Central Bank of Kenya

Quarterly Economic Review

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OBJECTIVES OF THE CENTRAL BANK OF KENYA

The principal objectives of the Central Bank of Kenya (CBK) as established in the CBK Act are:

1) To formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices;
2) To foster the liquidity, solvency and proper functioning of a stable, market-based, financial system;
3) Subject to (1) and (2) above, to support the economic policy of the Government, including its objectives for growth and employment.

Without prejudice to the generality of the above, the Bank shall:

- Formulate and implement foreign exchange policy;
- Hold and manage Government foreign exchange reserves;
- License and supervise authorised foreign exchange dealers;
- Formulate and implement such policies as best promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems;
- Act as banker and adviser to, and fiscal agent of, the Government; and
- Issue currency notes and coins.

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OVERVIEW

Introduction

This is the first of the re-launched Economic Review Publication. The report will provide more detailed analysis of recent economic trends and identify underlying dynamics at play in shaping the reported outcomes. Unlike the Monthly Economic Review, this report will focus on trends in the first quarter of 2016 compared with the previous quarter. The report will be published with a three- month lag. However, its coverage will be on the recent past, which should be of more interest to our readers. We will strive to provide more recent updates depending on the availability of data. In terms of scope, the report will focus on developments in inflation, money, credit and interest rates, the real sector, balance of payments, exchange rates, banking sector, Government budgetary operations, public debt and the stock market.

Inflation

Overall inflation eased by 33 basis points to 7.02 percent in the first quarter of 2016 from 7.35 percent in the fourth quarter of 2015 reflecting a decline in food and fuel inflation.

Money Supply

Annual growth in broad money, M3, decelerated to 11.0 percent in March 2016 from 14.1 percent in December 2015.

Interest Rates

The Central Bank Policy Rate (CBR) remained unchanged at 11.5 percent in the quarter ending March 2016. Commercial bank retail interest rates and short term money market interest rates declined.

Real GDP Growth

The economy remained resilient in 2015, recording real Gross Domestic Product (GDP) growth of 5.6 percent compared to 5.3 percent growth recorded in 2014. Growth was mainly supported by stable macro-economic environment; higher public investment in the construction sector and improved performance of agriculture, financial and insurance, as well as transport and storage sectors.

Balance of Payments

Kenya's external position remained resilient despite heighted uncertainty in global markets. The current account balance improved to a deficit of 6.8 percent of GDP in 2015 from a deficit of 9.8 percent of GDP in 2014. The improvement in the current account deficit in 2015 follows the peak of aircraft imports in 2014, lower import bill for petroleum products, improved earnings from tea and horticulture exports, and diaspora remittances

Exchange Rates

The foreign exchange market remained stable supported by a narrowing current account deficit largely due to a lower import bill, improved earnings from exports and resilient inflows from diaspora remittances.

Banking Sector Developments

The banking sector registered an upward trend in performance in the first quarter of 2016. Net assets and pre-tax profits increased by 2.3 percent and 51.5 percent, respectively in the quarter ending March 2016.

Government Budgetary Developments

The Government's budgetary operations during the 9 months of the FY 2015/16 resulted in a deficit on a commitment basis equivalent to 3.4 percent of GDP, which was within the 6 percent target for the period, but higher than 1.9 percent of GDP recorded in the comparable period of the FY 2014/15.

Public Debt

Kenya's public and publicly guaranteed debt increased by 4.9 percent during the third quarter of the FY 2015/16, with domestic debt accounting for much of the increase.

Stock Market

Capital markets recorded mixed performance in the first quarter of 2016 as reflected in leading market indicators.

1. Developments in Inflation

Overview

Overall inflation eased by 33 basis points to 7.02 percent in the first quarter of 2016 from 7.35 percent in the fourth quarter of 2015 largely on account of declining food and fuel inflation (**Table 1.1**). Although elevated, food inflation declined by 119 basis points to 10.43 percent in the first quarter of 2016 compared to 11.62 percent in the fourth quarter of 2015. This decline is attributed to favourable weather conditions in the period under review. Non-food non-fuel (NFNF) inflation increased further to 5.81 percent in the first quarter of 2016 from 4.63 percent and 5.06 percent in the third and fourth quarters of 2015, respectively on account of persistent effect of excise duty tax on some alcoholic beverages and narcotics. Fuel inflation declined marginally by 14 basis points to 2.25 percent in the first quarter of 2016 compared to 2.39 percent in the fourth quarter of 2015 reflecting minimal declines in bus fares and house rents.

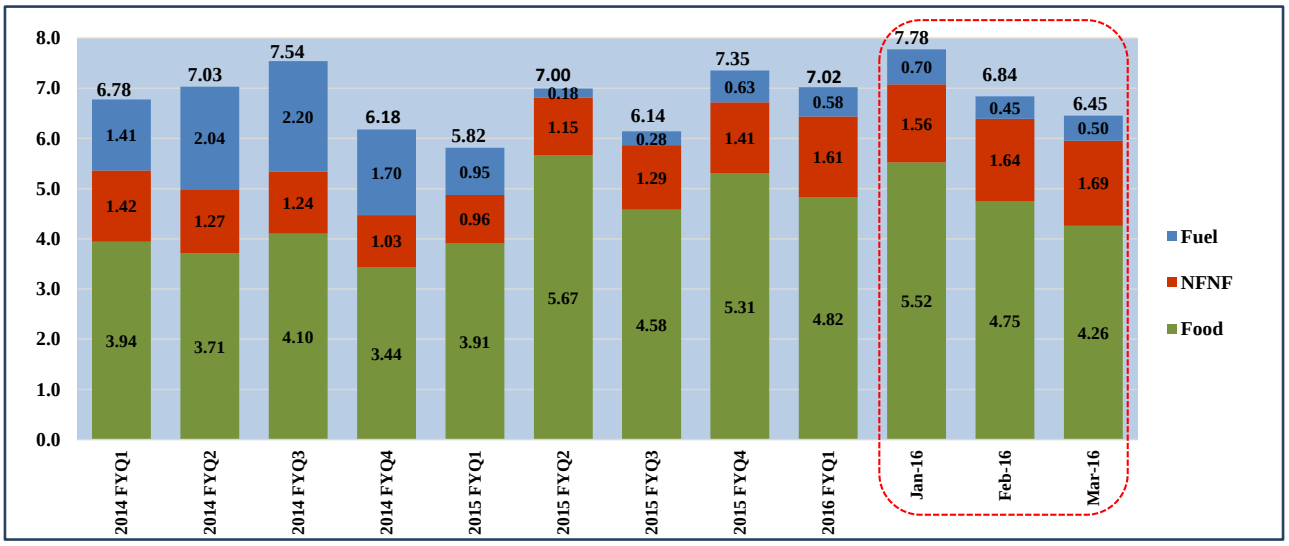
TABLE 1.1: RECENT DEVELOPMENTS IN INFLATION[1]

	2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Jan-16	Feb-16	Mar-16
Overall Quarterly inflation	6.78	7.03	7.54	6.18	5.82	6.99	6.14	7.35	7.02	7.78	6.84	6.45
Food Inflation (KNBS)	8.93	8.29	9.14	7.62	8.67	12.50	10.06	11.62	10.43	11.98	10.28	9.05
Fuel Inflation	5.26	7.70	8.29	6.46	3.57	0.68	1.04	2.39	2.25	2.88	1.72	2.14
Non-Food Non-Fuel Inflation (NFNF)	4.91	4.45	4.34	3.63	3.37	4.10	4.63	5.06	5.81	5.47	5.89	6.05
Average annual	6.20	6.83	7.24	6.98	6.66	6.66	6.39	6.44	6.84	6.77	6.87	6.88
Three months annualised	7.87	9.31	6.45	1.27	6.43	14.28	3.10	5.96	5.14	8.23	4.25	2.95

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

The contribution of food inflation to overall inflation declined to 4.82 percentage points in the first quarter of 2016 from 5.31 percentage points in the fourth quarter of 2015, largely on account of favourable weather conditions **(Chart 1A)**.

CHART 1A: CONTRIBUTIONS OF BROAD CATEGORIES TO OVERALL INFLATION IN 2015/16 IN PERCENT



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

[1] Food inflation is comprised of "food and non-alcoholic beverages", as well as "hotels and restaurants" categories; fuel is comprised of "transport" and "housing, water, electricity, gas and other fuels" categories; NFNF excludes food and fuel inflation.

The contribution of NFNF inflation to overall inflation rose to 1.61 percentage points in the first quarter of 2016 compared to 1.41 percentage points in the fourth quarter of 2015. This reflects the persistent effect of revised excise tax rates which came into effect on 1st of December 2015 **(Chart 1A)**.

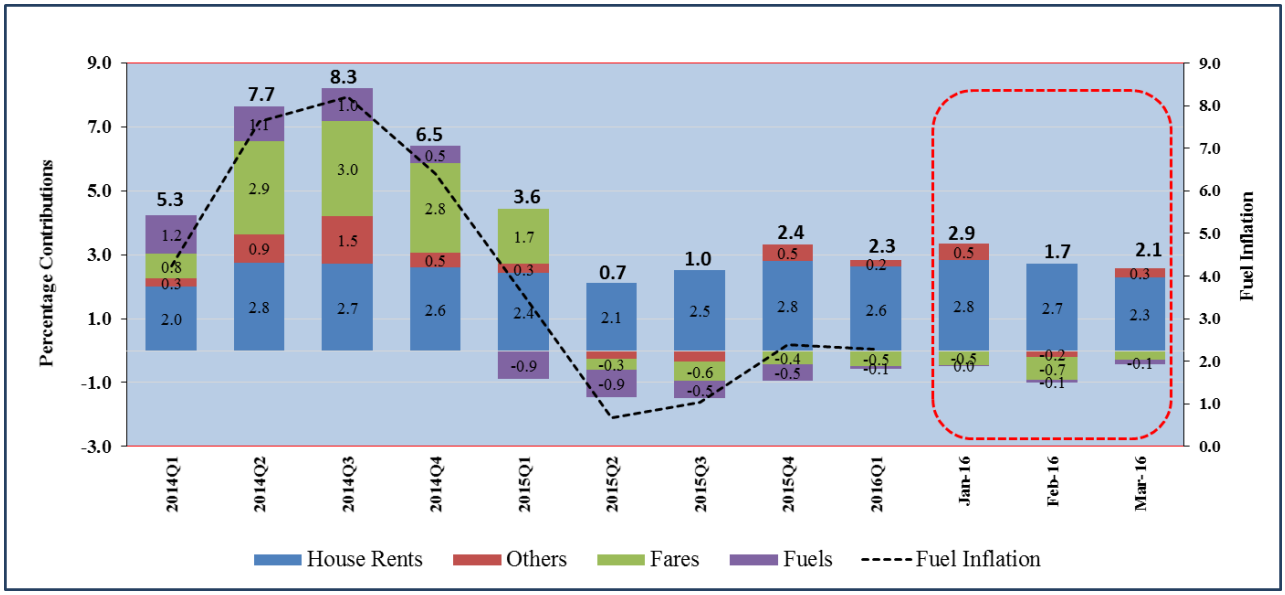
The contribution of fuel inflation to overall inflation remained low reflecting the fairly low international oil prices. It eased marginally to 0.58 percentage points in quarter one of 2016 from 0.63 percentage points in quarter four of 2015 **(Chart 1A)**.

Fuel Inflation

Fuel inflation declined to 2.25 percent in the first quarter of 2016 from 2.39 percent in the fourth quarter of 2015. This was on account of marginal decline in the cost of items in the 'Housing, Water, Electricity, Gas and other Fuels' and 'Transport' categories **(Chart 1B)**. House rents continued to be the dominant driver of fuel inflation contributing 2.6 percentage points in the first quarter of 2016 compared to 2.8 percentage points in the fourth quarter of 2015, reflecting the enduring effect of Rental Income Tax that came into effect on January 1, 2016, as house owners passed the rental tax to tenants by way of raising house rents.

The negative contribution of fuels (petrol, diesel, kerosene and LPG gas), to inflation continued to fade away reflecting a reversal of the downward trend of international oil prices that are now rising moderately. The contribution of fuels rose to -0.1 percentage points in the first quarter of 2016 from -0.5 percentage points in the fourth quarter of 2015. However, the contribution of fares eased marginally to 0.5 percentage points from 0.4 percentage points during the period under review.

CHART 1B: COMPONENTS OF FUEL INFLATION IN 2015/16



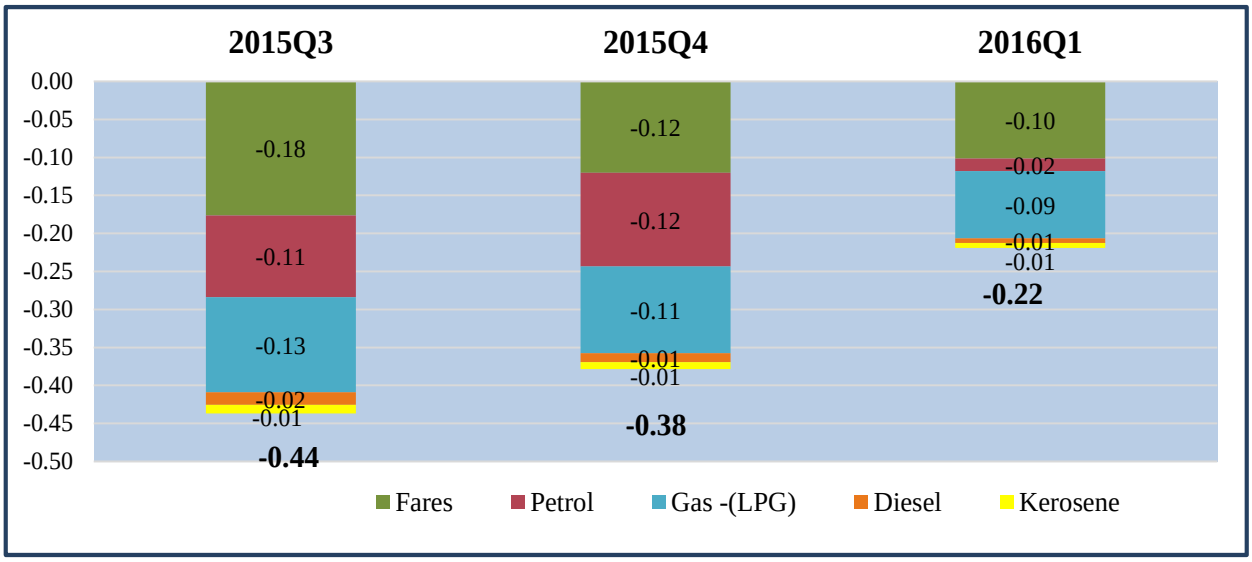
Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Dynamics of fuel adjustments on inflation in the first quarter of 2016

Low international oil prices continued to support lower fuel inflation in Kenya. However, this support is diminishing as international oil prices begin to rise. This has been reflected in the low fare prices which contributed -0.1 percentage points to overall inflation in the first quarter of 2016 compared to -0.12 percentage points in the fourth quarter of 2015 **(Chart 1C)**. The contribution of petrol to overall inflation declined sharply in the first quarter of 2016 to -0.02 percentage points from -0.12 percentage

points in the fourth quarter of 2015. Further, the contribution of LPG gas to overall inflation declined modestly in the period under review and stood at -0.09 percentage points in the first quarter of 2016 compared to -0.11 percentage points in the fourth quarter of 2015. Despite the pronouncements of price reductions by the Energy Regulatory Commission, (ERC), the contribution of kerosene and diesel to overall inflation has been muted in the period under review.

CHART 1C: QUARTERLY CONTRIBUTIONS OF FARES, PETROL DIESEL AND OTHER FUELS IN 2015/16 IN PERCENT

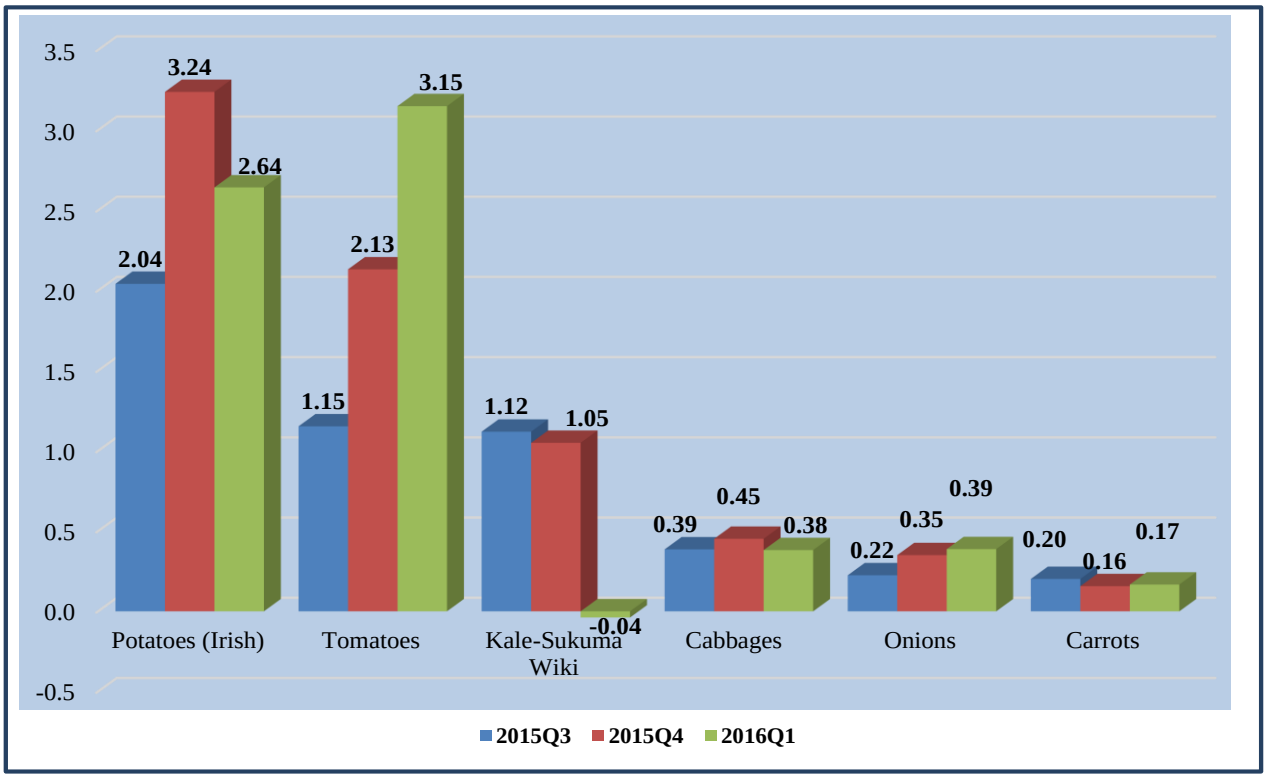


Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Food inflation

Although elevated, food inflation shed 119 basis points and stood at 10.43 percent in the first quarter of 2016 from a high of 11.62 percent in the fourth quarter of 2015. Analysis of the food basket reveals that the contribution of key fast growing and seasonal food items to food inflation is declining except that of tomatoes, onions and carrots **(Chart 1D)**. The contribution of tomatoes to food inflation rose to 3.15 percentage points in the first quarter of 2016 compared to 2.13 percentage points in the fourth quarter of 2015. During the period under review, tomato prices were elevated reflecting the sensitivity of the crop to water logged soils as they become susceptible to fungal infections. Therefore, periods of heavy rainfall lead to lower tomato harvests as most of the crop is destroyed reducing supply, and resulting in higher prices. However, the increases in the contribution of tomatoes, onions and carrots were more than offset by declining contribution of Irish potatoes, kale/sukuma wiki and cabbages.

CHART 1D: CONTRIBUTIONS OF MAIN FOOD ITEMS TO FOOD INFLATION IN 2015/16 IN PERCENT



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

Although declining, the contribution of Irish potatoes to food inflation remained elevated and stood at 2.64 percentage points in the first quarter of 2016 compared to 3.24 percentage points in the fourth quarter of 2015. This decline is attributed to favorable weather conditions in the Irish potato growing regions. Sukuma wiki (kale) supported food inflation in the period under review contributing -0.04 percentage points in the first quarter of 2016 compared to 1.05 percentage points in the fourth quarter of 2015.

Non-Food Non-Fuel inflation (NFNF)

NFNF inflation continued to rise from 5.06 percent in the fourth quarter of 2015 to 5.81 percent in the first quarter of 2016. The 'Alcoholic Beverages, Tobacco & Narcotics', 'Clothing & Footwear', and 'Furnishings, Household Equipment and Routine Household Maintenance' categories were the main drivers and accounted for 58 percent of the total NFNF inflation in the first quarter of 2016 **(Table 1.2)**. The contribution of 'Alcoholic Beverages, Tobacco and Narcotics' category to NFNF inflation accelerated to 1.11 percentage points in the first quarter of 2016 from 0.59 percentage points in the fourth quarter of 2016. This increase is largely as a result of implementation of the revised excise tax rates on December 1, 2016 which mainly affected the prices of beer and cigarettes.

TABLE 1.2: NON-FOOD-NON-FUEL INFLATION AND COMPONENTS IN PERCENT

		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Furnishings, Household Equipment and Routine Household Maintenance	Health	Communication	Recreation & Culture	Education	Miscellaneous Goods & Services	**NFNF inflation**
2015	Q1	0.08	1.00	0.82	0.40	-0.02	0.19	0.35	0.55	**3.37**
	Q2	0.18	1.13	0.89	0.49	0.07	0.25	0.38	0.72	**4.10**
	Q3	0.29	1.23	0.90	0.55	0.14	0.30	0.43	0.80	**4.63**
	Q4	0.59	1.23	1.05	0.56	0.15	0.27	0.45	0.77	**5.06**
2016	Q1	1.11	1.21	1.03	0.60	0.22	0.37	0.47	0.79	**5.81**
	Jan	1.10	1.20	1.01	0.58	0.11	0.33	0.41	0.73	**5.47**
	Feb	1.08	1.20	1.01	0.62	0.27	0.39	0.49	0.83	**5.89**
	Mar	1.16	1.23	1.05	0.61	0.28	0.40	0.50	0.83	**6.05**

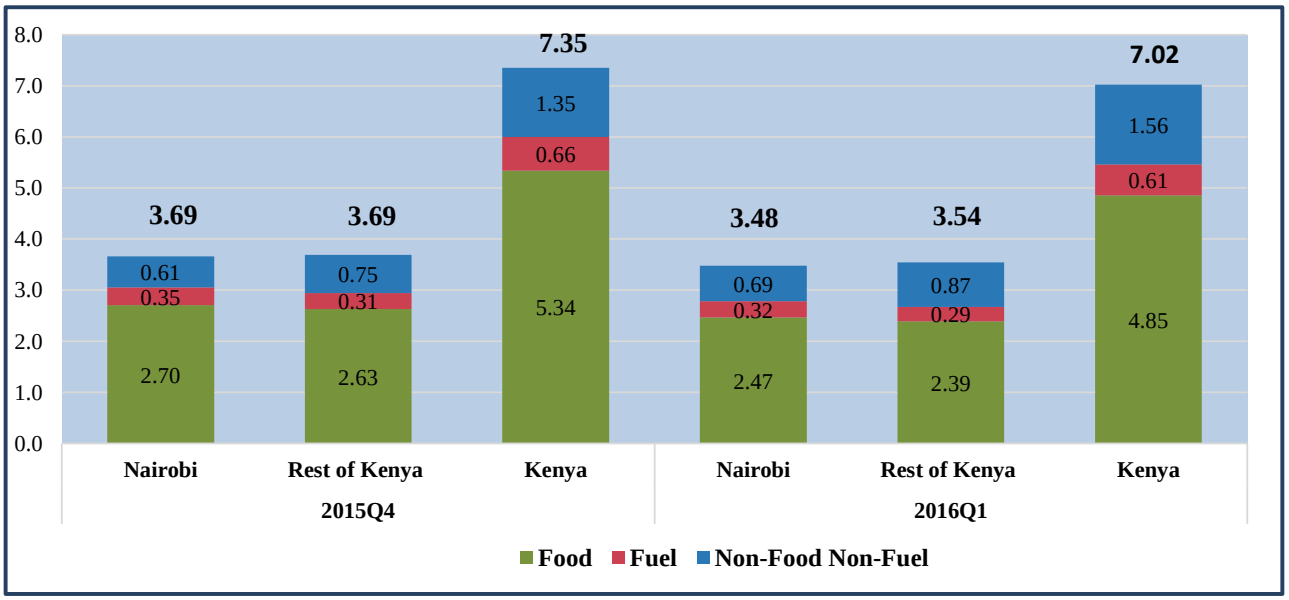
Source: Central Bank of Kenya

Overall Quarterly Inflation across Regions

While the contribution to overall inflation is balanced between Nairobi and the Rest of Kenya, the dominance of food inflation is replicated across the two regions. Inflation in the Rest of Kenya stabilized at 7.3 percent in quarter four of 2015 and quarter one of 2016. This was slightly higher than inflation in Nairobi which stood at 6.6 percent in the first quarter of 2016 **(Chart 1E)**. The contribution of Nairobi region to overall inflation declined to 3.48 percentage points in the first quarter of 2016 from 3.66 percentage points in the fourth quarter of 2015. Similarly, the contribution of the Rest of Kenya to overall inflation eased to 3.54 percentage points from 3.7 percentage points in the period under review **(Chart 1E)**.

