

MONTHLY ECONOMIC REVIEW

AUGUST 2014

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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OVERVIEW

Introduction This Monthly Economic Review highlights recent economic developments through August 2014. 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 rose from 7.7 percent in July 2014 to 8.4 percent in August 2014. This was largely reflected in food inflation, which rose by 153 basis points to 10.4 percent. Non-food, non-fuel inflation also rose by 47 basis points to 4.9 percent in August 2014 while fuel inflation declined by 51 basis points to 8.6 percent. Annual average inflation rose from 7.2 percent in July 2014 to 7.3 percent in August 2014.

Money Supply Growth in broad money, M3, accelerated to 21.8 percent in the year to August 2014 from 12.9 percent in a corresponding period in 2013 and was above the respective target of 19.3 percent. The acceleration was reflected in increases of both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system.

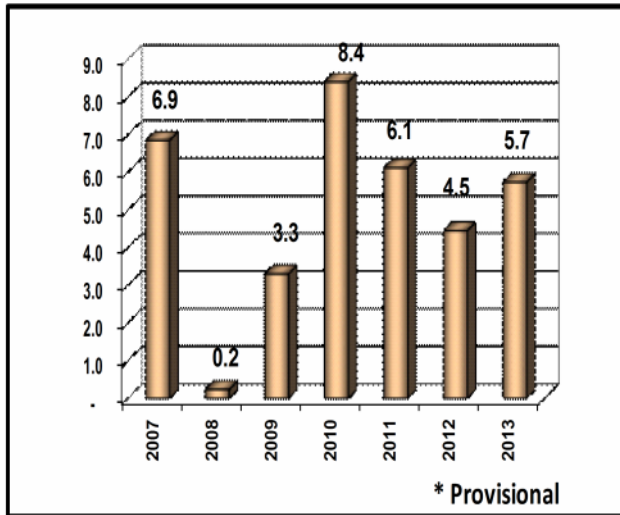
Interest Rates The Central Bank Rate (CBR) remained at 8.50 percent in August 2014 while the weighted average interbank rate increased from 8.08 percent in July 2014 to 11.79 percent in August 2014.

Real GDP Growth The economy was resilient, with output growth at 5.7 percent in 2013 compared with 4.5 percent in 2012. In the first two quarters of 2014, the economy grew by 4.4 percent and 5.8 percent, respectively, compared with growth of 6.4 percent and 7.2 percent in comparable quarters of 2013. Growth in the first and second quarters of 2014 was supported by improved performance in manufacturing, construction and health.

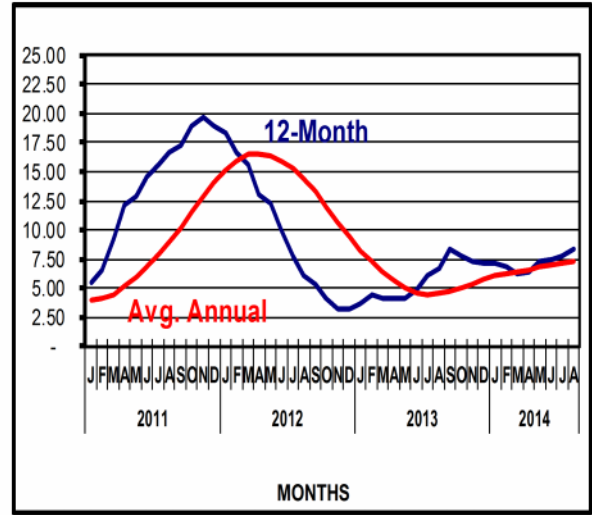
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- Balance of Payments** Kenya's overall Balance of Payments surplus increased by USD 1,083.6 million in the 12 months to August 2014 following 23 percent increase in the Capital and Financial account surplus.
- Exchange Rates** The Kenya shilling displayed mixed performance against major international and EAC currencies during the month of August 2014. It strengthened to the Pound Sterling, the Euro and the Japanese Yen but weakened to the US Dollar largely on account of US Dollar appreciation in the international currency markets.
- Banking Sector Developments** The Kenyan Banking sector registered improved growth in assets in the year to August 2014 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 2013.
- Government Budgetary Performance** The Government budgetary operations during the first two months of the FY 2014/15 resulted in a budget surplus of Ksh 1.3 billion on a commitment basis compared with a deficit of Ksh 22.2 billion reported in a similar period of the FY 2013/14. This was within the Ksh 47.9 billion (1 percent of GDP) programmed target for the period.
- Public Debt** Kenya's public and publicly guaranteed debt increased by Ksh 1.9 billion to reach Ksh 2,372.1 billion in August 2014 from Ksh 2,370.2 billion in June 2014. The total debt stock as at the end of August 2014 stabilized at 49.9 percent of GDP, marginally above 49.8 percent of GDP in June 2014. The debt to GDP ratio for external debt stabilized at 22.9 percent compared with 22.8 percent in June 2014, and domestic debt at 26.9 percent of GDP for the first two months of the FY 2014/15 from 27 percent of GDP in June 2014
- Stock Market** Both equity and bonds market had a positive performance in August 2014, with all leading market indicators closing the month high. Overall net foreign investor interest at the NSE declined significantly, but with more purchases than sales.

SELECTED ECONOMIC PERFORMANCE INDICATORS

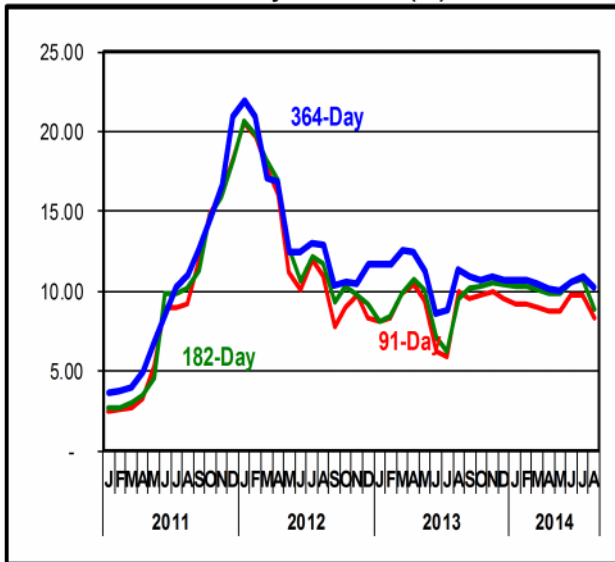
Real GDP Growth (%)



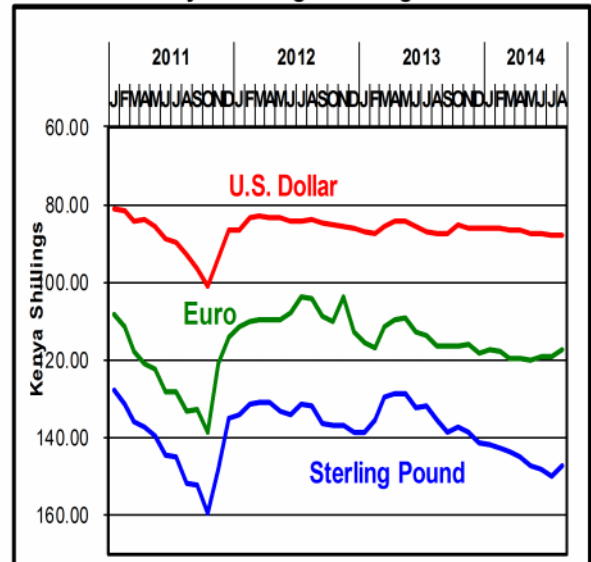
Inflation (%)



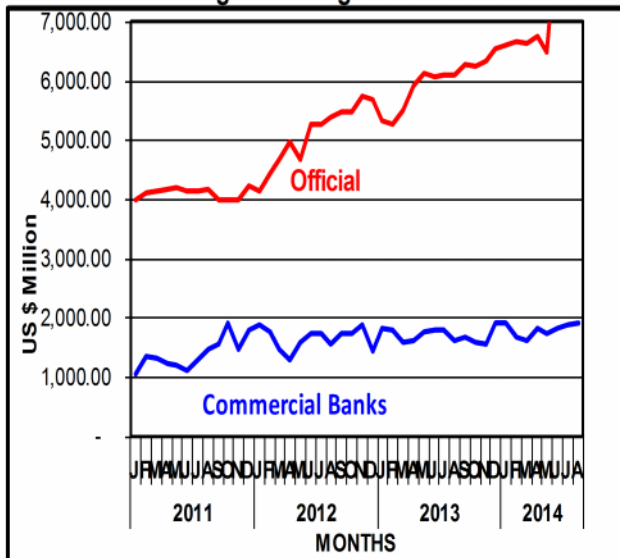
Treasury Bill Rates (%)



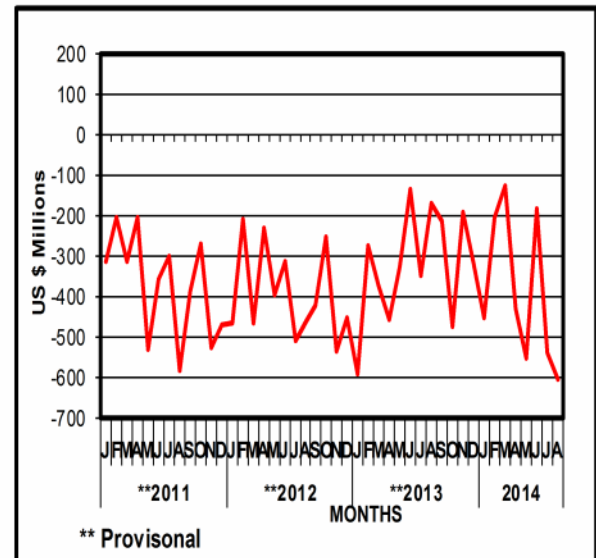
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013*
1. POPULATION*								
People in Millions	36.10	37.20	38.30	38.60	38.50	39.50	40.70	41.80
Growth (%)	2.85	3.05	2.96	0.78	-0.26	2.60	3.04	2.70
2. NATIONAL ACCOUNTS**								
Gross value added at basic prices (Ksh m)	1,649,996	1,903,472	2,211,447	2,558,792	2,827,470	3,348,141	3,811,764	4,234,319
GDP at Market Prices (Ksh m):								
At Current Prices	1,862,041	2,151,349	2,483,058	2,863,688	3,169,335	3,726,052	4,254,772	4,757,532
At Constant 2009 Market Prices	2,588,279	2,765,595	2,772,019	2,863,688	3,104,401	3,294,454	3,441,132	3,638,761
Real GDP Growth (%)	...	6.9	0.2	3.3	8.4	6.1	4.5	5.7
Per Capita Income Real 2009 prices (Ksh)	74,862	77,197	75,431	75,910	80,689	83,309	84,649	88,750
3. GROSS NATIONAL SAVINGS (% of GDP at mkt prices)³	16.1	16.7	15.4	14.6	14.1	14.6	12.7	11.0
4. GROSS DOMESTIC SAVINGS³ (% of GDP at mkt prices)³	9.1	10.1	8.9	8.4	8.3	7.2	7.1	5.4
5. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	18.6	20.5	19.6	19.3	20.8	21.7	21.6	19.9
6. OVERALL INFLATION BASE PERIOD= FEB 2009								
Annual Average Inflation	6.39	4.27	16.27	9.24	3.96	14.02	9.38	5.72
12-Month Inflation	7.98	5.70	17.83	5.32	4.51	18.93	3.20	7.15
7. STOCK MARKET								
Nairobi Stock Exchange Price Index (1966=100)	5,645.65	5,444.83	3,521.18	3,247.44	4,432.60	3,205.02	4,133.02	4,926.97
Trade Turnover Ratio (%)	1.70	1.29	0.29	0.64	0.99	0.46	0.58	0.58
8. GOVERNMENT BUDGET (Ksh bn)***								
Revenue and Grants	331.21	383.59	457.67	511.36	614.53	679.53	734.43	1,001.40
Expenditure	368.65	405.20	534.84	621.91	791.79	817.09	915.89	1,297.80
Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis)	(37.44)	(21.61)	(77.17)	(110.55)	(177.26)	(137.56)	(181.46)	(296.40)
Budget Deficit (% of GDP)	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)	(5.51)	(6.20)
9. MONEY AND CREDIT (Ksh bn)(end period)								
Liquidity (L) ¹	834.16	992.42	1,091.93	1,280.44	1,558.16	1,854.93	2,129.49	2,527.00
Money Supply (M3) ²	666.84	797.54	901.05	1,045.66	1,271.64	1,514.15	1,727.32	2,000.02
Reserve Money	124.16	155.62	163.59	181.96	222.63	255.01	293.62	320.76
Total Domestic Credit	575.76	668.90	815.52	955.82	1,188.40	1,505.13	3,036.21	1,982.30
Government	137.81	137.40	155.32	205.07	277.78	311.58	368.83	397.16
Private sector and other public sector	437.94	531.49	660.20	750.75	910.62	1,193.55	1,333.69	1,585.13
10. BALANCE OF PAYMENTS (US\$ m)								
Overall Balance	675.00	854.00	(469.00)	780.53	163.40	(42.88)	1,261.00	684.72
Current Account	-511.00	-1,034.00	-1,983.00	-1,609.28	-2,511.91	-3,330.50	-4,538.37	-4,785.96
Capital and Financial Account	1,187.00	1,888.00	1,514.00	2,389.81	2,675.30	3,287.61	5,799.37	5,470.68
11. FOREIGN EXCHANGE RESERVES (US\$ m) End Period	3,331.30	4,556.97	4,640.78	5,064.03	5,122.52	6,044.78	7,159.86	8,483.20
Official	2,415.27	3,354.85	2,875.46	3,847.39	4,001.68	4,247.66	5,701.85	6,560.17
Commercial Banks	3.9	4.8	3.4	4.1	3.9	3.7	4.3	4.5
Commercial Banks	916.03	1,202.12	1,765.32	1,216.63	1,120.84	1,797.12	1,458.01	1,923.02
12. PUBLIC DEBT (US\$ bn) End Period***	10.68	12.04	13.46	13.66	14.96	16.60	19.27	27.52
Domestic	4.84	6.08	6.66	6.72	8.06	8.51	10.20	14.91
As % of GDP	18.77	19.00	18.54	18.16	20.15	20.26	20.27	27.02
External	5.84	5.96	6.80	6.94	6.90	8.09	9.08	12.61
As % of GDP	22.62	18.62	18.94	18.75	17.25	19.26	18.04	22.84
13. EXCHANGE RATE (Ksh/US\$) (Annual Average)	72.10	67.32	69.18	77.35	79.26	88.91	84.53	86.12

* Provisional.

** Rebased data

*** Fiscal year to June 30th.

¹ Previously M3XT

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	2013					2014							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
1. INFLATION (%)													
CPI	140.29	142.82	142.75	143.14	143.85	145.40	145.95	146.61	148.20	149.70	149.91	150.60	152.02
Overall Inflation													
12-month overall inflation	6.67	8.29	7.76	7.36	7.15	7.21	6.86	6.27	6.41	7.30	7.39	7.67	8.36
Average annual overall inflation	4.50	4.75	5.05	5.39	5.72	6.01	6.21	6.39	6.58	6.85	7.05	7.19	7.33
2. INTEREST RATES (%)													
91-day Treasury bill interest rate	10.0	9.6	9.7	9.9	9.5	9.3	9.0	8.8	8.8	8.8	9.8	9.8	8.3
Overdraft interest rate	16.9	16.4	17.0	16.5	16.5	16.8	16.9	16.4	16.4	17.8	15.9	17.1	16.2
3. STOCK MARKET													
Nairobi Stock Exchange 20 Share Price Index	4,697.75	4,793.20	4,992.88	5,100.88	4,926.97	4,866.15	4,933.41	4,945.78	4,948.97	4,881.56	4,885.04	4,906.09	5,139.39
Turnover Ratio (%)	0.99	0.61	1.00	0.80	0.58	0.79	0.68	0.67	0.67	1.06	0.90	0.77	0.77
4. GOVERNMENT BUDGET* (Ksh bn.)													
Revenue \$ Grants	128.42	210.23	286.22	363.59	468.97	548.10	611.90	694.30	795.75	880.77	1,001.37	69.58	142.36
Expenses	150.58	269.87	357.20	473.98	574.21	691.60	770.60	855.33	971.11	1,114.34	1,297.76	48.60	141.07
Budget Deficit (-) / Surplus (+)	(22.16)	(59.63)	(70.94)	(110.39)	(105.24)	(143.50)	(158.70)	(161.03)	(175.36)	(233.57)	(296.39)	20.97	20.97
5. MONEY AND CREDIT (Ksh bn.)													
Liquidity (L) ¹	2341.82	2405.817	2428.776	2480.134	2523.23	2558.56	2560.08	2592.54	2650.16	2701.27	2718.34	2752.26	2880.15
Money Supply (M3) ²	1,849.97	1885.78	1900.194	1953.621	1996.24	2026.57	2030.49	2060.31	2100.61	2147.48	2152.13	2190.08	2253.32
Reserve Money	309.81	290.35	307.25	316.78	320.76	302.32	315.49	309.81	315.27	315.34	323.73	304.65	357.05
Total Domestic Credit	1,807.29	1875.279	1889.31	1967.189	1978.52	2010.72	2057.51	2097.87	2127.93	2177.36	2042.87	2130.25	2187.89
Government	336.11	382.6023	368.7062	408.8127	397.1639	413.32	438.80	449.87	441.96	465.19	283.06	346.88	372.83
Private sector and other public sector	1,471.18	1492.677	1520.604	1558.376	1581.4	1.60	1.62	1.65	1685.97	1712.17	1759.82	1783.37	1815.06
6. MONEY AND CREDIT (Annual %Change)													
Liquidity (L) ¹	10.45	16.69	15.78	16.02	18.4309	19.97	19.01	18.89	18.32	18.84	19.32	19.11	22.99
Money Supply (M3) ²	12.89	12.83	11.58	12.23	15.54	17.15	16.17	17.35	16.55	17.77	18.19	19.30	21.80
Reserve Money	23.81	12.09	22.68	13.27	9.24	10.33	9.89	7.73	17.71	11.88	12.63	7.28	15.25
Total Domestic Credit	13.04	15.75	14.00	16.61	16.21202	15.27	17.77	19.73	16.66	22.44	14.58	20.05	21.06
Government	4.77	15.01	5.03	10.30	7.68	4.37	11.48	15.05	(3.53)	18.42	(25.41)	0.07	10.92
Private and other public sector	15.12	15.94	16.42	18.39	18.57	18.5	19.6	21.1	23.43	23.58	25.39	24.90	23.37
7. BALANCE OF PAYMENTS (US\$ m)													
Overall Balance	23.89	171.07	(21.69)	75.64	120.13	59.41	(33.77)	82.02	110.54	(261.11)	2,056.50	(419.32)	(313.45)
Current Account	(508.10)	(324.63)	(612.28)	(315.98)	(395.36)	(450.68)	(203.78)	(249.12)	(428.83)	(551.97)	(183.10)	(541.27)	(605.82)
Trade Balance	(963.16)	(874.43)	(1,160.47)	(898.50)	(970.78)	(1,009.74)	(746.71)	(683.99)	(1,041.20)	(1,173.89)	(793.62)	(1,204.68)	(1,136.01)
Capital and Financial Account	531.99	485.69	590.58	391.62	515.49	510.09	170.01	331.14	539.37	290.86	2,239.60	121.95	292.36
8. FOREIGN EXCHANGE RESERVES (US\$ m)	7,739.68	7,958.83	7,859.49	7,893.00	8,483.20	8,518.60	8,250.21	8,285.29	8,593.52	8,230.25	10,398.72	10,029.34	9,731.50
Official	6,119.65	6,290.71	6,263.25	6,333.14	6,560.17	6,611.91	6,578.15	6,660.17	6,764.90	6,498.02	8,554.52	8,127.54	7,814.08
Months of imports cover**	4.29	4.39	4.32	4.36	4.49	4.50	4.46	4.52	4.54	4.34	5.70	5.37	5.15
Commercial banks	1,620.03	1,668.11	1,596.24	1,559.86	1,923.02	1,906.68	1,672.06	1,625.12	1,828.62	1,732.24	1,844.21	1,901.81	1,917.42
9. PUBLIC DEBT (US\$ bn)	22.88	23.54	23.55	24.18	24.46	24.61	24.59	24.60	25.00	25.01	27.05	27.19	26.92
Domestic	12.75	13.36	13.41	13.59	13.78	13.93	14.25	14.24	14.03	14.10	14.66	14.77	14.54
As % of GDP	23.09	24.21	24.30	24.62	24.96	25.24	25.84	25.88	25.58	25.91	27.00	27.25	26.93
External	10.13	10.17	10.14	10.59	10.69	10.68	10.34	10.36	10.97	10.91	12.39	12.42	12.38
As % of GDP	18.36	18.43	18.36	19.19	19.36	19.35	18.76	18.84	19.99	20.05	22.83	22.90	22.93
10. GROSS DOMESTIC DEBT (Ksh bn)**	1,116.68	1,168.23	1,174.78	1,170.05	1,189.18	1,200.90	1,229.30	1,231.20	1,216.76	1,232.49	1,284.33	1,296.44	1,281.09
11. AVERAGE EXCHANGE RATE													
Ksh/US\$	87.49	87.41	85.31	86.10	86.31	86.21	86.28	86.49	86.72	87.41	87.61	87.77	88.11
Ksh/Pound Sterling	135.47	138.54	137.31	138.64	141.37	141.99	142.81	143.76	145.08	147.29	148.15	150.04	147.24
Ksh/ 100 Yen	89.39	88.14	87.24	86.21	83.51	82.92	84.52	84.58	84.59	85.84	85.88	86.32	85.63
Ksh/Euro	116.51	116.67	116.33	116.22	118.18	117.50	117.81	119.58	119.78	120.09	119.16	119.02	117.40

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

** Based on 36 months average 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 rose from 7.7 percent in July 2014 to 8.4 percent in August 2014 reflecting a rise in food inflation by 153 basis points. Non-food non-fuel inflation also rose by 47 basis points in August 2014 while fuel inflation declined by 51 basis points. The three months annualized rate of inflation eased to 6.3 percent in August 2014 indicating reduced domestic inflationary pressures (Table 1.1 and Chart 1A).

