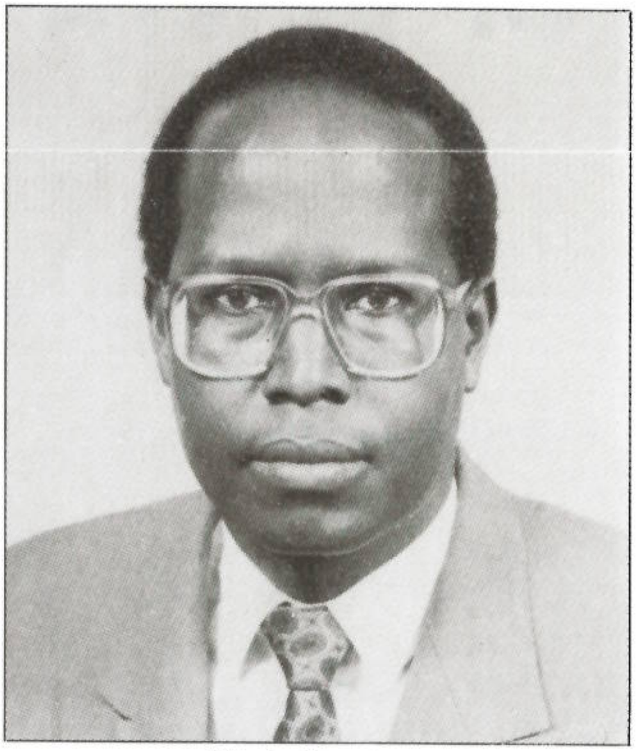
CENTRAL BANK OF KENYA

TWENTY SEVENTH ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 1993

Central Bank of Kenya

BOARD OF DIRECTORS

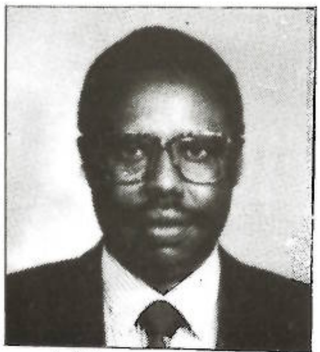


Micah Cheserem
Governor and Chairman

Prof. Philip M. Mbithi
Director

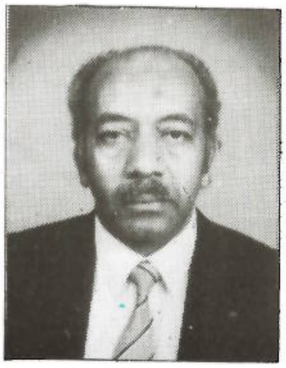
Dr. Thomas N. Kibua
Deputy Governor

Dr. Wilfred K. Koinange
Permanent Secretary
Treasury, ex-officio Director



J. T. arap Leting'
Director

T. S. Kaloki
Director



Dr. A. H. S. El-Busaidy
Director

LETTER OF TRANSMITTAL

Central Bank of Kenya
September 20, 1993

Hon. Musalia Mudavadi, M. P.
Minister for Finance
P.O. Box 30007
NAIROBI.

Dear Sir,

Twenty Seventh Annual Report of the Central Bank of Kenya

In accordance with Section 54 of the Central Bank of Kenya Act, I have the honour to present to you Sir, the Twenty Seventh Annual Report of the Central Bank of Kenya for the financial year ended June 30, 1993 together with the Statement of Audited Accounts.

Yours faithfully,

MICAH CHESEREM
Chairman of the Board of Directors and
Governor of the Central Bank of Kenya

CENTRAL BANK OF KENYA

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Directors		Tenure
Mr. Eric C. Kotut,	Chairman and Governor	January 12, 1988 – July 23, 1993
Mr. Micah Cheserem,	Chairman and Governor	July 24, 1993 –
Mr. Eliphaz Riungu,	Deputy Governor	February 24, 1992 – June 30, 1993
Dr. Thomas N. Kibua,	Deputy Governor	July 1, 1993 –
Dr. Wilfred K. Koinange,	Ex-officio Director	January 8, 1992–
Prof. Philip M. Mbithi,	Director	January 9, 1992 –
Dr. Abdulfhasur El-Busaidy,	Director	April 1, 1987 –
Mr. Timothy S. Kaloki,	Director	May 1, 1986 –
Mr. Joseph arap Leting,	Director	December 31, 1986 – January 3, 1993

Senior Management

Bank Secretary	Mr. Joseph K. Waiguru
Director, Exchange Control	Mr. Tito K. Kuruna
Director, Foreign Department	Mr. Job A. Kilach
Director, Banks Supervision	Mr. Gabriel Itela
Director of Research	Mr. Joseph K. Kinyua
Chief Banking Manager	Mr. Reuben M. Marambii
Manager, Computer Services	Mr. Daniel K. Kiangura

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General Economic Developments

1.1 Developments in the World Economy

The world economy recovered slightly in 1992 with real world output increasing by 1.8 per cent compared with 0.6 per cent in 1991. The improvement was in both industrial and developing countries. However, for the European countries in transition, performance remained generally poor with the former Soviet Union countries registering the largest decline of 18.5 per cent.

The real output of industrial countries is estimated to have increased by 1.5 per cent in the year compared with 0.2 per cent in 1991. The growth in developing countries as a group accelerated to 6.1 per cent in 1992 from 4.2 per cent in 1991. The improvement was mainly export led. The sustained reform efforts in the developing countries and increased industrial countries' demand helped promote growth in their exports. The output of Central European countries in transition declined by 7.5 per cent. On the international trade front, the volume of world trade increased by 4.2 per cent in 1992 compared with 2.3 per cent in 1991. With regard to inflation, performance was mixed. In the industrial countries, the annual rate of inflation declined to 3.2 per cent in 1992 from 4.5 per cent in 1991 while in developing countries, inflation accelerated from 35.7 per cent in 1991 to 38.7 per cent in 1992. In the European countries in transition, because of the liberalisation of prices and other reforms in early 1992, inflation rose more rapidly to 776.2 per cent from 100.5 in 1991.

1.2 Developments in the Domestic Economy

The Kenyan economy performed less satisfactorily in 1992 than in 1991, with real GDP growing by 0.4 per cent in the year compared with 4.3 and 2.3 per cent in 1990 and 1991 respectively (Table 1.1). This was due to a number of factors including poor rains and the suspension of quick disbursing external aid which led to a sharp decline in foreign exchange for the financing of imports of essential inputs. In addition, the uncertainty during the phase of political transition to multi-party democracy adversely affected investment.

The overall balance of payments recorded a deficit of shs 8,661m in 1992 compared with shs 3,065m in 1991. This reflected a worsening in the capital account which recorded a deficit of shs 5,361m in 1992 compared with surpluses in the past years. The current account, however, improved from a deficit of shs 6,334m in 1991 to shs 3,146m in 1992. In relation to GDP, the current account deficit fell from 2.3 to 1.3 per cent over the period. The improvement in the current account was due to a major improvement in the services account arising from increases in tourist receipts and grants. Despite the increase in the overall deficit in 1992, the gross reserves of the Central Bank rose from shs 7,366m or 1.9 months of imports in December 1991 to shs 12,170m or 2.8 months of imports in December 1992. This reflected the effect of the accumulation of debt arrears of shs 11,818m in the year.

