

**March 27, 2009**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The Government securities market posted a performance of 66.9 percent during the Treasury bills auction of March 26 2009. The Government had offered for sale Treasury bills worth Ksh 6.5 billion, received bids totalling Ksh 4.3 billion and accepted bids totalling Ksh 4.1 billion. The average 91-day Treasury bills rate declined by 0.1 basis points from 7.360 percent in the previous auction to 7.359 percent during the current week's auction, while the average 182-day Treasury bills rate edged up 12.7 basis points from 8.101 percent in the previous auction to 8.228 percent.

The average interbank rate increased by 2 basis points from 5.55 percent in the previous week to 5.57 percent during the week ending March 26, 2009. The repo rate, however declined by 22 basis points from 4.44 percent in the previous week to 4.22 percent in the current week, with a volume of Ksh 400 million mopped.

The Kenya Shilling weakened against all major international currencies during the week ending March 26, 2009. Against the US dollar, the shilling traded at an average of Ksh 80.47 compared with Ksh 80.39 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,275 million (equivalent to 4.65 months of imports) as at March 26, 2008 to US dollar 2,641 million (equivalent to 3.15 months of imports) as at March 26, 2009.

Central Bank's open market operations mopped Ksh 6.3 billion worth of repurchase agreement securities from commercial banks and redeemed maturing securities worth Ksh 9.6 billion during the week ending March 25, 2009.

Government gross domestic debt increased by Ksh 37.9 billion from Ksh 430.6 billion in June 2008 to Ksh 468.5 billion as at March 20 2009. In addition, the cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 31.1 billion during the period.

Performance at the equities market declined during the week. Turnover declined by 25.5 percent, market capitalization declined by 0.5 percent while the NSE 20 Share index lost 4.9 points to settle at 2663.19 points on March 26, 2009.

**Government Securities Auction**

The Government securities market posted a performance of 66.9 percent during the Treasury bills auction of March 26 2009. The Government had offered for sale Treasury bills worth Ksh 6.5 billion and received bids totalling Ksh 4.3 billion. Of the bids received, Ksh 3.0 billion were in 182-day Treasury bills.

The Government accepted bids for Treasury bills totalling Ksh 4.1 billion, of which Ksh 3.7 billion or 90.2 percent were in competitive bids. Proceeds of the auction were to be used to meet the cost of rolling over Treasury bills maturities totalling Ksh 2.9 billion in the week and provide the Government additional borrowing of Ksh 1.2 billion.

**Treasury bills interest rates**

The average 91-day Treasury bill interest rate declined marginally by 0.1 basis points from 7.360 percent in the previous week's auction to 7.359 percent during the current week's auction, while the average 182-day Treasury bill rate edged up 12.7 basis points from 8.101 percent in the previous week's auction to 8.228 percent (Table 1). Consequently, the 12-week moving average interest rate for the 91-day Treasury bill decreased from 7.769 percent in the previous week to 7.672 percent in the week under review, while the 182-day Treasury bill interest rate decreased from 8.217 percent to 8.149 percent.

**Table 1 : Interest Rates**

Auction date	12-Feb-09	19-Feb-09	26-Feb-09	5-Mar-09	12-Mar-09	19-Mar-09	26-Mar-09
Average 91 day T. Bills	7.346	7.157	7.235	7.294	7.292	7.360	7.359
Average 182 day T. Bills	7.618	7.646	7.661	7.721	7.853	8.101	8.228
Month	Aug-08	Sep-08	Oct-08	Nov-08	Dec-09	Jan-09	Feb-09
Average savings rate	1.68	1.73	1.74	1.61	1.65	2.10	2.13
Average overdraft rate	13.11	13.43	13.91	13.85	14.39	13.84	13.46

Source: Central Bank of Kenya

**Interbank and REPO Market**

The average interbank interest rate increased by 2 basis points from 5.55 percent in the previous week to 5.57 percent during the week ending March 26, 2009, with a decline in volumes transacted (Table 2). Interbank volumes declined by Ksh 1.3 billion from Ksh 58.8 billion in the previous week to Ksh 57.4 billion in the week under review. The repo rate declined by 22 basis points from 4.44 percent in the previous week to 4.22 percent in the current week, with a volume of Ksh 400 million mopped compared with Ksh 7 billion transacted in the previous week (Chart A).

