

**MONTHLY ECONOMIC REVIEW
DECEMBER 2013**

The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at:

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email: Researchstat@centralbank.go.ke*

OVERVIEW

Introduction This Monthly Economic Review highlights recent economic developments through December 2013. This includes developments in inflation, money, credit and interest rates, the real sector, balance of payments and exchange rates. It also highlights developments in the banking sector, Government budgetary operations, public debt and the stock market.

Inflation Overall 12-month inflation declined from 7.4 percent in November 2013 to 7.1 percent in December 2013. This was reflected in food inflation, which at 10.0 percent was 33.5 basis points lower, and also in non-food non fuel inflation, which declined by 30.4 basis points to 4.7 percent. Fuel inflation, however, rose by 8.7 basis points to 5.1 percent in December 2013. Annual average inflation rose from 5.4 percent in November 2013 to 5.7 percent in December 2013. The inflation under watch remained within the allowable corridor (\pm 250 basis points off the 5 percent medium term target) set by the National Treasury.

Money Supply Growth in broad money, M3, decelerated to 13.3 percent in the year to December 2013 from 14.1 percent in the year to December 2012 and was within the 14.0 percent target for December 2013.

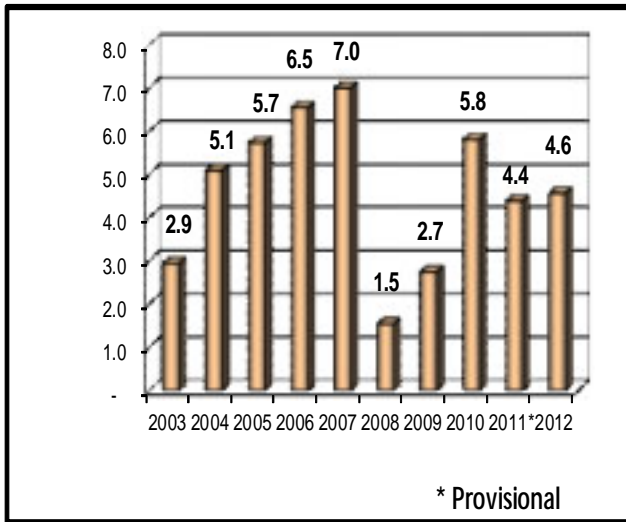
Interest Rates The Central Bank maintained the Central Bank Rate (CBR) at 8.50 percent in December 2013 in order to provide time for its previous decisions to work through the economy. The weighted average interbank interest rate decreased from 10.77 percent in November to 8.98 percent in December 2013 due to improved liquidity in the money market.

Real GDP Growth The economy grew at 4.6 percent in 2012 compared to 4.4 percent in 2011. Economic growth remained resilient in 2013, with real GDP increasing by 5.1 percent in the first quarter of 2013, 4.3 percent in the second quarter, and 4.4 percent in the third quarter. This compares favorably with increase of 4.0 percent, 4.4 percent and 4.5 percent in the first three quarters of 2012, respectively. The growth momentum in the first quarter of 2013 is attributed to favorable weather conditions that supported agriculture and the slowdown in the next quarter through hotels and restaurants owing to uncertainty prior to the March 2013 general elections.

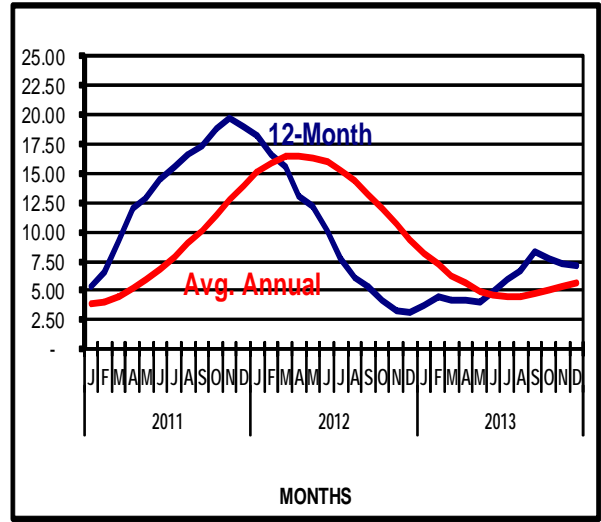
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- Balance of Payments** Kenya's overall balance of payments position declined to a surplus of USD 685 million in the year to December 2013 from a surplus of USD 1,261 million in the year to December 2012. This is attributed to a reduction in the capital and financial account surplus. The cumulative current account deficit as a proportion of GDP reduced to 9.10 percent in the year to December 2013 from 10.45 percent in the year to December 2012.
- Exchange Rates** The Kenya shilling registered mixed performance against major international currencies in the month of December 2013. The Shilling strengthened against the Japanese Yen and weakened against the US Dollar, the Pound Sterling and the Euro. In the East African region, the Kenya Shilling weakened against all the EAC currencies.
- Banking Sector Developments** The Kenyan Banking sector registered improved growth in assets in the year to December 2013 driven by growth in deposits, injection of capital and retention of profits. The sector registered improved performance in earnings and capital and the level of non-performing loans reduced compared with a similar period in 2012.
- Government Budgetary Performance** The Government budgetary operations for the first half of the FY 2013/14 resulted in a deficit of Ksh 105.2 billion on commitment basis compared with a deficit of Ksh 118.5 billion incurred in the same period of the FY 2012/13. This was lower than the Ksh 165.9 billion (4.3 percent of GDP) target for the period.
- Public Debt** Kenya's public and publicly guaranteed debt increased by Ksh 217.4 billion (or 11.5 percent) to reach Ksh 2,111.6 billion during the first half of FY 2013/14. The total debt-to-GDP ratio increased from 51.7 percent in June 2013 to 54.5 percent in December 2013.
- Stock Market** Capital markets improved in 2013. On monthly basis however, both equity and bond markets leading indicators were weaker in December 2013 compared to November 2013. Net foreign investor interest at NSE was better than in previous month.

SELECTED ECONOMIC PERFORMANCE INDICATORS

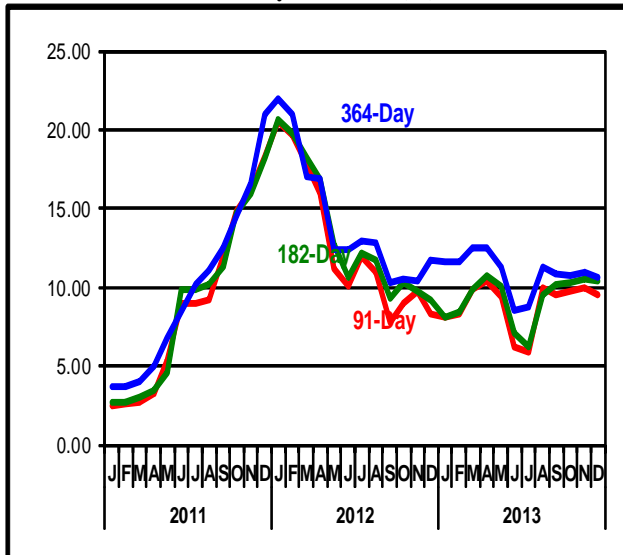
Real GDP Growth (%)



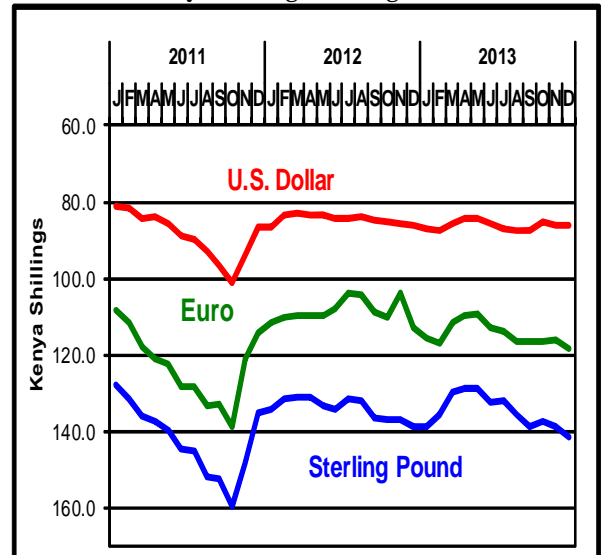
Inflation (%)



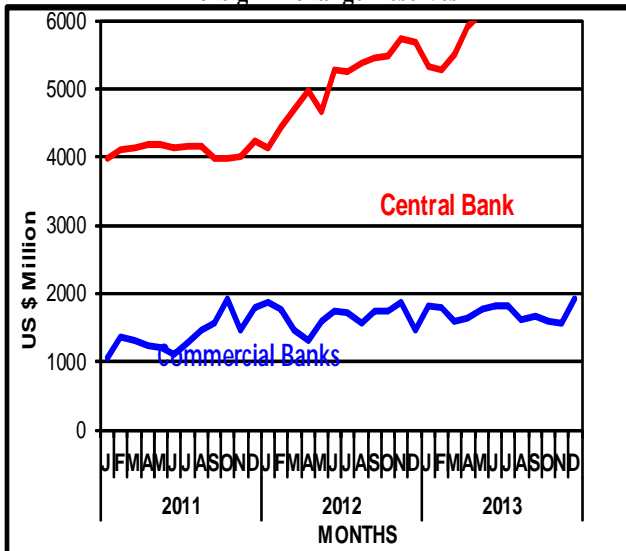
Treasury Bill Rates (%)



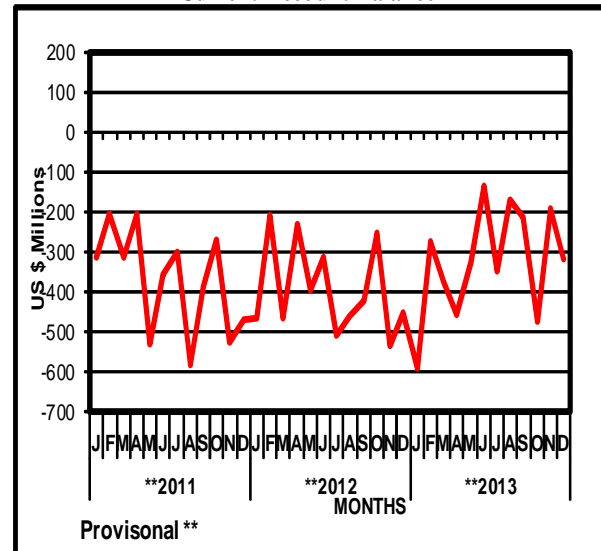
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012*
1. POPULATION*															
People in Millions	28.88	29.54	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	38.60	39.80	NA	NA
Growth (%)	2.31	2.29	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	0.78	3.11	NA	NA
2. NATIONAL ACCOUNTS**															
Gross value added at basic prices (Ksh m)	755,827.00	804,994.00	858,919	906,874	918,914	1,006,062	1,132,850	1,261,625	1,444,113	1,616,010	1,858,371	2,090,948	2,241,570	2,694,791	3,041,610
GDP at Market Prices (Ksh m):															
At Current Prices	850,808.00	906,928.00	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,565	1,833,511	2,107,589	2,366,984	2,553,733	3,048,867	3,440,115
At Constant 2001 Market Prices	955,179.00	976,996.00	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,133	1,249,470	1,336,846	1,357,263	1,394,387	1,475,302	1,539,912	1,610,084
Real GDP Growth (%)	3.30	2.30	0.60	4.50	0.60	2.90	5.10	5.91	6.3	7.0	1.5	2.7	5.8	4.4	4.6
Per Capita Income Real 2001 prices (Ksh)	33,165.94	33,118.50	33,283	33,767	31,828	31,825	32,443	33,480	34,574	37,316	36,933	36,962	38,346	38,941	39,607
3. GROSS NATIONAL SAVINGS (% of GDP at mkt prices)³	8.90	9.70	12.9	10.0	8.1	10.1	12.2	13.4	14.8	13.9	15.9	12.9	11.8	14.0	12.2
4. GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)³	6.06	5.67	6.7	4.4	4.0	4.8	6.6	5.7	6.8	6.1	8.2	5.5	4.7	6.3	5.0
5. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.30	16.20	17.4	18.8	14.9	16.4	17.1	16.9	17.9	19.0	19.2	19.9	19.8	20.5	20.1
6. OVERALL INFLATION BASE PERIOD- FEB 2009															
Annual Average Inflation	6.70	5.60	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27	9.24	3.96	14.02	9.38
12-Month Inflation	0.67	10.43	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32	4.51	18.93	3.20
7. STOCK MARKET															
Nairobi Stock Exchange Price Index (1966-100)	2,963.10	2,303.20	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44	4,432.60	3,205.02	4,133.02
Trade Turnover Ratio (%)	0.40	0.23	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64	0.99	0.46	0.58
8. GOVERNMENT BUDGET (Ksh bn)***															
Revenue and Grants	184.87	201.18	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67	511.36	614.53	679.53	734.43
Expenditure	194.97	197.34	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91	791.79	817.09	915.89
Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis)	(10.10)	3.84	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)	(177.26)	(137.56)	(181.46)
Budget Deficit (% of GDP)	(1.25)	0.44	0.81	(1.66)	(2.19)	(2.51)	(0.97)	0.08	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)	(5.51)
9. MONEY AND CREDIT (Ksh bn)(end period)															
Liquidity (L) ¹	381.35	414.43	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,091.93	1,280.44	1,558.16	1,854.93	2,129.49
Money Supply (M3) ²	328.32	345.73	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.05	1,045.66	1,271.64	1,514.15	1,727.32
Reserve Money	74.99	78.99	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96	222.63	255.01	293.62
Total Domestic Credit	350.60	358.48	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	815.52	955.82	1,188.40	1,505.13	3,036.21
Government	91.10	84.13	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	155.32	205.07	277.78	311.58	368.83
Private sector and other public sector	260.60	274.35	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	660.20	750.75	910.62	1,193.55	1,333.69
10. BALANCE OF PAYMENTS (US\$ m)															
Overall Balance	(4.80)	5.80	217.00	372.00	59.00	365.00	117.00	306.00	675.00	854.00	(469.00)	780.53	163.40	(42.88)	1,261.00
Current Account	(475.10)	(89.60)	(240.00)	(385.00)	(117.69)	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,609.28	-2,511.91	-3,330.50	-4,252.54
Capital and Financial Account	617.50	263.80	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00	2,389.81	2,675.30	3,287.61	5,513.54
11. FOREIGN EXCHANGE RESERVES (US\$ m) End Period	1,100.00	1,104.00	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78	5,064.03	5,122.52	6,044.78	7,160.07
Official	782.00	789.00	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46	3,847.39	4,001.68	4,247.66	5,701.85
Commercial Banks	328.00	315.00	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63	1,120.84	1,797.12	1,458.22
12. PUBLIC DEBT (US\$ bn) End Period***	8.45	8.00	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	13.46	13.66	14.96	16.60	19.27
Domestic	3.00	2.60	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72	8.06	8.51	10.20
As % of GDP	22.01	21.84	24.09	22.25	23.11	26.81	25.32	23.40	23.18	23.56	21.15	21.67	25.90	27.78	26.06
External	5.45	5.40	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94	6.90	8.09	9.08
As % of GDP	39.99	45.36	42.21	40.13	36.99	37.72	36.64	32.21	27.93	23.09	21.61	22.36	22.20	26.43	23.53
13. EXCHANGE RATE (Ksh/US\$) (Annual Average)	60.40	70.30	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18	77.35	79.23	88.87	84.52

NA Not Available

* Provisional.

** Revised to reflect data reported in Economic Survey 2011.

*** Fiscal year to June 30th.

¹ Previously M3KT

² Previously M3X

³ Revised

Sources: Kenya National Bureau of Statistics, National Treasury, Central Bank of Kenya and Nairobi Securities Exchange

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2012	2013											
	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
1. INFLATION (%)													
CPI	134.25	135.62	136.59	137.96	139.28	139.52	139.59	139.87	140.29	142.82	142.75	143.14	143.85
Overall Inflation													
12-month overall inflation	3.20	3.67	4.45	4.11	4.14	4.05	4.91	6.02	6.67	8.29	7.76	7.36	7.15
Average annual overall inflation	9.38	8.20	7.24	6.33	5.61	4.96	4.56	4.44	4.50	4.75	5.05	5.39	5.72
2. INTEREST RATES (%)													
91-day Treasury bill interest rate	8.3	8.1	8.4	9.9	10.4	9.5	6.2	5.9	10.0	9.6	9.7	9.9	9.5
Overdraft interest rate	17.8	18.0	17.7	17.5	17.7	17.6	16.9	17.0	16.9	16.4	17.0	16.5	16.5
3. STOCK MARKET													
Nairobi Stock Exchange 20 Share Price Index	4,133.02	4,416.60	4,518.59	4,860.83	4,765.23	5,006.96	4,598.16	4,787.56	4,697.75	4,793.20	4,992.88	5,100.88	4,926.97
Turnover Ratio (%)	0.58	0.65	0.86	0.71	0.74	1.08	0.90	0.76	0.99	0.61	1.00	0.80	0.58
4. GOVERNMENT BUDGET* (Ksh bn.)													
Revenue \$ Grants	387.89	454.06	514.26	577.34	675.72	758.31	851.19	58.60	128.42	210.23	286.22	363.59	468.97
Expenses	506.41	589.55	664.32	776.08	882.08	995.21	1,100.83	49.70	150.58	269.87	357.20	473.98	574.21
Budget Deficit (-) / Surplus (+)	(118.52)	(135.48)	(150.06)	(198.73)	(206.37)	(236.90)	(249.64)	8.90	(22.16)	(59.63)	(70.94)	(110.39)	(105.24)
5. MONEY AND CREDIT (Ksh bn.)													
Liquidity (L) ¹	2,130.55	2,132.66	2,151.14	2,180.65	2,239.92	2,273.12	2,278.29	2,213.87	2,234.01	2,251.42	2,273.96	2,316.67	2,360.52
Money Supply (M3) ²	1,727.69	1,729.90	1,747.89	1,755.74	1,802.28	1,823.40	1,820.88	1,835.80	1,849.97	1,861.96	1,879.11	1,919.52	1,957.49
Reserve Money	293.62	274.02	287.10	287.58	267.85	281.85	287.44	283.98	309.81	290.35	307.25	316.78	320.76
Total Domestic Credit	1,702.51	1,744.37	1,747.08	1,752.20	1,824.02	1,778.27	1,782.95	1,667.72	1,731.67	1,756.77	1,780.09	1,882.78	1,872.97
Government	368.82	396.00	393.61	391.02	458.11	392.82	379.51	239.86	260.49	264.09	259.49	324.40	291.62
Private sector and other public sector	1,333.69	1,348.37	1,353.47	1,361.19	1,365.92	1,385.45	1,403.44	1,427.86	1,471.18	1,492.68	1,520.60	1,558.38	1,581.36
6. MONEY AND CREDIT (Annual % Change)													
Liquidity (L) ¹	14.86	14.39	13.82	14.38	16.64	16.92	15.58	11.13	10.45	9.20	8.40	8.37	10.79
Money Supply (M3) ²	14.10	14.89	16.16	15.73	17.31	16.77	14.16	13.81	12.89	11.41	10.34	10.28	13.30
Reserve Money	15.14	12.24	23.93	11.50	9.54	18.93	11.72	10.31	23.81	12.09	22.68	13.27	9.24
Total Domestic Credit	13.11	16.63	15.54	14.45	17.13	13.05	14.86	4.07	8.31	8.43	7.41	11.61	10.01
Government	18.37	31.68	28.62	24.09	43.68	25.68	27.39	(27.59)	(18.80)	(20.61)	(26.08)	(12.47)	(20.93)
Private and other public sector	11.74	12.84	12.22	11.95	10.29	9.92	11.88	12.32	15.12	15.94	16.42	18.39	18.57
7. BALANCE OF PAYMENTS (US\$ m)													
Overall Balance	(36.77)	(366.30)	(37.77)	233.20	301.41	206.16	(35.34)	14.32	23.89	171.07	(21.69)	75.64	120.13
Current Account	(454.24)	(511.99)	(196.14)	(295.69)	(351.08)	(201.12)	(142.85)	(367.04)	(406.37)	(238.37)	(483.50)	(190.21)	(317.82)
Trade Balance	(919.36)	(962.58)	(797.25)	(823.38)	(903.64)	(833.08)	(683.33)	(951.89)	(901.02)	(812.43)	(1,089.67)	(833.00)	(911.53)
Capital and Financial Account	417.47	145.69	158.37	528.90	652.49	407.28	107.51	381.36	430.26	409.44	461.80	265.86	437.95
8. FOREIGN EXCHANGE RESERVES (US\$ m)													
Official**	7,160.07	7,155.81	7,079.54	7,113.72	7,563.46	7,886.58	7,888.94	7,906.76	7,739.68	7,958.83	7,859.49	7,893.00	8,483.20
Months of imports cover	5,701.85	5,327.85	5,290.07	5,523.28	5,927.56	6,128.10	6,089.00	6,095.76	6,119.65	6,290.71	6,263.25	6,333.14	6,560.17
Commercial banks	4.29	3.97	3.90	4.05	4.31	4.43	4.39	4.36	4.34	4.45	4.39	4.43	4.58
9. PUBLIC DEBT (US\$ bn)													
Domestic	20.84	20.68	20.53	21.03	22.46	22.40	22.02	22.39	22.88	23.54	23.55	24.18	24.46
As % of GDP	11.29	11.16	10.94	11.47	12.71	12.63	12.21	12.36	12.75	13.36	13.41	13.59	13.78
External	25.90	25.29	25.00	26.01	28.23	28.47	28.68	29.12	29.53	30.13	30.30	30.18	30.67
As % of GDP	9.55	9.51	9.58	9.56	9.74	9.78	9.81	10.03	10.13	10.17	10.14	10.59	10.69
As % of GDP	21.26	22.08	21.89	21.69	21.63	23.22	23.00	23.63	23.96	22.94	30.30	23.53	23.79
10. GROSS DOMESTIC DEBT (Ksh bn)***	971.27	977.93	943.75	981.91	1,065.61	1,074.80	1,050.56	1,078.60	1,116.68	1,168.23	1,174.78	1,170.05	1,189.18
11. AVERAGE EXCHANGE RATE													
Ksh/US\$	85.99	86.90	87.45	85.82	84.19	84.15	85.49	86.86	87.49	87.41	85.31	86.10	86.31
Ksh/Pound Sterling	138.78	138.80	135.54	129.42	128.81	128.72	132.42	132.00	135.47	138.54	137.31	138.64	141.37
Ksh/100 Yen	102.79	97.67	93.96	90.49	86.12	83.37	87.77	87.28	89.39	88.14	87.24	86.21	83.51
Ksh/Euro	112.77	115.47	116.86	111.31	109.65	109.18	112.81	113.74	116.51	116.67	116.33	116.22	118.18

* Data on Government budget remain provisional until the books for the fiscal year are audited.