Table 1.1

SELECTED DOMESTIC ECONOMIC AND FINANCIAL INDICATORS, 1990–1993[1]

	1990	1991	1992	1993[2]
	(Annual percentage changes)			
Gross domestic product[3]	**4.3**	**2.3**	**0.4**	**1.0**
Of which				
Agriculture	3.4	−1.1	−4.2	1.5
Manufacturing	5.2	3.8	1.2	2.5
Building & Construction	5.3	2.3	−2.7	—
Trade rest & hotels	2.3	1.3	1.5	2.0
Consumer price index				
Annual average	13.6	18.7	20.8	35.3
Month on month	14.6	20.8	35.8	39.2
Money supply	**12.9**	**18.9**	**20.2**	**34.2**
	(In per cent of GDP)			
Overall balance of payments surplus(+)/deficit(−)	−1.7	−1.3	−3.3	−1.9
Of which: current account	−5.5	−2.3	−1.3	−0.6
Overall budget surplus(+)/deficit(−)	−4.0	−6.8	−2.9	−7.3

[1]Except for gross domestic product and balance of payments which are on calendar year basis, other indicators are on fiscal year basis ending June 30.

[2]Data for government budget for fy 1992/93 are provisional while that for GDP is a projection.

[3]At constant 1982 prices.

Sources: The Central Bank of Kenya; the Treasury; and Economic Survey (1993).

The fiscal operations of the Government in fy 1992/93 resulted in a budget deficit of 7.3 per cent of GDP compared with 2.9 per cent in fy 1991/92 and a target of 2.3 per cent for the year. The increase in the deficit was due to higher expenditure on education, agriculture, health, defence, security and energy. The deficit was financed mainly through borrowing from the domestic non-bank sector which accounted for 9.0 per cent of GDP as the Government reduced its indebtedness to the banking system by 3.9 per cent. External financing accounted for 2.2 per cent of GDP.

In the financial sector, a notable development was the sharp growth in the money supply, M_2, which rose by 34.7 per cent in fy 1992/93, compared with 20.2 per cent in the previous year. The growth in the money supply was mainly in the narrow money component which grew by 46.0 per cent compared with 23.9 per cent in the previous fiscal year. Quasi money also increased by 25.1 per cent compared with 17.3 per cent. The growth in the money supply was mainly due to a large expansion in net domestic assets of the banking system.

Domestic prices continued to be under pressure in fy 1992/93. The average annual rate of inflation rose to 35.3 per cent in June 1993 from 20.8 per cent in the previous year. The month-on-month inflation was 39.2 per cent in June 1993, up from 35.8 per cent in June 1992. The acceleration in inflation reflected the effects of the decontrol of commodity prices, the depreciation of the shilling, and the past expansion in the money supply.

1.3 Prospects for 1993

The recovery of the world economy is expected to be sluggish in 1993. Developing countries as a group, however, are expected to show slightly better performance. The Kenyan economy is expected to improve somewhat in 1993 following the implementation of several economic and financial reforms in the first half of the year. However, recovery may be slowed down by a possible decline in agricultural production resulting from persistent adverse weather conditions. The balance of payments is also expected to perform better than in 1992 as a result of anticipated growth in exports and increased capital inflows.

CHAPTER 2

Operations of the Central Bank

2.1 The Financial System

The financial system expanded further during fy 1992/93, despite the slowdown in economic activity. Nine new commercial banks were licensed during the year, bringing the licensed banks to 41. The operational commercial banks rose to 34 in the year as five more commercial banks opened business to the public. The branch network and service outlets of banks also rose from 490 in fy 1991/92 to 581 by June 1993. Full fledged branches, sub-branches, and agencies and mobile units increased by 20, 1, and 70, to 257, 77 and 247 respectively, in the year. The non bank financial institutions (NBFIs) increased to 67 following the licensing of six more institutions in the year. Although four NBFIs began operating in the year, the number of operational NBFIs nonetheless declined to 51 and their branches also fell to 92 from 110 in June 1992. This reflected the amalgamation of Kenya Savings and Mortgages, Home Savings and Mortgages, Nationwide Finance, Business Finance and Jimba Credit under the Consolidated Bank of Kenya and the liquidation of some of the NBFIs. The number of operational building societies remained unchanged at five by the end of June 1993. Other institutions in the financial system at the end of fy 1992/93 included seven development finance companies, thirty seven insurance companies, one Post Office Savings Bank with a country-wide branch network, various savings and credit co-operative societies, and a stock exchange.

The Bank continued with its supervisory role of the financial system. Five commercial banks and nine NBFIs were inspected on site in fy 1992/93, compared with five and seven, respectively, in fy 1991/92. Special audits were also carried out on eleven commercial banks and seventeen NBFIs. As a result of these audits, the Trade Bank group, consisting of Trade Bank, Trade Finance and Diners Finance, was placed under statutory management while Nairobi Finance Corporation, Central Finance, International Finance, United Trustee Finance and Post Bank Credit were placed under liquidation.

The Deposit Protection Fund (DPF) continued to expand in terms of membership and contributions. An additional eight commercial banks and seven NBFIs became members in the year, thereby increasing the total membership to 97. The new members are Meridian BIAO Bank(K), Guilders International Bank, Credit Banking Corporation, Giro Bank, Export Bank of Africa, Daima Bank, Euro Bank, Express Bank, Cooperative Finance, First National Finance, Universal Finance, Fidelity Finance, Imperial Finance and Securities Company, Euro Finance, and Express Finance. Contributions to the Fund also increased by shs 14.3m to shs 100.9m by the end of June 1993. The Fund's income from investment in treasury bills and treasury bonds increased by shs 38.4m to shs 150.0m. Interest income from deposits [illegible] o rose by shs 75.4m to shs 142.9m in June 1993.

The liquidity of the financial system improved considerably during fy 1992/93 mainly because of the marked shift in their investments in treasury bills in response to the high treasury bill rates. The average liquidity ratio[1] for commercial banks doubled, rising from 17 per cent in June 1992 to 36 per cent in June 1993 (Table 2.1). This reflected an increase in the total liquid assets of banks by 209.3 per cent in the year. Of the change in liquid assets, certificates of deposits, treasury bills and balances with banks abroad increased by 54.1, 336.6 and 963.4 per cent, respectively. As a result, the composition of total liquid assets for banks changed significantly with the shares of treasury bills and that of balances with banks abroad accounting for 33.8 and 27.3 per cent in June 1993 compared to 23.9 and 7.9 per cent in June 1992. The average cash ratio[2] for banks rose from 4.9 per cent in June 1992 to 7.9 per cent in June 1993. The number of banks that failed to meet the minimum liquidity requirement of 20 per cent declined from eight in June 1992 to four in June 1993. On average, five banks failed to meet the requirement in any one month in fy 1992/93 compared with six in fy 1991/92.

[1]This is the ratio of till cash, balances at the Central Bank, balances with other financial institutions, balances with banks abroad, treasury bills, other short term government securities and negotiable instruments to total deposit liabilities.

[2]The statutory cash ratio is defined as the ratio of commercial banks' balances at the Central Bank to total deposit liabilities. Total deposits for this purpose exclude deposits held by the Central Government and non residents.

