

December 24, 2008



THE CBK WEEKLY BULLETIN

**Highlights for
the Week**

Average interbank rate fell by 11 basis points from 6.58 percent in the previous week to 6.47 percent during the week ending December 23, 2008 with a drop in volumes transacted. The repo rate fell by 18 basis points to 5.98 percent from 6.17 percent in the previous week.

The Kenya Shilling appreciated against major world currencies in the week ending December 24, 2008. Against the US dollar, the shilling exchanged at an average of Ksh 76.48 per US dollar compared with Ksh 77.45 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 2,790 million (equivalent to 4.30 months of imports) as at December 24, 2007 to US dollar 2,769 million (equivalent to 3.36 months of imports) as at December 24, 2008.

Central Bank Open Market Operations desk mopped Ksh 11.7 billion worth of repurchase agreement securities from commercial banks and redeemed maturing securities worth Ksh 27.9 billion during the week ending 23rd December 2008.

Government gross domestic debt increased by Ksh 26.4 billion from Ksh 430.6 billion in June 2008 to Ksh 457.0 billion on December 19 2008. The cumulative Government expenditure on interest and other charges on domestic debt from July 1 to December 19, 2008 amounted to Ksh 20.1 billion compared with Ksh 18.9 billion in a similar period in the fiscal year 2007/08.

The equity market recorded mixed performance in the week under review. Equity turnover fell by 15.5 percent owing to a drop in number of shares traded. In contrast, the NSE 20 Share index gained 14.62 points (or 0.4 percent) to settle at 3,381.69 points on December 23, 2008 from 3,367.07 points on December 18, 2008.

Table 1 : Interest Rates

Auction date	6-Nov-08	13-Nov-08	20-Nov-08	27-Nov-08	11-Dec-08	18-Dec-08
Average 91 day T. Bills	8.362	8.522	8.570	8.623	8.557	8.604
Average 182 day T. Bills	8.779	8.964	8.103	9.173	9.007	9.063
Month	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08
Average savings rate	1.70	1.67	1.68	1.73	1.74	1.61
Average overdraft rate	13.30	13.49	13.11	13.43	13.91	13.85

Source: Central Bank of Kenya

Interbank and REPO Market

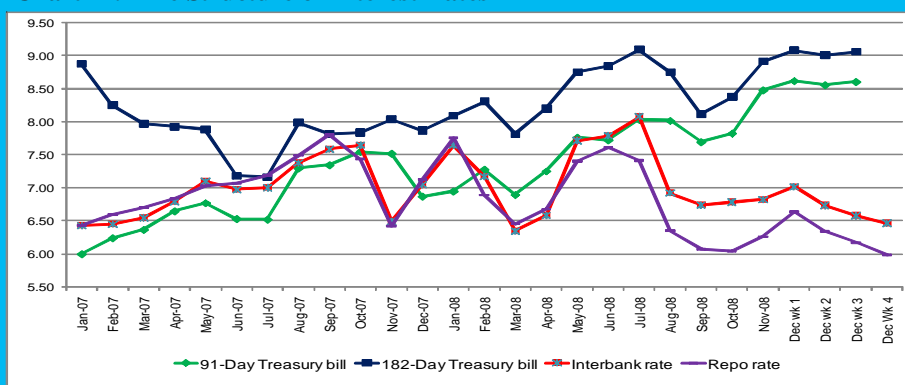
Average interbank rate fell by 11 basis points from 6.58 percent in the previous week to 6.47 percent during the week ending December 23, 2008 with a drop in volumes transacted (Table 2). Interbank volumes declined from Ksh 47.7 billion in the previous week to Ksh 32.9 billion in the week under review. The repo rate also fell by 18 basis points to 5.98 percent from 6.17 percent in the previous week, while volume mopped reduced to Ksh 7.3 billion from Ksh 15.2 billion transacted in the previous week (Chart A).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
12-Dec-08	HOLIDAY		
15-Dec-08	77	10,321	6.64
16-Dec-08	75	9,979	6.60
17-Dec-08	87	13,712	6.56
18-Dec-08	88	13,661	6.52
11-18 Dec- 08	327	47,673	6.603
19-Dec-08	73	9,762	6.50
22-Dec-08	69	11,738	6.46
23-Dec-08	80	11,413	6.45
24-Dec-08	N/A	N/A	N/A
25-Dec-08	HOLIDAY		
19 - 25 Dec- 08	222	32,913	6.468