** Figures refer to official reserves in terms of 12 months of imports of goods and non-factor services.

*** Excludes the IMF disbursements on-lent to the Govt. at the CBK, which is included in external public debt.

¹ Previously M3XT

² Previously M3X

Sources: Kenya National Bureau of Statistics, National Treasury, Nairobi Securities Exchange and Central Bank of Kenya

TRENDS IN VARIOUS MEASURES OF INFLATION

Overall Inflation

Overall 12-month inflation declined from 7.4 percent in November 2013 to 7.1 percent in December 2013 largely reflecting a decline in food inflation and non-food non-fuel inflation. Fuel inflation, however, rose to 5.1 percent in December 2013. The three months annualized rate of inflation declined from 8.4 percent in November 2013 to 2.9 percent in December 2013 indicating reduced domestic inflationary pressures (Table 1.1 and Chart 1A).

TABLE 1.1: 12-MONTHS OVERALL INFLATION (%)

	Dec-12	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Combined Nairobi	2.26	4.21	5.79	6.46	8.97	8.25	7.63	7.20
Lower Income	2.56	4.75	6.33	7.23	9.67	8.99	8.25	7.65
Middle Income	1.46	2.83	4.59	4.57	7.11	6.32	5.92	5.97
Upper Income	1.16	1.68	2.28	2.38	6.16	5.37	5.50	5.62
Other provinces- excluding Nairobi	3.86	5.40	6.18	6.83	7.82	7.43	7.17	7.11
TOTAL KENYA	3.20	4.91	6.02	6.67	8.29	7.76	7.36	7.15

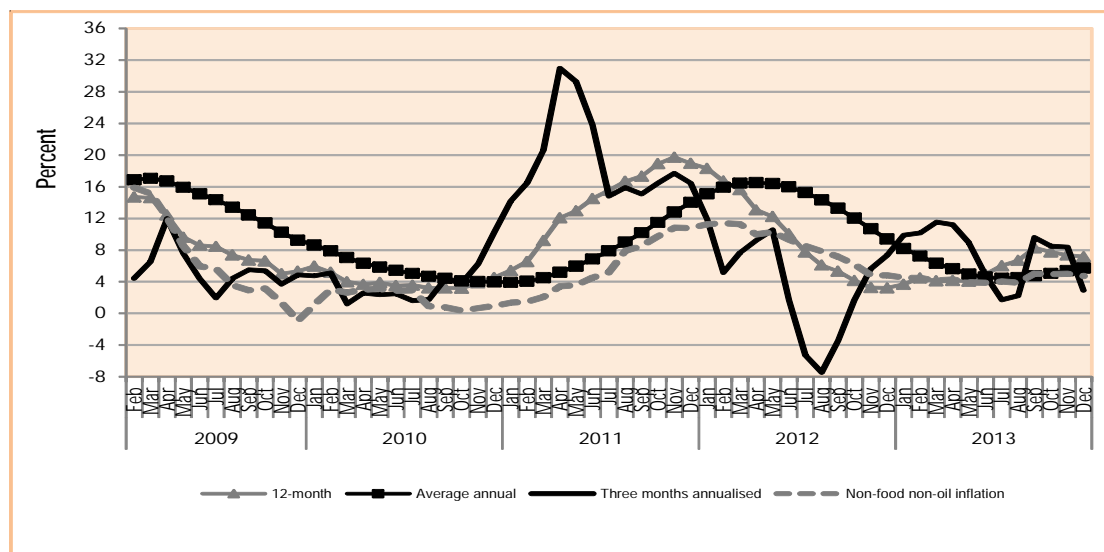
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

The decline in non-food non-fuel inflation in December 2013 was reflected in 'alcoholic beverages, tobacco and narcotics', 'clothing and footwear', 'miscellaneous goods and services' and 'recreation and culture' consumption baskets.

Food inflation declined from 10.3 percent in November 2013 to 10.0 percent in December 2013. This reflected a decline in 12-month inflation in the 'food and non-alcoholic beverages' index from 10.7 percent in November 2013 to 10.4 percent in December 2013.

Fuel inflation rose from 5.06 percent in November 2013 to 5.14 percent in December 2013. This reflected a rise in the 12-month inflation in the 'transport' category from 5.0 percent in November 2013 to 5.4 percent in December 2013 owing to a rise in bus fares. The 12-month inflation in the 'housing, water, electricity, gas and other fuels' category, however, declined from 5.1 percent in November 2013 to 5.0 percent in December 2013 following a decline in the cost of electricity.

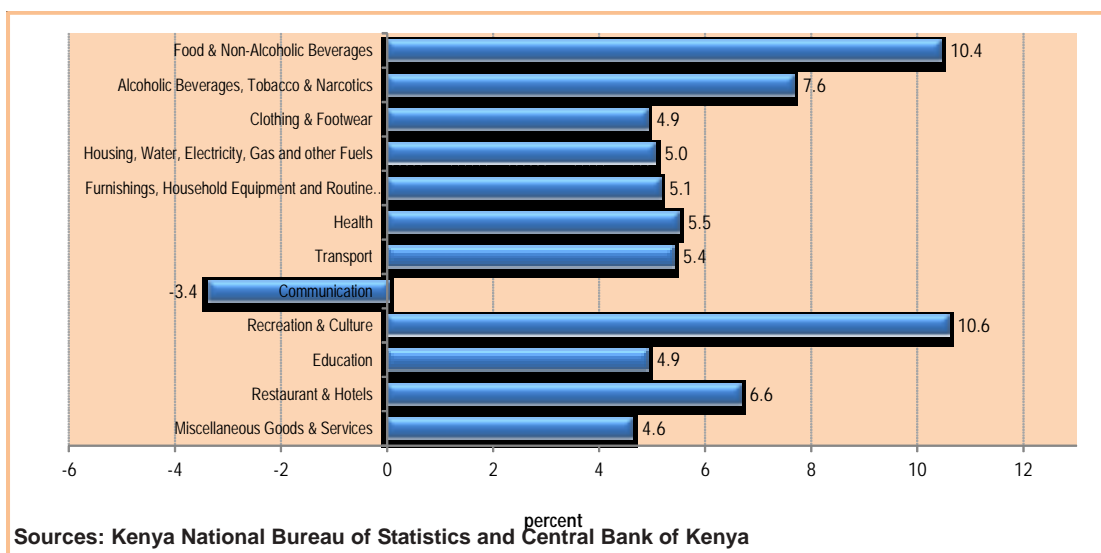
CHART 1A: 12-MONTHS OVERALL, AVERAGE ANNUAL & THREE MONTHS ANNUALISED INFLATION AND NON-FOOD NON-OIL INFLATION (%)



Inflation Across Categories of Goods & Services

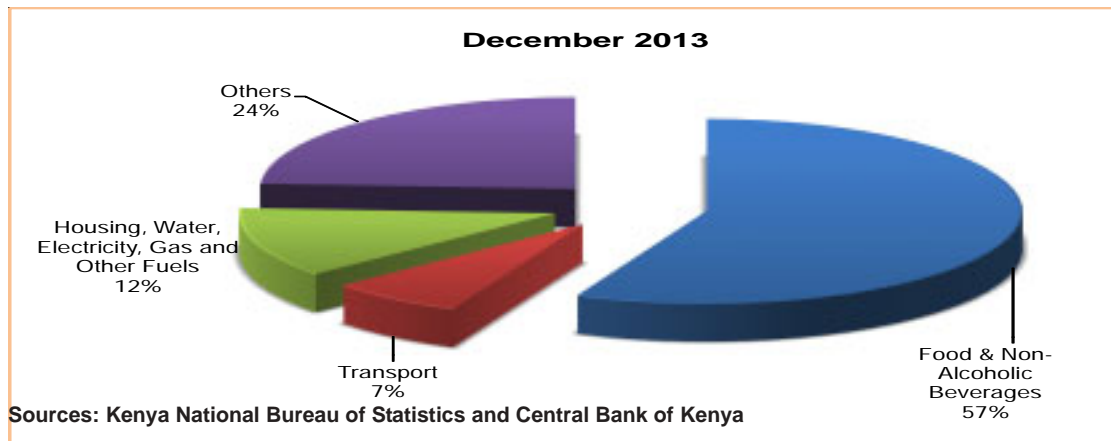
Developments across all categories of goods and services, and the distribution of weights in the Kenya consumer price index (CPI) are summarized in Table 1.2 and Chart 1B. Chart 1C shows that 56.7 percent of overall 12-month inflation in December 2013 was attributed to ‘food and non-alcoholic beverages’ category of goods while inflation in ‘housing, water, electricity, gas and other fuels’ and ‘transport’ categories contributed 12.3 percent and 6.9 percent, respectively.

CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (DECEMBER 2013 (%))



On average, the rise in prices of goods and services in urban centers outside Nairobi slowed to 7.1 percent in December 2013 while inflation in Nairobi slowed to 7.2

CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION (DECEMBER 2013)



percent (Table 1.3). Compared to November 2013, inflationary pressures were lower for the lower income group in Nairobi in December 2013 largely due to easing food inflation, but higher for the middle and upper income groups owing to higher fuel inflation. The consumer price index for the 'Nairobi Lower Income' group declined to 7.6 percent in December 2013 while the indices for the 'Nairobi Middle income' and 'Nairobi Upper Income' groups rose to 6.0 percent and 5.6 percent, respectively, in December 2013.

TABLE 1.2: 12 MONTHS OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (DECEMBER 2013)

DECEMBER 2013	Weight-CPI Kenya	NAIROBI				REST OF URBAN	TOTAL KENYA
		Lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya Combined	
Food & Non-alcoholic beverages	36.0	9.83	11.9	11.0	10.3	10.5	10.4
Alcoholic beverages, Tobacco & narcotics	2.1	6.3	5.5	3.4	6.0	8.7	7.6
Clothing & Footwear	7.4	4.2	1.5	8.2	3.8	5.6	4.9
Housing, Water, Electricity, Gas and other fuels	18.3	7.2	3.1	0.8	6.1	4.3	5.0
Furnishings, Household equipment and Routine household maintenance	6.2	3.5	8.5	2.0	4.6	5.5	5.1
Health	3.1	7.4	9.8	1.2	7.7	4.0	5.5
Transport	8.7	9.9	5.0	7.7	8.7	2.9	5.4
Communication	3.8	-9.7	-9.1	-1.2	-9.2	0.5	-3.4
Recreation & culture	2.3	9.0	12.8	11.6	10.0	10.9	10.6
Education	3.1	8.3	7.5	12.0	8.2	2.6	4.9
Restaurants & hotels	4.5	3.9	4.6	3.2	4.0	8.6	6.6
Miscellaneous goods & services	4.5	4.9	4.0	1.2	4.6	4.6	4.6
ALL GROUPS	100.0	7.6	6.0	5.6	7.2	7.1	7.1

Source: Kenya National Bureau of Statistics

TABLE 1.3: 12-MONTH INFLATION BY INCOME GROUPS (%)

	Dec-12	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Combined Nairobi	2.26	4.21	5.79	6.46	8.97	8.25	7.63	7.20
Lower Income	2.56	4.75	6.33	7.23	9.67	8.99	8.25	7.65
Middle Income	1.46	2.83	4.59	4.57	7.11	6.32	5.92	5.97
Upper Income	1.16	1.68	2.28	2.38	6.16	5.37	5.50	5.62
Other provinces- excluding Nairobi	3.86	5.40	6.18	6.83	7.82	7.43	7.17	7.11
TOTAL KENYA	3.20	4.91	6.02	6.67	8.29	7.76	7.36	7.15

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

Inflation Outlook

Demand pressures arising underscored by the new year expenses, such as seasonal upwards push on rents and higher spending on school uniforms and books, are expected to exert upward pressure on domestic inflation in the short term.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Growth in broad money, M3, decelerated to 13.3 percent in the year to December 2013 from 14.1 percent in the year to December 2012 and was within the 14.0 percent target for December 2013. The expansion in money supply, M2 defined as, M3 excluding foreign currency deposits, decreased to 11.1 percent in the year to December 2013 from 17.2 percent in a corresponding period in 2012 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits in M3, increased by Ksh 66.4 billion (25.7 percent) compared with a decrease of Ksh 1.9 billion (0.7 percent) in the previous year. Money supply M3 growth has remained below targets since December 2011 thereby signaling minimal demand side inflationary pressure.

TABLE 2.1: MONEY SUPPLY AND ITS SOURCES (KSH BILLION)

	2011 December	2012 December	2013 December	Absolute Change		%age change	
				2011/12 December	2012/13 December	12 months Dec-12	12 months Dec-13
1. Money supply, M3 (2+3) 2/	1514.2	1727.7	1957.5	213.5	229.8	14.1	13.3
1.1 Money supply, M2 3/	1254.0	1469.4	1632.8	215.4	163.4	17.2	11.1
1.2 Money supply, M1	622.7	710.9	788.3	88.2	77.4	14.2	10.9
1.3 Currency outside banks	137.0	147.8	163.2	10.8	15.4	7.9	10.4
2. Net foreign assets 4/	295.2	326.0	387.3	30.8	61.3	10.4	18.8
Central Bank	258.7	364.1	432.0	105.5	67.9	40.8	18.6
Banking Institutions	36.5	-38.2	-44.7	-74.7	-6.6	-204.5	17.2
3. Net domestic assets (3.1+3.2)	1218.9	1401.7	1570.2	182.7	168.5	15.0	12.0
3.1 Domestic credit (3.1.1+3.1.2)	1505.1	1702.5	1873.0	197.4	170.5	13.1	10.0
3.1.1 Government (net)	311.6	368.8	291.6	57.2	-77.2	18.4	-20.9
3.1.2 Private sector and other public sector	1193.5	1333.7	1581.4	140.1	247.7	11.7	18.6
3.2 Other assets net (3-3.1)	-286.2	-300.8	-302.8	-14.6	-2.0	5.1	0.7
Memorandum items							
1. Overall liquidity, L 1/	1854.9	2130.5	2360.5	275.6	230.0	14.9	10.8
2. Reserve money	255.0	293.6	320.8	38.6	27.1	15.1	9.2
Currency outside banks	137.0	147.8	163.2	10.8	15.4	7.9	10.4
Bank reserves	118.0	145.9	157.6	27.8	11.7	23.6	8.0

Absolute and percentage changes may not necessarily add up due to rounding

1/ Overall liquidity, L, comprises M3 and non banking public holding of Government securities. It is comparable to M3XT in the past publications.

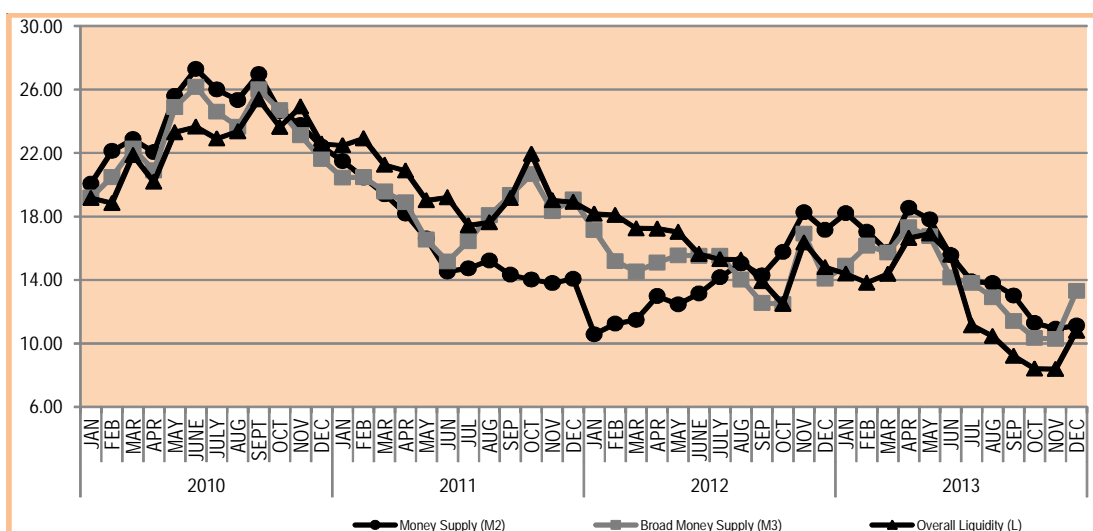
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

3/ Broad money, M2, comprises currency outside banking institutions, and all private and other public sector holdings of demand savings and time deposits. It excludes central and local Government deposits with banking institutions.

4/ Net Foreign Assets at current exchange rate to the US dollar.

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

The slowdown in the growth of broad money supply was reflected in the reduction in net domestic assets (NDA) of the banking systems following a decline in net credit to Government on account of accumulation of Government deposits at the CBK (Table 2.1). The NFA of the banking system increased by 18.8 percent in the year to December 2013 to Ksh. 387.3 billion from Ksh. 326.0 billion in the year to December 2012 due to an increase in the NFA of Central Bank. Over a similar period, the NFA of banking institutions declined by Ksh 6.6 billion from Ksh. -38.2 billion in December 2012 to Ksh -44.7 billion on account of increased loans from non-residents and other accounts payable. The NFA of the Central Bank grew by 18.6 percent from Ksh 364.1 billion in December 2012 to Ksh 432.1 billion in December 2013 reflecting an accumulation of foreign exchange reserves (Table 2.1).

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

	2012 December		2013 December		Absolute Change December		Annual %age Change December	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2011/12	2012/13	2011/12	2012/13
1. Credit to Government	368.8	21.7	291.6	15.6	57.2	-77.2	18.4	-20.9
Central Bank	10.9	0.6	-50.6	-2.7	-43.9	-61.5	-80.2	-565.8
Commercial Banks & NBFIs	358.0	21.0	342.2	18.3	101.1	-15.7	39.4	-4.4
2. Credit to other public sector	49.8	2.9	39.6	2.1	19.0	-10.2	61.7	-20.5
Local government	2.9	0.2	-0.2	0.0	0.6	-3.1	24.8	-107.9
Parastatals	46.9	2.8	39.8	2.1	18.4	-7.1	64.7	-15.1
3. Credit to private sector	1283.9	75.4	1541.7	82.3	121.1	257.9	10.4	20.1
Agriculture	57.5	3.4	58.7	3.1	4.3	1.2	8.1	2.0
Manufacturing	169.3	9.9	181.7	9.7	23.1	12.4	15.8	7.3
Trade	211.2	12.4	253.2	13.5	20.3	42.0	10.6	19.9
Building and construction	69.2	4.1	70.8	3.8	18.4	1.6	36.2	2.3
Transport & communications	75.8	4.5	89.5	4.8	-11.6	13.7	-13.3	18.1
Finance & insurance	32.7	1.9	29.9	1.6	2.8	-2.8	9.3	-8.5
Real estate	161.9	9.5	198.3	10.6	24.5	36.4	17.9	22.5
Mining and quarrying	25.0	1.5	27.8	1.5	-0.2	2.8	-0.9	11.0
Private households	177.2	10.4	230.0	12.3	13.4	52.8	8.2	29.8
Consumer durables	80.2	4.7	94.7	5.1	6.9	14.5	9.4	18.1
Business services	88.9	5.2	135.6	7.2	6.2	46.7	7.5	52.6
Other activities	135.1	7.9	171.6	9.2	13.2	36.5	10.8	27.0
4. TOTAL (1+2+3) *	1702.5	100.0	1873.0	100.0	197.4	170.5	13.1	10.0

* Absolute and percentage changes may not necessarily add-up due to rounding

Source: Central Bank of Kenya

Domestic Credit Developments

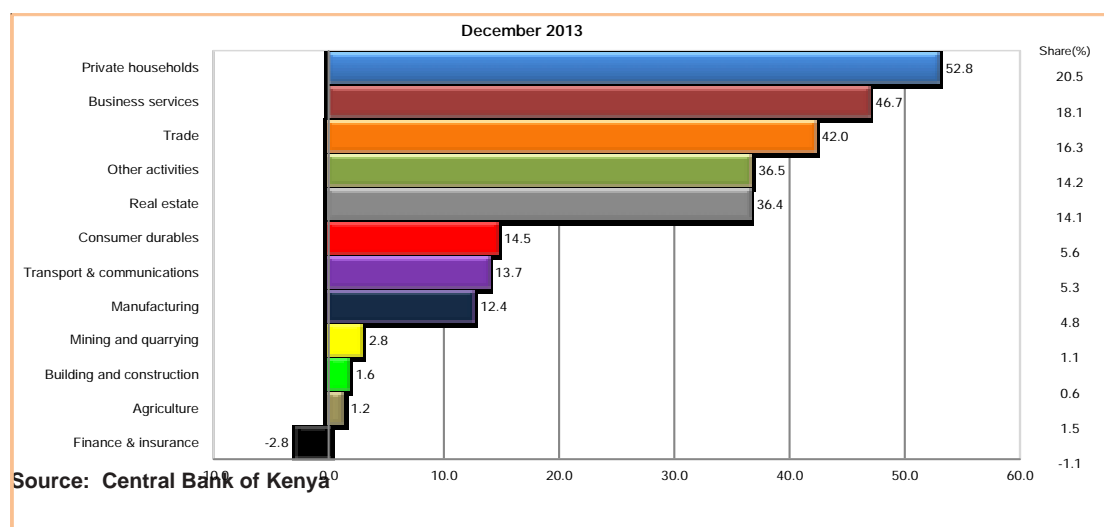
Domestic credit from the banking sector increased by Ksh 170.5 billion (10.0 percent) in the twelve months to December 2013 compared with Ksh 197.4 billion (13.1 percent) in a similar period in 2012 (Table 2.2). The increase was reflected in growth of credit to the private sector which accelerated to 20.1 percent in the year to December 2013 from 10.4 percent in a similar period in 2012. The private sector continued to dominate banking system lending; accounting for 82.3 percent of total lending in December 2013 compared with 15.6 percent share of government.

