CONTENTS

STATEMENT OF TRANSMITTAL TO THE MINISTER FOR FINANCE

In accordance with Section 54 of the Central Bank of Kenya Act, I have the honour to present to you, the Annual Report for the financial year ended June 30, 1995 with the Statement of Audited Accounts of the Central Bank of Kenya.

Let me take this opportunity to highlight some important developments in this report that have had important influence on the country's economic direction. The Central Bank focused on monetary policy measures to bring down the rate of inflation and stabilise the shilling exchange rate. For this, we had to contain money supply using among other instruments the cash ratio, sale of Treasury Bills and bringing Non Bank Financial Institutions under the cash ratio requirement.

I am happy to report that the measures helped reduce inflation from 49.4% in June 1994 to 6.6% at the end of the financial year. Consequently, interest rates eased and the exchange rate stabilised. At the same time, the economy recorded a surplus in the current account on the balance of payments equal to 1.8% of GDP and the Central Bank ended the year with more than 3.6 months imports cover equivalent of foreign reserves. Above all, the economy recovered from the depressed levels of the preceding two years and grew by 3% in 1994.

The recovery, though commendable, is still weak and far below what we need to pull most of our population out of poverty and create adequate employment opportunities. More important, we have to urgently address those aspects, particularly the persistence of excess liquidity, which threaten continued good performance. As you are aware, recourse by the Government to Central Bank financing weakens the effectiveness of operating and implementing monetary policy.

Based on our own experience and other countries' ample experience we should, as one of our key objectives, seek a permanent solution to Government borrowings from the Central Bank. Such an action will significantly improve the management of the country's monetary policy and thereby contribute to price stability which is an essential platform for sound economic growth.

Finally, let me take this opportunity on behalf of the Board of Directors, management and staff of the Bank to acknowledge and register appreciation for the relentless support that we have received from His Excellency the President, the Treasury and the other arms of Government in the discharge of our duties at the Central Bank.

Yours Sincerely,

MICAH CHESEREM
Governor and Chairman
of the Board of Directors

30th September, 1995

BOARD OF DIRECTORS

Micah Cheserem
Governor and Chairman

Thomas M. Kithinji
Managing Director, Bain Hogg
Insurance Brokers Ltd

Prof. Philip M. Mbithi
Secretary of the Cabinet and Head of Public
Service, Office of the President

Dr. Thomas N. Kibua
Deputy Governor

Prof. George I. Godia
Associate Professor, Moi University

Benjamin Kipkulei
Permanent Secretary to the
Treasury

John H. Mramba
Managing Director,
Communication Concepts Ltd

SENIOR MANAGEMENT

Maurice J.P. Kanga
Director of Research

Daniel K. Kiangura
Director, Management Information Services

Reuben M. Marambii
Chief Banking Manager

Samuel N. Kimani
Chief Internal Auditor

Gerishon K. Ndubai
Bank Secretary

Alfred A. Wanguria
Director, Bank Supervision

Jones M. Nzomo
Director of Finance

Joseph Kamau
Director, Fraud Investigation Division

Joseph K. Waiguru
Administrative Director, Kenya School of Monetary Studies

INFLATION

As in the previous two years the activities of the Central Bank during the financial year 1994/95 remained geared towards containing inflation, with the main objective of creating an environment conducive to economic recovery and growth. The Bank, in pursuit of this objective, worked with other public arms charged with the responsibility of formulating and implementing Government economic policies. In particular, the Bank worked jointly with the Treasury and other line ministries to implement measures which aimed at accelerating the decline in rate of inflation towards single digits. The measures were also aimed at stabilizing the exchange rate of the shilling against other currencies and promoting savings and investment. The activities of the Bank accordingly were in three areas, namely:

- **Monetary Stability**, that is, seeking to strengthen and maintain the value of the Kenyan currency by containing inflation.
- **Efficiency and Stability of the Financial Sector,** that is, viability of commercial banks, non bank financial institutions (NBFIs) and other deposit taking institutions.
- **Market Information,** aimed at sensitising the market place to encourage competition in the banking industry.

Rationale for Low Inflation

The focus of the Central Bank activities to fighting inflation in the last two years is likely to lead one to be inquisitive of what is at stake in this commitment. Why pursue it above all the other objectives such as rapid economic growth and employment and stability of the balance of payments or exchange rate that the law mandates?

Several reasons support the choice of inflation as the number one concern for the Central Bank. These include the arguments that inflation hurts:

- holders of cash and fixed income earners such as salaries, wages, rents, interest, and pensions by reducing the amount each shilling purchases
- exports by making them more expensive than their alternatives from low inflation countries
- investment by creating uncertainty about the future and making it expensive to cope with.
- savers in money form as it erodes the value of such saving unless the return on them exceeds the rate of inflation.

