

**MONTHLY ECONOMIC REVIEW  
DECEMBER 2014**

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

<http://www.centralbank.go.ke>

## **CONTENTS**

<b>Overview .....</b>	<b>2</b>
<b>1. Trends in Various Measures of Inflation .....</b>	<b>7</b>
<b>2. Developments in Money, Credit and Interest Rates .....</b>	<b>10</b>
<b>3. Performance of the Real Sector .....</b>	<b>15</b>
<b>4. Developments in the Balance of Payments and Exchange Rates .....</b>	<b>22</b>
<b>5. Developments in the Banking Sector .....</b>	<b>28</b>
<b>6. Government Budget Performance .....</b>	<b>34</b>
<b>7. Developments in Public Debt .....</b>	<b>38</b>
<b>8. Activity in the Stock Market .....</b>	<b>44</b>
<b>9. Balance Sheet of the Central Bank of Kenya .....</b>	<b>46</b>

*Information in the Monthly Economic Review is provided for public information and may be reproduced with due acknowledgment.*

*Enquiries concerning this publication should be addressed to: The Director, Research and Policy Analysis Department, Central Bank of Kenya, P. O. Box 60000-00200, Nairobi.*

**email: [Researchstat@centralbank.go.ke](mailto:Researchstat@centralbank.go.ke)**

---

## OVERVIEW

**Introduction** This Monthly Economic Review highlights recent economic developments through December 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 declined from 6.1 percent in November 2014 to 6.0 percent in December 2014. This reflects reduced prices of fuels. Fuel inflation fell by 39 basis points to 6.0 percent in December 2014, while non-food non-fuel inflation eased by 12 basis points to 3.7 percent. The price reduction in these components of overall 12 month inflation offset the impact of food inflation, which rose by 15 basis points to 7.5 percent in December 2014. The annual average inflation maintained a downward trend since September 2014, easing from 7.0 percent in November 2014 to 6.9 percent in December 2014.

**Money Supply** Growth in broad money, M3, accelerated to 16.7 percent in 2014 from 15.5 percent in 2013 and closely tracked the 16.2 percent target for December 2014. The increase in money supply was attributed to increases in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system.

**Interest Rates** The Central Bank maintained the Central Bank Rate (CBR) at 8.50 percent in December 2014 in order to continue anchoring inflationary expectations. The weighted average interbank rate increased marginally to 6.91 percent in December 2014 from 6.86 percent in November 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 three quarters of 2014, the economy grew by 4.5 percent, 5.7 percent and 5.5 percent, respectively, compared with growth of 6.3 percent, 7.3 percent and 6.2 percent in comparable quarters of 2013. Growth in the first three quarters of 2014 was largely supported by improved performance in the construction, financial and insurance, wholesale and retail trade, information and communication, manufacturing, health and agriculture sectors.

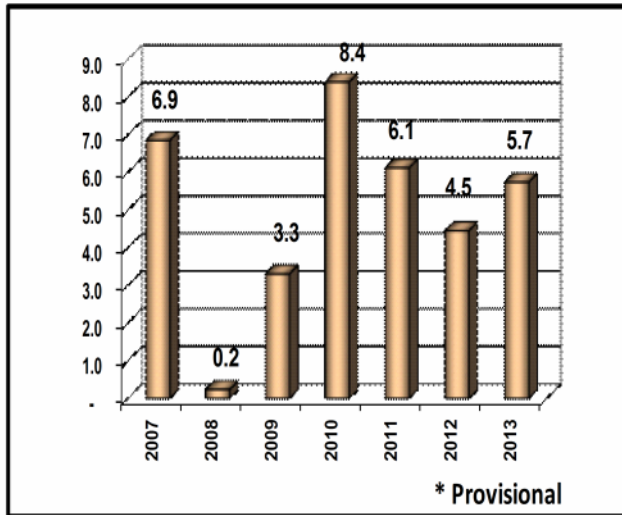
**Balance of Payments** Kenya's overall Balance of Payments surplus improved by USD 693.6 million in the year to December 2014 reflecting 27.6 percent increase in the capital and financial account surplus, which more than offset 17.1 percent or USD 818 million widening of the current account deficit.

---

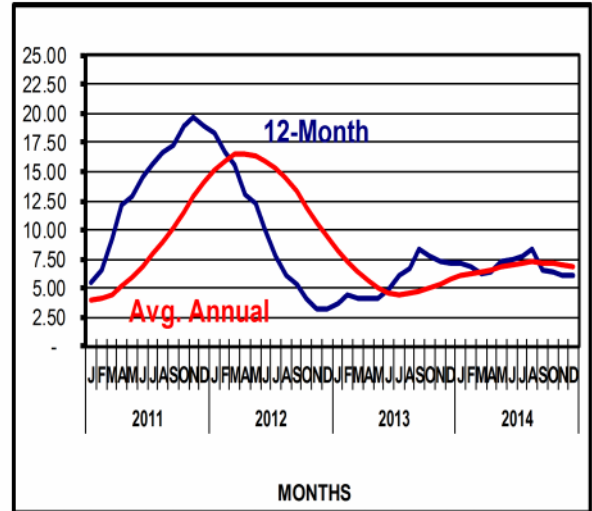
<b>Exchange Rates</b>	The Kenya shilling displayed mixed performance against major international and EAC currencies during the month of December 2014. It strengthened against the Pound Sterling, the Euro and the Japanese Yen and weakened against the US Dollar largely on account of the strengthening of the US Dollar on the back of sustained optimism on US growth performance and high dollar demand on the domestic market during the festive season.
<b>Banking Sector Developments</b>	The Kenyan Banking sector registered improved growth in assets in the year to December 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.
<b>Government Budgetary Performance</b>	The Government budgetary operations during the first half of the FY 2014/15 resulted into a deficit of Ksh 89 billion (1.9 percent of GDP) on both commitment and cash basis compared with a deficit of Ksh 105.2 billion (2.7 percent of GDP) incurred in the same period of the FY 2013/14. This was however, lower than the Ksh 175.3 billion (3.4 percent of GDP) programmed target for the period and is reflected in lower absorption of public commitments and a slack in all revenue mobilization other than in nontax revenue.
<b>Public Debt</b>	Kenya's public and publicly guaranteed debt rose by 87.9 billion, reaching Ksh 2,458.1 billion in December 2014 compared with Ksh 2370.3 billion in June, 2014. The total debt stock at the end of December 2014 was equivalent to 51.7 percent of GDP, compared with 49.8 percent of GDP in June 2014.
<b>Stock Market</b>	The capital markets closed the year 2014 with mixed performance. The bonds segment recorded reduced activity, while the equities segment had mixed performance.