The allocation of the additional credit to the private sector, in order of magnitude, included the following activities: private households 20.5 percent (or Ksh 52.8 billion); business services at 18.1 percent (or Ksh 46.7 billion); trade at 16.3 percent (or Ksh 42 billion); real estate 14.1 percent (or Ksh 36.4 billion); consumer durables at 5.6 percent (or Ksh 14.5 billion); transport and communication 5.3 percent (or Ksh 13.7 billion) and manufacturing 4.8 percent (or Ksh 12.4 billion). Chart 2B below presents the credit distribution across private sector activities.

Reflecting accumulation of Government deposits at the Central Bank, net credit to Government declined by 20.9 percent (or Ksh 77.2 billion) in the year to December 2013 compared with an increase of 18.4 percent (or Ksh 57.2 billion) in a corresponding period in 2012. Over a similar period, the 'other public sector' repaid

Ksh 10.2 billion in the year to December 2013 compared to a net credit of Ksh. 19.0 billion over a similar in 2012 (Table 2.2).

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO DECEMBER 2013 (Ksh billion)



Reserve Money

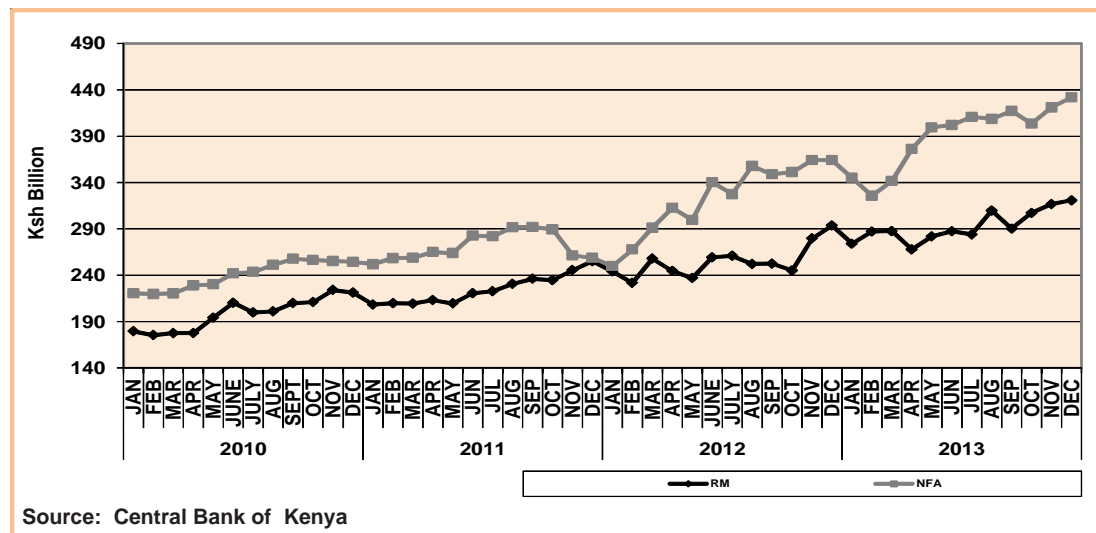
Reserve money (RM) comprises currency held by the non-bank public and commercial banks deposits at the Central Bank. It increased by 9.2 percent in the twelve months to December 2013 compared with 15.1 percent growth in the corresponding period in 2012 (Table 2.3 and Chart 2C). At Ksh 320.8 billion in December 2013, reserve money was Ksh 16.5 billion above respective target. The growth in reserve money reflected 8.0 percent increase in bank reserves and 10.4 percent growth in currency outside banks.

TABLE 2.3: RESERVE MONEY AND ITS SOURCES (Ksh billion)

	2012	2013	Absolute change		Change (%)		2013	
	December	December	2011/12	2012/13	2011/12	2012/13	December Target	Deviation
1. Net Foreign Assets	364.1	432.0	105.5	67.9	40.8	18.6	369.3	62.7
2. Net Domestic Assets	-70.5	-111.2	-66.8	-40.7			-65.0	-46.2
2.1 Government Borrowing (net)	10.9	-50.6	-43.9	-61.5			9.2	-59.8
2.2 Commercial banks (net)	-24.2	10.0	-24.2	34.2			-13.4	23.3
2.3 Other Domestic Assets (net)	-59.5	-74.4	4.6	-14.9			-60.9	-13.5
3. Reserve Money	293.6	320.8	38.6	27.1	15.1	9.2	304.3	16.5
3.1 Currency outside banks	147.8	163.2	10.8	15.4	7.9	10.4	160.9	2.3
3.2 Bank reserves	145.9	157.6	27.8	11.7	23.6	8.0	143.4	14.2

Source: Central Bank of Kenya

CHART 2C: TRENDS IN RESERVE MONEY AND NET FOREIGN ASSETS



The source of reserve money growth in the 12 months to December 2013 was largely an accumulation of net foreign assets (NFA) of the Central Bank. The NFA of Central Bank rose by 18.6 percent to Ksh 432.0 billion in the year to December 2013 on account of inflows from the IMF Extended Credit Facility and purchases from the interbank market to augment the stock of foreign exchange reserves in line with the statutory required minimum 4 months value of imports and non- factor services.

Over a similar period, the NDA of the Central Bank decreased by Ksh 40.7 billion to Ksh -111.2 billion in the year to December 2013 from Ksh -70.5 billion in the previous year. This was reflected in reduction of net Government indebtedness at the Central Bank from Ksh 10.9 billion to net deposits of Ksh 50.6 billion. Meanwhile, net claims to commercial banks increased by Ksh 34.2 billion following redemptions of outstanding repo securities held by commercial banks.

Central Bank Rates

The Central Bank maintained the Central Bank Rate (CBR) at 8.50 percent in December 2013. This was to consolidate the monetary policy gains, as reflected in low and stable inflation rate and sustained exchange rate stability, and to provide time for MPC previous decisions to work through the economy.

Short Term Interest Rates

Following improved liquidity in the money market, short interest rates eased during the month of December 2013 (Table 2.4 and Chart 2D). The weighted average interbank interest rate decreased from 10.77 percent in November 2013 to 8.98 percent in December 2013. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, declined marginally from 9.94 percent in November 2013 to 9.52 percent in December 2013, while the 182-day Treasury bill rate declined marginally from 10.41 percent to 10.36 percent.

Commercial banks average lending rate stabilized at 17.0 percent in December 2013, while the average deposit rate increased from 6.61 percent in November 2013 to

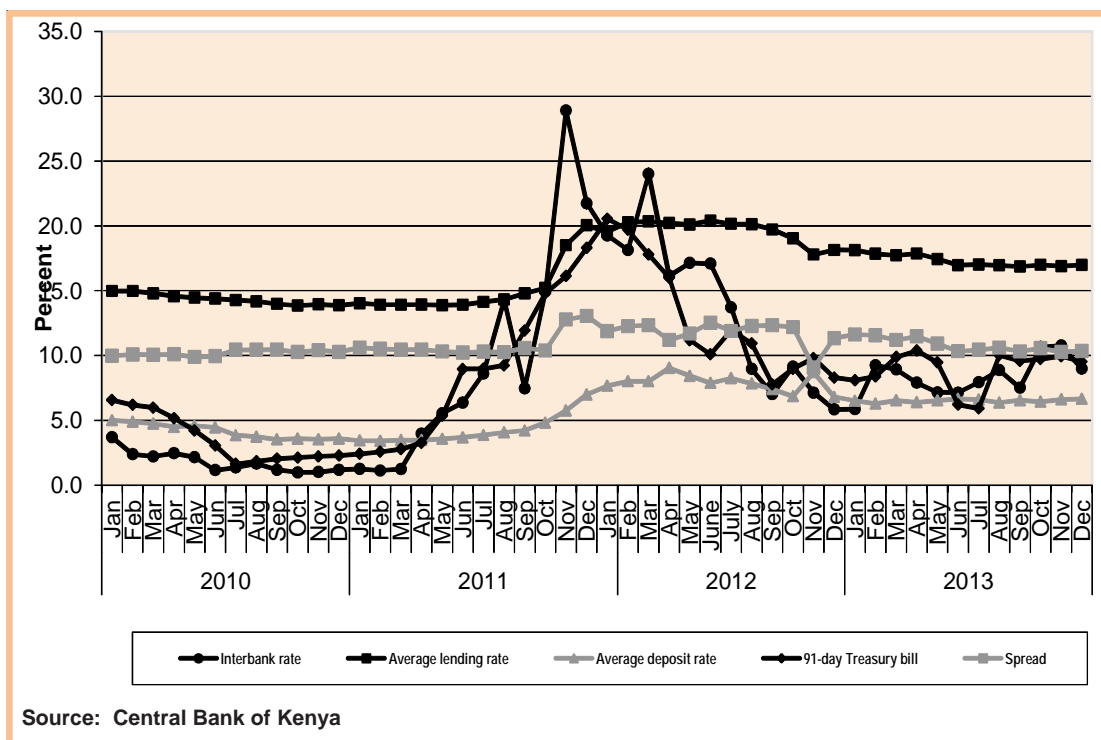
Lending and Deposit Rates 6.65 percent in December 2013. Consequently, the interest rate spread increased from 10.28 percent in November 2013 to 10.34 percent in December 2013 (Table 2.4).

TABLE 2.4: INTEREST RATES (%)

	2012	2013											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
91-day Treasury bill rate	8.30	8.08	8.38	9.88	10.38	9.46	6.21	5.92	10.03	9.58	9.72	9.94	9.52
Overdraft rate	17.79	17.97	17.68	17.54	17.71	17.60	16.92	17.00	16.89	16.42	16.96	16.50	16.51
Interbank rate	5.84	5.86	9.25	8.93	7.90	7.16	7.14	7.93	8.88	7.52	10.66	10.77	8.98
Repo rate	6.79	6.60	9.10	9.35	9.14	7.96	7.93	7.48		7.11			
Reverse Repo rate	-	-	-	-	-	-	-	-	8.77		10.85	12.35	11.28
Central Bank Rate (CBR)	11.00	9.50	9.50	9.50	9.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Average lending rate (1)	18.15	18.13	17.84	17.73	17.87	17.45	16.97	17.02	16.96	16.86	17.00	16.89	16.99
Average deposit rate (2)	6.80	6.51	6.29	6.54	6.39	6.53	6.65	6.59	6.36	6.55	6.43	6.61	6.65
0 to 3 - month deposit	9.62	8.78	8.38	8.58	8.58	8.96	8.77	8.70	8.39	8.44	8.36	8.78	8.98
Savings deposits	1.60	1.65	1.61	1.42	1.45	1.53	1.73	1.64	1.67	1.64	1.63	1.58	1.58
Spread (1-2)	11.34	11.62	11.55	11.19	11.48	10.91	10.32	10.43	10.60	10.32	10.57	10.28	10.34

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

PERFORMANCE OF THE REAL SECTOR

Overview

Real GDP in 2012 grew by 4.6 percent and amounted to Ksh 1.61 trillion compared to 4.4 percent growth in 2011 (Table 3.1). GDP growth in 2012 was more broad based and driven largely by strong performances of the Agriculture and Forestry; Wholesale and retail; Transport and Communication which constituted 20.9 percent; 11 percent and 12.3 percent, respectively of the overall GDP. In the first three quarters of 2013, the real GDP is estimated to have increased by 5.1 percent, 4.3 percent and 4.4 percent, respectively, compared with 4.0 percent, 4.4 percent and 4.5 percent in the first three quarters of 2012, respectively (Chart 3A).

TABLE 3.1: GROSS DOMESTIC PRODUCT BY ACTIVITY (Constant 2001 Prices, Ksh)

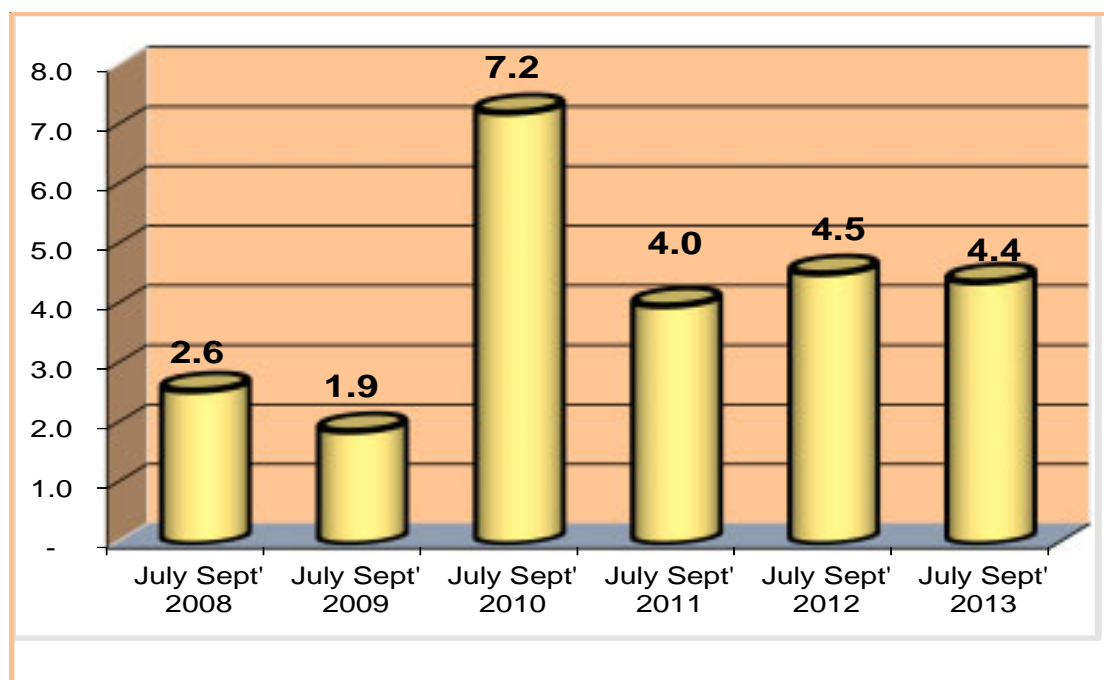
MAIN SECTORS	Share in 2012 Nominal GDP (%)	Share in 2012 Real GDP (%)	Kshs Million									
			2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture and Forestry	25.94	20.86	276,089	280,518	299,749	312,926	320,423	307,354	299,431	318,586	323,465	335,785
Fishing	0.47	0.38	4,765	5,246	5,751	6,249	6,181	5,363	5,564	5,713	5,891	6,093
Mining	0.69	0.47	5,213	5,195	5,334	5,554	6,272	6,453	6,163	6,763	7,246	7,545
Manufacturing	9.21	9.49	105,822	110,544	115,699	122,953	130,673	135,291	137,060	143,263	147,989	152,735
Electricity and water supply	1.37	2.22	27,074	27,877	27,898	27,288	29,769	31,341	30,397	33,292	32,465	35,773
Construction	4.12	3.50	31,530	32,932	35,446	37,649	40,405	43,735	49,270	51,492	53,713	56,314
Wholesale and retail trade, repairs	10.18	10.99	92,604	100,481	106,009	118,361	131,754	138,044	143,460	154,942	166,205	176,874
Hotels & Restaurants	1.64	1.32	9,899	13,741	15,572	17,894	20,814	13,298	18,993	19,796	20,792	21,322
Transport, Storage & Communications	9.33	12.31	104,915	112,251	122,243	136,306	156,845	161,616	171,994	182,181	190,382	198,234
Financial Intermediation	5.16	4.31	42,064	42,657	43,869	47,170	50,306	51,659	55,375	60,379	65,095	69,349
Real estate, renting and business services	4.25	5.19	61,864	63,740	65,882	68,446	70,860	73,503	75,674	78,089	80,888	83,583
Public administration and defense	5.41	3.08	46,991	47,062	46,461	45,974	45,031	45,317	46,031	47,085	48,270	49,584
Education	5.48	5.91	71,045	72,268	72,908	73,188	76,257	80,771	82,952	86,651	90,873	95,102
Health and social work	2.38	2.11	25,431	26,408	27,249	28,075	28,983	30,035	31,352	31,786	32,896	34,008
Other community, social and personal services	3.16	3.59	42,917	44,514	45,876	47,814	49,420	50,829	52,156	53,507	55,988	57,753
Private households with employed persons	0.44	0.29	3,855	3,932	4,011	4,091	4,173	4,256	4,342	4,428	4,517	4,607
Less: Financial services indirectly measured	(0.81)	-0.73	(10,315)	(10,801)	(11,261)	(11,835)	(12,174)	(10,484)	(11,945)	(11,260)	(11,843)	(11,729)
All industries at basic 2001 prices	88.42	85.27	941,763	978,565	1,028,696	1,088,103	1,155,991	1,168,395	1,198,270	1,266,694	1,314,832	1,372,932
Taxes less subsidies on products	11.58	14.73	113,895	130,772	144,088	161,367	180,855	188,882	196,117	208,607	224,474	237,153
Real GDP at 2001 market prices	100.00	100.00	1,055,658	1,109,338	1,172,784	1,249,470	1,336,846	1,357,263	1,394,387	1,475,302	1,539,306	1,610,084
GDP at Mkt Prices			1,055,658	1,109,338	1,172,784	1,249,470	1,336,846	1,357,263	1,394,387	1,475,302	1,539,306	1,610,084
Overall GDP Deflator			107	115	121	130	137	155	170	173	198	214

Annual Growth Rates in Percent												
	Share in 2012 Nominal GDP (%)	Share in 2012 Real GDP (%)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Agriculture and Forestry	25.94	20.86	2.6	1.6	6.9	2.4	-4.1	(2.6)	6.4	1.5	1.5	3.8
Fishing	0.47	0.38	-6.9	10.1	9.6	-1.1	-13.2	3.8	2.7	3.1	3.1	3.4
Mining	0.69	0.47	3.5	-0.3	2.7	12.9	2.9	(4.5)	9.7	7.1	7.1	4.1
Manufacturing	9.21	9.49	6.0	4.5	4.7	6.3	3.5	1.3	4.5	3.3	3.4	3.1
Electricity and water supply	1.37	2.22	14.0	3.0	0.1	9.1	5.3	(3.0)	9.5	(2.6)	(2.6)	10.3
Construction	4.12	3.50	1.0	4.4	7.6	7.3	8.2	12.7	4.5	4.3	4.3	4.8
Wholesale and retail trade, repairs	10.18	10.99	1.5	8.5	5.5	11.3	4.8	3.9	8.0	7.3	7.3	6.4
Hotels & Restaurants	1.64	1.32	-20.3	38.8	13.3	16.3	-36.1	42.8	4.2	5.0	4.9	2.6
Transport, Storage & Communications	9.33	12.31	3.5	7.0	8.9	15.1	3.0	6.4	5.9	4.5	4.7	4.0
Financial Intermediation	5.16	4.31	1.5	1.4	2.8	6.6	2.7	7.2	9.0	7.8	7.8	6.5
Real estate, renting and business services	4.25	5.19	2.3	3.0	3.4	3.5	3.7	3.0	3.2	3.6	3.6	3.3
Public administration and defense	5.41	3.08	0.6	0.2	-1.3	-2.1	0.6	1.6	2.3	2.5	2.5	2.7
Education	5.48	5.91	9.7	1.7	0.9	4.2	5.9	2.7	4.5	4.9	4.8	4.7
Health and social work	2.38	2.11	2.8	3.8	3.2	3.2	3.6	4.4	1.4	3.5	3.5	3.4
Other community, social and personal services	3.16	3.59	-0.0	3.7	3.1	3.4	2.9	2.6	2.6	4.5	4.6	3.2
Private households with employed persons	0.44	0.29	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Less: Financial services indirectly measured	-0.81	-0.73	-3.3	4.7	4.3	2.9	-13.9	13.9	(5.7)	5.2	5.2	(1.0)
Total GDP at basic 2001 prices	88.42	85.27	3.1	3.9	5.1	6.2	1.1	2.6	5.7	3.8	3.8	4.4
Taxes less subsidies on products	11.58	14.73	1.3	14.8	10.2	12.1	4.4	3.8	6.4	7.9	7.8	5.5
Real GDP at 2001 market prices	100.00	100.00	2.9	5.1	5.7	7.0	1.5	2.7	5.8	4.4	4.4	4.6