Moreover, the contribution of food to overall inflation is slightly higher in Nairobi compared to the Rest of Kenya on account of additional costs of transporting food commodities to the city. The decline in food prices is reflected in declined contribution of food in both regions. In Nairobi, it eased to 2.47 percentage points in the first quarter of 2016 from 2.7 percentage points in the fourth quarter of 2015. Similarly, in the Rest of Kenya it declined to 2.39 percentage points in the first quarter of 2016 compared to 2.63 percentage points in the fourth quarter of 2015. The contribution of fuel inflation is even in both regions and remained subdued between the fourth quarter of 2015 and the first quarter of 2016, reflecting the muted effect of price reductions by ERC on regional fuel inflation. Though rising in both regions, the contribution of NFNF inflation is higher in the rest of Kenya. It rose to 0.87 percentage points in the first quarter of 2016 compared to 0.75 percentage points in the fourth quarter of 2015 in the rest of Kenya. Likewise in Nairobi, it rose to 0.69 percentage points in the first quarter of 2016 compared to 0.61 percentage points in the fourth quarter of 2015.

CHART 1E: CONTRIBUTIONS OF VARIOUS REGIONS TO OVERALL QUARTERLY INFLATION IN 2015/16 IN PERCENT

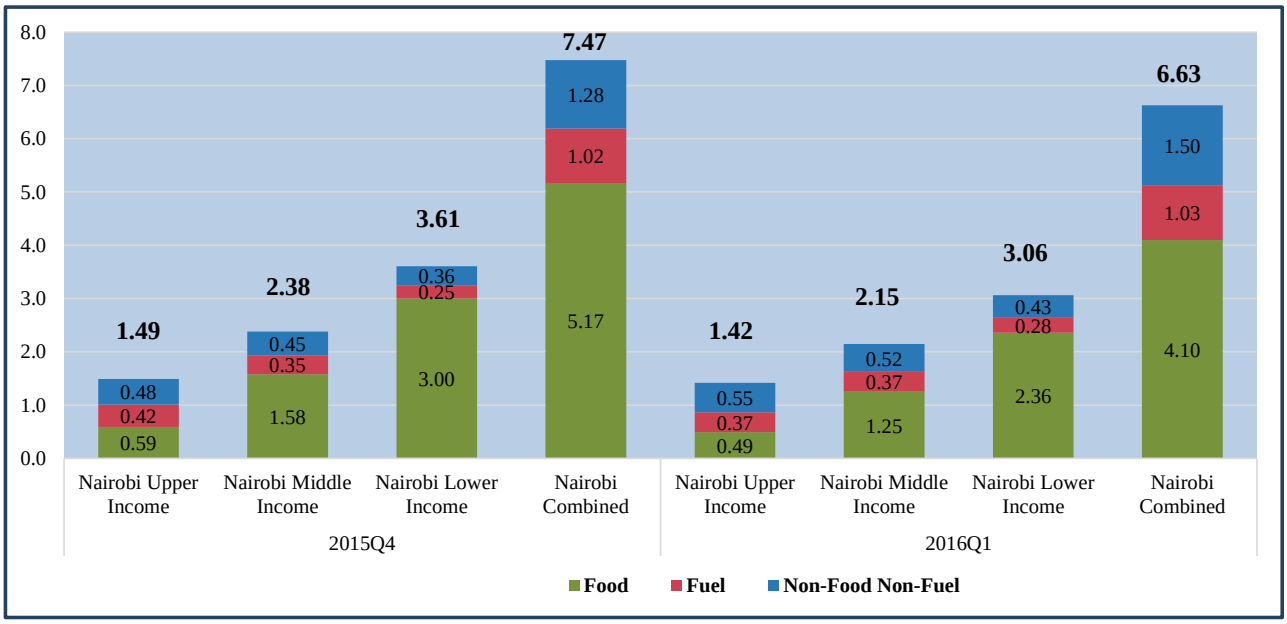


Source: Kenya Bureau of Statistics and Central Bank of Kenya

Overall Quarterly Inflation across Income Groups in Nairobi

Inflation in Nairobi eased to 6.6 percent in the first quarter of 2016 from 7.5 percent in the fourth quarter of 2015 reflecting declining inflation across all income groups in the first quarter of 2016 compared with the fourth quarter of 2015. This was reflected in declined contribution of food and fuel components across all income groups. The burden of food prices is pronounced in the low income group and contributed 2.36 percentage points to overall inflation in the first quarter of 2016 compared to 3.0 percentage points in the fourth quarter of 2015 **(Chart 1F)**. However, the contribution of NFNF inflation to overall inflation rose across all income groups in the period under review. It contributed 0.55 percentage points to become a key driver of inflation in the high income group in the first quarter of 2016, compared with 0.48 percentage points in the fourth quarter of 2015. Additionally, it contributed 0.52 percentage points in the first quarter of 2016 among the middle income group compared to 0.45 percentage points in the fourth quarter of 2015. In the low income group, its contribution rose from 0.36 percentage points in the fourth quarter of 2015 to 0.43 percentage points in the first quarter of 2016. The low but rising NFNF inflation in the low income group can be attributed to availability of cheap local brews that do not attract excise tax. Fuel inflation remained low and evenly distributed across income groups on account of low international fuel prices.

CHART 1F: CONTRIBUTIONS OF INCOME GROUPS TO OVERALL INFLATION IN NAIROBI IN 2015/16 IN PERCENT



Source: Kenya Bureau of Statistics and Central Bank of Kenya

2. Developments In Money, Credit And Interest Rates

Monetary aggregates and its components

Annual growth in M3 decelerated to 11.0 percent in March 2016 compared with 14.1 percent growth in December 2015. The slowdown was reflected in both M2 and foreign currency deposits components. The slowdown in M2 growth was largely in time and savings deposits. The growth of foreign currency deposits decelerated to 13.0 percent in the year to March 2016 from 21.6 percent by December 2015, mainly on account of reduced holdings by the non-profit organizations.

The M1 component registered an improvement in the year to March 2016 mainly on account of demand deposits. The other deposits at Central Bank of Kenya (CBK) registered a negative growth in March 2016 due to utilization of special project deposits.

TABLE 2.1: MONETARY AGGREGATES (KSH BILLION)

	END QUARTER LEVEL			Annual changes (KSH BN)			ANNUAL GROWTH RATE		
COMPONENTS OF M3	**Sep-15**	**Dec-15**	**Mar-16**	**Sep-15**	**Dec-15**	**Mar-16**	**Sep-15**	**Dec-15**	**Mar-16**
1. Money supply, M1 (1.1+1.2+1.3)	**979.8**	**1023.7**	**1076.8**	**76.7**	**87.2**	**105.5**	**8.5**	**9.3**	**10.9**
1.1 Currency outside banks	174.9	191.0	183.4	17.1	17.7	12.0	10.8	10.2	7.0
1.2 Demand deposits	756.1	771.7	839.0	86.4	64.2	94.4	12.9	9.1	12.7
1.3 Other deposits at CBK 1/	48.5	60.7	54.1	-26.8	5.3	-1.0	-35.6	9.5	-1.7
2. Money supply, M2 (1+2.1)	**2133.4**	**2234.8**	**2262.7**	**240.0**	**252.9**	**215.9**	**12.7**	**12.8**	**10.5**
2.1 Time and saving deposits	1145.5	1199.4	1175.0	158.6	159.1	103.6	16.1	15.3	9.7
3. Money supply, M3 (2+3.1)	**2556.0**	**2658.2**	**2662.6**	**304.3**	**328.2**	**263.9**	**13.5**	**14.1**	**11.0**
3.1 Foreign Currency Deposits	422.7	423.4	399.9	64.3	75.3	47.9	17.9	21.6	13.6
COUNTERPARTS OF M3									
1. Net foreign assets 2/	**389.3**	**491.5**	**471.4**	**-57.2**	**11.8**	**9.4**	**-12.8**	**2.5**	**2.0**
Central Bank	529.3	621.4	640.8	-23.0	32.6	71.1	-4.2	5.5	12.5
Banking Institutions	-139.9	-129.9	-169.3	-34.2	-20.8	-61.7	32.4	19.0	57.3
2. Net domestic assets (2.1+2.2)	**2166.7**	**2166.7**	**2191.2**	**361.5**	**316.4**	**254.4**	**20.0**	**17.1**	**13.1**
2.1 Domestic credit	**2785.3**	**2793.9**	**2823.7**	**526.0**	**481.7**	**379.4**	**23.3**	**20.8**	**15.5**
2.1.1 Government (net)	553.3	524.0	543.6	153.3	144.7	73.8	38.3	38.2	15.7
2.1.2 Private sector	2184.0	2223.6	2230.6	375.7	339.1	299.9	20.8	18.0	15.5
2.1.3 Other public sector	48.0	46.3	49.4	-3.0	-2.1	5.6	-5.9	-4.3	12.7
2.2 Other assets net	**-618.6**	**-627.2**	**-632.5**	**-164.5**	**-165.4**	**-124.9**	**36.2**	**35.8**	**24.6**
Memorandum items									
4. Overall liquidity, L (3+4.1)	**3231.6**	**3390.8**	**3430.1**	**360.5**	**441.8**	**395.5**	**12.6**	**15.0**	**13.0**
4.1 Non-bank holdings of government securities	675.6	732.7	767.5	56.2	113.6	131.6	9.1	18.3	20.7

Absolute and percentage changes may not necessarily add up due to rounding
1/ Includes county deposits and special projects deposit
2/ Net Foreign Assets at current exchange rate to the US dollar.

Source: Central Bank of Kenya

The annual growth of overall net domestic credit declined in the first quarter of 2016 compared to fourth quarter of 2015. The decline is conspicuous in the net credit to government and credit to the private sector. Growth of net credit to the government decelerated following build- up of government deposits at the Central Bank as companies remitted quarterly taxes. Meanwhile, credit uptake by the private sector declined by 250 basis points from 18.0 percent growth in the fourth quarter of 2015 to 15.5 percent in first quarter of 2016. In the three months to March 2016, the uptake of credit by the private sector also slowed down to KSh 7.0bn compared to KSh 39.6bn registered in the fourth quarter of 2015. The slowdown was mainly in flows to business services, transport and communications, finance and insurance, and building and construction activities. The slowdown in credit to the private sector partly reflect effect of monetary policy tightening in June and July 2015.

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

	END OF QUARTER LEVEL			ANNUAL GROWTH RATE		
	Sep-15	Dec-15	Mar-16	Sep-15	Dec-15	Mar-16
1. Credit to Government	**553.3**	**524.0**	**543.6**	**38.3**	**38.2**	**15.7**
Central Bank	46.7	-43.6	-80.8	-199.2	-52.6	31.9
Commercial Banks & NBFIs	506.6	567.7	624.4	13.3	20.4	17.6
2. Credit to other public sector	**48.0**	**46.3**	**49.4**	**-5.9**	**-4.3**	**12.7**
Local government	1.2	1.1	0.8	697.7	313.8	341.2
Parastatals	46.9	45.2	48.7	-7.9	-6.1	11.5
3. Credit to private sector	**2,184.0**	**2,223.6**	**2,230.6**	**20.8**	**18.0**	**15.5**
Agriculture	89.0	85.9	89.6	21.4	14.6	20.1
Manufacturing	280.4	290.1	296.6	19.3	22.2	21.2
Trade	381.1	378.0	393.1	29.7	23.2	22.1
Building and construction	100.8	106.3	98.5	27.9	32.2	23.5
Transport & communications	155.1	171.6	169.6	29.0	31.7	21.1
Finance & insurance	56.9	61.0	61.7	45.7	21.2	19.5
Real estate	279.2	282.6	286.8	12.5	7.6	12.5
Mining and quarrying	22.8	20.8	22.2	-5.4	-11.3	10.4
Private households	361.9	363.9	369.2	26.6	13.8	10.7
Consumer durables	128.9	128.5	128.0	19.0	14.3	13.9
Business services	198.8	204.9	208.6	15.9	20.9	14.9
Other activities	129.2	129.9	106.8	-0.9	11.9	-7.7
4. TOTAL (1+2+3)	**2,785.3**	**2,793.9**	**2,823.7**	**23.3**	**20.8**	**15.5**

Source: Central Bank of Kenya

Reserve Money

Annual growth in reserve money (RM) picked in the first quarter of 2016 compared to fourth quarter of 2015 **(Table 2.3)**. The RM was boosted by the net foreign assets which rose by KSh 19.4 bn. On the other hand, the net domestic assets declined in the first quarter due to the buildup of government deposits at the Central Bank.

The corresponding increase in liabilities was largely in banks reserves, as excess reserve holdings at Central Bank. The build-up of excess reserves is attributed to cautious trading by banks following the placement of one small bank under receivership in October 2015.

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

	END QUARTER LEVELS			QUARTERLY FLOWS			ANNUAL GROWTH RATE		
	Sep-15	Dec-15	Mar-16	Sep-15	Dec-15	Mar-16	Sep-15	Dec-15	Mar-16
1. Net Foreign Assets	529.3	621.4	640.8	-35.9	92.1	19.4	-4.16	5.53	12.49
2. Net Domestic Assets	-152.6	-228.9	-238.9	40.6	-76.4	-9.9	-33.51	9.49	6.95
2.1 Government Borrowing (net)	46.7	-43.6	-80.8	69.7	-90.3	-37.1			
2.2 Commercial banks (net)	-31.0	-21.7	-8.2	-1.3	9.3	13.5			
2.3 Other Domestic Assets (net)	-171.8	-167.2	-153.5	-27.9	4.6	13.8	11.88	45.89	24.63
3. Reserve Money	376.7	392.4	401.9	4.7	15.7	9.5	16.71	3.36	16.06
3.1 Currency outside banks	174.9	191.0	183.4	-0.4	16.1	-7.6	10.82	10.24	7.03
3.2 Bank reserves	201.8	201.5	218.5	5.1	-0.3	17.1	22.35	-2.42	24.91

Source: Central Bank of Kenya

Interest Rates

The Central Bank Rate

The Central Bank rate (CBR) remained unchanged at 11.5 percent in the first quarter of March 2016.

Short Term Interest Rates

Short term interest rates declined further in the quarter ending March 2016 (**Table 2.4**). The weighted average interbank rate declined to 4.1 percent in March 2016 from 7.27 percent in December 2015. This was on account of improved liquidity in the interbank market supported by government payments and OMO maturities. Liquidity distribution in the interbank remained skewed in favour of large banks with little trading across bank tiers reflecting cautious trading following the placement of Imperial Bank under receivership on October 13, 2015. The Central Bank however, boosted interbank liquidity through reverse repos to needy banks (**Table 2.3**).

The 91-day Treasury bill rate declined to 8.72 percent in March 2016 from 9.81 percent recorded in December 2015. Likewise, the 182-day Treasury bill rate declined to 10.83 percent in March 2016 from 11.43 percent in December 2015. The decline is attributed to excess liquidity in the interbank market.

Lending and Deposit Rates

The retail rates declined in the first quarter of 2016 compared to December 2015, with the average commercial banks' lending rate being slightly lower at 17.79 percent in March 2016 from 18.30 percent in December 2015. The decline was notable in all the loan categories (overdraft, 1-5 years and over 5 years). The average deposit rate also declined less rapidly to 7.17 percent in March 2016 from 8.02 percent recorded in December 2015. Consequently, the interest rate spread widened to stand at 10.62 percent in March 2016 from 10.28 percent in December 2015 (**Table 2.4**).

TABLE 2.4: INTEREST RATES (%)

	2015												2016		
	Jan	Feb	Mar	Apr	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	Mar
91-day Treasury bill rate	8.59	8.59	8.49	8.42	8.26	8.26	10.57	11.54	14.61	21.65	12.34	9.81	11.36	10.63	8.72
182-day Treasury bill rate	10.19	10.37	10.35	10.26	10.37	10.55	11.99	12.06	13.40	21.52	14.02	11.43	13.46	13.19	10.83
Overdraft rate	15.95	15.67	15.68	15.52	15.10	15.65	16.05	15.98	16.65	16.81	17.44	18.48	18.25	18.25	18.06
Interbank rate	7.12	6.77	6.85	8.77	11.17	11.77	13.48	18.80	19.85	14.82	8.77	7.27	6.12	4.54	4.10
Repo rate	8.09	7.87	8.08	8.38	8.50	9.70	10.61	11.50	11.50	11.50		9.23	8.85	9.68	-
Reverse Repo rate	-	-	-	-	-	-	-	-		18.12	14.21	11.92	11.44	11.58	11.63
Central Bank Rate (CBR)	8.50	8.50	8.50	8.50	8.50	10.00	11.50	11.50	11.50	11.50	11.50	11.50	11.50	11.50	11.50
Average lending rate (1)	15.93	15.47	15.46	15.40	15.26	16.06	15.75	15.68	16.82	16.58	17.16	18.30	17.96	17.86	17.79
Average deposit rate (2)	6.65	6.68	6.63	6.60	6.55	6.64	6.31	6.91	7.28	7.54	7.39	8.02	7.54	7.51	7.17
Over 3 months deposit	9.84	9.90	9.85	9.81	9.72	9.73	9.67	10.03	10.06	10.38	10.35	11.35	10.75	11.15	10.41
Savings deposits	1.58	1.53	1.53	1.90	1.48	1.85	1.37	1.50	1.71	1.68	1.32	1.56	1.56	1.37	1.32
Spread (1-2)	**9.28**	**8.78**	**8.82**	**8.80**	**8.70**	**9.42**	**9.44**	**8.77**	**9.54**	**9.04**	**9.77**	**10.28**	**10.41**	**10.35**	**10.62**

Source: Central Bank of Kenya

Cash Ratio Requirement

The proportion of cash to deposit liabilities held at the Central Bank for reserve requirements by commercial banks averaged 5.25 percent in March 2016 compared to 5.26 percent in December 2015 and converged to the average 5.25 percent minimum requirement (**Table 2.5**). Commercial banks are required to maintain a Cash Reserve Ratio (CRR) monthly average of 5.25 percent in a 30 day maintenance cycle from 15th through 14th of every month, but subject to a daily minimum of 3.0 percent.

Both commercial banks and non-bank financial institutions held strong liquidity positions in March 2016, at 40.06 percent and 27.39 percent respectively, in relation to the 20 percent minimum requirement.

TABLE 2.5: CASH AND LIQUIDITY RATIOS (%)

	2015							2016		
	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Commercial Banks										
Actual Average Liquidity	38.90	37.94	37.85	37.60	36.59	37.70	38.30	38.40	38.85	40.06
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.59	4.91	5.26	5.25	5.26	5.27	5.26	5.26	5.26	5.25
Minimum Cash Ratio Requirement	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
NBFIs										
Actual Average Liquidity Ratio	24.00	24.73	22.71	23.59	27.47	24.70	25.40	28.20	27.72	27.39
Minimum Liquidity Ratio	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

3. PERFORMANCE OF THE REAL SECTOR

Overview

The economy remained resilient in 2015, with real Gross Domestic Product (GDP) growth at 5.6 percent compared to 5.3 percent in 2014. The performance reflects higher public investment in the construction sector as well as improvements in agricultural output following favourable weather conditions (Table 3.1A). In the fourth quarter of 2015, the economy grew by 5.7 percent. Although this was a slight contraction compared to 6.0 percent growth in the third quarter of 2015, it was higher than the 5.5 percent growth recorded in the fourth quarter of 2014. Growth in the fourth quarter was mainly supported by improved performance in the agricultural sector, which registered a notable growth rate of 11.8 percent.