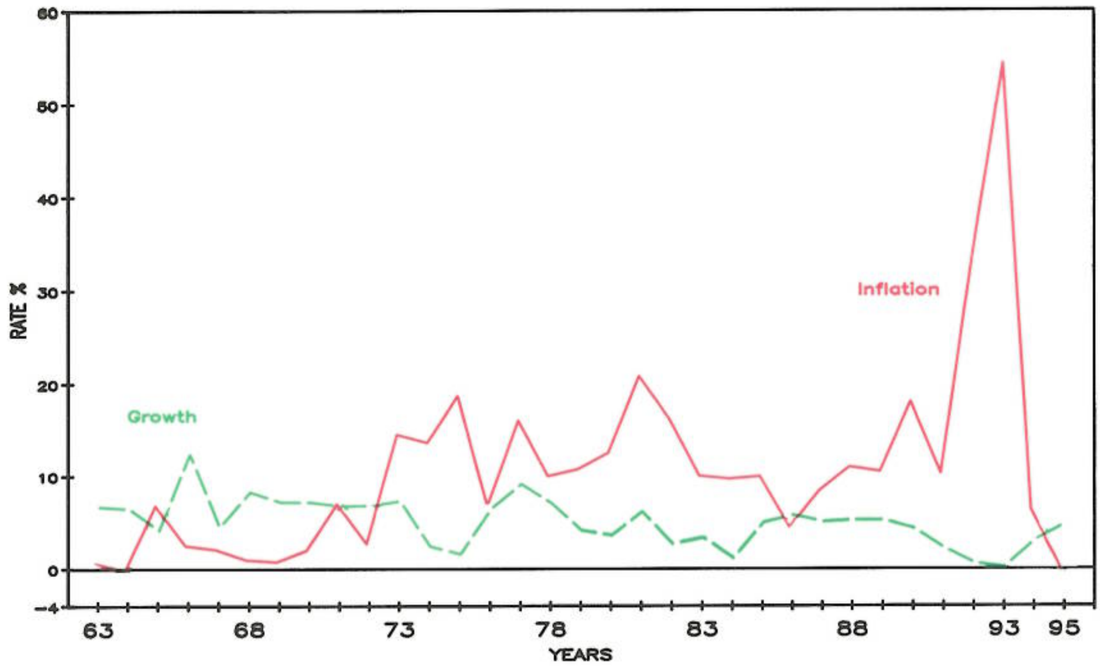
All the above reasons are good enough for any policy concerned with equity and fairplay to set measures to fight inflation.

They, however, have not been the most important in choosing the fight against inflation. The choice has mainly been due to the hard lessons over time both here and abroad that:

- **The Central Bank cannot use its unlimited capacity, at least domestically, to increase the money supply to boost economic activity and ultimately employment other than for a short time**
- **Sustained increase of the money supply can only lead to sustained increases in the rates of inflation and interest rates and depreciation of the exchange rate**
- **Lower inflation rates support increased productivity, efficiency, and hence higher output growth and better standards of living.**

The trends for both inflation and growth rates for Kenya since 1963 (chart 1) support the view that inflation is detrimental to economic growth and to generally good economic performance. In the decade to 1972, the rate of inflation was well contained within the single digits range and Gross Domestic Product (GDP) grew consistently by more than 5.5 %. Since then except in a few months last year and at present, inflation was in the double digit range. Over the same time, except for the coffee boom years and last year, economic growth fell continuously with the rising inflation to a stagnation in 1992 and 1993. The growth in coffee boom years however was due to improved