**The Shilling Exchange Rate**

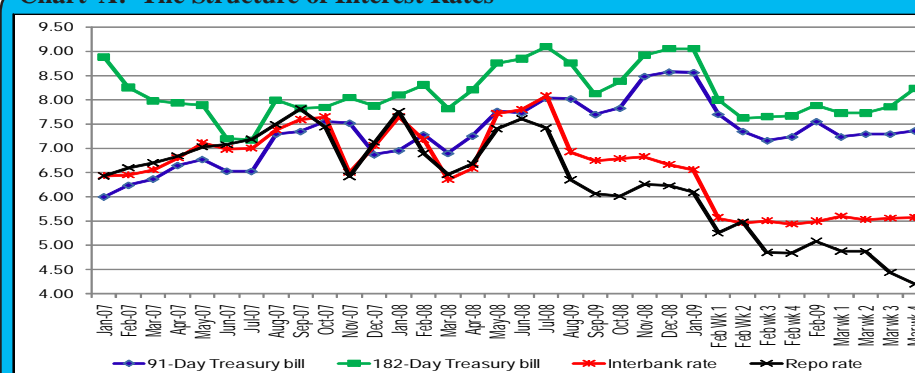
The Kenya Shilling weakened against all major international currencies during the week ending March 26, 2009 (Table 3). Against the US dollar, the shilling traded at an average of Ksh 80.47 per US dollar in the week ending March 26, 2009, compared with Ksh 80.39 per US dollar in the previous week. The weakening of the Shilling against the US dollar was attributed to relatively high corporate demand for the US dollar in the week under review compared with the previous week. The shilling also weakened against the Sterling Pound, the Euro and the Japanese Yen in

**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
13-Mar-09	93	15,517	5.66
16-Mar-09	75	12,493	5.61
17-Mar-09	72	11,555	5.57
18-Mar-09	72	11,089	5.49
19-Mar-09	71	8,112	5.44
<b>13 - 19 Mar-09</b>	<b>383</b>	<b>58,766</b>	<b>5.55</b>
20-Mar-09	92	11,716	5.47
23-Mar-09	93	11,954	5.53
24-Mar-09	91	9,941	5.58
25-Mar-09	91	11,110	5.62
26-Mar-09	91	12,724	5.66
<b>Mar 20 - 26 2009</b>	<b>458</b>	<b>57,445</b>	<b>5.57</b>

Source: Central Bank of Kenya

**Chart A: The Structure of Interest Rates**



Source: Central Bank of Kenya

the week ending March 26, 2009 to trade, respectively, at Ksh 117.46 per Sterling Pound, Ksh 109.48 per Euro and Ksh 83.08 per 100 Japanese Yen, compared with Ksh 113.03 per Sterling Pound, Ksh 105.02 per Euro and Ksh 82.57 per 100 Japanese Yen in the previous week.

**Table 3: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen
13-Mar-09	80.13	111.42	103.37	81.84
16-Mar-09	80.12	112.62	103.63	81.68
17-Mar-09	80.21	113.19	104.39	81.27
18-Mar-09	80.39	112.83	104.71	81.65
19-Mar-09	81.11	115.11	108.98	84.91
<b>Mar 13 - 19, 2009</b>	<b>80.39</b>	<b>113.03</b>	<b>105.02</b>	<b>82.27</b>
20-Mar-09	80.77	116.64	110.21	85.30
23-Mar-09	80.67	117.45	110.20	83.86
24-Mar-09	80.58	118.56	110.11	82.09
25-Mar-09	80.47	118.07	108.43	82.43
26-Mar-09	79.86	116.60	108.47	81.73
<b>Mar 20 - 26, 2009</b>	<b>80.47</b>	<b>117.46</b>	<b>109.48</b>	<b>83.08</b>