TABLE 1.1: INFLATION (%)

Overall Inflation	2013					2014							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
12-month	6.67	8.29	7.76	7.36	7.15	7.21	6.86	6.27	6.41	7.30	7.39	7.67	8.36
Average annual	4.50	4.75	5.05	5.39	5.72	6.01	6.21	6.39	6.58	6.85	7.05	7.19	7.33
Three months annualised	2.23	9.58	8.49	8.37	2.91	7.64	8.09	7.89	7.93	10.69	9.32	6.63	6.33
Non-food non-oil inflation	3.86	5.02	4.94	5.01	4.71	4.83	4.93	4.97	4.53	4.35	4.47	4.45	4.92

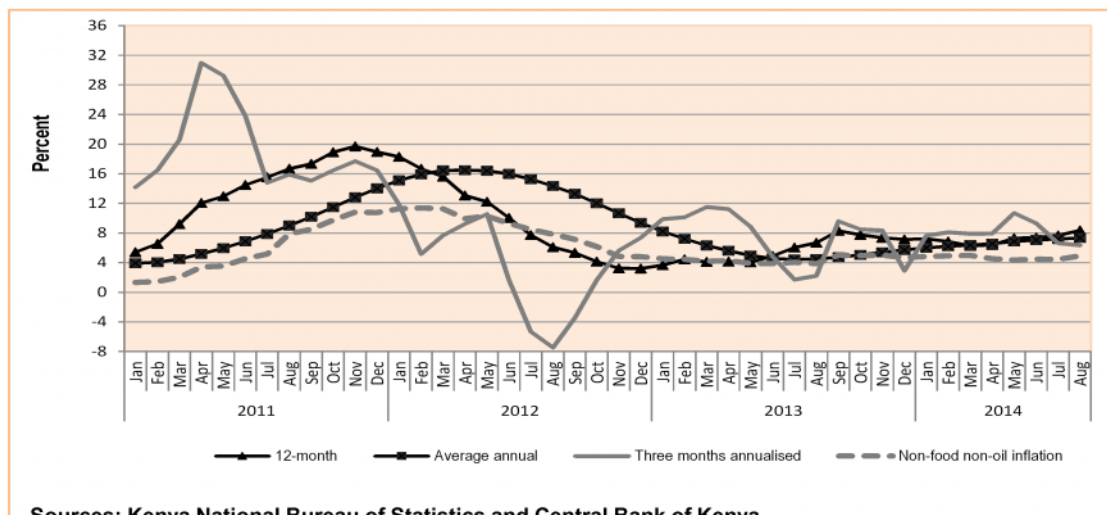
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

The rise in food inflation from 8.9 percent in July 2014 to 10.4 percent in August 2014 reflects a rise in 12-month inflation in the ‘food and non-alcoholic beverages’ index from 9.1 percent in July 2014 to 10.9 percent in August 2014. This development is attributed to a rise in the retail prices of maize and fresh produce. The ‘restaurant and hotels’ index, however, declined from 7.5 percent in July 2014 to 6.9 percent in August 2014.

Fuel inflation eased from 9.1 percent in July 2014 to 8.6 percent in August 2014. This reflected a decline in 12-month inflation in the ‘housing, water, electricity, gas and other fuels’ category from 7.7 percent in July 2014 to 7.0 percent in August 2014 and a marginal decline in the 12-month inflation in the ‘transport’ category from 11.8 percent in July 2014 to 11.7 percent in August 2014.

Non-food non-fuel inflation rose to 4.9 percent in August 2014 reflecting higher inflation in ‘communication’ and ‘recreation and culture’ consumption baskets.

CHART 1A: 12-Month Overall, Average Annual and Three-Months Annualised Inflations(%)

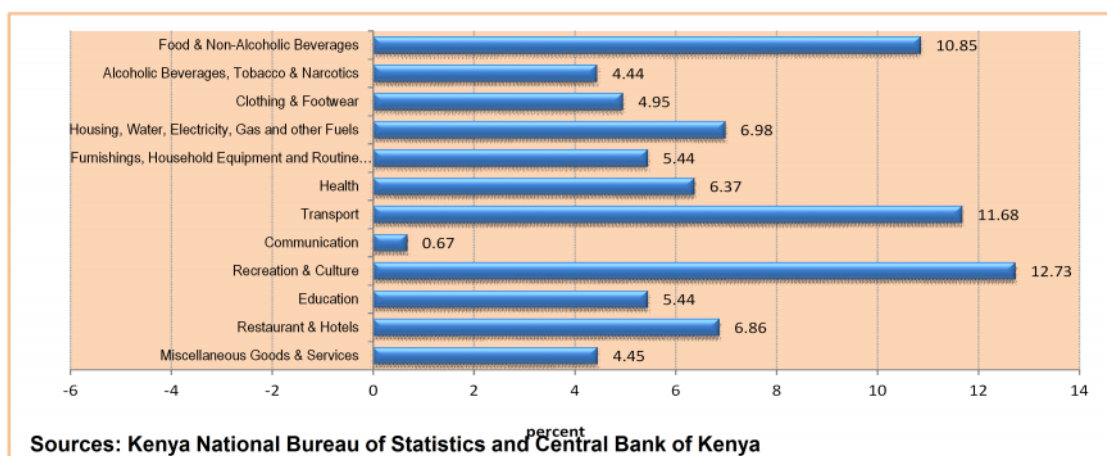


Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

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 51.2 percent of overall 12-month inflation in August 2014 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 14.4 percent and 12.7 percent, respectively.

CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES



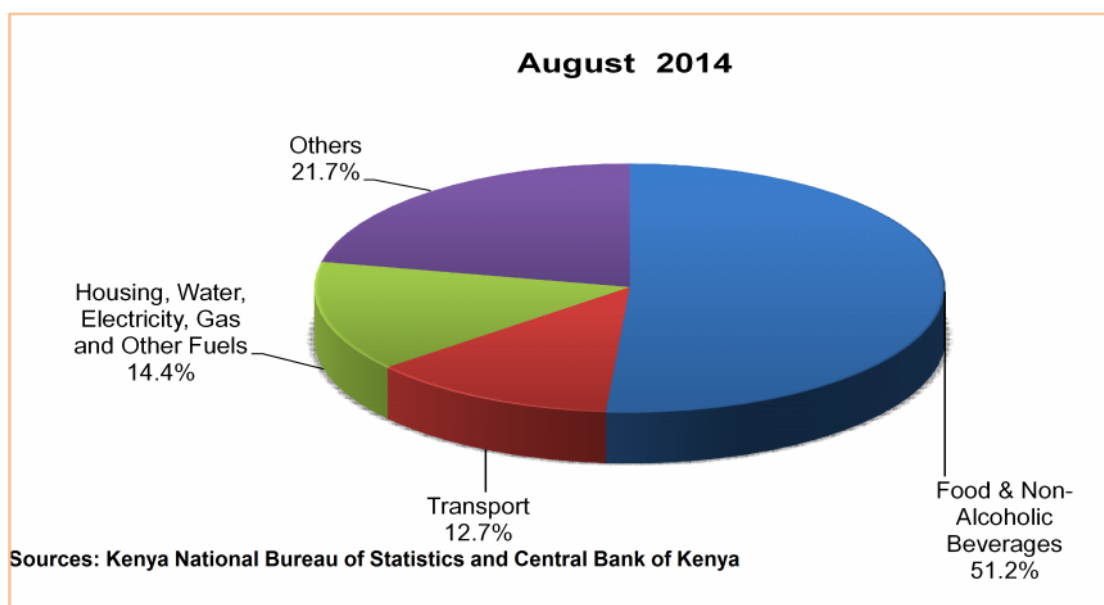
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

TABLE 1.2: 12 MONTHS INFLATION ACROSS BASKETS AND INCOME GROUPS

August 2014	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	10.33	8.8	10.0	10.0	11.5	10.9
Alcoholic beverages, Tobacco & narcotics	2.1	4.6	5.7	4.9	4.9	4.2	4.4
Clothing & Footwear	7.4	4.2	3.9	12.5	4.5	5.3	5.0
Housing, Water, Electricity, Gas and other fuels	18.3	4.4	5.5	3.7	4.6	8.6	7.0
Furnishings, Household equipment and Routine household maintenance	6.2	2.9	9.3	3.5	4.4	6.1	5.4
Health	3.1	5.9	6.4	1.0	5.8	6.7	6.4
Transport	8.7	10.1	6.9	16.5	9.7	13.2	11.7
Communication	3.8	0.7	0.0	0.0	0.5	0.8	0.7
Recreation & culture	2.3	13.0	13.2	8.9	12.9	12.6	12.7
Education	3.1	5.2	4.4	9.6	5.1	5.7	5.4
Restaurants & hotels	4.5	3.2	3.5	5.5	3.3	9.4	6.9
Miscellaneous goods & services	4.5	4.5	3.7	5.1	4.3	4.5	4.4
ALL GROUPS	100.0	7.5	6.4	9.6	7.3	9.1	8.4

Source: Kenya National Bureau of Statistics

CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION (AUGUST 2014)



Inflationary pressures were on average higher in urban centers outside Nairobi, where 12-month inflation rose from 8.7 percent in July 2014 to 9.1 percent in August 2014. The rise in prices of goods and services in Nairobi also rose to 7.3 percent in August 2014 (Table 1.3). The 12-month consumer price inflation for the 'Nairobi Lower Income' group rose to 7.5 percent in August 2014 while 12-month inflation for the 'Nairobi Middle Income' and 'Nairobi upper income' groups also rose to 6.4 percent and 9.6 percent, respectively, in August 2014.

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

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Combined Nairobi	6.46	8.97	8.25	7.63	7.20	6.73	6.10	5.53	5.16	5.95	6.15	6.21	7.32
Lower Income	7.23	9.67	8.99	8.25	7.65	7.16	6.46	5.80	5.36	6.07	6.10	6.13	7.49
Middle Income	4.57	7.11	6.32	5.92	5.97	5.44	4.93	4.65	4.43	5.37	6.06	6.19	6.39
Upper Income	2.38	6.16	5.37	5.50	5.62	5.89	5.84	5.38	5.64	7.18	7.81	8.04	9.58
Other provinces- excluding Nairobi	6.83	7.82	7.43	7.17	7.11	7.54	7.38	6.78	7.27	8.23	8.25	8.68	9.07
TOTAL KENYA	6.67	8.29	7.76	7.36	7.15	7.21	6.86	6.27	6.41	7.30	7.39	7.67	8.36

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

Inflation Outlook

Domestic inflation is expected to stabilize in the near term on account of falling fuel and energy prices and the base effect.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Growth in broad money, M3, accelerated to 21.8 percent in the year to August 2014 from 12.9 percent in a corresponding period in 2013 and was above the respective target of 19.3 percent. The expansion in domestic component of money supply, M2 (defined as M3 excluding foreign currency deposits) increased to 20.0 percent in the year to August 2014 from a growth of 13.8 percent in 2013 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits in M3, increased by Ksh 87.8 billion (32.0 percent) compared with an increase of Ksh 20.1 billion (7.9 percent) in the previous year.

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

	2012 August	2013 August	2014 August	Absolute Change		%age change	
				2012/13 August	2013/14 August	12 months Aug-13	12 months Aug-14
1. Money supply, M3 (2+3) 2/	1638.7	1850.0	2253.3	211.3	403.3	12.9	21.8
1.1 Money supply, M2 3/	1384.3	1575.5	1891.1	191.2	315.5	13.8	20.0
1.2 Money supply, M1	645.7	758.9	918.4	113.3	159.5	17.5	21.0
1.3 Currency outside banks	131.5	152.1	164.1	20.6	11.9	15.7	7.8
2. Net foreign assets 4/	328.6	376.3	481.3	47.7	105.0	14.5	27.9
Central Bank	341.6	408.7	556.1	67.0	147.4	19.6	36.1
Banking Institutions	-13.0	-32.3	-74.7	-19.3	-42.4		
3. Net domestic assets (3.1+3.2)	1310.1	1473.7	1772.0	163.6	298.4	12.5	20.2
3.1 Domestic credit (3.1.1+3.1.2)	1598.8	1807.3	2187.9	208.5	380.6	13.0	21.1
3.1.1 Government (net)	320.8	336.1	372.8	15.3	36.7	4.8	10.9
3.1.2 Private sector and other public sector	1277.9	1471.2	1815.1	193.2	343.9	15.1	23.4
3.2 Other assets net (3-3.1)	-288.7	-333.6	-415.9	-45.0	-82.2		
Memorandum items							
1. Overall liquidity, L 1/	2022.7	2341.8	2880.2	319.2	538.3	15.8	23.0
2. Reserve money	250.2	309.8	357.1	59.6	47.2	23.8	15.2
Currency outside banks	131.5	152.1	164.1	20.6	11.9	15.7	7.8
Bank reserves	118.7	157.7	193.0	38.9	35.3	32.8	22.4

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.

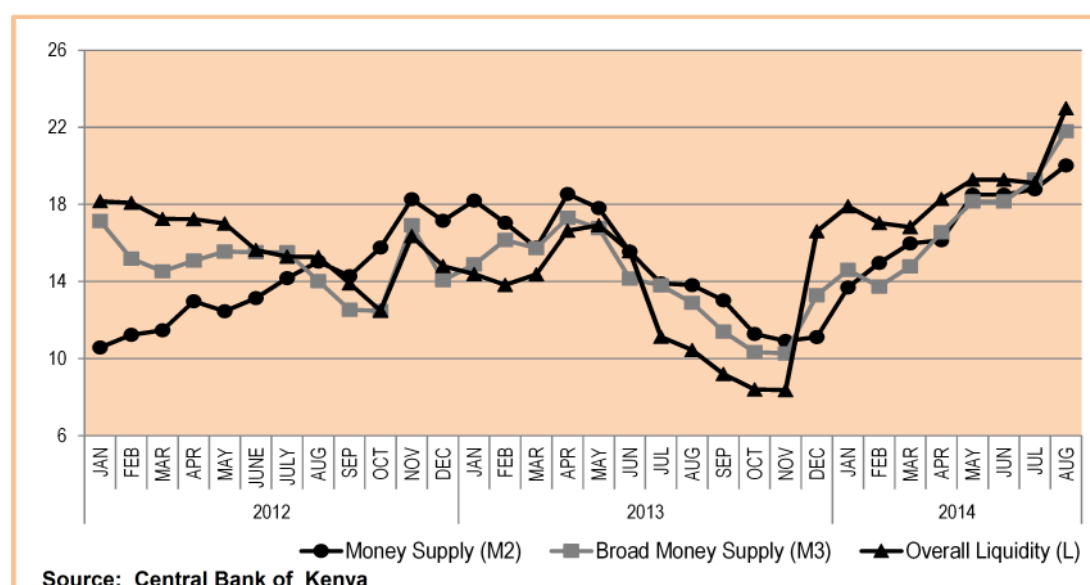
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

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



The money supply (M3) growth was reflected in increases of both Net Foreign Assets (NFA) and Net Domestic Assets of the banking system (Table 2.1). NFA of the banking system grew by 27.9 percent (or Ksh 105.0 billion) in the twelve months to August 2014 compared with an increase of 14.5 percent (or Ksh 47.7 billion) in a corresponding period in 2013 and reflected increase in holdings of the Central Bank. NFA of the Central Bank increased by 36.1 percent to Ksh 556.1 billion in August 2014 from Ksh 408.7 billion in August 2013 and is attributed to receipt of the proceeds of the Euro Bond issued in June 2014, drawing under the economic programme supported by the IMF's Extended Credit Facility and purchases of foreign exchange reserves from the interbank market. The NFA of banking institutions however, declined by Ksh 42.4 billion to Ksh -74.7 billion from Ksh -32.3 billion in August 2013 on account of increased loans from non-residents and accumulation of foreign deposits. Over the same period, annual growth in Net Domestic Assets (NDA) of the banking system increased to 20.2 percent compared with a growth of 12.5 percent in a similar period in 2013 reflecting stronger growth in net domestic credit particularly to the private sector (Table 2.1).

