	1113	275	249	287	251	1062	-51.0	-4.6
Horticulture	771	197	199	190	178	764	-7.6	-1.0
Oil products	47	23	11	22	19	76	28.4	60.2
Manufactured Goods	677	129	148	124	128	528	-148.7	-22.0
Raw Materials	431	103	115	117	101	435	4.0	0.9
Chemicals and Related Products (n.e.c.)	461	110	115	94	106	426	-35.0	-7.6
Miscellaneous Man. Articles	619	152	164	147	137	600	-16.7	-3.0
Re-exports	777	211	173	149	221	753	-24.4	-3.1
Other	918	258	224	211	219	911	-6.8	-0.7
<b>Imports (cif)</b>	<b>17445</b>	<b>4755</b>	<b>5040</b>	<b>4198</b>	<b>4136</b>	<b>18129</b>	<b>683.8</b>	<b>3.9</b>
Oil	3852	991	967	699	651	3308	-544.4	-14.1
Chemicals	2317	593	556	712	603	2464	147.2	6.4
Manufactured Goods	2651	663	661	685	719	2728	77.6	2.9
Machinery & Transport Equipment	4884	1583	1911	1226	1408	6128	1243.3	25.5
Other	3613	899	861	773	699	3232	-381.0	-10.5
<b>2.2 Services</b>	<b>6545</b>	<b>1750</b>	<b>1640</b>	<b>1506</b>	<b>1454</b>	<b>6349</b>	<b>-196.3</b>	<b>-3.0</b>
<b>Non-factor services (net)</b>	<b>3538</b>	<b>936</b>	<b>721</b>	<b>801</b>	<b>955</b>	<b>3413</b>	<b>-124.8</b>	<b>-3.5</b>
<b>Non-factor services (credit)</b>	<b>4877</b>	<b>1316</b>	<b>1189</b>	<b>1300</b>	<b>1338</b>	<b>5142</b>	<b>265.2</b>	<b>5.4</b>
of which transport	2147	605	534	500	509	2148	1.2	0.1
of which tourism (Travel)	807	213	208	205	160	786	-21.1	-2.6
Other services account: gov't	942	205	226	230	234	896	-46.0	-4.9
Other services account: private	982	293	222	364	434	1313	331.0	33.7
<b>Income (net)</b>	<b>-320</b>	<b>-208</b>	<b>-96</b>	<b>-116</b>	<b>-239</b>	<b>-659</b>	<b>-339.0</b>	<b>105.8</b>
of which official interest	-109	-92	-40	-100	-272	-504	-395.1	36.8
<b>Current Transfers (net)</b>	<b>3328</b>	<b>1021</b>	<b>1015</b>	<b>822</b>	<b>737</b>	<b>3595</b>	<b>267.5</b>	<b>8.0</b>
Private (net)	3077	940	933	738	652	3263	185.5	6.0
of which Remittances	1341	362	362	368	380	1472	131.4	9.8
Public (net)	250	82	82	84	85	332	82.0	32.8

\* Provisional.

Source: Central Bank of Kenya



**Merchandise Account** The deficit in the merchandise account increased by USD 913.4 million to USD 12,341 million in the year to May 2015 reflecting 3.9 percent increase in the value of merchandise imports and a 3.8 percent reduction in the value of merchandise exports (Table 4.2).

**Imports** The value of merchandise imports rose by USD 683.8 million to USD 18,129 million during the year to May 2015. The increases were notable in machinery and transport equipment (25.5 percent), chemicals (6.4 percent) and manufactured goods (2.9 percent). The value of import of machinery and transport equipment increased following importation of aircraft, road vehicles and railway related equipment for the construction of the standard gauge railway (SGR). On the other hand, the value of imported petroleum products and other imports (mainly food items) declined mainly on account of lower commodity prices in the international market.

Kenya sourced most of her imports from China (17 percent), India (16 percent) and the European Union (14 percent). Imports from Africa, which accounted for 9 percent of total imports declined marginally to USD 1,646 million (Table 4.3).

The value of merchandise exports declined by USD 229.5 million to USD 5,789 million in the year to May 2015 reflecting decrease in earnings from tea, horticulture, manufactured goods, chemicals and related products, miscellaneous manufactured articles, re-exports and other exports. However, receipts from coffee, oil products, and raw materials increased. The decline in receipts from tea exports was attributed to a decline in the price of tea in the international market.

**Exports** The value and share of Kenya's exports to Africa declined in the year to May 2015 (Table 4.3) largely reflecting decrease in exports to the EAC (Uganda, Tanzania and Rwanda) and to the COMESA region. The loss in market share is attributed to a decline in exports of manufactured goods and chemicals mainly to Uganda. Exports to the rest of the world, however, increased, notably to the Netherlands, the USA and Germany.

Trends in market shares by source and destination show mixed performance in the year to May 2015. The share of Kenya's imports from the European Union stabilised at 14 percent while that from China increased to 17 percent from 13 percent in the twelve months to May 2014. The increase is largely attributed to imports of civil engineering equipment. Meanwhile the share of exports to China stabilised at 1 percent while to the European Union, the share increased to 23 percent from 22 percent in the year to May 2014. The share of other exports to the rest of the world increased to 23 percent from 22 percent previously. The expansion is attributed to increased demand from other countries within the European Union (in addition to the Netherlands and Germany).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)			EXPORTS (in millions of US dollars)				Share of Exports (%)		
Country	Year to May			Year to May			Country	Year to May			Year to May		
	2013	2014	2015	2013	2014	2015		2013	2014	2015	2013	2014	2015
<b>Africa</b>	<b>1,658</b>	<b>1,703</b>	<b>1,646</b>	<b>10</b>	<b>10</b>	<b>9</b>	<b>Africa</b>	<b>2,894</b>	<b>2,710</b>	<b>2,455</b>	<b>47</b>	<b>45</b>	<b>42</b>
<i>Of which</i>							<i>Of which</i>						
South Africa	725	846	660	4	5	4	Uganda	802	727	577	13	12	10
Egypt	346	280	284	2	2	2	Tanzania	513	497	399	8	8	7
Others	588	577	701	3	3	4	Egypt	240	191	186	4	3	3
<b>EAC</b>	<b>352</b>	<b>337</b>	<b>478</b>	<b>2</b>	<b>2</b>	<b>3</b>	Sudan	68	73	71	1	1	1
<b>COMESA</b>	<b>727</b>	<b>627</b>	<b>732</b>	<b>4</b>	<b>4</b>	<b>4</b>	South Sudan	224	190	207	4	3	4
<b>Rest of the World</b>	<b>15,359</b>	<b>15,742</b>	<b>16,483</b>	<b>90</b>	<b>90</b>	<b>91</b>	Somalia	214	180	127	3	3	2
<i>Of which</i>							DRC	225	216	231	4	4	4
India	2,434	3,246	2,857	14	19	16	Rwanda	184	166	144	3	3	2
United Arab Emirates	1,852	1,024	956	11	6	5	Others	426	471	512	7	8	9
China	1,991	2,321	3,158	12	13	17	<b>EAC</b>	<b>1,558</b>	<b>1,458</b>	<b>1,207</b>	<b>25</b>	<b>24</b>	<b>21</b>
Japan	830	1,007	951	5	6	5	<b>COMESA</b>	<b>1,835</b>	<b>1,688</b>	<b>1,542</b>	<b>30</b>	<b>28</b>	<b>27</b>
USA	730	924	1,875	4	5	10	<b>Rest of the World</b>	<b>3,256</b>	<b>3,308</b>	<b>3,333</b>	<b>53</b>	<b>55</b>	<b>58</b>
United Kingdom	563	550	484	3	3	3	<i>Of which</i>						
Singapore	216	195	123	1	1	1	United Kingdom	482	425	402	8	7	7
Germany	477	507	488	3	3	3	Netherlands	374	421	435	6	7	8
Saudi Arabia	607	471	752	4	3	4	USA	333	383	419	5	6	7
Indonesia	573	556	520	3	3	3	Pakistan	284	245	244	5	4	4
Netherlands	223	270	217	1	2	1	United Arab Emirates	373	268	225	6	4	4
France	295	240	241	2	1	1	Germany	108	113	127	2	2	2
Bahrain	454	447	178	3	3	1	India	99	107	87	2	2	2
Italy	249	229	242	1	1	1	Afghanistan	158	149	132	3	2	2
Others	3,866	3,755	3,443	23	22	19	Others	1,046	1,196	1,262	17	20	22
<b>Total</b>	<b>17,018</b>	<b>17,445</b>	<b>18,129</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>Total</b>	<b>6,150</b>	<b>6,018</b>	<b>5,789</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>EU</b>	<b>2,458</b>	<b>2,468</b>	<b>2,465</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>EU</b>	<b>1,254</b>	<b>1,310</b>	<b>1,310</b>	<b>20</b>	<b>22</b>	<b>23</b>
<b>China</b>	<b>1,991</b>	<b>2,321</b>	<b>3,158</b>	<b>12</b>	<b>13</b>	<b>17</b>	<b>China</b>	<b>58</b>	<b>62</b>	<b>80</b>	<b>1</b>	<b>1</b>	<b>1</b>

Source: Kenya Revenue Authority

### Services Account

The surplus in the services account recorded USD 196.3 million or 3.0 percent decline, to USD 6,349 million in the year to May 2015 from USD 6,545 million in the year to May 2014. The deterioration was mainly in the receipts from tourism (2.6 percent) and other government services (4.9 percent). Receipts from transport services and other private services (insurance services; royalties and licence fees) however increased by 0.1 percent and 33.7 percent, respectively.

The deficit in the primary income account worsened by USD 339 million, while the surplus in the current transfers account increased by USD 267.5 million. Remittance inflows (under private transfers) increased by USD 131.4 million to USD 1,472 million during the year to May 2015 (Table 4.2). Remittance inflows were resilient with the 12 month average to May 2015 increasing to USD 122.7 million from an average of USD 111.7 million in the year to May 2014.

### Capital and Financial Account

The capital and financial account surplus, at USD 7,005 million in the year to May 2015, was 35 percent larger compared to USD 5,187 million in the year to May 2014. The improvement reflects 34.9 percent rise in the financial account surplus mainly on the back of increased inflows in the official and private medium to long-term flows. Official medium and long-term financial inflows improved by USD 4,055.4 million in the year to May 2015 and this was attributed to loan receipts in March 2015 towards the funding of the SGR project, issuance of the Euro bond amounting to USD 2 billion in June 2014 and a tap sale on the same bond in December 2014 which brought in an additional USD 750 million. However, outflows under this component were substantial and partially offsetting at USD 1,498.4 million with the increase in outflows reflecting loan repayments including repayment of the USD 600 million syndicated loan in July 2014.

Private medium and long term financial flows increased by USD 657.2 million to USD 1,168 million from USD 511 million in the year to May 2014, with the increase largely driven by receipts from private loans and Foreign Direct Investment. Commercial bank flows however, declined from USD 491 million in the year to May 2014 to USD 385 million in the year to May 2015 reflecting build-up of foreign assets mainly in two components: deposits and loans advanced to non-residents.

Short term flows (including net errors and omissions) decreased by USD 1,427.2 million during the period under review.