*Provisional

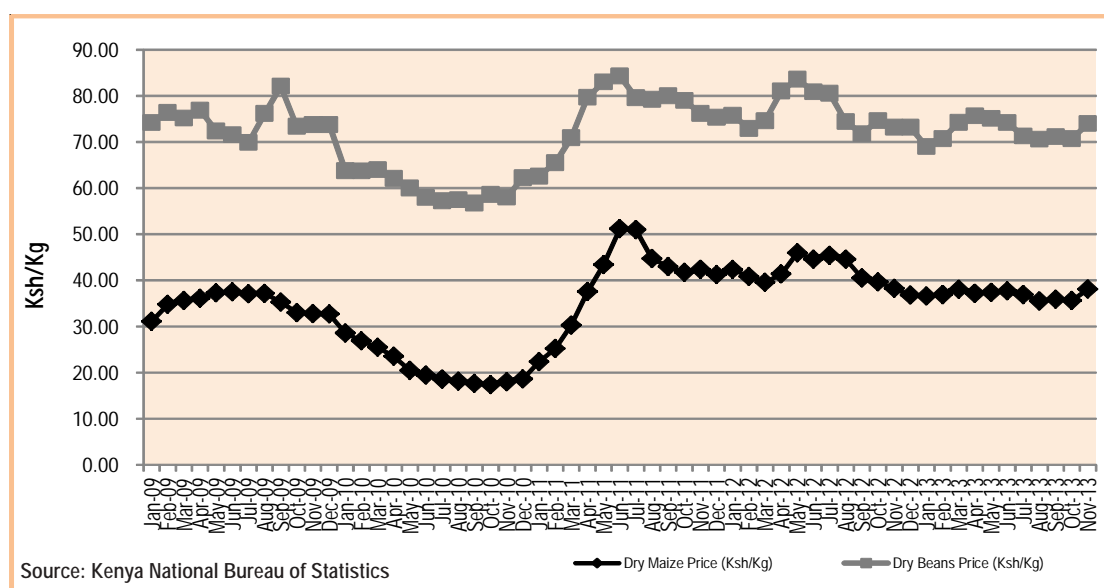
Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

CHART 3A: REAL GDP GROWTH IN THE FIRST QUARTERS



Agriculture Agriculture contributed 20.9 percent of GDP in 2012 and recorded 3.8 percent growth over the compared with 1.5 percent increase over comparable period in 2011. The sector’s performance improved through the first half of 2013 after recording 8.1 percent and 5.0 percent growth in output in the first and second quarters of 2013, respectively, compared with growths of 2.1 percent and 2.0 percent in the first and second quarters of 2012, respectively. The improved outturn is attributed to favorable weather conditions which resulted in better production and dampened the prices of critical food items such as maize and beans (Chart 3B). Third quarter growth in output from agriculture, however, slowed to 3.4 percent in 2013 compared with 5.8 percent growth recorded in the third quarter of 2012.

CHART 3B: MOVEMENTS IN AVERAGE RETAIL PRICES FOR MAIZE & BEANS



Major Indicators in Agriculture

Most indicators of performance in agriculture in the year to November 2013 point to favorable outcome (Table 3.2). Among selected crops, production of tea, horticulture and sugar cane increased in the year to November 2013, while production of coffee declined. Production of milk also increased during the period under review.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK

	2011	2012*	Year to Nov 12*	Year to Nov 13*
Tea				
Output (Metric tonnes)	377,913	369,562	369,554	432,135
Growth (%)	-5.3%	-2.2%	-1.4%	16.9%
Horticulture				
Exports (Metric tonnes)	238,562	250,814	249,823	303,149
Growth (%)	-11.2%	5.1%	2.6%	21.3%
Coffee				
Sales (Metric tonnes)	29,984	46,051	46,776	37,449
Growth (%)	-23.0%	53.6%	57.8%	-19.9%
Milk				
Output (million litres)	549	495	495	520
Growth %	7.5%	-9.8%	-9.1%	5.8%
Sugar Cane				
Output (Metric tonnes)	5,338,571	5,716,300	5,711,930	6,304,976
Growth (%)	-6.5%	7.1%	6.5%	10.4%

* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

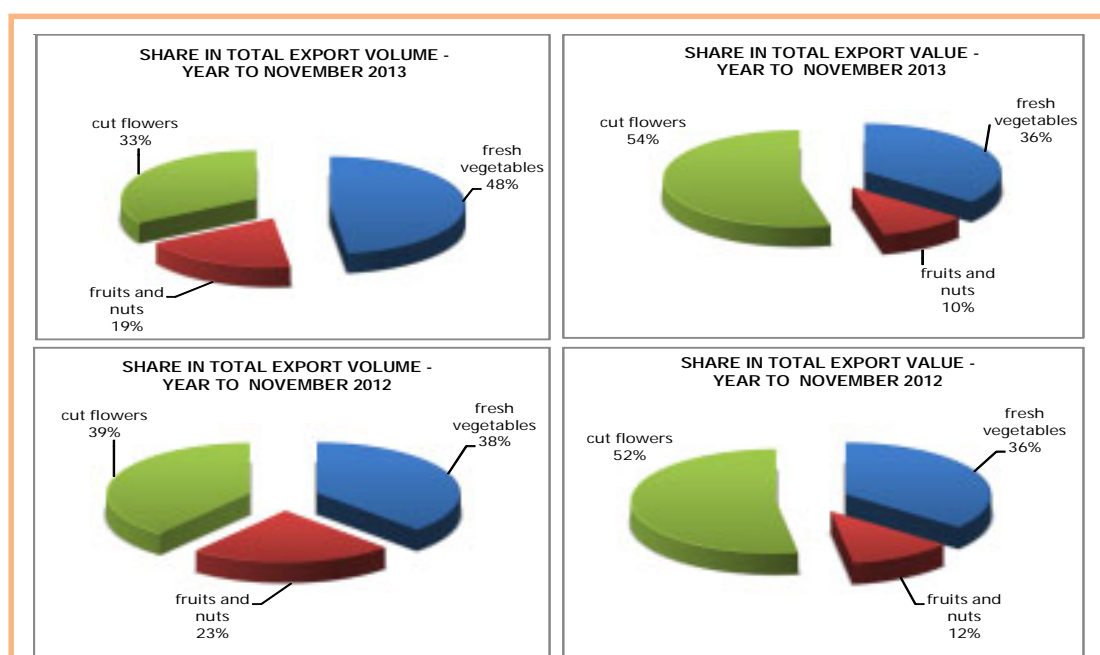
Tea

Production of tea increased by 16.9 percent in the year to November 2013 in relation to 369,554 metric tonnes produced in the year to November 2012 (Table 3.2). The improvement is attributed to relatively favorable weather conditions. Reflecting the larger tea volume the average auction price for tea declined from Ksh 267 per kilogram in the year to November 2012 to Ksh 224 per kilogram in the year to November 2013.

Horticulture

Export of fresh horticultural products increased by 21.3 percent from 249,823 metric tonnes in the year to November 2012 to 303,149 metric tonnes in the year to November 2013. Exports of fresh vegetables dominated in terms of volume, while cut flowers brought in the largest contribution to total export value in the year to November 2013 (Table 3.2 and Chart 3C).

CHART 3C: HORTICULTURAL EXPORTS



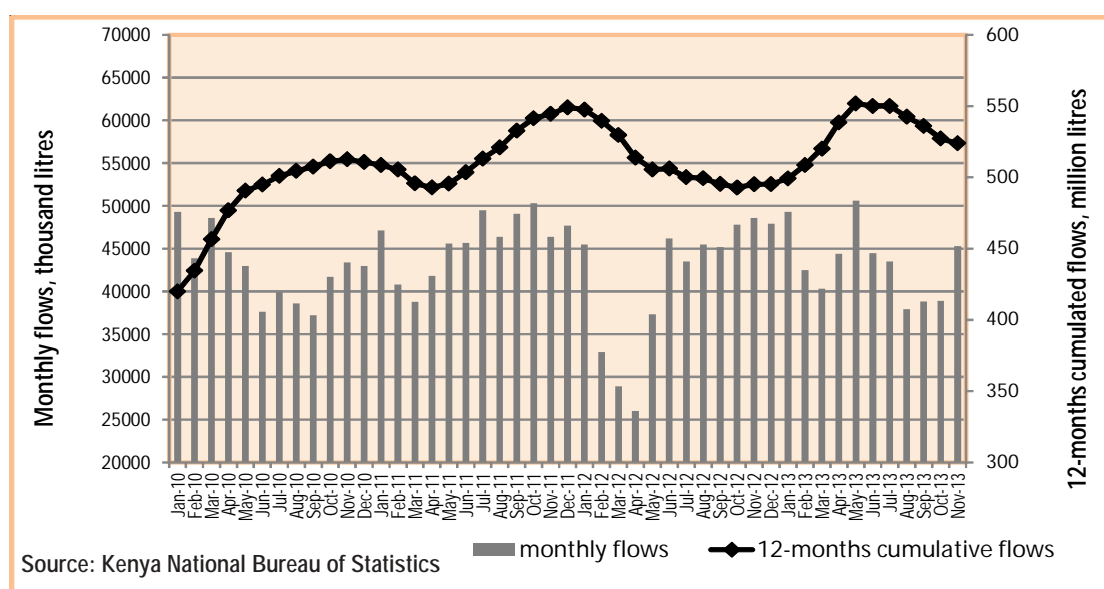
Source: Kenya Revenue Authority

Coffee Coffee sales declined by 19.9 percent from 46,776 metric tonnes in the year to November 2012 to 37,449 metric tonnes in the year to November 2013. The average auction price for coffee also declined from Ksh 349 per kilogram in the year to November 2012 to Ksh 279 per kilogram in the year to November 2013, reflecting increased global supply and reduced world prices.

Sugar cane Cane deliveries increased by 10.4 percent in the year to November 2013 from 5.71 million tonnes in the year to November 2012.

Milk The volume of milk delivered to factories increased by 5.1 percent in the year to November 2013 from 495 million litres delivered in a comparable period in the previous year (Chart 3D).

CHART 3D: PROCESSED MILK ('000 LITRES)



Manufacturing The manufacturing sector accounted for 9.5 percent of the overall GDP growth in 2012. The sectors value added grew by 4.2 percent in the first quarter of 2013, by 4.3 percent in the second quarter and by 4.4 percent in the third quarter compared with growths of 1.4 percent, 2.1 percent and 2.7 percent in the first three quarters of 2012, respectively. Indicators of the performance of manufacturing activity are largely positive for the 12-month period to November 2013 (Table 3.3 and Chart 3E), with the growth in production of sugar and soft drinks accelerating to 17.1 percent and 18.4 percent, respectively. Growth in the production of cement, however, slowed to 2.4 percent in the year to November 2013 compared with 6.1 percent in the comparable period in 2012. With local cement consumption below production level (Chart 3E), the industry continued to generate surplus for export. The number of vehicles assembled locally stabilized at 6,252 in the year to November 2013 (Table 3.3 & Chart 3E).

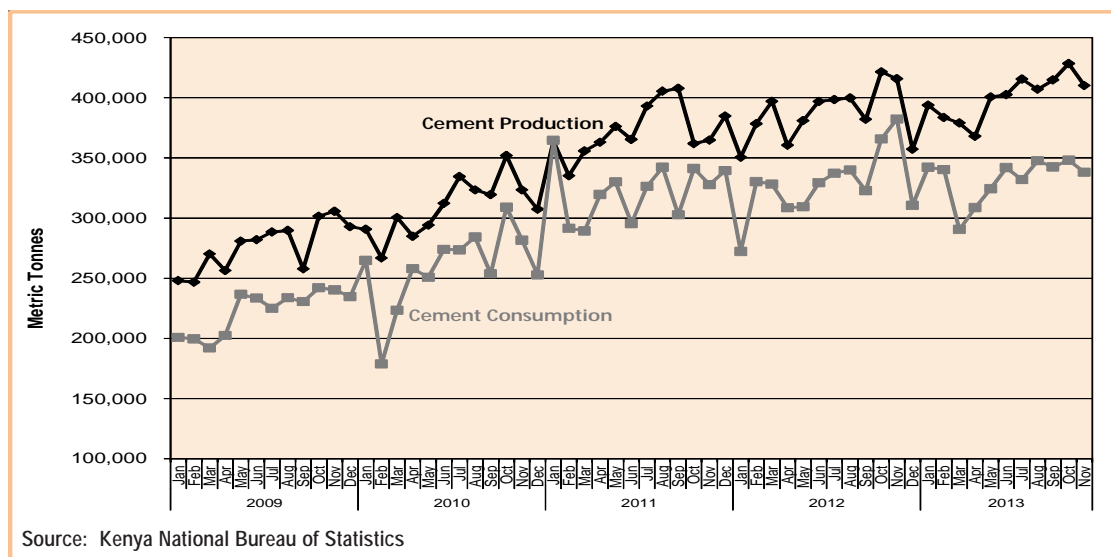
TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	Annual Totals		Year to Nov 12*	Year to Nov 13*
	2011	2012*		
Cement production				
Output (MT)	4,478,428	4,639,723	4,608,842	4,718,889
Growth %	20.7%	3.6%	6.1%	2.4%
Assembled vehicles				
Output (No.)	6,049	6,218	6,223	6,252
Growth %	5.7%	2.8%	0.3%	0.5%
Processed sugar				
Output (MT)	475,061	493,937	496,015	580,867
Growth %	-9.2%	4.0%	0.5%	17.1%
Soft drinks				
Output ('000 litres)	371,353	359,518	357,694	423,562
Growth %	2.8%	-3.2%	0.5%	18.4%

MT = Metric tonnes
* Provisional

Source: Kenya National Bureau of Statistics

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Energy Sector

Annual growth in local generation of electricity increased from 5.2 percent in the year to November 2012 to 8.8 percent in the year to November 2013 (Table 3.4). The total amount of electricity generated thus increased from 7,506 million kilowatt hours to 8,163 million kilowatt hours. The supply in the current period comprised 54.0 percent of hydro-electricity, 24.5 percent of thermal power and 21.4 percent of geo-thermal power. The increase in the amount of electricity produced reflects accelerated generation of geo-thermal power (green energy). Generation of hydro-electricity increased by 10.4 percent to a supply of 4,409 million kilowatt hours in the year to November 2013, while generation of geo-thermal power increased by 15.3 percent to a supply of 1,750 million kilowatt hours in the year to November 2013. The generation of thermal power declined marginally by 0.85 percent to 1,977 million kilowatt hours in the year to November 2013. Growth in the consumption of electricity also increased from 2.1 percent in the year to November 2012 to 4.9 percent in the year to November 2013. The average price of murban crude oil

declined from US\$ 113.1 per barrel in the year to November 2012 to US\$ 109.8 per barrel in the year to November 2013.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	2011	2012*	Year to Nov 12*	Year to Nov 13*
Electricity Supply (Generation)				
Output (million KWH)	7,161	7,544	7,506	8,163
<i>Growth %</i>	11.8%	5.4%	5.2%	8.8%
<i>Of which:</i>				
Hydro-power Generation (million KWH)	3,183	4,032	3,994	4,409
<i>Growth (%)</i>	-0.4%	26.6%	26.5%	10.4%
Geo-Thermal Generation (million KWH)	1,444	1,522	1,518	1,750
<i>Growth (%)</i>	0.1%	5.4%	5.1%	15.3%
Thermal (million KWH)	2,533	1,990	1,994	1,977
<i>Growth (%)</i>	43.2%	-21.4%	-21.3%	-0.9%
Consumption of electricity (million KWH)	6,152	6,270	6,272	6,580
<i>Growth %</i>	4.8%	1.9%	2.1%	4.9%
Murban crude oil average price (US \$ per barrel)	110.6	113.0	113.1	109.8
<i>Growth %</i>	39.7%	2.1%	3.8%	-2.8%

Source: Kenya National Bureau of Statistics

Tourism

The number of tourist arrivals declined by 7.0 percent from 1,257,869 in the year to July 2012 (Table 3.5). The ports of disembarkation were Jomo Kenyatta International Airport Nairobi (84.5 percent share), and the Moi International Airport, Mombasa (15.5 percent share).

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2011	2012	Year to Jul 12	Year to Jul 13	Year to Jul 13 % Share	Year to Jul 13 % Growth
CRUISE	856	0	0	-	0.00%	N/A
MIAM	233,844	187,151	204,426	181,440	15.5%	-11.2%
JKIA	1,030,436	1,048,390	1,053,443	987,910	84.5%	-6.2%
TOTAL	1,265,136	1,235,541	1,257,869	1,169,350	100.0%	-7.0%

Source: Kenya Tourist Board

In terms of region of origin, Europe and Africa dominated accounting for 41.9 percent and 24.5 percent of total tourist arrivals, respectively in the year to July 2013 (Table 3.6). Middle East (mainly, United Arab Emirates) and Oceania countries (mainly, Australia) recorded the highest growth in terms of source of tourists with increases of 26.6 percent and 7.4 percent, respectively. Tourist arrivals from Europe however, declined by 15.3 percent in the year to July 2013 compared with a growth of 1.2 percent in the year to July 2012 partly due to the economic recession in the Euro Zone countries.

TABLE 3.6: TOURIST ARRIVALS BY CONTINENT

REGION	2011	2012	Year to Jul 12	Year to Jul 13	Year to Jul 13 % Share	Year to Jul 13 % Growth
Africa	303,886	299,746	295,867	286,776	24.5%	-3.1%
Middle East	38,880	58,711	49,425	62,590	5.4%	26.6%
America	158,268	161,669	165,772	153,898	13.2%	-7.2%
Asia	137,707	147,062	140,081	145,587	12.5%	3.9%
Europe	596,587	537,369	577,797	489,429	41.9%	-15.3%
Oceanic	28,952	30,984	28,927	31,070	2.7%	7.4%
Cruise	856	0	0	0	0.0%	N/A
Total	1,265,136	1,235,541	1,257,869	1,169,350	100.0%	-7.0%

Source: Kenya Tourist Board

Transport The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) declined by 0.14 percent from 4,302,023 in the year to November 2012 to 4,302,023 in the year to November 2013. The decline is attributed to both incoming and outgoing passengers (Table 3.7).

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

			Year to Nov 12*	Year to Nov 13*
	2011	2012*		
Number of Passengers thro' JKIA				
Total passenger flows	4,135,126	4,302,244	4,308,294	4,302,023
Growth (%)	36.5%	4.0%	6.1%	-0.1%
o.w. Incoming	2,088,798	2,148,105	2,151,940	2,149,900
Growth (%)	38.4%	2.8%	4.8%	-0.1%
Outgoing	2,046,328	2,154,139	2,156,354	2,152,900
Growth %	34.6%	5.3%	7.4%	-0.2%
Kenya Pipeline Oil Throughput				
Output ('000 litres)	4,257,426	4,855,573	N/A	N/A
Growth %	1.3%	14.0%		

* Provisional

Source: Kenya National Bureau of Statistics

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview Kenya's overall balance of payments position declined to a surplus of USD 685 million in the year to December 2013 from a surplus of USD 1,261 million in the year to December 2012 reflecting a reduction in the Capital and Financial account surplus. (Table 4.1)

TABLE 4.1: BALANCE OF PAYMENTS (US\$ M)

ITEM	Year to Dec 2012	Year to December 2013*				Year to Dec 2013*	Absolute Change	% Change
		Q1 Jan-Mar	Q2 Apr-Jun	Q3 Jul-Sep	Q4 Oct-Dec			
1. OVERALL BALANCE	1261	-171	472	209	174	685	-576.3	-45.7
2. CURRENT ACCOUNT	-4254	-1004	-695	-1012	-992	-3702	552.3	-13.0
2.1 Goods	-10541	-2583	-2420	-2665	-2834	-10503	37.8	-0.4
Exports (fob)	6181	1521	1476	1417	1442	5856	-325.4	-5.3
Imports (cif)	16722	4104	3896	4082	4276	16358	-363.2	-2.2
2.2 Services	6286	1579	1725	1654	1843	6801	514.5	8.2
Non-factor services (net)	3645	940	1093	955	1122	4110	464.7	12.7
Income (net)	-164	-38	-11	-11	-15	-76	87.7	-53.6
Current Transfers (net)	2804	678	642	710	736	2766	-37.9	-1.3
3. CAPITAL & FINANCIAL ACCOUNT	5515	833	1167	1221	1166	4387	-1128.6	-20.5
3.1 Capital Transfers (net)	235	39	64	19	49	171	-65.0	-27.6
3.2 Financial Account	5280	794	1103	1202	1117	4216	-1063.6	-20.1
memo:								
Gross Reserves	7160	7114	7889	7959	8483	8483	1323.3	18.5
Official	5702	5523	6089	6291	6560	6560	858.3	15.1
Import cover**	3.8	3.7	4.1	4.3	4.5	4.5	0.7	18.9
Import cover***	4.3	4.1	4.4	4.5	4.6	4.6	0.3	6.6
Commercial Banks	1458	1590	1800	1668	1923	1923	465.0	31.9

* Provisional.