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

	2013 August		2014 August		Absolute Change August		Annual %age Change August	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2012/13	2013/14	2012/13	2013/14
1. Credit to Government	336.1	18.6	372.8	17.0	15.3	36.7	4.8	10.9
Central Bank	-45.1	-2.5	-92.9	-4.2	-41.3	-47.8		
Commercial Banks & NBFIs	381.2	21.1	465.7	21.3	56.6	84.5	17.4	22.2
2. Credit to other public sector	43.3	2.4	37.9	1.7	-5.9	-5.4	-11.9	-12.4
Local government	0.1	0.0	0.1	0.0	-3.8	0.0	-96.8	18.2
Parastatals	43.2	2.4	37.8	1.7	-2.0	-5.4	-4.5	-12.5
3. Credit to private sector	1427.8	79.0	1777.1	81.2	199.1	349.3	16.2	24.5
Agriculture	58.0	3.2	70.1	3.2	2.0	12.1	3.6	20.9
Manufacturing	174.0	9.6	221.0	10.1	15.3	47.0	9.6	27.0
Trade	234.4	13.0	293.2	13.4	31.2	58.8	15.4	25.1
Building and construction	69.6	3.8	77.1	3.5	7.1	7.5	11.4	10.8
Transport & communications	80.8	4.5	118.1	5.4	7.2	37.3	9.8	46.1
Finance & insurance	27.2	1.5	38.7	1.8	-1.0	11.6	-3.5	42.6
Real estate	185.3	10.3	239.8	11.0	26.7	54.5	16.9	29.4
Mining and quarrying	23.4	1.3	28.0	1.3	3.5	4.6	17.4	19.6
Private households	218.9	12.1	279.7	12.8	46.0	60.8	26.6	27.8
Consumer durables	89.6	5.0	106.1	4.9	10.5	16.5	13.3	18.4
Business services	122.3	6.8	161.1	7.4	36.2	38.8	42.1	31.7
Other activities	144.4	8.0	144.1	6.6	14.2	-0.2	10.9	-0.2
4. TOTAL (1+2+3) *	1807.3	100.0	2187.9	100.0	208.5	380.6	13.0	21.1

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

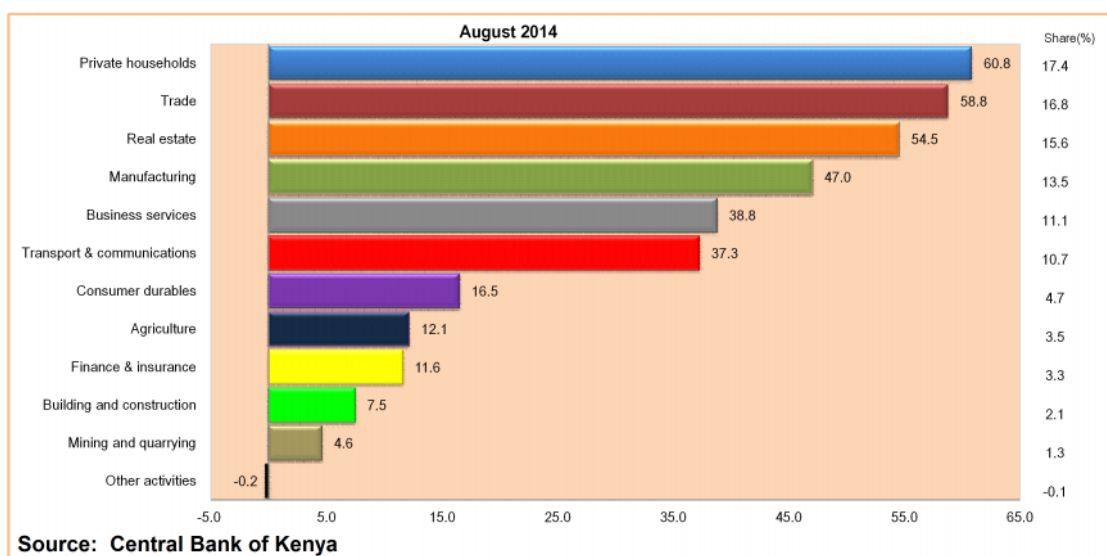
Source: Central Bank of Kenya

Domestic Credit Developments Domestic credit from the banking sector increased by Ksh 380.6 billion (21.1 percent) in the twelve months to August 2014 compared with Ksh 208.5 billion (13.0 percent) in a similar period in 2013 (Table 2.2). The increase was largely reflected in growth of credit to the private sector, which accelerated to 24.5 percent in the year to August 2014 from 16.2 percent in a similar period in 2013. The private sector continued to dominate banking system lending; accounting for 81.2 percent of total lending in August 2014 compared with a 17.0 percent share of government.

The additional private sector credit in the twelve months to August 2014 was allocated to the following activities, in order of magnitude: private households 17.4 percent (or Ksh 60.8 billion); trade at 16.8 percent (or Ksh 58.8 billion); real estate at 15.6 percent (or Ksh 54.5 billion); manufacturing 13.5 percent (or Ksh 47.0 billion); business services 11.1 percent (or Ksh 38.8 billion); transport and communication 10.7 percent (or Ksh 37.3 billion); and consumer durables 4.7 percent (or Ksh 16.5 billion). Chart 2B presents the sectorial distribution of private sector credit.

Net credit to Government increased by 10.9 percent (or Ksh 36.7 billion) in the year to August 2014 compared with an increase of 4.8 percent (or Ksh 15.3 billion) in a corresponding period in 2013. Over a similar period, the 'other public sector' repaid by Ksh 5.4 billion compared to Ksh. 5.9 billion repayment over a similar period in 2013.

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO AUGUST 2014 (Ksh billion)



Reserve Money

Reserve money (RM) which comprises currency held by the non-bank public and commercial banks deposits at the Central Bank increased by 15.2 percent in the year to August 2014 compared with 23.8 percent growth in the corresponding period in 2013 (Table 2.3 and Chart 2C). At Ksh 357.1 billion in August 2014, reserve money was Ksh 8.0 billion above respective target. The growth in reserve money reflected 22.4 percent increase in bank reserves and 7.8 percent growth in currency outside banks. The share of currency in reserve money decreased to 45.9 in August 2014 from 49.1 percent in August 2013 and 52.5 percent in August 2012.

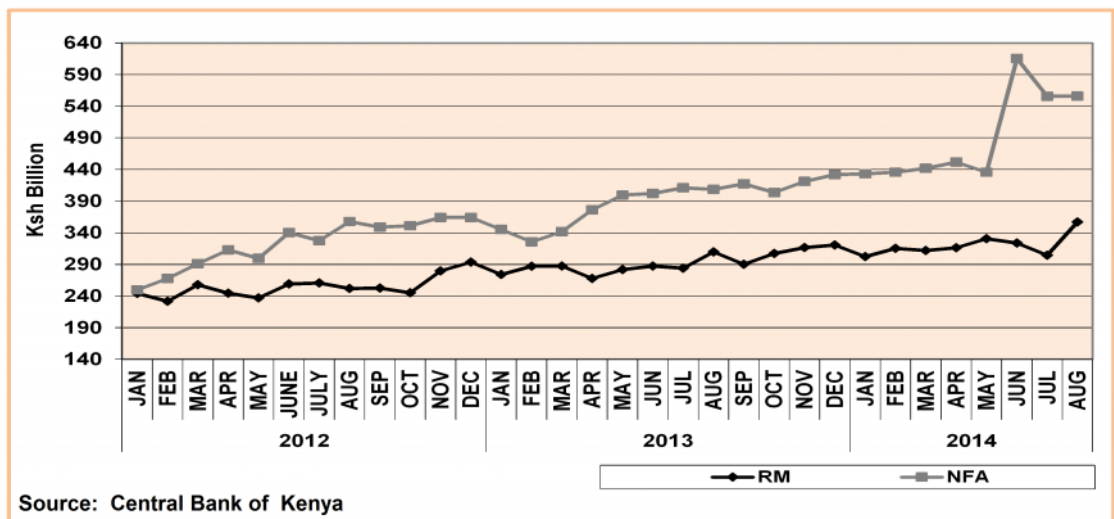
TABLE 2.3: RESERVE MONEY AND ITS SOURCES (Ksh billion)

	2012	2013	2014	Absolute change		Change (%)		2014	
	August	August	August	2012/13	2013/14	2012/13	2013/14	August Target	Deviation
1. Net Foreign Assets	341.6	408.7	556.1	67.0	147.4	19.6	36.1	546.1	9.9
2. Net Domestic Assets	-91.4	-98.9	-199.0	-7.4	-100.2	8.1	101.3	-197.1	-1.9
2.1 Government Borrowing (net)	-3.8	-45.1	-92.9	-41.3	-47.8			-15.7	-77.2
2.2 Commercial banks (net)	-39.4	0.0	29.2	39.4	29.2			-34.8	64.0
2.3 Other Domestic Assets (net)	-50.5	-57.6	-139.0	-7.2	-81.4			-146.6	7.6
3. Reserve Money	250.2	309.8	357.1	59.6	47.2	23.8	15.2	349.0	8.0
3.1 Currency outside banks	131.5	152.1	164.1	20.6	11.9	15.7	7.8	163.3	0.8
3.2 Bank reserves	118.7	157.7	193.0	38.9	35.3	32.8	22.4	185.7	7.3

Source: Central Bank of Kenya

The source of reserve money growth in the twelve months to August 2014 was largely accumulation of Net Foreign Assets (NFA) of the Central Bank which grew by 36.1 percent (or Ksh 147.4 billion) to Ksh 556.1 billion in August 2014 from Ksh

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



408.7 billion in August 2013. The NFA build up reflect receipt of the Euro Bond sold in June 2014, drawing under the ECF financed economic programme and interbank purchases of foreign exchange to augment the stock of foreign exchange reserves in line with the statutory minimum requirements of 4 months of imports of goods and non-factor services.

Over a similar period, the NDA of the Central Bank decreased by Ksh 100.2 billion to Ksh -199.0 billion from Ksh -98.9 billion in August 2013. This was largely reflected in decrease of net Government indebtedness at the Central Bank from Ksh -45.1 billion to Ksh -92.9 billion on account of buildup of Government deposits following receipts from the sale of Eurobond.

Central Bank Rates The Central Bank Rate (CBR) was held unchanged at 8.50 percent in August 2014 in order to continue anchoring inflationary expectations and price stability.

Short Term Interest Rates Short term interest rates recorded mixed performance in August 2014 (Table 2.4 and Chart 2D). The weighted average interbank rate increased from 8.08 percent in July 2014 to 11.79 percent in August 2014. The tightness is attributed to slow pace of Government spending at the beginning of FY 2014/15. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, decreased to 8.29 percent in August 2014 compared with 9.78 percent in July 2014 while the 182-day Treasury bill rate decreased from 10.74 percent to 8.85 percent.

Lending and Deposit Rates

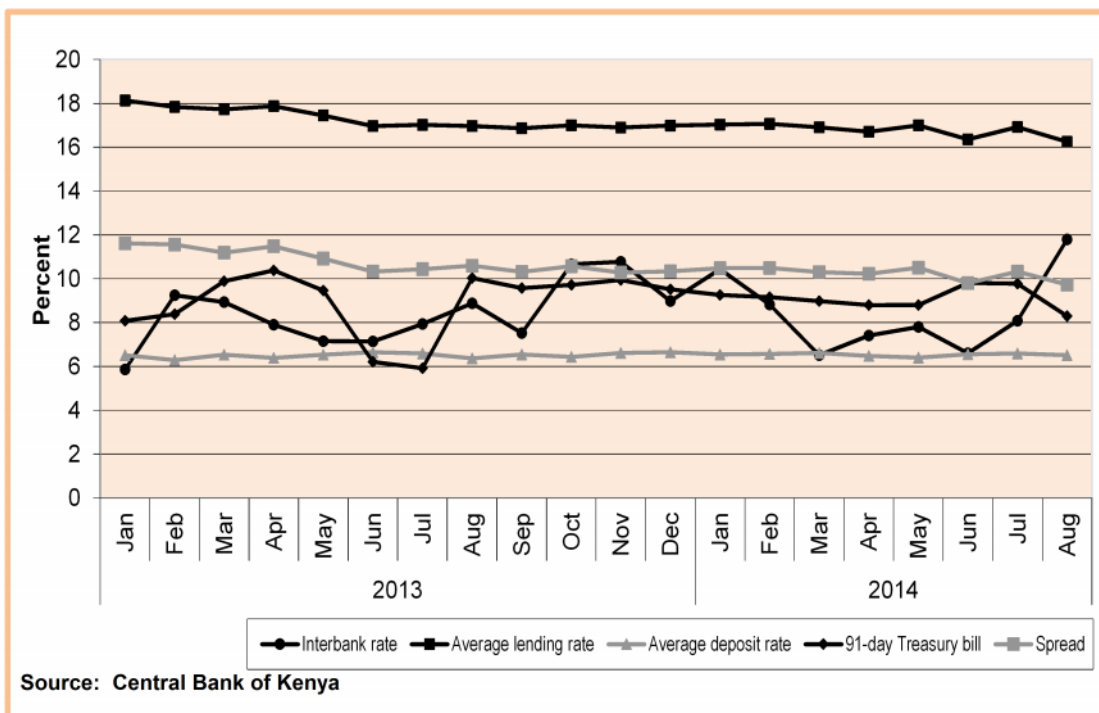
The average lending rate decreased to 16.26 percent in August 2014 from 16.91 in July 2014, while the average deposit rate remained largely unchanged at 6.51 percent compared with 6.59 percent. Consequently, the interest rate spread decreased to 9.75 percent in August 2014 from 10.33 percent in July 2014 (Table 2.4 and Chart 2D).

TABLE 2.4: INTEREST RATES (%)

	2013					2014							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
91-day Treasury bill rate	10.03	9.58	9.72	9.94	9.52	9.26	9.16	8.98	8.80	8.82	9.81	9.78	8.29
Overdraft rate	16.89	16.42	16.96	16.50	16.51	16.82	16.88	16.44	16.44	17.85	15.88	17.12	16.19
Interbank rate	8.88	7.52	10.66	10.77	8.98	10.43	8.83	6.51	7.40	7.76	6.60	8.08	11.79
Repo rate	-	7.11	-	-	7.95	-	-	6.92	6.71	8.42	6.46	-	-
Reverse Repo rate	8.77	-	10.85	12.35	11.28	0.00	-	-	-	-	-	-	-
Central Bank Rate (CBR)	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Average lending rate (1)	16.96	16.86	17.00	16.89	16.99	17.03	17.06	16.91	16.70	16.97	16.36	16.91	16.26
Average deposit rate (2)	6.36	6.55	6.43	6.61	6.65	6.55	6.57	6.61	6.48	6.42	6.56	6.59	6.51
0 to 3 - month deposit	8.39	8.44	8.36	8.78	8.98	9.39	9.43	10.02	9.63	9.65	10.05	9.80	10.29
Savings deposits	1.67	1.64	1.63	1.58	1.58	1.56	1.49	1.56	1.53	1.54	1.50	1.33	1.50
Spread (1-2)	10.60	10.32	10.57	10.28	10.34	10.48	10.49	10.30	10.23	10.55	9.80	10.33	9.75

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



Source: Central Bank of Kenya

PERFORMANCE OF THE REAL SECTOR

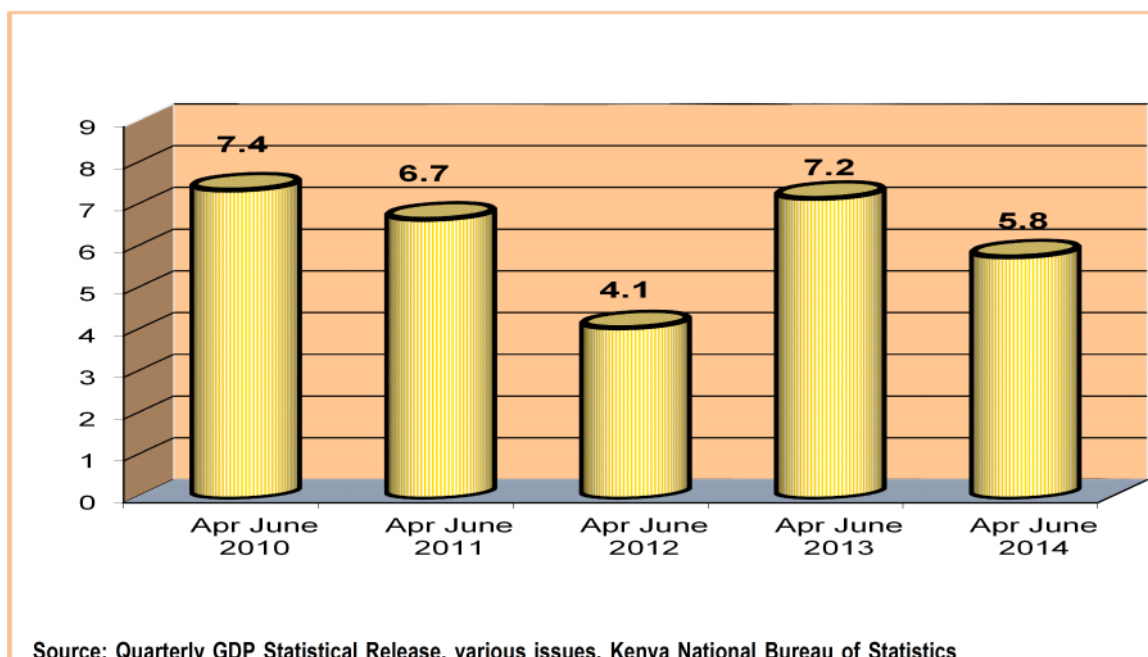
Overview Real GDP in 2013 grew by 5.7 percent and amounted to Ksh 3.64 trillion compared with 4.5 percent growth in 2012 (Table 3.1). The real GDP is estimated to have increased by 4.4 percent in the first quarter of 2014 and 5.8 percent in the second quarter of 2014 compared with growth of 6.4 percent and 7.2 percent in comparable quarters of 2013 (Chart 3A). Growth in the first and second quarters of 2014 was supported by improved performance in manufacturing and construction.

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

Main Sectors	Share in 2013 Nominal GDP (%)	Share in 2013 Real GDP (%)	Constant 2001 Prices (Ksh)							
			2006	2007	2008	2009	2010	2011	2012	2013
Agriculture, forestry and fishing	26.27	22.40	686,710	720,612	684,702	688,968	738,195	753,598	775,799	815,087
Mining and quarrying	0.81	0.85	13,849	16,289	16,296	18,134	23,894	28,428	33,830	30,795
Manufacturing	10.43	11.12	327,918	342,267	346,177	342,532	357,958	383,891	381,942	404,502
Electricity supply	1.06	1.54	34,036	39,792	36,947	39,162	40,545	45,949	52,187	56,045
Water supply, sewerage, waste management	0.87	0.83	22,769	22,558	22,885	24,869	27,493	28,489	29,380	30,270
Construction	4.46	4.48	89,513	97,119	95,474	112,219	133,647	139,033	154,621	163,075
Wholesale and retail trade; repairs	7.85	7.63	172,625	186,328	189,326	200,032	219,221	237,516	254,231	277,699
Transport and storage	7.38	6.62	173,502	185,955	191,536	205,774	215,970	231,340	237,734	240,764
Hotels and restaurants	1.23	1.44	50,040	57,300	39,471	51,510	51,238	53,333	54,972	52,441
Information and communication	1.44	3.36	51,720	61,952	67,574	73,691	86,492	105,483	107,773	122,310
Financial and insurance activities	6.58	5.89	133,353	139,918	146,815	150,411	176,968	185,206	196,265	214,497
Real estate	7.89	8.10	214,219	224,439	235,102	246,546	258,953	272,055	283,061	294,747
Professional, scientific and technical activities	0.99	1.06	26,509	29,836	31,343	33,085	34,092	34,628	36,440	38,553
Administrative and support service activities	1.20	1.33	40,829	43,849	39,645	44,151	45,422	46,546	47,619	48,303
Public administration and defence	4.80	3.88	109,013	111,635	119,363	127,807	129,710	132,986	140,851	141,198
Education	5.43	6.92	145,223	154,720	168,955	177,993	196,171	210,958	235,476	251,650
Human health and social work activities	1.58	1.72	50,447	53,561	56,076	58,686	62,345	60,723	58,761	62,752
Arts, entertainment and recreation	0.14	0.14	3,887	3,951	3,945	4,326	4,853	5,026	4,892	5,076
Other service activities	0.62	0.67	20,144	20,703	21,004	20,885	21,618	21,853	22,732	24,294
Activities of households as employers	0.54	0.51	16,623	16,873	17,126	17,383	17,643	17,908	18,177	18,449
FISIM	-2.57	-2.40	-49,597	-51,383	-53,675	-59,373	-68,827	-75,076	-82,648	-87,358
All economic activities	89.00	88.08	2,332,335	2,478,274	2,476,088	2,558,791	2,771,591	2,919,872	3,044,104	3,205,148
Taxes on products	11.00	11.92	255,944	287,322	285,931	304,896	332,810	374,582	397,028	433,613
GDP at market prices	100.00	100.00	2,588,279	2,765,595	2,772,019	2,863,688	3,104,401	3,294,454	3,441,132	3,638,761
Annual Growth Rates in Percent										
	Share in 2013 Nominal GDP (%)	Share in 2013 Real GDP (%)	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture, forestry and fishing	26.27	22.40	...	5.1	-5.0	-2.3	10.0	2.4	2.9	5.1
Mining and quarrying	0.81	0.85	...	17.6	0.0	11.3	31.7	19.0	19.0	-9.0
Manufacturing	10.43	11.12	...	4.4	1.1	-1.1	4.5	7.2	-0.5	5.9
Electricity supply	1.06	1.54	...	16.9	-7.1	6.0	3.5	13.3	13.6	7.4
Water supply, sewerage, waste management	0.87	0.83	...	-0.9	1.4	8.7	10.6	3.6	3.2	3.0
Construction	4.46	4.48	...	8.5	-1.7	17.5	19.1	4.0	11.2	5.5
Wholesale and retail trade; repairs	7.85	7.63	...	7.9	1.6	5.7	9.6	8.3	7.0	9.2
Transport and storage	7.38	6.62	...	7.2	3.0	7.4	5.0	7.1	2.8	1.3
Hotels and restaurants	1.23	1.44	...	14.5	-31.1	30.5	-0.5	4.1	3.1	-4.6
Information and communication	1.44	3.36	...	19.8	9.1	9.1	17.4	22.0	2.2	13.5
Financial and insurance activities	6.58	5.89	...	4.9	4.9	2.4	17.7	4.7	6.0	9.3
Real estate	7.89	8.10	...	4.8	4.8	4.9	5.0	5.1	4.0	4.1
Professional, scientific and technical activities	0.99	1.06	...	12.6	5.1	5.6	3.0	1.6	5.2	5.8
Administrative and support service activities	1.20	1.33	...	7.4	-9.6	11.4	2.9	2.5	2.3	1.4
Public administration and defence	4.80	3.88	...	2.4	6.9	7.1	1.5	2.5	5.9	0.2
Education	5.43	6.92	...	6.5	9.2	5.3	10.2	7.5	11.6	6.9
Human health and social work activities	1.58	1.72	...	6.2	4.7	4.7	6.2	-2.6	-3.2	6.8
Arts, entertainment and recreation	0.14	0.14	...	1.6	-0.2	9.7	12.2	3.6	-2.7	3.8
Other service activities	0.62	0.67	...	2.8	1.5	-0.6	3.5	1.1	4.0	6.9
Activities of households as employers	0.54	0.51	...	1.5	1.5	1.5	1.5	1.5	1.5	1.5
FISIM	-2.57	-2.40	...	3.6	4.5	10.6	15.9	9.1	10.1	5.7
All economic activities	89.00	88.08	...	6.3	-0.1	3.3	8.3	5.4	4.3	5.3
Taxes on products	11.00	11.92	...	12.3	3.0	3.0	9.2	12.6	6.0	9.2
GDP at market prices	100.00	100.00	...	6.9	0.2	3.3	8.4	6.1	4.5	5.7