TABLE 3.1A: GROSS DOMESTIC PRODUCT GROWTH (%)

MAIN SECTORS	Annual			Quarterly							
	2013	2014	2015	2014				2015			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture	5.4	3.5	5.6	2.2	2.1	6.8	3.8	2.9	4.0	5.5	11.8
Mining & Quarrying	-4.3	14.5	11.0	10.9	27.3	1.8	22.4	5.7	8.6	13.7	16.3
Manufacturing	5.6	3.2	3.5	6.2	8.1	1.3	-2.5	4.1	5.1	3.3	1.2
Electricity & water supply	6.6	6.2	7.1	4.3	5.0	7.6	7.7	7.4	9.2	10.0	1.8
Construction	6.0	13.1	13.6	7.6	16.6	8.8	19.4	12.6	11.2	15.6	14.9
Wholesale & Retail Trade	7.8	7.5	6.0	10.4	5.8	5.9	8.5	6.4	5.2	6.2	6.0
Accommodation & restaurant	-4.6	-16.7	-1.3	-13.6	-18.8	-20.0	-15.5	-11.4	-5.0	-6.5	21.2
Transport & Storage	1.5	4.6	7.1	3.4	5.4	7.4	2.5	6.7	6.8	9.4	5.5
Information & Communication	12.6	14.6	7.3	13.5	8.8	16.8	17.7	8.6	7.0	8.2	5.9
Financial & Insurance	8.2	8.3	8.7	8.2	7.9	7.0	9.9	10.6	7.7	10.3	6.5
Public administration	2.8	5.3	5.4	-5.1	14.9	-0.5	9.8	8.8	6.3	3.0	3.7
Professional, Administration & Support Services	3.6	3.0	2.6	3.3	2.8	2.2	3.6	3.8	5.1	1.9	-0.1
Real estate	4.1	5.6	6.2	6.3	6.6	6.1	3.2	7.8	10.2	11.4	-4.9
Education	6.4	6.3	4.7	5.5	7.1	6.4	6.1	4.3	4.5	5.7	4.2
Health	7.7	8.1	6.6	6.0	8.3	8.6	9.2	5.8	6.4	3.2	10.6
Other services	4.6	4.2	3.8	5.4	4.4	4.1	3.0	4.6	2.8	3.8	4.1
FISIM	5.2	11.3	15.0	8.4	11.2	11.2	14.1	14.7	9.6	18.4	16.8
All economic activities	**5.4**	**5.3**	**5.8**	**4.6**	**6.0**	**5.4**	**5.4**	**5.2**	**5.9**	**6.6**	**5.6**
Taxes on products	8.1	5.3	4.2	6.0	5.1	3.9	6.4	2.9	5.8	1.9	6.5
GDP at market prices	**5.7**	**5.3**	**5.6**	**4.7**	**5.9**	**5.2**	**5.5**	**5.0**	**5.9**	**6.0**	**5.7**

Source: Kenya National Bureau of Statistics

TABLE 3.1B: SECTORAL SHARE OF SECTORS TO REAL GDP

Main Sectors	Annual			Quarterly							
				2014				2015			
	2013	2014	2015	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture	22.47	22.08	22.07	26.20	23.65	19.73	18.49	25.70	23.24	19.64	19.55
Mining & Quarrying	0.89	0.97	1.02	1.06	0.88	0.94	0.99	1.06	0.90	1.01	1.09
Manufacturing	11.07	10.85	10.63	11.16	10.74	10.83	10.65	11.07	10.66	10.56	10.19
Electricity & water supply	2.39	2.41	2.44	2.24	2.38	2.48	2.53	2.30	2.46	2.57	2.44
Construction	4.51	4.84	5.20	4.37	4.86	4.95	5.20	4.68	5.10	5.40	5.65
Wholesale & Retail Trade	7.53	7.69	7.71	7.10	7.47	8.58	7.62	7.20	7.43	8.60	7.64
Accommodation & restaurant	1.44	1.14	1.06	1.42	0.90	1.15	1.08	1.20	0.81	1.02	1.24
Transport & Storage	6.62	6.58	6.67	5.64	6.32	6.99	7.40	5.73	6.38	7.22	7.38
Information & Communication	3.35	3.64	3.70	3.41	2.93	3.34	4.92	3.53	2.96	3.41	4.93
Financial & Insurance	5.83	5.99	6.17	5.69	5.81	6.02	6.48	6.00	5.91	6.26	6.53
Public administration	3.89	3.89	3.88	3.21	4.70	3.50	4.17	3.32	4.72	3.40	4.08
Professional, Administration & Support Services	2.40	2.35	2.28	2.24	2.16	2.43	2.56	2.22	2.15	2.33	2.42
Real estate	8.10	8.11	8.16	7.88	8.08	8.40	8.11	8.09	8.41	8.83	7.30
Education	6.85	6.91	6.85	6.62	6.85	7.08	7.12	6.57	6.76	7.06	7.01
Health	1.75	1.79	1.81	1.58	1.81	1.85	1.93	1.59	1.82	1.80	2.02
Other services	1.32	1.30	1.28	1.27	1.26	1.33	1.35	1.26	1.22	1.30	1.33
FISIM	-2.39	-2.52	-2.75	-2.29	-2.44	-2.58	-2.80	-2.50	-2.52	-2.89	-3.09
Taxes on products	11.99	11.99	11.83	11.20	11.61	12.98	12.20	10.98	11.60	12.47	12.28
GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Computed using data from the Kenya National Bureau of Statistics

TABLE 3.1C: SECTORAL CONTRIBUTIONS TO GDP GROWTH RATES

MAIN SECTORS	Annual			Quarterly							
				2014				2015			
	2013	2014	2015	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture	1.21	0.77	1.24	0.57	0.50	1.34	0.71	0.76	0.94	1.08	2.30
Mining & Quarrying	-0.04	0.14	0.11	0.11	0.24	0.02	0.22	0.06	0.08	0.14	0.18
Manufacturing	0.62	0.35	0.37	0.69	0.87	0.14	-0.27	0.45	0.55	0.35	0.12
Electricity & water supply	0.16	0.15	0.17	0.10	0.12	0.19	0.19	0.17	0.23	0.26	0.04
Construction	0.27	0.63	0.71	0.33	0.80	0.44	1.01	0.59	0.57	0.84	0.84
Wholesale & Retail Trade	0.59	0.58	0.46	0.74	0.43	0.51	0.65	0.46	0.39	0.53	0.46
Accommodation & restaurant	-0.07	-0.19	-0.01	-0.19	-0.17	-0.23	-0.17	-0.14	-0.04	-0.07	0.26
Transport & Storage	0.10	0.31	0.47	0.19	0.34	0.52	0.18	0.39	0.43	0.68	0.41
Information & Communication	0.42	0.53	0.27	0.46	0.26	0.56	0.87	0.30	0.21	0.28	0.29
Financial & Insurance	0.48	0.50	0.54	0.47	0.46	0.42	0.64	0.63	0.46	0.64	0.42
Public administration	0.11	0.21	0.21	-0.16	0.70	-0.02	0.41	0.29	0.30	0.10	0.15
Professional, Administration & Support Services	0.09	0.07	0.06	0.07	0.06	0.05	0.09	0.08	0.11	0.05	-0.003
Real estate	0.33	0.45	0.51	0.49	0.54	0.51	0.26	0.63	0.85	1.01	-0.36
Education	0.44	0.44	0.32	0.37	0.49	0.45	0.43	0.28	0.30	0.40	0.29
Health	0.13	0.14	0.12	0.09	0.15	0.16	0.18	0.09	0.12	0.06	0.21
Other services	0.06	0.05	0.05	0.07	0.06	0.05	0.04	0.06	0.03	0.05	0.05
FISIM	-0.12	-0.29	-0.41	-0.19	-0.27	-0.29	-0.39	-0.37	-0.24	-0.53	-0.52
Taxes on products	0.98	0.64	0.50	0.68	0.60	0.50	0.78	0.32	0.68	0.24	0.80
GDP at market prices	**5.7**	**5.3**	**5.6**	**4.7**	**5.9**	**5.2**	**5.5**	**5.0**	**5.9**	**6.0**	**5.7**

Source: Computed using data from the Kenya National Bureau of Statistics

The Agriculture Sector

The agriculture sector expanded by 11.8 percent in the fourth quarter of 2015, compared to 5.5 percent and 3.8 percent in the third quarter of 2015 and the fourth quarter of 2014, respectively (**Table 3.1A**). It accounted for the largest share of real GDP at 20 percent and contributed 2.3 percentage points to overall GDP growth in the fourth quarter of 2015 (**Table 3.1C)**. The sector's annual share of GDP remained stable at 22.1 percent in 2014 and 2015 (**Table 3.1B**). The improved performance is largely attributed to increased crop production due to improved weather conditions following the *El Niño* rains in the fourth quarter of 2015.

Available indicators point to improved performance in the first quarter of 2016[2].

[2] Current data for most indicators is not available.

Tea

Production of tea rose by 8.4 percent in January 2016, as favourable weather conditions prevailed in key tea growing areas (**Table 3.2**). Compared to January 2015, tea production increased by 20.8 percent. Tea production had increased by 33.7 percent in the fourth quarter of 2015 compared with 2.3 percent growth in the third quarter. The growth in tea production continued to exert downward pressure on auction prices, which declined by 9.9 percent in January 2016 from December 2015.

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

	2014				2015				2016		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan-16	Feb-16	Mar-16
Tea											
Output (Metric tonnes)	112,080	113,106	90,867	129,053	81,617	93,646	95,836	128,112	50,300	N/A	N/A
Growth (%)	*-7.7*	*0.9*	*-19.7*	*42.0*	*-36.8*	*14.7*	*2.3*	*33.7*	*8.4*		
Horticulture											
Exports (Metric tonnes)	80,267	77,263	78,381	67,342	74,929	67,050	103,342	69,460	37,097	35,547	41,919
Growth (%)	*2.8*	*-3.7*	*1.4*	*-14.1*	*11.3*	*-10.5*	*54.1*	*-32.8*	*56.7*	*-4.2*	*17.9*
Coffee											
Sales (Metric tonnes)	14,444	13,218	7,930	6,858	13,203	6,680	8,015	4,319	3,432	5,220	N/A
Growth (%)	*158.2*	*-8.5*	*-40.0*	*-13.5*	*92.5*	*-49.4*	*20.0*	*-46.1*	*167.6*	*52.1*	
Milk											
Output (million litres)	150	133	124	134	119.85	139.27	162.78	162.28	N/A	N/A	N/A
Growth %	*14.3*	*-11.2*	*-6.8*	*8.4*	*-10.8*	*16.2*	*16.9*	*-0.3*			
Sugar Cane											
Output ('000 Metric tonnes)	1,960	1,601	1,674	1,242	1,878	1,595	1,764	1,613	N/A	N/A	N/A
Growth (%)	*8.0*	*-18.3*	*4.6*	*-25.8*	*51.1*	*-15.1*	*10.6*	*-8.6*			

*** Provisional**
N/A Data not availabe
Source: Kenya National Bureau of Statistics

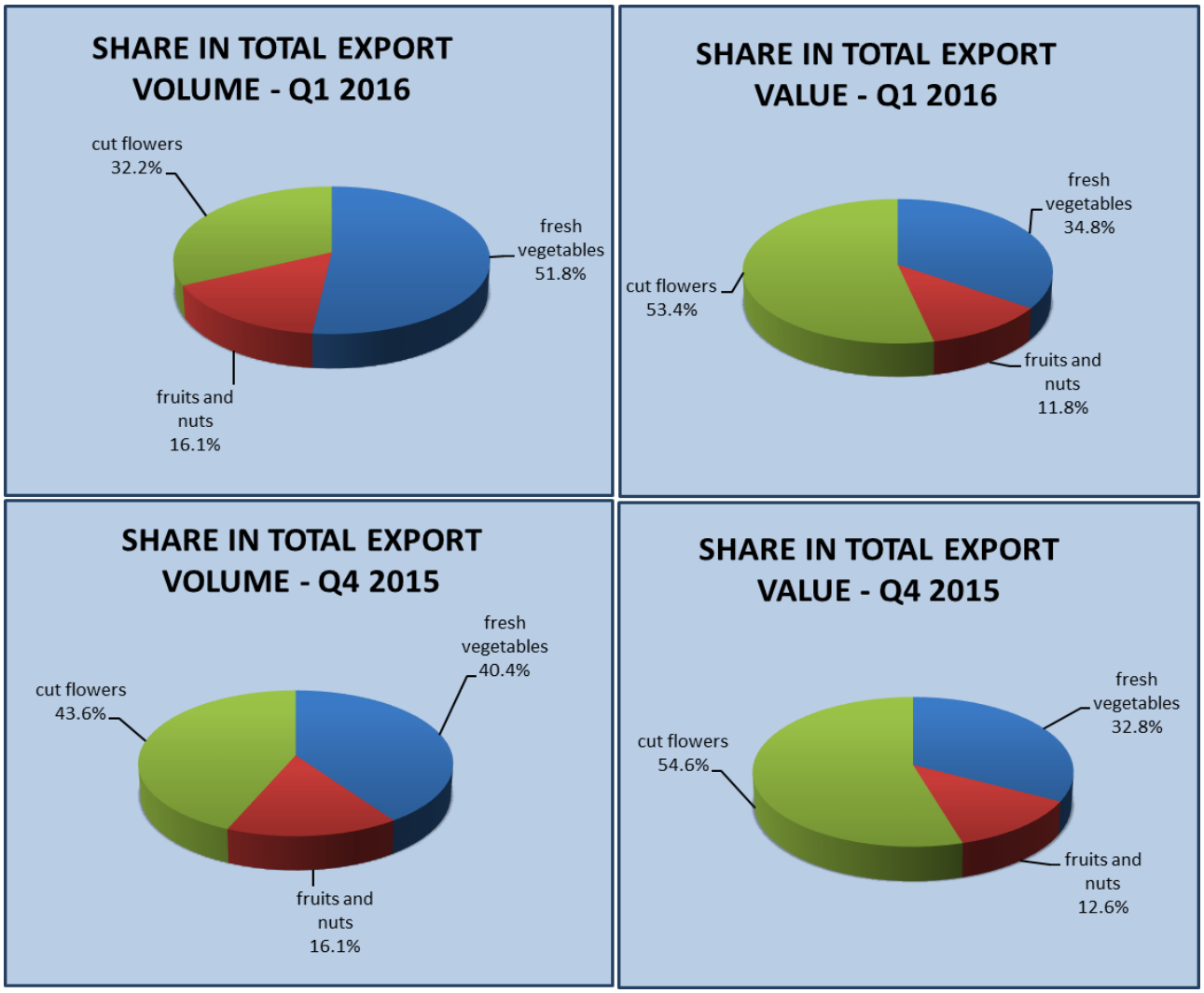
Coffee

Coffee sales improved significantly in January and February 2016 to record growth rates of 167.6 percent and 52.1 percent, respectively. This is attributable to an increase in the quantity of coffee auctioned after the November-December harvest season (**Table 3.2**). Auction prices maintained the upward trend that began in December 2015, increasing by 6.08 percent and 5.18 percent in January and February 2016, respectively, due to the high quality of coffee beans obtained during the harvest period.

Horticulture

Horticultural exports recovered after a dismal performance in the fourth quarter of 2015 to record an increase of 64.9 percent in the first quarter of 2016, up from a decline of 32.8 percent in the fourth quarter of 2015 (**Table 3.2**). The sector also recorded improved performance in the first quarter of 2016 compared to the same quarter of 2015 to record growth of 52.9 percent. This improvement was mainly reflected in increased export volumes of fresh vegetables, fruits and nuts, as the *El Niño* rains declined in the first quarter of 2016 and supply channels were restored. Fresh vegetables recorded the largest share of export volumes, while cut flowers brought in the highest export values (**Chart 3A**).

CHART 3A: HORTICULTURAL EXPORTS



Source: Central Bank of Kenya

The Manufacturing Sector

The manufacturing sector grew by 3.5 percent in 2015, a minor improvement from 3.2 percent growth recorded in 2014. Growth in the sector was supported by lower costs of inputs such as petroleum products and electricity. In addition, the sector was boosted by increased commercial bank credit, which grew by 22.2 per cent from KSh 237.4 million by end-December 2014 to KSh 290.1 million by end-December 2015. Growth of the sector in the fourth quarter of 2015 was 1.2 percent, which was lower compared to 3.3 percent recorded in the previous quarter but an improvement from 2.5 percent decline in the fourth quarter of 2014 (**Table 3.1A**). The sector's share to GDP in the fourth quarter remained stable at 10.2 percent, while its contribution to economic growth remained low at 0.12 percentage points (**Table 3.1B** and **Table 3.1C**).

Available indicators show increased cement production in January and February 2016, which was driven by increased demand in the construction activity (**Table 3.3**).

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	2014				2015*				2016*	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan-16	Feb-16
Cement production										
Output (MT)	1,376,012	1,397,646	1,495,708	1,591,171	1,527,325	1,570,150	1,686,068	1,554,642	532,729	534,736
Growth %	*0.1*	*1.6*	*7.0*	*6.4*	*-4.0*	*2.8*	*7.4*	*-7.8*	*9.5*	*0.4*
Assembled vehicles										
Output (No.)	2,040	2,486	2,523	2,197	2,472	2,385	2,517	1,816**	N/A	N/A
Growth %	*5.0*	*21.9*	*1.5*	*-12.9*	*12.5*	*-3.5*	*5.5*	*-27.9*		
Galvanized sheets										
Output (MT)	61,930	77,887	73,658	71,034	64,179	64,164	59,850	51,734	N/A	N/A
Growth %	*-20.5*	*25.8*	*-5.4*	*-3.6*	*-9.7*	*-0.02*	*-6.7*	*-13.6*		
Processed sugar										
Output (MT)	187,707	134,239	153,967	140,950	184,533	136,459	163,115	147,850**	N/A	N/A
Growth %	*16.2*	*-28.5*	*14.7*	*-8.5*	*30.9*	*-26.1*	*19.5*	*-9.4*		
Soft drinks										
Output ('000 litres)	118,473	107,021	103093	130,877	135691	115619	117677	84,538**	N/A	N/A
Growth %	*3.5*	*-9.7*	*-3.7*	*27.0*	*3.7*	*-14.8*	*1.8*	*-28.2*		

MT = Metric tonnes
* Provisional
N/A - Not Available
Source: Kenya National Bureau of Statistics

The Construction and Real Estate Sectors

Overall growth in the construction sector was slightly higher in 2015 at 13.6 percent, compared to 13.1 percent in 2014 (**Table 3.1A**). This was mainly attributed to increased national and county governments expenditure on roads, as well as continued investment in the Standard Gauge Railway (SGR). Cement consumption, a key performance indicator in the construction sector, increased by 9.6 percent in 2015, compared to growth of 21.8 percent in 2014. In the fourth quarter of 2015, the sector recorded growth of 14.9 percent, which was lower than that recorded in the third quarter of 2015 (**Table 3.1A**). Its share to overall GDP in the fourth quarter of 2015 stood at 5.65 percent, while its contribution to GDP growth was 0.84 percentage points (**Table 3.1B and Table 3.1C**).

The real estate sector was one of the major drivers of growth in 2015, with a growth rate of 6.2 percent compared to 5.6 percent growth in 2014. This was mainly attributed to a sustained increase in demand for both residential and non-residential structures in urban sectors, leading to increased activity in the sector. This was mirrored by increased cement consumption and credit advanced to the sector during the period under review.

The Electricity and Water Supply Sector

Electricity and water supply sector recorded increased growth of 7.1 percent in 2015, compared to 6.2 percent in 2014 (**Table 3.1A**). Growth in the sector is traced to increased generation of hydro-electricity and geothermal electricity, following improved long rains and increased government investment towards expanding geothermal production capacity, respectively.

Electricity Generation

Electricity generation recorded mixed performance in the first quarter of 2016. In particular, generation of hydro-electricity increased in January 2016 following extended *El Niño* rains which increased water supply to the dams (**Table 3.4**).

TABLE 3.4: ENERGY SECTOR

	2014				2015				2016	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan-16	Feb-16
Electricity Supply (Generation)										
Output (million KWH)	2,159	2,184	2,263	2,284	2235.43	2,297	2403.28	2379.66	807.52	783.82
Growth %	*-1.4*	*1.2*	*3.6*	*0.9*	*-2.1*	*2.8*	*4.6*	*-1.0*	*2.7*	*-2.9*
Of which:										
Hydro-power Generation (million KWH)	896	821	825	869	754	863	930	917	322	297
Growth (%)	*-17.7*	*-8.3*	*0.5*	*5.2*	*-13.2*	*14.4*	*7.8*	*-1.4*	*5.2*	*-8.0*
Geo-Thermal Generation (million KWH)	495	582	798	1,043	1,117	1,102	1,120	1,182	392	392
Growth (%)	*7.0*	*17.4*	*37.2*	*30.8*	*7.1*	*-1.4*	*1.6*	*5.6*	*1.2*	*-0.1*
Thermal (million KWH)	768	781	640	372	364	333	353	281	93	95
Growth (%)	*20.5*	*1.8*	*-18.2*	*-41.8*	*-2.0*	*-8.6*	*6.2*	*-20.6*	*1.0*	*2.6*
Consumption of electricity (million KWH)	1,697	1,812	1,894	2,004	1,943	2,225	2,093	1,995	706	707
Growth %	*0.7*	*6.8*	*4.5*	*5.8*	*-3.0*	*14.6*	*-6.0*	*-4.7*	*12.5*	*0.2*
Consumption of Fuels ('000 tonnes)	965	991	1001	916	1,110	1,111	1,112	1,106	N/A	N/A
Growth %	*6.4*	*2.6*	*1.0*	*-8.5*	*21.2*	*0.1*	*0.1*	*-0.5*		
Murban crude oil average price (US $ per barrel)	109.3	109.6	103.9	75.0	53.0	63.3	51.1	42.7	30.0	33.0
Growth %	*-3.1*	*0.2*	*-5.2*	*-27.8*	*-29.3*	*19.5*	*-19.4*	*-16.4*	*-19.6*	*10.2*

Source: Kenya National Bureau of Statistics

The Services Sector

Generally performance of the services sector declined in 2015, particularly in the fourth quarter (**Table 3.1A**). The health activity, however, recorded increased growth in the fourth quarter of 2015 at 10.6 percent compared to 3.2 percent in the third quarter of 2015 and 9.2 percent in the fourth quarter of 2014.

Annual growth of the accommodation and restaurants sector remained subdued in 2015, recording a contraction of 1.3 percent, though this was a significant improvement compared to 16.7 percent decline recorded in 2014. Recovery was also evident in the fourth quarter of 2015, with growth estimated at 21.2 percent compared to a contraction of 6.5 percent in the third quarter, and a contraction of 15.5 percent in the fourth quarter of 2014. This improvement is mainly attributed to increased international arrivals during the fourth quarter of 2015 following Kenya's hosting of key international events including the Papal visit in November and the World Trade Organization (WTO) Ministerial Conference in December 2015. These high profile visits were coupled with increased government incentives to attract tourists, and increased marketing of the country's tourism industry globally.

Tourist Arrivals

Overall, tourist arrivals recorded significant improvement in the first quarter of 2016, having increased by 26.7 percent in January 2016, though there was a slight decline of 2.7 percent in February 2016 (**Table 3.5**). The improvement is reflected in arrivals recorded at Jomo Kenyatta International Airport (JKIA) and Moi International Airport, Mombasa (MIAM). Moreover, MIAM recorded positive growth rates in both January and February 2016.

Table 3.5: Tourist Arrivals by Point of Entry

	2014				2015				2016	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan-16	Feb-16
Total Tourist Arrivals	255,965	172,258	240,614	192,559	177,085	170,374	208,397	192,915	74,838	72,839
Growth (%)	*-22.5*	*-32.7*	*39.7*	*-20.0*	*-8.0*	*-3.8*	*22.3*	*-7.4*	*26.7*	*-2.7*
o.w. JKIA - Nairobi	202,737	156,240	215,110	169,513	152,138	160,564	190,009	170,078	65,431	62,856
Growth (%)	*-26.0*	*-22.9*	*37.7*	*-21.2*	*-10.2*	*5.5*	*18.3*	*-10.5*	*30.8*	*-3.9*
MIAM - Mombasa	53,228	16,018	25,504	23,046	24,947	9,810	18,388	22,837	9,407	9,983
Growth %	*-5.9*	*-69.9*	*59.2*	*-9.6*	*8.2*	*-60.7*	*87.4*	*24.2*	*3.7*	*6.1*

Source: Kenya Tourist Board

Transport

The transport and storage sector performance declined in the fourth quarter of 2015, growing by 5.5 percent compared to 9.4 percent growth in the third quarter. However, this was an improvement from 2.5 percent growth in the fourth quarter of 2014. The total number of passengers received at the Jomo Kenyatta International Airport, Nairobi (JKIA) increased in October and November 2015 as seen in Table 3.6. Meanwhile, the volume of oil that passed through the Kenya pipeline increased in the fourth quarter of 2015.

TABLE 3.6: THROUGHPUT OF SELECTED TRANSPORT COMPANIES

	2014				2015					
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Oct-15**	**Nov-15**	**Dec-15**
Number of Passengers thro' JKIA										
Total passenger flows	1,056,142	1,040,458	1,047,633	1,089,793	1,090,038	1,084,779	1,081,538	361,293	362,478	N/A
Growth (%)	*-1.4*	*-1.5*	*0.7*	*4.0*	*0.0*	*-0.5*	*-0.3*	*0.2*	*0.3*	
o.w. Incoming	527,508	515,935	518,086	541,357	544,470	542,619	539,865	180,054	181,239	N/A
Growth (%)	*-1.4*	*-2.2*	*0.4*	*4.5*	*0.6*	*-0.3*	*-0.5*	*-0.03*	*0.7*	
Outgoing	528,634	524,523	529,547	548,436	545,568	542,160	541,673	181,239	181,239	N/A
Growth %	*-1.4*	*-0.8*	*1.0*	*3.6*	*- 0.5*	*-0.6*	*- 0.1*	*0.5*	*0.0*	
Kenya Pipeline Oil Throughput										
Output ('000 litres)	1,361,907	1,378,151	1,474,444	1,409,126	1,453,716	1,412,774	1,428,822	481,681	451,045	509,905
Growth %	*1.7*	*1.2*	*7.0*	*-4.4*	*3.2*	*-2.8*	*1.1*	*3.2*	*-6.4*	*13.0*

N/A - Not Available

Source: Kenya National Bureau of Statistics and Kenya Pipeline Company Limited

4. DEVELOPMENTS IN BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview

Economic growth during the first quarter of 2016 slowed in both advanced and emerging market economies. The global economy is expected to grow modestly at 3.2 percent in 2016, from 3.1 percent in 2015, reflecting a 0.2 percentage point downward revision since the IMF's January 2016 World Economic Outlook on account of weaker growth in emerging and developing economies.