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

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

Source: Central Bank of Kenya

Current Account

The Current account balance narrowed from a deficit of USD 4,254 million in the year to December 2012 to a deficit of USD 3,702 million in the year to December 2013. The narrowing of the current account balance is attributed to a decline in the Merchandise account deficit and an improvement in the services account surplus (Table 4.2).

TABLE 4.2: BALANCE ON CURRENT ACCOUNT (US\$ M)

ITEM	Year to Dec 2012	Year to December 2013*				Year to Dec 2013*	Absolute Change	% Change
		Q1 Jan-Mar	Q2 Apr-Jun	Q3 Jul-Sep	Q4 Oct-Dec			
2. CURRENT ACCOUNT	-4254	-1004	-695	-1012	-992	-3702	552.3	-13.0
2.1 Goods	-10541	-2583	-2420	-2665	-2834	-10503	37.8	-0.4
Exports (fob)	6181	1521	1476	1417	1442	5856	-325.4	-5.3
Coffee	269	43	59	51	39	192	-77.3	-28.7
Tea	1199	347	307	296	265	1215	15.4	1.3
Horticulture	695	196	180	164	201	741	46.4	6.7
Oil products	80	17	12	12	9	50	-30.4	-38.0
Manufactured Goods	700	159	192	184	170	705	4.8	0.7
Raw Materials	400	106	77	72	82	337	-63.3	-15.8
Chemicals and Related Products (n.e.s)	554	126	117	120	114	478	-76.0	-13.7
Miscellaneous Man. Articles	561	135	146	155	151	587	26.4	4.7
Re-exports	451	116	123	137	165	541	89.5	19.8
Other	1272	275	265	227	244	1011	-261.0	-20.5
Imports (cif)	16722	4104	3896	4082	4276	16358	-363.2	-2.2
Oil	4081	1071	918	838	1012	3838	-243.0	-6.0
Chemicals	2076	550	562	570	596	2279	202.7	9.8
Manufactured Goods	2302	693	570	701	661	2624	322.6	14.0
Machinery & Transport Equipment	4748	1092	1133	1201	1174	4600	-148.6	-3.1
Other	3514	698	714	773	833	3017	-496.9	-14.1
2.2 Services	6286	1579	1725	1654	1843	6801	514.5	8.2
Non-factor services (net)	3645	940	1093	955	1122	4110	464.7	12.7
of which transport	843	210	294	193	227	924	81.1	9.6
of which tourism (Travel)	761	153	165	163	153	634	-126.6	-16.6
Other services account: gov't	821	165	198	203	155	720	-100.5	-12.2
Other services account: private	110	198	229	178	381	986	875.9	792.9
Income (net)	-164	-38	-11	-11	-15	-76	87.7	-53.6
of which official interest	-129	-37	-31	-33	-25	-126	3.6	-2.8
Current Transfers (net)	2804	678	642	710	736	2766	-37.9	-1.3
Private (net)	2584	683	647	715	741	2786	201.8	7.8
of which Remittances	1171	309	315	327	340	1291	119.7	10.2
Public (net)	220	-5	-5	-5	-5	-19	-239.7	-108.7

* Provisional.

Source: Central Bank of Kenya

Merchandise Account The merchandise account deficit declined by USD 37.8 million or 0.4 percent to USD 10,503 million in the year to December 2013 from USD 10,541 million in the year to December 2012, reflecting reduced spending on merchandise imports. (Table 4.2).

Exports Receipts from merchandise exports declined by USD 325.4 million or 5.3 percent, to USD 5,856 million in the year to December 2013. The decline reflects reduced earnings from coffee, oil products, raw materials, chemicals and related products and other exports. The share of tea exports to total exports increased from 19.4 to 20.7 percent and receipts increased by USD 15.4 million to USD 1,215 million in the year to December 2013, from USD 1,199 million in the year to December 2012. Values of horticulture exports also increased by USD 46.4 million, to USD 741 million, accounting for 12.7 percent of total exports up from 11.2 percent during the 12 months to December 2012. The increase in export receipts from tea and horticulture is attributed to an increase in export quantities during the period under review. Both the share and value of coffee exports declined in the year to December 2013: the share from 4.3 to 3.3 percent of total exports and values from USD 269 million to USD 192 million.

In terms of exports by destination (Table 4.3) the share to Africa declined to 46.2 percent from 47.8 percent in the year to December 2012. This reduction is reflected at the sub-regional level where exports receipts from the EAC region and COMESA declined by 7.64 percent and 7.35 percent. At country level, the value of exports to Rwanda, Uganda, Tanzania, Egypt, Sudan and Somalia declined. The share of exports to the EU region declined from 21 percent to 20.8 percent.

Imports Payments for merchandise imports decreased by 2.2 percent or USD 363.2 million to USD 16,358 million in the year to December 2013, largely reflecting decreases in imports of oil, machinery and transport equipment and other import categories (Table 4.2). Oil import bill declined by USD 243 million mainly due to reduced importation of crude oil. The share of oil to total imports declined marginally to 23 percent from 24 percent during the previous period while that of machinery and transport equipment remained unchanged at 28 percent during the period under review. Payments for machinery and transport equipment decreased from USD 4,748 million to USD 4,600 million and the decrease largely comprised reduced payments for machinery specialized for particular industries, metal working machinery, office machines, electrical machinery and other transport equipment. Reduction in other import categories, which mainly constitute food imports, was as a result of decline in world commodity prices.

In terms of imports by source market (Table 4.3) imports from Africa accounted for 10.5 percent of total imports (marginally higher than 10 percent in the previous period). Imports from the EU region accounted for 14.7 percent of total imports and was marginally lower than the previous year); while the share of imports from China increased. Analysis at country level reveals that most of Kenya's imports were from India (18.2 percent), China (12.9 percent), the UAE (8.4 percent) and Japan (5.9 percent).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)			EXPORTS (in millions of US dollars)				Share of Exports (%)		
Country	Year to Dec			Year to Dec			Country	Year to Dec			Year to Dec		
	2011	2012	2013	2011	2012	2013		2011	2012	2013	2011	2012	2013
Africa	1,706	1,668	1,715	11.5	10.0	10.5	Africa	2,784	2,930	2,703	48.4	47.4	46.2
<i>Of which</i>							<i>Of which</i>						
South Africa	805	734	820	5.4	4.4	5.0	Uganda	858	789	765	14.9	12.8	13.1
Egypt	201	354	297	1.4	2.1	1.8	Tanzania	467	545	478	8.1	8.8	8.2
Others	700	580	597	4.7	3.5	3.7	Egypt	263	254	198	4.6	4.1	3.4
EAC	302	365	333	2.0	2.2	2.0	Sudan	250	78	75	4.3	1.3	1.3
COMESA	614	728	675	4.2	4.4	4.1	South Sudan	0	177	187	0.0	2.9	3.2
Rest of the World	13,077	15,054	14,643	88.5	90.0	89.5	Somalia	185	228	197	3.2	3.7	3.4
<i>Of which</i>							DRC	197	218	219	3.4	3.5	3.7
India	1,684	2,309	2,978	11.4	13.8	18.2	Rwanda	152	191	158	2.6	3.1	2.7
United Arab Emirates	2,244	1,778	1,367	15.2	10.6	8.4	Others	412	449	427	7.2	7.3	7.3
China	1,612	1,979	2,114	10.9	11.8	12.9	EAC	1,544	1,588	1,467	26.8	25.7	25.1
Japan	658	747	968	4.5	4.5	5.9	COMESA	2,043	1,858	1,721	35.5	30.1	29.4
USA	499	782	666	3.4	4.7	4.1	Rest of the World	2,972	3,251	3,152	51.6	52.6	53.8
United Kingdom	484	519	569	3.3	3.1	3.5	<i>Of which</i>						
Singapore	365	154	212	2.5	0.9	1.3	United Kingdom	527	481	437	9.2	7.8	7.5
Germany	360	492	436	2.4	2.9	2.7	Netherlands	371	367	379	6.4	5.9	6.5
Saudi Arabia	589	794	481	4.0	4.7	2.9	USA	288	312	348	5.0	5.1	5.9
Indonesia	508	654	519	3.4	3.9	3.2	Pakistan	237	261	280	4.1	4.2	4.8
Netherlands	254	209	287	1.7	1.3	1.8	United Arab Emirates	225	337	292	3.9	5.5	5.0
France	223	320	240	1.5	1.9	1.5	Germany	85	116	96	1.5	1.9	1.6
Bahrain	215	269	408	1.5	1.6	2.5	India	106	89	110	1.8	1.4	1.9
Italy	163	246	236	1.1	1.5	1.4	Afghanistan	155	136	185	2.7	2.2	3.2
Others	3,218	3,802	3,163	21.8	22.7	19.3	Others	977	1,153	1,028	17.0	18.6	17.6
Total	14,782	16,722	16,358	100	100	100	Total	5,756	6,181	5,856	100.0	100.0	100.0
EU	2,169	2,417	2,407	14.7	14.5	14.7	EU	1,297	1,287	1,216	22.5	20.8	20.8
							China	42	64	49	0.7	1.0	0.8

Source: Kenya Revenue Authority

Services Account

The surplus in the services account increased by USD 514.5 million or 8.2 percent to USD 6,801 million in the year to December 2013. The increase is attributed mainly to net non-factor services, which rose by USD 464.7 million, or 12.7 percent and more specifically telecommunication and insurance services under other private services. The deficit in the income account narrowed by USD 87.7 million or 53.6 percent to USD 76 million in the year to December 2013 attributed to an increase in investment income and a reduction in interest payments. Current transfer account declined by USD 37.9 million or 1.3 percent to USD 2,786 million reflecting declines in public transfers. However, private transfers increased marginally by USD 201.8 million or 7.8 percent, largely attributed to increased remittance inflows by USD 119.7 million to USD 1,291 million during the year to December 2013 from USD 1,171 million during the year to December 2012 (Table 4.2) Remittance inflows remained resilient with the 12 month cumulative average increasing to USD 107.6 million from USD 97.6 million over the review period.

Capital and Financial Account

The surplus in the capital and financial account declined to USD 4,387 million in the year to December 2013 from USD 5,515 million in the year to December 2012 (Table 4.4). The decline is largely reflects a 20.1 percent decline in the financial account surplus, from USD 5,280 million in the year to December 2012 to USD 4,216 million in the year to December 2013 (Table 4.4) and largely comprises reductions in official medium term flows and private medium and long term net flows.

TABLE 4.4.: BALANCE ON CAPITAL AND FINANCIAL ACCOUNT (US\$ M)

ITEM	Year to Dec 2012	Year to December 2013*				Year to Dec 2013*	Absolute Change	% Change
		Q1 Jan-Mar	Q2 Apr- Jun	Q3 Jul-Sep	Q4 Oct-Dec			
3. CAPITAL & FINANCIAL ACCOUNT	5515	833.0	1167.3	1221	1165.6	4387	-1128.6	-20.5
3.1 Capital Transfers (net)	235	39	64	19	49	171	-65.0	-27.6
3.2 Financial Account	5280	794	1103	1202	1117	4216	-1063.6	-20.1
Official, medium & long-term	1147	237	271	12	62	582	-564.4	-49.2
Inflows	1449	328	333	112	163	936	-512.9	-35.4
Outflows	-302	-91	-62	-99	-101	-353	-51.5	17.1
Private, medium & long-term (net)	767	-222	218	-20	-83	-107	-874.8	-114.0
Commercial Banks (net)	854	-184	217	10	6	49	-804.9	-94.2
Other private medium & long-term (net)	-87	-39	1	-29	-89	-157	-69.9	80.4
Short-term (net) incl. errors & omissions	3366	779	614	1210	1138	3741	375.5	11.2

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from USD 7,160 million at the end of December 2012 to USD 8,483 million at the end of December 2013. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased from USD 5,702 million (4.3 months of import cover) to USD 6,560 million (4.6 months of import cover) during the period under review. The accumulation of official reserves consisted of IMF disbursements under the Extended Credit Facility and purchases from the Foreign Exchange market. Foreign Exchange Reserves held by commercial banks also increased to USD 1,923 million at the end of December 2013 from USD 1,458 million at the end of December 2012. Residents' Foreign Currency Deposits increased from USD 3,203 million to USD 3,909 million over the same period (Table 4.5).

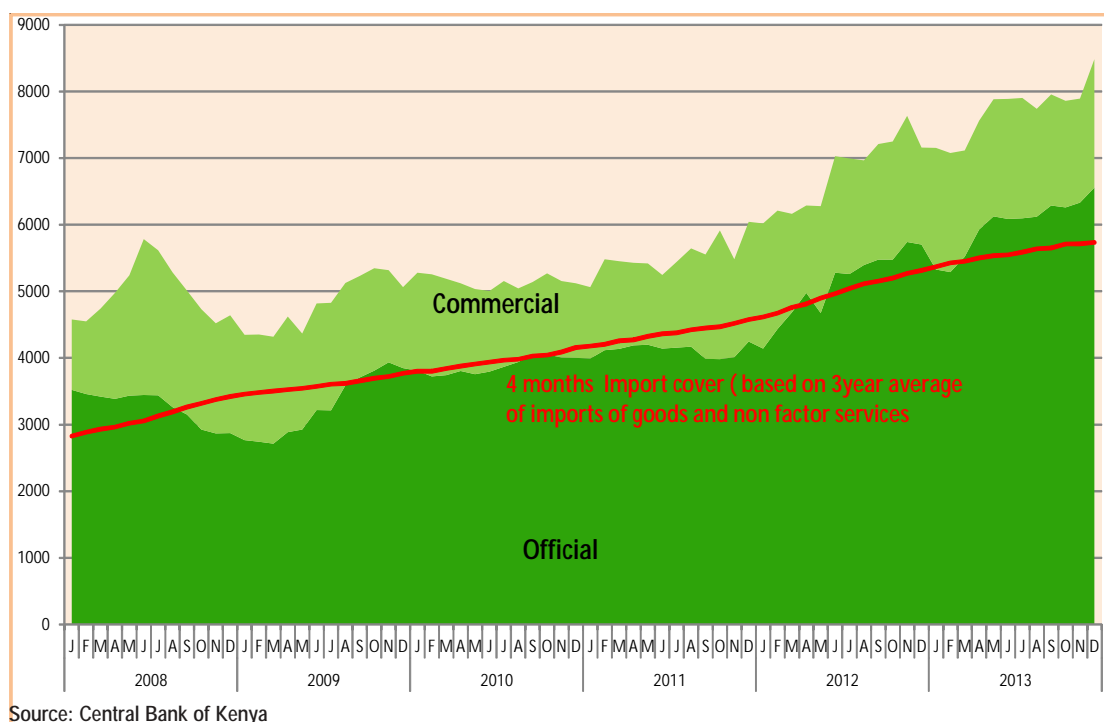
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US\$ MILLION)

	Dec 12	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13
1. Gross Foreign Exchange Reserves	7,160	7,889	7,907	7,740	7,959	7,859	7,893	8,483
of which:								
Official	5,702	6,089	6,096	6,120	6,291	6,263	6,333	6,560
<i>imports cover*</i>	4.3	4.4	4.4	4.3	4.5	4.4	4.4	4.6
Commercial Banks	1,458	1,800	1,811	1,620	1,668	1,596	1,560	1,923
2. Residents' foreign currency deposits	3,203	3,371	3,462	3,362	3,318	3,504	3,562	3,909

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

Source: Central Bank of Kenya

CHART 4A: FOREIGN EXCHANGE RESERVES (US\$ MILLION)



Exchange Rates

The Kenya shilling registered mixed performance against major international and regional currencies in the month of December 2013. The Shilling strengthened by 3.14 percent against the Japanese Yen and weakened by 0.24 percent, 1.97 percent and 1.69 percent against the US Dollar, the Pound Sterling and the Euro respectively to trade at an average of 86.31 per USD, 141.37 per Pound Sterling, 118.18 per Euro and 83.51 per 100 Japanese Yen (Table 4.6). The Shilling depreciation against the USD largely reflected increased demand dollar demand from importers and corporate clients both early in the month and also towards the end of the month.

In the EAC region, the Kenya Shilling weakened against all EAC currencies during the month of December 2013 to trade at an average of Ush 29.20, Tsh 18.63, RWF 7.76 and BIF 17.91 compared to an average of Ush 29.31, Tsh 18.68, RWF 7.80 and BIF 18.01 in November 2013. (Table 4.6 and Chart 4D).

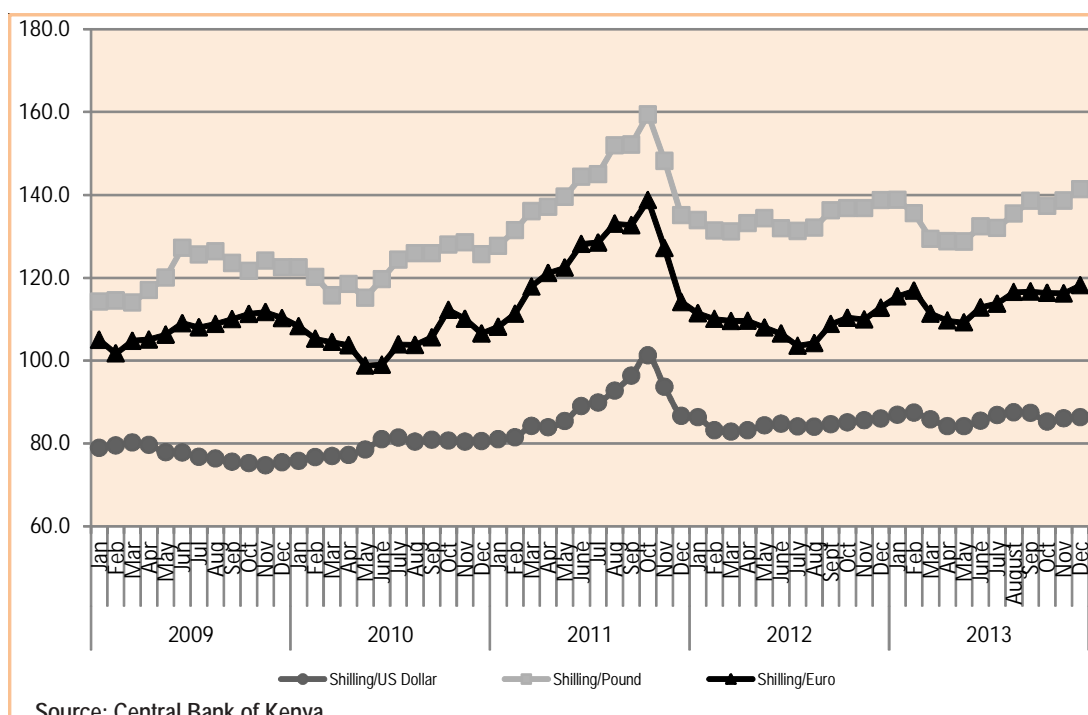
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2012	2013							
	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	% change Nov- Dec 2013
US Dollar	85.99	85.49	86.86	87.49	87.41	85.31	86.10	86.31	0.24
Pound Sterling	138.78	132.42	132.00	135.47	138.54	137.31	138.64	141.37	1.97
100 Japanese Yen	102.79	87.77	87.28	89.39	88.14	87.24	86.21	83.51	-3.14
Uganda Shilling*	31.09	30.34	29.79	29.48	29.41	29.74	29.31	29.20	-0.38
Tanzania Shilling*	18.55	19.13	18.69	18.50	18.48	18.87	18.68	18.63	-0.30
Rwanda Franc*	7.19	7.56	7.46	7.40	7.50	7.85	7.80	7.76	-0.53
Burundi Franc*	17.57	18.22	17.83	17.58	17.59	18.13	18.01	17.91	-0.61
Euro	112.77	112.81	113.74	116.51	116.67	116.33	116.22	118.18	1.69
Euro per US dollar	0.76	0.76	0.76	0.75	0.75	0.73	0.74	0.73	-1.42

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



DEVELOPMENTS IN THE BANKING SECTOR

Overview The Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 9 deposit taking microfinance institutions, 7 representative offices of foreign banks, 105 foreign exchange bureaus and 2 credit reference bureaus as at December 31, 2013.

Structure of the Balance Sheet The banking sector balance sheet size expanded by 16.1 percent from Ksh 2,354.0 billion in December 2012 to Ksh 2,732.8 billion in December 2013. The major components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 56.7 percent, 21.5 percent and 6.5 percent of total assets, respectively.

Loans & Advances The banking sector gross loans and advances rose from Ksh 1,361.3 billion in December 2012 to Ksh 1,605.2 billion in December 2013, which translated to a growth of 17.9 percent. The growth was attributed to increase in lending to households, trade, manufacturing and real estate sectors. Loans and advances net of provisions stood at Ksh 1,548.3 billion in December 2013, up from Ksh 1,311.5 billion registered in a similar period in 2012.

Deposit Liabilities Deposits from customers which form the main source of funding for the banking sector, accounted for 72.5 percent of total funding liabilities. The deposit base grew by 12.4 percent from Ksh 1,761.1 billion in December 2012 to Ksh 1,980.2 billion in December 2013 largely supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

Capital & Reserves The banking sector registered enhanced capital levels in December 2013 with total shareholders' funds growing by 18.9 percent from Ksh 362.9 billion in December 2012 to Ksh 431.5 billion in December 2013. As a result, the ratios of core and total capital to total risk-weighted assets increased from 18.9 percent and 21.9 percent in December 2012 to 19.5 percent and 23.2 percent respectively.