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

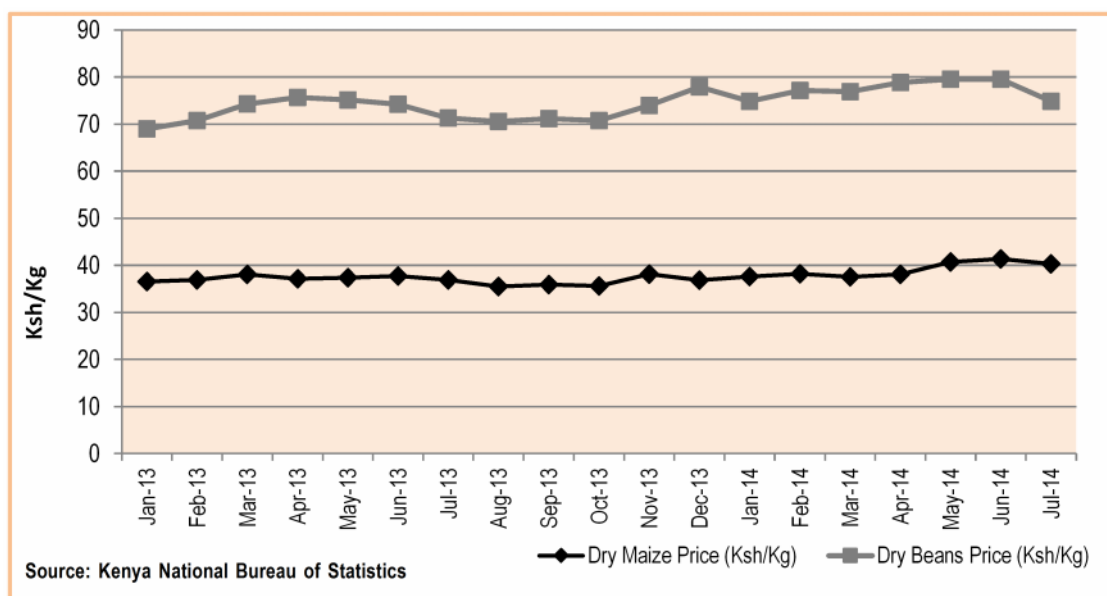
CHART 3A: REAL GDP GROWTH IN THE FOURTH QUARTERS



Agriculture

Agriculture recorded 5.9 percent growth in output in the first quarter of 2014 and 5.5 percent in the second quarter of 2014 compared with 5.1 percent increase in the first quarter of 2013 and 6.0 percent increase in the second quarter of 2013. Unfavorable weather conditions in the first half of 2014, however resulted in increased prices of food items such as maize and beans (Chart 3B).

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



Major Indicators in Agriculture

Most indicators of performance in agriculture in the year to July 2014 point to slowed growth (Table 3.2). Among selected crops, growth in production of tea and coffee declined, while export of horticultural products slowed. Production of milk also declined during the year to July 2014 as production of sugarcane improved.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK

	2012	2013	Year to July 13	Year to July 14*
Tea				
Output (Metric tonnes)	369,562	432,453	438,932	436,579
Growth (%)	-2.2%	17.0%	23.4%	-0.5%
Horticulture				
Exports (Metric tonnes)	250,814	309,029	290,723	308,201
Growth (%)	5.1%	23.2%	19.8%	6.0%
Coffee				
Sales (Metric tonnes)	46,051	37,942	40,710	40,402
Growth (%)	53.6%	-17.6%	-7.1%	-0.8%
Milk				
Output (million litres)	495	523	550	527
Growth %	-9.8%	5.6%	10.0%	-4.3%
Sugar Cane				
Output (Metric tonnes)	5,716,300	6,671,800	5,786,700	7,113,650
Growth (%)	7.1%	16.7%	5.0%	22.9%

* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

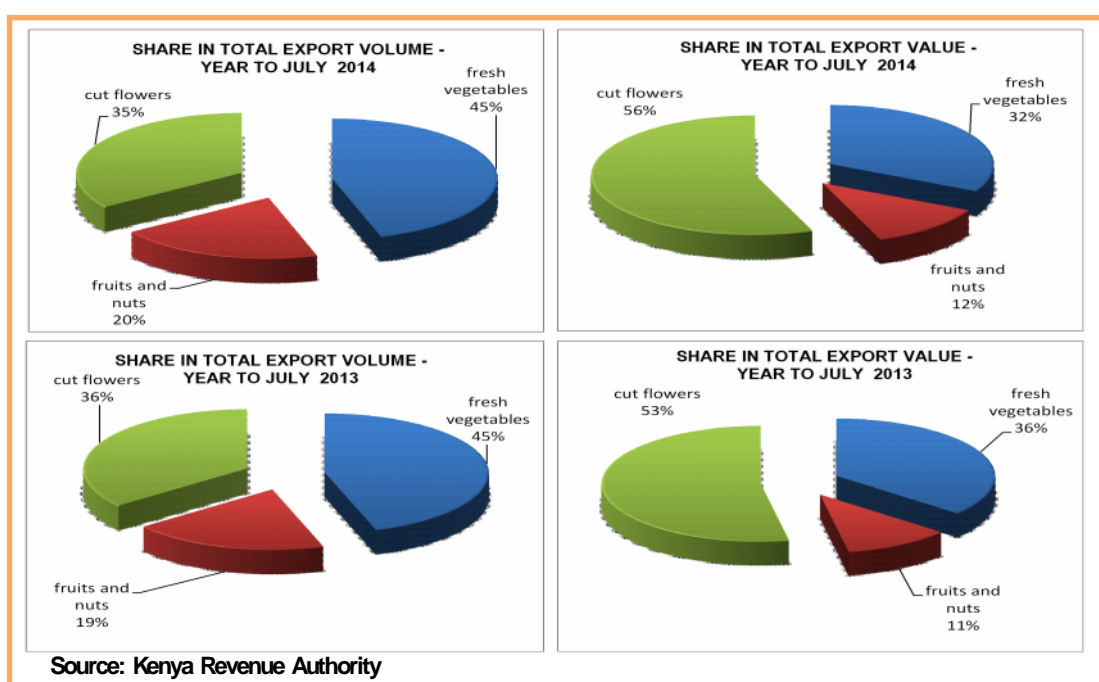
Tea

Production of tea declined by 0.5 percent in the year to July 2014 compared with growth of 23.4 percent recorded in the year to July 2013 (Table 3.2). The average auction price for tea however, declined from Ksh 253 per kilogram in the year to July 2013 to Ksh 199 per kilogram in the year to July 2014.

Horticulture

Export of fresh horticultural products increased by 6.0 percent, from 290,723 metric tonnes in the year to July 2013 to 308,201 metric tonnes in the year to July 2014. 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 July 2014 (Table 3.2 and Chart 3C).

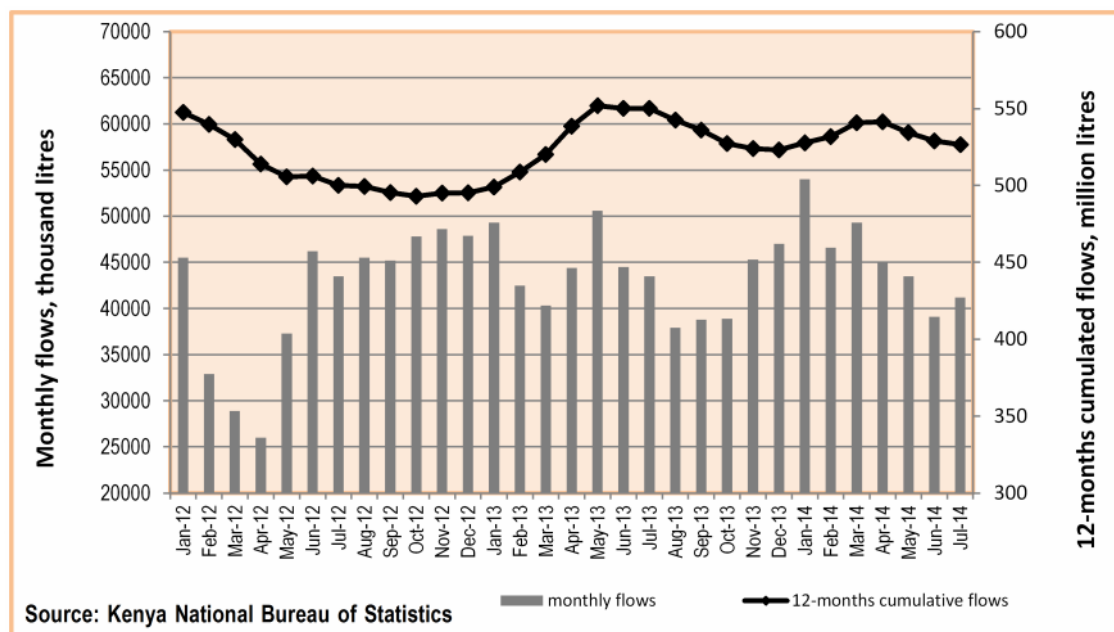
CHART 3C: HORTICULTURAL EXPORTS



Coffee Coffee sales declined by 0.8 percent in the year to July 2014, representing a marginal change compared with 7.1 percent decline in the year to July 2013. The average auction price for coffee, however, increased from Ksh 279 per kilogram in the year to July 2013 to Ksh 305 per kilogram in the year to July 2014 owing to improved quality.

Dairy

CHART 3D: PROCESSED MILK (LITRES)



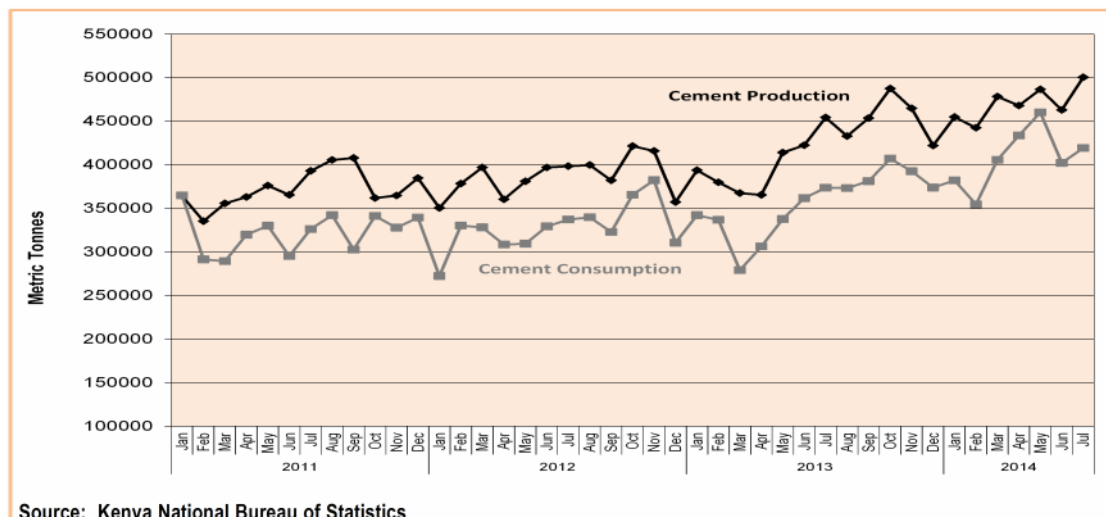
Manufacturing

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	Annual Totals	Year to July 13*	Year to July 14*
	2013*		
Cement production			
Output (MT)	5,059,129	4,774,844	5,555,042
Growth %	9.0%	4.1%	16.3%
Assembled vehicles			
Output (No.)	6,948	6,371	8,446
Growth %	11.7%	-1.8%	32.6%
Galvanized sheets			
Output (MT)	305,152	285,762	293,397
Growth %	19.3%	13.8%	2.7%
Processed sugar			
Output (MT)	600,210	495,944	648,344
Growth %	21.5%	4.4%	30.7%
Soft drinks			
Output ('000 litres)	407,027	379,516	440,726
Growth %	13.2%	5.4%	16.1%

Source: Kenya National Bureau of Statistics

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Energy Sector

Annual growth in local generation of electricity accelerated from 7.0 percent in the year to July 2013 to 11.3 percent in the year to July 2014 (Table 3.4). The total amount of electricity generated thus increased from 7,835 million kilowatt hours to 8,718 million kilowatt hours. The supply in the current period comprised 43.7 percent of hydro-electricity, 32.1 percent of thermal power and 24.2 percent of geo-thermal power. The increase in the amount of electricity produced reflects accelerated generation of thermal and geo-thermal power (green energy) to 49.5 percent and 28.7 percent, respectively, in the year to July 2014 compared with -15.7 percent and 9.1 percent growth registered in the comparable period of 2013. Generation of hydro-electricity, however, decreased by 11.8 percent in the year to July 2014 from 20.1 percent growth in the previous year, reflecting the unfavourable weather conditions. Growth in consumption of electricity increased from 3.5 percent in the year to July 2013 to 7.1 percent in the year to July 2014. The average price of murban crude oil declined from USD 110.0 per barrel in the year to July 2013 to USD 109.4 per barrel in the year to July 2014.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	2013	Year to July 13	Year to July 14*
Electricity Supply (Generation)			
Output (million KWH)	8,217	7,835	8,718
<i>Growth %</i>	8.9%	7.0%	11.3%
Of which:			
Hydro-power Generation (million KWH)	4,387	4,326	3,813
<i>Growth (%)</i>	8.8%	20.1%	-11.8%
Geo-Thermal Generation (million KWH)	1,781	1,638	2,108
<i>Growth (%)</i>	17.0%	9.1%	28.7%
Thermal (million KWH)	2,049	1,871	2,797
<i>Growth (%)</i>	3.0%	-15.7%	49.5%
Consumption of electricity (million KWH)	6,564	6,409	6,866
<i>Growth %</i>	4.7%	3.5%	7.1%
Murban crude oil average price (US \$ per barrel)	110.1	110.0	109.4
<i>Growth %</i>	-2.5%	-2.1%	-0.5%

* Provisional
Source: Kenya National Bureau of Statistics

Tourism

The number of tourist arrivals declined by 14.9 percent in the year to July 2014 (Table 3.5) compared with a decline of 9.3 percent in the year to July 2013. The unfavourable performance is attributed to adverse travel advisories from source countries regarding insecurity in Kenya. The ports of disembarkation for tourists remained Jomo Kenyatta International Airport Nairobi (83.1 percent share), and the Moi International Airport, Mombasa (16.9 percent share).

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2013	Year to July 2013	Year to July 2014	Year to July 2014 % Share	Year to July 2014 % Growth
MIAM	189,654	181,460	168,654	16.9%	-7.1%
JKIA	912,998	991,882	829,415	83.1%	-16.4%
TOTAL	1,102,652	1,173,342	998,069	100.0%	-14.9%

Source: Kenya Tourist Board

Transport

The total number of passengers (both incoming and outgoing) received at the Jomo Kenyatta International Airport, Nairobi (JKIA) declined by 2.1 percent in the year to July 2014, compared with a decline of 1.6 percent recorded in the previous year. The decline is reflected in both incoming and outgoing passengers (Table 3.6). Meanwhile, the volume of oil passed through the Kenya pipeline increased by 6.2 percent in the year to July 2014, less rapidly compared with 11.8 percent in the year to July 2013.

TABLE 3.6: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

			Year to July 13*	Year to July 14*
	2012	2013*		
Number of Passengers thro' JKIA				
Total passenger flows	4,302,244	4,290,349	4,321,412	4,229,850
Growth (%)	4.0%	-0.3%	-1.6%	-2.1%
o.w. Incoming	2,148,105	2,144,002	2,151,408	2,107,992
Growth (%)	2.8%	-0.2%	-2.5%	-2.0%
Outgoing	2,154,139	2,146,347	2,170,004	2,121,858
Growth %	5.3%	-0.4%	-0.8%	-2.2%
Kenya Pipeline Oil Throughput				
Output ('000 litres)	4,855,573	5,181,609	5,112,906	5,431,924
Growth %	14.0%	6.7%	11.8%	6.2%

* Provisional

Source: Kenya National Bureau of Statistics

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview The overall Balance of Payments surplus improved to USD 1,626 million in the year to August 2014 from a surplus of USD 542 million in the year to August 2013 (Table 4.1). The improvement reflects increased surplus in the capital and financial account of USD1,212.4 which is more than the financial widening current account deficit.

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

ITEM	Year to Aug 2013	Year to August 2014*				Year to Aug 2014*	Absolute Change	% Change
		Q1 Sep-Nov	Q2 Dec-Feb	Q3 Mar-May	Q4 Jun-Aug			
1. OVERALL BALANCE	542	225	247	-177	1331	1626	1083.6	199.8
2. CURRENT ACCOUNT	-4734	-1253	-1050	-1230	-1330	-4863	-128.8	2.7
2.1 Goods	-10832	-2933	-2727	-2899	-3133	-11693	-860.7	7.9
Exports (fob)	6006	1439	1458	1677	1493	6068	61.7	1.0
Imports (cif)	16838	4373	4185	4576	4626	17761	922.4	5.5
2.2 Services	6098	1681	1677	1669	1803	6830	731.9	12.0
Non-factor services (net)	3489	920	988	1092	1173	4173	684.7	19.6
Income (net)	-287	-83	-50	-38	-154	-324	-37.7	13.2
Current Transfers (net)	2896	843	739	615	784	2981	84.9	2.9
3. CAPITAL & FINANCIAL ACCOUNT	5276	1478	1297	1053	2661	6489	1212.4	23.0
3.1 Capital Transfers (net)	139	33	24	94	50	201	62.2	44.8
3.2 Financial Account	5138	1445	1273	959	2612	6288	1150.2	22.4
memo:								
Gross Reserves	7740	7893	8352	8223	9731	9731	1991.8	25.7
Official	6120	6333	6679	6491	7814	7814	1694.4	27.7
import cover**	4.1	4.2	4.4	4.2	4.9	4.9	0.9	21.3
import cover***	4.3	4.4	4.5	4.3	5.1	5.1	0.9	20.0
Commercial Banks	1620	1560	1673	1732	1917	1917	297.4	18.4

* 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 worsened by 2.7 percent or USD 128.8 million to USD 4,863 million deficit in the year to August 2014 from USD 4,734 million deficit in the year to August 2013. The deterioration reflects a 7.9 percent (USD 860.7 million) widening in the Merchandise account deficit (Table 4.2) which more than offset a 12 percent (USD 713.9 million) improvement in the Services account surplus.