Source: Central Bank of Kenya

### Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,275 million (equivalent to 4.65 months of imports) as at March 26, 2008 to US dollar 2,641 million (equivalent to 3.15 months of imports) as at March 26, 2009 (Table 4). The decline in import cover reflects reduction in the reserve level as well as increased import bill. Commercial banks foreign exchange reserve holdings, which are predominantly used by private sector to meet external financial

obligations, increased from US\$ 1,092 million as at end February 2008 to US\$ 1,610 million as at end February 2009.

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

	26-Mar-08	30-Jun-08	30-Sep-08	28-Nov-08	31-Dec-08	30-Jan-09	27-Feb-09	26-Mar-09
Usable Reserves	3,275	3,300	3,086	2,736	2,768	2,671	2,661	2,641
Months of Imports Cover*	4.65	4.60	4.06	3.44	3.35	3.19	3.17	3.15
Months of Imports Cover**	3.86	3.67	3.35	2.83	2.77	2.66	2.65	2.63

\*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 March 25, 2009, Central Bank sought to mop an average Ksh 1.3 billion from the market using repurchase agreement securities. The Bank mopped an average of Ksh 1.0 billion from the market against redemption of maturing securities averaging Ksh 3.2 billion in the week (Table 5).

**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
19-Mar	156.4	164.2	-7.9	0.8	2.6	1.9	157.0	-7.3	1.0	-8.3
20-Mar	157.2	164.2	-7.1	3.0	2.2	-0.8	152.8	-11.4	-2.7	-8.8
23-Mar	156.1	164.2	-8.1	2.5	0.1	-2.4	154.3	-9.9	-0.9	-9.0
24-Mar	151.8	164.2	-12.5	0.0	0.0	0.0	152.6	-11.6	-1.3	-10.3
25-Mar	150.2	164.2	-14.0	0.0	0.1	0.1	151.5	-12.7	-2.2	-10.5
Average	154.3	164.2	-9.9	1.3	1.0	-0.3	153.6	-10.6	-1.2	-9.4

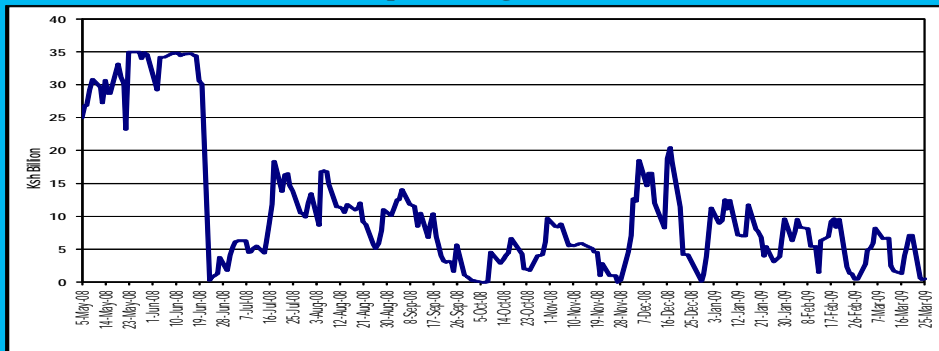
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

### Repurchase Agreement Securities held by Comm Banks

During the week ending March 25, 2009, the Central Bank open market operations desk mopped Ksh 6.3 billion from the market through repurchase agreement securities. During the same week, Ksh 9.6 billion worth of repo securities were redeemed resulting in a decline in commercial banks' repo securities holdings to Ksh 0.53 billion by March 25, 2009, up from Ksh 5.1 billion held on March 18, 2009. In the week, reserve money averaged Ksh 153.6 billion and was below target by Ksh 10.6 billion (Chart B).