Non-performing Loans The level of gross non-performing loans (NPLs) grew by 30.9 percent from Ksh 61.6 billion in December 2012 to Ksh 80.6 billion in December 2013 attributed mainly to high interest rates and the reduced economic activities during the period towards and after the March 2013 general elections. Similarly, the ratio of gross NPLs to gross loans increased from 4.5 percent in December 2012 to 5.0 percent in December 2013. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 57.6 percent to 44.4 percent in December 2013 due to a higher growth in NPLs than the increase in provisions.

The quality of assets, measured as a proportion of net non-performing loans to gross loans deteriorated from 1.5 percent in December 2012 to 2.2 percent in December 2013 as shown in the table.

**TABLE 5.1: NON-PERFORMING LOANS & PROVISIONS AMONG BANKS IN KENYA
(KSH BILLION)**

		12-Dec	13-Dec
1	Gross loans and advances	1,361.3	1,605.2
2	Interest in Suspense	12.8	16.2
3	Loans and advances (net of interest suspended)	1,348.5	1,589.0
4	Gross non-performing loans	61.6	80.6
5	Specific Provisions	28.1	28.6
6	General Provisions	9.0	12.1
7	Total Provisions (5+ 6)	37.0	40.7
8	Net Advances (3-7)	1,311.5	1,548.3
9	Total Non-Performing Loans and Advances (4-2)	48.8	64.3
10	Net Non-Performing Loans and Advances (9-5)	20.7	35.8
11	Total NPLs as % of total advances (9/3)	3.60%	4.10%
12	Net NPLs as % of gross advances (10/1)	1.50%	2.20%
13	Specific Provisions as % of Total NPLs (5/9)	57.60%	44.40%

Source: Central Bank of Kenya

Profitability The banking sector registered an increase of 15.5 percent growth in pre-tax profits, from Ksh 107.7 billion in December 2012 to Ksh 124.3 billion as at end of December 2013. The annualised return on assets remained at 3.6 percent between the two periods. Return on equity declined from 29.7 percent to 28.8 percent over the same period. Total income increased by 1.6 percent from Ksh 352.5 billion in December 2012 to Ksh 358.3 billion in December 2013, while total expenses declined by 4.5 percent from Ksh 244.8 billion in December 2012 to Ksh 233.9 billion in December 2013 with the decline largely attributed to reduction in interest expenses. Interest on loans and advances, fees and commissions and government securities were the main sources of income accounting for 59.0 percent, 18.3 percent and 15.4 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 30.9 percent, 29.8 percent and 24.9 percent respectively.

Liquidity Ratio Requirement For the month ended 31st December 2013, average liquid assets amounted to Ksh 736.2 billion while total short-term liabilities stood at Ksh 1,905.0 billion, resulting to an average liquidity ratio of 38.6 percent, against 37.0 percent registered in December 2012.

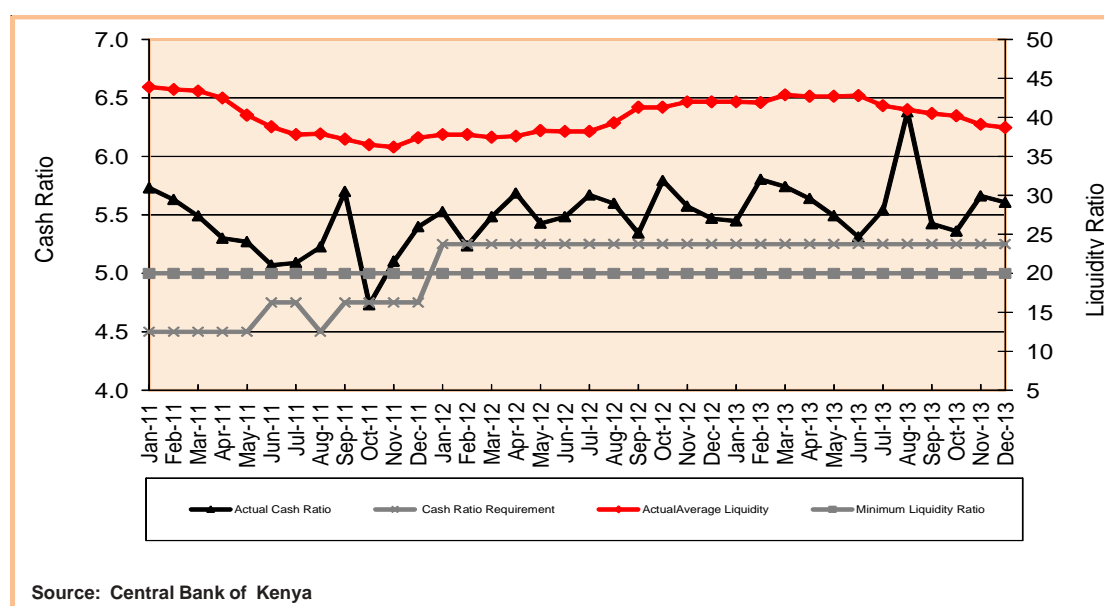
Cash Ratio Requirement The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for reserve requirements averaged 5.61 percent in December 2013 compared with 5.66 percent in November 2013, and 5.25 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of Ksh 6.55 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in December 2013 compared with Ksh 7.53 billion in November 2013. Commercial banks are required to maintain Cash Reserve Ratio (CRR) on a monthly average of 5.25 percent in the 30 day maintenance cycle from 15th through 14th of every month but subject to a daily minimum of 3.0 percent.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2012	2013						
	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Commercial Banks								
Actual Average Liquidity	42.00	42.80	41.50	41.00	40.50	40.20	39.10	38.70
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.47	5.31	5.54	6.38	5.42	5.36	5.66	5.61
Minimum Cash Ratio Requirement	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
NBFIs								
Actual Average Liquidity Ratio	35.60	33.10	39.50	36.50	36.80	33.10	32.60	32.60
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS (%)



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 180,926 transaction messages worth Ksh 1,905 billion in December 2013 compared with a volume of 176,330 transaction messages valued at Ksh 1,982 billion moved in November 2013, representing a decrease of 3.19 percent value moved and 2.61 percent increase in volume moved. Compared to December 2012, the volume increased by 26.64 percent from 142,867 transaction messages to 180,926 transaction messages in December 2013 while value increased by 17.03 percent from 1,627 billion to 1,905 billion, indicating increased uptake of KEPSS services by the public.

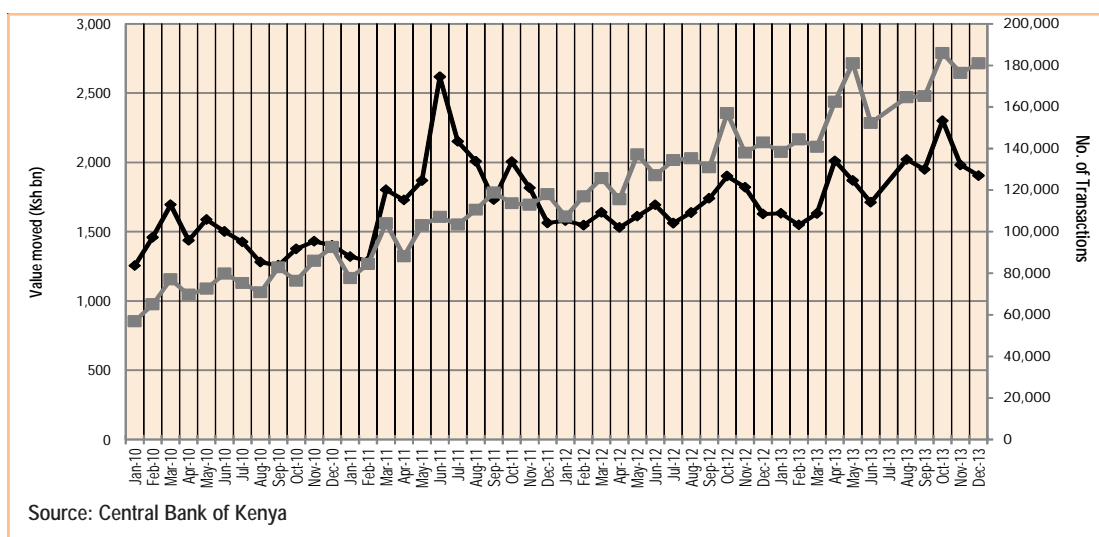
During the twelve months period to December 31, 2013 the value moved per transaction averaged Ksh 11 million. On average, 7,932 transaction messages with an average value of approximately Ksh 91 billion were moved daily (Table 5.3 and Chart 5B below). Direct settlements through KEPSS from commercial banks accounted for 98.0 percent of the total settlements while payments processed through ACH and settled in KEPSS averaged 2.0 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	Of which indirect (NSI) (Ksh bn)	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-11	1,320	21	77,625	0.02	21	63	3,696
Feb-11	1,289	23	84,448	0.02	20	64	4,222
Mar-11	1,802	26	103,986	0.02	22	82	4,727
Apr-11	1,728	21	88,168	0.02	19	91	4,640
May-11	1,868	26	103,112	0.02	21	89	4,910
Jun-11	2,617	24	107,063	0.02	21	125	5,098
Jul-11	2,151	24	103,338	0.02	21	102	4,921
Aug-11	2,007	25	110,498	0.02	22	91	5,023
Sep-11	1,730	27	118,798	0.01	22	79	5,400
Oct-11	2,004	25	113,658	0.02	20	100	5,683
Nov-11	1,816	28	112,923	0.02	22	83	5,133
Dec-11	1,562	30	117,916	0.01	20	78	5,896
Jan-12	1,579	28	107,230	0.01	21	75	5,106
Feb-12	1,546	27	116,990	0.01	21	74	5,571
Mar-12	1,638	26	125,739	0.01	22	74	5,715
Apr-12	1,529	26	115,514	0.01	19	80	6,080
May-12	1,610	26	137,135	0.01	22	73	6,233
Jun-12	1,693	26	127,147	0.01	20	85	6,357
Jul-12	1,561	26	134,391	0.01	23	71	6,109
Aug-12	1,637	26	135,243	0.01	23	71	5,880
Sep-12	1,739	26	130,874	0.01	20	87	6,544
Oct-12	1,900	26	157,020	0.01	23	83	6,827
Nov-12	1,820	26	137,975	0.01	22	83	6,272
Dec-12	1,627	30	142,867	0.01	18	90	7,937
Jan-13	1,632	25	138,297	0.01	22	74	6,286
Feb-13	1,548	25	144,248	0.01	20	77	7,212
Mar-13	1,631	28	140,781	0.01	20	82	7,039
Apr-13	2,011	32	162,432	0.01	20	101	8,122
May-13	1,869	31	181,045	0.01	22	85	8,229
Jun-13	1,712	28	152,310	0.01	20	86	7,616
Jul-13	2,109	35	185,773	0.01	23	92	8,077
Aug-13	2,021	24	164,650	0.01	21	96	7,840
Sep-13	1,949	31	165,175	0.01	21	93	7,865
Oct-13	2,301	30	185,920	0.01	22	105	8,451
Nov-13	1,982	29	176,330	0.01	21	94,381	8,397
Dec-13	1,905	30	180,926	0.01	18	105,811	10,051

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third Party Messages

Multiple third party Message Type (MT 102) used for multiple credit transfers increased by 0.47 percent from 13,265 transaction messages in November 2013 to 13,328 transaction messages in December 2013 while single third party Message Type (MT 103) used for single credit transfers increased by 4.42 percent from 186,194 transaction messages to 194,427 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 4.16 percent from 199,459 transaction messages in November 2013 to 207,755 transaction messages in December 2013.

Multiple third party messages (MT 102) increased by 1.56 percent during 2013 from 13,123 transaction messages in 2012 to 13,328 transaction messages in December 2013 while single third party messages (MT 103) increased by 31.81 percent from 147,510 transaction messages to 194,427 transaction messages (Table 5.4 and Chart 5C).

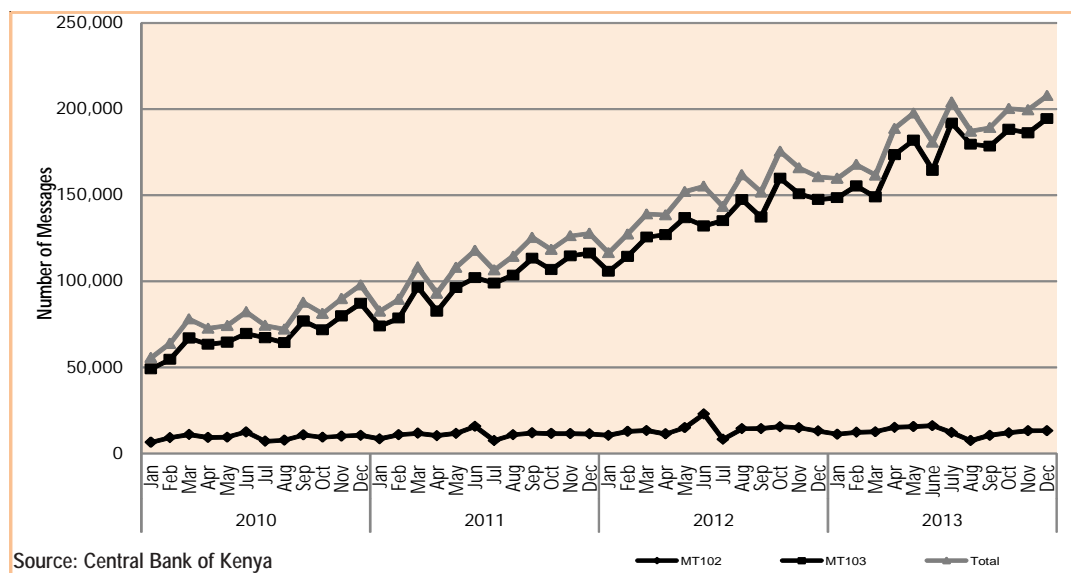
Inter-bank transfers (MT 202) accounted for 47.03 percent of the total value moved through KEPSS as at end of December 2013, while third party (MT 102 and MT 103) messages accounted for 52.97 percent. The total number of third party messages grew by 29.34 percent from 160,633 messages in December 2012 to 207,755 messages in December 2013. This signifies continued growth in KEPSS usage by individuals and non-bank corporate bodies.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2012	Jan	10,661	105,817	116,478
	Feb	12,871	114,522	127,393
	Mar	13,428	125,628	139,056
	Apr	11,439	127,126	138,565
	May	15,093	136,942	152,035
	Jun	23,048	132,103	155,151
	Jul	8,268	135,173	143,441
	Aug	14,459	147,373	161,832
	Sep	14,527	137,268	151,795
	Oct	15,616	159,847	175,463
	Nov	15,008	150,800	165,808
	Dec	13,123	147,510	160,633
2013	Jan	11,267	148,497	159,764
	Feb	12,405	155,349	167,754
	Mar	12,681	148,954	161,635
	Apr	15,247	173,453	188,700
	May	15,690	181,934	197,624
	Jun	16,254	164,422	180,676
	Jul	12,189	191,864	204,053
	Aug	7,530	179,629	187,159
	Sep	10,655	178,480	189,135
	Oct	12,087	188,162	200,249
	Nov	13,265	186,194	199,459
	Dec	13,328	194,427	207,755

Source: Central Bank of Kenya

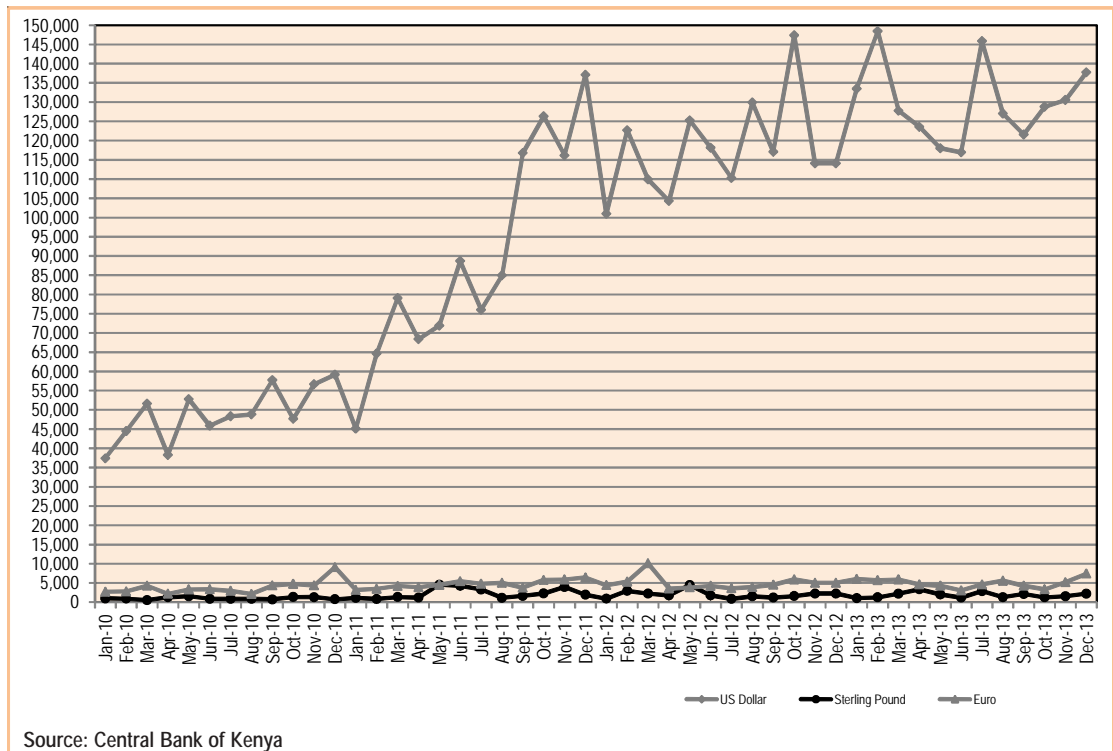
CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS



Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS decreased by 6.67 percent from 14,839 transaction messages in November 2013 to 13,850 transaction messages in December 2013. The corresponding value in Kenya Shillings equivalent moved in this period increased by 7.30 percent from Ksh 137.3 billion to Ksh 147.3 billion. The US dollar denominated transactions accounted for 93.47 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.50 percent and 5.03 percent, respectively.

CHART 5D: DOMESTIC FOREIGN CURRENCY CHEQUE CLEARING KENYA SHILLING EQUIVALENT FLOW THROUGH KEPSS



GOVERNMENT BUDGET PERFORMANCE

Central Government budgetary operations for the first half of the FY 2013/14 resulted in a deficit of Ksh 105.2 billion on commitment basis compared with a deficit of Ksh 118.5 billion in the same period of the FY 2012/13 (Table 6.1). During this period, the deficit-to-GDP ratio stood at 2.7 percent both on commitment and cash basis. The budget deficit for the period was below the target of Ksh 165.9 billion, equivalent to 4.3 percent of GDP.

TABLE 6.1: STATEMENT OF CENTRAL GOVERNMENT BUDGETARY OPERATIONS (Ksh Bn)

	FY 2011/12	FY 2012/13		
	December Actual	December Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	387.9	469.0	519.1	-50.2
Revenue	381.6	460.6	483.8	-23.2
Tax Revenue	340.3	421.9	433.0	-11.1
Non Tax Revenue	18.8	23.2	16.1	7.2
Appropriations-in-Aid	22.5	15.5	34.8	-19.3
External Grants	6.3	8.4	35.3	-27.0
2. TOTAL EXPENSES & NET LENDING	506.4	574.2	685.0	-110.8
Recurrent Expenses	385.5	394.9	368.0	26.9
Development Expenses	120.9	112.8	219.9	-107.2
County Transfers	0.0	66.5	97.1	-30.6
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-118.5	-105.2	-165.9	-60.7
As percent of GDP	-3.1	-2.7	-4.3	
4. ADJUSTMENT TO CASH BASIS	0.92	0.0	0.0	0.0
5. DEFICIT ON A CASH BASIS	-117.6	-105.2	-165.9	-60.7
As percent of GDP	-3.0	-2.7	-4.3	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	1.23	-26.0	-6.0	
7. FINANCING	118.8	79.2	159.9	-80.7
Domestic (Net)	112.6	67.9	82.5	-14.6
External (Net)	6.3	11.3	77.3	-66.0
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: National Treasury

Revenue

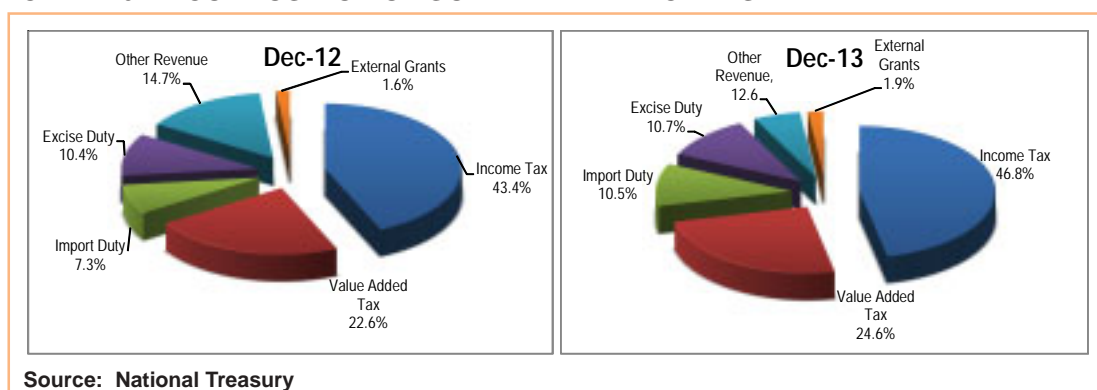
Total government revenues and grants amounted to Ksh 469.0 billion in the period July – December 2013, representing an increase of Ksh 81.1 billion from Ksh 387.9 billion collected in a similar period of the FY 2012/13 (Table 6.2). Total government revenue and external grants however, underperformed by Ksh 23.2 billion and Ksh 27.0 billion respectively, with respect to the targeted amounts of Ksh 483.8 billion and Ksh 35.3 billion during the period (Table 6.1)

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Dec-12 Ksh bn	Dec-13 Ksh bn	Change
1. Revenue (2+3+4)	381.6	460.6	79.0
2. Tax Revenue	340.3	421.9	81.6
Income Tax	168.4	210.7	42.3
Value Added Tax	87.6	110.7	23.2
Import Duty	28.2	47.5	19.3
Excise Duty	40.5	48.1	7.5
Others	15.6	4.9	-10.6
3. Appropriations-in-Aid	22.53	15.47	-7.05
4. Other Revenue	18.8	23.2	4.4
5. External Grants	6.3	8.4	2.1
TOTAL RECEIPTS (1+5)	387.9	468.9	81.0

Source: National Treasury

Tax revenue grew by Ksh 81.6 billion, equivalent to 24.0 percent, from Ksh 340.3 billion collected in the first half of 2012/13 to Ksh 421.9 billion for a similar period of FY 2013/14 (Table 6.2). The increase was largely on account of income tax, which

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS

grew by Ksh 42.3 billion (25.1 percent) during the period. Excise, import duty and value added tax increased by Ksh 7.5 billion, Ksh 19.3 billion and Ksh 23.2 billion respectively, while other tax revenue declined by Ksh 10.6 billion, during the period under review. All taxes except VAT, underperformed with respect to targets, which may suggest that the level of economic activity during this period was below expectation. The VAT may have performed well on account of implementation of the VAT law on September 1, 2013.