Table 2.1

LIQUID ASSETS OF BANKS AND NON-BANK FINANCIAL INSTITUTIONS
(shillings million)

	1991/92	1992/93
Banks		
Vault and till cash[1]	2,203	4,007
Balances with Central Bank	2,250	3,881
Balances with banks in Kenya	95	14
Balances with other financial institutions[2]	−2,376	−2,706
Balances with banks abroad	768	8,167
Treasury bills	2,320	10,128
Treasury bonds	1,353	1,738
Certificates of Deposit	3,069	4,729
Foreign Exchange Bearer Certificates	5	4
Total liquid assets	9,687	29,962
Net deposit liabilities	55,485	83,527
Average liquidity ratio (%)	**17**	**36**
Non-bank Financial Institutions		
Vault and till cash[1]	41	64
Balances with banks in Kenya	2,591	2,326
Balances with other financial institutions[2]	289	400
Balances with banks abroad	12	10
Treasury bills	1,380	5,869
Treasury bonds	790	782
Certificates of Deposit	2,806	3,171
Foreign Exchange Bearer Certificates	–	3
Total liquid assets	7,909	12,625
Total deposits	34,519	38,909
Average liquidity ratio (%)	23	32

[1]Redefined in January 1991 to include both domestic and foreign notes and coin.

[2]Redefined in January 1991 to include specified non-bank financial institutions, mortgage companies and building societies.

Source: Central Bank of Kenya.

The average liquidity ratio[1] for NBFIs also improved from 23 per cent in June 1992 to 32 per cent in June 1993 (Table 2.1). This reflected an increase of 59.6 per cent in their total liquid assets in the year. This increase was largely in the treasury bills and certificates of deposits, which rose by 325.3 and 13.0 per cent respectively during fy 1992/93. The performance by individual institutions improved with the number of NBFIs that failed to maintain the minimum liquidity requirement of 24 per cent declining from twenty six in June 1992 to sixteen in June 1993. On average, 17 NBFIs defaulted on this requirement in any one month during fy 1992/93, compared with 27 during fy 1991/92.

[1]This is the ratio of the sum of the balances of the NBFIs with commercial banks and other financial institutions, vault and till cash, treasury bills other short-term government securities and negotiable instruments to their total deposit liabilities.

2.2 Financial Policy

A number of measures were taken in fy 1992/93 to strengthen the financial system. The statutory minimum paid up capital of institutions licensed under the Banking Act, with effect from December 17, 1992, was increased five fold bringing the requirement to shs 75m and shs 37.5m for banks and NBFIs, respectively. The capital to assets ratio[2] maintained by commercial banks and financial institutions was raised to 7.5 per cent with effect from January 1, 1993. The Central Bank issued to commercial banks guidelines which provide appropriate methods of classifying and evaluating their assets, and for provisioning for bad and doubtful advances and bills discounted. Section 53 of the Banking Act (1989) was amended to limit the exemption powers of the Minister for Finance to only sections 13 and 14 which deal with restrictions on ownership of share capital of institutions and on advances for purchase of land, respectively.

Table 2.2

OUTSTANDING GOVERNMENT DOMESTIC DEBT
(shillings million)

	June 1991	June 1992	June[1] 1993	Net Change
Direct advances to Government[2]	**21,041**	**13,250**	**1,046**	**−12,204**
Treasury bills	**11,124**	**14,881**	**66,265**	**51,384**
Banks	4,026	7,273	35,009	27,736
NBFIs	1,906	693	4,730	4,037
Parastatals	3,810	5,307	10,753	5,446
Others	1,382	1,608	15,773	14,165
Registered treasury bonds	**21,051**	**23,962**	**21,482**	**−2,480**
Banks	4,601	3,953	3,913	−40
NBFIs	540	1,795	1,879	84
Parastatals	10,335	10,923	8,831	−2,092
Others	5,575	7,291	6,859	−432
Bearer bonds	**1,704**	**11,207**	**17,069**	**5,862**
Tax Reserve Certificates (TRC)	**60**	**67**	**68**	**1**
Government stocks	**10,502**	**9,480**	**8,652**	**−828**
Banks	3,363	3,166	3,158	−8
NBFIs	71	71	71	—
Parastatals	5,319	4,636	4,003	−633
Others	1,749	1,607	1,420	−187
Total government debt	**65,482**	**72,847**	**114,582**	**41,735**

[1]Provisional.

[2]Includes loans and advances from the banking system.

Source: Central Bank of Kenya.

[2]This is the ratio of the sum of paid up or assigned capital and unimpaired reserves to total assets.

2.3 Management of Domestic Government Debt

As the fiscal agent of the Government, the Central Bank manages the domestic public debt. It issues and rediscounts government securities, makes interest payments on the outstanding debt, and redeems those that mature. As a result of these operations in fy 1992/93, the total domestic government debt increased by shs 41,735m to shs 114,582m at the end of June 1993 (Table 2.2).

Treasury bills accounted for about 57 per cent of the total outstanding domestic debt in fy 1992/93 compared with 20 per cent in the previous year. The Bank floated 52 issues of treasury bills ranging between shs 300m and shs 5,000m during the year. The amount issued was based on both the requirements for the financing of Government operations and the Open Market Operations (OMO). Most of the issues in excess of shs 4,000m were floated during the last quarter of the fiscal year when enhanced effort was made to mop up excess liquidity in the economy. A number of special issues of treasury bills were also made in the year, mainly to cater for the conversion of government overdraft and to meet additional OMO requirements by the Central Bank.

Consequently, outstanding treasury bills rose by shs 51,384m during the year to shs 66,265m at the end of June 1993. In order to further diversify the maturity structure of treasury bills, and facilitate the mopping up of excess liquidity, treasury bills of thirty and sixty days were introduced towards the end of the financial year. As a result, the average treasury bill tender rate rose from 17.2 per cent at the end of June 1992 to 70.3 per cent at the end of June 1993.

The Bank floated ten issues of registered treasury bonds worth shs 15,450m during the year. Of this amount, bonds worth shs 8,862m were sold. Purchases by commercial banks amounted to shs 1,810m while those by the non-bank sector amounted to shs 7,052m. Registered bonds worth shs 11,342m were redeemed during the year. As a result, the outstanding registered treasury bonds declined by shs 2,480m to shs 21,482m at the end of June 1993. Whereas the coupon rates for the 1 year, 2 year and 5 year bonds, remained at 15.0, 16.5 and 17.0 per cent, respectively, in the fiscal year, the yields for the 1 year and the 2 year bonds increased from 20.0 and 20.5 per cent to 32.9 and 25.6 per cent respectively. However, the yield for the 5 year bonds declined from 22.0 to 19.7 per cent. Three issues of bearer bonds were made during the year. Total sales amounted to shs 21,326m while redemptions amounted to shs 15,464m. This resulted in a net increase of shs 5,862m which brought the outstanding bearer bonds to shs 17,069m. The coupon rates for bearer bonds also remained unchanged at 15.0, 16.5 and 17.0 per cent for 1 year, 2 year and 5 year bonds, respectively.

No new issues of government stocks were made but three stocks worth shs 828m were redeemed during the year thereby reducing the outstanding amount to shs 8,652m at the end of June 1993.

2.4 Monetary and Banking Activities

As in the previous year, monetary policy in fy 1992/93 aimed at containing the growth in the money supply and credit within levels sufficient to support economic growth without exerting undue pressure on domestic prices and the balance of payments. In pursuit of these objectives, the Central Bank implemented monetary policy through the use of cash reserve ratio, Open Market Operations (OMO) and guidelines on credit and net domestic assets of commercial banks.