# SELECTED ECONOMIC PERFORMANCE INDICATORS

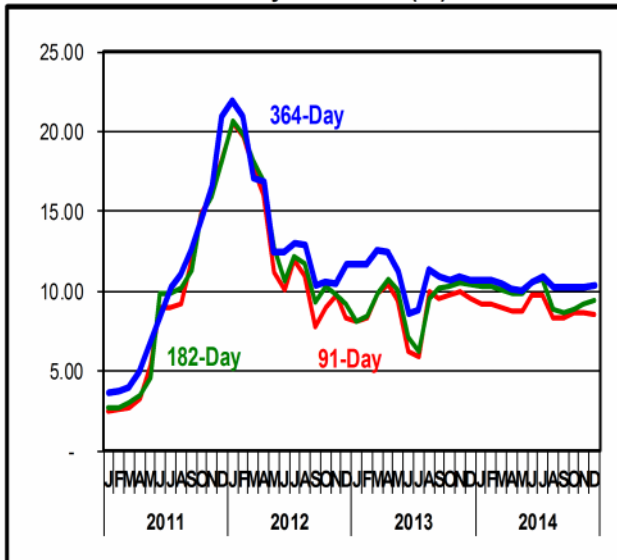
### Real GDP Growth (%)



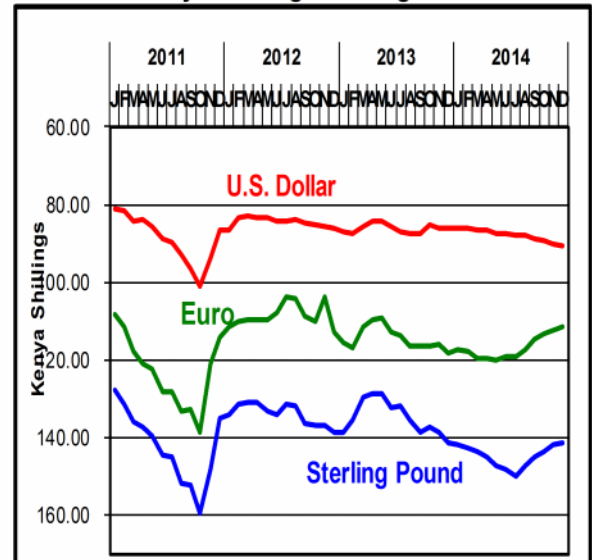
### Inflation (%)



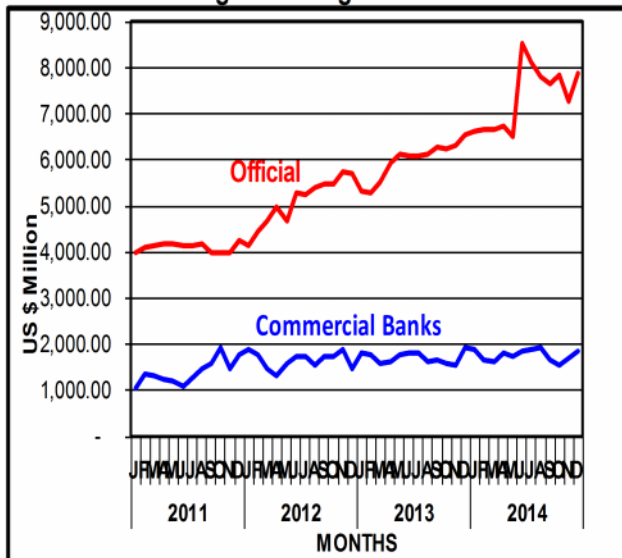
### Treasury Bill Rates (%)



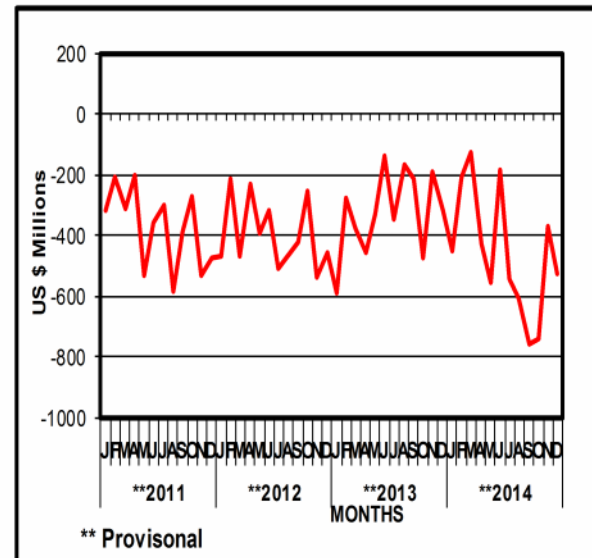
### Kenya Shilling Exchange Rate



### Foreign Exchange Reserves



### Current Account Balance



# SELECTED ANNUAL ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013*
<b>1. POPULATION*</b>								
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
<b>2. NATIONAL ACCOUNTS**</b>								
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
<b>3. GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\<sup>3</sup></b>	<b>16.1</b>	<b>16.7</b>	<b>15.4</b>	<b>14.6</b>	<b>14.1</b>	<b>14.6</b>	<b>12.7</b>	<b>11.0</b>
<b>4. GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\<sup>3</sup></b>	<b>9.1</b>	<b>10.1</b>	<b>8.9</b>	<b>8.4</b>	<b>8.3</b>	<b>7.2</b>	<b>7.1</b>	<b>5.4</b>
<b>5. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)</b>	<b>18.6</b>	<b>20.5</b>	<b>19.6</b>	<b>19.3</b>	<b>20.8</b>	<b>21.7</b>	<b>21.6</b>	<b>19.9</b>
<b>6. OVERALL INFLATION BASE PERIOD= FEB 2009</b>								
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
<b>7. STOCK MARKET</b>								
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
<b>8. GOVERNMENT BUDGET (Ksh bn)***</b>								
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)
<b>9. MONEY AND CREDIT (Ksh bn)(end period)</b>								
Liquidity (L) <sup>1</sup>	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) <sup>2</sup>	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
<b>Total Domestic Credit</b>	<b>575.76</b>	<b>668.90</b>	<b>815.52</b>	<b>955.82</b>	<b>1,188.40</b>	<b>1,505.13</b>	<b>3,036.21</b>	<b>1,982.30</b>
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
<b>10. BALANCE OF PAYMENTS (US\$ m)</b>								
<b>Overall Balance</b>	<b>675.00</b>	<b>854.00</b>	<b>(469.00)</b>	<b>780.53</b>	<b>163.40</b>	<b>(42.88)</b>	<b>1,261.00</b>	<b>684.72</b>
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
<b>11. FOREIGN EXCHANGE RESERVES (US\$ m) End Period</b>	<b>3,331.30</b>	<b>4,556.97</b>	<b>4,640.78</b>	<b>5,064.03</b>	<b>5,122.52</b>	<b>6,044.78</b>	<b>7,159.86</b>	<b>8,483.20</b>
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
<b>12. PUBLIC DEBT (US\$ bn) End Period***</b>	<b>10.68</b>	<b>12.04</b>	<b>13.46</b>	<b>13.66</b>	<b>14.96</b>	<b>16.60</b>	<b>19.27</b>	<b>27.52</b>
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
<b>13. EXCHANGE RATE (Ksh/US\$) (Annual Average)</b>	<b>72.10</b>	<b>67.32</b>	<b>69.18</b>	<b>77.35</b>	<b>79.26</b>	<b>88.91</b>	<b>84.53</b>	<b>86.12</b>

\* Provisional.

\*\* Rebased data

\*\*\* Fiscal year to June 30th.