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

ITEM	Year to May 2014*	Year to May 2015*				Year to May 2015*	Change	% Change
		Q1 Jun-Aug	Q2 Sep-Nov	Q3 Dec-Feb	Q4 Mar-May			
<b>3. CAPITAL &amp; FINANCIAL ACCOUNT</b>	<b>5187</b>	<b>2803</b>	<b>1414</b>	<b>1786</b>	<b>1002</b>	<b>7005</b>	<b>1818.0</b>	<b>35.0</b>
3.1 Capital Transfers (net)	66	5	5	29	57	97	31.0	47.1
3.2 Financial Account	5122	2798	1409	1757	945	6909	1787.0	34.9
Official, medium & long-term	619	1105	48	702	1321	3176	2557.0	413.1
Inflows	961	2182	273	1141	1421	5017	4055.4	421.8
Outflows	-343	-1077	-225	-439	-100	-1841	-1498.4	437.4
Private, medium & long-term (net)	511	367	590	-54	265	1168	657.2	128.6
Commercial Banks (net)	491	16	363	-261	267	385	-105.5	-21.5
Other private medium & long-term (net)	20	352	227	207	-3	783	762.8	3739.5
Short-term (net) incl. errors & omissions	3992	1326	771	1109	-641	2564	-1427.2	-35.8

\* Provisional.

Source: Central Bank of Kenya

The banking system's total foreign exchange holdings increased by 19.1 percent to USD 9,799 million at the end of May 2015 from USD 8,230 million at the end of May 2014. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased to USD 7,469 million (4.7 months of import cover) at the end of May 2015 from USD 6,498 million (4.3 months of import cover) at the end of May 2014. The build-up in foreign exchange reserves during the period was largely attributed to proceeds from the sale of the Euro-bond in June 2014 and the associated tap sale in December 2014.

### Foreign Exchange Reserves

Foreign exchange reserves held by commercial banks increased to USD 2,330 million at the end of May 2015 from USD 1,732 million at the end of May 2014. During the same period, residents' foreign currency deposits increased to USD 4,448 million from USD 3,805 million (Table 4.5).

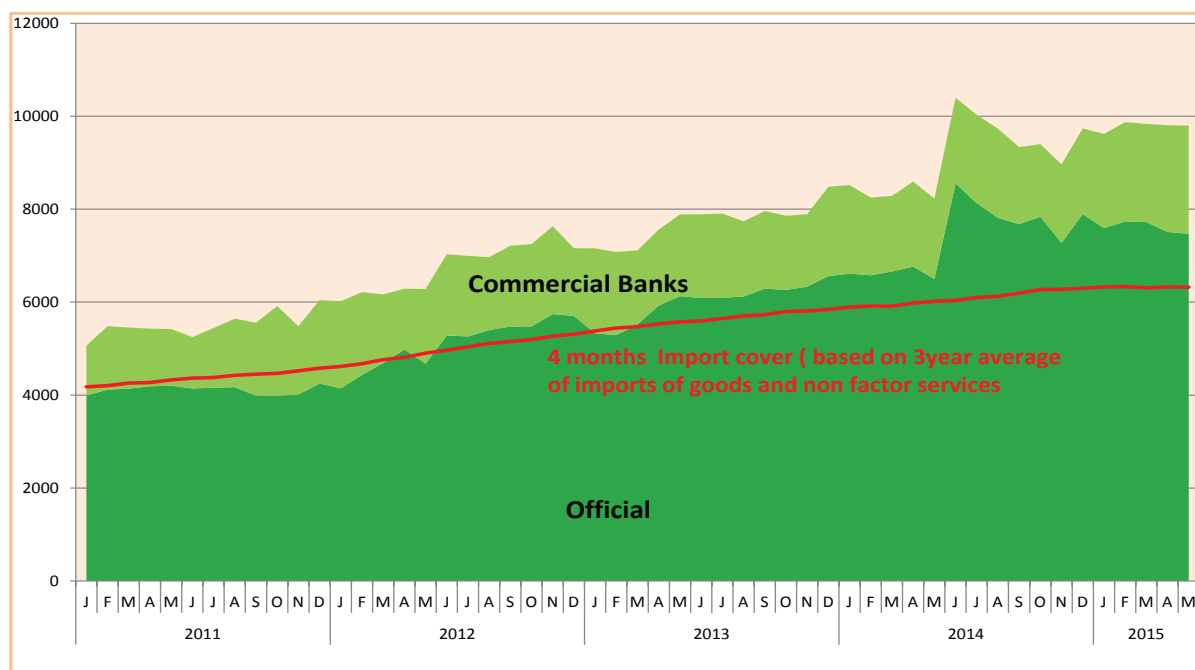
**TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US\$ MILLION)**

	May 14	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15
<b>1. Gross Reserves</b>	<b>8,230</b>	<b>10,399</b>	<b>10,029</b>	<b>9,731</b>	<b>9,336</b>	<b>9,400</b>	<b>8,964</b>	<b>9,738</b>	<b>9,620</b>	<b>9,873</b>	<b>9,834</b>	<b>9,806</b>	<b>9,799</b>
of which:													
Official	6,498	8,555	8,128	7,814	7,676	7,839	7,274	7,895	7,593	7,737	7,723	7,509	7,469
import cover**	4.3	5.7	5.3	5.1	5.0	5.0	4.6	5.0	4.8	4.9	4.9	4.7	4.7
Commercial Banks	1,732	1,844	1,902	1,917	1,659	1,561	1,691	1,843	2,027	2,137	2,111	2,296	2,330
<b>2. Residents' foreign currency deposits</b>	<b>3,805</b>	<b>3,776</b>	<b>4,084</b>	<b>4,292</b>	<b>4,148</b>	<b>4,101</b>	<b>4,037</b>	<b>4,080</b>	<b>4,243</b>	<b>4,396</b>	<b>4,154</b>	<b>4,278</b>	<b>4,448</b>

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

The Kenya Shilling depreciated by 3.16 percent against the US Dollar, 6.79 percent against the Pound Sterling, 6.78 percent against the Euro and 2.19 percent against the Japanese Yen in May 2015. The Kenya Shilling weakening is attributed to international and local developments, notably the strengthening of US Dollar against major world currencies and high dollar demand from importers in the local money market.

### Exchange Rates

In the EAC region, the Kenya shilling strengthened against the Tanzania Shilling, but weakened against the Uganda Shilling as well as the Rwanda and Burundi Francs during the review period (Table 4.6 and Chart 4D).

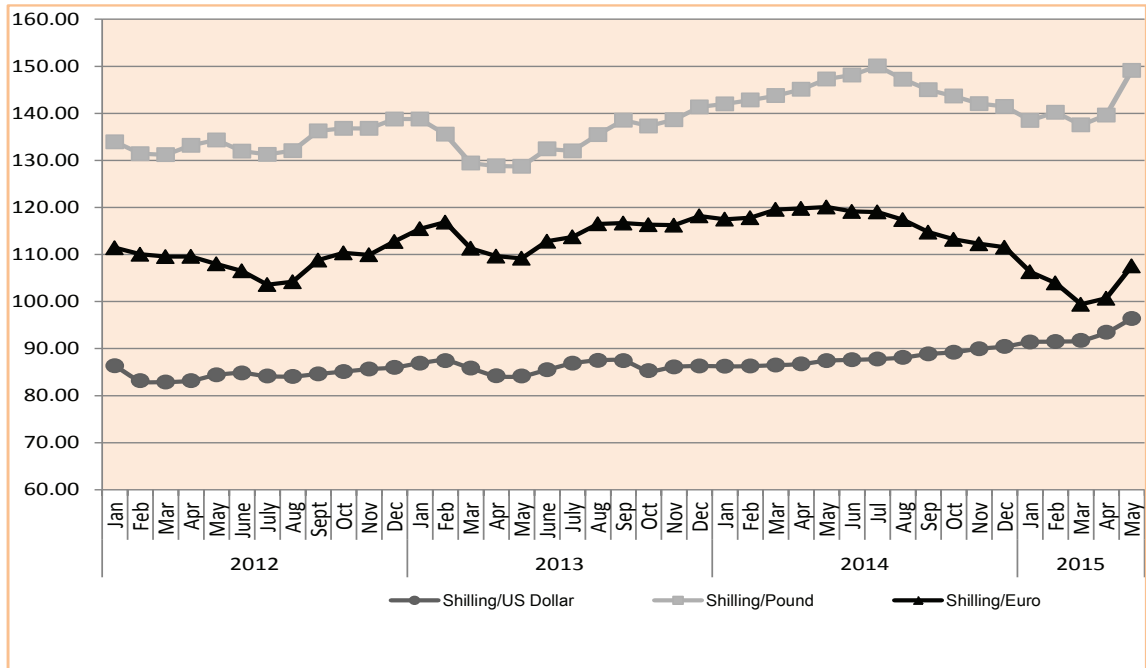
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2014					2015					% change April - May 2015
	August	September	October	November	December	January	February	March	April	May	
US Dollar	88.11	88.84	89.23	89.96	90.44	91.36	91.49	91.73	93.44	96.39	3.16
Pound Sterling	147.24	144.99	143.66	142.05	141.45	138.49	140.21	137.51	139.62	149.10	6.79
Euro	117.40	114.74	113.21	112.28	111.52	106.32	103.94	99.40	100.71	107.54	6.78
100 Japanese Yen	85.63	82.90	82.62	77.53	75.79	77.19	77.17	76.22	78.18	79.89	2.19
Uganda Shilling*	29.66	29.47	30.03	30.37	30.62	31.29	31.36	32.19	32.04	31.17	-2.71
Tanzania Shilling*	18.89	18.78	18.96	19.16	19.11	19.39	19.92	20.09	20.28	20.98	3.44
Rwanda Franc*	7.82	7.75	7.72	7.66	7.62	7.53	7.52	7.56	7.37	7.16	-2.88
Burundi Franc*	17.57	17.43	17.47	17.39	17.28	17.14	17.12	17.05	16.72	16.23	-2.98

\* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

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## DEVELOPMENTS IN THE BANKING SECTOR

**Overview** The Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 12 micro-finance banks, 8 representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers and 3 credit reference bureaus as at 31st May 2015.

**Structure of the Balance Sheet** The banking sector balance sheet expanded by 21.9 percent from KSh 2,892.4 billion in May 2014 to KSh 3,526.6 billion in May 2015. The main components of the balance sheet on the assets side were loans and advances, government securities and placements, which accounted for 57.7 percent, 21.3 percent and 5.4 percent of the total assets, respectively

**Loans & Advances** The banking sector gross loans and advances increased from KSh 1,754.9 billion in May 2014 to KSh 2,118.0 billion in May 2015, which translated to a growth of 20.69 percent. The growth was attributed to increased lending to Personal/Households, Trade, Manufacturing, Transport and Communication and Real Estate sectors. Loans and advances net of provisions were KSh 2,092.0 billion in May 2015, increasing from KSh 1,736.0 billion in May 2014.

**Deposit Liabilities** The main component of the balance sheet on the liabilities side was customer deposits which accounted for 71.2 percent of total liabilities. The deposit base was KSh 2,120 billion in May 2014 compared to KSh. 2,511 billion in May 2015 which translates to an increase of 18.4 percent. This is mainly as a result of aggressive mobilization of deposits by banks, diaspora remittances and receipts from exports.