The US economy expanded by 0.5 percent in the first quarter of 2016, lower than the 1.4 percent expansion in the fourth quarter of 2015 and 0.6 percent in the first quarter of 2015. This reflected a slowdown in business investment as real consumption growth remained moderate. Over the same period, UK economy expanded by 0.4 percent, decelerating from a 0.6 percent growth due to a slowdown in industrial production, construction and agriculture. Growth in China also slowed down in the first quarter of 2016 to 1.1 percent from 1.5 percent in the fourth quarter of 2015, while India and South Africa recorded moderate growth rates. In Sub Saharan Africa (SSA) growth is projected to decline by 0.4 percentage points to 3.0 percent in 2016 on account of lower growth in the major commodity exporting countries.

Global inflation remained well below most central banks' targets during the first three months of 2016, in part reflecting the substantial decline in oil prices since the mid-2014 as well as subdued global demand. Inflation in the US declined from 1.4 percent in January 2016 to 0.9 percent in March 2016, while there were more signs of deflationary pressures in Europe where inflation in March 2016 was 0 percent down from 0.3 percent. Financial markets globally have been reassessing growth prospects, leading to a fall in equity prices and higher market volatility in the first quarter of 2016. Consequently, some emerging markets have particularly been vulnerable to sharp exchange rate movements.

Kenya's external position remained resilient despite heighted uncertainty in the global market. The current account balance improved to a deficit of US$ 4,325 million (6.8 percent of GDP) in 2015 from a deficit of USD 5,999 million (9.8 percent of GDP) in 2014. The improvement in the current account deficit in 2015 follows the peak of aircraft imports in 2014, lower import bill for petroleum products, improved earnings from tea and horticulture exports, and resilient diaspora remittances. The narrowing of the current account deficit and resilience of remittance inflows continued to support the foreign exchange market in the first quarter of 2016.

Kenya's gross international reserves position was strong at US$ 7,807 million by end-March 2016, equivalent to 5.1 months of imports. Approval on March 14, 2016 of the new IMF Precautionary Arrangements amounting to US$ 1,500 million is expected to provide additional buffer against short term external and domestic shocks.

Balance of Payments Developments

During the first quarter of 2016, Kenya's overall balance of payments position improved to a deficit of US$ 254 million from a deficit of US$ 859 million during the fourth quarter of 2015 **(Table 4.1)**. The quarter on quarter improvement in the balance of payments position was largely driven by improvements in the current account deficit.

TABLE 4.1: BALANCE OF PAYMENTS (US$ M) [1]/

ITEM	2015				2016			Q1 2016*	Q1 2016-Q4 2015	
	Q1	Q2	Q3	Q4	Jan	Feb	Mar		Change	% Change
1. Overall Balance	**105**	**504**	**504**	**-859**	**52**	**-82**	**-223**	**-254**	**605**	**-70.5**
2. Current account n.i.e	**-993**	**-1,337**	**-912**	**-1,084**	**-96**	**-74**	**-146**	**-316**	**768**	**-70.8**
Exports (fob)	1,455	1,409	1,618	1,500	476	447	539	1,461	-39	-2.6
Imports (fob)	3,753	4,062	3,836	3,911	998	948	1,079	3,025	-886	-22.7
Services: credit	1,155	1,140	1,099	1,101	357	378	338	1,073	-28	-2.5
Services: debit	580	520	523	543	177	204	202	582	39	7.2
Balance on goods and services	-1,722	-2,034	-1,642	-1,853	-342	-327	-404	-1,073	780	-42.1
Primary income: credit	77	76	78	79	30	28	30	88	9	12.0
Primary income: debit	182	217	197	220	61	59	61	181	-39	-17.6
Balance on goods, services, and primary income	-1,827	-2,174	-1,761	-1,994	-373	-358	-436	-1,167	828	-41.5
Secondary income, n. i. e.: credit	853	854	864	925	282	292	297	870	-55	-5.9
o.w Remittances	364	390	392	402	137	137	141	416	14	3.4
Secondary income: debit	18	16	15	14	5	8	7	20	6	38.5
3. Capital Account, n.i.e.	**62**	**75**	**59**	**60**	**40**	**38**	**23**	**100**	**40**	**66.5**
4. Financial Account, n.i.e.	**-1,452**	**-952**	**-892**	**-1,774**	**-449**	**-783**	**-462**	**-1,694**	**80**	**-4.5**

* Provisional.
[1]/Based on the Balance of Payments and International Investment Position Manual, 6th Edition
Source: Central Bank of Kenya

The current account balance improved to a deficit of US$ 316 million during the first quarter of 2016 from a deficit of US$ 1,084 million in the preceding quarter. This is attributable to a 42.1 percent improvement in the trade deficit reflecting a decline in imports of goods as well as improved earnings from horticulture and continued resilience of diaspora remittances. In particular, imports of oil and, machinery and transport declined by 32.7 percent and 37 percent, respectively in the first quarter of 2016, reflecting low commodity prices in the international market, especially of oil. Crude oil prices - simple average of Dated Brent, West Texas Intermediate, and the Dubai Fateh - remained relatively low averaging US$ 32.77 per barrel in the first quarter of 2016 from US$ 42.2 in the fourth quarter of 2015. However, crude oil prices rose by 20.2 percent in March, averaging US$ 37.34 per barrel, up for the second consecutive month as major oil producers prepare to discuss a potential output freeze. Strong supply from OPEC members and subdued global demand continue to moderate oil price increases.

Earnings from exports of horticulture improved by 30.4 percent in the first quarter of 2016 reflecting improved supply of cut flowers and fresh vegetables. The value of tea exports declined by 15.7 in the first quarter of 2016 reflecting depressed prices. The average price of tea declined from US$ 3.63 in the fourth quarter of 2015 to US$ 2.90 in the first quarter of 2016.

During the first quarter of 2016, the balance on services declined by 12.1 percent mainly due to lower receipts from transport services **(Table 4.2)**. On the upside, travel services improved by 30 percent in the first quarter of 2016 to US$ 137 million on a net basis from US$ 105 million, in line with the recovery in tourist arrivals. Remittance inflows (secondary income) increased by 3.4 percent during the first quarter of 2016.

TABLE 4.2: BALANCE ON CURRENT ACCOUNT (USD M)

ITEM	2015				2016*			Q1 2016*	Q1 2016-Q4 2015	
	Q1	Q2	Q3	Q4	Jan	Feb	Mar		Change	% Change
2. CURRENT ACCOUNT	**- 993**	**- 1,337**	**- 912**	**- 1,084**	**- 96**	**- 74**	**- 146**	**- 316**	**768**	**- 70.8**
2.1 Goods	**- 2,297**	**- 2,654**	**- 2,218**	**- 2,411**	**- 523**	**- 501**	**- 540**	**- 1,564**	**847**	**- 35.1**
Exports (fob)	1,455	1,409	1,618	**1,500**	476	447	539	**1,461**	**- 39**	**- 2.6**
o.w Coffee	51	65	53	43	12	16	22	50	7	15.7
Tea	291	270	301	385	108	120	97	325	- 60	- 15.7
Horticulture	198	157	232	172	71	68	85	224	52	30.4
Oil products	19	19	22	11	3	1	1	5	- 6	- 54.4
Manufactured Goods	125	121	147	117	36	16	39	91	- 26	- 22.1
Imports (fob) of which	3,753	4,062	3,836	**3,911**	998	948	1,079	**3,025**	**- 886**	**- 22.7**
o.w Oil	587	698	617	598	132	124	146	402	- 196	- 32.7
Chemicals	642	629	565	546	161	169	214	544	- 2	- 0.3
Manufactured Goods	700	683	683	624	195	179	194	568	- 57	- 9.1
Machinery & Transport Equipment	1,152	1,431	1,330	1,518	303	310	343	956	- 562	- 37.0
2.2 Services	575	620	576	**558**	180	174	136	**491**	**- 67**	**- 12.1**
Transport Services (net)	187	219	155	**190**	55	57	21	**133**	**- 57**	**- 29.8**
Credit	467	480	417	447	144	141	115	400	- 47	- 10.5
Debit	281	262	262	257	89	84	94	267	10	3.7
Travel Services (net)	138	136	127	**105**	32	49	56	**137**	**32**	**30.0**
Credit	188	179	180	176	54	69	66	189	13	7.3
Debit	50	44	53	71	22	20	10	53	- 19	- 26.1
Other Services (net)	250	265	294	**263**	94	68	60	**221**	**- 42**	**- 16.0**

* Provisional.

Source: Central Bank of Kenya

Direction of Trade

During the first quarter of 2016, Kenya sourced most imports from China, with the share of imports to total imports during the review period increasing to 21 percent from 19 percent in the fourth quarter of 2015. The share of Kenya's imports from the European Union increased to 17 percent from 13 percent, while that from India increased to 19 percent from 17 percent. Imports from Africa accounted for 10 percent in the first quarter of 2016 **(Table 4.3A)**.

TABLE 4.3A: KENYA'S DIRECTION OF TRADE: IMPORTS

IMPORTS (in millions of US dollars)									Share of Imports (%)	
	2015				2016				2015	2016
Country	**Q1**	**Q2**	**Q3**	**Q4**	**Jan**	**Feb**	**Mar**	**Q1**	**Q4**	**Q1**
Africa	**395**	**393**	**377**	**358**	**101**	**82**	**113**	**296**	**9**	**10**
Of which										
South Africa	156	155	164	152	34	28	36	97	**4**	**3**
Egypt	65	69	62	67	26	17	22	65	**2**	**2**
Others	174	169	151	139	42	37	55	134	**4**	**4**
EAC	**117**	**113**	**98**	**85**	**28**	**21**	**20**	**68**	**2**	**2**
COMESA	**193**	**168**	**151**	**173**	**57**	**44**	**49**	**149**	**4**	**5**
Rest of the World	**3358**	**3670**	**3459**	**3553**	**897**	**866**	**966**	**2730**	**91**	**90**
Of which										
India	715	666	553	649	161	175	224	560	**17**	**19**
United Arab Emirates	134	264	286	232	48	60	34	142	**6**	**5**
China	788	807	929	735	230	207	204	640	**19**	**21**
Japan	201	238	235	227	60	79	63	201	**6**	**7**
USA	199	351	129	597	33	37	38	108	**15**	**4**
United Kingdom	102	114	134	88	22	18	31	72	**2**	**2**
Singapore	26	12	26	33	3	2	2	7	**1**	**0**
Germany	116	149	127	92	40	35	38	113	**2**	**4**
Saudi Arabia	193	171	111	106	51	25	53	128	**3**	**4**
Indonesia	130	118	125	97	38	39	38	115	**2**	**4**
Netherlands	45	54	65	45	11	17	9	38	**1**	**1**
France	45	53	58	58	18	17	19	54	**1**	**2**
Bahrain	2	4	30	21	11	0	0	11	**1**	**0**
Italy	63	54	63	51	15	20	13	48	**1**	**2**
Others	599	615	588	521	157	134	200	491	**13**	**16**
Total	**3753**	**4062**	**3836**	**3911**	**998**	**948**	**1079**	**3025**	**100**	**100**

EU	541	656	627	509	163	154	185	502	**13**	**17**
China	788	807	929	735	230	207	204	640	**19**	**21**

Source: Central Bank of Kenya and Kenya Revenue Authority

Kenya's exports to Africa declined in the first quarter of 2016 (**Table 4.3B**) from the preceding quarter reflecting a decline in exports to the EAC (Uganda, Tanzania and Rwanda) and COMESA region, while exports to the rest of the world increased. The main factor accounting for this decline in exports to the EAC is the fall in Kenya's cement exports to Uganda. This could be explained partly by the recent establishment of branches by some Kenyan cement companies in Uganda and competition from China on manufactured goods in the Ugandan market. The share of exports to China remained at 1 percent during the first quarter of 2016, while the share to the European Union increased to 25 percent from 21 percent in the preceding quarter. The share of exports in the category of 'others' to the rest of the world declined to 21 percent.

TABLE 4.3B: KENYA'S DIRECTION OF TRADE: EXPORTS

EXPORTS (in millions of US dollars)									Share of Exports (%)	
	2015				2016				2015	2016
Country	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Q4	Q1
Africa	**597**	**595**	**676**	**593**	**181**	**124**	**236**	**541**	**40**	**37**
Of which										
Uganda	167	150	236	**144**	45	11	62	**118**	**10**	**8**
Tanzania	79	88	80	**95**	32	8	40	**80**	**6**	**5**
Egypt	43	52	51	**58**	16	18	19	**53**	**4**	**4**
Sudan	17	14	15	**15**	3	8	5	**16**	**1**	**1**
South Sudan	53	54	33	**36**	12	12	31	**55**	**2**	**4**
Somalia	36	33	36	**49**	12	11	16	**39**	**3**	**3**
DRC	57	50	50	**53**	15	15	16	**46**	**4**	**3**
Rwanda	41	43	58	**40**	13	1	15	**29**	**3**	**2**
Others	104	111	118	**103**	33	41	32	**106**	**7**	**7**
EAC	304	295	395	**292**	**97**	**27**	**123**	**246**	**19**	**17**
COMESA	400	385	492	**370**	**116**	**77**	**139**	**332**	**25**	**23**
Rest of the World	**859**	**814**	**942**	**907**	**295**	**323**	**302**	**920**	**60**	**63**
Of which										
United Kingdom	115	84	111	**103**	38	34	34	**107**	**7**	**7**
Netherlands	125	95	116	**93**	42	46	50	**137**	**6**	**9**
USA	94	96	122	**101**	28	31	31	**89**	**7**	**6**
Pakistan	75	69	81	**131**	24	25	23	**73**	**9**	**5**
United Arab Emirates	63	76	89	**68**	20	36	26	**82**	**5**	**6**
Germany	47	30	25	**27**	7	7	13	**27**	**2**	**2**
India	18	23	29	**20**	13	15	14	**43**	**1**	**3**
Afghanistan	37	30	39	**40**	20	20	11	**52**	**3**	**4**
Others	283	310	330	**324**	101	109	100	**310**	**22**	**21**
Total	**1455**	**1409**	**1618**	**1500**	**476**	**447**	**539**	**1461**	**100**	**100**
EU	378	308	362	**318**	115	120	134	**369**	**21**	**25**
China	24	24	19	**19**	6	9	3	**17**	**1**	**1**

Source: Central Bank of Kenya and Kenya Revenue Authority

Capital and Financial Account

Financial account flows remained stable at US$ 1,694 million in the first quarter of 2016 compared with US$ 1,774 million in the preceding quarter. Capital inflows were mainly in the form of direct investment and other investment which stood at US$ 391 million and US$ 1,150 million, respectively in the first quarter of 2016. Other investment inflows mainly reflect foreign financing for Government infrastructure projects.

TABLE 4.4: BALANCE ON THE CAPITAL AND FINANCIAL ACCOUNT (USD M)

ITEM	2015				2016			Q1 2016*	Q1 2016-Q4 2015	
	Q1	Q2	Q3	Q4	Jan	Feb	Mar		Change	% Change
B. Capital Account, n.i.e.	**62**	**75**	**59**	**60**	**40**	**38**	**23**	**100**	**40**	**66.5**
Capital account, n.i.e.: credit	**62**	**75**	**59**	**60**	**40**	**38**	**23**	**100**	40	66.5
Capital account: debit	-	-	-	-	-	-	-	-	-	-
C. Financial Account, n.i.e.	**-1,452**	**-952**	**-892**	**-1,774**	**-449**	**-783**	**-462**	**-1,694**	**80**	**-4.5**
Direct investment: assets	100	100	100	100	33	33	33	**100**	-	-
Direct investment: liabilities, n.i.e.	385	370	363	368	138	120	133	**391**	23	6.2
Portfolio investment: assets	75	80	9	26	1	3	1	**5**	-20	-79.2
Portfolio investment: liabilities, n.i.e.	3	7	8	16	6	1	6	**13**	-2	-15.6
Financial derivatives: net	-	-	-	-	-	-	-	-	-	-
Other investment: assets	302	154	-54	84	-107	-208	71	**-244**	-328	-391.6
Other investment: liabilities, n.i.e.	1,541	908	577	1,599	232	490	428	**1,150**	-449	-28.1

*Provisional

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings improved by 0.2 percent in the first quarter of 2016. Official reserves held by the Central Bank constituted 79.6 percent of gross reserves and increased to USD 7,807 million. In terms of months of import cover, the ratio stood at 5.1 months during the first quarter of 2016. Foreign exchange reserves held by commercial banks decreased by 11.4 percent to USD 2,002 million during the review period **(Table 4.5).**

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

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Jan 16	Feb 16	Mar 16	Q1 2016
1. Gross Reserves	**9,834**	**9,473**	**8,899**	**9,794**	**9,629**	**9,501**	**9,809**	**9,809**
of which:								
Official	7,723	7,212	6,711	**7,534**	7,481	7,566	7,807	**7,807**
*import cover**	*4.9*	*4.6*	*4.3*	***4.8***	*4.8*	*4.9*	*5.1*	***5.1***
Commercial Banks	2,111	2,262	2,188	**2,259**	2,148	1,935	2,002	**2,002**
2. Residents' foreign currency deposits	**4,154**	**4,488**	**4,278**	**4,389**	**4,261**	**4,122**	**4,191**	**4,191**

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

Source: Central Bank of Kenya

Exchange Rates

The foreign exchange market has remained stable, supported by a narrowing current account deficit largely due to a lower import bill, an improvement in earnings from exports and resilient inflows from diaspora remittances.

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

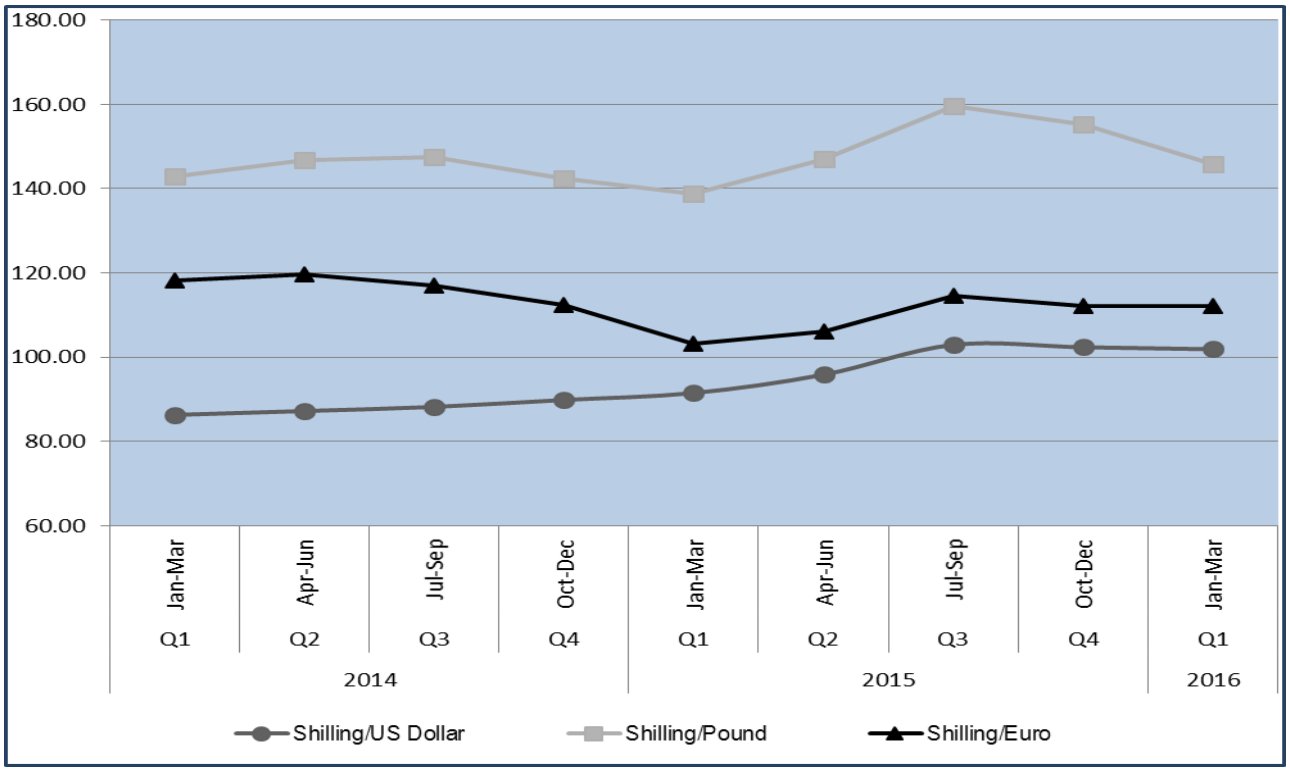
TABLE 4.6 KENYA SHILLING EXCHANGE RATES

	2015				2016				
	Q1 2015	Q2 2015	Q3 2015	Q4 2015	January	February	March	Q1 2016	% change Q1 2016 - Q4 2015
US Dollar	91.53	95.87	102.95	102.38	102.31	101.93	101.49	101.90	-0.47
Pound Sterling	138.70	147.04	159.58	155.33	147.53	145.86	144.24	145.85	-6.11
Euro	103.15	106.05	114.52	112.10	111.11	113.02	112.60	112.26	0.14
100 Japanese Yen	76.84	79.02	84.27	84.32	86.57	88.54	89.86	88.35	4.78
Uganda Shilling*	31.62	31.97	34.21	33.95	33.71	33.68	33.15	33.51	-1.28
Tanzania Shilling*	19.80	21.27	20.73	21.13	21.32	21.45	21.55	21.44	1.48
Rwanda Franc*	7.54	7.30	7.06	7.24	7.35	7.36	7.44	7.38	1.99
Burundi Franc*	17.10	16.33	15.25	15.16	15.19	15.28	15.33	15.27	0.69

*Units of currency per Kenya shilling

Source: Central Bank of Kenya

CHART 4A: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

5. Developments In The Banking Sector

1. Introduction

The Kenyan banking sector comprised 42 commercial banks[3], 1 mortgage finance company, 12 microfinance banks, 8 representative offices of foreign banks, 79 foreign exchange bureaus, 17 money remittance providers and 3 credit reference bureaus as at March 31, 2016. Two money remittance providers were licensed within quarter one of 2016. Upesi Money Transfer Ltd and Real Value Money Transfer Ltd were granted licenses on 1st January 2016 and January 5, 2016, respectively.