Chart 1: Long Term Inflation and Real Growth
1963 – June 1995

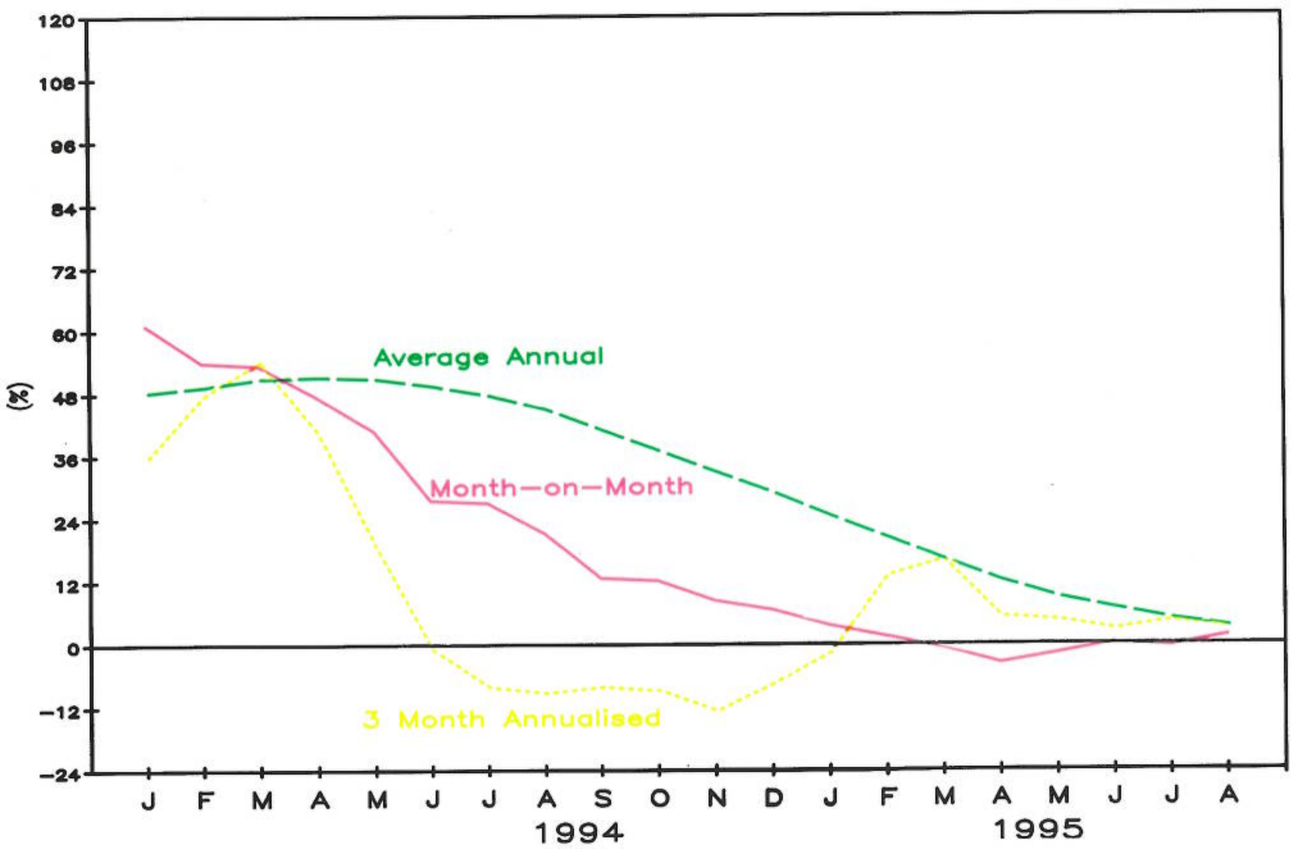


terms of trade and not increased production. Inflation alone, however, cannot be blamed for the poor performance of the economy over this time. The economy was also highly regulated with all manner of controls making it difficult for it to respond to changes in the operating environment during this period.

The Central Bank then has opted to concentrate above all else on fighting inflation because **it is the only objective it can pursue with certainty of success in the long run.** In this way, the Bank maximises its influence on economic growth and contribution to good economic performance.

This commitment continued bearing fruit. The policy has helped to ease inflationary pressure down to the desired single digits in the year as shown in chart 2. The average annual and month-on-month inflation were brought down from 49.4% and 28.7% respectively in June 1994 to 6.6% and 0.1%, respectively in June 1995. The three month annualised inflation, however, picked up from negative 7.6% to negative 2.5% over the same period. The acceleration of the three month annualised rate of inflation occurred towards the end of the second half of the year and was observably responding to easing of monetary expansion which had been recorded earlier in the year.

Chart 2 : SHORT TERM INFLATION RATES



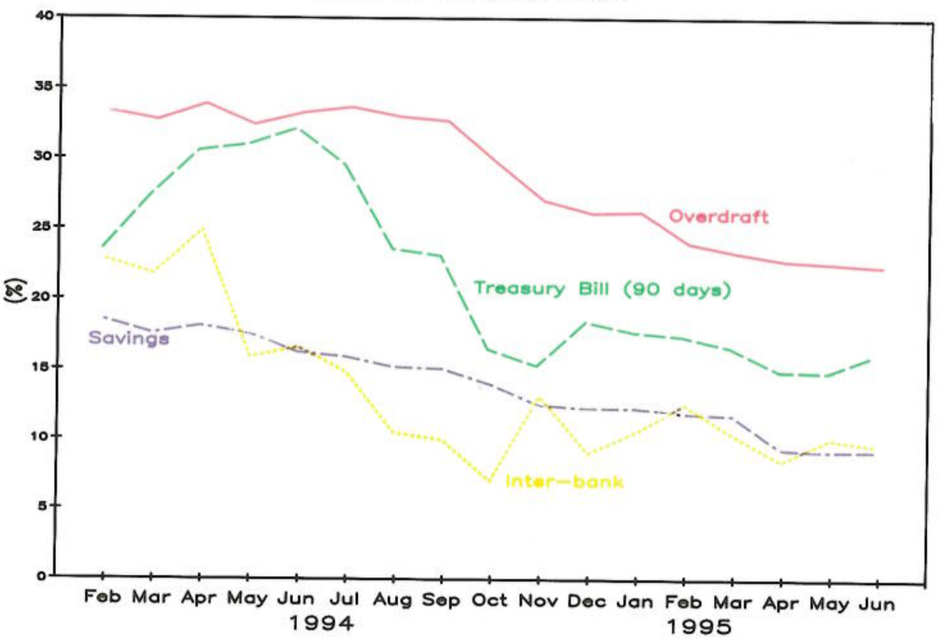
INTEREST RATES

Interest rates eased with inflation during the financial year. The yield on the 90 day treasury bill declined from 32.42% in June 1994 to 16.39 % in June 1995 (chart 3). The overnight interbank lending rate declined to 9.49% in June 1995 compared with 16.48% in June 1994. The overdraft rate lost 10.77 percentage points in fy 1994/95 to 22.40% in June. The weighted average savings and time deposit rates also declined 6.99 and 7.6 percentage points by June 1995. Meanwhile, the average weighted lending rates fell by 9.96, 8.69, 5.92 and 8.46 percentage points for the 0-1, 1-2, 2-3 and over 3 year maturities, respectively in fy 1994/95 to 22.64, 22.89, 22.89 and 22.83% in June.

The reduction in the interest rate on Treasury bills was aimed at supporting private sector production. The resurgence of monetary expansion at the end of the financial year occasioned by the substantial net redemption of Treasury bills using Paymaster General's overdraft to the Government led the Central Bank to tighten its monetary policy stance. The Bank did this by enhancing sale of Treasury Bills and introducing on 19th June 1995 bills of minimum of five days maturity to be sold on tap through the Open Market Operations (OMO) window. Furthermore, the minimum amount dealt in this window was reduced to shillings one hundred thousand and the participants enlarged to include the general public. The bills qualify for rediscounting and as collateral for borrowing without limit on the number of days held.

The Bank further broadened instruments in the money market. It allowed firms listed in the Nairobi Stock Exchange (NSE) to issue commercial paper and permitted foreigners to invest in local money market and repartriate their profits and capital.