**Capital & Reserves** The banking sector recorded an improved capital position in May 2015 with total shareholders' funds improving by KSh 84.1 Billion which is 18.6 percent from KSh 452.3 billion in May 2014 to KSh 536.4 billion in May 2015. Core capital and total capital increased from KSh 376.2 billion and KSh 439.3 billion to KSh 451.0 billion and KSh 537.5 billion, respectively over the same period. The core capital to total risk-weighted assets ratio increased from 15.6 percent in May 2014 to 16.0 percent in May 2015, whereas the total capital to total risk-weighted assets ratio moved up from 18.3 percent in May 2014 to 19.1 percent in May 2015

**Non-performing Loans** The gross non-performing loans (NPLs) value increased by 26.5 percent from KSh 98.5 billion in May 2014 to KSh124.6 billion in May 2015. However, the gross NPLs to gross loans ratio marginally deteriorated from 5.6 percent in May 2014 to 5.9 percent in May 2015. On the other hand, the coverage ratio, measured as a percentage of specific provisions to total NPLs marginally declined from 39.8 percent in May 2014 to 39.6 percent in May 2015.

The quality of assets, measured as a proportion of net non-performing loans to gross loans increased marginally by 0.1 percent (Table 5.1). A summary of asset quality for the banking sector over the period (Table 5.1).



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

		<b>14-May</b>	<b>15-May</b>
1	Gross loans and advances (Kshs. Bn)	1754.9	2118
2	Interest in Suspense (Kshs. Bn)	18.9	26
3	Loans and advances (net of interest suspended) (Kshs. Bn)	1736	2092
4	Gross non-performing loans (Kshs. Bn)	98.5	124.6
5	Specific Provisions (Kshs. Bn)	31.6	39
6	General Provisions (Kshs. Bn)	12.9	15.4
7	Total Provisions (5+6) (Kshs. Bn)	44.5	54.4
8	Net Advances (3-7) (Kshs. Bn)	1691.5	2037.6
9	Total Non-Performing Loans and Advances (4-2) (Kshs. Bn)	79.6	98.6
10	Net Non-Performing Loans and Advances (9-5) (Kshs. Bn)	48	59.6
11	Total NPLs as % of total advances (9/3)	4.60%	4.70%
12	Net NPLs as % of gross advances (10/1)	2.70%	2.80%
13	Specific Provisions as % of Total NPLs (5/9)	39.70%	39.60%

Source: Central Bank of Kenya

**Profitability** The banking sector profitability grew by 11.0 percent in terms of pre-tax profits, from KSh 54.8 billion reported in the period ended May 2014 to KSh 60.9 billion for the period ended 31st May 2015. The annual return on assets marginally increased to 3.2 percent in May 2015 from 3.1 percent in May 2014. On the other hand, return on shareholders' funds reduced to 27.2 percent in May 2015 from 29.1 percent in May 2014.

**Liquidity Ratio Requirement** Total income increased by 13.6 percent from KSh 163.0 billion in May 2014 to KSh 185.2 billion in May 2015, while total expenses increased by 15.0 percent from KSh 108.2 billion in May 2014 to KSh 124.3 billion in May 2015. Interest on loans and advances, other income, interest on government securities were the major sources of income accounting for 60.8 percent, 15.9 percent and 15.7 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 35.2 percent, 26.8 percent and 22.1 percent, respectively.

For the month ended May 31, 2015, average liquid assets amounted to KSh 959.7 billion while total short-term liabilities stood at KSh 2,448.6 billion, resulting to an average liquidity ratio of 39.4 percent, against 38.7 percent registered in May 2014 respectively, in relation to the 20 percent minimum requirement.

**Cash Ratio Requirement** The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for reserve requirements averaged 5.3 percent in May 2015 compared to 5.2 percent in April 2015, and was within the 5.2 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of KSh 1.2 billion above the 5.3 percent monthly average cash reserve requirement at the Central Bank in May 2015 compared with a deficit of KSh 0.7 billion in April 2015. Commercial banks are required to maintain a Cash Reserve Ratio (CRR) monthly average of 5.2 percent in the 30 day maintenance cycle from 15<sup>th</sup> through 14<sup>th</sup> of every month, but subject to a daily minimum of 3.0 percent.



Both Commercial banks and nonbank financial institutions also observed strong liquidity positions in May 2015, at 39.4 percent and 23.6 percent respectively, in relation to the 20 percent minimum requirement.

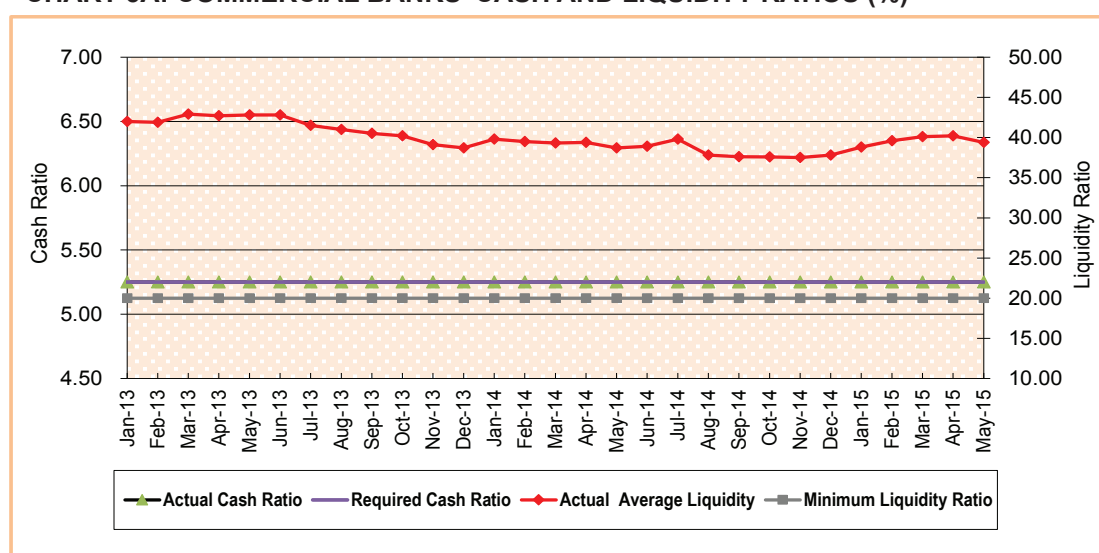
**TABLE 5.2 : CASH AND LIQUIDITY RATIOS\* (%)**

	2014								2015				
	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
<b>Commercial Banks</b>													
Actual Average Liquidity	38.70	38.90	39.80	37.80	37.60	37.58	37.50	37.80	38.80	39.60	40.10	40.40	39.4
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.61	5.88	5.35	5.58	5.73	5.51	5.79	5.58	5.37	5.88	5.28	5.22	5.30
Minimum Cash Ratio Requirement	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
<b>NBFIs</b>													
Actual Average Liquidity Ratio	26.50	27.80	29.70	26.30	26.10	25.19	25.30	27.80	26.70	22.90	24.90	26.20	23.6
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

\* 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 246,925 transaction messages worth KSh 2.132 billion in May 2015 compared with a volume of 245,227 transaction messages valued at KSh 2.330 billion moved in April 2015. This represents a decline of 8.5 percent and an increase of 0.7 percent in value and volume respectively. Compared to May 2014, the volume increased by 18.1 percent from 209,019 transaction messages to 246,925 transaction messages in April 2015 while value decreased by 2.5 percent from KSh 2,188 billion to KSh 2,132 billion, indicating a decrease in the uptake of KEPSS services by the public.

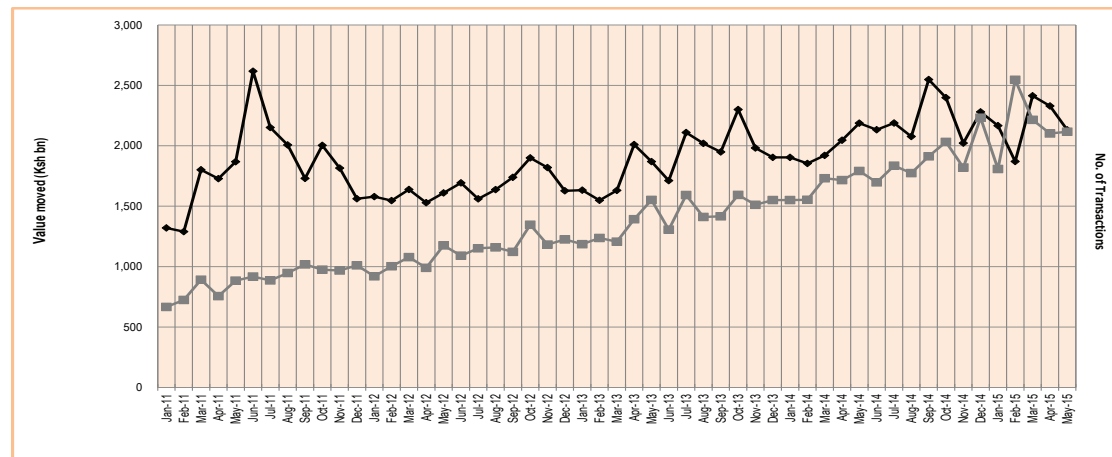
During the twelve months period to May 31, 2015 the value moved averaged KSh 11 million per transaction. On average, 11,277 transaction messages with an average value of approximately KSh 107 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted 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
Jan-13	1,632	25	138,297	0.01	22	74	6,286
Feb-13	1,548	25	144,248	0.01	20	77	7,212
Mar-13	1,631	28	140,781	0.01	20	82	7,039
Apr-13	2,011	32	162,432	0.01	20	101	8,122
May-13	1,869	31	181,045	0.01	22	85	8,229
Jun-13	1,712	28	152,310	0.01	20	86	7,616
Jul-13	2,109	35	185,773	0.01	23	92	8,077
Aug-13	2,021	24	164,650	0.01	21	96	7,840
Sep-13	1,949	31	165,175	0.01	21	93	7,865
Oct-13	2,301	30	185,920	0.01	22	105	8,451
Nov-13	1,982	29	176,330	0.01	21	94,381	8,397
Dec-13	1,905	30	180,926	0.01	18	105,811	10,051
Jan-14	1,904	31	180,897	0.01	22	87	8,223
Feb-14	1,853	28	181,123	0.01	20	93	9,056
Mar-14	1,920	31	202,035	0.01	21	91	9,621
Apr-14	2,047	27	200,151	0.01	20	102	10,008
May-14	2,188	28	209,019	0.01	21	104	9,953
Jun-14	2,133	32	198,052	0.01	20	107	9,903
Jul-14	2,189	28	214,091	0.01	22	99	9,731
Aug-14	2,077	28	206,937	0.01	21	99	9,854
Sep-14	2,549	33	223,227	0.01	22	116	10,147
Oct-14	2,399	32	237,027	0.01	22	109	10,774
Nov-14	2,023	21	212,340	0.01	20	101	10,617
Dec-14	2,280	32	260,441	0.01	20	114	13,022
Jan-15	2,167	28	210,940	0.01	21	103	10,362
Feb-15	1,870	26	297,018	0.01	20	93	14,851
Mar-15	2,414	32	258,357	0.01	22	109	11,743
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

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 23.1 percent from 32,074 transaction messages in April 2015 to 39,486 transaction messages in May 2015. Compared with April 2014, MT 102 messages increased by 92.2 percent from 20,543 transaction messages to 39,486 transaction messages in May 2015.