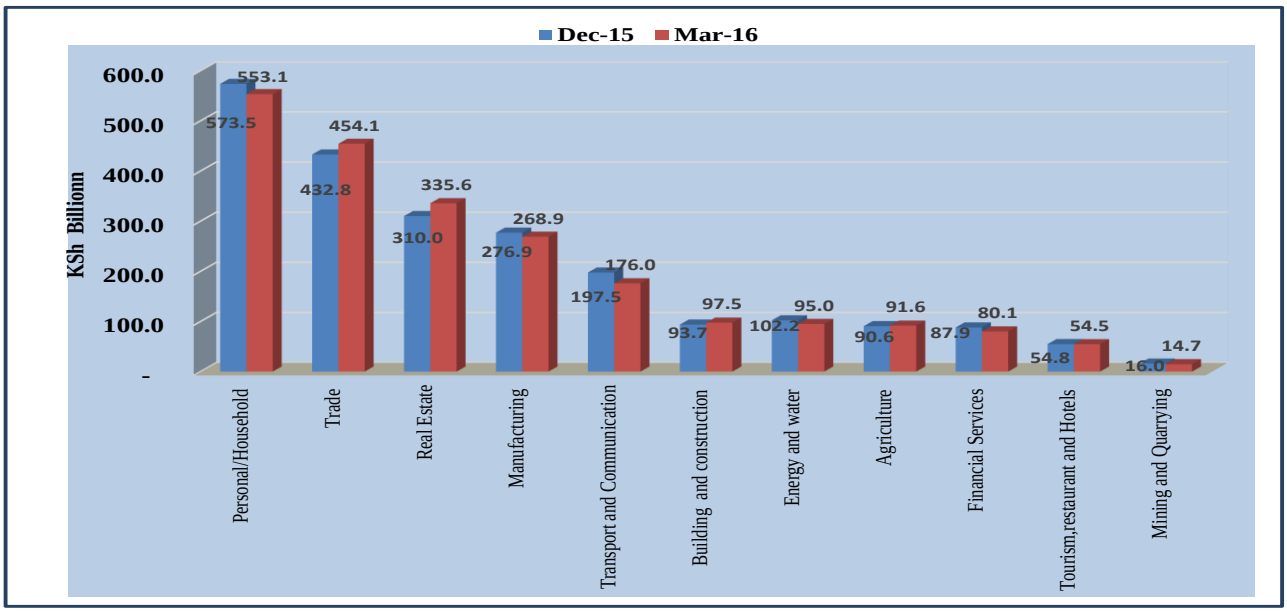
2. Structure of the Balance Sheet

Total net assets grew by 2.3 percent from KSh 3,492.6 billion in December 2015 to KSh 3,571.3 billion in March 2016. The growth in assets is attributed to the banks increased investments in government securities and demand for loans and advances, which increased by 13.6 percent and 2.58 percent respectively. Loans and advances remained the main component of assets accounting for 66.46 percent in March 2016, which was an increase from 64.94 percent in December 2015.

3. Loans and Advances

Gross loans recorded a growth of 2.58 percent from KSh 2,165.33 billion in December 2015 to KSh 2,221.2 billion in March 2016. The increase in the loan book was contributed by four economic sectors; real estate, trade, building and construction and agriculture. Trade and real estate sectors recorded the highest increase in demand for credit with increases of KSh 25.6 million or 42 percent and KSh 21.3 million or 22 percent, respectively. The sector distribution of loans as at 31st March 2016 is shown in **Chart 5A**.

CHART 5A: KENYAN BANKING SECTOR GROSS LOANS (KSHS.BN)



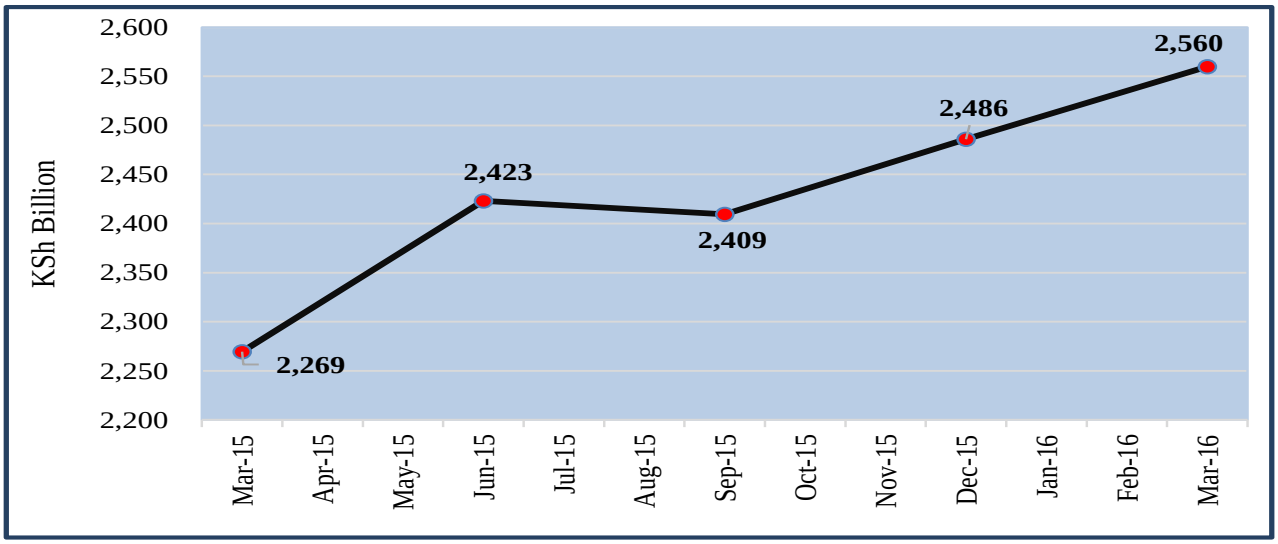
Source: Central Bank of Kenya

[3] Charterhouse Bank is under Statutory Management, while Chase Bank and Imperial Bank are under Receivership. The three banks have been excluded in this report.

Deposit Liabilities

Some banks in the small and medium peer groups faced liquidity challenges in the quarter ended March 2016 due to spill over effects of placement of Dubai Bank in liquidation and placement of Imperial Bank under receivership in second half of 2015. Customer deposits, which remain the main source of funding to banks, grew by 2.97 percent from KSh 2,485.9 billion in December 2015 to KSh 2,559.8 billion in March 2016. Chart 2 shows the movement in deposit liabilities from the quarter ended March 2015 to the quarter ended March 2016.

CHART 5B: CUSTOMER DEPOSITS KSH.BN



Source: Central Bank of Kenya

Customer deposits have generally recorded an increasing trend between March 2015 and March 2016. However, the spill over effects of placement of Dubai Bank in liquidation and Imperial Bank in receivership could be attributed to the slight drop in deposits in third quarter 2015. The drop was short lived as shown by the consistent upward trend in customer deposits from the fourth quarter of 2015.

4. Capital Adequacy for the Sector

The introduction of 2.5 per cent capital conservation buffer in January 2015 increased the minimum regulatory capital adequacy ratios of core capital and total capital to total risk weighted assets to 10.5 per cent and 14.5 percent, respectively.

Total capital to total risk weighted assets ratio remained constant at 18.8 percent as at December 2015 and March 2016. The total capital's increase of 1.3 percent was neutralised by an increase of 1.8 percent by the total risk weighted assets. Core capital to total risk weighted assets ratio as at March 2016 was 16.0 percent as compared to 15.8 percent as at December 2015. The marginal increase is as a result of a higher increase of core capital of 2.1 percent between December 2015 and March 2016 compared to 1.8 percent increase of total risk weighted assets over the same period.

Banks are also required to maintain a core capital to total deposits ratio of not less than 8 percent. As at March 2016, this ratio decreased to 18.6 percent from 18.7 percent registered in December 2015. The decrease was attributed to a lower growth in core capital of 2.1 percent as compared to a 2.97 percent growth in customer deposits.

5. Non–Performing Loans

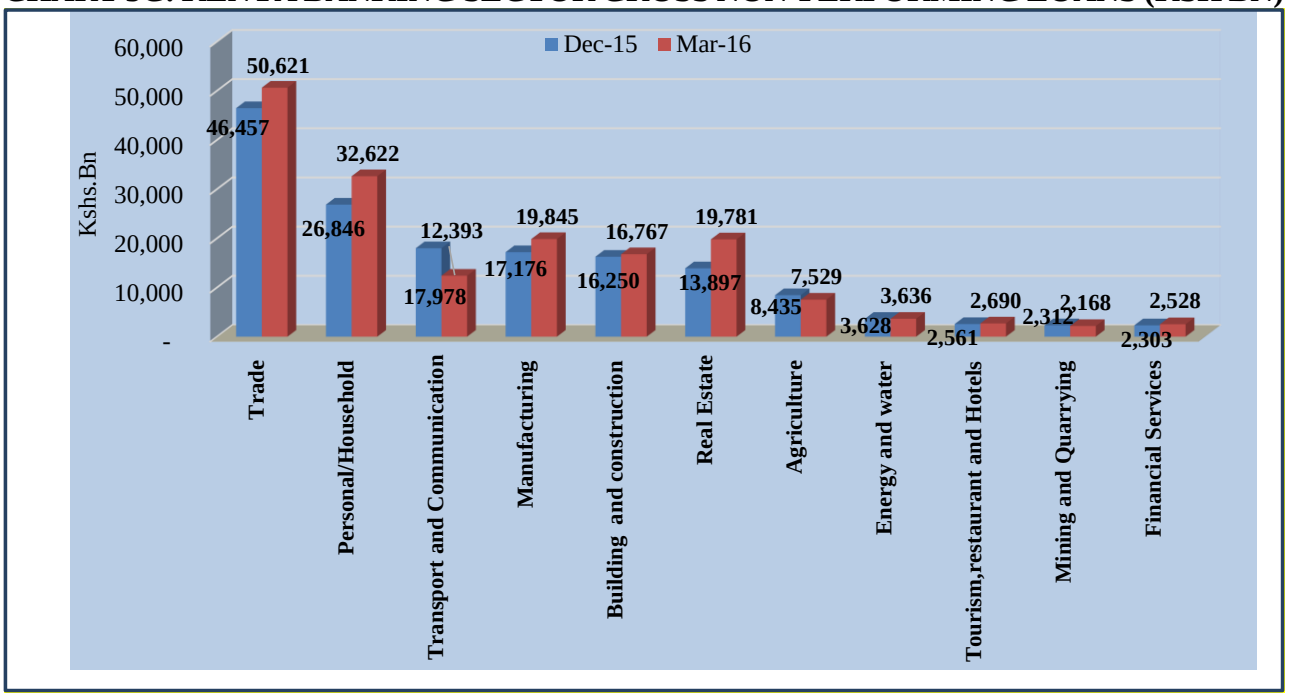
The gross Non-Performing Loans (NPLs) increased by 15.8 percent from KSh 147.3 billion in December 2015 to KSh 170.6 billion in March 2016. Real estate sector recorded the highest increase in NPLs over the quarter by KSh 5.9 billion or 42.3 percent. This is attributable to slow uptake of housing units. Personal/household sector registered NPLs increase of KSh 5.77 billion or 21.5 percent between December 2015 and March 2016 as a result of negative macroeconomic drivers such as job losses and delayed salaries. The manufacturing sector had an increase in NPLs of KSh 2.7 billion or 15.5 percent between December 2015 and March 2016 due to slow down in business leading to failure to generate enough cash flows to meet all financial obligations.

Transport and communication, agriculture and mining and quarrying economic sectors registered decreases in NPLs between December 2015 and March 2016. NPLs in transport and communication sector decreased by KSh 5.6 billion or 31.1 percent. This was occasioned by enhancement of road safety rules, which has ensured continued business by transporters hence continued repayment of loans. The transport infrastructure has also been improved to the benefit of transporters.

Agriculture sector recorded a decrease of KSh 0.9 billion or 10.7 percent in NPLs between December 2015 and March 2016. This is attributed to improved weather conditions.

Based on the movements of NPLs highlighted above, the gross NPLs to gross loans ratio increased from 6.8 percent in December 2015 to 7.8 percent in March 2016. C**hart 5C** details the sectoral distribution of gross NPLs in the quarter**.**

CHART 5C: KENYA BANKING SECTOR GROSS NON-PERFORMING LOANS (KSH BN)



Source: Central Bank of Kenya

6. Asset Quality

The banking sector's asset quality, measured as a proportion of net non-performing loans to gross loans deteriorated from 3.4 percent in December 2015 to 4.0 percent in March 2016. Similarly, the coverage ratio, measured as a percentage of specific provisions to total NPLs decreased from 40.9 percent in December 2015 to 36.3 percent in March 2016. The deteriorating asset quality was occasioned by increased level of non-performing loans by KSh 23.3 billion or 15.8 percent between

December 2015 and March 2016. A summary of asset quality for the banking sector over the period (**Table 5.1)**.

TABLE 5.1: SUMMARY OF ASSET QUALITY

		Dec-15 (KSh'Bn)	**Mar-16 (KSh'Bn)**
1	Gross Loans and Advances	2,165.33	2,221.20
2	Interest in Suspense (KSh'Bn)	23.18	32.8
3	Loans and advances (net of interest suspended) (KSh'Bn)	2,142.15	2,188.40
4	Gross non-performing loans (KSh'Bn)	147.33	170.58
5	Specific Provisions (KSh'Bn)	50.79	50.0
6	General Provisions (KSh'Bn)	16.15	16.7
7	Total Provisions (5+6) (KSh'Bn)	66.94	66.7
8	Net Advances (3-7) (KSh'Bn)	2,075.21	2,121.70
9	Total Non-Performing Loans and Advances (4-2) (KSh'Bn)	124.15	137.78
10	Net Non-Performing Loans and Advances (9-5) (KSh'Bn)	73.36	87.78
11	Total NPLs as percent of Total Advances (9/3)	5.80	6.30
12	Net NPLs as percent of Gross Advances (10/1)	3.39	3.95
13	Specific Provisions as percent of Total NPLs (5/9)	40.91	36.29

Source: Central Bank of Kenya

7. Profitability

The banking sector's pre-tax profits grew by 51.5 percent from KSh 25.5 billion in the quarter ended December 2015 to KSh 38.4 billion in the quarter ended March 2016. The growth in profitability is mainly attributable to a higher decrease in total expenses by 8.5 percent as compared to a decrease in total income of 2.7 percent in the quarter ended March 2016.

Total income decreased by 2.7 percent from KSh 130.7 billion for the quarter ended December 2015 to KSh 127.2 billion for the Quarter ended March 2016, while total expenses decreased by 8.5 percent from KSh 105.4 billion to KSh 96.4 billion over the same period.

Interest on loans and advances, other incomes and interest on government securities were the major sources of income accounting for 60.9 percent, 14.7 percent and 16.1 percent of total income respectively. On the other hand, interest on deposits, salaries and wages, and other expenses were the key components of expenses, accounting for 36.6 percent, 24.2 percent and 21.4 percent of total expenses respectively.

As a result of increased profitability, the return on assets increased from 2.9 percent in December 2015 to 3.4 percent in March 2016 while return on shareholders' funds also increased from 23.8 percent in December 2015 to 27.7 percent in March 2016.

8. Liquidity

Liquidity is one of the important financial indicators in the banking sector. Liquidity shortfall in one bank can cause systemic crisis in the banking sector due to their interconnected operations. Liquidity held by commercial banks depicts their ability to fund increases in assets and meet obligations as they fall due.

A number of small peer and medium peer group commercial banks experienced liquidity challenges in quarter one 2016 on account of spill over effects of the placement of Imperial Bank under receivership in quarter 3 of 2015. Depositors migrated their deposits to selected medium banks and large banks. Most large banks rationed lines of credit affecting mainly banks in small and some medium peer groups.

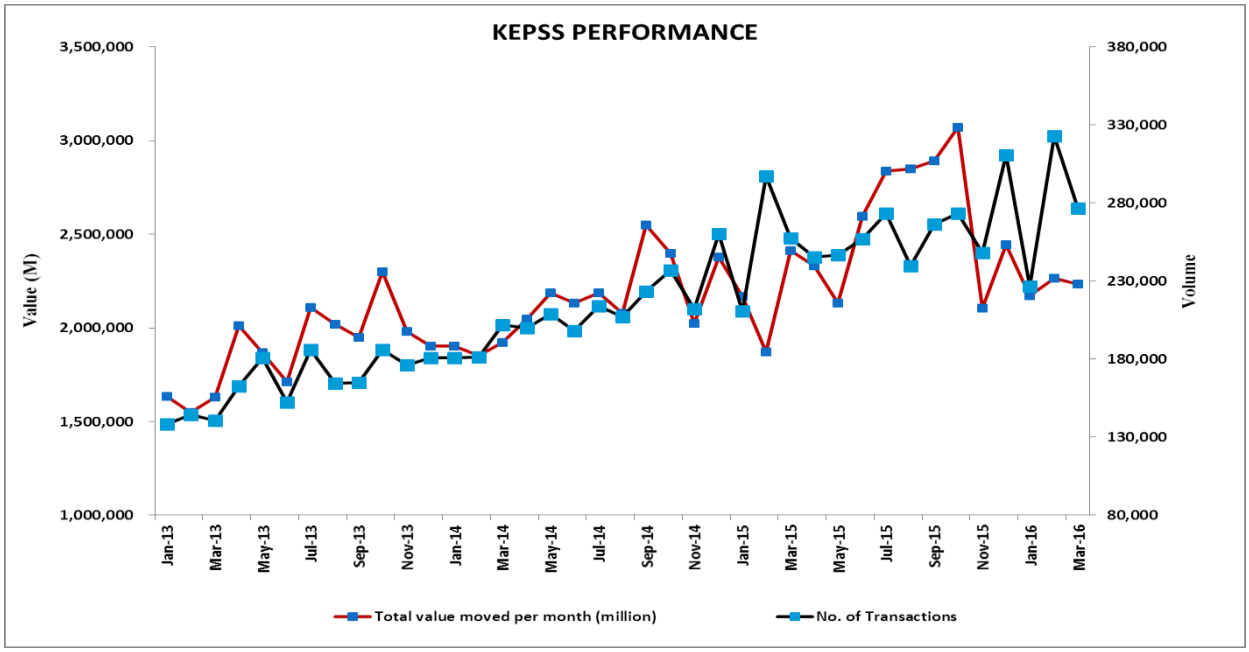
The overall banking sector liquidity ratio was 39.9 percent as at March 2016 which was an increase from 38.1 percent registered in December 2015. This shows that the sector as a whole remained liquid and the temporary liquidity challenge was a sign of skewed distribution of liquidity.

KENYA SHILLING FLOWS IN KEPSS

Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 826,050 transaction messages worth KSh 6.7 trillion in the Quarter 1 of 2016, compared to Quarter 4 of 2015 which recorded 832,449 transactions worth KSh 7.6 trillion. Figuratively, this was a decline of 0.76 per cent and 11.74 percent in volume and value, respectively.

This decline in RTGS transactions during the Quarter 1 of 2016 could be attributed to the challenges experienced in the banking sector and a decline in interbank transactions in the first months of 2016,

CHART 5D: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



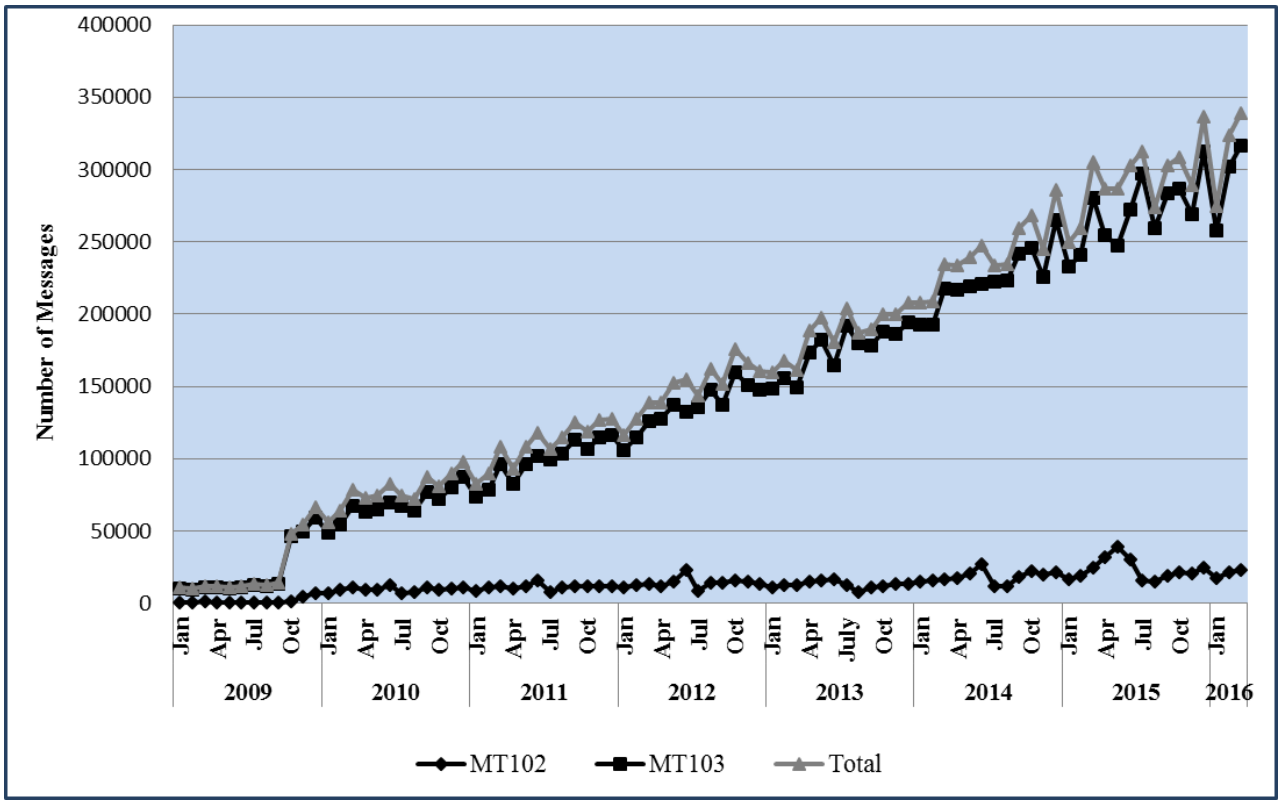
Source: National Payment System, Central Bank of Kenya

BANK CUSTOMER PAYMENTS PROCESSED THROUGH KEPSS

In transmitting payments through the RTGS for customers, commercial banks submit the payment instructions vide multiple third party Message Type (MT 102) used for several credit transfers and single third party Message Type (MT 103) used for single credit transfers.

During the period under review, MT 102 usage declined from 66,052 messages processed in the fourth Quarter of 2015 to 61,634 messages recorded in the first Quarter of 2016. However, MT 103 payments increased from 867,611 messages to 875,631 messages in first Quarter of 2016.

CHART 5C: TRENDS IN MT102 AND MT103 VOLUMES PROCESSED THROUGH KEPSS



Source: National Payment System, Central Bank of Kenya

KEPSS SYSTEM AVAILABILITY

The KEPSS system has been available to the commercial banks and other participants for 8 hours per day as agreed by the stakeholders. The system operates from 8.30 AM to 4.30 PM in two 'windows'. The first window runs between 8.30 AM to 4.00 PM to enable participants transmit customer payment requests while the second window runs from 4.00 PM to 4.30 PM to enable participants settle their obligations and fund their accounts before the system is closed.

During the period under review, KEPSS was available on an average of 98.7 percent compared to the fourth Quarter of 2015 which attained a 99.2 percent availability. The decline is attributed to technical challenges experienced in March 2016 which has been resolved and mitigation measures put in place to prevent a recurrence.

6. GOVERNMENT BUDGET PERFORMANCE

The cumulative Government's budgetary operations in the first three quarters of the FY 2015/16 resulted in a deficit 4.7 percent of GDP including grants on a commitment basis. The cumulative deficit was within the 7.9 percent of GDP deficit programmed for the period (Table 6.1). On a quarterly basis the government's budgetary operations resulted in a deficit of 1.7 percent of GDP in the third quarter compared with a deficit of 3.4 percent of GDP in the second quarter of the FY 2015/16.