Chart 3: Interest Rates



EXTERNAL SECTOR REFORMS AND EXCHANGE RATES

External Sector Reforms

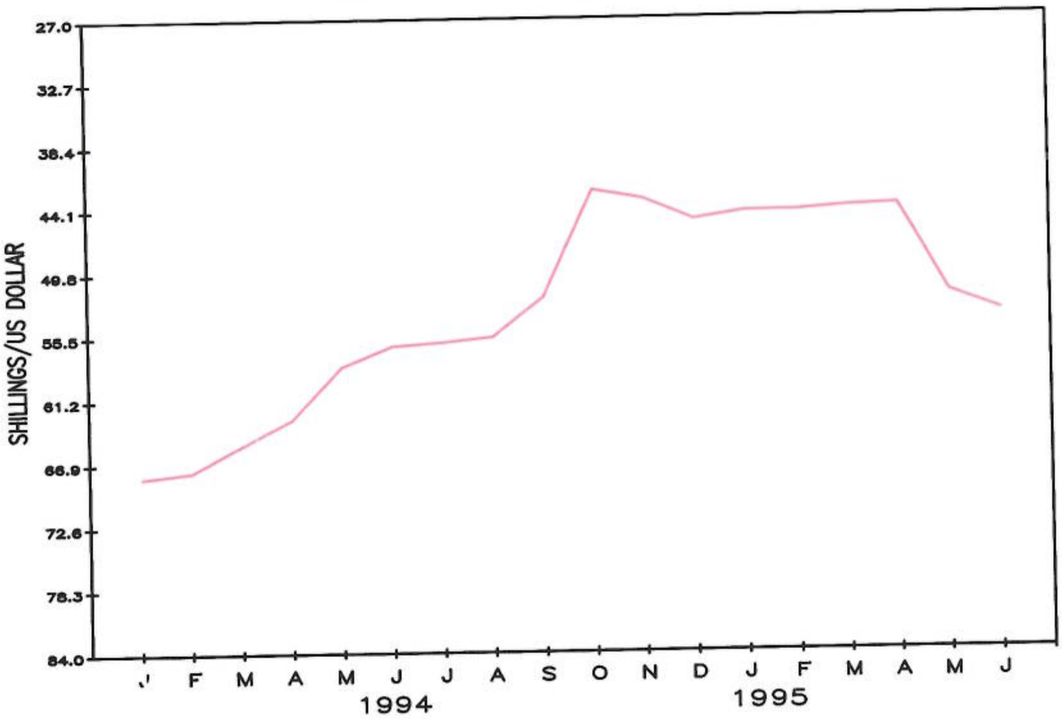
The fight against inflation was not confined to the shilling market. The Bank, working closely with the Treasury and other arms of government, consolidated and deepened reforms of the external sector to encourage free flow of resources. The reforms carried out in this sector included completing the relaxation of all capital transactions, except for inward investments in the stock markets which was set at 40% of listed stocks.

Guidelines for licensing and running of foreign exchange bureaus were also issued. Three bureaus were licensed during the year and two bureaus were in operation and handled a volume of US$ 2.3 million by the end of the year. The bureaus are expected to serve the retail end of the foreign exchange market and thus impart more competition to ease pressure on the exchange rate and other prices.

Exchange Rates

The Central Bank continued with its commitment to maintaining a **competitive and market determined exchange rate policy, intervening only to even out erratic and disruptive swings in the exchange rate rather than to alter the underlying trend of the exchange rate.** The fluctuation of the exchange rate of the shilling against other currencies in the liberalised foreign exchange market posed challenges to the Bank, particularly with respect to intervention (chart 4).

Chart 4: Exchange Rates



With the tight monetary policy stance, interest rates on the Treasury bills rose and attracted much foreign exchange that caused the shilling to gain value in exchange for other currencies. The shilling, for instance, gained from trading at over shs 80 to one US dollar, its lowest ebb in June 1993, to shs 35 in mid October 1994 before weakening to about shs 44 to the dollar following increased demand for foreign exchange, triggered by the liberalisation of the oil industry. The strengthening of the shilling during this period was owed in part to the easing inflationary pressure as money supply was being brought under control.

Improved earnings of exports, particularly of coffee, also played a part in strengthening the shilling. The strengthening of the shilling, however, was beginning to hurt the export industry as export receipts and those of tourism started to decline towards the end of the year. This exerted pressure on the balance of trade and, given the automatic correction associated with free foreign exchange system, the shilling weakened to between shs 50-55 to the dollar.

The Bank intervened to ensure smooth movement and predictability of the exchange rate. The operation of the exchange rate policy was continuously steered alongside that of monetary policy during the year, making sure that either of the two supplemented and supported its objective and the overall objective of monetary policy. Accordingly the volatility of the exchange and interest rates remained under control and the easing of the two prices smoothly followed the decline in the inflation rate which was setting in during the year.

The problems of fiscal policy, particularly debt service however, made the task of coordinating foreign exchange and the shilling markets more difficult than it would have been. The Central Bank also maintains close surveillance on the evolving foreign exchange market to achieve a more orderly trading. The Central Bank remained seller of last resort in the forex market, intervening by either purchasing or selling foreign exchange in the market whenever the need arose to stabilize the shilling.

The Central Bank imposed a 20% foreign exchange exposure limit on commercial banks. This was purely a prudential measure which was in no way meant to supplement other measures aimed at containing monetary expansion, nor was it meant to supplement the exchange rate policy. The exchange rate continued to be market determined throughout the year.