<sup>1</sup> Previously M3XT

<sup>2</sup> Previously M3X

<sup>3</sup> Revised

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

# SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2013	2014											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>1. INFLATION (%)</b>													
CPI	143.85	145.40	145.95	146.61	148.20	149.70	149.91	150.60	152.02	152.24	151.92	151.85	152.51
Overall Inflation													
12-month overall inflation	7.15	7.21	6.86	6.27	6.41	7.30	7.39	7.67	8.36	6.60	6.43	6.09	6.02
Average annual overall inflation	5.72	6.01	6.21	6.39	6.58	6.85	7.05	7.19	7.33	7.19	7.08	6.97	6.88
<b>2. INTEREST RATES (%)</b>													
91-day Treasury bill interest rate	9.52	9.26	8.98	8.80	8.80	8.82	9.81	9.78	8.29	8.38	8.67	8.64	8.58
Overdraft interest rate	16.51	16.82	16.88	16.44	16.40	17.85	15.88	17.12	16.20	15.79	15.77	15.66	15.86
<b>3. STOCK MARKET</b>													
Nairobi Stock Exchange 20 Share Price Index	4,926.97	4,856.15	4,933.41	4,945.78	4,948.97	4,881.56	4,885.04	4,906.09	5,139.39	5,256.00	5,194.89	5,156.00	5,112.65
Turnover Ratio (%)	0.58	0.79	0.68	0.67	0.67	1.06	0.90	0.77	0.77	0.93	0.61	0.80	1.07
<b>4. GOVERNMENT BUDGET* (Ksh bn.)</b>													
Revenue \$ Grants	468.97	548.10	611.90	694.30	795.75	880.77	1,001.37	69.58	142.36	248.08	335.24	410.52	524.99
Expenses	574.21	691.60	770.60	855.33	971.11	1,114.34	1,297.76	48.60	141.07	276.61	373.51	490.10	613.96
Budget Deficit (-) / Surplus (+)	(105.24)	(143.50)	(158.70)	(161.03)	(175.36)	(233.57)	(296.39)	20.97	1.29	(28.52)	(38.27)	(79.58)	(88.98)
<b>5. MONEY AND CREDIT (Ksh bn.)</b>													
Liquidity (L) <sup>1</sup>	2,523.23	2,558.56	2,560.08	2,532.54	2,650.16	2,701.27	2,718.34	2,752.26	2,880.19	3,020.09	3,037.95	3,102.53	3,124.10
Money Supply (M) <sup>2</sup>	1,996.24	2,026.57	2,030.49	2,060.31	2,100.61	2,147.48	2,152.13	2,190.08	2,253.32	2,251.76	2,260.02	2,295.15	2,329.98
Reserve Money	320.76	302.32	315.49	309.81	315.27	315.34	323.73	304.65	357.05	322.76	348.60	346.20	380.04
Total Domestic Credit	1,978.52	2,010.72	2,057.51	2,097.87	2,127.93	2,177.36	2,042.87	2,130.25	2,187.85	2,110.45	2,117.81	2,162.33	2,137.17
Government	397.16	413.32	438.80	449.87	441.96	465.19	283.06	346.88	372.79	251.10	240.00	256.68	204.31
Private sector and other public sector	1,581.36	1,597.40	1,618.71	1,648.00	1,685.97	1,712.17	1,759.82	1,783.37	1,815.06	1,859.35	1,877.81	1,905.65	1,932.86
<b>6. MONEY AND CREDIT (Annual % Change)</b>													
Liquidity (L) <sup>1</sup>	18.43	19.97	19.01	18.89	18.32	18.84	19.32	19.11	22.99	25.53	25.08	25.10	23.81
Money Supply (M) <sup>2</sup>	15.54	17.15	16.17	17.35	16.55	17.77	18.19	19.30	21.80	19.41	18.94	17.48	16.72
Reserve Money	9.24	10.33	9.89	7.73	17.71	11.88	12.63	7.28	15.25	11.16	13.46	9.29	18.48
Total Domestic Credit	16.21	15.27	17.77	19.73	16.66	22.44	14.58	20.05	21.06	12.54	12.09	9.92	8.02
Government	7.68	4.37	11.48	15.05	(3.53)	18.42	(25.41)	0.07	10.91	(34.37)	(34.91)	(37.21)	(48.56)
Private and other public sector	18.57	18.47	19.60	21.07	23.43	23.58	25.39	24.90	23.37	24.56	23.49	22.3	22.2
<b>7. BALANCE OF PAYMENTS (US\$ m)</b>													
Overall Balance	120.13	59.41	(33.77)	82.02	110.54	(261.11)	2,056.50	(419.32)	(313.45)	(137.65)	168.11	(559.44)	626.49
Current Account	(385.36)	(450.68)	(203.78)	(249.12)	(428.83)	(561.97)	(183.10)	(541.27)	(605.82)	(754.55)	(741.49)	(369.23)	(524.55)
Trade Balance	(970.78)	(1,009.74)	(746.71)	(683.99)	(1,041.20)	(1,173.89)	(793.62)	(1,204.68)	(1,135.01)	(1,344.76)	(1,269.37)	(874.89)	(1,072.77)
Capital and Financial Account	515.49	510.09	170.01	331.14	539.37	230.86	2,239.60	121.95	292.36	616.90	909.61	(190.22)	1,151.04
Foreign Exchange Reserves (US\$ m)	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	9,335.92	9,399.90	8,964.49	9,737.55
Official	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	7,676.44	7,838.99	7,273.99	7,894.92
Months of import cover**	4.49	4.50	4.46	4.52	4.54	4.34	5.70	5.37	5.15	5.01	5.06	4.70	5.08
Commercial banks	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	1,659.49	1,560.91	1,690.50	1,842.64
<b>9. PUBLIC DEBT (US\$ bn)</b>	24.46	24.61	24.59	24.60	25.00	25.01	27.05	27.19	26.92	26.44	26.17	26.56	27.16
Domestic	13.78	13.93	14.25	14.24	14.03	14.10	14.66	14.77	14.54	14.19	13.97	14.49	14.23
As % of GDP	24.96	25.24	25.84	25.88	25.58	25.91	27.00	27.25	26.93	26.50	26.19	27.40	27.10
External	10.69	10.68	10.34	10.36	10.97	10.91	12.39	12.42	12.38	12.25	12.20	12.08	12.92
As % of GDP	19.36	19.35	18.76	18.84	19.99	20.05	22.83	22.90	22.93	22.87	22.89	22.89	24.60
<b>10. GROSS DOMESTIC DEBT (Ksh bn)***</b>	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	1,260.87	1,246.14	1,303.35	1,287.40
<b>11. AVERAGE EXCHANGE RATE</b>													
Ksh/US\$	86.31	86.21	86.28	86.49	86.72	87.41	87.61	87.77	88.11	88.84	89.23	89.96	90.44
Ksh/Pound Sterling	141.37	141.99	142.81	143.76	145.08	147.29	148.15	150.04	147.24	144.99	143.66	142.05	141.45
Ksh/ 100 Yen	83.51	82.92	84.52	84.58	84.59	85.84	85.88	86.32	85.63	82.90	82.62	77.53	75.79
Ksh/Euro	118.18	117.50	117.81	119.58	119.78	120.09	119.16	119.02	117.40	114.74	113.21	112.28	111.52

\* 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.

<sup>1</sup> Previously M3XT

<sup>2</sup> 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 further eased from 6.1 percent in November 2014 to 6.0 percent in December 2014 largely reflecting a continued easing in fuel inflation. Fuel inflation fell by 39 basis points to 6.0 percent in December 2014 while non-food non-fuel inflation eased by 12 basis points to 3.7 percent in December 2014. Food inflation however rose by 15 basis points to 7.5 percent in December 2014. The three months annualized rate of inflation reversed from 0.44 percent decline in November 2014 to 0.70 percent rise in December 2014 indicating a marginal increase in domestic inflationary pressures (Table 1.1 and Chart 1A).