TABLE 6.1: STATEMENT OF GOVERNMENT OPERATIONS (KSh Billion)

	Q1	Q2	Jan	Feb	Mar	Q3	FY 2015/16 to March 2016	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	**282.5**	**302.2**	**107.3**	**13.4**	**171.7**	**292.4**	**876.8**	**1,007.7**	**(130.8)**
Ordinary Revenue	**277.0**	**298.4**	**91.5**	**6.5**	**166.7**	**264.7**	**817.9**	**881.4**	**(63.5)**
Tax Revenue	256.6	266.7	80.4	4.7	156.6	241.6	772.6	853.7	(81.1)
Non Tax Revenue	4.4	16.7	11.1	1.8	10.2	23.1	45.3	27.7	17.6
Appropriations-in-Aid	16.0	15.0	4.2	3.4	4.8	12.4	34.5	69.2	(34.7)
External Grants	5.5	3.7	11.6	3.4	0.2	15.2	24.5	57.1	(32.6)
2. TOTAL EXPENSES & NET LENDING	**254.2**	**515.0**	**119.7**	**38.9**	**241.9**	**400.5**	**1,169.7**	**1,502.1**	**(332.4)**
Recurrent Expenses	181.6	295.4	88.6	16.1	190.8	295.5	710.8	712.4	(1.6)
Development Expenses	41.2	151.8	31.1	22.1	51.0	104.2	297.3	568.3	(271.0)
County Transfers	31.4	67.8	15.0	0.5	46.9	62.4	161.6	217.9	(56.3)
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**28.3**	**(212.8)**	**(12.4)**	**(25.5)**	**(70.2)**	**(108.1)**	**(292.8)**	**(494.4)**	**201.6**
As percent of GDP	0.5	(3.4)	(0.2)	(0.4)	(1.1)	(1.7)	(4.7)	(7.9)	3.2
4. ADJUSTMENT TO CASH BASIS	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-**
5. DEFICIT ON A CASH BASIS	**28.3**	**(212.8)**	**(12.4)**	**(25.5)**	**(70.2)**	**(108.1)**	**(292.8)**	**(494.4)**	**201.6**
As percent of GDP	0.5	(3.4)	(0.2)	(0.5)	(1.3)	(2.0)	(4.7)	(7.9)	3.2
6. DISCREPANCY: Expenditure (+) / Revenue (-	**40.7**	**(42.2)**	**0.4**	**58.3**	**(29.9)**	**28.9**	**8.0**	**0.0**	**8.0**
7. FINANCING	**12.5**	**170.6**	**12.8**	**83.9**	**40.3**	**137.0**	**300.8**	**494.4**	**(193.6)**
Domestic (Net)	2.8	42.7	3.7	69.1	10.2	83.0	109.2	198.4	**(89.2)**
External (Net)	9.3	128.2	7.8	14.8	10.9	33.4	170.9	296.0	**(125.1)**
Capital Receipts (domestic loan receip	0.3	(0.3)	1.3	0.0	19.3	20.6	20.6	0.0	**20.6**
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-

Source: Provisional Budget Outturn from the National Treasury

Revenue

In the third quarter of the FY 2015/16 the government total revenue including grants amounted to KSh 292.4 billion compared to KSh 302.0 billion in the second quarter of the FY 2015/16.

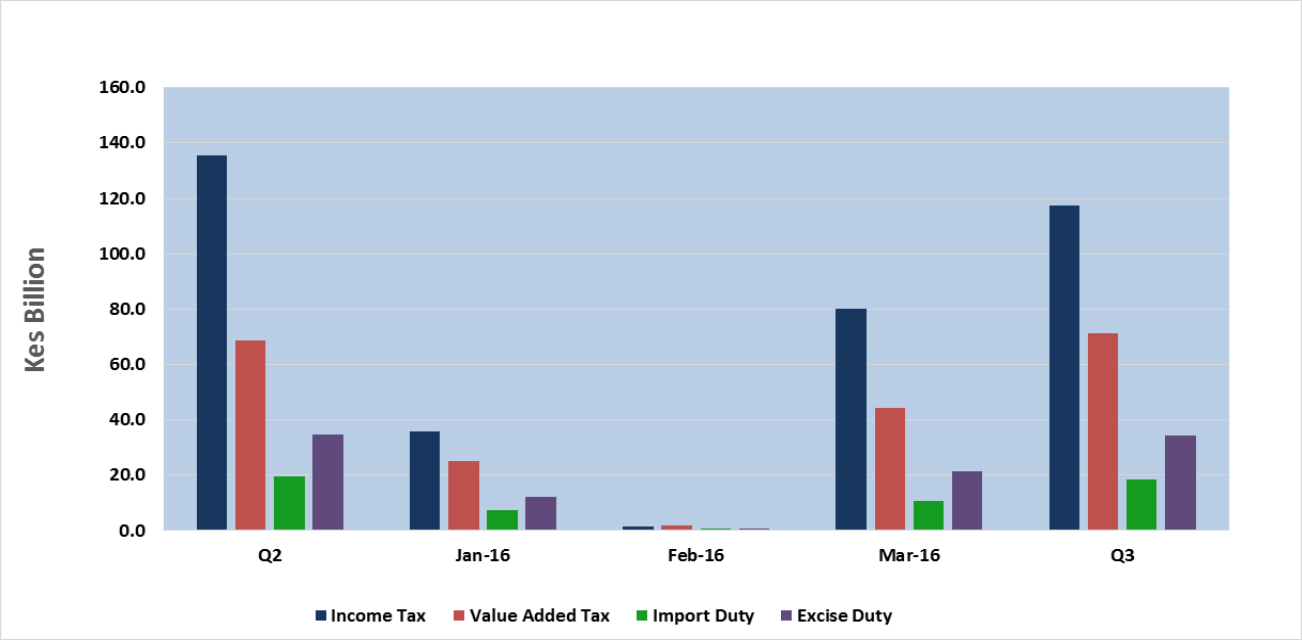
By March 2016 the government had collected revenues including grants of KSh 876.8 billion on a cumulative basis, against a target of KSh 1,007.7 billion. As a proportion of GDP, revenue and grants through the third quarter of the FY 2015/16 amounted to 14.1 percent, and remained on course to meeting the target ratio of 21.8 percent in FY 2015/16.

External grants in the third quarter of the FY 2015/16 amounted to KSh 15.2 billion compared to KSh 3.7 billion recorded in the second quarter of FY 2015/16. Cumulatively, external grants in the first half of FY 2015/16 were KSh. 32.6 billion below target.

Ministerial Appropriations in Aid (A-in-A) collected in the third quarter of the FY 2015/16 stood at KSh 12.4 billion compared to KSh 15 billion collected in the second quarter of the FY2015/16. Cumulatively, A-in-A were KSh 34.7 billion below target by March of FY 2015/16 reflecting under reporting in the ministry's expenditure return for the period under review.

Tax revenue collection in the third quarter of the FY 2015/16 declined by 9.4 percent to KSh 241.6 billion compared to the KSh 266.7 billion that was collected in the second quarter. Cumulatively tax revenue collection was KSh 772.6 billion against a target of KSh 853.7 billion through the third quarter of the FY 2015/16, representing KSh 81.1 billion shortfall. Performance of tax revenue was adversely affected by external factors such as forgone donor funded projects. Furthermore, the increase in exemptions undermined the collections of import VAT, Railway Development Levy and Import Declaration Fees (IDF).

CHART 6A: COMPOSITION OF GOVERNMENT REVENUE (KSH BILLION)



Source: Provisional Budget Outturn from the National Treasury

Income tax, excise and import duty declined by 13.3 percent, 0.5 percent and 5.7 percent, respectively in the third quarter of the FY 2015/16 while. Value added tax increased by 3.8 percent (**Chart 6A**).

Cumulatively, all tax revenues fell short of targets. There were challenges in the collection of VAT, as well as an initial delay in approving new excise tax measures. The cumulative revenues shortfall can also be attributed to changes in the economic environment, in particular the rise in interest rates. Additionally government policy with respect to exemptions and taxations of state corporations continues to have an adverse effect on the collection of revenues.

Outlook on revenue collection remain optimistic following full operationalization of the new measures on excise tax, and the stable macroeconomic environment.

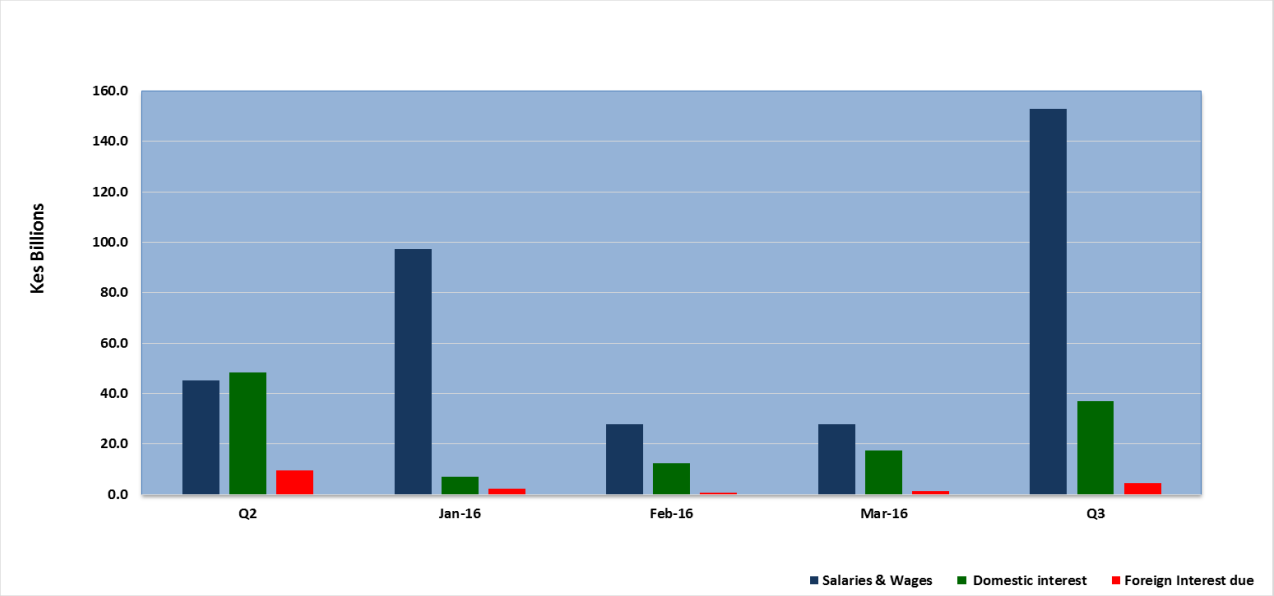
Expenditure and Net Lending

Government expenditure and net lending declined by 22.2 percent in the second and third quarters of the FY 2015/16 in all components: the recurrent expenditure, development expenditure and County transfers declined by 18.6 percent, 31.3 percent and 8.0 percent, respectively. By composition, the share of recurrent expenditure increased sharply, to 73.8 percent of government spending in the third quarter from 57.4 percent in the second quarter of the FY 2015/16. Meanwhile the contribution of development expenditure declined to 26.0 percent from 29.5 percent and that of County transfers increased to 15.6 percent from 13.2 percent over the same period (**Table 6.1**).

Cumulatively, expenditure and net lending for the first half of the FY 2015/16 amounted to KSh 1,169.7 billion, against a target of KSh 1,502.1 billion. The shortfall can be attributed to lower absorption of both recurrent and development expenditures by the National Government and County Governments. Specifically, the discrepancies between actual and target expenditures partly reflects the non-inclusion of the district expenditures and some donor funded projects, hence under reporting of expenditures by ministries. Furthermore, the government also slowed down its expenditures to support the proposed rationalization in the supplementary budget.

Recurrent expenditure declined by 18.6 percent in the third quarter of FY 2015/16. By components, total interest payments declined by 28.6 percent. In particular, foreign interest payments for the third quarter of the FY 2015/16 amounted to KSh 4.3 billion, compared to KSh 9.4 billion in the second quarter. Domestic interest payments stood at KSh 36.9 billion, which was lower than KSh 48.3 billion paid in the second quarter of the FY 2015/16 (**Chart 6B**). Meanwhile, expenditure on salaries and wages rose by 239 percent in the period under review to accommodate delayed salaries for teachers arising from determination of the industrial dispute between the teachers union and Teachers Service Commission in the first quarter of the FY 2015/16.

CHART 6B: COMPOSITION OF RECURRENT EXPENSES



Source: Provisional Budget Outturn from the National Treasury

Financing

External financing in the third quarter of the FY 2015/16 was KSh 33.4 billion compared to KSh 128.2 billion in the second quarter of the FY 2015/16 (**Table 6.1**). The high external borrowing in the second quarter reflects proceeds of the 2-year syndicated loan of US$ 750 million obtained in October 2015.

In the third quarter of FY 2015/16, net domestic borrowing amounted to KSh 127.8 billion and comprised of KSh 88.4 billion credit from commercial banks, KSh 73.2 billion from non-banking financial institutions (NBFIs) and KSh 1.1 billion from non-residents. Government repaid KSh 34.9 billion of its outstanding overdraft to the Central Bank. During the second quarter of FY 2015/16, net domestic borrowing amounted to KSh 44.9 billion (**Table 6.2**).

Access to domestic financing was constrained during the first quarter of the year, as a result of tight liquidity conditions in the market coupled with the government reluctance to accept higher interest

rates. However, in the second and third quarters of the FY 2015/16, money market liquidity conditions stabilized and the government made strides with its domestic borrowing programme. The government also substituted some planned domestic financing with foreign financing by drawing on a two year syndicated loan of USD 750 million in the second quarter of FY 2015/16.

TABLE 6.2 DOMESTIC FINANCING ENDING MARCH 31ST 2016

Net Credit to Government 2015/16 (Ksh Million)	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
1. From CBK	**9,509**	**17,763**	**-22,452**	**-29,084**	**-8,766**	**-34,917**
2. From commercial banks	**3,859**	**30,175**	**27,925**	**12,449**	**69,740**	**88,402**
4. From Non-banks	**-430**	**25,579**	**37,673**	**42,658**	**58,560**	**73,248**
5. From Non-Residents	**1,599**	**1,972**	**1,820**	**1,384**	**1,119**	**1,106**
Change in Credit from banks (From 30th June 2015)	13,369	47,938	5,473	-16,634	60,974	53,485
Change in Credit from non-banks(From 30th June 2015)	-430	25,579	37,673	42,658	58,560	73,248
Change in Credit from non-residents(From 30th June 2015)	1,599	1,972	1,820	1,384	1,119	1,106
6.Total Change in Dom. Credit (From 30th June 2015)	**14,537**	**75,489**	**44,967**	**27,407**	**120,653**	**127,839**

NB. Treasury Bills are reflected at Cost

Source: Central Bank of Kenya

Outlook for FY 2015/16

In the budget estimates for the FY 2015/16, ordinary revenue is estimated at KSh 1,358.0 billion (21.8 percent of GDP), while external grants are estimated at KSh 73.4 billion (1.2 percent of GDP). Government expenditure is estimated at KSh 2,000.6 billion (32.1 percent of GDP), of which KSh 1,013.0 billion (16.3 percent of GDP) will be in recurrent expenses, transfer to the county governments at KSh 264.2 billion, and development expenses at KSh 718.5 billion (**Table 6.3**).

TABLE 6.3: BUDGET ESTIMATES FOR THE FISCAL YEAR 2015/16 (KSh Billion)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE	**1,358.0**	**21.8**
Ordinary Revenue	1,254.9	20.2
Appropriations-in-Aid	103.2	1.7
External Grants	73.4	1.2
2. TOTAL EXPENSES & NET LENDING	**2,000.6**	**32.1**
Recurrent Expenses	1,013.0	16.3
Development Expenses	718.5	11.5
County Transfer	264.2	4.2
Contigency Fund	5.0	0.1
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-642.6**	**-10.3**
4. ADJUSTMENT TO CASH BASIS	**0.0**	**0.0**
5. DEFICIT ON A CASH BASIS	**-642.6**	**-10.3**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.0**	**0.0**
7. FINANCING	**569.2**	**9.1**
Domestic (Net)	228.7	3.7
External (Net)	340.5	5.5

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

The overall budget deficit including grants on commitment basis is therefore estimated at KSh 642.6 billion (10.3 percent of GDP) in 2015/16. The deficit is expected to be financed through net external borrowing of KSh 340.5 billion and net domestic borrowing of KSh 228.7 billion.

7. Developments In Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 4.9 percent in the third quarter of the FY 2015/16 with domestic debt accounting for much of the increase. As percentage of GDP, total debt stock at the end of the third quarter stood at 53.2 percent, a 250 basis points increase from the ratio reported at the end of the second quarter of the FY 2015/16. External debt and domestic debt to GDP ratios increased from 25.9 percent and 24.7 percent at the end of second quarter to 26.8 percent and 26.5 percent by the end of the third quarter, respectively (**Table 7.1**).

Table 7.1 Kenya's Public and Publicly Guaranteed Debt[4]

	FY 2015/16					
	Q1	Q2	Jan-16	Feb-16	Q3	Change Q on Q
EXTERNAL**						
Bilateral	477.5	481.3	518.5	524.1	522.4	41.1
Multilateral	759.3	751.2	761.6	752.7	766.6	15.5
Commercial Banks	295.6	366.2	366.1	361.3	360.2	-6.1
Supplier Credits	17.8	16.5	8.5	8.5	16.4	-0.2
Sub-Total	**1,550.2**	**1,615.2**	**1,654.7**	**1,646.6**	**1,665.6**	**50.4**
(As a % of GDP)	24.9	25.9	26.6	26.5	26.8	
(As a % of total debt)	52.8	51.2	52.1	50.6	50.3	
DOMESTIC						
Banks	**790.3**	**865.8**	**843.4**	**908.2**	**932.3**	**66.6**
Central Bank	107.6	101.4	91.8	99.8	102.6	1.3
Commercial Banks	682.7	764.4	751.5	808.4	829.7	65.3
Non-banks	**586.1**	**661.7**	**667.6**	**685.1**	**702.2**	**40.6**
Pension Funds	345.4	389.0	391.7	406.0	417.0	28.0
Insurance Companies	121.1	129.1	130.7	130.2	133.0	3.9
Other Non-bank Sources	119.6	143.6	145.1	148.9	152.2	8.7
Non-residents	**11.5**	**12.6**	**12.1**	**12.0**	**12.0**	**-0.6**
Sub-Total	**1,388.0**	**1,540.0**	**1,523.1**	**1,605.2**	**1,646.5**	**106.5**
(As a % of GDP)	22.3	24.7	24.5	25.8	26.5	
(As a % of total debt)	47.2	48.8	47.9	49.4	49.7	
GRAND TOTAL	**2,938.2**	**3,155.2**	**3,177.8**	**3,251.8**	**3,312.1**	**156.9**
(As a % of GDP)	47.2	50.7	51.1	52.2	53.2	

Source: Central Bank of Kenya

Domestic Debt

Total domestic debt increased by 6.9 percent during the third quarter of the FY 2015/16, a slower build up compared to 11 percent increase in second quarter of 2015/16. Reflecting this increase, the share of domestic debt to GDP increased by 180 basis points to 26.5 percent reported at the end of the third quarter of the FY 2015/16. Treasury Bills accounted for 77.1 percent of the increase in domestic debt during the review period. The significant increase in Treasury Bills reflects investors' preferences during periods of relatively high interest rates. The share of domestic debt to total debt increased from 48.8 percent at the end of the first quarter to 49.5 percent at the end of the third quarter of the FY 2015/16 (**Table 7.1**). This change is consistent with the proposed deficit financing optimal strategy (MTDS-2015) that set the financing mix at 55 percent domestic and 45 percent external.

The quarterly analysis is based on the Fiscal year quarters; Q1: June- September, Q2: October- December, Q3: January-March Q4: April- June

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh Billion)

	Q1	%	Q2	%	Jan-16	%	Feb-16	%	Q3	%	Change Q on Q
Total Stock of Domestic Debt (A+B)	**1,388.0**	**100.0**	**1,540.0**	**100.0**	**1,523.1**	**100.0**	**1,605.2**	**100.0**	**1,646.5**	**100.0**	**106.5**
A. Government Securities	**1,313.5**	**94.6**	**1,463.1**	**95.0**	**1,455.4**	**95.6**	**1,529.9**	**95.3**	**1,568.3**	**95.2**	**105.1**
1. Treasury Bills (excluding Repo Bills)	**266.6**	**19.2**	**390.8**	**25.4**	**378.8**	**24.9**	**430.7**	**26.8**	**472.9**	**28.7**	**82.1**
Banking institutions	159.3	11.5	269.7	17.5	252.4	16.6	285.3	17.8	316.0	19.2	46.2
The Central Bank	25.5	1.8	20.6	1.3	20.6	1.4	20.6	1.3	20.6	1.3	0.0
Commercial Banks	133.7	9.6	249.1	16.2	231.8	15.2	264.7	16.5	295.4	17.9	46.2
Pension Funds	33.2	2.4	65.0	4.2	66.3	4.4	79.8	5.0	85.6	5.2	20.6
Insurance Companies	13.5	1.0	17.6	1.1	17.5	1.1	17.7	1.1	18.1	1.1	0.5
Others	60.6	4.4	38.5	2.5	42.6	2.8	47.9	3.0	53.2	3.2	14.7
2. Treasury Bonds	**1,046.9**	**75.4**	**1,072.3**	**69.6**	**1,076.6**	**70.7**	**1,099.2**	**68.5**	**1,095.4**	**66.5**	**23.1**
Banking institutions	518.1	37.3	524.3	34.0	525.0	34.5	547.5	34.1	537.2	32.6	12.9
The Central Bank	9.4	0.7	9.4	0.6	9.4	0.6	9.4	0.6	9.4	0.6	0.0
Commercial Banks	508.6	36.6	514.9	33.4	515.5	33.8	538.1	33.5	527.8	32.1	12.9
Insurance Companies	107.6	7.8	111.4	7.2	113.2	7.4	112.4	7.0	114.9	7.0	3.4
Pension Funds	312.2	22.5	324.1	21.0	325.4	21.4	326.2	20.3	331.4	20.1	7.4
Others	109.1	7.9	112.5	7.3	113.0	7.4	113.1	7.0	111.9	6.8	-0.6
4. Frozen account	**26.7**	**1.9**	**26.1**	**1.7**	**26.1**	**1.7**	**26.1**	**1.6**	**26.1**	**1.6**	**0.0**
Of which: Repo T/Bills	26.6	1.9	25.5	1.7	25.5	1.7	25.5	1.6	25.5	1.5	0.0
B. Others:	**47.8**	**3.4**	**50.8**	**3.3**	**41.5**	**2.7**	**49.2**	**3.1**	**52.1**	**3.2**	**1.4**
Of which CBK overdraft to Government	45.9	3.3	45.2	2.9	35.7	2.3	43.6	2.7	46.5	2.8	1.2

Source: Central Bank of Kenya

Treasury Bills

Treasury bills holding, excluding those held by the Central Bank for open market operations increased by 11.9 percent during the third quarter of the FY 2015/16. This increase was reflective of investors' appetite for short dated securities during periods of relatively high interest rates. Similarly, the proportion of Treasury bills to total domestic debt increased by 330 basis points during the third quarter of the FY 2015/16. The dominant investors in Treasury Bills were commercial banks (with a share of 62.5 percent) and pension funds (with a share of 18.1 percent) by the end of the third quarter of the FY 2015/16.