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling appreciated against major world currencies in the week ending December 24, 2008 (Table 3). The shilling gained against the US dollar and the Sterling Pound to trade at an average of Ksh 76.48 per US dollar and Ksh 114.12 per Sterling Pound in the week ending December 24, 2008 compared with Ksh 77.45 per US dollar and Ksh 119.03 per

Sterling Pound in the week ending December 18, 2008. The shilling also strengthened against the Euro and the Japanese Yen during the week in review to exchange at Ksh 107.51 per Euro and Ksh 85.00 per 100 Japanese Yen compared with Ksh 107.82 per Euro and Ksh 86.51 per 100 Japanese Yen in the week ending December 18, 2008.

Table 3: Kenya Shilling Exchange Rates

	US Dollar	Sterling Pound	Euro	Yen
15-Dec-08	77.88	116.97	105.02	85.63
16-Dec-08	77.59	118.51	106.20	85.66
17-Dec-08	77.40	120.94	108.95	87.17
18-Dec-08	76.93	119.68	111.12	87.58
Dec 15 - 18, 2008	77.45	119.03	107.82	86.51
19-Dec-08	76.31	115.50	108.76	85.43
22-Dec-08	75.64	112.95	105.92	84.15
23-Dec-08	76.88	113.98	107.61	85.15
24-Dec-08	77.08	114.06	107.73	85.27
Dec 19 - 24, 2008	76.48	114.12	107.51	85.00

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 2,790 million (equivalent to 4.30 months of imports) as at December 24, 2007 to US dollar 2,769 million (equivalent to 3.36 months of imports) as at December 24, 2008 (Table 4). The lower imports coverage of official reserves as at December 24, 2008 partly reflects a lower level of reserves and a larger import bill in 2008 on account of higher oil prices in 2008. Foreign exchange reserves held by commercial banks, however, rose by US\$ 556 million from US\$ 1,098 million as at end November 2007 to US\$ 1,655 million as at end November 2008.

Table 4: Official Foreign Exchange Reserves (US\$ Million)

	24-Dec-07	31-Mar-08	30-Jun-08	29-Aug-08	30-Sep-08	31-Oct-08	28-Nov-08	24-Dec-08
Usable Reserves	2,790	3,285	3,300	3,152	3,086	2,790	2,736	2,769
Months of Imports Cover*	4.23	4.67	4.60	4.14	4.06	3.67	3.44	3.36
Months of Imports Cover**	3.51	3.88	3.67	3.43	3.35	3.03	2.83	2.77

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

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

Source: Central Bank of Kenya

Monetary Policy Operations

In the week to December 23, 2008, Central Bank sought to mop an average of Ksh 4.5 billion daily from the market using repurchase agreement securities in order to align reserve money to the desired path. The Bank however mopped an average of Ksh 2.9 billion daily from the market during the week.

Table 5: Open Market Operations (Ksh Billion)

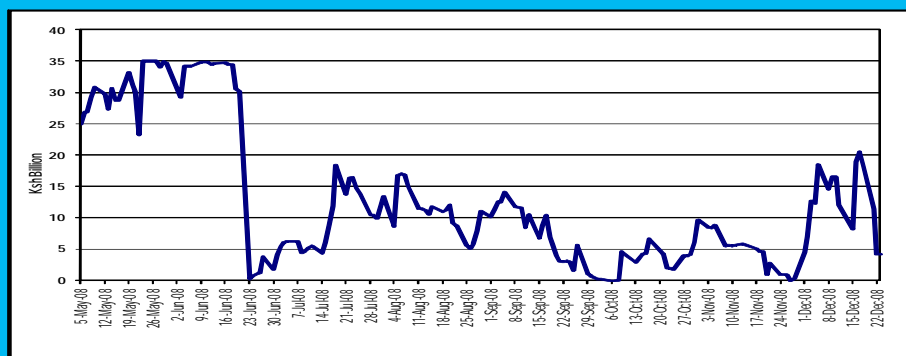
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Realised	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
18-Dec	161.7	167.1	-5.4	4.0	2.8	-1.2	156.3	-10.8	8.8	-19.6
19-Dec	163.4	170.0	-6.6	4.0	4.8	0.8	158.1	-11.9	7.0	-19.0
22-Dec	170.5	170.0	0.5	8.0	4.1	-3.9	164.0	-6.1	11.9	-18.0
23-Dec	158.5	170.0	-11.6	2.0	0.0	-2.0	163.3	-6.7	7.5	-14.2
Average	163.5	169.3	-5.8	4.5	2.9	-1.6	160.4	-8.9	8.8	-17.7