GOVERNMENT FISCAL OPERATIONS AND ITS CHALLANGE TO IMPLEMENTING MONETARY POLICY

Government payments relative to revenues and borrowing during the year had important implications not only for the money supply, but also for inflation, interest, exchange, and growth rates in the economy. The payments were made by the Government partly for goods and services and partly for servicing the debt it owes to both domestic and external creditors, with heavy payments falling in after March 1995 following the expiry of a relief period on rescheduled arrears (table 1). The moneys to make the payments were mainly from tax revenues and grants, but loans borrowed from domestic and external sources also contributed to a significant extent.

Payments

The Government paid shs 154.5 bn in the fiscal year compared with shs 160.9 bn the previous fiscal year. Of this, shs 136.4bn, or 0.4 % more than the previous year was for expenditure and net lending . The easing in expenditure increase was mainly due to reduced interest payments on domestic debt brought about by lower interest rates. The rest was used to repay shs 16.2bn and shs 1.9 bn of domestic and external debt respectively. Payments for development expenditure and net lending to other public institutions, however, increased by 16.6 % in the fiscal year 1994/95.

Table 1: Fiscal Operations (Shs m)

	1993/94	1994/95		1995/96
	Actual	Printed Budget	Actual	Printed Budget
Expenditure & net lending	135,828	145,267	136,354	156,710
Recurrent Expenditure	110,549	104,643	106,876	117,486
Development expenditure and net lending	25,279	40,624	29,478	39,224
Revenue and grants	107,275	142,414	131,132	157,269
Recurrent revenue	103,250	126,367	125,312	142,451
Ordinary revenue	99,264	120,889	119,058	136,629
Direct taxes	36,570	37,350	43,287	50,197
Indirect taxes	56,763	74,695	63,814	73,547
Non-tax revenue	5,931	8,844	11,958	12,885
Appropriations-in-Aid	3,986	5,478	6,254	5,822
Grants	4,025	16,047	5,820	14,818
Float adjustments[rev(+) exp(-)]	3,518	-	-1,434	-
Overall surplus (+)/ deficit (-)	-25,035	-2,853	-6,656	599
(Per cent of GDP)	-6.2	-0.7	-1.6	0.1
Financing	25,035	2,853	6,656	-599
Foreign borrowing (net)	560	7,686	-1,958	-1,214
Domestic borrowing	24,475	-4,833	8,614	655
Non-bank sector	27,286	-3,770	-29,865	327
Banking system	-2,811	-1,063	38,479	328

Source: Treasury and Central Bank

Revenues and Grants

The Government received shs 131.1 bn in revenues and grants compared with shs 107.3 bn in the previous year. Most of the increase was in income tax. The increase, however, fell short of expectation due to under performance of ordinary revenues and external grants. The short falls were particularly in Value Added Tax, and customs duties.

Public Debt

The shs 6.7bn shortfall of revenues and grants below payment for Government expenditure on goods services and interest on public debt, resulted in increased public debt by same amount. Thus public debt increased from shs 344.3bn to shs 351.0bn at the end of the fiscal year. All the increase was in debt due to the banking system, with 64.4 % of it from the Central Bank.

Although substantial sales continued to be made, net redemptions reduced the stock of Treasury bills from shs 83.6bn to shs 75.4bn at the end of June 1995. The stock of Treasury bonds declined from shs 50.9bn to shs 15.6bn and that of Government stocks declined from 28.1bn to shs 4.6bn.

The Challenge to Implementing Monetary Policy

No ground gained in the fight against inflation has been easily won without constraints and hard learnt lessons. As in the previous fiscal year, the Bank committed itself to deal with any increase in the money supply that threatened to generate pressure on inflation, the shilling exchange and interest rates, and ultimately affect adversely economic growth, employment, the balance of payments, and the overall aspects of the economy.

The Bank then continued to use the sale of Treasury bills in both the Primary and OMO to pursue this objective. This action was supported by continued requirement on commercial banks to keep part of their deposit liabilities as cash balances at the Bank.

The Bank sold Treasury bills and attracted large amounts of some of the money that was being held by the private sector as cash on hand and as deposits with commercial banks and other financial institutions and in balances of commercial banks and non bank financial institutions with the Bank. A reduction of commercial banks deposits at the Bank and their cash in tills normally set in motion reduction in the money supply several times more than the reserves. This, however, did not reduce the growth in the money supply. Instead, the money withdrawn was more than offset by that released in the course of servicing large and increasing debt and to some extent to finance expenditures.

Government Borrowing Requirements

In spite of curtailed growth in expenditure and improved collection of tax revenue which reduced the deficit on a cash basis from shs 25bn or 7.1 % of GDP the previous fiscal year, to shs 6.7bn or 1.6% of GDP the money supply still increased by shs 47.5bn or 37.6 % in the year to June 1995 (table 2). About 8 percentage points of the increase was from the NBFIs that converted into commercial banks. The rest of the increase in the money supply, however, originated from the Government borrowing of shs 24.8bn from the Bank and shs 13.7bn from commercial banks.

All the borrowing from the Bank was in overdraft. This overdraft supported the increase in money supply to the tune of shs 5.5bn in notes and coins. It also provided a basis for monetary expansion by the commercial banks to the private sector. The commercial banks increased their lending by shs 31.4bn or 40.3 % to the private sector and other public sector compared with shs 8.5bn or 12.2 % increase the previous fiscal year. The increase in credit to the private sector, encouraged by the lower lending rates and improved economic prospects, helped boost the picking up of the economy during the year.