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

ITEM	Year to Aug 2013	Year to August 2014*				Year to Aug 2014*	Absolute Change	% Change
		Q1 Sep-Nov	Q2 Dec-Feb	Q3 Mar-May	Q4 Jun-Aug			
2. CURRENT ACCOUNT	-4734	-1253	-1050	-1230	-1330	-4863	-128.8	2.7
2.1 Goods	-10832	-2933	-2727	-2899	-3133	-11693	-860.7	7.9
Exports (fob)	6006	1439	1458	1677	1493	6068	61.7	1.0
Coffee	201	45	36	67	68	216	15.2	7.5
Tea	1302	260	279	266	275	1080	-221.6	-17.0
Horticulture	721	192	202	214	179	788	66.9	9.3
Oil products	67	9	8	17	23	58	-8.8	-13.1
Manufactured Goods	689	180	154	165	129	629	-60.2	-8.7
Raw Materials	382	106	116	132	85	439	57.4	15.1
Chemicals and Related Products (n.e.s.)	491	116	112	117	110	455	-36.3	-7.4
Miscellaneous Man. Articles	576	153	149	167	152	620	44.6	7.8
Re-exports	498	172	183	311	211	877	379.2	76.2
Other	1080	206	219	221	260	906	-174.7	-16.2
Imports (cif)	16838	4373	4185	4576	4626	17761	922.4	5.5
Oil	3899	950	954	1152	991	4047	148.0	3.8
Chemicals	2137	575	621	576	593	2364	227.5	10.6
Manufactured Goods	2485	669	666	660	663	2658	172.7	7.0
Machinery & Transport Equipment	4801	1149	1117	1436	1583	5285	484.3	10.1
Other	3516	1030	828	752	796	3406	-110.2	-3.1
2.2 Services	6098	1681	1677	1669	1803	6830	731.9	12.0
Non-factor services (net)	3489	920	988	1092	1173	4173	684.7	19.6
Non-factor services (credit)	4712	1270	1304	1371	1486	5432	720.4	15.3
of which transport	2090	560	519	531	590	2200	109.5	5.2
of which tourism (Travel)	903	211	185	189	209	795	-108.1	-12.0
Other services account: govt	952	227	229	229	198	885	-67.3	-7.1
Other services account: private	767	272	371	422	488	1553	786.2	102.6
Income (net)	-287	-83	-50	-38	-154	-324	-37.7	13.2
of which official interest	-122	-37	-27	-23	-92	-179	-57.0	46.7
Current Transfers (net)	2896	843	739	615	784	2981	84.9	2.9
Private (net)	2692	795	726	619	788	2929	236.5	8.8
of which Remittances	1231	334	335	353	362	1383	152.2	12.4
Public (net)	204	49	13	-5	-5	52	-151.5	-74.3

* Provisional.

Source: Central Bank of Kenya

Merchandise Account The deficit in the Merchandise account worsened by USD 860.7 million to USD 11,693 million in the year to August 2014 reflecting 5.5 percent increase in value of merchandise imports, against a 1 percent improvement in the value from merchandise exports (Table 4.2).

Imports The value of merchandise imports increased by USD 922.4 million to USD 17,761 million in the year to August 2014 attributed to increased imports of oil, chemicals, manufactured goods and machinery and transport equipment. The 3.8 percent rise in payments for oil imports (to USD 4,047 million in the year to August 2014) was occasioned by increased imports of jet fuel and diesel oil.

In terms of imports by source region, imports from Africa decreased to USD 1,637 million (Table 4.3). Imports from the rest of the world however increased driven by a rise in imports from India, China, Japan, USA, Singapore, Germany, Indonesia and Italy. Imports from the United Arab Emirates, the United Kingdom, Saudi Arabia, the Netherlands, France and Bahrain decreased.

Exports The value of merchandise exports increased by USD 61.7 million to USD 6,068 million in the year to August 2014 reflecting increased earnings from coffee, horticulture, raw materials, miscellaneous manufactured articles and re-exports. The increase in coffee and horticulture exports was on account of increased export quantities and favourable world prices. Tea, oil products, manufactured goods, chemicals and related products and other exports decreased with the decline in tea exports reflecting a fall in global prices.

The value and share of Kenya's exports to Africa declined in the year to August 2014 (Table 4.3) largely reflecting decreases in exports to the EAC and COMESA. Exports to the rest of the world, and in particular to the European Union, the USA and India increased.

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 August			Year to August			Country	Year to August			Year to August		
	2012	2013	2014	2012	2013	2014		2012	2013	2014	2012	2013	2014
Africa	1,757	1,654	1,637	11	10	9	Africa	2,889	2,801	2,707	48	47	45
Of which							Of which						
South Africa	747	794	751	5	5	4	Uganda	801	780	668	13	13	11
Egypt	333	296	275	2	2	2	Tanzania	524	498	503	9	8	8
Others	677	565	611	4	3	3	Egypt	243	226	201	4	4	3
EAC	329	322	369	2	2	2	Sudan	140	73	71	2	1	1
COMESA	774	651	628	5	4	4	South Sudan	111	205	213	2	3	4
Rest of the World	14,506	15,184	16,124	89	90	91	Somalia	235	206	166	4	3	3
Of which							DRC	212	226	230	4	4	4
India	1,993	2,530	3,306	12	15	19	Rwanda	182	170	156	3	3	3
United Arab Emirates	2,092	1,550	1,119	13	9	6	Others	440	417	509	7	7	8
China	1,945	1,965	2,389	12	12	13	EAC	1,571	1,513	1,394	26	25	23
Japan	701	892	989	4	5	6	COMESA	1,904	1,788	1,646	32	30	27
USA	761	676	1,414	5	4	8	Rest of the World	3,111	3,205	3,361	52	53	55
United Kingdom	504	572	539	3	3	3	Of which						
Singapore	151	172	224	1	1	1	United Kingdom	493	453	431	8	8	7
Germany	445	456	515	3	3	3	Netherlands	357	378	448	6	6	7
Saudi Arabia	932	540	494	6	3	3	USA	299	335	407	5	6	7
Indonesia	678	478	580	4	3	3	Pakistan	221	316	245	4	5	4
Netherlands	209	275	216	1	2	1	United Arab Emirates	250	347	261	4	6	4
France	271	269	250	2	2	1	Germany	109	99	123	2	2	2
Bahrain	154	504	466	1	3	3	India	98	100	109	2	2	2
Italy	236	208	239	1	1	1	Afghanistan	123	199	129	2	3	2
Others	3,432	4,097	3,385	21	24	19	Others	1,162	977	1,208	19	16	20
Total	16,262	16,838	17,761	100	100	100	Total	6,000	6,006	6,068	100	100	100
EU	2,320	2,429	2,469	14	14	14	EU	1,300	1,199	1,390	22	20	23
China	1,945	1,965	2,389	12	12	13	China	72	43	68	1	1	1

Source: Kenya Revenue Authority

Services Account

The Services account recorded a larger surplus, by USD 731.9 million or 12.0 percent, to USD 6,830 million in the year to August 2014 from USD 6,098 million in the year to August 2013 on account of increases in net non-factor services and current transfers. Receipts from non-factor services rose to USD 5,432 million largely from other private services (insurance and communication services; royalties and licence fees). The deficit in the Income account increased by USD 13.2 million in the year to August 2014 to USD 324 million reflecting a drop in receipts from investment income. Meanwhile, the surplus in the Current Transfers account improved by USD 84.9 million largely due to increase in net private transfers. Remittance inflows (under private transfers) also increased by USD 152.2 million to USD 1,383 million during the year to August 2014 from USD 1,231 million during the year to August 2013 (Table 4.2). Average remittance inflows in the 12 months to August 2014 increased to USD 115.3 million from USD 102.6 million during the year to August 2013, underscoring resilience of remittances flows.

Capital and Financial Account

The surplus in the Capital and Financial account increased to USD 6,489 million in the year to August 2014 from USD 5,276 million in the year to August 2013, largely reflecting a 22.4 percent improvement in the Financial account surplus on the back of increases in official flows, commercial bank flows and net short term flows including errors and omissions. Official flows rose by USD 1,228.3 million to USD 1,903 million following receipt of the sovereign bond proceeds in June 2014. Commercial bank flows increased to USD 453 million in the year to August 2014 after commercial banks run down their net foreign assets. Net short term flows (including errors and omissions) increased by USD 40.8 million during the period under review.

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

ITEM	Year to Aug 2013	Year to August 2014*				Year to Aug 2014*	Absolute Change	% Change
		Q1 Sep-Nov	Q2 Dec-Feb	Q3 Mar-May	Q4 Jun-Aug			
3. CAPITAL & FINANCIAL ACCOUNT	5276	1478	1297	1053	2661	6489	1212.4	23.0
3.1 Capital Transfers (net)	139	33	24	94	50	201	62.2	44.8
3.2 Financial Account	5138	1445	1273	959	2612	6288	1150.2	22.4
Official, medium & long-term	675	110	144	214	1436	1903	1228.3	182.0
Inflows	990	209	227	311	2112	2859	1869.7	188.9
Outflows	-315	-99	-83	-97	-677	-956	-641.4	203.6
Private, medium & long-term (net)	134	175	43	-78	-120	20	-113.5	-84.8
Commercial Banks (net)	191	291	82	65	16	453	262.6	137.7
Other private medium & long-term (net)	-57	-115	-40	-143	-141	-438	-381.4	671.3
Short-term (net) incl. errors & omissions	4329	1159	986	930	1294	4370	40.8	0.9

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 9,731 million in August 2014 from USD 7,740 million at the end of August 2013. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased to USD 7,814 million (5.1 months of import cover) at the end of August 2014 from USD 6,120 million (4.3 months of import cover) at the end of August 2013. The build-up in foreign exchange reserves during the period was largely attributed to proceeds received from the sale of the Eurobond in June 2014, disbursements from the International Monetary Fund (IMF) under the Extended Credit Facility (2011-2013) with the last disbursement received in December 2013 and purchases from the interbank market.

Foreign Exchange Reserves held by Commercial Banks increased to USD 1,917 million at the end of August 2014 from USD 1,620 million at the end of August 2013. During the same period, Residents' Foreign Currency Deposits increased to USD 4,292 million from USD 3,362 million (Table 4.5).

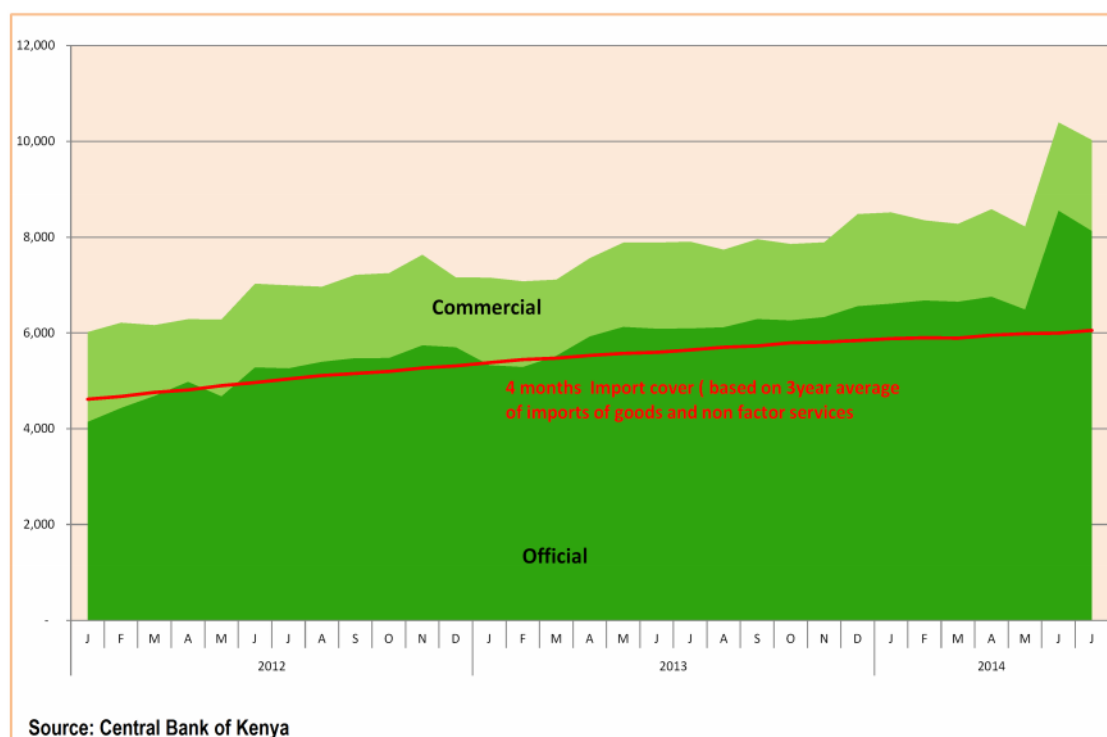
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US\$ MILLION)

	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14
1. Gross Foreign Exchange Reserves	7,740	7,959	7,859	7,893	8,483	8,519	8,250	8,285	8,594	8,230	10,399	10,029	9,731
of which:													
Official	6,120	6,291	6,263	6,333	6,560	6,612	6,578	6,660	6,765	6,498	8,555	8,128	7,814
import cover**	4.3	4.4	4.3	4.4	4.5	4.5	4.5	4.5	4.5	4.3	5.7	5.4	5.1
Commercial Banks	1,620	1,668	1,596	1,560	1,923	1,907	1,672	1,625	1,829	1,732	1,844	1,902	1,917
2. Residents' foreign currency deposits	3,362	3,318	3,504	3,562	3,909	3,938	3,562	3,636	3,833	3,805	3,776	4,084	4,292

**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

In August 2014, the Kenya Shilling weakened to the US Dollar to trade at an average of 88.11 per USD compared to an average of 87.77 in July 2014. The weakening of the shilling was largely on account of general strengthening of the dollar against major world currencies in the international markets coupled by high dollar demand from importers. During the same period, the Kenya shilling strengthened against the Pound Sterling, the Euro and the Japanese Yen. In the EAC region, the Kenya shilling strengthened to the Rwanda Franc but weakened to all other EAC currencies (Table 4.6 and Chart 4D).

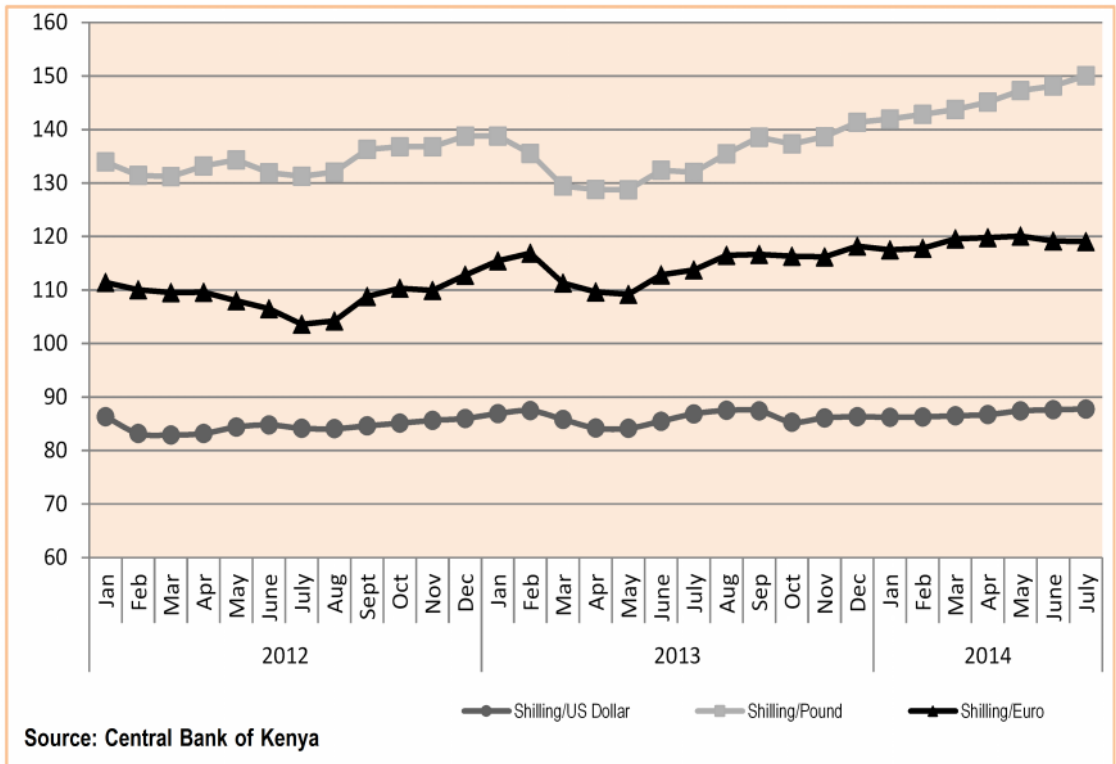
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2013					2014								% change July-August 2014
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	
US Dollar	87.49	87.41	85.31	86.10	86.31	86.21	86.28	86.49	86.72	87.41	87.61	87.77	88.11	0.38
Pound Sterling	135.47	138.54	137.31	138.64	141.37	141.99	142.81	143.76	145.08	147.29	148.15	150.04	147.24	-1.86
Euro	116.51	116.67	116.33	116.22	118.18	117.50	117.81	119.58	119.78	120.09	119.16	119.02	117.40	-1.37
100 Japanese Yen	89.39	88.14	87.24	86.21	83.51	82.92	84.52	84.58	84.59	85.84	85.88	86.32	85.63	-0.81
Uganda Shilling*	29.48	29.41	29.74	29.31	29.20	29.00	28.61	29.27	29.19	28.97	29.44	29.97	29.66	-1.04
Tanzania Shilling*	18.50	18.48	18.87	18.68	18.63	18.68	18.82	18.88	18.86	18.92	19.18	18.97	18.89	-0.39
Rwanda Franc*	7.40	7.50	7.85	7.80	7.76	7.85	7.87	7.85	7.82	7.76	7.74	7.76	7.82	0.86
Burundi Franc*	17.58	17.59	18.13	18.01	17.91	17.99	18.00	17.98	17.88	17.72	17.68	17.65	17.57	-0.42

* 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 microfinance banks, 7 representative offices of foreign banks, 94 foreign exchange bureaus, 7 money remittance providers and 2 credit reference bureaus as at August 31, 2014.
- Structure of the Balance Sheet** The banking sector balance sheet expanded by 20.3 percent from Ksh 2,544.7 billion in August 2013 to Ksh 3,060.9 billion in August 2014. The main components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 57.9 percent, 21.3 percent and 5.2 percent of total assets, respectively.
- Loans & Advances** The banking sector gross loans and advances rose from Ksh 1,498.5 billion in August 2013 to Ksh 1,840.7 billion in August 2014, which translated to a growth of 22.8 percent. The growth was attributed to increase in lending to personal/households, trade, manufacturing, transport and communication and real estate sectors. Loans and advances net of provisions stood at Ksh 1,820.2 billion in August 2014, up from Ksh 1,483.5 billion registered in a similar period in 2013.
- Deposit Liabilities** Deposits from customers which form the major source of funding for the banking sector, accounted for 72.4 percent of total funding liabilities. The deposit base grew by 18.2 percent from Ksh 1,874 billion in August 2014 to Ksh 2,215.9 billion in August 2014 largely supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.
- Capital & Reserves** The banking sector recorded improved capital levels in August 2014 with total shareholders' funds growing by 19.8 percent from Ksh 400.3 billion in August 2013 to Ksh 479.6 billion in August 2014. Core capital and Total capital increased from Ksh 322.3 billion and Ksh 377.6 billion to Ksh 384.9 billion and Ksh 445.0 billion, respectively over the same period. However, the ratios of core and total capital to total risk-weighted assets declined from 19.7 percent and 23.1 percent in August 2013 to 15.3 percent and 17.7 percent, respectively. The decline in capital adequacy ratios was as a result of increase in total risk weighted assets occasioned by the capital charge for market and operational risks that took effect from January 2014.
- Non-performing Loans** The value of gross non-performing loans (NPLs) grew by 26.1 percent from Ksh 79.4 billion in August 2013 to Ksh 100.1 billion in August 2014. The increase in NPLs is partly attributed to spill-over effects of high interest rates experienced in 2012 and lag-effects of reduced economic activities before and after the March 2013 general elections. The ratio of gross NPLs to gross loans increased from 5.3 percent in August 2013 to 5.4 percent August 2014. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 45.7 percent to 41.5 percent in August 2014.