2.4.1 Monetary and Credit Policy

In order to regulate the expansion in the money supply and credit in fy 1992/93, the Central Bank relied on both direct and indirect instruments of monetary control. To ensure that bank credit to the private and other public sectors remained within the desired level in the year, the Bank continued to enforce the guidelines on net domestic assets (NDA) of commercial banks. In this context, commercial banks were required to maintain a maximum 1 per cent monthly increase in the NDA and those that exceed their limit were required to place a non-interest earning deposit, equivalent to 20.0 per cent of the excess, with the Central Bank. In addition, the Bank in April 1993 raised the cash ratio to 8 per cent from 6 per cent. The Bank also used intensively OMO to mop-up excess liquidity in the economy. However, the effectiveness of OMO was greatly limited by the continued substantial borrowing from the Central Bank by the Government.

2.4.2 Interest Rate Structure

Interest rates rose sharply in fy 1992/93 compared with a modest increase in the previous fiscal year. At the end of June 1993, commercial banks' average savings deposit rate ranged between 10.0 and 17.0 per cent while time deposit rates ranged between 12.0 and 26.0 per cent. Lending rates on short-term and medium-term loans ranged between 18.0 and 29.0 per cent. The increase in interest rates charged by the NBFIs was smaller relative to that of commercial banks. Table 2.3 and 2.4 show the interest rates for commercial banks and NBFIs.

Table 2.3

INTEREST RATE STRUCTURE FOR COMMERCIAL BANKS
(per cent)

	1991/92	1992/93[1]
Deposit Rates		
a) Call Deposits	11 – 16	13 – 26
b) Savings Deposits	13 – 14	10 – 17
c) Time Deposits		
(i) 0–3 months	12 – 17	13– 26
(ii) 3–6 months	12 – 16	14 – 22
(iii) 6–9 months	12 – 16	14 – 21
(iv) 9–12 months	12 – 16	14 – 22
(v) Over 12 months	11 – 14	12 – 19
Lending Rates		
a) Below 3 years	15 – 21	18 – 29
b) Three years and above	16 – 20	21 – 28

[1]These are weighted average market rates.

Source: Central Bank of Kenya.

2.4.3 Rediscount Policy

The Central Bank continued to rediscount on demand, treasury bills and other government securities. In order to reduce the expansion in money supply, the Bank limited the access of banks to the rediscount window by reducing the period to maturity, with effect from May 2, 1993, for a security to qualify for rediscounting from 3 months to 45 days. In addition, the Bank continued to charge high discount rates for any borrowing undertaken from the Central Bank. The discount rate on direct advances to commercial banks against government securities is 2.5 percentage points above the highest treasury bill rate for the preceeding week's auction for the first shs 50m and for any additional increments of shs 50m, the 2.5 percentage points margin is raised by 1 percentage point (Table 2.5).

Mainly as a result of the high cost of borrowing from the Central Bank, the level of activity in the discount market slowed down during fy 1992/93. Advances against government securities and other credit instruments rose by only shs 2,929.6m in the June 1993 compared with shs 6,417.2m in fy 1991/92.

Table 2.4

INTEREST RATE STRUCTURE FOR NON-BANK FINANCIAL INSTITUTIONS, BUILDING SOCIETIES AND AGRICULTURAL FINANCE CORPORATION
(per cent)

	1991/92	1992/93
Rates		
a) Call Deposits	11 – 14	12 – 18
b) Time Deposits		
(i) 0 – 3 months	14 – 17	14 – 18
(ii) 3 – 6 months	14 – 17	14 – 17
(iii) 6 – 9 months	12 – 17	13 – 18
(iv) 9 – 12 months	14 – 18	15 – 18
(v) Over 12 months	8 – 10	9.9 – 10
Lending Rates[1]		
(i) 0 – 1 year	13 – 17	15 – 21
(ii) 1 – 2 years	14 – 17	15 – 20
(iii) 2 – 3 years	12 – 18	13 – 19
(iv) Over 3 years	11 – 17	11 – 18
c) Agricultural Finance Corporation		
(i) Loans for purchase of land	12	12
(ii) Seasonal Crop loans	14	17
(iii) All other loans	13	13

[1]Maximum

Source: Central Bank of Kenya.

Table 2.5

CENTRAL BANK LENDING RATES

	1991/92	1992/93
a) Rediscount rate on Treasury bills and other government securities	2.5 percentage points above latest weighted average treasury bill rate	2.5 percentage points above the highest treasury bill rate for the preceding week's auction
b) Discount rate on advances against government securities	2.5 percentage points above latest weighted average treasury bill rate	2.5 percentage points above the highest treasury bill rate for the preceding week's auction
c) Discount rate on advances against other eligible securities	3.5 percentage points above latest weighted average treasury bill rate	Pre-shipment financing facility discontinued

[1]Since May 1992, the margin was raised by 1 percentage point for additional increments of shs 50m in advances and rediscounts above the first shs 50m.

Source: Central Bank of Kenya.

2.5 *Issue of Currency*

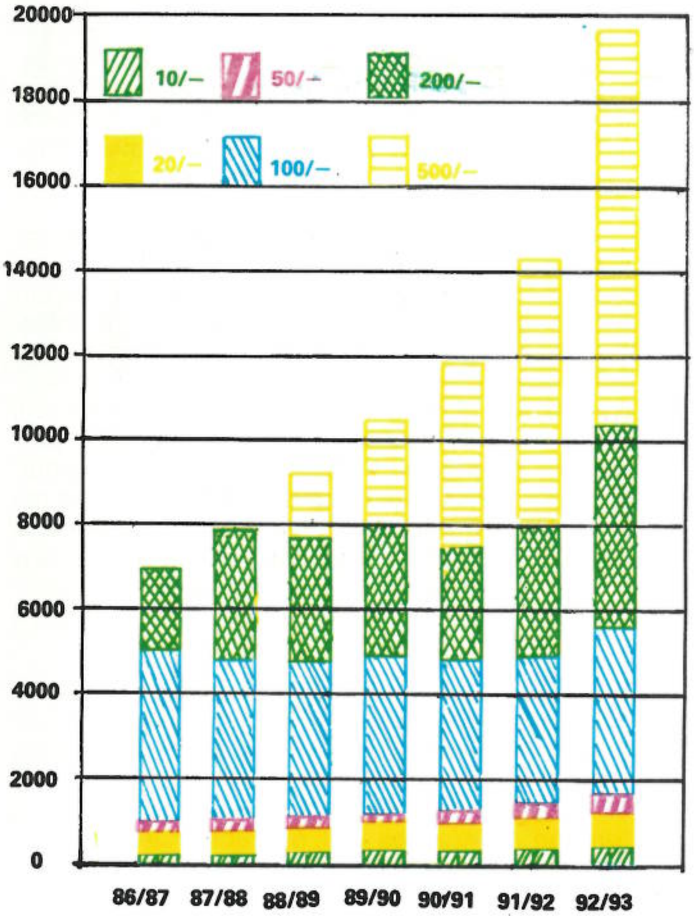
The Central Bank continued to issue notes and coin to ensure that there was sufficient supply to meet the requirements of the economy during fy 1992/93. At the same time, the Bank withdrew from circulation worn out notes and replaced them with new ones. As a result, currency in circulation rose by 37.3 per cent to shs 20,175m in the year to June 1993. At this level, currency accounted for 21.2 per cent of the liabilities of the Bank compared with 33.9 per cent at the end of June 1992.

There were 182m notes in circulation by June 1993, 21.5 per cent more than in June 1992. In value terms, the share of notes in currency in circulation rose by 0.5 percentage points to 97.8 per cent in June 1993. The five hundred and two hundred shilling notes accounted for 47.0 and 24.0 per cent of the total notes in circulation, respectively, in June 1993. Chart 1 shows the value of the bank notes in circulation.