Expenditure and Net Lending Government expenditure and net lending increased by Ksh 67.8 billion in the period July – December 2013 from Ksh 506.4 billion expended during the same period in the FY 2012/13. Total expenditure during this period amounted to Ksh 574.2 billion, comprising Ksh 394.9 billion, Ksh 112.8 billion and Ksh 66.5 billion in recurrent expenditure, development expenditure and county transfers, respectively.

The recurrent expenditure increased by Ksh9.4 billion percent in the review period of which Ksh 7.0 billion was in salaries and wages and and Kshs 6.0 billion in interest payments. Other recurrent expenditures declined by Kshs 3.6 billion. The increase in interest payments was wholly on domestic debt interest at Ksh 6.5 billion which offset Ksh 0.5 billion decline in foreign interest due. The development expenditure declined by Ksh 8.2 billion and in relation to the target reflect Ksh 107.2 billion under absorption. Meanwhile, County transfers at Ksh 66.5 billion also underperformed by Ksh 30.6 billion compared to target (Table 6.1). The lower than projected absorption in the development budget and transfers to Counties is attributed to slow absorption of funds from external sources and incomplete institutional and legal framework for spending money at the counties.

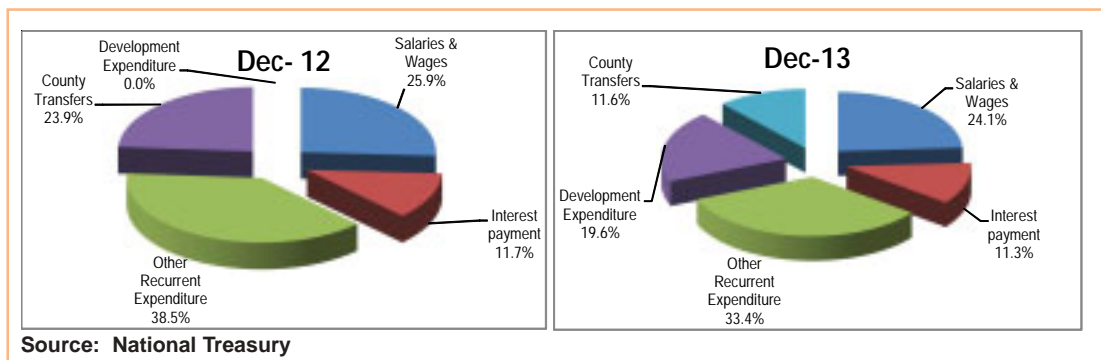
TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)

	Dec-12 Ksh bn	Dec-13 Ksh bn	Movement
1. Recurrent	385.5	394.9	9.4
Salaries & Wages	131.1	138.2	7.0
Total Interest	59.2	65.1	6.0
of which			
Domestic*	53.6	60.1	6.5
Foreign interest due	5.5	5.0	-0.5
Others	195.2	191.6	-3.6
2. Development	120.9	112.8	-8.2
3. County Transfers	0.0	66.5	66.5
TOTAL EXPENSES	506.4	574.2	67.8

*Includes commission and other charges paid to CBK
Source: National Treasury

Reflecting the devolved government structure during the period July to December 2013, the share of other recurrent and development expenditures declined to 33.4 percent and 19.6 percent from 38.5 percent and 23.9 percent in the comparable period of 2012. The lower outlay is largely due to transfers to Counties, estimated at 11.6 percent of total expenditure in the current period. The shares of interest payments and salaries and changed marginally.

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Financing Budgetary operations of the Government resulted in a financing requirement of Ksh 137.4 billion in the period July – December 2013 compared with Ksh 122.0 billion in the same period in 2012/13. The Government sourced the funds through domestic borrowing amounting to Ksh 126.1 billion and net external debt borrowing of Ksh 11.3 billion. The funds were allocated to bridge the Government budgetary deficit of Ksh 79.2 billion and build up government deposits by Ksh 58.2 billion (Table 6.4). The build-up of Government deposits in part mirror lower than budgeted up-take in development and County transfers.

TABLE 6.4: GOVERNMENT BORROWING REQUIREMENTS & SOURCES (Ksh billion)

I. FINANCING REQUIREMENTS	Dec-12	Dec-13
1. Budget deficit	118.8	79.2
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	58.2
5. Adjustment to cash basis	3.1	0.0
TOTAL	122.0	137.4
II. FINANCING SOURCES	Dec-12	Dec-13
1. Budget surplus	0.0	0.0
2. External debt increase	6.3	11.3
3. Increase in domestic debt	112.4	126.1
3.1 Central Bank	9.4	28.2
3.2 Commercial banks	74.2	28.1
3.3 Non-bank sources	28.8	69.8
4. Reduction in GoK deposits at CBK	3.3	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	122.0	137.4

Sources: National Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank amounted to Ksh 64.6 billion in the period July – December 2013, which was Ksh 7.8 billion higher than the Ksh 56.8 billion in the same period of the FY 2012/2013. The increase in Government liability is attributed to the overdraft, by Ksh 8.8 billion from Ksh 25.4 billion at the end of December 2012. The holdings of rediscounted securities increased by Ksh 0.2 billion while Ksh 1.1 billion for the the securitized the pre-1997 overdraft was repaid by Ksh 1.1 billion (Table 6.5).

TABLE 6.5: GOVERNMENT INDEBTEDNESS TO THE CENTRAL BANK (Ksh billion)

	2012	2013	Movement
	December	December	
Total Credit	56.8	64.6	7.8
1. Overdraft	25.4	34.2	8.8
2. Rediscounted securities	1.3	1.5	0.2
Treasury bills	0.5	1.5	0.9
Treasury bonds	0.8	0.0	-0.8
3. Pre-1997 Government Overdraft at CBK	30.0	28.9	-1.1
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.1	0.0	0.0
Memorandum			
Authorised overdraft limit	25.4	25.4	0.0
Amount utilised to date	25.4	34.2	8.8
Amount available	0.0	-8.8	-8.8

Source: Central Bank of Kenya

Outlook for FY 2013/14 In the budget estimates for the FY 2013/14, ordinary revenue is estimated at Ksh 961.3 billion (24.9 percent of GDP) while external grants are estimated at Ksh 78.2 billion (2.0 percent of GDP). Government expenditure is estimated at Ksh 1,439.7 billion (or 37.2 percent of GDP), of which, Ksh 780.6 billion (20.2 percent of GDP) will be in recurrent expenses, transfer to the county government of Ksh 210 billion and the rest in development expenses (Table 6.6).

TABLE 6.6: BUDGET ESTIMATES FOR THE FISCAL YEAR 2013/14 (Ksh Billion)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE	1106.80	28.62
Ordinary Revenue	961.27	24.86
Appropriations-in-Aid	67.31	1.74
External Grants	78.23	2.02
2. TOTAL EXPENSES & NET LENDING	1439.74	37.24
Recurrent Expenses	780.64	20.19
Development Expenses	444.10	11.49
Civil Contingency Fund	5.00	0.13
County Transfer	210.00	5.43
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-332.94	-8.61
4. ADJUSTMENT TO CASH BASIS	0.00	0.00
5. DEFICIT ON A CASH BASIS	-332.94	-8.61
6. DISCREPANCY: Expenditure (+) / Revenue (-)	0.00	0.00
7. FINANCING	-332.94	-8.61
Domestic (Net)	106.70	2.76
External (Net)	226.24	5.85

Source: Central Bank of Kenya

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 332.9 billion (or 8.6 percent of GDP) in 2013/14. The deficit is expected to be financed through net external borrowing of Ksh 226.2 billion and net domestic borrowing of Ksh 106.7 billion.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt Kenya's public and publicly guaranteed debt increased by 11.5 percent to reach Ksh 2,111.6 billion at the end of December, 2013 from Ksh 1,894.1 billion in June, 2013. The total debt stock at the end of December, 2013 was equivalent to 54.5 percent of GDP, compared with 51.7 percent of GDP in June, 2013. The debt to GDP ratios for both domestic and external debts increased from 28.7 percent and 23.0 percent, respectively, in June 2013 to 30.7 percent and 23.8 percent in December 2013 (Table 7.1).

TABLE 7.1: KENYA'S PUBLIC DEBT (Ksh billion)

	Jun-12	Dec-12	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Change 2012/13
Bilateral	246.2	265.4	254.8	257.6	270.6	272.0	270.0	273.9	283.7	284.9	27.2
Multilateral	452.9	482.7	504.2	511.8	529.1	539.8	544.1	539.9	553.3	562.6	50.8
Commercial Banks	50.5	58.4	58.3	58.9	59.9	60.1	59.6	58.7	59.5	59.1	0.2
Supplier Credits	14.8	15.5	15.0	15.2	15.6	15.6	15.6	15.5	15.8	15.8	0.6
Sub-Total	764.5	822.0	832.24	843.56	875.23	887.54	889.31	887.99	912.23	922.37	78.81
(As a % of GDP)	23.56	22.7	22.7	23.0	23.6	23.5	22.9	22.9	23.5	23.8	
(As a % of total debt)	47.1	45.8	43.6	44.5	44.8	44.3	43.2	43.0	43.8	43.7	
DOMESTIC¹											
Banks	459.2	542.9	595.9	563.5	573.7	593.7	618.3	612.8	609.2	627.6	64.2
Central Bank	47.4	56.8	64.0	36.4	47.7	64.7	63.6	57.4	67.2	64.6	28.2
Commercial Banks	411.9	486.1	531.8	527.1	526.0	528.9	554.7	555.4	542.0	563.0	35.9
Non-banks	388.5	418.5	469.0	477.5	496.1	513.8	540.2	551.6	550.6	551.3	73.8
Pension Funds	193.2	195.7	256.6	263.1	272.4	281.7	289.5	284.9	288.2	294.1	31.0
Insurance Companies	92.4	98.9	109.3	108.6	111.9	115.9	117.2	117.8	117.6	114.4	5.8
Other Non-bank Sources	103.0	123.9	103.1	105.9	111.8	116.1	133.5	149.0	144.8	142.8	36.9
Non-residents	11.0	10.1	10.0	9.6	8.9	9.2	9.7	10.3	10.3	10.3	0.7
Sub-Total	858.8	971.4	1074.8	1050.6	1078.6	1116.7	1168.2	1174.8	1170.1	1189.2	138.6
(As a % of GDP)	26.47	26.9	29.3	28.7	29.1	29.5	30.1	30.3	30.2	30.7	
(As a % of total debt)	52.9	54.2	56.4	55.5	55.2	55.7	56.8	57.0	56.2	56.3	
GRAND TOTAL	1623.4	1793.4	1907.0	1894.1	1953.8	2004.2	2057.5	2062.8	2082.3	2111.6	217.4
(As a % of GDP)	50.0	49.6	52.1	51.7	52.7	53.0	53.1	53.2	53.7	54.5	

Sources: National Treasury and Central Bank of Kenya

Domestic Debt

Total domestic debt increased by Ksh 138.6 billion (13.2 percent) in the first half of FY 2013/14 to reach Ksh 1,189.2 billion in December 2013, from Ksh 1,050.6 billion at the end of June 2013. This followed increases of Ksh 72.1 billion in Treasury bonds, Ksh 39.6 billion in Treasury bills and Ksh 27.2 billion in Government overdraft at the Central Bank (Table 7.2). Consequently, domestic debt-to-total debt ratio increased from 55.5 percent in June, 2013 to 56.3 percent in December, 2013, while domestic debt-to-GDP edged up to 30.7 percent in December, 2013, from 28.7 percent in June, 2013 (Table 7.1).

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2012		2013										Change Jun-13 - Dec-13				
	Dec	%	June	%	July	%	August	%	Sept	%	Oct	%		Nov	%	Dec	%
Total Stock of Domestic Debt (A+B)	971.4	100.0	1,050.6	100.0	1,078.6	100.0	1,116.7	100.0	1,168.2	100.0	1,174.8	100.0	1,170.1	100.0	1,189.2	100.0	138.6
A. Government Securities	942.3	97.0	1,040.8	99.1	1,060.4	98.3	1,081.3	96.8	1,131.4	96.8	1,142.8	97.3	1,132.3	96.8	1,152.4	96.9	111.7
1. Treasury Bills (excluding Repo Bills)	196.3	20.2	267.7	25.5	254.8	23.6	278.0	24.9	307.6	26.3	312.0	26.6	310.8	26.5	307.3	25.8	39.6
Banking institutions	139.2	14.3	183.5	17.5	179.1	16.6	184.7	16.5	199.3	17.1	197.4	16.8	190.6	16.3	191.1	16.1	7.6
Others	57.1	5.9	84.2	8.0	75.7	7.0	93.3	8.4	108.3	9.3	114.6	9.8	119.5	10.2	116.2	9.8	31.9
2. Treasury Bonds	716.1	73.7	744.2	70.8	776.7	72.0	774.4	69.3	794.8	68.0	801.8	68.3	793.4	67.8	816.3	68.6	72.1
Banking institutions	343.5	35.4	341.0	32.5	344.3	31.9	341.7	30.6	352.9	30.2	354.1	30.1	347.9	29.7	369.5	31.1	28.4
Pension Funds	171.5	17.7	220.1	21.0	229.8	21.3	232.3	20.8	232.0	19.9	229.6	19.5	229.6	19.6	230.9	19.4	10.7
Others	201.1	20.7	183.0	17.4	202.6	18.8	200.5	18.0	209.9	18.0	218.1	18.6	215.8	18.4	215.9	18.2	32.9
4. Non-Interest Bearing Debt	30.0	3.1	28.9	2.7	28.9	2.7	28.9	2.6	28.9	2.5	28.9	2.5	28.9	2.5	28.9	2.4	-
Of which: Repo T/Bills	29.8	3.1	28.9	2.8	28.8	2.7	28.8	2.6	28.8	2.5	28.8	2.5	28.8	2.5	28.8	2.4	(0.1)
B. Others:	29.1	3.0	9.8	0.9	18.2	1.7	35.4	3.2	36.9	3.2	32.0	2.7	37.7	3.2	36.7	3.1	26.9
Of which CBK overdraft to Government	25.4	2.6	7.0	0.7	20.5	1.9	32.7	2.9	34.2	2.9	28.0	2.4	34.2	2.9	34.2	2.9	27.2

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding repos, increased by Ksh 39.6 billion from Ksh 267.7 billion in June, 2013 to Ksh 307.3 billion in December 2013 (Table 7.2). As a result, the proportion of Treasury bills in total domestic debt increased to 25.8 percent in December, 2013, from 25.5 percent in June, 2013. The dominant investors were commercial banks and pension funds, with shares of 62.2 percent and 22.7 percent respectively, by December 2013 (compared with shares of 68.5 and 16 percent as at June 2013). The reduction in the share of commercial banks was fully offset by expansion in the holding by the pension's sector (Table 7.3).

TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

Holders	2012				2013											
	Jun	%	Dec	%	Jun	%	Jul	%	Sept	%	Oct	%	Nov	%	Dec	%
Banking Institutions	75.5	57.2	139.2	70.9	183.5	68.5	179.1	70.3	199.3	64.8	197.4	63.3	190.6	61.5	191.1	62.2
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	75.5	57.2	139.2	70.9	183.5	68.5	179.1	70.3	199.3	64.8	197.4	63.3	190.6	61.5	191.1	62.2
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	7.2	5.5	11.9	6.1	14.9	5.6	15.5	6.1	19.2	6.2	20.4	6.6	20.9	6.7	20.5	6.7
Parastatals	1.2	0.9	2.8	1.4	5.6	2.1	5.6	2.2	4.7	1.5	4.6	1.5	4.6	1.5	4.1	1.3
Building Societies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	28.7	21.7	24.2	12.3	42.9	16.0	42.6	16.7	57.4	18.7	62.0	19.9	66.1	21.3	69.9	22.7
Others	19.5	14.7	18.2	9.3	20.8	7.8	12.1	4.8	27.0	8.8	27.6	8.8	27.9	9.0	21.7	7.1
Total	132.0	100.0	196.3	100.0	267.7	100.0	254.8	100.0	307.6	100.0	312.0	100.0	310.1	100.0	307.3	100.0

Source: Central Bank of Kenya

Treasury Bonds

Outstanding treasury bonds increased by Ksh 72.1 billion, from Ksh 744.2 billion in June 2013 to Ksh 816.3 billion at the end of December 2013. The proportion of bonds in total domestic debt declined from 70.8 percent in June 2013 to 68.6 percent in December 2013 following increased acquisition of Treasury bills and access of the overdraft facility by the Government (Table 7.2). The distribution of outstanding treasury bonds was as follows: Ksh 28.4 billion, Ksh 10.7 billion, Ksh 3.0 billion and Ksh 33.3 billion absorbed by commercial banks, pension funds, insurance companies and other holders, respectively. Parastatal and building society holdings declined by Ksh 3.3 billion and Ksh 0.1 billion, respectively, while the treasury bonds held by non-bank financial institutions remained unchanged during the period. The shares of Treasury bond held by commercial banks, insurance companies, parastatals and pension funds declined from 45.8 percent, 12.6 percent, 5.7 percent and 29.6 percent

in June, 2013 to 45.3 percent, 11.8 percent, 4.8 percent and 28.3 percent, respectively in December, 2013. Those by other holders increased to 9.7 percent from 6.2 percent, while the share held by building societies and non-bank financial institutions remained unchanged during the period (Table 7.4).

TABLE 7.4: OUTSTANDING TREASURY BONDS BY HOLDER (Ksh billion)

Holders	2012		2013						Change Jun-13- Dec-13				
	Dec	%	June	%	Sep	%	Oct	%		Nov	%	Dec	%
Banking Institutions	344.1	48.1	341.2	45.9	353.1	44.4	354.3	44.2	348.1	43.9	369.7	45.3	28.4
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	343.5	48.0	341.0	45.8	352.9	44.4	354.1	44.2	347.9	43.9	369.5	45.3	28.4
NBFIs	0.6	0.1	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.0
Insurance Companies	87.0	12.2	93.7	12.6	98.0	12.3	97.3	12.1	96.7	12.2	96.7	11.8	3.0
Parastatals	44.4	6.2	42.7	5.7	41.0	5.2	40.3	5.0	40.3	5.1	39.4	4.8	-3.3
Of which: NSSF	23.8	3.3	22.7	3.1	22.3	2.8	21.6	2.7	21.6	2.7	21.2	2.6	-1.5
Building Societies	0.6	0.1	0.6	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.5	0.1	-0.1
Pension Funds	171.5	23.9	220.1	29.6	232.0	29.2	229.6	28.6	228.8	28.8	230.9	28.3	10.7
Others	68.4	9.6	45.8	6.2	70.3	8.8	79.8	10.0	79.0	10.0	79.1	9.7	33.3
Total	716.1	100.0	744.2	100.0	794.8	100.0	801.8	100.0	793.4	100.0	816.3	100.0	

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Total domestic debt at the end of December 2013 amounted to Ksh 1,189.2 billion with Treasury bonds and bills accounting for 94.4 percent of this debt (Table 7.2). In terms of maturity structure, Government securities worth Ksh 125.1 billion will fall due between January and March 2014, and will comprise Ksh 121.8 billion and Ksh 3.3 billion in Treasury bills and Treasury bonds, respectively. Treasury bill maturities in the period will comprise Ksh 30.3 billion, Ksh 26.0 billion and Ksh 65.5 billion in 91-day, 182-day and 364-day Treasury bills, respectively, while treasury bonds maturing during this period will comprise Ksh 3.3 billion in the 8-year fixed rate Treasury bond.