Treasury Bonds

During the third quarter of the FY 2015/16, holdings of Treasury Bonds increased at a higher rate relative to the increase registered during the previous quarter which is attributed to a shift in investors' preferences for long–dated securities. Outstanding Treasury bonds increased by 2.2 percent mainly due to uptake of a two year and ten year Fixed rate Treasury bonds. The dominant holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial banks holdings accounted for about half of the total Treasury Bonds outstanding.

TABLE 7.3: OUTSTANDING DOMESTIC DEBT BY TENOR (KSH BILLION)

		Q1	%	Q2	%	Jan-16	%	Feb-16	%	Q3	%	Change Q on Q
Treasury bills	91-Day	33.0	2.4	103.3	6.7	66.9	4.4	65.8	4.1	62.8	3.8	-40.5
	182-Day	41.8	3.0	79.6	5.2	103.4	6.8	145.0	9.0	163.6	9.9	84.0
	364-Day	191.8	13.8	207.9	13.5	208.4	13.7	219.9	13.7	246.5	15.0	38.6
Treasury Bonds	1-Year	24.3	1.75	44.7	2.9	44.7	2.9	44.7	2.8	44.7	2.7	0.0
	2-Year	137.1	9.9	111.8	7.3	132.0	8.7	132.0	8.2	132.0	8.0	20.2
	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	2.3	0.2	2.3	0.1	2.3	0.2	2.3	0.1	2.3	0.1	0.0
	5-Year	189.8	13.7	205.5	13.3	183.5	12.0	196.4	12.2	196.4	11.9	-9.2
	6-Year	40.7	2.9	31.5	2.0	31.5	2.1	31.5	2.0	31.5	1.9	0.0
	7-Year	8.7	0.6	8.7	0.6	8.7	0.6	8.7	0.5	8.7	0.5	0.0
	8-Year	38.2	2.8	38.2	2.5	38.2	2.5	29.4	1.8	29.4	1.8	-8.8
	9-Year	15.1	1.1	38.8	2.5	40.2	2.6	40.2	2.5	40.2	2.4	1.5
	10-Year	163.9	11.8	163.9	10.6	168.6	11.1	187.1	11.7	183.6	11.2	19.8
	11-Year	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.2	0.0
	12-Year	132.1	9.5	132.1	8.6	132.1	8.7	132.1	8.2	132.1	8.0	0.0
	15-Year	168.2	12.1	168.2	10.9	168.2	11.0	168.2	10.5	168.2	10.2	0.0
	20-Year	74.3	5.4	74.3	4.8	74.3	4.9	74.3	4.6	74.3	4.5	0.0
	25-Year	20.2	1.5	20.2	1.3	20.2	1.3	20.2	1.3	20.2	1.2	0.0
	30-Year	28.1	2.0	28.1	1.8	28.1	1.8	28.1	1.8	28.1	1.7	0.0
	Repo T bills	26.6	1.9	25.5	1.7	25.5	1.7	25.5	1.6	25.5	1.5	0.0
	Overdraft	45.9	3.3	45.2	2.9	35.7	2.3	43.6	2.7	46.5	2.8	1.2
	Other Domestic debt	1.9	0.1	6.2	0.4	6.5	0.4	6.2	0.4	5.9	0.4	-0.3
Total Debt		**1,388.0**	**100.0**	**1,540.0**	**100.0**	**1,523.1**	**100.0**	**1,605.2**	**100.0**	**1,646.5**	**100.0**	**106.5**

Source: Central Bank of Kenya

Domestic Debt by Tenor and the Maturity Structure

Government issued both short and medium term dated securities during the period under review. The current debt securities portfolio is dominated by short and medium term domestic debt. The benchmark Treasury Bonds; 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 68.9 percent of the total of outstanding Treasury Bonds by the end of the third quarter of the FY 2015/16. Other domestic debt consists largely of advances from commercial banks and Tax Reserve Certificates.

In terms of the maturity structure, the average length to maturity of existing domestic debt declined to 4 years and 7 months by the end of the third quarter of the FY 2015/16 from 4 years and 9 months reported at the end of the second quarter ending December 2015. This decline was reflective of the increase in the proportion of short-dated debt securities in the domestic debt portfolio during the review period which has the potential to worsen the refinancing risk.

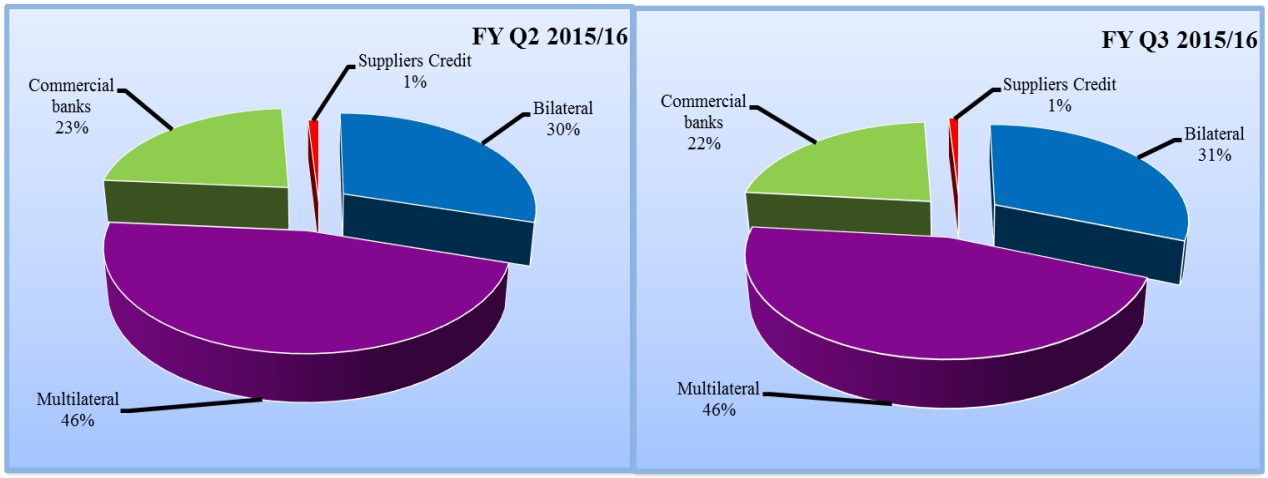
External Debt

Public and publicly guaranteed external debt increased by 3.1 percent during the third quarter of the FY 2015/16, a slower build up in local currency terms than the previous quarter mainly on account of the strengthening of the Kenyan shilling against the US dollar during the review period. The key driver of growth in external debt during the third quarter was a disbursement of USD 406.7 million from Exim Bank, China to finance the Standard Gauge Railway that is under construction.

Composition of External Debt by Creditor

Since the elevation of the country to a lower middle income economy in September 2014, the level of concessional debt has reduced slightly. Official multilateral and bilateral lenders, who lend on both concessional and semi-concessional terms, accounted for 76.7 percent of total public and publicly guaranteed debt by the end of review period reflecting a 40 basis points increase from the 76.3 percent held by the end of the second quarter of the FY 2015/16. This increase in the proportion held by concessional and semi-concessional lenders was on account of disbursements from Exim Bank China (**Chart 7A**).

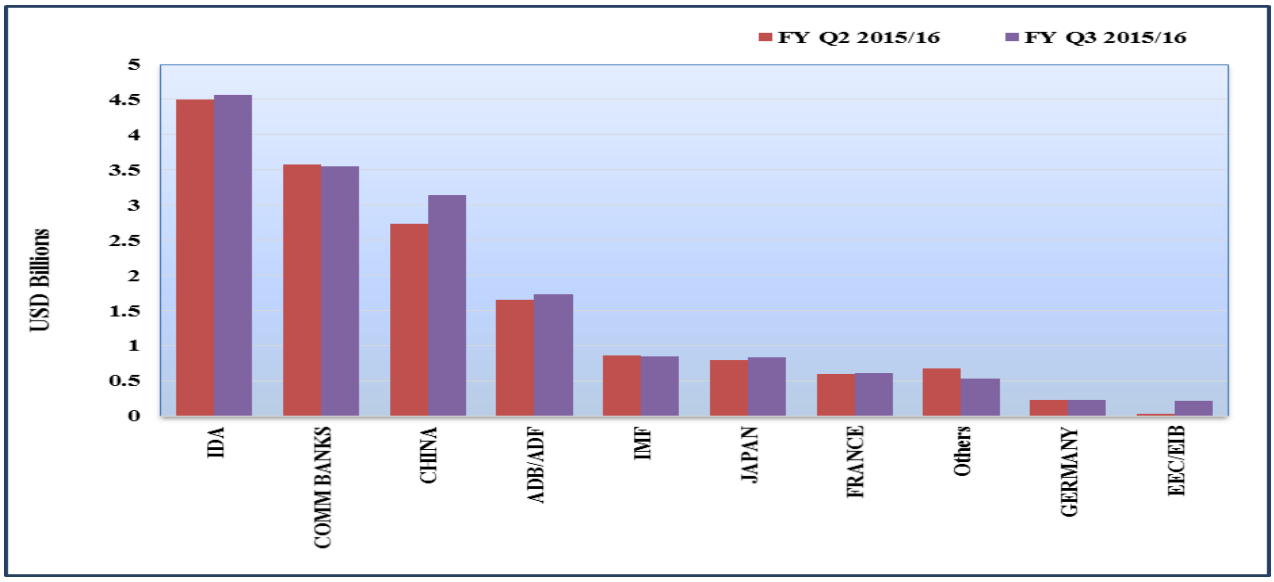
CHART 7A: COMPOSITION OF EXTERNAL DEBT BY LENDER CLASSIFICATION



Source: The National Treasury

Debt owed to the International Development Association (IDA), Kenya's largest multilateral lender, amounted to USD 4.6 billion or 27.8 percent of total external debt while that owed to China, Kenya's largest bilateral lender, amounted to USD 3.1 billion, or 19.1 percent of the total external debt by the end of the third quarter of the FY 2015/16 (**Chart 7B**). The main contributors of buildup in external debt are China, the European Economic Commission (EEC), and the African Development Bank (AfDB). The proportion of debt owed to 'others' external lenders declined mainly on account of a repayment of USD 28.9 million owed to the government of Finland.

CHART 7B: EXTERNAL DEBT BY CREDITOR

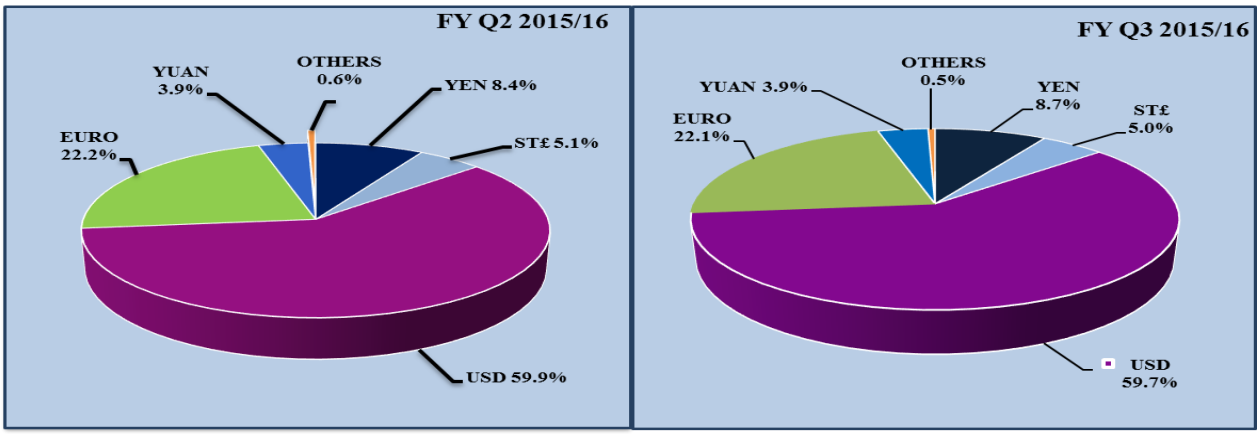


Source: The National Treasury

Currency Composition of External Debt

Kenya's Public and publicly guaranteed external debt is denominated in several currencies. This is useful in mitigating currency risk. The dominant currencies include the US dollar and the Euro which accounted for 81.8 percent of the total currency composition at the end of the third quarter of the FY 2015/16. This was partly consistent with the currency composition of the Central Bank's forex reserve holdings. All currency categories other than the Japanese Yen and Chinese Yuan declined compared with the share held in December 2015 (**Chart 7C**).

CHART 7C: DEBT COMPOSITION BY CURRENCY



Source: The National Treasury

Public Debt Service

Domestic debt service stood at 30.1 percent of the total revenues collected by the end of the third quarter of the FY 2015/16. The largest component was Treasury Bonds redemptions at 15.9 percent of total revenues. External debt service stood at Ksh 26.2 billion and was within sustainable levels.

The debt service expressed as a ratio to a flow resource base, such as revenues and exports receipts, is a liquidity indicator of indebtedness. Analysis of the liquidity indicators of external indebtedness showed that Kenya faces low exposure to external debt service default as the ratios were way below the Country Policy and Institutional Assessment (CPIA) determined liquidity indicators (25 percent of exports and 22 percent of revenues) (**Table 7.4**).

Table 7.4: Liquidity External debt sustainability indicators

	Q2 2015/16	Q3 2015/16
Debt services to Revenues (22%)	3.2	3.1
Debt services to Exports (25%)	3.3	3.2

Source: The National Treasury

Debt Sustainability Analysis

The March 2016 debt sustainability update showed that Kenya faces a low risk of external debt distress. All the liquidity and solvency debt burden indicators were below the CPIA based thresholds both in the baseline and stress scenario. However, Public Debt Sustainability Analysis (DSA) showed that if primary deficit were to remain at the current levels, public debt would take an upward trajectory way above the EAC convergence criterion[5]. This thereby stresses on the need for the fiscal authority to undertake the intended medium term fiscal consolidation. The update also laid emphasis on the need to strengthen debt management capacity owing to the bunched repayments in the coming years (USD 750 million in 2017, USD 750 million in 2019 and USD 2 billion in 2024).

[5] The EAC public debt convergence criterion for Present Value of Debt to GDP ratio is 50 percent.

Outlook for the FY 2015/16

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

8. Activity In The Capital Market

Equity Market

The equity market recorded mixed performance in the first quarter of 2016. Most equity prices, variously defined (NASI, FTSE NSE Kenya 15 Index, and FTSE NSE Kenya 25 Index) and market capitalization recorded gains, while the indicators of activity (Shares traded, equity turnover, and foreign investors' participation) were on the decline (**Table 8.1**). The number of share traded dominated the volume side, declining by 10.7 percent in the first quarter of 2016, while foreign participation declined to 57.5 percent in the first quarter of 2016 from 63.9 percent in the fourth quarter of 2015.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

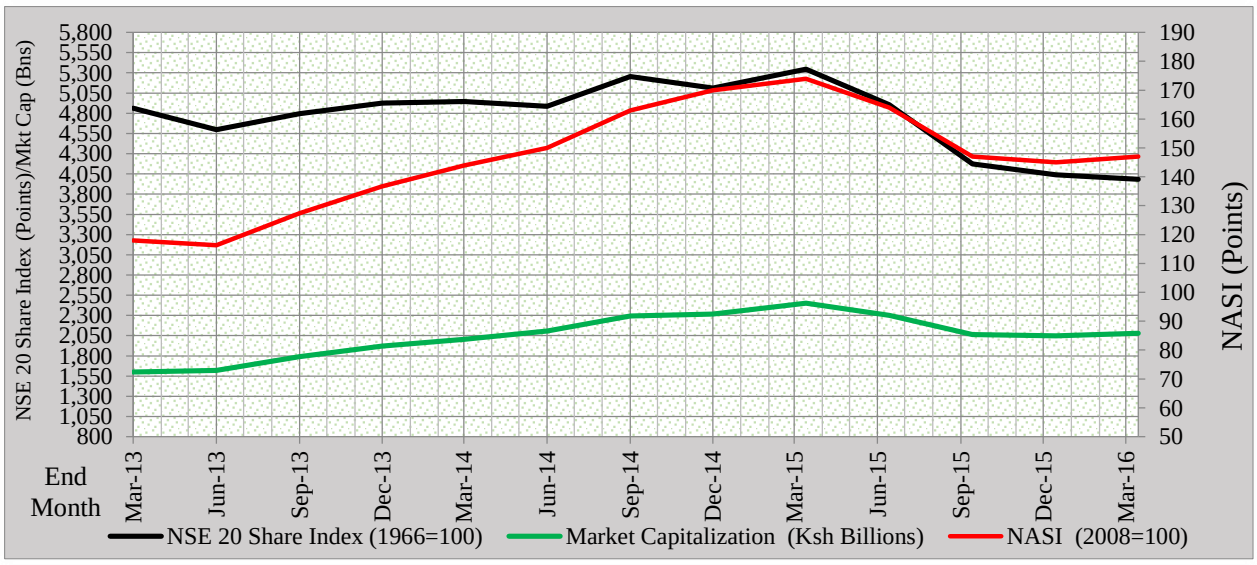
INDICATOR	2013	2014	2015	2015				2016
				Q1	Q2	Q3	Q4	Q1
NSE 20 Share Index (1966=100)	4926.97	5113.00	4040.00	5346.00	4906.00	4173.00	4040.00	3982.00
NASI (2008=100)	136.65	170.00	145.00	174.00	164.00	147.00	145.00	147.00
FTSE NSE Kenya 15 Index	172.40	217.76	182.55	231.56	216.07	195.09	182.55	185.17
FTSE NSE Kenya 25 Index	174.27	218.70	182.11	231.87	215.28	194.81	182.11	185.47
Number of Shares Traded (Millions)	7,665.92	8,133.65	6,812.14	1,621.72	1,852.31	1,882.60	1,455.51	1,299.70
Equities Turnover (Ksh Millions)	155,746.00	215,725.83	209,381.86	46,340.84	60,223.86	56,721.90	46,095.26	36,609.27
Market Capitalization (Ksh Billions)	1,920.72	2,316.32	2,049.00	2,452.47	2,302.00	2,063.64	2,053.52	2,078.28
Foreign Investors Purchase (Ksh Millions)	92,978.00	109,230.00	132,495.00	20,945.00	38,194.00	43,856.00	29,500.00	20,258.00
Foreign Investors Sales (Ksh Millions)	67,415.00	105,700.00	131,579.00	24,102.00	40,738.00	37,300.00	29,439.00	21,844.00
Avergae Foreign Part. to Total Equity Turnover	51.49%	49.82%	63.06%	48.60%	65.53%	71.54%	63.93%	57.50%
Net Foreign Investors Part. to ET (%)	16.41	1.64	0.44	-6.81	-4.22	11.56	0.13	-4.33
Bond Turnover (Ksh Millions)	452,459.86	506,050.22	305,099.19	129,369.95	59,897.16	44,511.49	71,320.60	113,400.10
FTSE NSE Kenya Govt. Bond Index	91.28	93.31	90.04	93.11	92.03	90.41	90.04	89.28

Source: Nairobi Securities Exchange, 2016Q1

The NASI and market capitalization recovered from low activity at the start of the first quarter of 2016 to record a gain in the quarter under review (**Chart 8A**).

Telecommunication, technology and banking accounted for 76.65 percent of all shares traded in the first quarter of 2016. Safaricom, KCB and Equity dominated by accounting for 67.34 percent of shares traded.

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

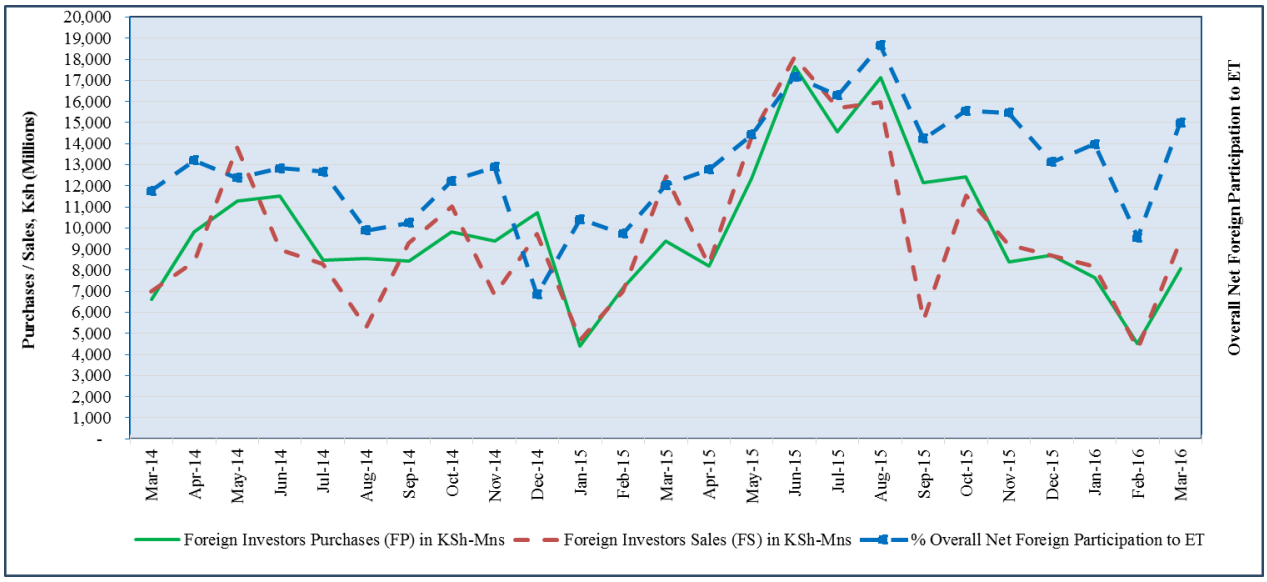


Source: Nairobi Securities Exchange, 2016Q1

Foreign Investors Participation

Both the foreign investor sales and purchases at the NSE declined in the first quarter of 2016 resulting in the average foreign investors' participation to turnover declining, reflecting reduced activity (**Chart 8B** and **Table 8.1**).

CHART 8B: FOREIGN INVESTORS' PARTICIPATION AT THE NSE



Source: Nairobi Securities Exchange

Bond Market

The bond market recorded improved activity in the first quarter of 2016 compared to the fourth quarter of 2015 with total turnover up by 59.00 percent due to the decline in short-term interest rates. The FTSE NSE Kenyan Government Bond Index declined to 89.28 points in the first quarter of 2016 from 90.04 points, reflecting a marginal increase in secondary market yields. The corporate bond segment trading accounted for only 0.36 percent of total bonds traded in the quarter under review.