In value terms, coins in circulation amounted to shs 433.8m in June 1993, 8.7 per cent above the June 1992 level. One and five shilling coins accounted for 37.5 and 34.2 per cent respectively of the total coins in circulation compared with 38.1 and 33.1 per cent in June 1992. The value of coins in circulation is shown in Chart 2.

Chart 1

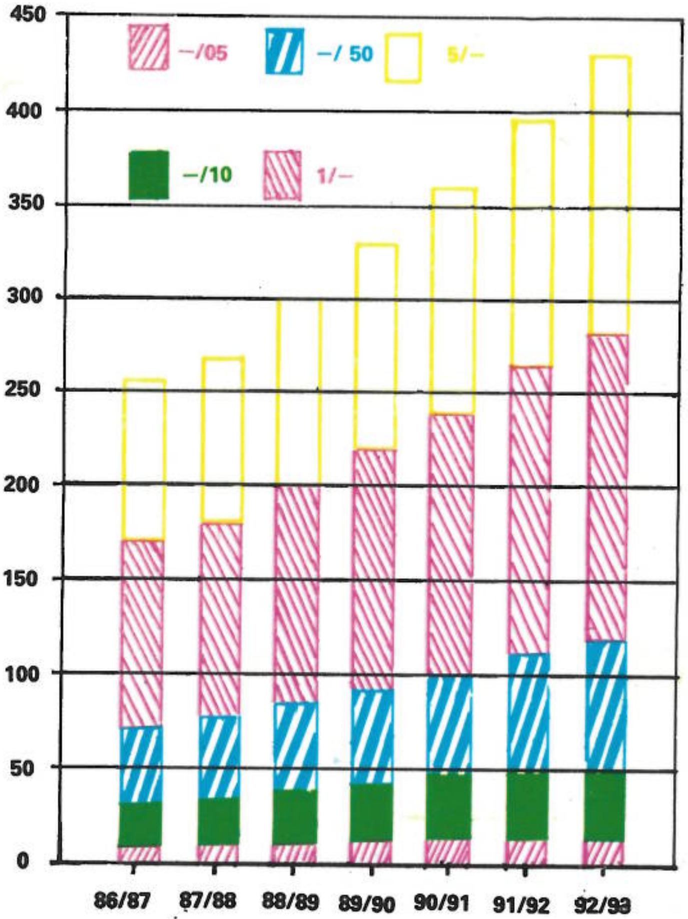
VALUE OF BANK NOTES IN CIRCULATION
(shillings million)



Source: Central Bank of Kenya.

Chart 2

VALUE OF COINS IN CIRCULATION
(shillings million)



Source: Central Bank of Kenya.

CHAPTER 3

Trade and Exchange Arrangements

3.1 Introduction

The trade and exchange system was further liberalized during the year with a view to promoting a viable external payments position. Import licensing was abolished and exchange controls were relaxed for most imports. Consequently, commercial banks now effect most foreign exchange payments without referring them to the Central Bank for approval. The regulations governing the surrender of export proceeds to the Central Bank were modified following the introduction, in the last half of 1992, of Retention Accounts which allow exporters to retain 50 per cent of their export earnings for 90 days. Further, the Retention Account holders were allowed to sell through their banks, their foreign exchange holdings at market exchange rates. The liberalization of exchange controls is expected to encourage inflow of capital, especially direct foreign investment.

3.2 Import Policy

The import liberalisation process was accelerated during the year. The import licensing system was, on May 14th 1993, abolished except for a short list of items which for security, environmental and health considerations require approval before licensing. Importers are now required by the Central Bank to only complete Import Declaration Forms through their respective commercial banks for statistical purposes only. However, documentary evidence of shipment or of actual importation of goods and the sellers' final invoice must be provided by the importer. Imports into Kenya with a value of over shs 100,000 f.o.b. are subject to pre-shipment inspection in the exporting countries by approved international inspection agencies. The inspection agency is required to issue a Clean Report of Finding specifying quality, quantity and estimated cost of the items. The purpose of this is to ensure that the price paid for the imported product is the correct one and that the correct import duty is collected. Commercial banks are required to make the appropriate payments only if a Clean Report of Finding has been issued. The Central Bank charges a 2.0 per cent processing fee for this service.

For restricted items, prior approval by the relevant government body is required. The items are specified under three new schedules, namely, A, B, and C. Schedule A contains a short negative list of goods restricted for health, security and environmental reasons. Items under this schedule include ivory, coral and toxic chemical waste. Items under schedule B require prior clearance by the Government or Ministerial approval before licensing, and these include fireworks, nuclear reactors, warships, military weapons and firearms. Items under schedule C also require prior clearance by the Government or Ministerial approval, but do not require any licensing. Such items include live animals, plants, sea foods and herbicides.

All private sector import payments are met through the interbank market at freely negotiated exchange rates. The Central Bank's foreign exchange holdings are therefore used to pay Central Government imports and debt service.

As part of the rationalisation of the structure of import duty rates, the maximum duty rate was lowered from 60 per cent in fy 1991/92 to 40 per cent in fy 1992/93. In addition, the number of tariff categories were modified to include 40, 30, 20, 15, 10 and 0 per cent in order to reduce the level of protection and thereby enhance competition and efficiency in domestic manufacturing.

3.3 Export Policy

Export promotion remains a key priority in the Government's strategy for ensuring sustainable growth. Towards this objective, the shilling exchange rate continued to be managed flexibly. In addition, a number of export incentive schemes such as the Export Compensation, Export Processing Zones (EPZs), the Manufacturing Under Bond (MUB), Kenya Exporter Assistance Scheme (KEAS) and the Kenya Export Development Support (KEDS) continued to be provided.

Export compensation was reduced from 20 per cent to 10 per cent in February 1993 and was abolished in September. To replace the export compensation scheme, the Government introduced the Duty/VAT remission incentive which is administered by the Export Promotion Programmes Office (EPPO) at the Treasury. Under the scheme, both direct exporters and indirect exporters enjoy Duty and VAT free importation. In addition, the Government abolished the 2 per cent fee charged by the Central Bank on all EPPO imports for use in domestic manufacture, where the raw materials are owned outside Kenya and the manufacture is done under contract to the foreign owner of the goods.

The development of Export Processing Zones proceeded well in the year. Five new private sector Export Processing Zones (EPZs) were approved in the year compared with two in the previous year, of which one was in the public sector. Currently, thirteen companies are operating under EPZs. About 100 applications for space in Phase 1 of the Athi River Zone are being processed. The EPZ Act was amended in the year to extend eligible activities undertaken within the EPZs to include export related services such as consultancy, information, brokerage and repair. The amendment also includes a clause which provides for the authority to sell locally products produced in the EPZs provided a surcharge of 5 per cent, in addition to duty and VAT, is paid. This is intended to reduce unfair competition against companies currently operating within the Customs territory. With respect to the development of MUB, some progress was also made in the year. The number of manufacturing enterprises operating under this Scheme increased to twenty one from seventeen last year.

A new scheme, the Kenya Exporter Assistance Scheme, was introduced in the year. The Scheme is meant to provide financial assistance to exporters seeking new markets. During the year under review, the scheme provided financial assistance to 130 companies which financed exports to 43 countries. The Kenya Export Development Support was also introduced in the year to provide financial assistance mainly to horticultural exporters.