Table 2: Money Supply and its Sources (Sh. bn)

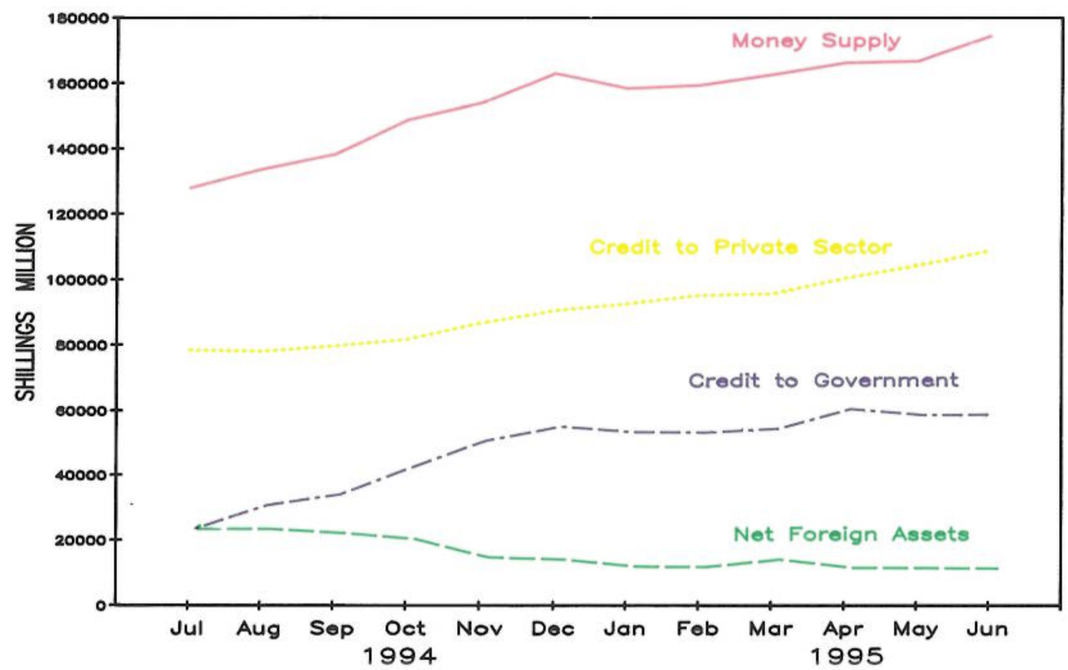
		1994 June	1995 June	Movement Absolute	Movement % Change
1.	**Money Supply (2+3+4)**	126.3	173.8	47.5	37.6
2.	Net Foreign Assets	23.4	10.7	-12.7	-54.3
	Gross foreign exchange	61.0	51.8	-9.2	-15.1
	Liabilities in foreign exchanges	37.6	41.1	3.5	9.3
3.	Domestic Credit	97.9	167.7	69.8	71.3
	Government	20.0	58.5	38.5	192.5
	Central Bank	-0.8	24.0	24.8	3100.0
	Deposit relating to issued securities	162.5	95.6	-66.9	-41.2
	Treasury Bills	83.6	75.4	-8.2	-9.8
	Treasury Bonds/Stocks	78.9	20.2	-58.7	-74.4
	Paymaster General/Other Deposits	-163.3	-71.6	91.4	43.8
	Commercial Banks	98.7	143.7	45.0	45.6
	Government	20.8	34.4	13.6	65.4
	Private and other public sector	77.9	109.3	31.4	40.3
4.	Other items net	5.0	-4.6	-9.6	-19.2
5.	**Reserve Money**	40.8	52.9	12.1	29.7
	Currency outside Banks	20.4	25.9	5.5	27.0
	Deposits with CBK	17.5	23.9	6.4	36.6
	Cash in till	2.9	3.1	0.2	6.9

Source: Central Bank of Kenya

The Government recourse to the Central Bank, however, underlines the threat that servicing the large Government debt to both foreign and domestic creditors and running persistent deficits, which are the source of new debt, pose to effective monetary management geared to fighting inflation and its adverse impacts on interest and exchange rates and growth. The problem becomes even more formidable if the level of debt is too high to roll over at low interest rates.

The rapid expansion of the money supply (chart 5), particularly in the second half of the financial year is not expected to put pressure on prices as the picking up of economic growth is bound to increase the demand for money that offsets some of the pressure. The Bank has also addressed the problem by allowing increases in the short dated Treasury bills. This should reduce the demand for money and ultimately reduce pressure on the shilling exchange rate and arrest the decline in Treasury bills held by the public. Furthermore, the bringing of the NBFIs into the cash ratio observation requirement will curtail the capacity of lending of both the banks and NBFIs. This in turn will translate into a slow pace of monetary expansion which should ease the task of managing money supply. The rapid monetary expansion will also be curtailed by speedy depositing of Government revenues by the newly established Kenya Revenue Authority. At present such revenues tend to overstay with the banks where they are deposited thus giving the banks opportunity to remain liquid at the expense of the Government's account at the Central Bank. The Authority is also expected to implement a more active collection of revenue than so far experienced.

Chart 5: Money Supply and its Sources



BALANCE OF PAYMENTS

Besides the stability in the exchange rate, the balance of payments, which is the other manifestation of external sector viability continued to be satisfactory. The overall balance of payments moved from a surplus of US$ 282m in 1993 to US$ 102m in 1994 mainly due to a deterioration in the capital account (table 3). The capital account declined from a surplus of US$ 183m in 1993 to a surplus of US$ 50m in 1994 as a result of large external debt repayments and decline in programme financing. The public external debt increased from US$5.4 bn to US$5.6 bn.