**Chart B: Commercial Banks Repo Holdings**

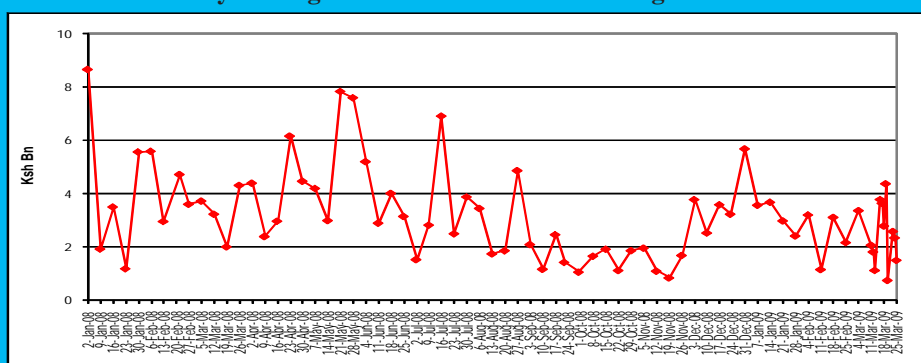


Source: Central Bank of Kenya

**Commercial  
Banks  
Clearing  
Account  
Balances**

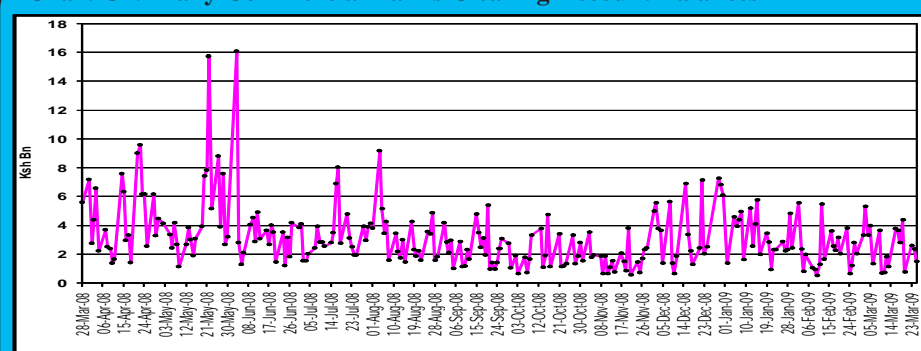
In the week ending March 25, 2009, average commercial banks clearing account balances amounted to Ksh 2.3 billion compared with Ksh 2.6 billion held in the previous week as shown in Charts C1 and C2.

**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 37.9 billion from Ksh 430.6 billion in June 2008 to Ksh 468.5 billion as at March 20 2009 (Table 6 and Chart D). The growth in gross domestic debt during the period was as a result of increases of Ksh 19.8 billion, Ksh 15.0 billion and Ksh 6.1 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at the Central Bank, respectively. These increases were partly offset by a decrease of Ksh 2.9 billion in other domestic debt.

Treasury bills, Treasury bonds and overdraft at Central Bank increased from Ksh 76.8 billion, 315.2 billion and zero in June 2008 to Ksh 96.7 billion, Ksh 330.2 billion and Ksh 6.1 billion, respectively as at March 20 2009. However, other domestic debt decreased from Ksh 37.8 billion to Ksh 34.9 billion during the period while long term stocks remained unchanged at Ksh 0.8 billion.

The share of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.2 percent as at March 20, 2009, while that of Treasury bills increased from 19.6 percent to 22.6 percent. As a result, the maturity profile of Government securities declined from 3 years and 8 months to 3 years and 6 months during the period.