A notable development in fy 1992/93 was the introduction of the export retention scheme in August 1992 to promote export production. The scheme allows exporters to retain 50 per cent of their earnings from exports of goods and services in foreign currency denominated accounts with authorised banks in Kenya. The retention account holders can either use their foreign exchange to pay for business related foreign bills including, in the case of foreign owned enterprises, remittance of post-tax dividends or can sell to other approved users through the interbank market. Any balances not used within the 90 days limit have to be sold to the Central Bank of Kenya at the official exchange rate. The inclusion of a time limit to the holding of foreign exchange was intended to ensure its circulation and to discourage speculation.

3.4 Tourism

Tourism performed relatively well in 1992 despite the recession in Europe and America, and the competition from other regional tourist destinations. A number of steps were taken to enhance Kenya's competitive edge as a tourist destination. These included the renovations of the country's international airports and the intensification of wildlife and environmental conservation programmes.

3.5 Capital Movements

There was a marked decline in capital receipts in 1992. Total capital inflows declined by about 50 per cent below the previous year's level. Outflows, mainly in public debt repayments, remained higher than receipts. Private sector inflows were also lower than outflows. It is, however, expected that the outflows of the private sector will ease due to the ongoing liberalization of the exchange control regime.

3.6 Foreign Exchange Reserves

The Bank continued to endeavour to maintain an adequate level of foreign exchange reserves in the face of considerable pressure from external debt service and import payments. At the same time, new disbursements of foreign loans fell while improvement in export earnings was only modest. However, owing to the accumulation of debt arrears, the bank's foreign exchange position improved somewhat with the outstanding gross foreign reserves rising from shs 4,376m (SDR 94.3m) by end of June 1992 to shs 13,546m (SDR 149.9m) in June 1993.

3.7 Exchange Rate Policy

The Central Bank continued to pursue a flexible exchange rate policy in which it adjusted regularly the official rate to reflect inflation differentials between Kenya and her major trading partners. Two major adjustments of 25 and 33 per cent were made in the last half of fy 1992/93 to bring the official rate closer to the interbank market rate, which has been operational since the introduction of the Retention Scheme in August 1992. The official exchange rate is only applied to government imports and debt service payments. Non government import payments are effected on the basis of the interbank exchange rate. Initially, after the partial floating of the shilling, the rate shot up substantially to a peak of shs 81 to the dollar in July 1993. To bring the rate down and to ensure stability in the interbank market, the Central Bank began in mid June 1993 to intervene in the interbank market by buying and selling foreign currency. Table 4.1 shows selected foreign exchange mean rates.

3.8 Other Developments

Foreign Exchange Bearer Certificates (Forex-Cs), which were introduced in 1991, were phased out in May 1993. A programme to buy back the Certificates held by the public was introduced in August 1993 and the process is expected to be completed before the end of the current fiscal year.

Table 4.1

SELECTED FOREIGN EXCHANGE MEAN RATES[1]

(Kenya shillings to one unit of foreign currency)

Currency	1991 Official	1992 Official	1993 Official	1993 Market
US dollar	28.6553	32.3075	65.1424	81.8800
Pound Sterling	46.7941	61.4973	98.4953	122.0831
Deutschemark	15.9640	21.2298	38.5686	47.9756
French Franc	4.7061	6.3150	11.4496	14.2512
100 Italian Lira	2.1437	2.8069	4.2438	5.2962
100 Japanese Yen	20.7948	25.6959	61.1781	76.5234

[1]Official and interbank mean exchange rate position for end June.
Source: Central Bank of Kenya.

Administrative Developments

4.1 Board of Directors

The Board of Directors remained the same as in fy 1991/92 until the end of June 1993 when Dr. T.N. Kibua was appointed Deputy Governor in place of Mr. E. Riungu who moved to the Cotton, Lint and Seed Marketing Board as Managing Director. His Excellency the President appointed Mr. Micah Cheserem as Governor on July 23, 1993 to replace Mr. Eric C. Kotut. The Bank wishes to welcome and congratulate both Mr. Cheserem and Dr. Kibua on their new appointments. The Bank also takes this opportunity to record its appreciation to Mr. Eric Kotut for his distinguished service to the Bank as Governor and to Mr. Eliphaz Riungu for his distinguished service to the Bank, first as the Exchange Controller and Chief Banking Manager and later as Deputy Governor.

4.2 Presidential Visit

His Excellency the President and Commander-in-Chief of the Armed Forces of the Republic of Kenya, Hon. Daniel Toroitich arap Moi, C.G.H., M.P., visited the Bank and attended a luncheon hosted in his honour by the Governor on November 4, 1992. During the occasion, the President was presented with a cheque for KShs 4,122,592,020.15 being the dividend due to the Treasury for the financial year ending June 30, 1992. The Governor also presented the President with a cheque for KShs 2,000,000.00, being the contribution by members of staff and Board of Directors towards the National Famine Relief Fund.

4.3 International Visits and Travels

The Governor, Mr. E.C. Kotut, was a member of the Kenya Government Delegation headed by the Vice-President and Minister for Finance to the bilateral discussions with the French Government officials from September 15 to 28, 1992. The Exchange Controller, Mr. T.K. Birech Kuruna, represented the Governor at the Assembly of Governors of the African Central Banks (AACB) meeting held in Harare, Zimbabwe on March 5 and 6, 1993 and to the Kenyan Consultative Group meeting in Paris, France. Mr. Kuruna also travelled to Abidjan, Côte d'Ivoire for the Association of African Central Banks and the African Import Export Bank meetings held between May 5 and 15, 1992. He also attended the Preferential Trade Area meeting in Lusaka, Zambia from July 13 to 19, 1992. The then Director of Research, Mr. M.J.P. Kanga, travelled to Washington D.C. for a course at the International Monetary Fund (IMF) Institute and later participated in a seminar on the Role of Monetary Policy for Economic Development held at the Federal Republic of Germany between March 13 and 25, 1993. The Principal, Foreign Department, Mr. J.C. Kang'ethe, attended the Foreign Exchange Workshop organized by the South African Exchange Association held from October 2 to 16, 1992.

4.4 Staff Training and Development

The Bank continued to make training opportunities available to members of staff. A total of 255 members of staff attended various courses and seminars organized locally and abroad during fy 1992/93.

4.4.1 Overseas Courses and Seminars

The Deputy Head of Bank Supervision Department, Mr. E. Otondi, attended the annual advanced seminar for senior Bank Supervisors held in Washington D.C. during October 19 – November 6, 1992. The Deputy Head of Deposit Protection Fund, Mrs W. Kimani, and the Assistant Principal, Mombasa Branch, Mrs T. Hassan, attended in Mbambane, Swaziland, the Executive Development Programme for Women Managers organized by the Eastern and Southern Africa Management Institute (ESAMI). The Assistant Principal in the Bank Supervision Department, Mr. J. K. Murugu, attended a micro-computer based Data Management System organized by the same Institute in Arusha, Tanzania. The then Principal in the Research Department, Mr. G. C. Musoko, attended the annual Central Banking Seminar organized by the Federal Reserve Bank of New York.

Seven officers drawn from various Departments of the Bank attended the annual management courses offered by the Reserve Bank of India. Two economists from Research Department attended the Techniques of Financial Programming and Policy course organized by the International Monetary Fund in Cairo, Egypt, while another two economists from the same Department attended the annual Techniques of Macro-Economics Management Course organized by the African Centre for Monetary Studies (ACMS) in Dakar, Senegal. Two Assistant Superintendents from Foreign Department attended both the 25th International Central Banking and the 5th International Commercial Banking Courses held in Karachi, Pakistan and sponsored by the Pakistan Government through Kenya's Ministry of Foreign Affairs and International Co-operation. Twelve staff members of different grades were sponsored by the Bank to attend various management courses held at ESAMI.