Single third party Message Type (MT 103) used for single credit transfers decreased by 2.9 percent from 254,422 transaction messages to 247,003 transaction messages in the same period. MT 103 messages increased by 12.8 percent from 218,936 transaction messages to 247,003 transaction messages.

Overall, total third party messages through KEPSS decreased by 0.002 percent from 286,496 transaction messages in April 2015 to 286,489 transaction messages in May 2015. (Table 5.4 and Chart 5C).

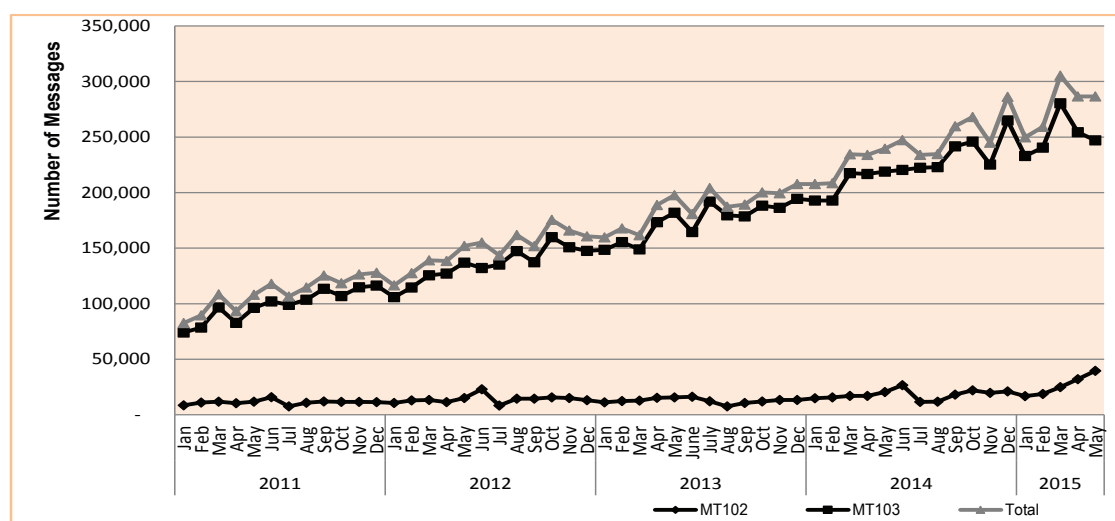
Inter-bank transfers (MT 202) accounted for 43 percent of the total value moved through KEPSS as at end of April 2015, while third party (MT 102 and MT 103) messages accounted for 57 percent.

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

		MT102	MT103	Total
2013	Jan	11,267	148,497	159,764
	Feb	12,405	155,349	167,754
	Mar	12,681	148,954	161,635
	Apr	15,247	173,453	188,700
	May	15,690	181,934	197,624
	Jun	16,254	164,422	180,676
	Jul	12,189	191,864	204,053
	Aug	7,530	179,629	187,159
	Sep	10,655	178,480	189,135
	Oct	12,087	188,162	200,249
	Nov	13,265	186,194	199,459
	Dec	13,328	194,427	207,755
2014	Jan	14,858	192,905	207,763
	Feb	15,596	192,858	208,454
	Mar	16,935	217,572	234,507
	Apr	17,019	216,820	233,839
	May	20,543	218,936	239,479
	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	259,724
	Mar	24,952	280,360	305,312
	Apr	32,074	254,422	286,496
	May	39,486	247,003	286,489

Source: Central Bank of Kenya

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

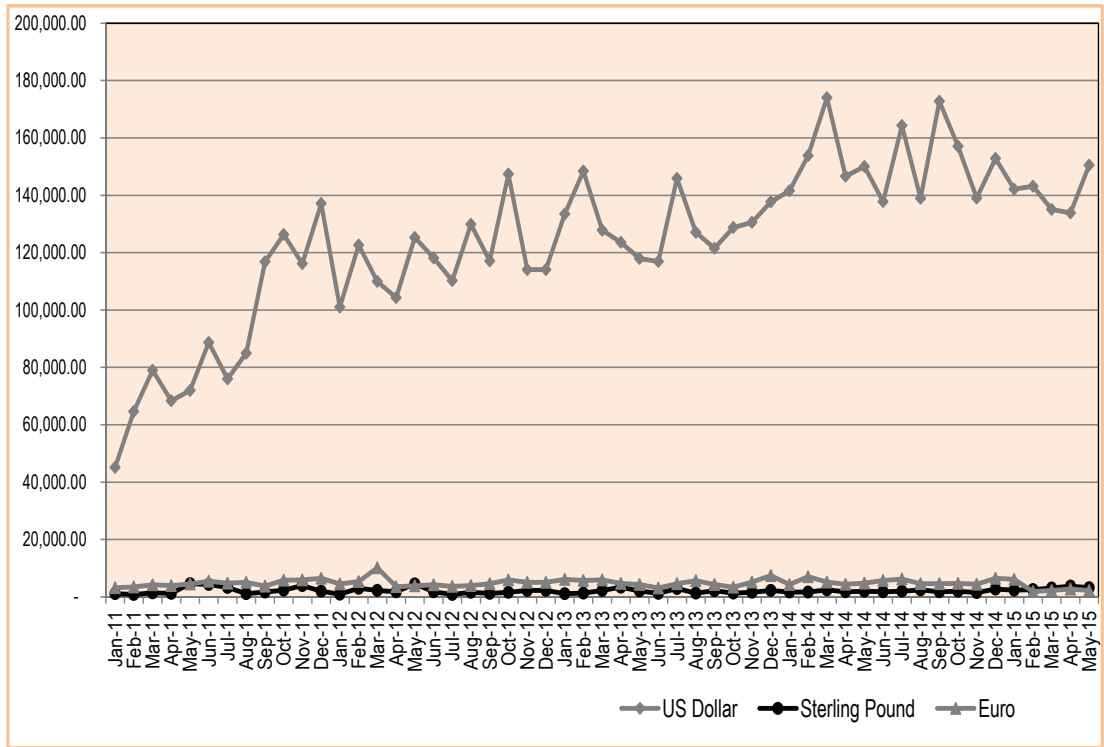


Source: Central Bank of Kenya

**Domestic Foreign Currency**

Domestic Foreign Currency messages through KEPSS increased by 7.9 percent from 17,665 transaction messages in April 2015 to 19,061 transaction messages in May 2015. Consequently, the corresponding value in Kenya Shillings equivalent moved in this period increased by 11.4 percent from KSh 140.0 billion to KSh 155.9 billion. The US dollar denominated transactions accounted for 96.5 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 2.0 percent, respectively.

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



Source: Central Bank of Kenya

## GOVERNMENT BUDGET PERFORMANCE

The Government's budgetary operations during the first eleven months of FY 2014/15 resulted in a deficit of KSh 365.3 billion (6.8 percent of GDP) on both commitment and cash basis compared with a deficit of KSh 233.6 billion (4.4 percent of GDP) incurred in the same period of the FY 2013/14. This was higher than the KSh 350 billion (6.5 percent of GDP) programmed target for the period and reflects front-loading, and a higher than projected absorption, of development budget allocation to the Standard Gauge Railway project and a slower pace of revenue mobilization.

Total government revenues and grants amounted to KSh 982.3 billion during the first eleven months of the FY 2014/15, representing an increase of KSh 101.5 billion (or 11.5 percent) from KSh 880.8 billion mobilized during a similar period of the FY 2013/14 (Table 6.2). Tax revenues accounted for 89.7 percent of the total revenue realized during the review period. All revenues by category performed below targets, specifically; receipts from tax revenue, non-tax revenue, external grants and appropriations-in-aid were below target by KSh 56.9 billion, KSh 0.1 billion, KSh 30.8 billion and KSh 38.8 billion, respectively, during the period under review (Table 6.1).

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

	FY 2013/14	FY 2014/15		
	May Actual	May Provisional	Target	Over (+) / below (-) Target
<b>1. TOTAL REVENUE &amp; GRANTS</b>	<b>880.8</b>	<b>982.3</b>	<b>1108.9</b>	<b>-126.6</b>
<b>Revenue</b>	<b>860.2</b>	<b>958.8</b>	<b>1054.5</b>	<b>-95.8</b>
Tax Revenue	783.1	881.0	937.9	-56.9
Non Tax Revenue	49.8	30.3	30.5	-0.1
Appropriations-in-Aid	27.2	47.4	86.2	-38.8
External Grants	20.6	23.5	54.4	-30.8
<b>2. TOTAL EXPENSES &amp; NET LENDING</b>	<b>1114.3</b>	<b>1347.6</b>	<b>1458.9</b>	<b>-111.2</b>
Recurrent Expenses	712.5	747.0	798.2	-51.2
Development Expenses	241.9	420.1	447.0	-26.9
County Transfers	159.9	180.5	208.7	-28.2
Others	-233.6	9.0	5.0	-5.0
<b>3. DEFICIT ON A COMMITMENT BASIS (1-2)</b>	<b>-233.6</b>	<b>-365.3</b>	<b>-360.0</b>	<b>-15.4</b>
As percent of GDP	-4.4	-6.8	-6.5	-0.3
<b>4. ADJUSTMENT TO CASH BASIS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>5. DEFICIT ON A CASH BASIS</b>	<b>-233.6</b>	<b>-365.3</b>	<b>-360.0</b>	<b>-15.4</b>
As percent of GDP	-4.4	-6.8	-6.5	-0.3
<b>6. DISCREPANCY: Expenditure (+) / Revenue (-)</b>	<b>12.5</b>	<b>47.8</b>	<b>0.0</b>	<b>47.8</b>
<b>7. FINANCING</b>	<b>245.6</b>	<b>413.2</b>	<b>350.0</b>	<b>63.2</b>
Domestic (Net)	206.4	70.3	189.5	-119.2
External (Net)	39.2	174.7	160.5	14.2
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others(Euro Bond sale proceeds)	0.0	168.2	0.0	168.2
Financing gap	0.0	0.0	0.0	0.0

Source: National Treasury using the new re-based GDP figures as per 2015 economic survey

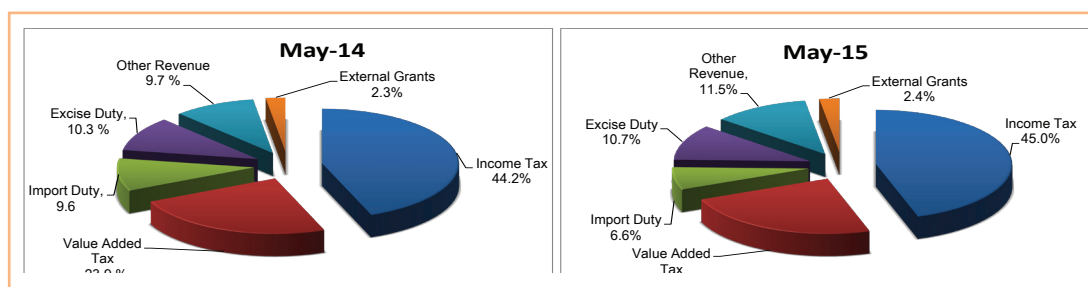
**Revenue** Tax revenue grew by KSh 97.9 billion in the first eleven months of the FY 2014/15 to KSh 881 billion from KSh 783.1 billion collected during the first eleven months of the FY 2013/14 (Table 6.2). The tax revenue components other than import duty and other revenue increased during the period under review. Meanwhile, all taxes except income tax from corporations and Value Added Tax on domestic goods and services performed below targets. The performance of Government revenue in relation to the previous year is shown in Chart 6A. The main highlights include a 300 basis points reduction in collections from import duty and 290 basis points increase in the share of other revenue