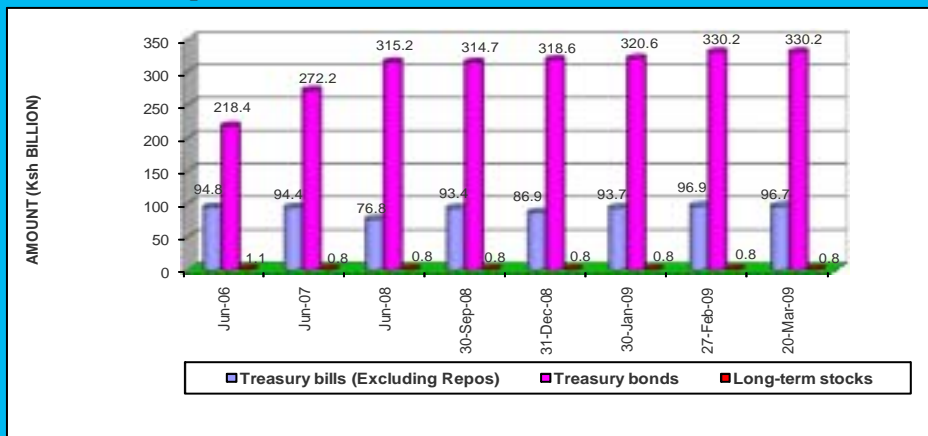
**Table 6: Government Domestic Debt (Ksh Billion)**

	Jun-08	31st Dec 08	27th Feb 09	6th mar 09	13th Mar 09	20th Mar 09	Changes 13th Mar-09 -20th Mar-09	30 th Jun-08 -20th Mar-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	96.9 22.7	93.9 22.1	95.5 22.4	96.7 22.6	2.8	19.8
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	330.2 77.2	330.2 77.7	330.2 77.4	330.2 77.2	0.0	15.0
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	0.8 0.2	0.0	0.0
4. Total Securities (1+2+3)	392.8	406.3	427.8	424.8	426.4	427.6	2.8	34.8
5. Overdraft at Central Bank	0.0	15.1	16.9	7.1	5.8	6.1	-1.0	6.1
6. Other Domestic debt*	37.8	34.9	34.1	34.5	34.3	34.9	0.4	-2.9
7. Gross Domestic Debt (4+5+6)	430.6	456.2	478.8	466.4	466.5	468.5	2.1	37.9
8. Interest payments on domestic debt	42.2	22.7	30.5	30.7	30.9	31.1	0.4	

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

Source: Central Bank of Kenya

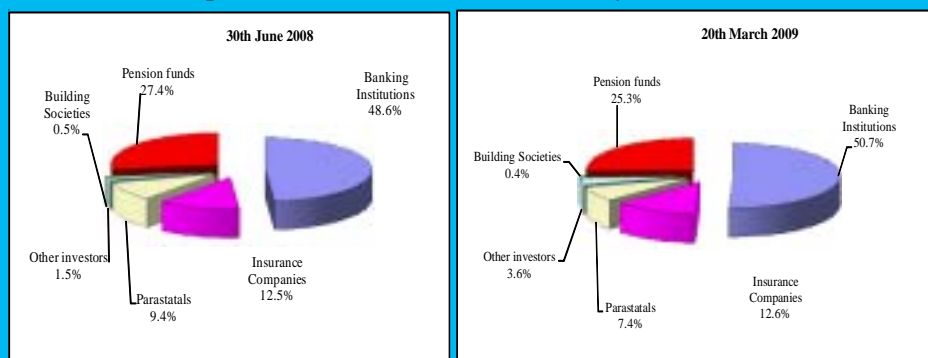
**Chart D: Composition of Government Securities**



Source: Central Bank of Kenya

Government securities holdings by commercial banks, insurance companies and other investors increased from 48.6 percent, 12.5 percent and 1.5 percent respectively in June 2008 to 50.7 percent, 12.6 percent and 3.6 percent, respectively as at March 20 2009. On the other hand, holdings of parastatals, pension funds and building societies decreased from 9.4 percent, 27.4 percent, 0.5 percent to 7.4 percent, 25.3 percent and 0.4 percent, respectively (Chart E).