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

In the week ending December 23, 2008, Central Bank’s open market operations desk mopped Ksh 11.7 billion from the market through repurchase securities agreements against redemption of Ksh 27.9 billion in maturing repurchase securities. As a result, the stock of repo securities held by commercial banks declined from Ksh 20.5 billion on December 17, 2008 to Ksh 4.2 billion on December 23, 2008. Reserve money for the week ending December 23, 2008 averaged Ksh 160.4 billion and was Kshs. 8.9 billion below target.

Chart B: Commercial Banks Repo Holdings

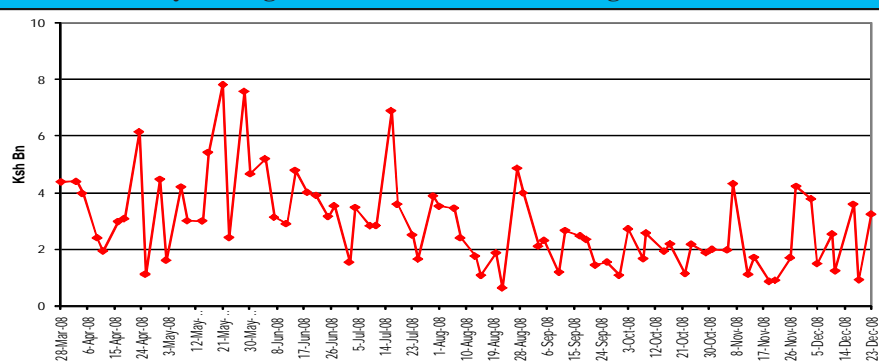


Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

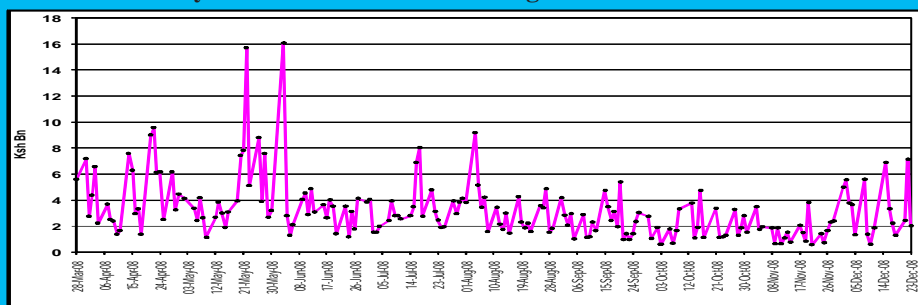
In the week ending December 23, 2008, average commercial banks clearing account balances was Ksh 3.2 billion compared with Ksh 3.6 billion held in the previous week as shown in Chart C.

Chart C1: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Chart C2: Daily Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Government Domestic Debt

Government gross domestic debt increased by Ksh 26.4 billion from Ksh 430.6 billion in June 2008 to Ksh 457.0 billion on December 19 2008 (Table 6 and Chart D). The increase of gross domestic debt in the period comprised increases of Ksh 13.8 billion, Ksh 11.8 billion and Ksh 1.2 billion in Treasury bills (excluding Repos), overdraft at the Central Bank of Kenya (CBK) and Treasury bonds, respectively. However, these increases were partly offset by a decrease of Ksh 0.5 billion in other domestic debt.

During the week ending December 19, 2008 gross domestic debt increased by Ksh 3.5 billion. The expansion reflected increases in other domestic debt and overdraft at the Central Bank.

The holdings of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.6 percent on December 19, 2008 while the share of Treasury bills increased from 19.6 percent to 22.2 percent. Consequently, the maturity profile of Government securities declined from 3 years and 8 months to 3 years and 6 months during the period.