**TABLE 1.1: INFLATION (%)**

Overall Inflation	2013	2014											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
12-month	7.15	7.21	6.86	6.27	6.41	7.30	7.39	7.67	8.36	6.60	6.43	6.09	6.02
Average annual	5.72	6.01	6.21	6.39	6.58	6.85	7.05	7.19	7.33	7.19	7.08	6.97	6.88
Three months annualised	2.91	7.64	8.09	7.89	7.93	10.69	9.32	6.63	6.33	6.37	3.56	-0.44	0.70
Non-food non-oil inflation	4.71	4.83	4.93	4.97	4.53	4.35	4.47	4.45	4.92	3.65	3.46	3.77	3.65

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

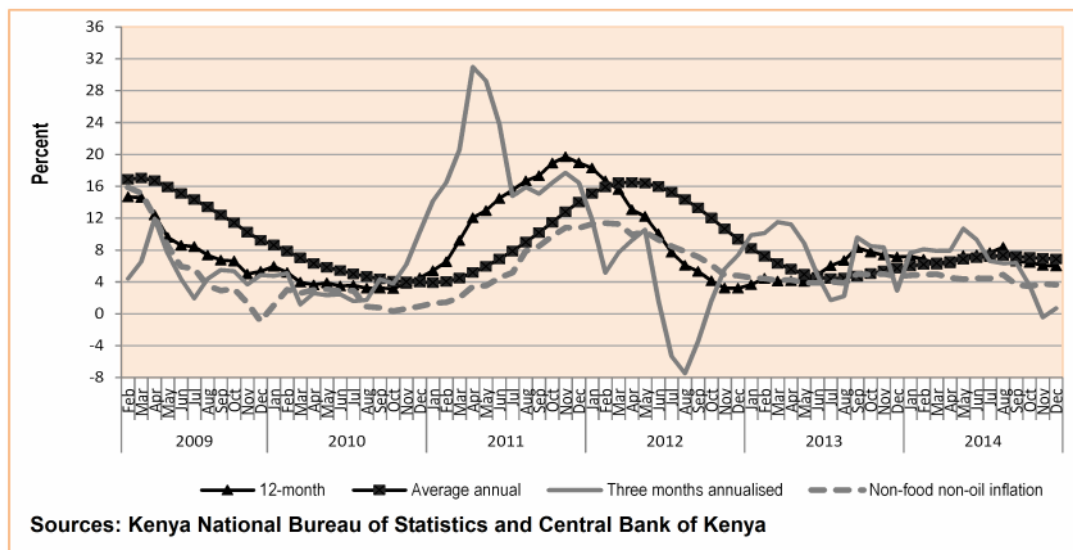
The rise in food inflation from 7.4 percent in November 2014 to 7.5 percent in December 2014 reflects a rise in the 12-month inflation in the 'food and non-alcoholic beverages' category of goods and services from 7.5 percent in November 2014 to 7.7 percent in December 2014 on account of a rise in the retail price of meat. The 12-month inflation in the 'restaurant and hotels' category of goods and services stabilized at 6.1 percent in December 2014.

Fuel inflation eased from 6.4 percent in November 2014 to 6.0 percent in December 2014. This reflects a decline in 12-month inflation in the 'transport' category of goods and services from 9.9 percent in November 2014 to 8.9 percent in December 2014 as the 12-month inflation in the 'transport' category of goods and services stabilized at 4.5 percent. The decline in fuel inflation reflects a fall in the retail prices of diesel, petrol and kerosene.

Non-food non-fuel inflation eased marginally from 3.8 percent in November 2014 to 3.7 percent in December 2014 reflecting lower inflation in the 'clothing and footwear' and 'alcoholic beverages, tobacco and narcotics' consumption baskets.



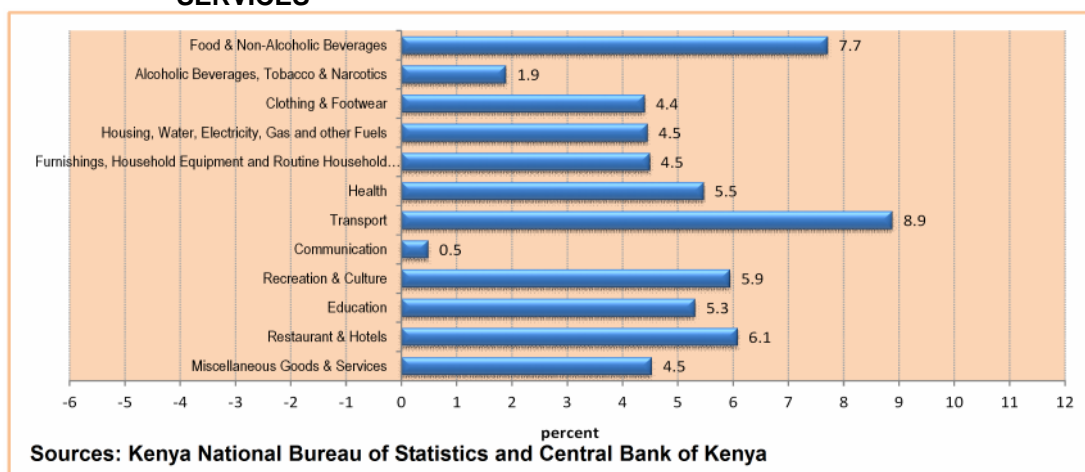
**CHART 1A: 12-MONTH OVERALL, AVERAGE ANNUAL AND THREE-MONTHS ANNUALISED INFLATION (%)**



**Inflation Across Categories of Goods & Services**

Developments across all categories of goods and services, and the distribution of weights in the Kenya consumer price index (CPI) are summarized in Table 1.2 and Chart 1B. Chart 1C shows that 49.7 percent of overall 12-month inflation in December 2014 was attributed to ‘food and non-alcoholic beverages’ category while inflation in ‘housing, water, electricity, gas and other fuels’ and ‘transport’ categories contributed 13.7 percent and 12.4 percent, respectively.