The quality of assets, measured as a proportion of net non-performing loans to gross loans deteriorated from 2.3 percent in August 2013 to 2.5 percent in August 2014 (Table 5.1).

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

		13-Aug	14-Aug
1	Gross loans and advances	1,498.50	1,840.70
2	Interest in Suspense	15.00	20.50
3	Loans and advances (net of interest suspended)	1,483.50	1,820.20
4	Gross non-performing loans	79.40	100.10
5	Specific Provisions	29.40	33.00
6	General Provisions	11.60	13.40
7	Total Provisions (5+6)	41.00	46.40
8	Net Advances (3-7)	1,442.50	1,773.80
9	Total Non-Performing Loans and Advances (4-2)	64.40	79.60
10	Net Non-Performing Loans and Advances (9-5)	35.00	46.60
11	Total NPLs as % of total advances (9/3)	4.30%	4.40%
12	Net NPLs as % of gross advances (10/1)	2.30%	2.50%
13	Specific Provisions as % of Total NPLs (5/9)	45.70%	41.50%

Source: Central Bank of Kenya

Profitability The banking sector registered an increase of 13.6 percent growth in pre-tax profits, from Ksh 81.4 billion in August 2013 to Ksh 92.4 billion as at end of August 2014. The annualised return on assets declined from 3.8 percent to 3.5 percent over the same period. Similarly, return on equity declined from 30.5 percent to 28.9 percent over the same period. Total income increased by 13.8 percent from Ksh 235.2 billion in August 2013 to Ksh 267.6 billion in August 2014, while total expenses increased by 13.9 percent from Ksh 153.8 billion in August 2013 to Ksh 175.2 billion in August 2014. Interest on loans and advances, fees and commissions and government securities were the main sources of income accounting for 59.1 percent, 18.9 percent and 15.3 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 32.6 percent, 28.2 percent and 24.4 percent, respectively.

Liquidity Ratio Requirement For the month ended August 31, 2014, average liquid assets amounted to Ksh 815.5 billion, while total short-term liabilities stood at Ksh 2,167.1 billion, resulting to an average liquidity ratio of 37.6 percent, against 41.5 percent registered in August 2013.

Cash Ratio Requirement The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for reserve requirements averaged 5.58 percent in August 2014 compared with 5.35 percent in July 2014, and above 5.25 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of KSh 6.90 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in August 2014 compared with KSh 2.14 billion in July 2014. Commercial banks are required to maintain Cash Reserve Ratio (CRR) on a monthly

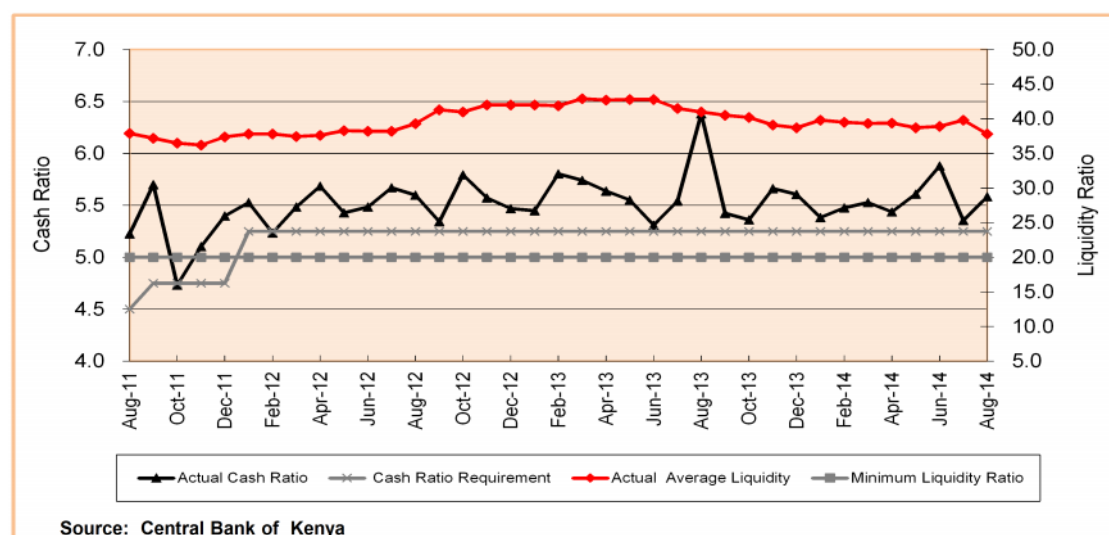
average of 5.25 percent in the 30 day maintenance cycle from 15th through 14th of every month but subject to a daily minimum of 3.0 percent.

TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2013					2014							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug
Commercial Banks													
Actual Average Liquidity	41.00	40.50	40.20	39.10	38.70	39.80	39.50	39.32	39.40	39.40	38.90	39.80	37.80
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	6.38	5.42	5.36	5.66	5.61	5.38	5.54	5.53	5.44	5.44	5.88	5.35	5.58
Minimum Cash Ratio Requirement	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
NBFIs													
Actual Average Liquidity Ratio	36.50	36.80	33.10	32.60	32.60	34.20	34.13	32.69	29.90	29.90	27.80	29.70	26.30
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	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 (%)



KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 206,937 transaction messages worth Ksh 2,077 billion in August 2014 compared with a volume of 214,091 transaction messages valued at Ksh 2,189 billion moved in July 2014, representing an decrease of 5.13 percent and 3.34 percent in value and volume respectively. Compared to August 2013, the volume increased by 25.68 percent from 164,650 transaction messages to 206,937 transaction messages in August 2014, while value increased by 2.77 percent from 2,021 billion to 2,077 billion, indicating increased uptake of KEPSS services by the public.

During the twelve months period to August 31, 2014 the value moved averaged Ksh 11 million per transaction. On average, 9,259 transaction messages with an average value of approximately Ksh 98 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted for 98.0 percent

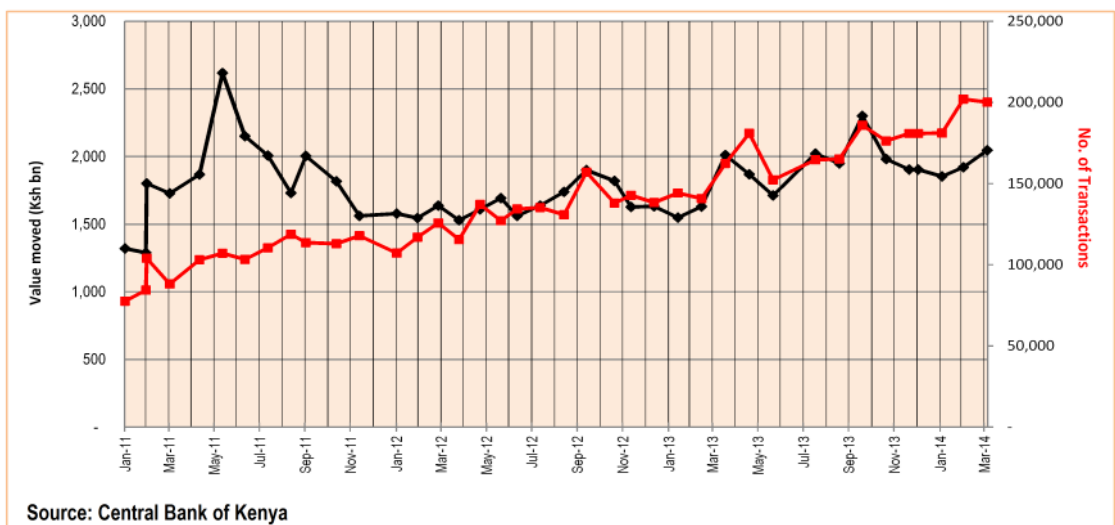
of the total settlements while payments processed through ACH and settled in KEPSS averaged 2.0 percent.

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-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
Jan-14	1,904	31	180,897	0.01	22	87	8,223
Feb-14	1,853	28	181,123	0.01	20	93	9,056
Mar-14	1,920	31	202,035	0.01	21	91	9,621
Apr-14	2,047	27	200,151	0.01	20	102	10,008
May-14	2,188	28	209,019	0.01	21	104	9,953
Jun-14	2,133	32	198,052	0.01	20	107	9,903
Jul-14	2,189	28	214,091	0.01	22	99	9,731
Aug-14	2,077	28	206,937	0.01	21	99	9,854

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 3.09 percent from 11,546 transaction messages in July 2014 to 11,903 transaction messages in August 2014, while single third party Message Type (MT 103) used for single credit transfers increased by 0.20 percent from 222,388 transaction messages to 222,826 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 0.34 percent from 233,934 transaction messages in July 2014 to 234,729 transaction messages in August 2014. Compared with August 2013, multiple third party messages (MT 102) increased by 58.07 percent from 7,530 transaction messages to 11,903 transaction messages in August 2014 while, single third party messages (MT 103) increased by 24.05

percent from 179,629 transaction messages to 222,826 transaction messages (Table 5.4 and Chart 5C).

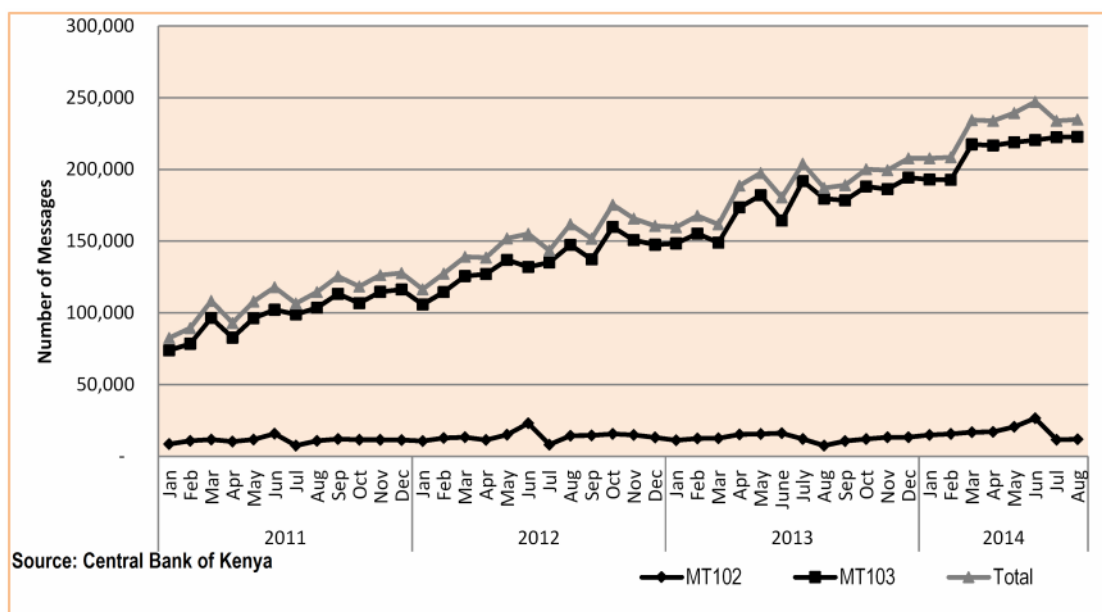
Inter-bank transfers (MT 202) accounted for 41.07 percent of the total value moved through KEPSS as at end of August 2014 while third party (MT 102 and MT 103) messages accounted for 58.93 percent. The total number of third party messages grew by 25.42 percent from 187,159 messages in August 2013 to 234,729 messages

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
2014	Jan	14858	192,905	207,763
	Feb	15596	192,858	208,454
	Mar	16935	217,572	234,507
	Apr	17019	216,820	233,839
	May	20543	218,936	239,479
	Jun	26649	220,504	247,153
	Jul	11546	222,388	233,934
	Aug	11903	222,826	234,729

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

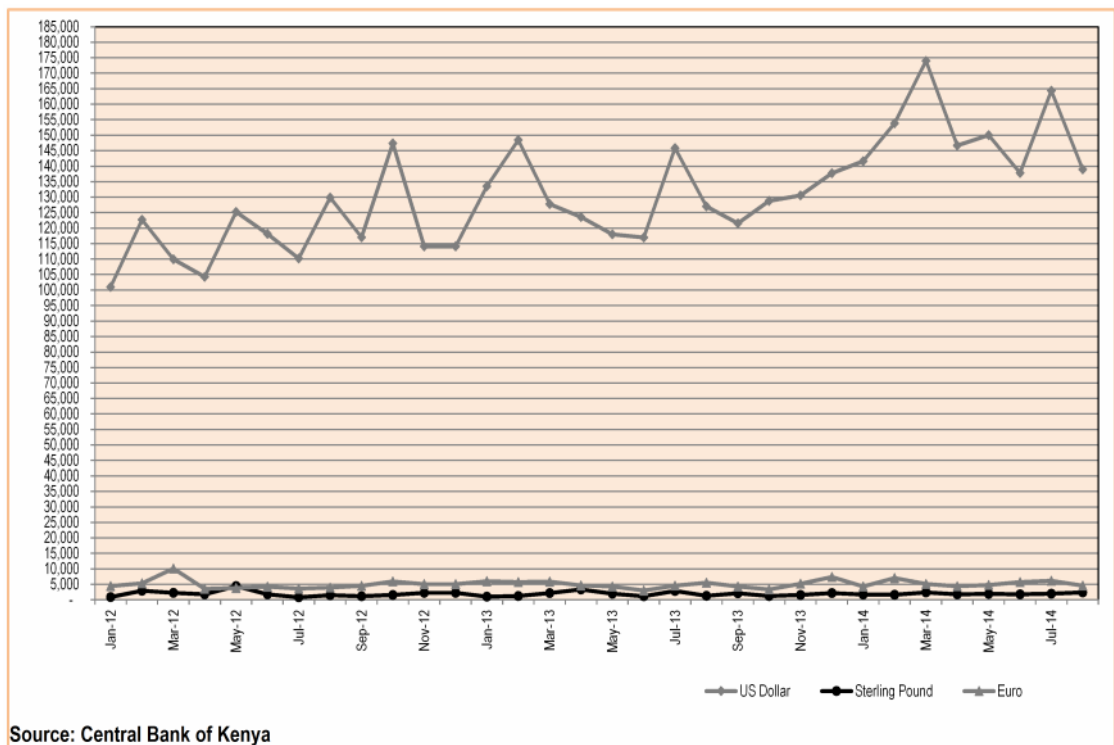


in August 2014. This signifies continued growth in KEPSS usage by individuals and non-bank corporate bodies.

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS decreased by 7.04 percent from 18,113 transaction messages in July 2014 to 16,838 transaction messages in August 2014. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period decreased by 15.43 percent from Ksh 172.5 billion to Ksh 145.9 billion. The US dollar denominated transactions accounted for 95.24 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.64 percent and 3.13 percent, respectively.

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



GOVERNMENT BUDGET PERFORMANCE

The Government budgetary operations during the first two months of the FY 2014/15 resulted in a budget surplus of Ksh 1.3 billion on a commitment basis compared with a deficit of Ksh 22.2 billion reported in a similar period of the FY 2013/14. This was within the Ksh 47.9 billion (1 percent of GDP) programmed target for the period.

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

	FY 2013/14	FY 2014/15		
	Aug Actual	Aug Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	128.4	142.4	164.9	-22.6
Revenue	128.1	141.8	159.0	-17.2
Tax Revenue	123.2	129.0	139.7	-10.7
Non Tax Revenue	0.3	5.3	4.3	1.0
Appropriations-in-Aid	4.6	7.5	15.0	-7.5
External Grants	0.3	0.6	6.0	-5.4
2. TOTAL EXPENSES & NET LENDING	150.6	141.1	212.9	-71.8
Recurrent Expenses	126.4	129.1	125.4	3.7
Development Expenses	7.8	11.9	58.7	-46.8
County Transfers	16.4	0.0	28.7	-28.7
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-22.2	1.3	-47.9	49.2
As percent of GDP	-0.5	0.0	-1.0	
4. ADJUSTMENT TO CASH BASIS	0.0	0.0	0.0	0.0
5. DEFICIT ON A CASH BASIS	-22.2	1.3	-47.9	49.2
As percent of GDP	-0.5	0.0	-1.0	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-25.1	5.9	0.0	5.9
7. FINANCING	-3.0	4.6	47.9	-43.4
Domestic (Net)	-1.8	1.6	30.9	-29.3
External (Net)	-1.2	3.0	17.0	-14.0
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 during the first two months of the FY 2014/15 amounted to Ksh 142.4 billion and was Ksh 13.9 billion higher than Ksh 128.4 billion recorded in a comparable period in FY 2013/14 (Table 6.2). The revenue and grants fell below target by 13.6 percent, of which 47.3 percent represented tax revenues, 33.2 percent appropriations in aid, and 23.9 percent in external grants. Tax revenue accounted for 90.6 percent of the total revenue and grants realized.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

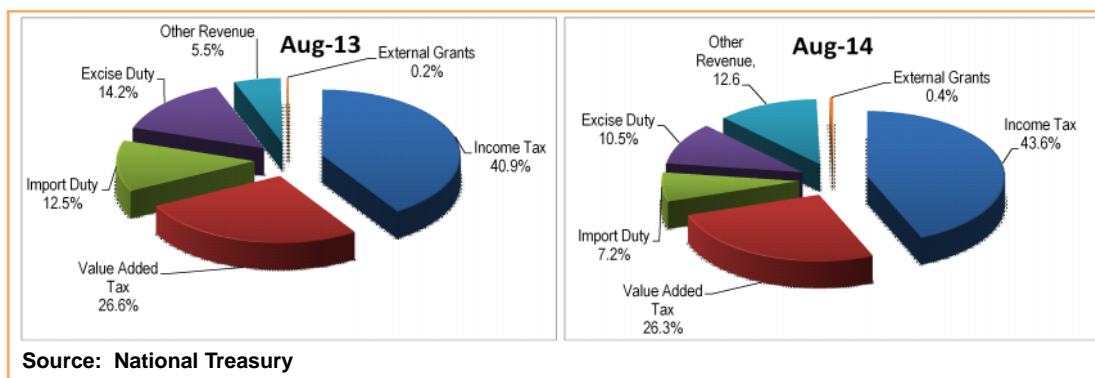
	Aug-13 Ksh bn	Aug-14 Ksh bn	Change
1. Revenue (2+3+4)	128.1	141.8	13.7
2. Tax Revenue	123.2	129.0	5.8
Income Tax	52.6	62.1	9.6
Value Added Tax	34.2	37.5	3.3
Import Duty	16.1	10.2	-5.9
Excise Duty	18.3	14.9	-3.4
Others	2.1	4.2	2.1
3. Appropriations-in-Aid	4.6	7.53	2.9
4. Other Revenue	0.3	5.3	5.0
5. External Grants	0.3	0.6	0.3
TOTAL RECEIPTS (1+5)	128.4	142.4	13.9

Source: National Treasury

Tax revenue grew by Ksh 5.8 billion, equivalent to 4.7 percent increase, from Ksh 123.2 billion collected in the first two months of the FY 2013/14 to Ksh 129 billion collected in a comparable period in FY 2014/15 (Table 6.2). The increase was largely on account of income tax, which grew by Ksh 9.6 billion (18.1 percent). Excise tax and import duty declined by Ksh 3.4 billion and Ksh 5.9 billion, respectively. The other tax revenue components recorded improved performance relative to the previous year. All taxes recorded less than expected outcomes. Excise duty brought in less than the targeted amount reflecting declining remittances from BAT following

lower sales, and a decline in excise duty on airtime due to a shift in the consumption pattern from voice to data. However, corporation tax performed above target on account of increased revenue arising from payment of tax installments in arrears.

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Expenditure and Net Lending

Government expenditure and net lending declined by Ksh 9.5 billion to Ksh 141.1 billion during the first two months of the FY 2014/15 from Ksh 150.6 billion expended over a similar period in FY 2013/14. Total expenditure during the period under review comprised Ksh 129.1 billion (or 91.5 percent) in recurrent expenditure and Ksh 11.9 billion (8.4 percent) in development expenditure. There were no county transfers during the period under review (Table 6.3).