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

	May-14 Ksh bn	May-15 Ksh bn	Change
<b>1. Revenue (2+3+4)</b>	<b>860.2</b>	<b>958.8</b>	<b>98.6</b>
<b>2. Tax Revenue</b>	<b>783.1</b>	<b>881.0</b>	<b>97.9</b>
Income Tax	389.2	442.5	53.2
Value Added Tax	210.2	233.2	23.0
Import Duty	84.5	65.3	-19.2
Excise Duty	90.4	104.9	14.4
Others	8.7	35.2	26.5
<b>3. Appropriations-in-Aid</b>	<b>27.2</b>	<b>47.4</b>	<b>20.2</b>
<b>4. Other Revenue</b>	<b>49.8</b>	<b>30.3</b>	<b>-19.5</b>
<b>5. External Grants</b>	<b>20.6</b>	<b>23.5</b>	<b>2.9</b>
<b>TOTAL RECEIPTS (1+5)</b>	<b>880.8</b>	<b>982.3</b>	<b>101.5</b>

Source: National Treasury

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



Source: National Treasury

**Expenditure and Net Lending**

Government expenditure and net lending increased by KSh 233.3 billion during the first eleven months of the FY 2014/15 to KSh 1,347.6 from KSh 1,114.3 billion expended during the same period in the FY 2013/14. Total expenditure during this period comprised KSh 747 billion (55.4 percent) recurrent expenditure, KSh 420.1 billion (31.2 percent) development expenditure and KSh 180.5 billion (13.4 percent) county transfers.

Recurrent expenditure increased by KSh 34.5 billion over a comparable period in the previous fiscal year but was below target by KSh 51.2 billion. In terms of its components, other recurrent expenditures accounted for KSh 37.8 billion increase while foreign interest payment accounted for KSh 11.8 billion. Development expenditure increased by KSh 178.2 billion which trailed the programmed target by KSh 26.9 billion. County transfers increased by KSh 20.6 billion from KSh 159.9 billion in a similar period of the previous fiscal year but was below target by KSh 28.2 billion (Tables 6.1 and 6.3). The higher than projected absorption in the development budget is explained by the accelerated financing of the Standard Gauge Railway project.

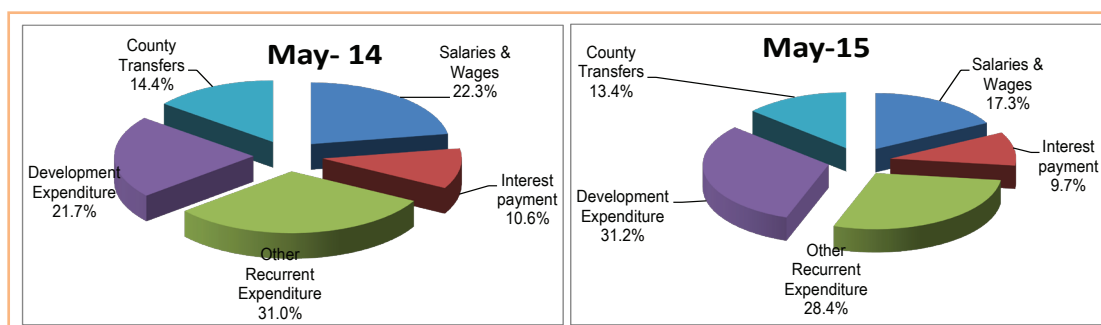
**TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)**

	May-14 Ksh bn	May-15 Ksh bn	Movement
<b>1. Recurrent</b>	<b>712.5</b>	<b>747.0</b>	<b>34.5</b>
Salaries & Wages	249.0	232.8	-16.2
Total Interest	118.2	131.1	12.9
of which			
Domestic*	108.7	109.8	1.1
Foreign interest due	9.5	21.3	11.8
Others	345.3	383.1	37.8
<b>2. Development</b>	<b>241.9</b>	<b>420.1</b>	<b>178.2</b>
<b>3. County Transfers</b>	<b>159.9</b>	<b>180.5</b>	<b>20.6</b>
<b>TOTAL EXPENSES</b>	<b>1114.3</b>	<b>1347.6</b>	<b>233.3</b>

\*Includes commission and other charges paid to CBK

The performance of Government expenditure in relation to the previous year is indicated in Chart 6B. The main highlights include the 950 basis points increase in development expenditure and 500 basis points reduction in the share of expenses on salaries and wages.

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



Source: National Treasury

### Financing

The financing requirements of Government operations increased to KSh 470.8 billion in the first eleven months of the FY 2014/15 from KSh 245.6 billion in the same period of the FY 2013/14. The Government sourced the funds through net external borrowing of KSh 174.7 billion; Euro Bond proceeds of KSh 168.2 billion and additional domestic borrowing of KSh 125.8 billion. The funds were allocated to bridge the Government budgetary deficit of KSh 413.2 billion and repayment of government debt owed to the Central Bank by KSh 16.6 billion. The Government also accumulated deposits amounting to KSh 41.1 billion at the Central Bank (Table 6.4).

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

I. FINANCING REQUIREMENTS	May-14	May-15
1. Budget deficit	245.6	413.2
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	16.6
3.1 Central Bank (incl. items in transit)	0.0	16.6
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	41.1
<b>TOTAL</b>	<b>245.6</b>	<b>470.8</b>
II. FINANCING SOURCES	May-14	May-15
1. Budget surplus	0.0	0.0
2. External debt increase	39.2	174.7
3. Increase in domestic debt	172.1	125.8
3.1 Central Bank	31.7	0.0
3.2 Commercial banks	44.2	108.5
3.3 Non-bank sources	96.3	17.3
4. Reduction in GoK deposits at CBK	33.7	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
7. Domestic Loan Repayments	0.5	2.2
6. Others ( Euro Bond sale proceeds)	0.0	168.2
<b>TOTAL</b>	<b>245.6</b>	<b>470.8</b>

Sources: National Treasury and Central Bank of Kenya

### Government Borrowing from the Central Bank

The Government debt at the Central Bank declined by KSh 19.6 billion to KSh 48.5 billion during the period under review, compared to KSh 68.1 billion owed in the eleven months in FY 2013/2014. The decrease in Government's liability to the Central Bank reflected KSh 0.4 billion maturity of rediscounted securities held by the Bank. In addition, the Government repaid KSh 1.1 billion through the regular amortization of the pre-1997 securitized overdraft. Government borrowing through overdraft facility at the Central Bank declined by KSh 18 billion during the period under review and remained within the statutory limit (Table 6.5).



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

	2014	2015	Movement
	May	May	
<b>Total Credit</b>	<b>68.1</b>	<b>48.5</b>	<b>-19.6</b>
1. Overdraft	39.1	21.1	-18.0
2. Rediscounted securities	0.6	0.2	-0.4
Treasury bills	0.5	0.1	-0.4
Treasury bonds	0.0	0.1	0.0
3. Pre-1997 Government Overdraft at CBK	28.3	27.2	-1.1
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.0	0.0	0.0
<b>Memorandum</b>			
Authorised overdraft limit	39.1	39.1	0.0
Amount utilised to date	39.1	21.1	-18.0
Amount available	0.0	18.0	18.0

Source: Central Bank of Kenya

**Outlook for FY 2014/15** In the revised budget estimates for the FY 2014/15, ordinary revenue is estimated at KSh 1,070.5 billion (20 percent of GDP) while external grants are estimated at KSh 66.4 billion (1.2 percent of GDP). Government expenditure is estimated at KSh 1,821.8 billion (34 percent of GDP), of which, KSh 940.5 billion (17.6 percent of GDP) will be in recurrent expenses, transfer to the county governments at KSh 229.3 billion, and development expenses at KSh 647 billion (Table 6.6).

**TABLE 6.6: BUDGET ESTIMATES FOR THE FISCAL YEAR 2014/15 (Ksh Billion)**

	Ksh (Bn)	% of GDP
<b>1. TOTAL REVENUE</b>	<b>1236.9</b>	<b>23.1</b>
Ordinary Revenue	1070.5	20.0
Appropriations-in-Aid	100.0	1.9
External Grants	66.4	1.2
<b>2. TOTAL EXPENSES &amp; NET LENDING</b>	<b>1821.8</b>	<b>34.0</b>
Recurrent Expenses	940.5	17.6
Development Expenses	647.0	12.1
County Transfer	229.3	4.3
Contingency Fund	5.0	0.1
<b>3. DEFICIT ON A COMMITMENT BASIS (1-2)</b>	<b>-584.9</b>	<b>-10.9</b>
<b>4. ADJUSTMENT TO CASH BASIS</b>	<b>0.0</b>	<b>0.0</b>
<b>5. DEFICIT ON A CASH BASIS</b>	<b>-584.9</b>	<b>-10.9</b>
<b>6. DISCREPANCY: Expenditure (+) / Revenue (-)</b>	<b>0.0</b>	<b>0.0</b>
<b>7. FINANCING</b>	<b>584.9</b>	<b>10.9</b>
Domestic (Net)	182.3	3.4
External (Net)	402.6	7.5

Source: National Treasury using the new re-based GDP figures as per 2015 economic survey

The revised overall budget deficit including grants on commitment basis is therefore estimated at KSh 584.9 billion (10.9 percent of GDP) in 2014/15. The deficit is expected to be financed through net external borrowing of KSh 402.6 billion and net domestic borrowing of KSh 182.3 billion.

## DEVELOPMENTS IN PUBLIC DEBT

**Overall Debt** Kenya's public and publicly guaranteed debt increased by KSh 419.4 billion to reach KSh 2,789.6 billion in May 2015, from KSh 2,370.2 billion in June 2014. The total debt stock at the end of May 2015 was equivalent to 52.1 percent of GDP, compared with 50.1 percent of GDP in June 2014. External debt to GDP ratio increased from 23.0 percent in June 2014 to 25.8 percent in May 2014, whereas domestic debt to GDP ratio declined slightly from 27.1 percent to 26.3 percent over the same review period (Table 7.1).