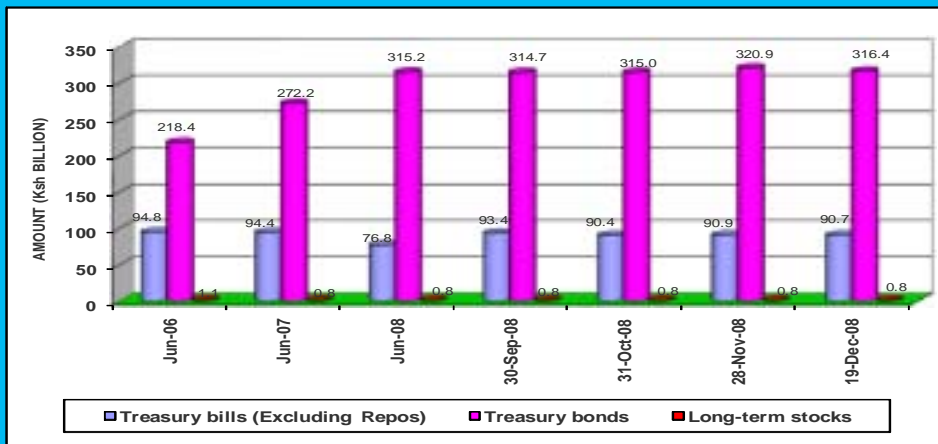
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Oct 08	5th Dec 08	11th Dec 08	19th Dec 08	Changes	
						11th Dec 08 - 19th Dec 08	30th Jun 08 - 19th Dec 08
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	90.4 22.3	90.7 22.2	91.2 22.3	90.7 22.2	-0.6	13.8
2. Treasury Bonds (As % of total securities)	315.2 80.2	315.0 77.6	316.4 77.6	316.4 77.5	316.4 77.6	0.0	1.2
3. Long Term Stocks (As % of total securities)	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.0	0.0
4. Total Securities (1+2+3)	392.8	406.2	407.8	408.4	407.8	-0.5	15.0
5. Overdraft at Central Bank	0.0	14.1	10.3	10.0	11.8	1.8	11.8
6. Other Domestic debt*	37.8	34.5	34.9	35.0	37.3	2.3	-0.5
7. Gross Domestic Debt (4+5+6)	430.6	454.7	453.0	453.4	457.0	3.5	26.4
8. Interest payments on domestic debt (Cumulative in FY)	42.2	13.5	19.3	19.6	20.1	0.5	

* Other domestic debt includes Pre-1997 Government Overdraft, clearing items in transit, advances from commercial banks and TRCs.

Source: Central Bank of Kenya

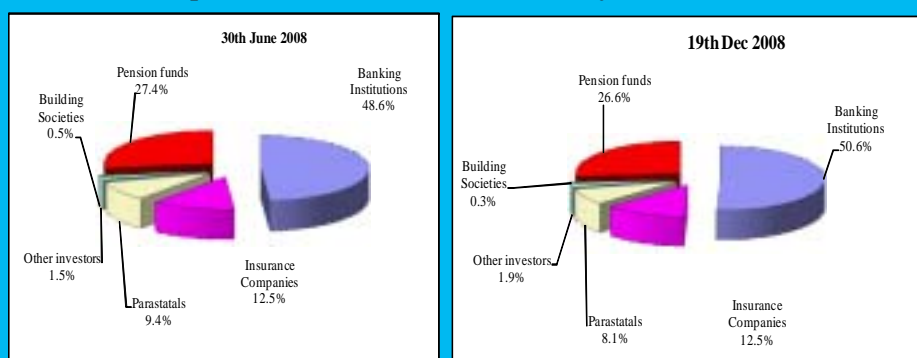
Chart D: Composition of Government Securities



Source: Central Bank of Kenya

Commercial banks continued to dominate the market for government securities, and enhanced their share in the government's gross domestic debt from 48.6 percent in June 2008 to 50.6 percent as at December 19, 2008. Other than a marginal increase in the share of other investors, shares of the remaining institutional investors declined (Chart E)