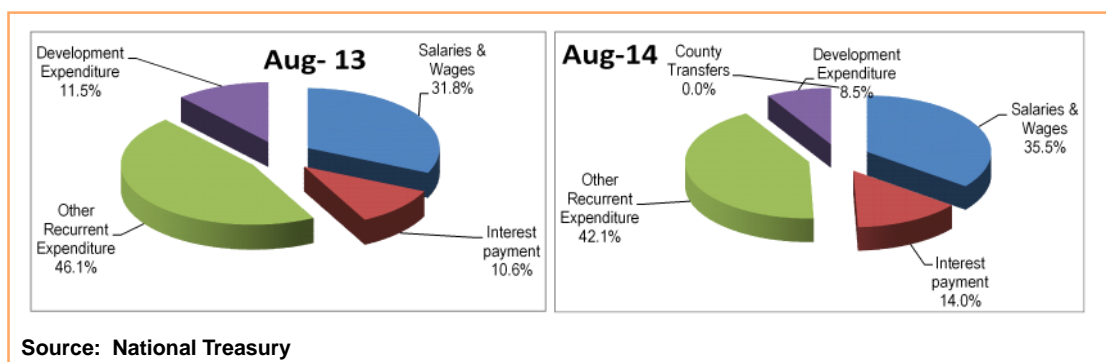
Recurrent and development expenditure increased by Ksh 2.8 billion and Ksh 4.2 billion, respectively during the period under review. All the components of recurrent expenditure increased other than other recurrent expenditure which declined by Ksh 6.4 billion from Ksh 65.8 billion expended in a similar period in the FY 2013/14. On the other hand, county transfers declined by 16.4 billion during the period under review. Development expenditure and county transfers underperformed in relation to targets by Ksh 46.8 billion and Ksh 28.7 billion. Conversely, recurrent expenditure surpassed target by Ksh 3.7 billion (Table 6.1). The lower than projected absorption in the development budget is attributed to slow absorption of funds from external sources.

TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)

	Aug-13 Ksh bn	Aug-14 Ksh bn	Movement
1. Recurrent	126.4	129.1	2.8
Salaries & Wages	45.4	50.0	4.6
Total Interest	15.1	19.7	4.6
of which			
Domestic*	14.3	18.7	4.3
Foreign interest due	0.8	1.1	0.2
Others	65.8	59.4	-6.4
2. Development	7.8	11.9	4.2
3. County Transfers	16.4	0.0	-16.4
TOTAL EXPENSES	150.6	141.1	-9.5

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

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Financing

Budgetary operations of the Government resulted in a financing requirement of Ksh 10.1 billion in the first two months of the FY 2014/15 compared with Ksh 65.9 billion in a comparable period of FY 2013/14. The Government sourced the funds through domestic borrowing amounting to Ksh 4.5 billion, draw down of own deposits at the Central Bank by Ksh 2.5 billion and net external debt borrowing of Ksh 3.1 billion. The funds were allocated to bridge the Government budgetary deficit of Ksh 4.6 billion, repayment of domestic debt at the Central Bank by 3.2 billion and Ksh 2.3 billion held by non-banks (Table 6.4.).

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

I. FINANCING REQUIREMENTS	Aug-13	Aug-14
1. Budget deficit	0.0	4.6
2. External debt reduction	1.2	0.0
3. Domestic debt reduction	12.1	5.5
3.1 Central Bank (incl. items in transit)	0.0	3.2
3.2 Commercial banks (net of deposits)	12.1	0.0
3.3 Non-bank sources	0.0	2.3
4. Increase in GoK deposits at CBK	52.7	0.0
TOTAL	65.9	10.1
II. FINANCING SOURCES	Aug-13	Aug-14
1. Budget surplus	3.0	0.0
2. External debt increase	0.0	3.1
3. Increase in domestic debt	63.0	4.5
3.1 Central Bank	28.4	0.0
3.2 Commercial banks	0.0	4.5
3.3 Non-bank sources	34.6	0.0
4. Reduction in GoK deposits at CBK	0.0	2.5
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	65.9	10.1

Sources: National Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

The government repaid outstanding debt to the Central Bank by Ksh 2.8 billion thereby reducing its total stock of debt to Ksh 62 billion as at August 2014 compared to Ksh 64.7 billion owed in August 2013. The decrease in Government’s indebtedness to the Central Bank was largely attributed to a Ksh 2.3 billion decline in the overdraft. The Government repaid Ksh 1.1 billion through the regular amortization of the pre-1997 overdraft at the Central Bank. In May 2014, the statutory limit of government overdraft at the Central Bank was revised upwards to 39.1 billion and Government borrowing through this facility has been maintained within this limit.

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

	2013	2014	Movement
	Aug	Aug	
Total Credit	64.7	62.0	-2.8
1. Overdraft	32.7	30.4	-2.3
2. Rediscounted securities	3.1	3.8	0.7
Treasury bills	3.0	3.7	0.8
Treasury bonds	0.1	0.0	-0.1
3. Pre-1997 Government Overdraft at CBK	28.9	27.8	-1.1
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.0	0.0	0.0
Memorandum			
Authorised overdraft limit	34.2	39.1	4.9
Amount utilised to date	32.7	30.4	-2.3
Amount available	1.5	8.7	7.3

Source: Central Bank of Kenya

Outlook for FY 2014/15 In the budget estimates for the FY 2014/15, ordinary revenue is estimated at Ksh 1,087.1 billion (22.9 percent of GDP) while external grants are estimated at Ksh 58.7 billion (1.2 percent of GDP). Government expenditure is estimated at Ksh 1,597.8 billion (33.6 percent of GDP), of which, Ksh 871.5 billion (18.3 percent of GDP) will be in recurrent expenses, transfer to the county government of Ksh 229.3 billion, a contingency fund of Ksh 5.0 billion and the balance is 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	1240.0	26.1
Ordinary Revenue	1087.1	22.9
Appropriations-in-Aid	94.1	2.0
External Grants	58.7	1.2
2. TOTAL EXPENSES & NET LENDING	1597.8	33.6
Recurrent Expenses	871.5	18.3
Development Expenses	492.0	10.3
County Transfer	229.3	4.8
Contingency Fund	5.0	0.1
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-357.8	-7.5
4. ADJUSTMENT TO CASH BASIS	0.0	0.0
5. DEFICIT ON A CASH BASIS	-357.8	-7.5
6. DISCREPANCY: Expenditure (+) / Revenue (-)	0.0	0.0
7. FINANCING	357.8	7.5
Domestic (Net)	192.1	4.0
External (Net)	165.8	3.5

Source: National Treasury using the new re-based GDP figures as of Sept 2014

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 357.8 billion (7.5 percent of GDP) in 2014/15. The deficit is expected to be financed through net external borrowing of Ksh 165.8 billion and net domestic borrowing of Ksh 192.1 billion.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt Kenya's public and publicly guaranteed debt increased by Ksh 1.9 billion to reach Ksh 2,372.1 billion in August 2014 from Ksh 2,370.2 billion in June 2014. The total debt stock as at the end of August 2014 stabilized at 49.9 percent of GDP, marginally above 49.8 percent of GDP in June 2014. The debt to GDP ratio for external debt stood at 22.9 percent in August 2014 compared with 22.8 percent in June 2014, and domestic debt at 26.9 percent of GDP in August 2014 from 27 percent of GDP in June 2014 (Table 7.1).

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

	Jun-13	Jul-13	Oct-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Change 2014/15
Bilateral	257.6	270.6	273.9	284.2	244.2	283.7	288.5	288.4	289.9	286.2	285.3	-4.6
Multilateral	511.8	529.1	539.9	561.7	573.3	581.9	587.5	595.6	597.3	604.7	605.8	8.4
Commercial Banks	58.9	59.9	58.7	59.0	59.1	59.2	59.1	59.6	182.2	182.5	183.6	1.4
Supplier Credits	15.2	15.6	15.5	15.6	15.7	15.7	15.9	14.3	16.5	16.3	16.3	-0.2
Sub-Total	843.6	875.2	888.0	920.4	892.3	940.5	951.0	957.9	1085.9	1089.7	1091.0	5.1
(As a % of GDP)	19.8	18.4	18.7	19.3	18.8	19.8	20.0	20.1	22.8	22.9	22.9	
(As a % of total debt)	44.5	44.8	43.0	43.4	42.1	42.3	42.3	43.7	45.8	45.7	46.0	
DOMESTIC¹												
Banks	563.5	573.7	612.8	633.4	664.4	663.5	632.5	644.1	682.8	698.7	682.2	-0.6
Central Bank	36.4	47.7	57.4	56.6	73.3	77.2	63.2	68.1	65.7	61.6	62.0	-3.7
Commercial Banks	527.1	526.0	555.4	576.8	591.1	586.3	569.3	576.0	617.1	637.1	620.3	3.1
Non-banks	477.5	496.1	551.6	557.0	553.2	606.7	650.5	575.3	586.5	583.6	585.7	-0.8
Pension Funds	263.1	272.4	284.9	306.0	304.8	310.6	311.1	313.6	322.9	323.3	323.6	0.7
Insurance Companies	108.6	111.9	117.8	116.6	117.3	117.8	118.3	120.1	121.0	121.1	125.8	4.8
Other Non-bank Sources	105.9	111.8	149.0	134.4	131.1	178.3	221.1	141.7	142.6	139.2	136.3	-6.3
Non-residents	9.6	8.9	10.3	10.5	11.7	14.0	13.4	13.1	14.9	14.2	13.2	-1.7
Sub-Total	1050.6	1078.6	1174.8	1200.9	1229.3	1284.2	1296.4	1232.5	1284.2	1296.4	1281.1	-3.1
(As a % of GDP)	24.7	22.7	24.7	25.2	25.8	25.9	25.6	25.9	27.0	27.3	26.9	
(As a % of total debt)	55.5	55.2	57.0	56.6	57.9	57.7	57.7	56.3	54.2	54.3	54.0	
GRAND TOTAL	1894.1	1953.8	2062.8	2121.3	2121.6	2224.7	2247.4	2190.4	2370.2	2386.1	2372.1	1.9
(As a % of GDP)	44.5	41.1	43.4	44.6	44.6	45.6	45.6	46.0	49.8	50.2	49.9	

Sources: National Treasury and Central Bank of Kenya

Domestic Debt

The total stock of domestic debt decreased by Ksh 3.1 billion in the first two months of the FY 2014/15 to Ksh 1,281.1 billion. The main components which include Treasury bonds, non-interest bearing debt, and the government overdraft facility at the Central Bank declined by Ksh 1.5 billion, Ksh 0.6 billion and Ksh 6.9 billion, respectively. However, treasury bills outstanding increased by Ksh 6.2 billion, thereby partially offsetting the decline in the other debt components (Table 7.2). As a ratio of total debt, domestic debt decreased from 54.2 percent in June 2014 to 54 percent in August 2014.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2013		2014										Change Jun-14-Aug-14		
	June	%	Mar	%	Apr	%	May	%	June	%	July	%		Aug	%
Total Stock of Domestic Debt (A+B)	1,050.6	100.0	1,231.2	100.0	1216.8	100.0	1,232.5	100.0	1,284.3	100.0	1,296.4	100.0	1,281.1	100.0	(3.2)
A. Government Securities	1,040.8	99.1	1,194.6	97.0	1,179.6	96.9	1,190.1	96.6	1,242.4	96.7	1,261.3	97.3	1,246.6	97.3	4.1
1. Treasury Bills (excluding Repo Bills)	267.7	25.5	302.8	24.6	276.7	22.7	274.8	22.3	299.4	23.3	319.2	24.6	305.6	23.9	6.2
Banking institutions	183.5	17.5	190.3	15.5	151.9	12.5	152.9	12.4	176.5	13.7	199.7	15.4	187.4	14.6	11.0
Others	84.2	8.0	112.5	9.1	124.8	10.3	121.9	9.9	123.0	9.6	119.5	9.2	118.2	9.2	(4.8)
2. Treasury Bonds	744.2	70.8	863.6	70.1	874.7	71.9	886.9	72.0	914.8	71.2	914.4	70.5	913.2	71.3	(1.5)
Banking institutions	341.0	32.5	407.9	33.1	414.8	34.1	420.5	34.1	436.4	34.0	436.2	33.6	432.6	33.8	(3.8)
Pension Funds	220.1	21.0	238.0	19.3	240.5	19.8	244.6	19.8	247.5	19.3	322.9	24.9	255.7	20.0	8.2
Others	183.0	17.4	217.7	17.7	219.3	18.0	221.8	18.0	230.9	18.0	155.3	12.0	224.9	17.6	(6.0)
4. Non-Interest Bearing Debt	28.9	2.7	28.3	2.3	28.3	2.3	28.3	2.3	28.3	2.2	27.7	2.1	27.7	2.2	(0.6)
Of which: Repo T/Bills	28.9	2.8	28.3	2.3	28.3	2.3	28.3	2.3	28.3	2.2	27.7	2.1	27.7	2.2	(0.6)
B. Others:	9.8	0.9	36.6	3.0	37.2	3.1	42.4	3.4	41.9	3.3	35.2	2.7	30.4	2.4	(11.5)
Of which CBK overdraft to Government	7.0	0.7	34.2	3.0	34.2	3.1	39.1	3.2	37.2	2.9	31.7	2.4	30.4	2.4	(6.9)

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding repos, increased by Ksh 6.2 billion from Ksh 299.4 billion in June 2014 to Ksh 305.6 billion in August 2014 (Table 7.2). On account of this increase, the proportion of Treasury Bills to total domestic debt rose to 23.9 percent in August 2014 from 23.3 percent in June 2014. The dominant investors in Treasury Bills were commercial banks and pension funds, with shares of 60.1 percent, and 22.2 percent respectively, by August 2014 compared with shares of 58.9 percent and 22.6 percent in June 2014 (Table 7.3).

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

Holders	2013		2014										Change Jun 14-Aug-14				
	Jun	%	Dec	%	Mar	%	Apr	%	May	%	June	%		July	%	Aug	%
Banking Institutions	183.5	68.5	191.1	62.2	190.3	62.9	151.9	54.9	152.9	55.6	176.5	58.9	199.7	62.6	187.4	61.3	11.0
Central Bank	0.0	0.0	0.0	0.0	14.6	4.8	0.5	0.2	0.5	0.2	0.0	0.0	2.0	0.6	3.7	1.2	3.7
Comm. Banks	183.5	68.5	191.1	62.2	175.8	58.1	151.4	54.7	152.4	55.5	176.4	58.9	197.6	61.9	183.7	60.1	7.3
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	14.9	5.6	20.5	6.7	20.1	6.6	20.4	7.4	19.9	7.3	19.9	6.6	20.5	6.4	23.3	7.6	3.4
Parastatals	5.6	2.1	4.1	1.3	4.2	1.4	4.3	1.6	5.1	1.9	4.2	1.4	4.2	1.3	3.1	1.0	-1.1
Pension Funds	42.9	16.0	69.9	22.7	72.7	24.0	70.6	25.5	68.9	25.1	67.8	22.6	67.6	21.2	67.8	22.2	0.0
Others	20.8	7.8	21.7	7.1	15.5	5.1	29.5	10.7	28.0	10.2	31.1	10.4	27.1	8.5	24.0	7.9	-7.1
Total	267.7	100.0	307.3	100.0	302.8	100.0	276.7	100.0	274.8	100.0	299.4	100.0	319.2	100.0	305.6	100.0	6.2

Source: Central Bank of Kenya

Treasury Bonds

Outstanding Treasury Bonds decreased by Ksh 1.5 billion from Ksh 914.8 billion in June 2014 to Ksh 913.2 billion in August 2014. However, the proportion of bonds to total domestic debt increased marginally, from 71.2 percent in June 2014 to 71.3 percent in August 2014 (Table 7.2). The decline in the holding of Treasury Bonds is attributed to net redemptions of Ksh 3.8 billion, Ksh 0.2 billion, and Ksh 7.3 billion by commercial banks, parastatals and other holders, respectively. Treasury Bonds held by non-bank financial institutions and Central Bank remained unchanged during the period under review. In terms of the proportion of holdings the share of Central Bank, National Social Security Fund and non-bank financial institutions remained unchanged during the period under review. The shares of Treasury bonds held by commercial banks, parastatals and other holders declined from 47.7 percent, 3.8 percent and 10.3 percent in June 2014 to 47.4 percent, 3.7 percent and 9.6 percent,

in August 2014, respectively. Conversely, the share held by the pension fund and insurance companies increased from 27.1 percent and 11.1 percent in June 2014 to 28.0 percent and 11.2 percent in August 2014, respectively (Table 7.4).

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

Holders	2013		2014										Change Jun 14-Aug14
	June	%	Apr	%	May	%	June	%	July	%	Aug	%	
Banking Institutions	341.2	45.9	414.8	47.4	420.5	47.4	436.4	47.7	436.2	47.7	432.6	47.4	-3.8
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	341.0	45.8	414.7	47.4	420.5	47.4	436.3	47.7	436.1	47.7	432.6	47.4	-3.8
NBFIs	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.0
Insurance Companies	93.7	12.6	97.9	11.2	100.1	11.3	101.2	11.1	100.6	11.0	102.6	11.2	1.4
Parastatals	42.7	5.7	34.4	3.9	42.7	4.8	34.4	3.8	34.1	3.7	34.2	3.7	-0.2
Of which: NSSF	22.7	3.1	16.2	1.8	22.7	2.6	16.2	1.8	16.1	1.8	16.1	1.8	-0.1
Building Societies	0.6	0.1	0.5	0.1	0.6	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.1
Pension Funds	220.1	29.6	240.5	27.5	220.1	24.8	247.5	27.1	322.9	35.3	255.7	28.0	8.2
Others	45.8	6.2	86.4	9.9	102.7	11.6	94.7	10.3	19.9	2.2	87.4	9.6	-7.3
Total	744.2	100.0	874.7	100.0	886.9	100.0	914.8	100.0	914.4	100.0	913.2	100.0	-1.5

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Total domestic debt as at August 2014 amounted to Ksh 1,281.1 billion with government securities accounting for 97.3 percent of this debt (Table 7.2). In terms of maturity structure, Government securities worth Ksh 59.9 billion matured in August 2014, and comprised Ksh 43.6 billion and Ksh 16.3 billion in Treasury bills and Treasury bonds, respectively. Treasury bills maturities in the period comprise Ksh 18.5 billion, Ksh 14.3 billion and Ksh 10.5 billion in 91-day, 182-day and 364-day Treasury bills, respectively, while Treasury bonds maturing during this period comprised Ksh 16.3 billion in the 2-year fixed rate Treasury bond.