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

	Jun-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Change 2014/15
<b>EXTERNAL</b>								
Bilateral	289.9	287.2	387.0	383.9	384.6	397.1	426.3	136.4
Multilateral	597.3	612.4	606.1	640.4	618.5	648.3	664.2	66.8
Commercial Banks	182.2	255.2	257.8	257.0	259.7	265.5	274.4	92.2
Supplier Credits	16.5	16.0	15.6	15.4	15.3	15.9	16.3	-0.2
<b>Sub-Total</b>	<b>1085.9</b>	<b>1170.7</b>	<b>1266.4</b>	<b>1296.7</b>	<b>1278.1</b>	<b>1326.8</b>	<b>1381.2</b>	<b>295.2</b>
(As a % of GDP)	23.0	21.9	23.6	24.2	23.9	24.8	25.8	
(As a % of total debt)	45.8	47.2	48.7	48.9	47.8	48.4	49.5	
<b>DOMESTIC</b>								
<b>Banks</b>	<b>682.8</b>	<b>708.0</b>	<b>720.3</b>	<b>747.6</b>	<b>779.8</b>	<b>800.3</b>	<b>788.1</b>	<b>105.3</b>
Central Bank	65.7	58.3	54.9	61.6	64.8	57.2	48.5	-17.2
Commercial Banks	617.1	649.7	665.5	686.0	715.0	743.1	739.5	122.4
<b>Non-banks</b>	<b>586.5</b>	<b>585.9</b>	<b>600.4</b>	<b>591.0</b>	<b>604.4</b>	<b>602.7</b>	<b>607.9</b>	<b>21.4</b>
Pension Funds	322.9	310.6	319.5	341.3	348.1	346.5	350.1	27.3
Insurance Companies	121.0	129.3	130.3	126.6	125.2	125.1	124.8	3.8
Other Non-bank Sources	142.6	146.1	150.5	123.1	131.2	131.0	133.0	-9.6
<b>Non-residents</b>	<b>14.9</b>	<b>13.8</b>	<b>13.9</b>	<b>14.6</b>	<b>12.9</b>	<b>12.4</b>	<b>12.4</b>	<b>-2.5</b>
<b>Sub-Total</b>	<b>1284.2</b>	<b>1307.7</b>	<b>1334.6</b>	<b>1353.3</b>	<b>1397.1</b>	<b>1415.4</b>	<b>1408.4</b>	<b>124.2</b>
(As a % of GDP)	27.1	24.4	24.9	25.3	26.1	26.4	26.3	
(As a % of total debt)	54.2	52.8	51.3	51.1	52.2	51.6	50.5	
<b>GRAND TOTAL</b>	<b>2370.2</b>	<b>2478.4</b>	<b>2601.1</b>	<b>2650.1</b>	<b>2675.2</b>	<b>2742.3</b>	<b>2789.6</b>	<b>419.4</b>
(As a % of GDP)	50.1	46.3	48.5	49.5	49.9	51.2	52.1	

Computed using the re-based GDP figures

Sources: National Treasury and Central Bank of Kenya

**Domestic Debt** The total stock of domestic debt increased by KSh 124.2 billion during the first eleven months of the FY 2014/15 to KSh 1,408.4 billion in May 2015 from KSh 1,284.2 billion in June 2014. Reflecting this increase, is the share of domestic debt to GDP that rose to 26.3 percent in May 2015 from 24.0 percent in June 2014. The domestic debt build up comprised increases of KSh 108.2 billion increase in government Treasury Bonds and KSh 34.8 billion in Treasury Bills. However, the share of domestic debt in total debt declined from 54.2 percent in June 2014 to 50.5 percent in May 2015 (Table 7.1).

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

	2014		2015										Change Jun 14 - May 15
	June	%	Jan	%	Feb	%	Mar	%	Apr	%	May	%	
<b>Total Stock of Domestic Debt (A+B)</b>	<b>1,284.2</b>	<b>100.0</b>	<b>1,334.6</b>	<b>100.0</b>	<b>1,353.3</b>	<b>100.0</b>	<b>1,397.1</b>	<b>100.0</b>	<b>1,415.4</b>	<b>100.0</b>	<b>1,408.4</b>	<b>100.0</b>	<b>124.2</b>
<b>A. Government Securities</b>	<b>1,242.4</b>	<b>96.7</b>	<b>1,303.6</b>	<b>97.7</b>	<b>1,316.3</b>	<b>97.3</b>	<b>1,357.0</b>	<b>97.1</b>	<b>1,383.4</b>	<b>97.7</b>	<b>1,384.3</b>	<b>98.3</b>	<b>141.9</b>
<b>1. Treasury Bills (excluding Repo Bills)</b>	<b>299.4</b>	<b>23.3</b>	<b>299.3</b>	<b>22.4</b>	<b>308.1</b>	<b>22.8</b>	<b>342.3</b>	<b>24.5</b>	<b>347.0</b>	<b>24.5</b>	<b>334.2</b>	<b>23.7</b>	<b>34.8</b>
Banking institutions	176.5	13.7	195.7	14.7	208.1	15.4	236.9	17.0	246.9	17.4	232.6	16.5	56.2
Others	123.0	9.6	103.6	7.8	100.1	7.4	105.4	7.5	100.1	7.1	101.5	7.2	(21.4)
<b>2. Treasury Bonds</b>	<b>914.8</b>	<b>71.2</b>	<b>977.1</b>	<b>73.2</b>	<b>981.0</b>	<b>72.5</b>	<b>987.5</b>	<b>70.7</b>	<b>1,009.2</b>	<b>71.3</b>	<b>1,022.9</b>	<b>72.6</b>	<b>108.2</b>
Banking institutions	436.4	34.0	467.0	35.0	475.5	35.1	475.8	34.1	494.3	34.9	504.9	35.8	68.5
Pension Funds	247.5	19.3	271.5	20.3	295.5	21.8	348.1	24.9	346.5	24.5	350.1	24.9	102.7
Others	230.9	18.0	238.6	17.9	210.0	15.5	163.7	11.7	168.4	11.9	167.9	11.9	(63.0)
<b>4. Non-Interest Bearing Debt</b>	<b>28.3</b>	<b>2.2</b>	<b>27.2</b>	<b>2.0</b>	<b>27.2</b>	<b>2.0</b>	<b>27.2</b>	<b>1.9</b>	<b>27.2</b>	<b>1.9</b>	<b>27.2</b>	<b>1.9</b>	<b>(1.0)</b>
Of which: Repo T/Bills	28.3	2.2	27.2	2.0	27.2	2.0	27.2	1.9	27.2	1.9	27.2	1.9	(1.1)
<b>B. Others:</b>	<b>41.8</b>	<b>3.3</b>	<b>31.0</b>	<b>2.3</b>	<b>37.0</b>	<b>2.7</b>	<b>40.1</b>	<b>2.9</b>	<b>32.1</b>	<b>2.3</b>	<b>24.1</b>	<b>1.7</b>	<b>(17.7)</b>
Of which CBK overdraft to Government	37.2	2.9	27.5	2.1	34.2	2.5	37.4	2.7	29.8	2.1	21.1	1.5	(16.1)

Source: Central Bank of Kenya

### Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations increased by KSh 34.8 billion from KSh 299.4 billion in June 2014 to KSh 334.2 billion in May 2015 (Table 7.2). The proportion of Treasury bills to total domestic debt increased to 23.7 percent in May 2015 from 23.3 percent in June 2014. The dominant investors were commercial banks (with a share of 69.6 percent) and pension funds (that accounted for 12.9 percent) by May 2015 (Table 7.3).

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

Holders	%	2015										Change Jun 14 - May 15				
		Nov	%	Dec	%	Jan	%	Feb	%	Mar	%		Apr	%	May	%
Banking Institutions	61.1	196.1	64.9	191.1	65.6	196.2	65.6	208.1	67.6	236.9	69.2	246.9	71.2	232.5	69.6	56.1
Central Bank	0.5	1.4	0.5	0.1	0.0	0.6	0.2	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1
Comm. Banks	60.6	194.7	64.5	191.1	65.6	195.6	65.4	208.1	67.5	236.8	69.2	246.8	71.1	232.5	69.6	56.1
Insurance Companies	8.5	24.5	8.1	24.7	8.5	23.8	8.0	22.5	7.3	22.5	6.6	21.0	6.1	20.0	6.0	0.1
Parastatals	1.3	3.6074	1.2	3.6178	1.2	4.0	1.3	5.6	1.8	7.8	2.3	44.5	12.8	46.6	14.0	42.4
Pension Funds	21.7	56.4	18.7	48.0	16.5	48.0	16.1	45.8	14.9	48.9	14.3	42.5	12.3	43.0	12.9	-24.8
Others	7.4	21.4	7.1	23.9	8.2	27.2	9.1	26.1	8.5	26.2	7.7	-8.0	-2.3	-8.0	-2.4	-39.1
<b>Total</b>	<b>100.0</b>	<b>302.0</b>	<b>100.0</b>	<b>291.4</b>	<b>100.0</b>	<b>299.3</b>	<b>100.0</b>	<b>308.1</b>	<b>100.0</b>	<b>342.3</b>	<b>100.0</b>	<b>347.0</b>	<b>100.0</b>	<b>334.2</b>	<b>100.0</b>	<b>34.8</b>

Source: Central Bank of Kenya

### Treasury Bonds

Outstanding Treasury bonds increased by KSh 108.2 billion, from KSh 914.8 billion in June 2014 to KSh 1,022.9 billion in May 2015, and bond's share in domestic debt increased from 71.2 percent in June 2014 to 72.6 percent in May 2015 (Table 7.2). The holding of Treasury bonds by dominant investors comprised KSh 556.4 billion, KSh 307.1 billion and KSh 104.8 billion absorbed by commercial banks, pension funds and insurance companies, respectively. The holdings by pension funds increased from 27.1 percent to 30.0 percent while insurance companies' share declined from 11.1 percent to 10.2 percent during the period under review. The proportion held by parastatals, commercial banks and the Central Bank of Kenya recorded marginal movement (Table 7.4).

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

Holders	June		Feb		Mar		Apr		May		Change Jun 14 - May 15
		%		%		%		%		%	
Banking Institutions	436.4	47.7	475.5	48.5	475.8	48.2	494.3	49.0	556.4	54.4	120.0
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	51.5	5.0	51.5
Comm. Banks	436.3	47.7	475.5	48.5	475.8	48.2	494.3	49.0	504.9	49.4	68.6
NBFIs	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.0
Insurance Companies	101.2	11.1	104.1	10.6	103.7	10.5	104.1	10.3	104.8	10.2	3.6
Parastatals	34.4	3.8	33.8	3.4	35.1	3.6	34.7	3.4	33.6	3.3	-0.8
Of which: NSSF	16.2	1.8	14.8	1.5	14.8	1.5	14.6	1.4	13.6	1.3	-2.6
Building Societies	0.5	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	-0.3
Pension Funds	247.5	27.1	341.3	34.8	348.1	35.2	304.0	30.1	307.1	30.0	59.6
Others	94.7	10.3	26.0	2.7	24.5	2.5	71.8	7.1	20.7	2.0	-74.0
<b>Total</b>	<b>914.8</b>	<b>100.0</b>	<b>981.0</b>	<b>100.0</b>	<b>987.5</b>	<b>100.0</b>	<b>1009.2</b>	<b>100.0</b>	<b>1022.9</b>	<b>100.0</b>	<b>108.2</b>