4.4.2 Local Courses and Seminars

The Bank hosted the 9th bi-annual East African Central Banking Course between July 6 and August 14, 1992. The course attracted 34 participants from the Preferential Trade Area member states. The Central Bank and Thomas De La Rue Company conducted a special course on Frauds and Counterfeits for 12 participants from Kenya, Uganda and Tanzania. The Head, Finance and Planning Department, the Assistant Principal, Accounts Division, and five other members of staff drawn from different Departments attended the 9th Institute of Certified Public Accountants of Kenya (ICPAK) Seminar held in Mombasa. The Director, Bank Supervision Department, and three other senior officials attended ICPAK Symposium held in Nairobi. An Assistant Principal, Foreign Department attended the Advanced Management Seminar organized by the Kenya Institute of Administration.

Thirty officers attended various training sessions offered by the College of Banking and Finance while other staff members attended evening classes in preparation for Banking Diploma Course Examinations. The Bank also sent its staff to several short term management courses on Public and Customer Relations, Security Management and Foreign Exchange Controls and Management offered by the Kenya Institute of Management, Standard Chartered Training School, Pert Management Consultants, East African Management Consultants and the Federation of Kenya Employers (FKE).

4.4.3 Postgraduate and Professional Courses

Five members of staff completed postgraduate training in various disciplines in 1992/93 while two others were released to undertake postgraduate studies. With regard to professional courses, eleven members of staff completed various stages of the CPA and AIB Programmes.

4.5 Computerization

During fy 1992/93, the Bank enhanced further its computer systems. New application programmes were developed and installed to support the various functions of the Departments of the Bank. These included the General Ledger, Bearer Bonds, Document Handling, Forex-C, Cash Ratio Monitoring, Foreign Currency Handling and Banking Systems. The development of a system that can be used by the medical stores to monitor the usage of drugs at the staff clinic was initiated in the year.

4.6 Sports and Recreation

The Central Bank interbranches competitions were held in Eldoret from August 26 to 29, 1992. The head office and all the three branches participated. During the year, elections of Banki Kuu Sports Club were held and new office bearers were elected.

The annual interbank competitions were held between September 12 and 19, 1992 in Nairobi. The Central Bank entered teams for the Table Tennis, Scrabble, Chess, Tug of War, Lawn Tennis and Football tournaments. The Bank was ranked third overall winner in the competitions. Bank Table Tennis and Scrabble teams emerged winners while the rest were runners up. The Deputy Governor represented the Governor at the closing ceremony.

4.7 Headquarters and Kisumu Branch Buildings

The construction of the Headquarters Building started in August 1992 and is scheduled for completion in 1996. The Kisumu Branch Building was completed and taken over by the Bank in March 1992. It was occupied in September 1992.

4.8 College of Banking and Finance

Construction work for the teaching facilities of the College at Ruaraka commenced in April 1993 and is expected to be completed in 1995.

CHAPTER 5

Balance Sheet and Accounts 1992/93

The Balance Sheet as at 30th June, 1993 and the Profit and Loss Account for the year ended June 30, 1993 appear in the appendix on pages 16 and 17.

5.1 Assets and Liabilities

The Bank's total assets rose by shs 44,929 in the year to shs 88,261m at the end of June 1993. The foreign exchange holding of the Bank rose by shs 9,170m, direct advances to the Government fell by shs 11,748m while advances and discounts to commercial banks rose by shs 12,733m. The Bank's holdings of non bearer Treasury Bonds rose by shs 91m in fy 1992/93 while bearer Treasury Bonds rose by shs 1,804m. The Bank's holdings of Government Stocks and Treasury Bills rose by shs 7m and shs 358m, respectively, while bills acquired by the Bank for Open Market Operations amounted to shs 22,769m. Uncleared effects rose by shs 1,512m while Other Assets and Revaluation Accounts rose by shs 1,506m and shs 11,800m, respectively.

Currency in circulation rose by shs 5,480m. Deposits of Kenya banks and those of external banks rose by shs 3,164m and shs 50m, respectively during the financial year. Deposits of the International Monetary Fund (IMF) increased by shs 10,898m while other deposit liabilities rose by shs 2,812m.

The Government's share of the Bank's profits for fy 1992/93 fell by shs 4,123m to Nil. The Bank's capital remained unchanged at shs 500m during fy 1992/93. In accordance with Section 9 (1) of the Central Bank of Kenya Act, shs 1,558m was recouped from the General Reserve Fund of the Bank to offset losses incurred during fy 1992/93 leaving a nil balance in the Fund. As a result, the Capital and Reserves of the Bank fell to shs 500m at the end of June 1993.

CENTRAL BANK OF KENYA
LIABILITIES

	shs ('000)	shs ('000)	1992 shs ('000)
CURRENCY IN CIRCULATION			
Notes		19,740,713	14,295,770
Coins		434,543	399,670
		20,175,256	14,695,440
DEPOSITS			
Government of Kenya	23,776,416		—
Banks—Kenya	6,593,765		3,430,112
—External	205,395		155,394
I.M.F.	25,743,222		14,845,256
Others	6,281,622		3,469,696
		62,600,420	21,900,458
GOVERNMENT OF KENYA — BALANCE OF PROFITS		—	4,122,592
OTHER LIABILITIES AND PROVISIONS		4,985,671	556,375
TOTAL LIABILITIES AND PROVISIONS		87,761,347	41,274,865
CAPITAL		500,000	500,000
GENERAL RESERVE FUND		—	1,557,590
		shs 88,261,347	43,332,455

PROFIT AND LOSS ACCOUNT FOR

NET LOSS: After charging current expenditure, writing down fixed assets and providing for contingencies and movement in reserves	4,523,557	—
TRANSFERRED TO GENERAL RESERVE FUND	—	458,066
BALANCE PAYABLE TO THE GOVERNMENT OF KENYA	—	4,122,592
	shs 4,523,557	4,580,658

The annexed notes form part of the accounts.

REPORT OF THE AUDITORS PURSUANT TO SECTION

We have audited the above Balance Sheet and Profit and Loss Account and have obtained all and the Accounts which are in agreement therewith, comply with the requirements of the

The loss for the year ended on 30th June 1993 has been ascertained in accordance with to in note 8, then in our opinion the accounts, together with the annexed notes, give a true and for the year to that date.