**Chart E: Composition of Government Securities by Investor**



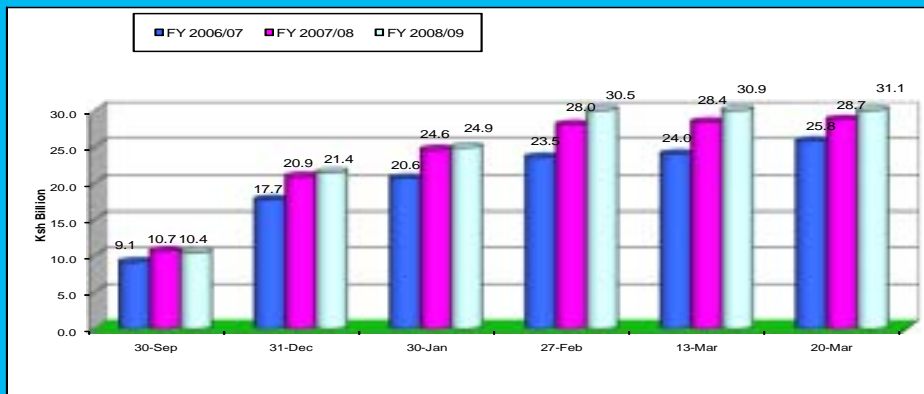
Source: Central Bank of Kenya



### Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt for the period up to March 20 2009 of the FY 2008/09 amounted to Ksh 31.1 billion compared with Ksh 28.7 billion in a similar period in the fiscal year 2007/08 (Chart F). The interest cost on domestic debt during the period comprised Ksh 23.1 billion in interest and other charges on Treasury bonds, Ksh 7.2 billion in interest and other charges on Treasury bills, and Ksh 0.8 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

There was a decline in performance at the equities market during the week ending March 26, 2009. Turnover declined by 25.5 percent as stocks worth Ksh 0.5 billion were traded compared with Ksh 0.6 billion traded in the previous week. The number of shares traded also fell, from 47.7 million in the previous week to 40.4 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth declined by 0.5 percent or Ksh 3.0 billion from Ksh 660.7 billion in the previous week, to Ksh 657.7 billion in the week under review, attributed mainly to price improvements in most counters. The NSE 20 Share index lost 4.9 points to settle at 2663.19 points on March 26, 2009 from 2668.11 points on March 19, 2009. The Nairobi All Share Index lost 0.3 points and closed at 56.8 points compared with 57.1 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	19th Feb 2009	26th Feb 2009	5th Mar 2009	12th Mar 2009	19th Mar 2009	26th Mar 2009
NASI 100= Jan 2008	58.97	53.93	51.27	52.92	57.05	56.78
NSE 20 Share Index 100=1966	2,714.49	2,511.47	2,360.01	2,453.36	2,668.11	2,663.19
Number of Deals	8,409	7,209	7,236	7,265	9,889	7,570
Total Shares Traded (millions)	39.44	32.81	50.46	46.66	47.66	40.41
Equity Turnover (Ksh. millions)	438.86	273.61	723.46	477.68	623.46	464.33
Market Capitalization (Ksh. Bn.)	682.82	624.56	593.82	612.96	660.71	657.66
Bonds Turnover (Ksh. millions)	906.35	1,011.95	3,436.25	2,650.90	1,700.85	1,265.85

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

Source: Nairobi Stock Exchange

The Commercial and Services sector traded 29.0 million shares and accounted for 71.6 percent of total traded volume. Safaricom traded 26.9 million shares to be the most active stock in the sector. The Finance and Investment sector traded 7.1 million shares and accounted for 17.5 percent of total traded volume. Co-operative Bank and Kenya Commercial Bank traded 1.9 million and 1.5 million shares and were the most active counters in the sector. Industrial and Allied sector traded 4.2 million shares and accounted for 10.5 percent of traded volume. Mumias and East African Breweries shares were the most active counters and traded 2.2 million and 0.7 million shares, respectively. The other sectors had minimal trading.

**Bond Market**

Bond market trading declined at the Fixed Income Securities Market during the week. Bond turnover declined as bonds worth Ksh 1.3 billion were traded compared with Ksh 1.7 billion traded in the previous week. The decline could be attributed to the shift to the primary market as well as to the equities market.