Source: Central Bank of Kenya

**Domestic Debt Maturity structure** Total domestic debt as at May 2015 amounted to KSh 1,408.4 billion. Government securities worth KSh 38.6 billion matured in May 2015, comprising KSh 6.2 billion, KSh 9.5 billion and KSh 10.9 billion in 91-day, 182-day and 364-day Treasury bills, respectively. Treasury bonds worth KSh 11.9 billion matured in May 2015.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2014		2015						Change Jun 14 to May 15		
		Jun	%	Feb	%	Mar	%	Apr	%		May	%
Treasury bills	91-Day	54.7	4.3	22.0	1.6	25.8	1.8	22.8	1.6	21.7	1.5	-31.9
	182-Day	88.9	6.9	54.9	4.1	75.7	5.4	87.4	6.2	80.5	5.7	-1.6
	364-Day	155.8	12.1	231.2	17.1	240.8	17.2	236.8	16.7	231.9	16.5	81.0
Treasury Bonds	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	166.7	13.0	135.7	10.0	115.8	8.3	154.4	10.9	115.8	8.2	-12.3
	3-Year	0.0	0.0	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	1.6	21.4	1.5	29.9	2.1	21.4	1.5	0.0
	5-Year	175.3	13.6	183.7	13.6	183.7	13.2	158.9	11.2	171.8	12.2	-16.4
	6-Year	40.7	3.2	40.7	3.0	40.7	2.9	40.7	2.9	40.7	2.9	0.0
	7-Year	17.0	1.3	8.7	0.6	8.7	0.6	17.0	1.2	8.7	0.6	0.0
	8-Year	40.9	3.2	38.2	2.8	38.2	2.7	40.9	2.9	38.2	2.7	0.0
	9-Year	18.2	1.4	18.2	1.3	18.2	1.3	18.2	1.3	15.1	1.1	0.0
	10-Year	131.1	10.2	158.6	11.7	158.6	11.4	131.1	9.3	158.6	11.3	0.0
	11-Year	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	0.0
	12-Year	45.4	3.5	80.9	6.0	107.4	7.7	45.4	3.2	132.1	9.4	0.0
	15-Year	142.9	11.1	168.2	12.4	168.2	12.0	142.9	10.1	168.2	11.9	0.0
20-Year	60.5	4.7	74.3	5.5	74.3	5.3	49.0	3.5	74.3	5.3	-11.4	
25-Year	20.2	1.6	20.2	1.5	20.2	1.4	20.2	1.4	20.2	1.4	0.0	
30-Year	22.1	1.7	28.1	2.1	28.1	2.0	22.1	1.6	28.1	2.0	0.0	
Other Domestic debt	Repo T bills	28.3	2.2	27.2	2.0	27.2	1.9	27.2	1.9	27.2	1.9	-1.1
	Overdraft	39.1	3.0	34.2	2.5	37.4	2.7	29.8	2.1	21.1	1.5	-9.4
	Other Domestic debt	2.76	0.22	2.8	0.2	2.8	0.2	136.9	9.7	28.8	2.0	134.1
<b>Total Debt</b>		<b>1,284.3</b>	<b>100.0</b>	<b>1,353.3</b>	<b>100.0</b>	<b>1,397.1</b>	<b>100.0</b>	<b>1,415.4</b>	<b>100.0</b>	<b>1,408.4</b>	<b>100.0</b>	<b>131.1</b>

Source: Central Bank of Kenya

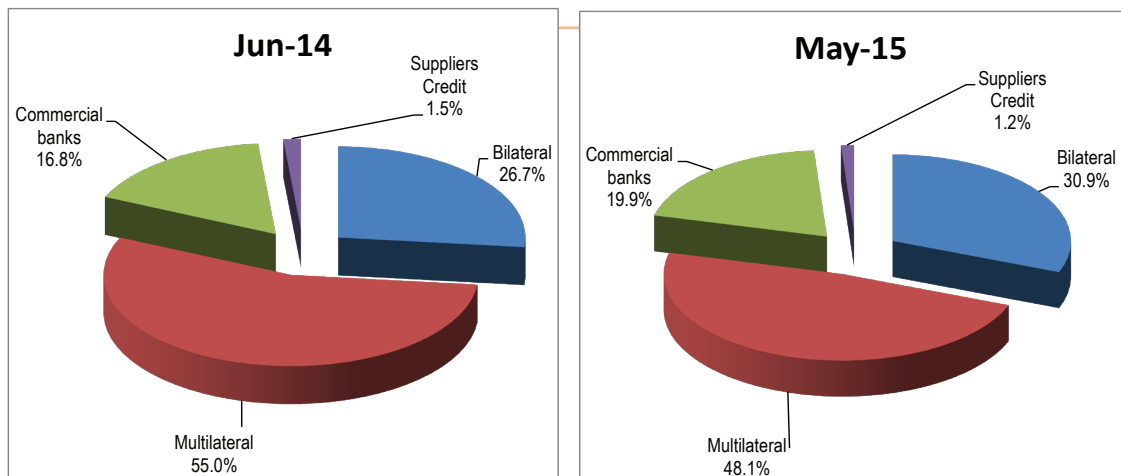
The average length of maturity of existing domestic debt rose to 5 years and 2 months in May 2015 from 4 years and 10 months in June 2014, as the Central Bank issued and re-opened longer dated securities.

**External Debt**

Kenya's public and publicly guaranteed external debt increased by KSh 295.2 billion to KSh 1,381.2 billion in May 2015, from KSh 1,085.9 billion in June 2014 (Table 7.1). The central government stake amounted to KSh 1,337.6 billion or 96.8 percent with the balance government guarantee to parastatals. The African Development Bank (ADB) and the International Development Association (IDA) collectively accounted for KSh 8.1 billion of the increase in multilateral debt, while China accounted for KSh 2.1 billion of the increase in bilateral debt. Japan's contribution to the bilateral debt reduced by KSh 0.2 billion, during the period under review. The growth in external debt during this period was largely attributed to exchange rate revaluation.

**Composition of External Debt by Creditor**

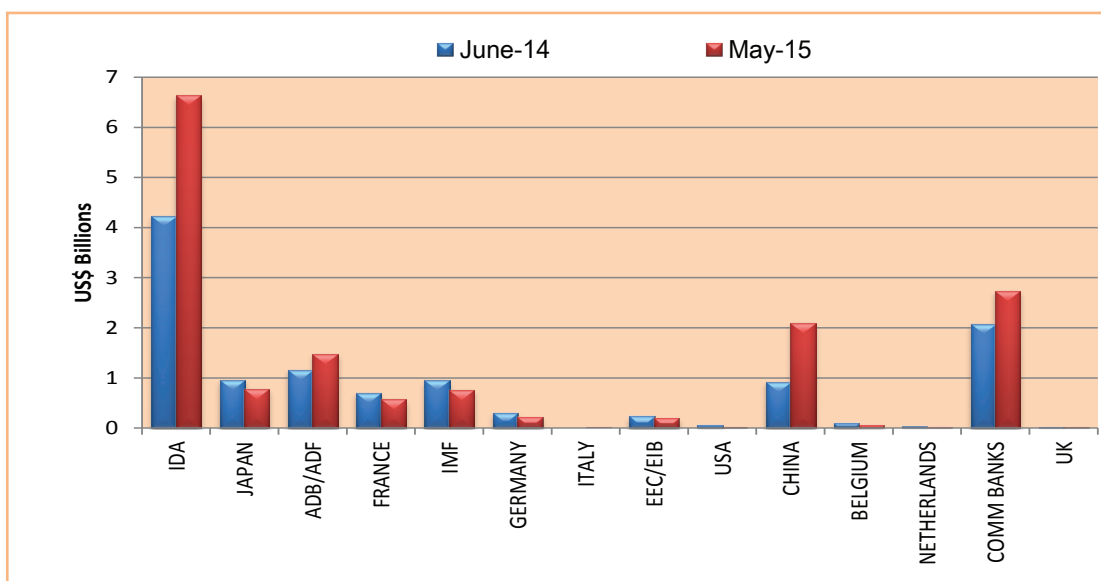
Official debt to multilateral and bilateral lenders accounted for 79.0 percent of total public and publicly guaranteed debt by May 2015. The proportion of external debt owed to commercial banks increased from 16.8 percent in June 2014 to 19.9 percent in May 2015, while that owed to bilateral lenders increased from 26.7 percent in June 2014 to 30.9 percent in May 2015. The share of external debt owed to multilateral lenders declined from 55.0 percent in June 2014 to 48.1 percent in May 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 6.6 billion or 48.1 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender, amounted to USD 0.8 billion, or 5.7 percent of the total external debt as at the end of May 2015 (Chart 7B).

CHART 7B: EXTERNAL DEBT BY CREDITOR

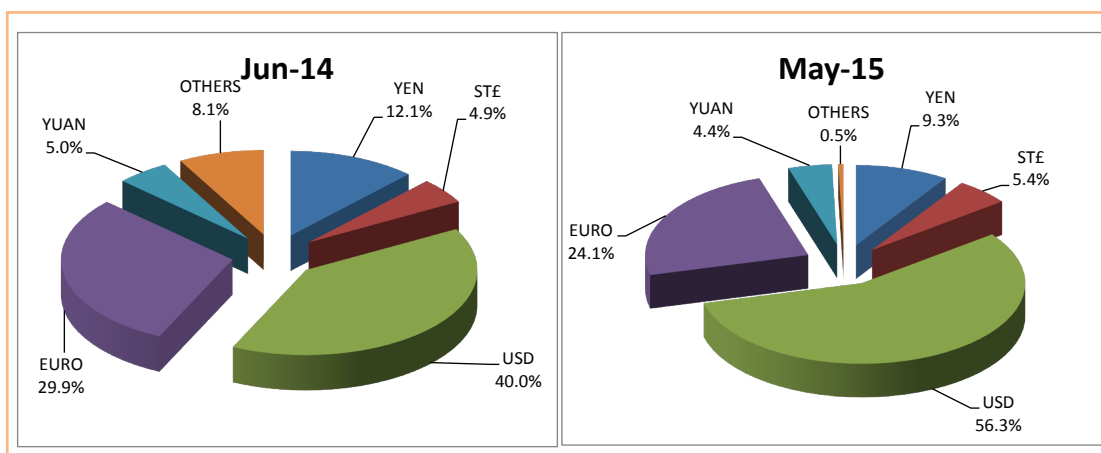


Source: National Treasury

**Currency Composition of External Debt**

The proportion of external debt denominated in the US dollar increased from 40 percent in June 2014 to 56.3 percent in May 2015, while that denominated in Japanese Yen and Euro declined from 12.1 percent and 29.9 percent, respectively, to 9.3 percent and 24.1 percent during the period under review (Chart 7C). The rise in the US dollar denominated component is attributed to the proceeds from the December 2014. Tap sale of the Sovereign bond first issued in June 2014.

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: National Treasury

- 
- Public Debt Service** Cumulative interest and other charges on domestic debt for the first eleven months of FY 2014/15 amounted to KSh 109.8 billion compared with KSh 108.8 billion during a similar period of the FY 2013/14. The expenditure in the current period comprised interest and other charges on Treasury bills and Treasury bonds amounting to KSh 25.0 billion and KSh 82.2 billion, respectively. In addition, collective interest on Government overdraft and the Pre-97 overdraft amounted to KSh 2.5 billion. External debt service amounted to KSh 1.9 billion, comprising KSh 0.9 billion in principal repayments and KSh 1.0 billion in interest payments.
- Outlook for FY 2014/15** Total public and publicly guaranteed external debt is estimated at KSh 1,195.7 billion (25.8 percent of GDP), of which gross and net domestic debt amount to KSh1,274.7 billion (27.5 percent of GDP) and KSh 1,213.4 billion (26.2 percent of GDP), respectively.