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



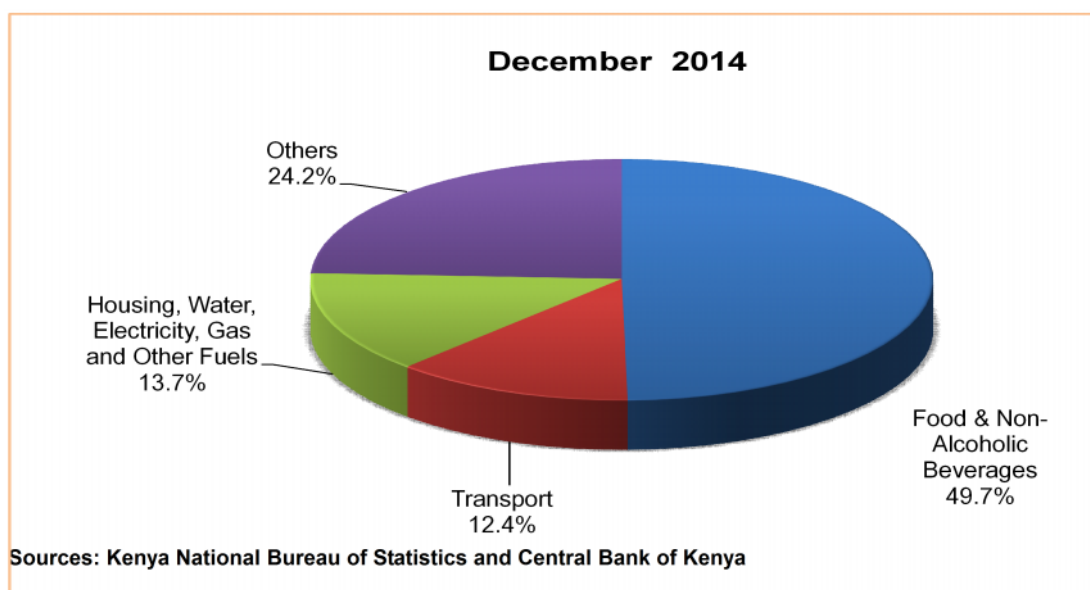
**TABLE 1.2: 12 MONTHS INFLATION ACROSS BASKETS AND INCOME GROUPS**

December 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	6.1	6.7	7.5	6.3	8.7	7.7
Alcoholic beverages, Tobacco & narcotics	2.1	1.6	1.3	4.1	1.6	2.1	1.9
Clothing & Footwear	7.4	2.8	5.2	8.7	3.5	5.0	4.4
Housing, Water, Electricity, Gas and other fuels	18.3	1.9	2.4	1.1	1.9	6.2	4.5
Furnishings, Household equipment and Routine household maintenance	6.2	1.3	2.2	2.3	1.5	6.4	4.5
Health	3.1	4.2	0.9	2.8	3.4	6.9	5.5
Transport	8.7	12.5	1.4	0.1	9.6	8.3	8.9
Communication	3.8	0.1	0.1	0.0	0.1	0.7	0.5
Recreation & culture	2.3	5.4	6.0	2.7	5.5	6.3	5.9
Education	3.1	5.1	4.2	9.6	5.0	5.5	5.3
Restaurants & hotels	4.5	2.2	1.1	9.9	2.2	8.8	6.1
Miscellaneous goods & services	4.5	3.6	3.7	5.4	3.7	5.1	4.5
<b>ALL GROUPS</b>	<b>100.0</b>	<b>4.9</b>	<b>3.6</b>	<b>3.2</b>	<b>4.5</b>	<b>7.0</b>	<b>6.0</b>

Source: Kenya National Bureau of Statistics



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



The 12-month inflation eased in urban centers outside Nairobi in December 2014. Inflationary pressures rose for the lower and middle income groups in Nairobi in but eased for the upper income group (Table 1.3). The 12-month consumer price inflation for the 'Nairobi Lower Income' group rose from 4.5 percent in November 2014 to 4.9 percent in December 2014 reflecting higher bus fares. The 12-month inflation for the 'Nairobi Middle Income' group also rose from 3.3 percent in November 2014 to 3.6 percent in December 2014 reflecting higher inflation in the 'recreation and culture' and 'food and non-alcoholic beverages' categories of goods and services. 12-month inflation for the 'Nairobi Upper Income' group however, eased to 3.2 percent in November 2014 from 4.2 percent in the previous month largely reflecting the fall in fuel prices. The 12-month inflation in urban centers outside Nairobi eased to 7.0 percent in December 2014.

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

	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Combined Nairobi	7.20	6.73	6.10	5.53	5.16	5.95	6.15	6.21	7.32	4.52	4.46	4.22	4.53
Lower Income	7.65	7.16	6.46	5.80	5.36	6.07	6.10	6.13	7.49	4.84	4.79	4.50	4.87
Middle Income	5.97	5.44	4.93	4.65	4.43	5.37	6.06	6.19	6.39	3.34	3.38	3.30	3.61
Upper Income	5.62	5.89	5.84	5.38	5.64	7.18	7.81	8.04	9.58	5.19	4.33	4.25	3.19
Other provinces-excluding Nairobi	7.11	7.54	7.38	6.78	7.27	8.23	8.25	8.68	9.07	8.04	7.79	7.37	7.05
<b>TOTAL KENYA</b>	<b>7.15</b>	<b>7.21</b>	<b>6.86</b>	<b>6.27</b>	<b>6.41</b>	<b>7.30</b>	<b>7.39</b>	<b>7.67</b>	<b>8.36</b>	<b>6.60</b>	<b>6.43</b>	<b>6.09</b>	<b>6.02</b>

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

### Inflation Outlook

Overall domestic inflation is expected to stabilize in the near term on account of lower fuel and energy inflation.

# DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

## Monetary Aggregates

Growth in broad money, M3, accelerated to 16.7 percent in 2014 from 15.5 percent in 2013 and tracked closely 16.2 percent target for December 2015. The shilling denominated component, M2, and the foreign currency deposits recorded increases of 18.6 percent and 7.2 percent in 2014 compared with growth of 13.8 percent and 25.7 percent in 2013, respectively (Table 2.1 and Chart 2A).

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

	2012 December	2013 December	2014 December	Absolute Change		%age change	
				2012/13 December	2013/14 December	12 months Dec-13	12 months Dec-14
<b>1. Money supply, M3 (2+3) 2/</b>	<b>1727.7</b>	<b>1996.2</b>	<b>2330.0</b>	<b>268.6</b>	<b>333.7</b>	<b>15.5</b>	<b>16.7</b>
1.1 Money supply, M2 3/	1469.4	1671.6	1981.9	202.2	310.3	13.8	18.6
1.2 Money supply, M1	710.9	827.1	936.4	116.2	109.4	16.3	13.2
1.3 Currency outside banks	147.8	163.2	173.2	15.4	10.0	10.4	6.2
1.4 Foreign Currency Deposits	258.3	324.6	348.1	66.4	23.5	25.7	7.2
<b>2. Net foreign assets 4/</b>	<b>326.0</b>	<b>387.3</b>	<b>479.7</b>	<b>61.3</b>	<b>92.4</b>	<b>18.8</b>	<b>23.8</b>
Central Bank	364.1	432.0	588.8	67.9	156.8	18.6	36.3
Banking Institutions	-38.2	-44.7	-109.1	-6.6	-64.4		
<b>3. Net domestic assets (3.1+3.2)</b>	<b>1401.7</b>	<b>1608.9</b>	<b>1850.3</b>	<b>207.3</b>	<b>241.4</b>	<b>14.8</b>	<b>15.0</b>
<b>3.1 Domestic credit (3.1.1+3.1.2)</b>	<b>1702.5</b>	<b>1978.5</b>	<b>2137.2</b>	<b>276.0</b>	<b>158.7</b>	<b>16.2</b>	<b>8.0</b>
3.1.1 Government (net)	368.8	397.2	204.3	28.3	-192.9	7.7	-48.6
3.1.2 Private sector and other public sector	1333.7	1581.4	1932.9	247.7	351.5	18.6	22.2
<b>3.2 Other assets net (3-3.1)</b>	<b>-300.8</b>	<b>-369.6</b>	<b>-286.8</b>	<b>-68.8</b>	<b>82.7</b>		
<b>Memorandum items</b>							
1. Overall liquidity, L 1/	2130.5	2523.2	3124.1	392.7	600.9	18.4	23.8
2. Reserve money	293.6	320.8	380.0	27.1	59.3	9.2	18.5
Currency outside banks	147.8	163.2	173.2	15.4	10.0	10.4	6.2
Bank reserves	145.9	157.6	206.8	11.7	49.2	8.0	31.2