The average length of maturity of existing domestic debt increased to 4 years and 11 months in August 2014, from 4 years and 10 months in June 2014.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

	2014												Change Jun 14 to Aug 14	
	%	Mar	%	Apr	%	May	%	Jun	%	Jul	%	Aug		%
Treasury bills	91-Day	33.9	2.8	33.4	2.7	41.2	3.3	54.7	4.3	59.4	4.6	52.1	4.1	-2.6
	182-Day	66.0	5.4	75.3	6.2	77.9	6.3	88.9	6.9	93.9	7.2	85.8	6.7	-3.2
	364-Day	202.9	16.5	168.0	13.8	155.7	12.6	155.8	12.1	165.3	12.8	146.7	11.5	-9.1
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	0.0	0.0
	2-Year	160.8	13.1	154.4	12.7	166.7	13.5	166.7	13.0	174.5	13.5	158.2	12.4	-8.4
	3-Year	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
	4-Year	29.9	2.4	29.9	2.5	29.9	2.4	29.9	2.3	29.9	2.3	29.9	2.3	0.0
	5-Year	141.4	11.5	158.9	13.1	158.9	12.9	175.3	13.6	175.3	13.5	188.7	14.7	13.5
	6-Year	40.7	3.3	40.7	3.3	40.7	3.3	40.7	3.2	40.7	3.1	40.7	3.2	0.0
	7-Year	17.0	1.4	17.0	1.4	17.0	1.4	17.0	1.3	8.7	0.7	8.7	0.7	-8.3
	8-Year	40.9	3.3	40.9	3.4	40.9	3.3	40.9	3.2	40.9	3.2	40.9	3.2	0.0
	9-Year	18.2	1.5	18.2	1.5	18.2	1.5	18.2	1.4	18.2	1.4	18.2	1.4	0.0
	10-Year	131.1	10.6	131.1	10.8	131.1	10.6	131.1	10.2	131.1	10.1	131.1	10.2	0.0
	11-Year	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	4.0	0.3	0.0
	12-Year	45.4	3.7	45.4	3.7	45.4	3.7	45.4	3.5	45.4	3.5	45.4	3.5	0.0
	15-Year	142.9	11.6	142.9	11.7	142.9	11.6	142.9	11.1	142.9	11.0	142.9	11.2	0.0
20-Year	49.0	4.0	49.0	4.0	49.0	4.0	60.5	4.7	60.5	4.7	60.5	4.7	0.0	
25-Year	20.2	1.6	20.2	1.7	20.2	1.6	20.2	1.6	20.2	1.6	20.2	1.6	0.0	
30-Year	22.1	1.8	22.1	1.8	22.1	1.8	22.1	1.7	22.1	1.7	23.9	1.9	1.8	
Repo T bills	28.3	2.3	28.3	2.3	28.3	2.3	28.3	2.2	27.7	2.1	27.7	2.2	-0.6	
Overdraft	34.2	2.8	34.2	2.8	39.1	3.2	39.1	3.0	31.7	2.4	30.4	2.4	-8.7	
Other Domestic debt	2.3	0.2	3.0	0.25	3.33	0.27	2.76	0.22	4.1	0.3	25.2	2.0	22.4	
Total Debt	1231.2	100.0	1216.8	100.00	1232.5	100.00	1284.33	100.00	1296.4	100.0	1281.1	100.0	-3.2	

Source: Central Bank of Kenya

External Debt

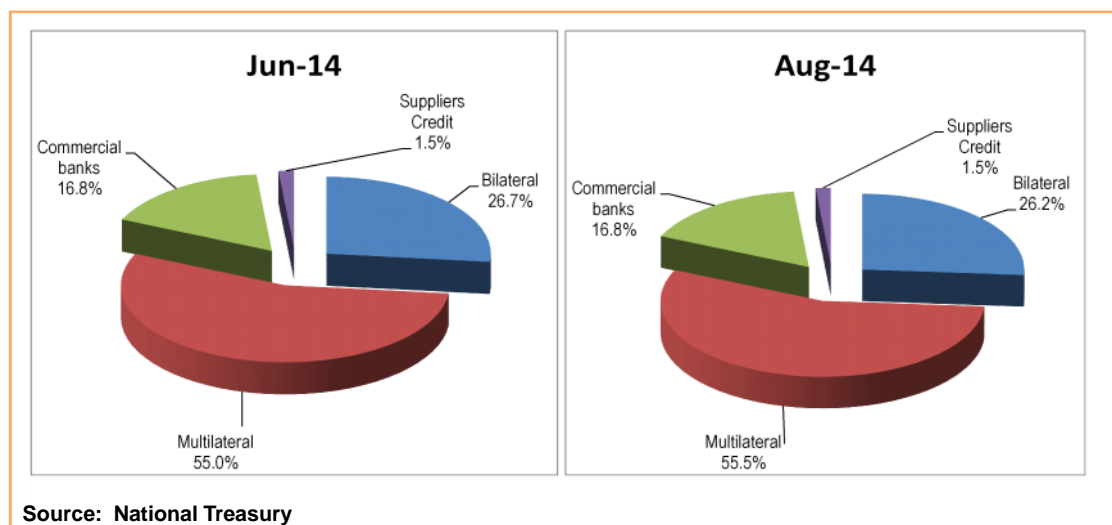
Kenya's public and publicly guaranteed external debt increased by Ksh 5.1 billion to Ksh 1,091 billion (USD 12.34 billion) by August 2014 from Ksh 1,085.9 billion (USD 12.37 billion) in June 2014 (Table 7.1). The total amount of external debt of the central government was Ksh 1,046.8 billion (USD 11.8 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 6.6 billion of the increase in multilateral debt, while Italy and China accounted for Ksh 1.2 billion and Ksh 0.2 billion, respectively, of the increase in bilateral debt. Japan's and the International Monetary Fund's contribution to external debt reduced by Ksh 2.8 billion and Ksh 4 billion during the period under review.

Composition of External Debt by Creditor

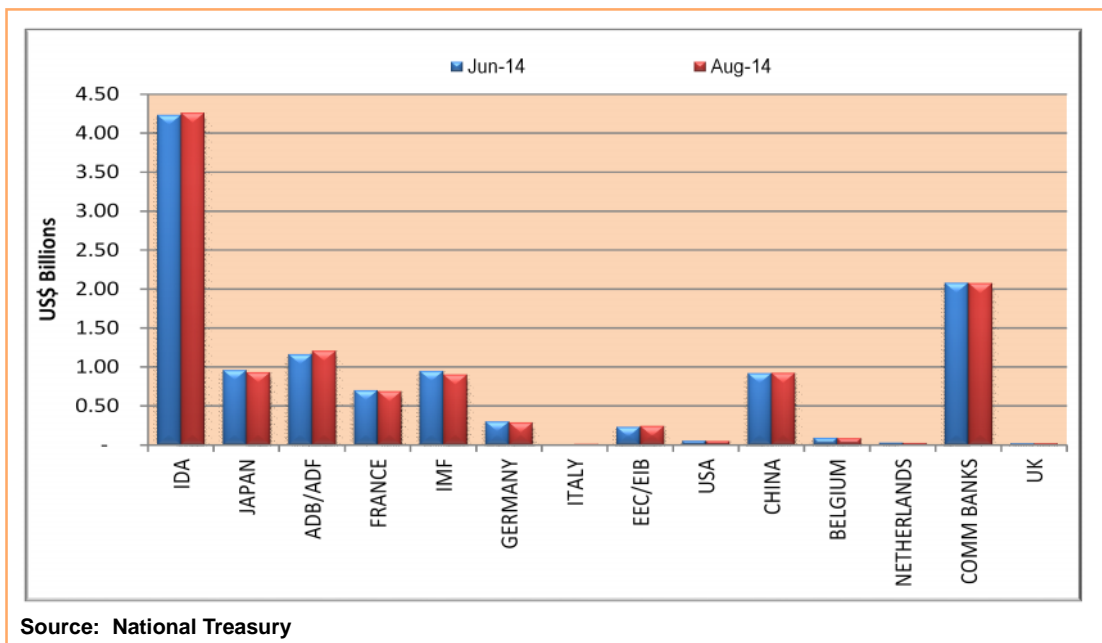
Kenya's official external creditors, the multilateral and bilateral lenders, accounted for 46 percent of the total public and publicly guaranteed debt as at August 2014. The proportion of external debt owed to multilateral lenders increased from 50 percent in June 2014 to 55.5 percent in August 2014. Conversely, the proportion of public and publicly guaranteed external debt owed to bilateral lenders declined from 26.7 percent to 26.2 percent, respectively. The proportion of debt held by supplier creditors and commercial banks remained unchanged during the period under review (Chart 7A).

CHART 7A: COMPOSITION OF EXTERNAL DEBT



Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 4.3 billion or 34.6 percent of total external debt, while that owed to Japan, Kenya's largest bilateral lender, amounted to USD 0.9 billion which is equivalent to 7.6 percent of the total external debt as at the end of August 2014 (Chart 7B).

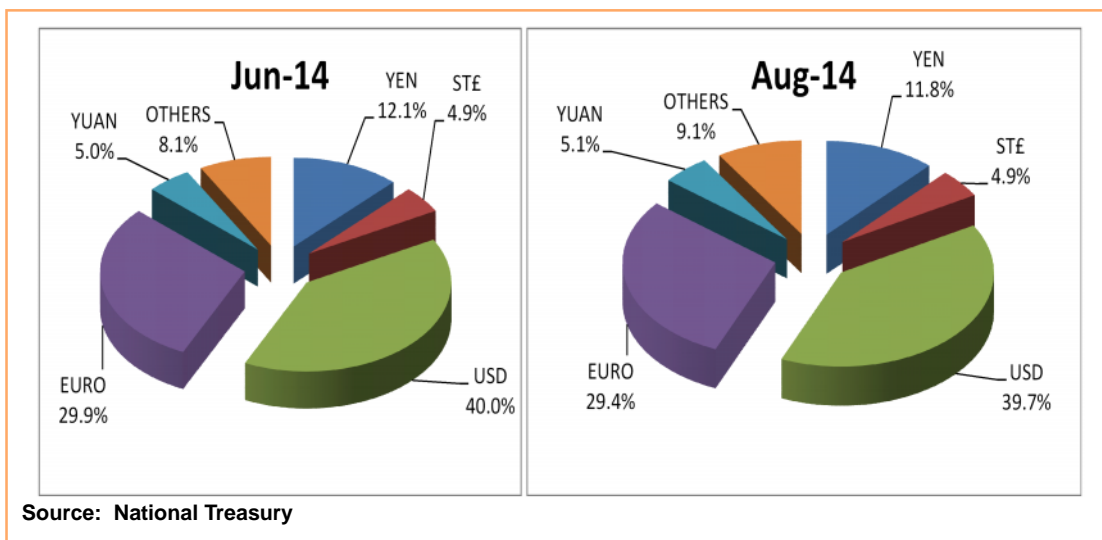
CHART 7B: EXTERNAL DEBT BY CREDITOR



Currency Composition of External Debt

External debt held in Chinese Yuan and in other currencies increased from 5 percent and 8.1 percent of total external debt in June 2014 to 5.1 percent and 9.1 percent, respectively in August 2014. Debt held in Japanese Yen, Euro, and US dollar declined from 12.1 percent, 29.9 percent and 40 percent to 11.8 percent, 29.4 percent and 39.7 percent during the period under review. The proportion of external debt held in the Sterling Pound remained unchanged at 4.9 percent (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



- Public Debt Service** Cumulative interest and other charges on domestic debt for the period July and August, 2014 of the FY 2014/15 amounted to Ksh 18.7 billion compared with Ksh 14.7 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 14.8 billion and Ksh 13.4 billion, respectively. In addition, interest on Government overdraft and the Pre-97 overdraft amounted to Ksh 0.5 billion and Ksh 0.1 billion, respectively. External debt service for the period to August 2014 amounted to Ksh 1.8 billion, comprising Ksh 1.4 billion in principal repayments, and Ksh 0.4 billion in interest payments.
- Performance for the FY 2014/15** Total public and publicly guaranteed external debt is estimated at Ksh 1, 195.7 billion (25.8 percent of GDP), of which gross and net domestic debt stand at Ksh1, 274.7 billion (27.5 percent of GDP) and Ksh 1,213.4 billion (26.2 percent of GDP), respectively (2014 Budget Policy Statement).

ACTIVITY IN THE STOCK MARKET

The leading market indicators registered gains for both equities and bond segments of the market in August 2014. Net foreign investor participation to equity turnover at the NSE declined during the period, with more foreign purchases than foreign sales.

Equity Market

The NSE 20 Share Index closed 233.30 points higher in August 2014 compared to its level in July 2014. The NASI rose to 157.94 points from 151.69 points during the period. Market Capitalization closed the month higher at KSh 2,216.57 billion. Equities turnover increased by 3.1 percent, on account of increased volume, which stood at 628.64 million.

TABLE 8.1: SELECTED STOCK MARKET INDICATORS

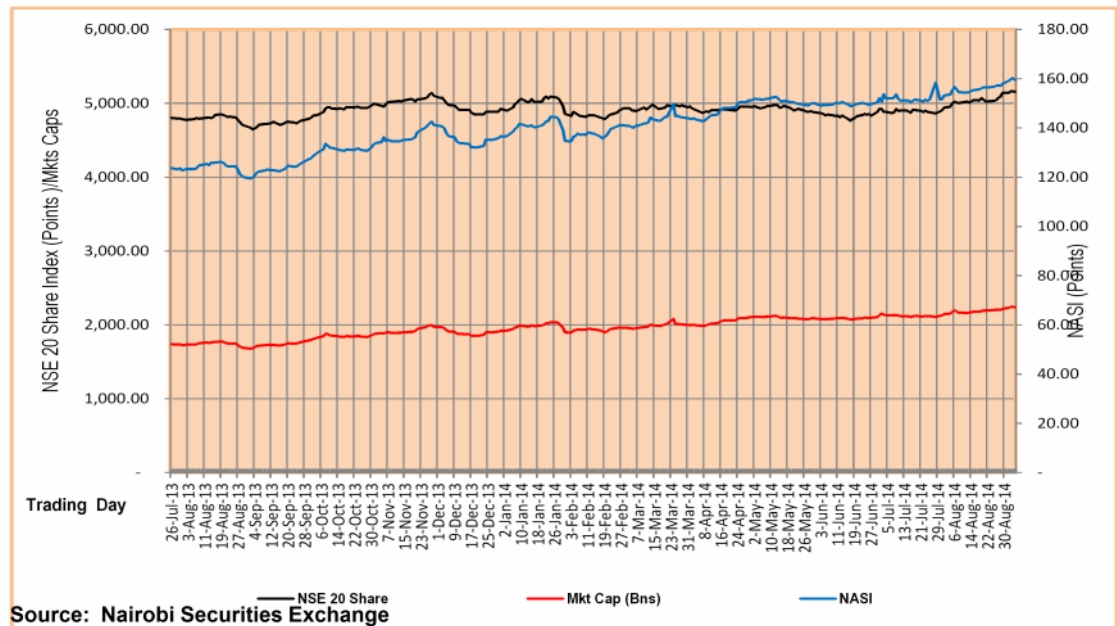
Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)	FP to Equity Turnover	FS to Equity Turnover	Overall net FP to Equity Turnover
Jun-12	3,703.94	80.75	385.51	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%
Jan-14	4,856.15	134.66	638.48	15,970.23	1,898.00	42,549.39	48.28%	53.77%	51.03%
Feb-14	4,933.41	141.05	545.32	14,745.87	1,960.55	27,671.60	47.52%	57.72%	52.62%
Mar-14	4,945.78	143.89	544.06	13,042.51	2,003.52	32,371.60	50.55%	53.61%	52.08%
Apr-14	4,948.97	151.13	727.99	15,749.93	2,106.08	58,572.78	62.32%	53.37%	57.84%
May-14	4,881.56	150.20	853.71	23,022.92	2,091.66	38,379.11	48.90%	60.10%	54.50%
Jun-14	4,885.04	150.37	731.04	18,190.02	2,106.69	28,541.82	63.40%	49.18%	56.29%
Jul-14	4,906.09	151.69	625.48	15,043.24	2,125.31	48,607.65	56.19%	55.25%	55.72%
Aug-14	5,139.39	157.94	628.64	15,512.78	2,216.57	53,354.61	55.06%	34.08%	44.57%

Source: Nairobi Securities Exchange

Foreign Investors participation fell below domestic investors for the first time since December 2013, with overall net foreign participation to total equity turnover closing at 44.57 percent in August 2014 from 55.72 in July 2014. Foreign purchases accounted for 55.06 percent of total equity turnover against 34.08 percent foreign sales, reflecting net inflow (Chart 8.1).

The stock market rally saw the NASI, NSE 20 Share Index and Market Capitalization reach new highs in August 2014. Shareholders' wealth measured by market capitalization reached historical high of 2.2 trillion-mark on August 25, 2014 (Chart 8A).

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



Most Active Sectors & FTSE NSE Kenya Index Series

Telecommunication and Technology, Energy and petroleum, and Banking sectors dominated trading, accounting for 36.90 percent, 19.95 percent and 19.27 percent respectively of all shares traded in the month.

The FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at NSE rose to 205.43 points in August 2014 up from 198.38 points in July. FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks rose to 206.78 points from 200.51 points in July 2014. The FTSE NSE Kenyan Government Bond Index improved 93.47 points from 93.02 points, reflecting decline in down tick in market yields.

Bond Market Bonds turnover increased by 11 percent in August 2014, with a total KSh 53,354.61 million traded up from Ksh 49,467.93 million in July 2014. Corresponding yields were 553 down from 597 deals in July 2014. The FXD1/2012/020 dominated trading, at 14.87 percent of total turnover, with yields ranging from 12.50 percent to 13.40 percent against a coupon rate of 12 percent. The Corporate bonds segment traded Ksh 138.95 million, with HFCB dominating at Ksh 120.96 million.

STATEMENT OF FINANCIAL POSITION OF THE CENTRAL BANK OF KENYA

(KENYA SHILLINGS MILLION)

1 ASSETS	AUG 2014	JUNE 2014	INCREASE/ (DECREASE)	AUG 2013
1.1 BALANCES DUE FROM BANKING INSTITUTIONS AND GOLD HOLDINGS	696,046.69	759,650.14	- 63,603.45	463,735.00
1.2 FUNDS HELD WITH IMF	3,368.14	692.47	2,675.67	1,577.00
1.3 ITEMS IN THE COURSE OF COLLECTION	30.00	69.81	- 39.81	100.00
1.4 ADVANCES TO COMMERCIAL BANKS	30,896.49	50.49	30,846.00	4,106.00
1.5 LOANS AND OTHER ADVANCES	33,207.65	40,462.66	- 7,255.01	21,573.00
1.6 OTHER ASSETS	2,886.14	3,141.53	- 255.39	12,375.00
1.7 RETIREMENT BENEFIT ASSET	7,659.20	7,659.20	-	2,193.00
1.8 PROPERTY AND EQUIPMENT	13,671.92	13,811.27	- 139.35	8,970.00
1.81 INTANGIBLE ASSETS	573.70	639.06	- 65.36	1,318.00
1.9 DUE FROM GOVERNMENT OF KENYA	27,778.76	28,333.76	- 555.00	29,999.00
TOTAL ASSETS	816,118.69	854,510.39	- 38,391.70	545,946.00
2 LIABILITIES				
2.1 CURRENCY IN CIRCULATION	205,926.50	199,966.31	5,960.19	166,132.00
2.2 INVESTMENTS BY BANKS	-	-	-	26,855.00
2.3 DEPOSITS	407,089.54	448,799.78	- 41,710.24	196,856.00
2.4 INTERNATIONAL MONETARY FUND	128,653.12	130,064.28	- 1,411.16	97,263.00
2.5 OTHER LIABILITIES	2,919.36	5,097.23	- 2,177.87	6,214.00
2.6 PROVISIONS	156.64	156.64	-	67.00
TOTAL LIABILITIES	744,745.16	784,084.24	- 39,339.08	493,387.00
3 EQUITY AND RESERVES	71,373.11	70,426.00	947.11	52,559.00
Share Capital	5,000.00	5,000.00	-	5,000.00
General reserve fund	51,432.00	51,432.00	-	38,699.00
Period surplus	947.11		947.11	- 50.00
Asset Revaluation	8,853.00	8,853.00	-	7,410.00
Retirement Benefit Asset Reserves	5,141.00	5,141.00	-	
Dividends payable	-	-	-	1,500.00
4 TOTAL LIABILITIES AND EQUITY	816,118.27	854,510.24	- 38,391.97	545,946.00

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 decreased by KSh 63,603 million to KSh 696,047 million in August 2014 from KSh 759,650 million in June 2014.

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 August 2014 were KSh 30 million, representing 57.1 percent recovery from KSh 70 million outstanding as at June 2014.

Advances to commercial banks are balances of money advanced 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 30,846 million to KSh 30,896 million in August 2014 from KSh 50 million in June 2014.

Loans and Advances class of asset includes mainly outstanding balances on advances to commercial banks under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF fund on-lent to Government. The balances decreased by KSh 7,255 million to KSh 33,208 million in August 2014 from KSh 40,463 million in June 2014.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets decreased by KSh 255 million to KSh 2,886 million in August 2014 from KSh 3,142 million in June 2014.

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.

Currency in circulation increased by KSh 5,960 million to KSh 205,927 million in August 2014 from KSh 199,966 million in June 2014.

Liabilities

Deposits liability represents deposits held by Government of Kenya, local commercial banks deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances decreased by KSh 41,710 million to KSh 407,090 million in August 2014 from KSh 448,800 million in June 2014.

Amount due to International Monetary Fund represents the Banks obligations to the IMF. The balances decreased by KSh 1,411 million to KSh 128,653 in August 2014 from KSh 130,064 million in June 2014.

Other liabilities include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance decreased by KSh 2,178 million to KSh 2,919 million in August 2014 from KSh 5,097 million in June 2014.

Equities and reserves increased by KSh 947 million to KSh 71,373 million in August 2014 from KSh 70,426 million in June 2014 reflecting increases of KSh 947.109 million in period surplus.