## ACTIVITY IN THE STOCK MARKET

**Equity Market** The Equities segment at the NSE recorded in May 2015 a decline in all indicators except volume traded and foreign investors' activities. The Bonds Market Turnover was also down by 11.96 percent. Foreign investors' sales exceeded the purchases, reflecting a net outflow for the fourth consecutive month in 2015.

The NSE 20 Share Index and NASI closed 303 points and 11 points lower respectively in May 2015. Shareholders' wealth at the NSE measured by market capitalization declined by KSh 89.26 billion due to the low shares prices. Equities turnover rose by 45.69 percent due to a 40.16 percent increase in volume of shares traded.

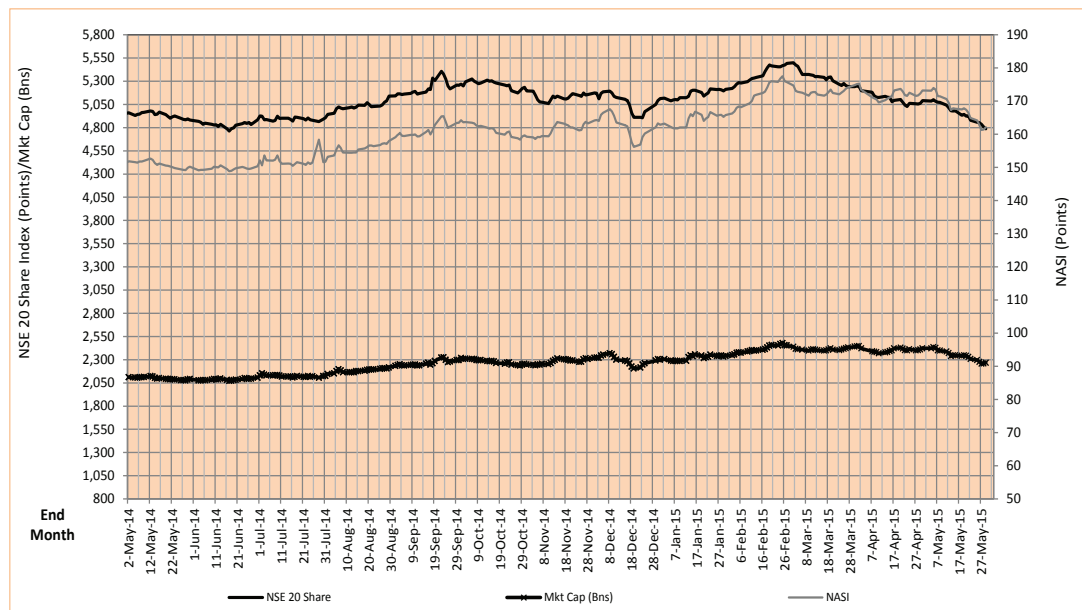
**TABLE 8.1: SELECTED STOCK MARKET INDICATORS**

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
Jan-13	4,416.60	103.50	518.71	8,464.46	1,387.81	20,999.59	59.06%	33.86%	46.46%
Feb-13	4,518.59	106.91	692.28	14,693.27	1,451.01	20,240.18	42.73%	69.45%	56.09%
Mar-13	4,860.83	117.91	571.29	11,182.65	1,599.80	25,690.98	55.92%	39.74%	47.83%
Apr-13	4,765.23	118.07	596.83	9,856.50	1,601.93	35,190.25	56.75%	26.73%	42.67%
May-13	5,006.96	126.80	867.77	16,070.53	1,720.43	73,523.70	53.22%	31.60%	42.41%
Jun-13	4,598.16	116.31	727.78	13,021.29	1,618.27	85,904.11	66.13%	46.15%	56.14%
Jul-13	4,787.56	122.86	615.90	11,205.17	1,727.83	34,170.82	65.88%	51.38%	58.63%
Aug-13	4,697.75	119.96	670.38	20,797.41	1,681.66	24,520.25	75.75%	28.44%	52.10%
Sep-13	4,793.20	127.35	488.79	10,062.50	1,790.85	29,304.17	65.89%	45.39%	55.64%
Oct-13	4,992.88	133.24	804.51	15,937.19	1,873.66	51,674.82	64.28%	47.19%	55.73%
Nov-13	5,100.88	141.17	645.20	13,128.66	1,975.00	27,310.57	48.21%	41.47%	44.84%
Dec-13	4,926.97	136.65	466.25	11,329.23	1,920.72	23,695.80	54.95%	61.04%	57.99%
Jan-14	4,856.15	134.66	638.48	15,970.23	1,898.00	42,549.39	48.28%	53.77%	51.03%
Feb-14	4,933.41	141.05	545.32	14,742.87	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%

Source: Nairobi Securities Exchange

Foreign investors' activity at the NSE was strong, with the overall net foreign participation to total equity turnover at 62.7 percent in May 2015 compared to 56.1 percent in April 2015. Purchases accounted for 57.9 percent against 67.5 percent foreign sales, implying a net outflow (Table 8.1).

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



Source: Nairobi Securities Exchange

Both the NSE 20 Share Index and NASI declined in May 2015 to levels last recorded in late 2014. Market Capitalization also declined, settling below the 2.4 trillion mark, last recorded in December 2014 (Chart 8A).

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

Telecommunication and Technology, Banking and Insurance stocks dominated trading in May 2015, accounting for 46.9 percent, 26.8 percent and 8.1 percent of all shares traded, respectively.

The FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at the NSE, closed at 215.5 points in May 2015 down from 229.9 points in April 2015. The FTSE NSE Kenya 25 Index, which measures performance of 25 most liquid stocks, was 215.3 points down from 229.8 points. The FTSE NSE Kenyan Government Bond Index rose to 92.4 points from 92.8 points, reflecting marginal decline in secondary market yields.

### Bond Market

The Bonds' turnover declined to KSh 22.3 billion in May 2015 from KSh 25.4 billion in April 2015. Corresponding deals were 472 down from 543 deals. The FXD1/2014/010 dominated trading, accounting for 13.04 percent of total bond turnover, with yields ranging from 12.2 percent to 13.0 percent, against a coupon rate of 12.2 percent. The Corporate bonds segment traded KSh 359.9 million, representing 1.6 percent of total bond turnover.

# STATEMENT OF FINANCIAL POSITION OF THE CENTRAL BANK OF KENYA

(KENYA SHILLINGS MILLION)

1.0 ASSETS	MAY 2015	JUNE 2014	INCREASE/ DECREASE	MAY 2014
1.1 BALANCES DUE FROM BANKING INSTITUTIONS AND GOLD HOLDINGS	709,172	759,650	(50,478)	576,676
1.2 FUNDS HELD WITH IMF	2,562	692	1,869	692
1.3 ITEMS IN THE COURSE OF COLLECTION	28	70	(42)	39
1.4 ADVANCES TO COMMERCIAL BANKS	91	50	41	50
1.5 LOANS AND OTHER ADVANCES	24,365	40,463	(16,098)	43,325
1.6 OTHER ASSETS	2,881	3,142	(261)	2,763
1.7 RETIREMENT BENEFIT ASSET	7,659	7,659	-	2,967
1.8 PROPERTY AND EQUIPMENT	14,039	13,811	228	12,972
1.81 INTANGIBLE ASSETS	351	639	(288)	659
1.9 DUE FROM GOVERNMENT OF KENYA	27,224	28,334	(1,110)	28,334
<b>TOTAL ASSETS</b>	<b>788,371</b>	<b>854,510</b>	<b>(66,139)</b>	<b>668,477</b>
2.0 LIABILITIES				
2.1 CURRENCY IN CIRCULATION	219,536	199,966	19,570	196,757
2.2 INVESTMENTS BY BANKS	-	-	-	20,387
2.3 DEPOSITS	333,376	448,800	(115,424)	252,979
2.4 INTERNATIONAL MONETARY FUND	125,358	130,064	(4,706)	129,874
2.5 OTHER LIABILITIES	1,181	5,097	(3,916)	1,039
2.6 PROVISIONS	157	157	-	123
<b>TOTAL LIABILITIES</b>	<b>679,607</b>	<b>784,084</b>	<b>(104,477)</b>	<b>601,159</b>
3.0 EQUITY AND RESERVES	108,764	70,426	38,338	67,318
Share Capital	5,000	5,000	-	5,000
General reserve fund	48,914	48,914	-	39,044
Period surplus	38,338	-	38,338	14,375
Asset Revaluation	8,853	8,853	-	8,899
Retirement Benefit Asset Reserves	7,659	7,659	-	-
Dividends payable	-	-	-	-
<b>4.0 TOTAL LIABILITIES AND EQUITY</b>	<b>788,371</b>	<b>854,510</b>	<b>(66,139)</b>	<b>668,477</b>

Source: Central Bank of Kenya

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## NOTES ON THE FINANCIAL POSITION

**Total assets declined by 7.7 percent or Ksh 66.1 billion in the 11 months to May 2015 largely on account of balances due from bank institutions and gold holdings. The contra of this reduction was on account of foreign debt repayments on behalf of Government and sale of forex to stem volatility in the foreign exchange market.**

**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 decreased by KSh 50.5 billion to KSh 709.2 billion in May 2015 from KSh 759.7 billion in June 2014.

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 May 2015 were KSh 28 million, representing 60.2 percent recovery from KSh 70 million outstanding as at June 2014.

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 41 million (or 81 percent) to KSh 91 million in May 2015 from KSh 50.5 million in June 2014.

Loans and other advances include outstanding balances on advances to commercial banks under the Overnight Loan Facility (OLF), Government overdraft and IMF funds on-lent to Government. Following repayments amounting to KSh 16,098 million, the outstanding balance due declined to KSh 24,365 million in May 2015 from KSh 40,463 million in June 2014.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. These assets decreased by KSh 261 million to KSh 2,881 million in May 2015 from KSh 3,142 million in June 2014.

Debt due from Government of Kenya category consist of overdrawn accounts which were converted to a long term debt with effect from 1 July 1997 after an amendment to the Central Bank of Kenya Act to limit lending to Government to 5 percent of Government's audited revenue. The debt reduced to KSh 27,224 million in May 2015 from Ksh 28,334 million in June 2014.

**Liabilities** Currency in circulation increased by KSh 19,570 million (or 9.8 percent) to KSh 219,536 million in May 2015 from KSh 199,966 million in June 2014.

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Deposits liability represents deposits held by Government of Kenya, local commercial banks deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances decreased by KSh 115,424 million to KSh 333,376 million in May 2015 from KSh 448,800 million in June 2014.

Amount due to International Monetary Fund represents the Bank's obligations to the IMF. The balances decreased by KSh 4,706 million, to KSh 125,358 million in May 2015 from KSh 130,064 million in June 2014.

Other liabilities include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance decreased by KSh 3,916 million to KSh 1,181 million in May 2015 from KSh 5,097 million in June 2014.

Equity and reserves increased by KSh 38,338 million, to KSh 108,764 million in May 2015 from KSh 70,426 million in June 2014 reflecting increase in period surplus.