Chart E: Composition of Government Securities by Investor



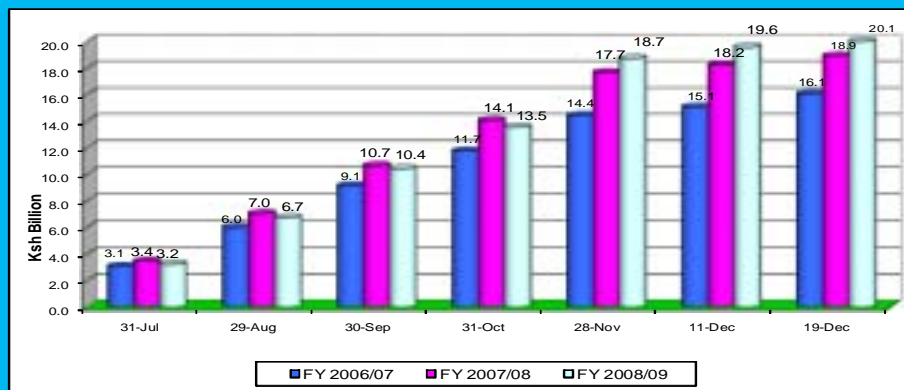
Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt from July 1 to December 19, 2008 increase by Ksh 1.2 billion to Ksh 20.1 billion from Ksh 18.9 billion in a similar period in the fiscal year 2007/08 (Chart F). The interest cost on domestic debt during

the period under review comprised Ksh 15.9 billion in interest and other charges on Treasury bonds, Ksh 4.2 billion in interest and other charges on Treasury bills, and Ksh 0.2 billion in interest on both long term stock, Government overdraft at CBK and the pre-1997 government overdraft.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The performance at the equity market during the week ending December 23, 2008 was mixed. Equity turnover fell by 15.5 percent as stocks worth Ksh 0.32 billion were traded compared with Ksh 0.38 billion traded in the previous week. The number of shares traded declined slightly from 26.7 million in the previous week to 26.6 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth, rose by 5.3 percent from Ksh 790.54 billion in the previous week, to Ksh 832.74 billion in the current week. The NSE 20 Share index gained 14.62 points to settle at 3,381.69 points on December 23, 2008 from 3,367.07 points on December 18, 2008. The Nairobi All Share Index also gained 0.37 points and closed at 71.56 points from 71.19 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	23rd Oct 2008	30th Oct 2008	5th Nov 2008	13th Nov 2008	20th Nov 2008	27th Nov 2008	4th Dec 2008	11th Dec 2008	18th Dec 2008	23rd Dec 2008
NASI 100= Jan 2008	71.01	63.96	83.19	77.11	74.97	72.35	66.81	69.36	71.19	71.56
NSE 20 Share Index 100=1966	3,459.33	3,175.49	4,023.70	3,662.50	3,514.30	3,397.95	3,162.43	3,251.03	3,367.07	3,381.69
Number of Deals	8,035	10,272	8,430	19,746	11,165	8,873	7,904	7,709	6,159	4,365
Total Shares Traded (millions)	43.57	63.08	93.26	98.21	64.69	51.99	37.10	33.50	26.70	26.60
Equity Turnover (Ksh. millions)	606	622	993	1,352	785	654	580	439	379	320
Market Capitalization (Ksh. Bn.)	787.08	708.69	924.35	856.42	832.51	803.38	750.08	770.17	790.54	832.74
Bonds Turnover (Ksh. millions)	272.00	1,538.05	1,098.10	843.15	412.25	377.20	4,274.20	1,732.40	636.35	297.95

* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 01, 2008 = 100)

Source: Nairobi Stock Exchange

The Commercial and Services sector traded 18.9 million shares and accounted for 71.2 percent of total traded volume. Safaricom traded 17.7 million shares and was the most active stock in the sector. The Finance and Investment sector traded 4.5 million shares and accounted for 17.0 percent of traded volume. Co-op Bank traded 2.0 million shares and was the most active counter. Industrial and Allied sector traded 2.9 million shares and accounted for 11.1 percent of traded volume. KenGen and Mumias shares were the most active counters and traded 0.3 and 2.3 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading declined during the week, with bonds worth Ksh 297.9 million traded compared with Ksh 636.4 million traded in the previous week.