PEAT MARWICK
Joint

Nairobi
20th September, 1993

At 30th June, 1993

BANKI KUU YA KENYA

ASSETS

			1992
	shs ('000)	*shs* ('000)	*shs* ('000)
GOLD AND FOREIGN EXCHANGE			
Balances with Banks and Cash	9,556,851		3,631,854
Treasury Bills	2,933,156		—
Other Investments	1,021,006		657,854
Holdings of Special Drawing Rights	35,163		86,608
Total Foreign Exchange		13,546,176	4,376,316
SECURITIES ISSUED OR GUARANTEED BY KENYA GOVERNMENT		3,058,484	3,065,271
DIRECT ADVANCES TO KENYA GOVERNMENT		200,000	11,948,244
KENYA TREASURY BONDS		1,991,292	1,899,933
KENYA TREASURY BILLS		368,468	9,725
OMO — KENYA TREASURY BILLS		22,768,637	5,060,872
KENYA GOVERNMENT BEARER BONDS		2,767,403	962,767
ADVANCES AND DISCOUNTS		19,241,442	6,507,651
UNCLEARED EFFECTS		3,330,257	1,818,334
OTHER ASSETS		2,960,014	1,454,184
REVALUATION ACCOUNT		18,029,174	6,229,158
	shs	88,261,347	43,332,455

M. CHESEREM
Governor

THE YEAR ENDED 30TH JUNE 1993

NET PROFIT: After charging current expenditure, writing down fixed assets and providing for contingencies and movements in reserves		—	4,580,658
RECOVERED FROM:			
GENERAL RESERVE FUND		1,557,590	—
GOVERNMENT OF KENYA		2,965,967	—
	shs	4,523,557	4,580,658

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the information and explanations which we considered necessary. Proper books have been kept
Central Bank of Kenya Act.
Section 9 of the Central Bank of Kenya Act. If due recognition is given to the situation referred
fair view of the state of affairs of the Bank at 30th June 1993 and of the result of its operations

BELLHOUSE MWANGI ERNST & YOUNG
Auditors

5.2 *Income, Expenditure and Profits Appropriation*

Total gross receipts in fy 1992/93 amounted to shs 9,812m, an increase of shs 3,439m over the previous year. Earnings from foreign investments rose by shs 106m to shs 260m in the year while receipts from domestic investments increased by shs 3,891m to shs 8,383m. Total recurrent expenditure and provisions rose by shs 4,915m in the year to shs 6,707m. Administrative expenses accounted for shs 732m of the total recurrent expenditure. Interest and charges paid to the IMF accounted for shs 236m, while supervision of foreign trade and currency expenses took shs 503m and shs 680m, respectively. Other expenses and provisions accounted for shs 7,716m. Net losses for the year as specified under Section 9 (2) of the Central Bank of Kenya Act, amounted to shs 4,524m for fy 1992/93 compared with a net profit of shs 4,581m in fy 1991/92.

5.3 *Revaluation Account*

The account reflects a debit balance of shs 18,029m as at 30th June, 1993 compared with a debit balance of shs 6,229m as at 30th June, 1992. A revaluation loss of shs 13,190m arose from the revaluation of IMF, EEC and Special Drawing Rights (SDR) Deposits. However, gains of shs 533m and shs 857m were made from the revaluation of Gold and Foreign Deposits and Securities. The net revaluation loss, therefore, amounted to shs 11,800m during the year.

NOTES TO THE ACCOUNTS

1 EXCHANGE RATES

Foreign exchange balances have been converted at the rates ruling at 30th June, 1993.

2 EXCHANGE DIFFERENCES

Differences on exchange have been dealt with as follows:—

a) **Profit and Loss Account**

Differences arising from dealings in foreign exchange have been transferred to Profit and Loss Account.

b) **Revaluation Account**

Differences arising from revaluation of Gold in accordance with Note 3 below, and from changes in exchange rates during the year, with the exception of those referred to in Note (a) above, and the amount which at 30th June, 1993 was required to maintain the value of local currency held by the International Monetary Fund in terms of Special Drawing Rights, have been transferred to the Revaluation Account set up under Section 51 of the Act.

3 VALUATION OF GOLD

Gold reserves, included in Other Investments, were revalued at 50 per cent of market price at 30th June, 1993. The revaluation gain arising, amounting to shs 533m, has been transferred to the Revaluation Account.

4 REVALUATION OF INVESTMENTS

Foreign and local securities are valued at the lower of cost or market value. To determine the lower of cost or market value, investments are grouped into their respective currencies and only if the group total market value is lower than cost is a provision made against that group. At 30th June, 1993, the overall market value of investments under the following Balance Sheet headings were:—

Other Investments:— Foreign Securities

shs 47m
(1992 shs 218m)
Gold shs 1,952m
(1992 shs 887m)

Securities issued or guaranteed by the Kenya Government shs 3,099m (1992 shs 3,133m).

5 FORWARD EXCHANGE

Commitments for forward exchange operations as at 30th June, 1993 were equivalent to shs 5,864m for forward sales and nil for forward purchases (1992 shs 1,512m and shs 369m).

6 GOLD AND FOREIGN EXCHANGE

Included under Gold and Foreign Exchange are amounts totalling shs 4,848m (1992 shs 2,531m) which represent external funds held by the Central Bank on behalf of the Government and Other Public Entities. The corresponding liabilities are held under Deposits and Other Liabilities and Provisions.

SUMMARY OF POLICY ACTIONS TAKEN IN FY 1992/93

Date		Policy Action	Objective
1992			
August	20	Introduction of retention scheme allowing 100 per cent retention of foreign exchange earnings from non-traditional exports	Export promotion & diversification
October	30	Commercial banks allowed to borrow foreign currency to finance tea and coffee purchases at auction	Enhance earnings of exports
		Banks allowed to open dollar accounts for coffee and tea buyers or brokers	Cushion against exchange risk
October	31	Bank announced new penalties for commercial banks failing to observe the mandatory cash and liquidity ratios	Check excessive lending & promote sound banking
November	6	Retention Scheme extended to cover traditional exports of goods at 50 per cent	Export promotion
1993			
February	19	Retention Scheme extended to services sector at 50 per cent	Export promotion
		Foreign Exchange allocation by CBK abolished	Promote efficient use of foreign exchange
March	2	Foreign Exchange Bearer Certificates made redeemable at market exchange rate	Facilitate redemption of the certificates
March	9	Devaluation by 25 per cent of the official shilling exchange rate.	Improve external competitiveness
March	22	Retention accounts suspended	
April	7	Margin on CBK advances and discounts to banks increased	To correct excess expansion in NDA
April	8	Cash Ratio increased from 6% to 8%	To correct excess expansion in NDA
April	20	Devaluation by 33% of the official shilling exchange rate	Improve external competitiveness

Date		Policy Action	Objective
May	2	Maturity life for securities to be eligible for rediscounting was reduced to 45 days or less	Curb the rate of monetary expansion
May	7	New penalty rate for banks failing to observe the mandatory cash ratio announced	Curb the rate of monetary expansion
May	14	Reintroduction of Retention Scheme (50% of all foreign exchange)	Export promotion
		Further liberalisation of foreign exchange system allowing commercial banks to effect foreign payments for their private sector clients without referring to the CBK.	Efficient foreign exchange allocation by market exchange rate
		Import licensing system abolished; short list of prohibited and restricted imports	Promote efficiency in resource allocation across industries
		Revocation of restrictions on importation of assembled commercial vehicles	Promote efficient resource allocation
		Maximum import tariff from 60% to 50% and tariff rate bands from 9 to 7	Lower average and variance in tariffs to promote efficiency and competitiveness
June	16	Introduction of one way foreign exchange auction system	Enhance CBK effectiveness in foreign exchange market stabilisation

ADDENDUM

7. EXTRA ORDINARY LOSS

Included in the Profit and Loss Account is an amount of K shs 7,628,003,000 incurred by the Central Bank on the purchase of Foreign Currency in the Interbank market at a premium above official exchange rate.

8. ADVANCES TO COMMERCIAL BANKS

Included in Advances and Discounts are principal funds amounting to shs 17,761,527,000 representing overdrawn account balances of three commercial banks which are currently either in liquidation or under the management of Central Bank of Kenya.

After the Balance Sheet date, shs 7,700,064,000 of this amount has been recovered. The Bank is presently unable to avail itself of the balance of these funds and no credit has been taken in these accounts for any unpaid interest accruing to the Bank. A provision of shs 3,780,016,000 has been made in the current year in respect of the above principal amounts.