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

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

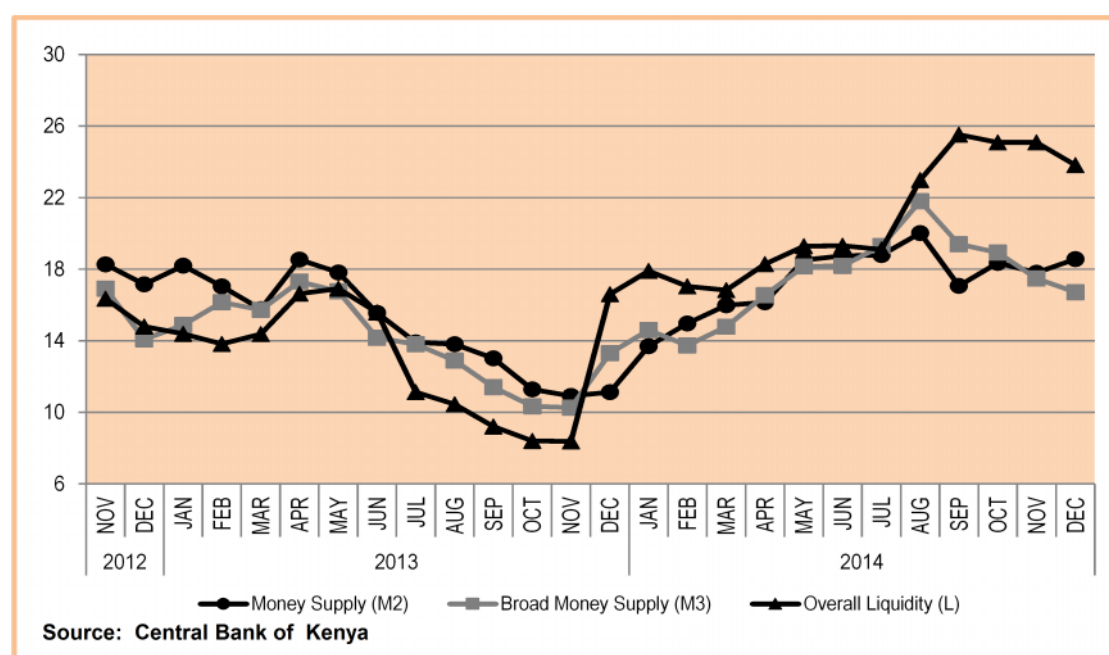
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

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

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

Source: Central Bank of Kenya

**CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY**



Source: Central Bank of Kenya

The M3 growth was attributed to 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 23.8 percent (or KSh 92.4 billion) in 2014 compared with 18.8 percent (or KSh 61.3 billion) in 2013. This accumulation was reflected wholly in holdings of the Central Bank, largely from proceeds of the sovereign bond issued in June 2014 and December 2014. NFA of the Central Bank increased by 36.3 percent to KSh 588.8 billion in December 2014 from KSh 432.0 billion in December 2013, while other banking institutions accumulated net liabilities by KSh 64.4 billion on account of increased loans from non-residents and accumulation of foreign deposits. Over the same period, annual growth in NDA of the banking system increased marginally to 15.0 percent compared with a growth of 14.8 percent in 2013 largely driven by strong growth in domestic credit to the private sector (Table 2.1).

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

	2013 December		2014 December		Absolute Change December		Annual %age Change December	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2012/13	2013/14	2012/13	2013/14
<b>1. Credit to Government</b>	<b>397.2</b>	<b>20.1</b>	<b>204.3</b>	<b>9.6</b>	<b>28.3</b>	<b>-192.9</b>	<b>7.7</b>	<b>-48.6</b>
Central Bank	-11.9	-0.6	-92.0	-4.3	-22.7	-80.1		
Commercial Banks & NBFIs	409.0	20.7	296.3	13.9	51.1	-112.8	14.3	-27.6
<b>2. Credit to other public sector</b>	<b>39.6</b>	<b>2.0</b>	<b>48.4</b>	<b>2.3</b>	<b>-10.2</b>	<b>8.8</b>	<b>-20.5</b>	<b>22.2</b>
Local government	-0.2	0.0	0.3	0.0	-3.1	0.5	-107.9	-222.0
Parastatals	39.8	2.0	48.1	2.3	-7.1	8.3	-15.1	20.8
<b>3. Credit to private sector</b>	<b>1541.7</b>	<b>77.9</b>	<b>1884.5</b>	<b>88.2</b>	<b>257.9</b>	<b>342.7</b>	<b>20.1</b>	<b>22.2</b>
Agriculture	58.7	3.0	75.0	3.5	1.2	16.3	2.0	27.9
Manufacturing	181.7	9.2	237.4	11.1	12.4	55.7	7.3	30.7
Trade	253.2	12.8	306.9	14.4	42.0	53.7	19.9	21.2
Building and construction	70.8	3.6	80.4	3.8	1.6	9.6	2.3	13.6
Transport & communications	89.5	4.5	130.3	6.1	13.7	40.8	18.1	45.6
Finance & insurance	29.9	1.5	50.4	2.4	-2.8	20.5	-8.5	68.4
Real estate	198.3	10.0	262.7	12.3	36.4	64.4	22.5	32.4
Mining and quarrying	27.8	1.4	23.4	1.1	2.8	-4.4	11.0	-15.8
Private households	230.0	11.6	319.9	15.0	52.8	89.9	29.8	39.1
Consumer durables	94.7	4.8	112.4	5.3	14.5	17.7	18.1	18.7
Business services	135.6	6.9	169.5	7.9	46.7	33.9	52.6	25.0
Other activities	171.6	8.7	116.2	5.4	36.5	-55.5	27.0	-32.3
<b>4. TOTAL (1+2+3) *</b>	<b>1978.5</b>	<b>100.0</b>	<b>2137.2</b>	<b>100.0</b>	<b>276.0</b>	<b>158.7</b>	<b>16.2</b>	<b>8.0</b>

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

Source: Central Bank of Kenya

### Domestic Credit Developments

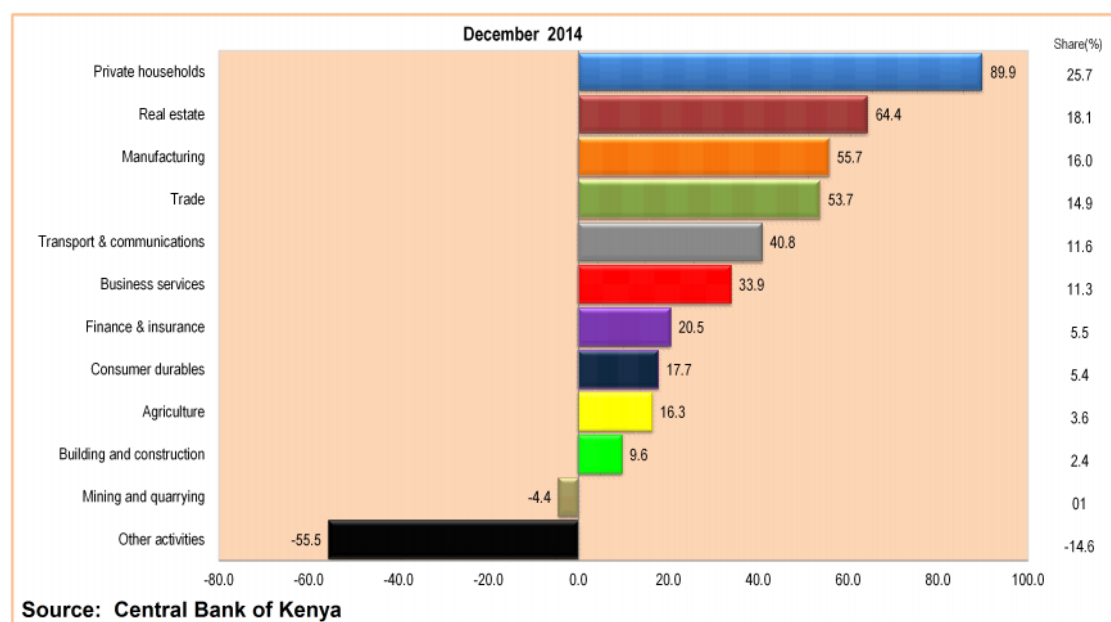
Domestic credit from the banking sector increased by KSh 158.7 billion (8.0 percent) in 2014 compared with KSh 276.0 billion (16.2 percent) increase in 2013 (Table 2.2). The domestic credit expansion reflected in lending to the private sector which grew by 22.2 percent in 2014 compared with 20.1 percent in 2013. The private sector continued to dominate banking system lending; accounting for 88.2 percent of total lending by December 2014 compared with a 9.6 percent share to government.