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

1.0 ASSETS	JUN 2015	SEP 2015	DEC 2015	MAR 2016	DEC 2015 - MAR 2016 CHANGE
1.1 BALANCES DUE FROM BANKING INSTITUTIONS AND GOLD HOLDINGS	704,874	678,711	763,638	786,202	22,564
1.2 FUNDS HELD WITH IMF	4,385	4,670	1,489	1,958	469
1.3 ITEMS IN THE COURSE OF COLLECTION	82	47	26	65	40
1.4 ADVANCES TO COMMERCIAL BANKS	75	37,123	45,182	25,076	-20,106
1.5 LOANS AND OTHER ADVANCES	2,478	2,695	2,648	2,584	-64
1.6 OTHER ASSETS	4,299	4,303	3,191	3,129	-62
1.7 RETIREMENT BENEFIT ASSET	4,668	4,668	4,668	4,668	0
1.8 PROPERTY AND EQUIPMENT	20,746	21,167	20,265	20,638	373
1.81 INTANGIBLE ASSETS	495	256	220	191	-29
1.9 DUE FROM GOVERNMENT OF KENYA	63,163	72,726	71,684	72,636	952
TOTAL ASSETS	**805,265**	**826,366**	**913,010**	**917,147**	**4,137**
2.0 LIABILITIES					0
2.1 CURRENCY IN CIRCULATION	222,178	221,990	240,931	231,976	-8,955
2.2 INVESTMENTS BY BANKS	-	-	26,256	-	-26,256
2.3 DEPOSITS	331,314	317,843	384,647	432,203	47,556
2.4 INTERNATIONAL MONETARY FUND	125,775	134,215	125,872	126,426	554
2.5 OTHER LIABILITIES	4,373	2,911	812	1,753	941
TOTAL LIABILITIES	683,640	676,959	778,518	792,358	13,840
3.0 EQUITY AND RESERVES	121,625	149,407	134,493	124,789	-9,704
Share Capital	5,000	5,000	5,000	5,000	0
General reserve fund -Unrealized	78,592	78,592	78,442	77,171	-1,271
-Realized	11,130	11,130	11,130	12,555	1,424
-Capital Projects	7,445	7,445	7,445	7,445	0
Period surplus	-	27,782	13,017	3,160	-9,857
Asset Revaluation	14,790	14,790	14,790	14,790	0
Retirment Benefit Asset Reserves	4,668	4,668	4,668	4,668	0
4.0 TOTAL LIABILITIES AND EQUITY	**805,265**	**826,366**	**913,010**	**917,147**	4,137

Source: Central Bank of Kenya

10. Notes To The Financial Position

Total assets of the Central Bank increased by KSh 4.1 billion, or 0.4 percent in the first quarter of 2016 compared to the previous quarter. The 3.0 increase in gross foreign reserves largely account for this expansion of the balance sheet.

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 March 2016 were KSh 40 million compared to KSh 26 million outstanding as at December 2015.

Advances to commercial banks are balances of money advanced by the Central Bank of Kenya to commercial banks in the management of interbank liquidity. The balance outstanding decreased by KSh 20,106 million from December 2015 to March 2016.

Loans and other advances include outstanding balances on advances to commercial banks under the Overnight Loan Facility (OLF), and IMF funds on-lent to Government. The outstanding balance declined by KSh 64 million to KSh 2,584 million in March 2016.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. These assets declined by KSh 62 million from December 2015 to March 2016.

Debt due from Government of Kenya category has been revised to include Government utilization of the overdraft facility at the Central bank as well as the overdrawn accounts which were converted to a long term debt with effect from 1 November 1997 after an amendment to the Central Bank of Kenya Act to limit lending to Government to 5 percent of Government's audited revenue. Initially, the overdraft to the government was classified under 'Loans and advances'. The overall debt increased by 952 million from December 2015 to March 2016.

Currency in circulation decreased by KSh 8,955 million to KSh 231,976 million in March 2016.

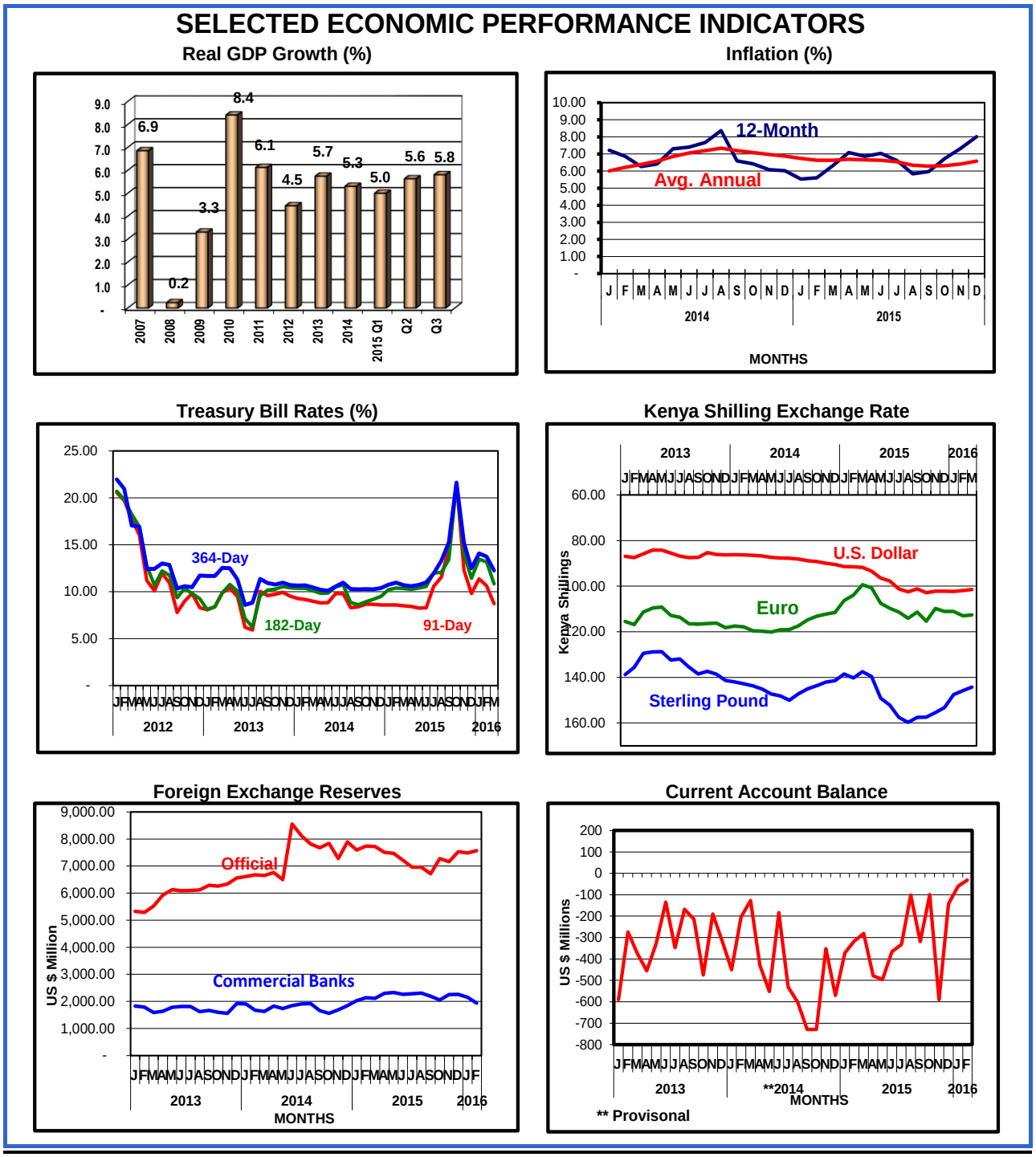
Deposits represents deposits held by CBK for the Government of Kenya, local commercial banks deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances increased by KSh 47,556 million from December 2015 to March 2016.

Amount due to International Monetary Fund represents the Bank's obligations to the IMF. The balances increased by KSh 554 million to KSh 126,426 in March 2016.

Other liabilities include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance increased by KSh 941 million to KSh 1,753 million in March 2016.

Equity and reserves declined from December 2015 to March 2016 by KSh 9,704 million, to KSh 124,789 reflecting a decline in period surplus.

11. APPENDIX



Source: Central Bank of Kenya

SELECTED MONTHLY ECONOMIC INDICATORS

	2014	2015												2016		
INDICATOR	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
1. INFLATION (%)																
CPI	**152.51**	**153.43**	**154.14**	**155.86**	**158.70**	**159.98**	**160.46**	**160.57**	**160.90**	**161.33**	**162.13**	**162.97**	**164.72**	**165.37**	**164.67**	**165.92**
Overall Inflation																
12-month overall inflation	6.02	5.53	5.61	6.31	7.08	6.87	7.03	6.62	5.84	5.97	6.72	7.32	8.01	7.78	6.84	6.45
Average annual overall inflation	6.88	6.74	6.63	6.63	6.69	6.65	6.63	6.54	6.34	6.29	6.31	6.42	6.58	6.77	6.87	6.88
2. INTEREST RATES (%)																
91-day Treasury bill interest rate	8.58	8.59	8.59	8.49	8.42	8.26	8.26	10.57	11.54	14.61	21.65	12.335	9.8			
Overdraft interest rate	15.86	15.95	15.67	15.68	15.52	15.10	15.65	16.05	15.98	16.65	16.81	17.44	18.48			
3. STOCK MARKET																
Nairobi Stock Exchange 20 Share Price Index	5,112.65	5,212.00	5,491.00	5,248.16	5,091.00	4,788.00	4,906.00	4,405.00	4,177.00	4,173.00	3,869	**4016.2**	**4040.0**	**3773.0**	**3871.0**	**3982.0**
Turnover Ratio (%)	1.07	0.50	0.72	0.74	0.59	0.82	0.82	0.86	0.88	0.52	0.65	0.53	0.57	0.51	0.85	0.63
4. GOVERNMENT BUDGET* (Ksh bn.)																
Revenue $ Grants	524.99	614.43	690.52	779.30	888.78	982.30	1,110.55	81.27	165.17	282.49	427.60	459.5	584.5	691.8	705.1	876.9
Expenses	613.96	765.22	864.18	1,133.10	1,264.32	1,347.64	1,610.76	56.98	138.70	254.20	640.87	610.0	769.2	888.9	927.8	1169.7
Budget Deficit (-) / Surplus (+)	**(88.98)**	**(150.79)**	**(173.66)**	**(353.80)**	**(375.55)**	**(365.35)**	**(500.21)**	**24.29**	**26.47**	**28.29**	**(213.27)**	**(150.42)**	**(184.70)**	**(197.10)**	**(222.63)**	**(292.80)**
5. MONEY AND CREDIT (Ksh bn.)																
Liquidity (L)[1]	3,124.10	2,983.73	3,032.40	3,034.64	3,098.44	3,139.91	3,196.87	3,234.07	3,252.04	3,231.61	3,284.75	3331.8	3390.8	3350.9	3380.3	3430.1
Money Supply (M3)[2]	2,329.98	2,350.80	2,407.83	2,398.76	2,464.48	2501.6	2553.0	2549.0	2569.9	2556.0	2574.7	2604.5	2658.2	2613.7	2627.4	2662.6
Reserve Money	380.04	350.15	351.63	346.28	353.10	362.73	371.99	383.33	367.46	376.70	433.88	391.1	392.4	381.9	383.9	401.9
Total Domestic Credit	2,137.14	2,332.85	2,415.81	2,444.31	2,492.23	2,558.67	2,638.93	2,724.30	2,775.46	2,785.32	2,776.76	2818.9	2793.9	2774.0	2841.3	2823.7
Government	204.27	385.89	456.30	469.78	477.64	489.66	522.03	565.65	579.50	553.28	543.39	567.3	524.0	501.0	569.1	543.6
Private sector and other public sector	1,932.86	1,946.96	1,959.51	1,974.53	2,014.59	2,069.01	2,116.90	2,158.65	2,195.96	2,232.04	2,233.37	2251.6	2269.9	2272.9	2272.2	2280.1
6. MONEY AND CREDIT (Annual % Change)																
Liquidity (L)[1]	**23.81**	**16.62**	**18.45**	**17.05**	**16.92**	**16.2**	**17.6**	**15.0**	**12.9**	**12.6**	**14.1**	**14.0**	**15.0**	12.3	11.5	13.0
Money Supply (M3)[2]	16.72	16.00	18.58	16.43	17.32	16.5	18.6	16.4	14.0	13.5	13.9	13.5	14.1	11.2	9.1	11.0
Reserve Money	18.48	15.82	11.45	11.77	12.00	15.0	14.9	25.8	2.9	16.7	24.5	19.8	3.4	9.1	9.2	16.1
Total Domestic Credit	**8.02**	**16.02**	**17.41**	**16.51**	**17.12**	**17.5**	**29.2**	**27.9**	**26.9**	**23.3**	**22.0**	**20.4**	**20.8**	18.9	17.6	15.5
Government	(48.57)	(6.64)	3.99	4.43	8.07	5.3	84.4	63.1	55.5	38.3	36.6	**30.3**	**38.2**	29.8	24.7	15.7
Private and other public sector	22.23	18.47	19.60	21.07	23.43	23.6	25.4	24.9	23.4	24.6	23.5	22.3	22.2	16.7	16.0	15.5
7. BALANCE OF PAYMENTS (US$ m)																
Overall Balance	**626.49**	**277.89**	**(169.63)**	**(2.84)**	**227.36**	**26.52**	**250.22**	**243.09**	**7.26**	**253.40**	**(571.02)**	**129.10**	**(416.76)**	**51.82**	**(82.29)**	**(223.16)**
Current Account	(621.04)	(457.47)	(278.25)	(257.30)	(468.64)	(519.45)	(348.51)	(373.81)	(171.62)	(366.23)	(213.67)	(636.12)	(234.12)	(91.79)	(69.24)	(140.92)
Balance on goods and services****	(800.48)	(691.38)	(537.22)	(493.58)	(697.68)	(741.69)	(594.50)	(612.65)	(413.91)	(615.66)	(491.84)	(880.03)	(481.23)	(337.78)	(322.56)	(398.75)
Capital Account	16.54	14.26	36.77	11.30	11.30	12.69	50.97	12.14	15.44	31.67	21.28	17.81	21.24	40.01	37.52	22.89
Financial Account	(1,175.54)	10.57	(346.47)	(1,116.15)	(156.34)	(408.22)	(387.23)	(360.34)	(392.04)	(139.77)	(816.91)	(389.20)	(568.12)	(448.86)	(783.01)	(462.16)
8. FOREIGN EXCHANGE RESERVES (US$ m)	**9,737.55**	**9,619.76**	**9,873.29**	**9,834.29**	**9,805.54**	**9,798.73**	**9,473.11**	**9,248.79**	**9,265.36**	**8,899.41**	**9,324.30**	**9,411.03**	**9,793.56**	**9,628.94**	**9,501.23**	**9,809.09**
Official	7,894.92	7,593.04	7,736.58	7,723.31	7,509.44	7,469.23	7,211.56	6,962.93	6,962.90	6,711.13	7,274.30	7,160.73	7,534.48	7,481.22	7,565.81	7,806.83
*Months of import cover***	5.01	4.75	4.85	4.85	4.72	4.68	4.50	4.35	4.37	4.21	4.61	4.51	4.77	4.79	4.88	5.05
Commercial banks	1,842.64	2,026.72	2,136.71	2,110.98	2,296.10	2,329.50	2,261.55	2,285.86	2,302.45	2,188.29	2,050.00	2,250.30	2,259.08	2,147.72	1,935.42	2,002.26
9. PUBLIC DEBT (US$ bn)	**27.16**	**28.28**	**28.97**	**29.10**	**29.35**	**28.94**	**28.96**	**28.39**	**28.43**	**27.91**	**28.79**	**30.13**	**30.84**	**31.07**	**31.98**	**32.69**
Domestic	14.23	14.42	14.79	15.20	15.15	14.61	14.54	14.02	13.70	13.18	14.15	14.84	15.05	14.9	15.8	16.2
As % of GDP	*24.41*	*24.91*	*25.26*	*26.08*	*26.42*	*26.29*	*26.51*	*26.48*	*26.19*	*25.91*	*27.14*	*28.3*	*28.7*	*24.5*	*25.8*	*26.5*
External	*12.92*	*13.86*	*14.17*	*13.90*	*14.20*	*14.33*	*14.42*	*14.37*	*14.74*	*14.72*	*14.64*	*15.3*	*15.8*	*16.2*	*16.2*	*16.4*
As % of GDP	*21.85*	*23.64*	*24.20*	*23.86*	*24.77*	*25.78*	*26.29*	*27.50*	*28.57*	*28.93*	*28.51*	*29.2*	*30.1*	*26.6*	*26.5*	*26.8*
10. GROSS DOMESTIC DEBT (Ksh bn)***	1,287.40	1,317.48	1,353.30	1,397.10	1,415.43	1,408.43	1,420.44	1,418.57	1,403.10	1,387.97	1,454.25	1,516.37	1,540.02	1,523.05	1,605.23	1646.5
11. AVERAGE EXCHANGE RATE																
Ksh/US$	90.44	91.36	91.49	91.73	93.44	96.39	97.70	101.20	102.43	105.27	102.79	102.17	102.2	102.3	101.9	101.5
Ksh/Pound Sterling	141.45	138.49	140.21	137.51	139.62	149.10	152.16	157.53	159.77	161.54	157.46	155.39	153.3	147.5	145.9	144.2
Ksh/ 100 Yen	75.79	77.19	77.17	76.22	78.18	79.89	79.00	82.10	83.12	87.64	85.62	83.5	83.9	86.6	88.5	89.9
Ksh/Euro	111.52	106.32	103.94	99.40	100.71	107.54	109.72	111.36	114.09	118.23	115.39	109.78	111.1	111.1	113.0	112.6

* 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.

**** Previously Trade Balance

[1] Previously M3XT

[2] Previously M3X

Source: Central Bank of Kenya, the National Treasury and the Nairobi Stock Exchange

SELECTED ANNUAL ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
1. POPULATION*										
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	
2. NATIONAL ACCOUNTS**										
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	
3. GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\3	**16.1**	**16.7**	**15.4**	**14.6**	**15.1**	**15.5**	**13.7**	**11.0**	**11.9**	**12.3**
4. GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\3	**9.1**	**10.1**	**8.9**	**8.4**	**9.2**	**8.1**	**8.1**	**5.3**	**5.8**	**6.2**
5. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	**18.6**	**20.5**	**19.6**	**19.3**	**20.8**	**21.7**	**21.5**	**20.2**	**22.5**	**21.2**
6. OVERALL INFLATION BASE PERIOD= FEB 2009										
Annual Average Inflation	6.39	4.27	16.27	9.24	3.96	14.02	9.38	5.72	6.88	6.58
12-Month Inflation	7.98	5.70	17.83	5.32	4.51	18.93	3.20	7.15	6.02	8.01
7. STOCK MARKET										
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	4,040.75
Trade Turnover Ratio (%)	1.70	1.29	0.29	0.64	0.99	0.46	0.58	0.58	1.07	0.57
8. GOVERNMENT BUDGET (Ksh bn) * **										
Revenue and Grants	331.21	383.59	457.67	511.36	614.53	679.53	734.43	868.17	994.44	1,110.55
Expenditure	368.65	405.20	534.84	621.91	791.79	817.09	915.89	1,117.02	1,281.16	1,610.76
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)	(500.21)
Budget Deficit (% of GDP)	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)	(5.51)	(5.26)	(5.35)	(9.34)
9. MONEY AND CREDIT (Ksh bn)(end period)										
Liquidity (L)[1]	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	3,390.82
Money Supply (M3)[2]	666.84	797.54	901.05	1,045.66	1,271.64	1,514.15	1,727.32	2,000.02	2,329.98	2,658.17
Reserve Money	124.16	155.62	163.59	181.96	222.63	255.01	293.62	320.76	379.69	392.43
Total Domestic Credit	**575.76**	**668.90**	**815.52**	**955.82**	**1,188.40**	**1,505.13**	**3,036.21**	**1,982.30**	**2,312.18**	
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	
10. BALANCE OF PAYMENTS (US$ m)										
Overall Balance	**675.18**	**854.26**	**(468.84)**	**780.53**	**163.40**	**(42.88)**	**1,261.00**	**(369.18)**	**(1,452.74)**	**254.57**
Current Account	(510.80)	(1,033.75)	(1,985.76)	(1,688.88)	(2,526.32)	(3,329.76)	(4,252.77)	(4,838.06)	(5,998.46)	(4,325.19)
As % of GDP	(1.9)	(3.0)	(5.5)	(4.6)	(6.3)	(7.9)	(8.4)	(8.8)	(9.8)	(6.8)
Capital Account	168.40	156.84	94.48	260.85	240.18	234.89	235.31	158.42	275.29	256.87
Financial Account	(676.60)	(2,246.51)	(1,422.89)	(3,782.19)	(3,252.00)	(3,424.80)	(5,541.72)	(5,182.59)	(7,008.06)	(5,070.21)
11. FOREIGN EXCHANGE RESERVES (US$ m) End Period	**3,331.30**	**4,556.97**	**4,640.78**	**5,064.03**	**5,122.52**	**6,044.78**	**7,159.86**	**8,483.20**	**9,737.55**	**9,793.56**
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	7,534.48
*Months of import cover****	*3.89*	*4.84*	*3.36*	*4.08*	*3.85*	*3.71*	*4.29*	*4.49*	*5.01*	*4.82*
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	2,259.08
12. PUBLIC DEBT (US$ bn) End Period* **	**10.68**	**12.04**	**13.46**	**13.66**	**14.96**	**16.60**	**19.27**	**27.52**	**26.96**	**28.96**
Domestic	4.84	6.08	6.66	6.72	8.06	8.51	10.20	14.91	14.61	14.54
As % of GDP	*18.77*	*19.00*	*18.54*	*18.16*	*20.15*	*20.26*	*20.27*	*27.02*	*27.15*	*26.51*
External	5.84	5.96	6.80	6.94	6.90	8.09	9.08	12.61	12.35	14.42
As % of GDP	*22.62*	*18.62*	*18.94*	*18.75*	*17.25*	*19.26*	*18.04*	*22.84*	*22.95*	*26.29*
13. EXCHANGE RATE (Ksh/US$) (Annual Average)	**72.10**	**67.32**	**69.18**	**77.35**	**79.26**	**88.87**	**84.52**	**86.13**	**87.92**	**98.26**

* Provisional.

** Rebased data

*** Fiscal year to June 30th.

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

\1 Previously M3XT

\2 Previously M3X

\3 Revised

Sources: Central Bureau of Statistics, Central Bank of Kenya & Nairobi Stock Exchange

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-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
Jun-15	2,598	29	257,240	0.01	21	124	12,250
Jul-15	2,836	31	266,342	0.01	23	123	11,580
Aug-15	2,849	28	239,842	0.01	21	136	11,421
Sep-15	2,891	29	266,523	0.01	22	131	12,115
Oct-15	3,070	30	273,487	0.01	21	146	13,023
Nov-15	2,104	30	248,109	0.01	21	100	11,815
Dec-15	2,442	36	310,853	0.01	22	111	14,130
Jan-16	2,171	23	226,495	0.01	20	109	11,325
Feb-16	2,264	24	323,094	0.01	21	108	15,385
Mar-16	2,232	29	276,461	0.01	21	106	13,165

Source: Central Bank of Kenya

KEPSS: TRENDS IN MULTIPLE THIRD PARTY MESSAGE (MT102) & SINGLE THIRD PARTY MESSAGE (MT103) FLOWS

		MT102	MT103	Total
2014	Jan	14,858	192,905	207,763
	Feb	15,596	192,858	208,454
	Mar	16,935	217,572	234,507
	Apr	17,019	216,820	233,839
	May	20,543	218,936	239,479
	Jun	26,649	220,504	247,153
	Jul	11,546	222,388	233,934
	Aug	11,903	222,826	234,729
	Sep	18,074	241,606	259,680
	Oct	22,080	245,888	267,968
	Nov	19,626	225,312	244,938
	Dec	21,154	265,040	286,194
2015	Jan	16,749	232,962	249,711
	Feb	18,762	240,962	259,251
	Mar	24,952	280,360	305,312
	Apr	32,074	254,422	286,496
	May	39,486	247,003	286,489
	Jun	302,807	30,402	272,405
	Jul	297,147	15,553	281,594
	Aug	274,186	14,761	259,425
	Sep	18,836	283,520	302,356
	Oct	308,041	21,224	286,817
	Nov	289,212	20,529	268,683
	Jan. 16	17,055	257,669	274,724
	Feb. 16	21,767	301,595	323,362
	Mar. 16	22,812	316,367	339,179

Type MT 102 message transfer refers to instructions submitted by commercial banks for several credit trasnfers and Type MT 103 message transfer refers to message instructions for single credit transfer

Source: Central Bank of Kenya