The current account also fell slightly from a surplus of US$ 99m in 1993 to US$52m.

There was a decline in the volume of major traditional exports but the value of exports increased by 35 % mainly due to favourable international prices in 1994. The services account surplus improved by about 1% from US$ 605m in 1993 to US$ 613m in1994 due to good performance in tourism earnings. Imports grew by 27 % reflecting large volume increases in producer and consumer goods occasioned by the appreciating shilling in 1994 and a liberal import regime. As a result of this external payment position, gross foreign official reserves rose from US$ 475m in 1993 representing 3.5 months of imports cover to US$ 625m in 1994 equivalent to 3.6 months of imports cover.

Table 3: Balance of Payments (1992 - 94) in US$m

			1992	1993	1994
1	**Current Account**		-111	99	52
		Exports	1014	1099	1482
		Imports	-1875	-1605	-2043
		Services(net)	750	605	613
2	**Capital Account**		-58	183	50
		Long Term Off. Inflows	277	426	252
		Long Term Off. Outflows	-423	-383	-460
		Private Long term (net)	-16	-8	-43
		Others[1]	104	148	301
3	**Overall balance (1+2)**		-169	282	102
4	Reserve Level (Official)		179	475	625
	Months of imports cover		1.1	3.5	3.6
5	**Exchange Rate (Average)**				
		Kshs/SDR	45.4	87.36	80.27
		Kshs/US$	32.21	58	56.05
		US$/SDR	1.416	1.396	1.433

[1]Net short term, commercial banks (net) and errors and omissions

PRODUCTION

Positive results have emanated from the two consecutive years of easing pressures on inflation and interest rates and the strengthening of the shilling. The growth in real output rebounded from the declines of 0.5 and 0.2 % in 1992 and 1993 respectively, to 3.0 % in 1994.

The recovery was in almost all sectors of the economy. Agriculture, the mainstay of the economy, grew by 2.8% in 1994 compared with the declines of 3.7 and 4.1% in 1992 and 1993. The good performance was facilitated by the favourable environment of low inflation, stable exchange and easing interest rates that allowed increased availability and use of inputs in the liberalised imports regime. These, combined with good weather, favourable international prices for coffee and tea, reduction of duties on imported fertilisers and the changes in the management of foreign exchange that allowed cash crop farmers to run foreign currency denominated accounts acted to boost performance.

Similarly, the building and construction sector recovered in 1994, growing at 1.1% compared with declines of 8.7 and 5.5% in 1993 and 1992. Trade, restaurant and hotels and transport storage and communications also performed well, growing by 5.1% and 3.0% respectively in 1994 in contrast to 0.1% and 0.8% in 1993 and 1992.

Finance, insurance and real estate grew by 6.1% in 1994 compared with the 7.2% the previous year . A similar trend was evident in the manufacturing sector activities that performed less favourably, growing by 1.9% in 1994 compared with 1.8% in 1993. The sector's performance reflected a margin short-term difficulties in coping with competition from imports following the liberalization of imports and payments regimes.

The recovery though commendable, is still weak and far below the 8% per annum needed to be achieved and sustained for at least a decade in order to pull most of our population out of poverty and create adequate employment opportunities in the years ahead.

The 3% rate of economic growth achieved in 1994 must therefore be increased. To accomplish this, the current reform progammes should be supported in order to boost confidence in the economy and to improve further on the existing environment of low inflation, stable exchange and declining interest rates. Further, the ratio of domestic investments to GDP has to be progressively increased from the level of 20.6% in 1994 to nearly 27.0% by the turn of the Century. A substantial proportion of this investment has to be financed from domestic savings, which must also increase.

FINANCIAL SECTOR EFFICIENCY AND STABILITY

The Central Bank worked to ensure that banks, and other deposit taking institutions maintained their integrity in the eyes of the public as institutions that collect and safeguard savings, provide credit, accept and spread risk and operate the country's payments system. The Bank then continued with surveillance and regulation of the financial system, ensuring that financial discipline and confidence is entrenched. More importantly, the Bank oversaw two developments. One was the conversion of NBFIs into commercial banks or their merger with existing ones and preparing them to start observing the cash ratio. The other was the licensing of foreign exchange bureaus to cater for the retail end of the foreign exchange market.

Seven NBFIs converted into banks, twelve got the authority to convert, two converted to mortgage finance companies and four got the green light to merge with parent banks. Consequently, commercial banks increased from 33 to 37 while NBFIs declined to 44 within the year. Two commercial banks and one NBFI were put under statutory management. Ultimately, the Bank authorised liquidation of the NBFI. The Bank also restructured and reopened one bank previously under statutory management. This increased from 10 to 13 the institutions being liquidated by the Deposit Protection Fund. The Fund continued to manage deposit insurance funds, recovered substantial debts and made dividend and deposit payments.

The Bank, in keeping with the concern for the stability of the financial system, reduced the upper limit on advances, credits and guarantees. The limit for any single borrower was lowered from a maximum of 100% to 25% of the institution's capital and unimpaired reserves.

Treasury bills in the money market fell by shs 8,211m in the year to shs 75,399m at the end of June 1995 as a result of substantial fall in treasury bill yields. Meanwhile, outstanding promissory notes rose from shs 118.9m in 1994 to shs 874.9m at the end of June 1995. Outstanding government stocks fell from shs 28,052m in June 1994 to shs 4,588m in June 1995, following early retirement. The holdings of bearer and non-bearer bonds also fell by shs 35,255m to shs 15,620m over the same period.