The average length of maturity of existing domestic debt declined to four years and nine months in December, 2013, from 5 years and 2 months in June 2013.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2012		2013						Change Jun-13 to Dec-13		
		Jun	%	Jun	%	Oct	%	Nov	%		Dec	%
Treasury bills	91-Day	24.3	2.8	36.2	3.4	42.3	3.6	38.3	3.2	30.3	2.5	-5.9
	182-Day	75.7	8.8	52.2	5.0	55.2	4.6	50.2	4.2	47.6	4.0	-4.6
	364-Day	32.1	3.7	179.3	17.1	214.5	18.0	221.6	18.6	229.4	19.3	50.0
Treasury Bonds	1.5-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	86.5	10.1	122.0	11.6	139.0	11.7	115.6	9.7	140.8	11.8	18.8
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	0.0	0.0	19.1	1.8	25.1	2.1	25.1	2.1	25.1	2.1	6.0
	5-Year	115.3	13.4	138.4	13.2	127.0	10.7	127.0	10.7	127.0	10.7	-11.3
	6-Year	57.4	6.7	40.7	3.9	40.7	3.4	40.7	3.4	40.7	3.4	0.0
	7-Year	22.5	2.6	19.3	1.8	19.3	1.6	19.3	1.6	17.0	1.4	-2.3
	8-Year	17.6	2.0	31.8	3.0	38.7	3.3	38.7	3.3	38.7	3.3	6.9
	9-Year	25.4	3.0	18.2	1.7	18.2	1.5	18.2	1.5	18.2	1.5	0.0
	10-Year	95.7	11.1	109.4	10.4	116.1	9.8	116.1	9.8	116.1	9.8	6.7
	11-Year	4.0	0.5	4.0	0.4	4.0	0.3	4.0	0.3	4.0	0.3	0.0
	12-Year	63.5	7.4	30.2	2.9	54.7	4.6	54.7	4.6	54.7	4.6	24.5
	15-Year	75.4	8.8	119.8	11.4	127.3	10.7	127.3	10.7	127.3	10.7	7.5
20-Year	29.7	3.5	49.0	4.7	49.0	4.1	49.0	4.1	49.0	4.1	0.0	
25-Year	20.2	2.4	20.2	1.9	20.2	1.7	20.2	1.7	20.2	1.7	0.0	
30-Year	22.1	2.6	22.1	2.1	22.1	1.9	22.1	1.9	22.1	1.9	0.0	
Repo T bills	29.2	3.4	28.9	2.8	28.8	2.4	28.83	2.4	28.83	2.4	-0.07	
Overdraft	7.3	0.8	7.0	0.7	28.0	2.4	27.98	2.4	27.98	2.4	20.98	
Other Domestic debt	3.3	0.4	2.79	0.3	4.46	0.4	25.15	2.1	24.16	2.0	21.37	
Total Debt	858.83	100.0	1050.56	100.0	1174.76	98.8	1170.05	98.4	1189.18	100.0		

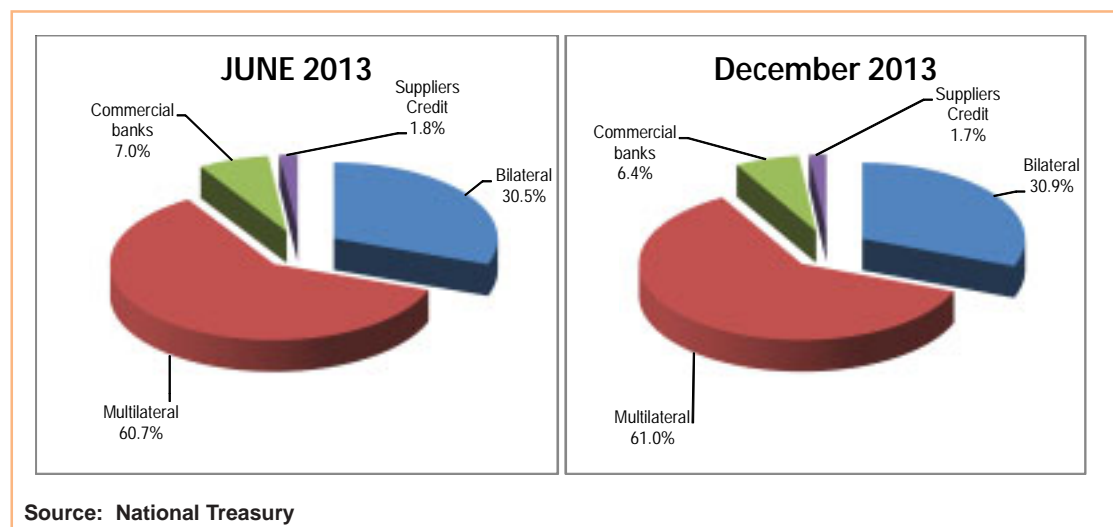
Source: Central Bank of Kenya

External Debt

Kenya's public and publicly guaranteed external debt increased by Ksh 78.8 billion to Ksh 922.4 billion (USD 10.7 billion), at the end of the first half of fiscal year 2013/14, from Ksh 843.6 billion (USD 9.8 billion) in June, 2013 (Table 7.1). The amount of total external debt to the central government was Ksh 878.8 billion (USD 10.2 billion), while the rest was to Parastatals, guaranteed by the government. The African Development Bank (ADB) and International Development Association (IDA) collectively accounted for Ksh 39.9 billion of the multilateral debt increase, while France and China accounted for Ksh 11.6 billion and Ksh 11.3 billion, respectively, of the bilateral debt increase. These increases were largely due to additional disbursements and exchange rate revaluations during the period. Japan's contribution to the bilateral debt reduced by Ksh 4.2 billion during the period under review.

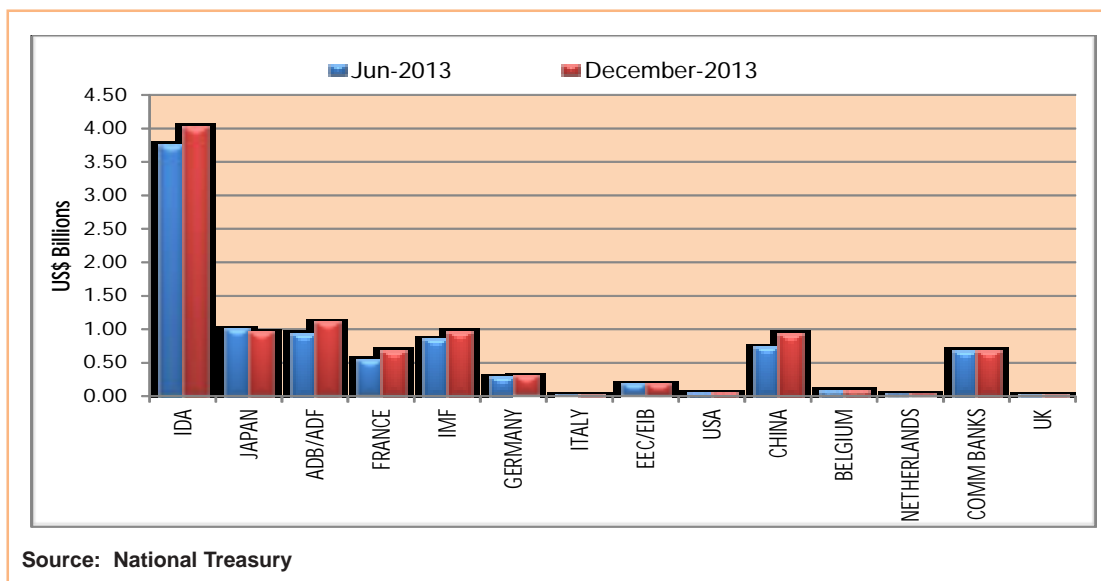
Composition of External Debt by Creditor

Kenya's official creditors, the multilateral and bilateral lenders, accounted for 91.9 percent of total public and publicly guaranteed external debt by December 2013. But the proportion of debt owed to commercial banks and supplier's credit declined to 6.4 percent and 1.7 percent, respectively, in December, 2013 from 7.0 percent and 1.8 percent in June, 2013. Bilateral debt increased to 30.9 percent of total public debt in December, 2013, from 30.5 percent in June 2013, following additional disbursements during the period, while the proportion of debt owed to multilateral lenders increased to 61.0 percent from 60.7 percent in June, 2013 (Chart 7A).

CHART 7A: COMPOSITION OF EXTERNAL DEBT

Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 4.0 billion or 37.7 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender, amounted to USD 1.0 billion at the end of December 2013 (Chart 7B).

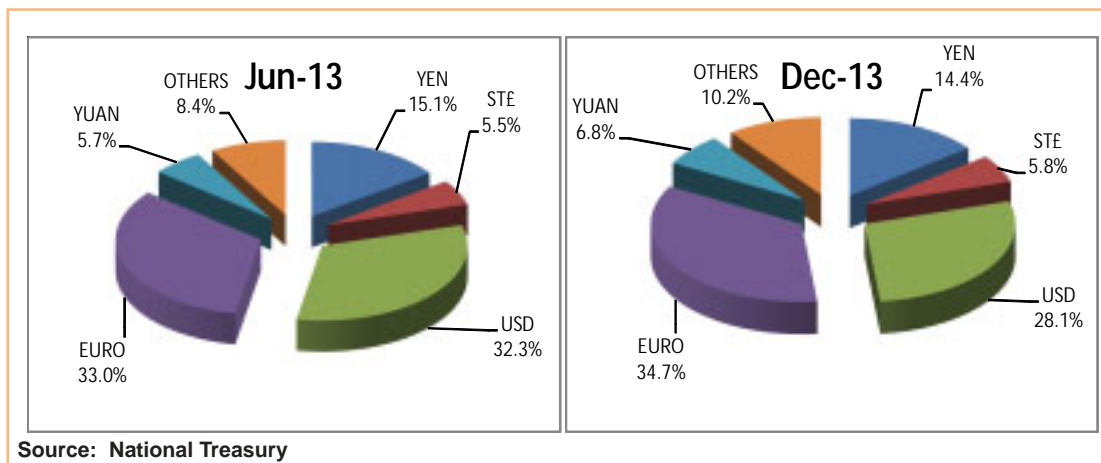
CHART 7B: EXTERNAL DEBT BY CREDITOR



Currency Composition of External Debt

The Euro and US Dollar denominated currencies constituted 65.6 percent of total public and publicly guaranteed external debt in December, 2013. However, the share of US Dollar denominated debt declined from 32.3 percent in June 2013 to 28.1 percent in December, and the reduction reflects in increased shares of the Euro, Yuan and the Sterling Pound (Chart 7c).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Public Debt Service Cumulative interest and other charges on domestic debt as at December 2013 in the FY 2013/14 amounted to Ksh 55.5 billion compared with Ksh 53.3 billion during a similar period of the previous fiscal year. This comprised interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 8.5 billion and Ksh 45.9 billion, respectively, while Ksh 0.4 billion was interest charges on government overdraft at the Central Bank. External debt service for the period July - December 2013 amounted to Ksh 3.6 billion, and comprised Ksh 2.9 billion in principal repayments and Ksh 0.7 billion in interest payments.

Performance for the FY 2013/14 In the FY 2013/14, total public and publicly guaranteed external debt is estimated at Ksh 926.8 billion (22.3 percent of GDP), while gross and net domestic debt are estimated at Ksh 1,130.5 billion (27.1 percent of GDP) and Ksh 978.6 (23.5 percent of GDP), respectively.

ACTIVITY IN THE STOCK MARKET

Equity Market

The market was generally subdued in December 2013 with reduced local investor activity probably on account of the festive season. Both equity and bond market leading indicators declined in December 2013. Foreign investor participation however improved.

The NSE 20 Share Index closed 173.9 points lower in December 2013 at 4,926.97 points from 5,100.88 points in November 2013. Similarly, NASI was 136.65 points down from 141.17 points December 2013. Market Capitalization shed Ksh 54.28 billion, to close at Ksh 1,920.72 billion. Equities turnover declined to Ksh 11,329.23 in December 2013 million from Ksh 13,128.66 million due to lower shares supply, which stood at 466 million down from 645 million in November 2013 (Chart 8.1).

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)	FP to Equity Turnover	FS to Equity Turnover	Overall net FP to Equity Turnover
Dec-11	3,205.02	68.03	336.50	3,973.00	868.24	24,999.05	68.19%	44.65%	56.42%
Jan-12	3,224.00	69.00	351.00	3,544.00	880.00	24,513.50	31.55%	54.46%	43.00%
Feb-12	3,303.75	72.07	342.00	3,493.00	920.00	27,121.66	57.23%	34.47%	45.85%
Mar-12	3,366.89	73.47	366.00	6,386.00	940.00	47,811.97	60.44%	18.93%	39.69%
Apr-12	3,546.66	76.91	526.15	7,640.23	985.00	35,503.62	64.29%	41.11%	52.70%
May-12	3,650.85	78.48	543.29	8,815.35	1,005.19	47,343.28	58.32%	45.85%	52.09%
Jun-12	3,703.94	80.75	385.51	6,214.24	1,048.72	28,259.68	62.44%	36.06%	49.25%
Jul-12	3,832.42	83.26	383.61	6,037.89	1,098.90	34,170.82	51.90%	38.19%	45.05%
Aug-12	3,865.76	84.66	338.92	5,680.73	1,117.39	86,918.78	58.56%	40.12%	49.34%
Sep-12	3,972.03	87.38	470.26	9,781.50	1,155.99	95,866.77	68.67%	35.08%	51.88%
Oct-12	4,147.28	91.67	458.43	11,082.25	1,217.09	72,596.46	68.61%	41.85%	55.23%
Nov-12	4,083.52	92.20	836.90	10,537.05	1,234.47	38,895.86	67.02%	25.88%	46.45%
Dec-12	4,133.02	94.86	461.89	7,582.42	1,272.00	26,672.11	73.58%	45.50%	59.54%
Jan-13	4,416.60	103.50	518.71	8,464.46	1,387.81	20,999.59	59.06%	33.86%	46.46%
Feb-13	4,518.59	106.91	692.28	14,693.27	1,451.01	20,240.18	42.73%	69.45%	56.09%
Mar-13	4,860.83	117.91	571.29	11,182.65	1,599.80	25,690.98	55.92%	39.74%	47.83%
Apr-13	4,765.23	118.07	596.83	9,856.50	1,601.93	35,190.25	56.75%	26.73%	42.67%
May-13	5,006.96	126.80	867.77	16,070.53	1,720.43	73,523.70	53.22%	31.60%	42.41%
Jun-13	4,598.16	116.31	727.78	13,021.29	1,618.27	85,904.11	66.13%	46.15%	56.14%
Jul-13	4,787.56	122.86	615.90	11,205.17	1,727.83	34,170.82	65.88%	51.38%	58.63%
Aug-13	4,697.75	119.96	670.38	20,797.41	1,681.66	24,520.25	75.75%	28.44%	52.10%
Sep-13	4,793.20	127.35	488.79	10,062.50	1,790.85	29,304.17	65.89%	45.39%	55.64%
Oct-13	4,992.88	133.24	804.51	15,937.19	1,873.66	51,674.82	64.28%	47.19%	55.73%
Nov-13	5,100.88	141.17	645.20	13,128.66	1,975.00	27,310.57	48.21%	41.47%	44.84%
Dec-13	4,926.97	136.65	466.25	11,329.23	1,920.72	23,695.80	54.95%	61.04%	57.99%

Source: Nairobi Securities Exchange

Overall Net Foreign Investor participation dominated NSE activity. It stood at 57.99 percent in December 2013 from 44.84 percent of total equity turnover in November 2013. Foreign purchases accounted for 54.95 percent of total equity turnover against 61.04 percent sales, reflecting outflow attributable to profit-taking by foreigners.

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



Source: Nairobi Securities Exchange

The stock market remained strong albeit some decline in December 2013 as reflected by trends of NASI and NSE 20 Share Index. Shareholders' wealth measured by market capitalization retreated, but within the Ksh 1.9 trillion range (Chart 8A).

Most Active Sectors & FTSE NSE Kenya Index Series

Telecommunication and Technology sector dominated trading, with 234.49 million shares, which accounted for 50.29 percent of the market. Banking sector had 109.32 million shares or 23.45 percent and the Insurance sector was the third most active sector with 37.31 million shares or 8.0 percent of the market. Safaricom, KCB and Equity were the most active counters with 234.5 million, 45.8 million and 31.1 million shares traded, respectively.

The FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at NSE, and FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks, closed at 172.40 points and 174.27 points in December 2013, down from 180.21 points and 182.17 points in November 2013, respectively. The FTSE NSE Kenyan Shilling Government Bond Index increased to 91.283 points up from to 91.09 points, reflecting falling market yields.

Bond Market Bonds turnover declined by 13.24 percent in December 2013 while, corresponding deals increased by 16 deals compared with outturn in November 2013. Bonds worth Ksh 23,696 million were traded down from Ksh 27,311 million sold in November 2013. The IFB1/2013/12 dominated trading, at 16.27 percent of total turnover, with yields ranging from 11.60 percent to 12.84 percent against a coupon rate of 11.0 percent. The Corporate bonds segment accounted for 0.37 percent of the market, where KenGen had 13 deals worth Ksh 40 million of the total Ksh 86.95 million in this segment.

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

	Dec-13	Jun-13	Dec 13/Jun 2013 Movement
ASSETS			
Balances due from Banking Institutions and Gold holdings	569,346	527,944	41,402
Funds held with International Monetary Fund	2,624	2,694	(70)
Items in the course of collection	48	154	(106)
Advances to commercial banks	11,476	351	11,126
Loans and Advances	38,266	10,887	27,379
Other Assets	3,021	2,545	475
Retirement Benefits Assets	2,967	2,967	0
Property and Equipment	12,536	12,052	484
Intangible Assets	857	973	(116)
Due from Government of Kenya	28,889	28,889	0
TOTAL ASSETS	670,030	589,456	80,574
LIABILITIES			
Currency in Circulation	209,996	183,047	26,949
Investments by Banks	-	10,633	(10,633)
Deposits	267,640	221,927	45,714
International Monetary Fund	129,317	118,568	10,749
Other Liabilities	1,625	2,203	(578)
Provisions	123	123	0
TOTAL LIABILITIES	608,702	536,501	72,201
EQUITY AND RESERVES	61,328	52,955	8,373
Share Capital	5,000	5,000	0
General reserve fund	39,056	40,545	(1,489)
Period surplus	8,373	0	8,373
Asset revaluation reserve	8,899	7,410	1,489
Dividends payable	0	0	0
TOTAL LIABILITIES AND EQUITY	670,030	589,456	80,574

Source: Central Bank of Kenya

NOTES ON THE FINANCIAL POSITION

Assets **Balances due from Banking institutions and Gold holdings** category consist of foreign reserves held in external current accounts, deposits and special/projects accounts, foreign travelers cheques, domestic foreign currency clearing accounts, gold, special drawing rights and RAMP securities invested with World Bank. The category increased by Ksh 41,402 million to Ksh 569,346 million in December 2013 from Ksh 527,944 million in June 2013. The expansion reflected largely CBK purchases of foreign exchange from domestic interbank market to build official reserves.

Items in course of collection represent the value of clearing instruments which are held by the Bank, while awaiting clearing by respective commercial banks. The balances as at December 2013 were Ksh 48 million, representing 68.83 percent recovery from Ksh 154 million outstanding as at June 2013.

Advances to commercial banks are balances of money lent by Central Bank to commercial banks through reverse Repo (injection of liquidity) for a short duration of 7 days and rediscounted Treasury bills and bonds by commercial banks. The balance outstanding increased by Ksh 11,126 million to Ksh 11,476 million in December 2013 from Ksh 351 million in June 2013.

Loans and Advances class of asset includes mainly outstanding balances on advances to commercial bank under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF fund on-lent to Government. The balances increased by Ksh 27,379 million to Ksh 38,266 million in December 2013 from Ksh 10,887 million in June 2013.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets increased by Ksh 475 million to Ksh 3,021 million in December 2013 from Ksh 2,545 million in June 2013.

Due from Government of Kenya liability category rose from overdrawn accounts which were converted to a long term debt with effect from 1 July 1997 after an amendment to the Central Bank of Kenya Act to limit lending to GoK to 5 percent of GoK audited revenue. The change in the balances represents partial payment of the loan.

Liabilities **Currency in circulation** increased by Ksh 26,949 million to Ksh 209,996 million in December 2013 from Ksh 183,047 million in June 2013.

Deposits liability represents deposits held by Government of Kenya, local commercial bank deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances increased by Ksh 45,714 million to Ksh 267,640 million in December 2013 from Ksh 221,927 million in June 2013.

Amount due to International Monetary Fund represents the Bank's obligations to the IMF. The balances increased to Ksh 129,317 million in December 2013 from Ksh 118,568 million in June 2013.

Other liabilities include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance decreased by Ksh 578 million to Ksh 1,625 million in December 2013 from Ksh 2,203 million in June 2013.

Equities and reserves increased by Ksh 8,373 million to Ksh 61,328 million in December 2013 from Ksh 52,955 million in June 2013 reflecting an increase in the period surplus.