Private sector credit in 2014 was allocated to the following activities, in order of magnitude: private households 26.2 percent (or KSh 89.9 billion); real estate at 18.8 percent (or KSh. 64.4 billion); manufacturing 16.3 percent (or KSh 55.7 billion); trade at 15.7 percent (or KSh 53.7 billion); transport and communication 11.9 percent (or KSh 40.8 billion); business services 9.9 percent (or KSh 33.9 billion); finance & insurance 6.0 percent (or KSh 20.5 billion); consumer durables 5.2 percent (KSh 17.7 billion); and agriculture 4.8 percent (or KSh. 16.3 billion). Mining activities and other activities repaid KSh 4.4 billion and KSh 55.5 billion respectively (Chart 2B).

Net credit to Government decreased by 48.6 percent (or KSh 192.9 billion) in the year to December 2014 compared with an increase of 7.7 percent (or KSh 28.3

billion) in a corresponding period in 2013. Over a similar period, credit to the 'other public sector' increased by KSh 8.78 billion compared with repayment of KSh 10.2 billion over a similar period in 2013.

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



## Reserve Money

Reserve money (RM) comprises currency held by the non-bank public and commercial banks deposits at the Central Bank. It increased by 18.5 percent in 2014 compared with 9.2 percent growth in 2013 (Table 2.3 and Chart 2C). At KSh 380.0 billion in December 2014, reserve money was KSh 26.3 billion above the respective target. The growth in reserve money reflected 31.2 percent increase in bank reserves and 6.2 percent increase in currency outside banks.

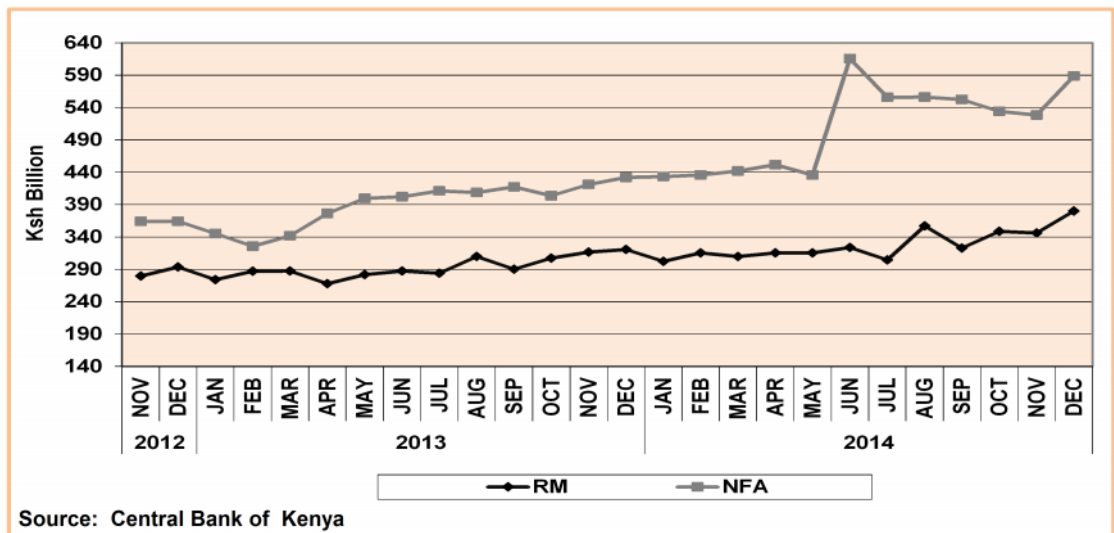
**TABLE 2.3: RESERVE MONEY AND ITS SOURCES (Ksh billion)**

	2013	2014	Absolute change		Change (%)		2014	
	December	December	2012/13	2013/14	2012/13	2013/14	December Target	Deviation
1. Net Foreign Assets	432.0	588.8	67.9	156.8	18.6	36.3	601.4	-12.6
2. Net Domestic Assets	-111.2	-208.8	-40.7	-97.5	57.7	87.7	-247.7	38.9
2.1 Government Borrowing (net)	-11.9	-92.0	-22.7	-80.1			-107.5	15.5
2.2 Commercial banks (net)	10.0	-5.8	34.2	-15.8			-33.7	27.9
2.3 Other Domestic Assets (net)	-113.1	-114.7	-53.7	-1.5			-140.2	25.5
3. Reserve Money	320.8	380.0	27.1	59.3	9.2	18.5	353.7	26.3
3.1 Currency outside banks	163.2	173.2	15.4	10.0	10.4	6.2	176.8	-3.6
3.2 Bank reserves	157.6	206.8	11.7	49.2	8.0	31.2	176.9	29.9

Source: Central Bank of Kenya

The source of reserve money growth in 2014 was largely an accumulation of NFA at the Central Bank. The NFA increased by 36.3 percent (or KSh 156.8 billion) to KSh 588.8 billion in December 2014 from KSh 432.0 billion in December 2013. The NFA build up reflect receipt of proceeds of the June 2014 and December 2014 Euro Bond issuance and was within the statutory minimum requirements of 4 months of imports of goods and non-factor services.

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



Meanwhile, the NDA of the Central Bank decreased by KSh 97.5 billion to KSh -208.8 billion from KSh -111.2 billion in December 2013. This was due to accumulation of Government deposits at the Central Bank and liquidity mop up operations by the Central Bank.

**Central Bank Rates** The Central Bank maintained the Central Bank Rate (CBR) at 8.50 percent in December 2014 in order to continue anchoring inflationary expectations.

**Short Term Interest Rates** Short term interest rates recorded mixed performance in December 2014 (Table 2.4 and Chart 2D). The weighted average interbank rate increased marginally to 6.91 percent in December 2014 from 6.86 percent in November 2014. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, declined marginally to 8.58 percent in December 2014 compared with 8.64 percent in November 2014 while, the 182-day Treasury bill rate increased to 9.49 percent from 9.18 percent.