Two companies joined and brought to 56 the companies listed at the NSE in June 1995. The Capital Market Authority licensed 15 new brokers to operate at the NSE. This raised the number of brokers at the Exchange to 21. One broker was, however, expelled following contravention of the NSE rules and regulations. Foreign investors were permitted to invest in securities listed at the Exchange subject to prescribed limits in January 1995.

CENTRAL BANK OF KENYA
BANKI KUU YA KENYA
BALANCE SHEET
As at 30th June 1995
(Amounts in shs million)

ASSETS	1995	1994
Gold and Foreign Exchange	26933	40809
Investment in Govt. Securities	544	50191
Direct Advances to Kenya Government	200	200
Advances and Discounts to Banks	13613	12274
Uncleared Effects	269	321
Fixed Assets	1457	1045
Other Assets	1884	3509
Revaluation Account	25161	20237
Government of Kenya Overdraft	23285	-
Total Assets	**93346**	**128586**
LIABILITIES		
Currency in Circulation	29032	23311
Deposits		
Government of Kenya	-	51168
Banks - Kenya	23664	17474
- External	13	97
Non-Bank Financial Institutions	236	-
IMF	24423	22797
Other Public Entities and Project Accounts	4647	4371
Dividends Payable to the Govt of Kenya	2383	844
Other Liabilities and Provisions	8089	7931
CAPITAL AND RESERVES		
Capital Account	500	500
General Reserve Fund	359	93
TOTAL LIABILITIES AND CAPITAL	**93346**	**128586**

Note: These Accounts have been approved by the Board of Directors and certifed by the Auditors.

MARKET INFORMATION

The Central Bank committed itself during the financial year to informing commercial banks, non bank financial institutions and the general public about the performance of the economy particularly with respect to inflation, interest, and exchange rates, and about its activities and reasons for its policy measures. The Bank did this with a view to having the public appreciate economic developments in the liberalised economic environment that affect them and to respond to them appropriately.

The Bank is convinced that improved information dissemination improves market activity. An uninformed market is prone to instability. This is particularly so for both the shilling and foreign exchange markets. Conducting Bank business openly and distributing consistently presented information widely is expected to create public trust and confidence in the commitment of the Government to low inflation. With this clear understanding of economic policies, the various sectors in the economy produce goods and services, and in the process, employment.

The Bank used its Monthly Economic Review to disseminate current information on monetary policy actions, the money supply, inflation, interest rates and the exchange rates and to engage in dialogue on various issues of current concern to the public. The Bank sought to improve the regularity, timeliness and information content of the reviews. An attempt was made to analyse the developments in the economy and communicate the economic information in as simple as possible way in order to reach as large an audience as possible. The media greatly assisted in disseminating the information through their wide coverage and indepth analysis.

Besides the Monthly Economic Review, the Bank issued data every week on Treasury bills through the print and electronic media. It also produced a Quarterly Statistical Bulletin with a comprehensive coverage of financial and economic data of a longer term nature. This particularly provided a good source of information on the underlying developments in the economy.

Along the same lines, the Central Bank conducted during the year a workshop on economic reporting for business editors of the media. It extended its information activities to professional bodies and to commercial banks and other financial institutions. For instance, with a view to strengthening the financial industry, the Bank conducted seminars for directors to highlight their roles and responsibilities.

REPORT OF THE AUDITORS
<u>PURSUANT TO SECTION 54 OF THE CENTRAL BANK OF KENYA ACT</u>

We have audited the accounts which have been prepared under the historical cost convention. We obtained all the information and explanations which we considered necessary for our audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the accounts. Our responsibility is to express an opinion on the accounts based on our audit.

BASIS OF OPINION

We conducted our audit in accordance with generally accepted auditing standards. We planned and performed our audit so as to obtain a reasonable assurance that the accounts are free from material mis-statement. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of significant estimates and judgements made by the directors in the preparation of the accounts, and whether the accounting policies are appropriate in the Bank's circumstances, consistently applied and adequately disclosed.

OPINION

The profit for the year ended 30th June, 1995 has been ascertained in accordance with Section 9 of the Central Bank of Kenya Act.

In our opinion, proper books of accounts have been kept and the accounts, which are in agreement therewith, give a true and fair view of the state of affairs of the Bank as at 30th June, 1995 and of the results of its operations for the year to that date and comply with the requirements of the Central Bank of Kenya Act.

BELLHOUSE MWANGI ERNST & YOUNG **KPMG PEAT MARWICK**

JOINT AUDITORS

NAIROBI

31st August, 1995

CENTRAL BANK OF KENYA
BANKI KUU YA KENYA

PROFIT AND LOSS ACCOUNTS
For the year ended
30th June 1995
(Amounts in shs million)

	1995	1994
REVENUE		
Foreign Investment Earnings	1465	1009
Local Investment Earnings	1735	12580
Other Earnings	1964	1765
	5164	15354
EXPENDITURE		
Administrative Expenses	1468	1178
Currency Expenses	726	872
Banking Expenses	135	5067
Foreign Trade Supervision	130	677
Exceptional Items:		
Redemption of forex Cs	-	2989
Losses and Write offs	56	3634
TOTAL EXPENSES	**2515**	**14417**
NET PROFIT	**2649**	**937**

Note: These Accounts have been approved by the Board of Directors and certified by the Auditors.