**Lending and Deposit Rates**

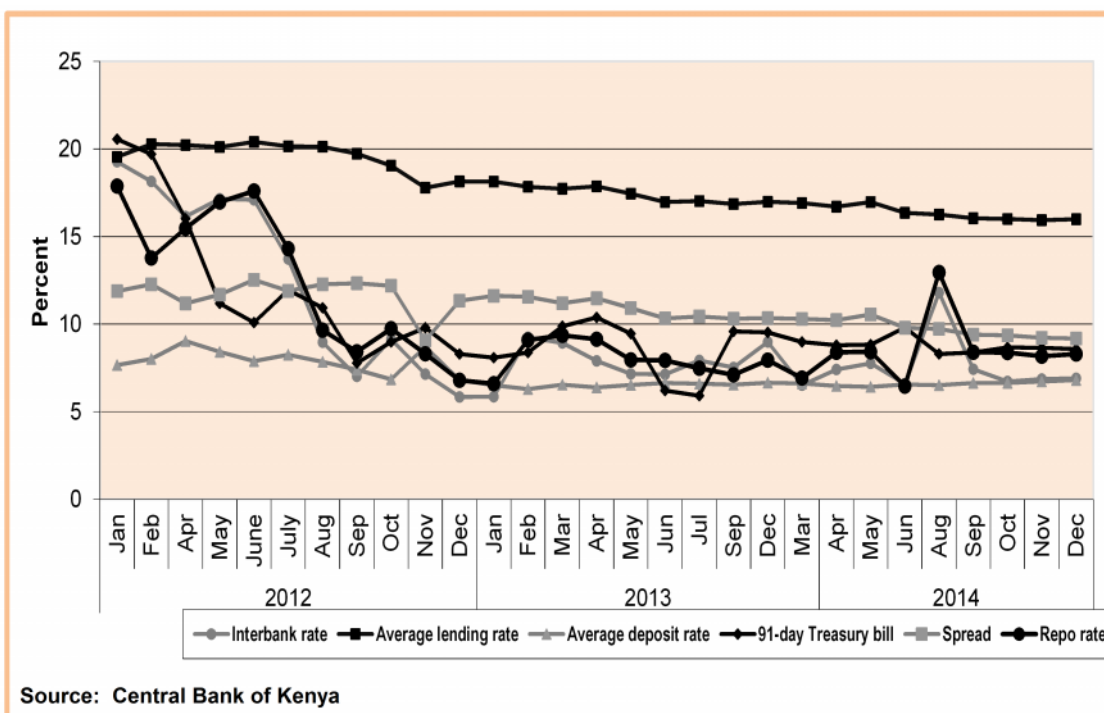
The average lending rate edged up to 15.99 percent in December 2014 from 15.94 percent in November 2014, while the average deposit rate increased marginally to 6.81 percent in December 2014 from 6.72 percent in November. Consequently, the interest rate spread decreased to 9.18 percent in December 2014 (Table 2.4 and Chart 2D).

**TABLE 2.4: INTEREST RATES (%)**

	2013	2014											
	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
91-day Treasury bill rate	9.52	9.26	9.16	8.98	8.80	8.82	9.81	9.78	8.29	8.38	8.67	8.64	8.58
Overdraft rate	16.51	16.82	16.88	16.44	16.44	17.85	15.88	17.12	16.20	15.79	15.77	15.66	15.86
Interbank rate	8.98	10.43	8.83	6.47	7.40	7.76	6.60	8.08	11.79	7.43	6.73	6.86	6.91
Repo rate	7.95	-	-	6.92	8.39	8.42	6.46	-	12.95	8.39	8.39	8.17	8.29
Reverse Repo rate	11.28	-	-	-	-	-	-	-	-	-	-	-	-
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)	16.99	17.03	17.06	16.91	16.70	16.97	16.36	16.91	16.24	16.04	16.00	15.94	15.99
Average deposit rate (2)	6.65	6.55	6.57	6.61	6.48	6.42	6.56	6.59	6.51	6.64	6.64	6.72	6.81
0 to 3 - month deposit	8.98	9.39	9.43	10.02	9.63	9.65	10.05	9.80	10.29	9.96	9.80	10.51	9.84
Savings deposits	1.58	1.56	1.49	1.56	1.53	1.54	1.50	1.33	1.50	1.51	1.55	1.52	
Spread (1-2)	<b>10.34</b>	<b>10.48</b>	<b>10.49</b>	<b>10.30</b>	<b>10.23</b>	<b>10.55</b>	<b>9.80</b>	<b>10.33</b>	<b>9.73</b>	<b>9.40</b>	<b>9.36</b>	<b>9.22</b>	<b>9.18</b>

Source: Central Bank of Kenya

**CHART 2D : TRENDS IN INTEREST RATES**



Source: Central Bank of Kenya



# PERFORMANCE OF THE REAL SECTOR

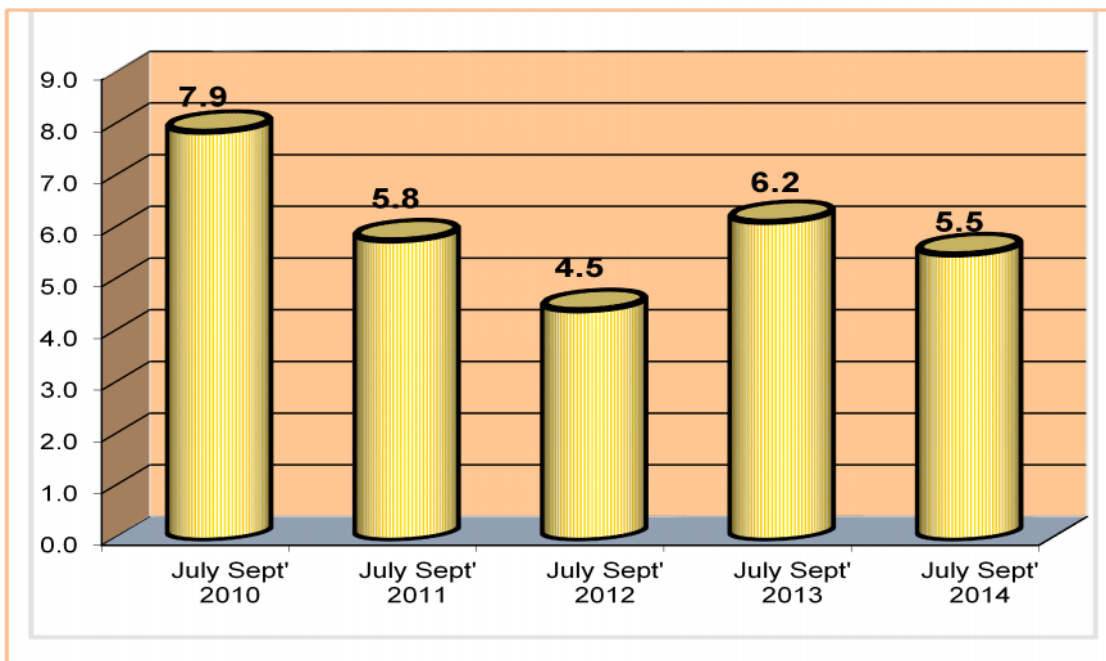
**Overview** Real GDP in 2013 grew by 5.7 percent and amounted to Ksh 3.64 trillion compared with 4.5 percent growth in 2012 (Table 3.1). The real GDP is estimated to have increased by 4.5 percent in the first quarter of 2014, 5.7 percent in the second quarter of 2014 and 5.5 percent in the third quarter of 2014 compared with growth of 6.3 percent, 7.3 percent and 6.2 percent in comparable quarters of 2013 (Chart 3A). Growth in the first three quarters of 2014 was largely supported by improved performance in the construction, financial and insurance, wholesale and retail trade, information and communication, manufacturing, health and agriculture sectors.

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

Main Sectors	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	685,710	720,612	684,702	688,989	736,195	753,588	775,799	815,087
Mining and quarrying	0.81	0.85	13,849	16,289	16,296	18,134	23,884	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	34,065	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	29,390	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	133,363	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
<b>All economic activities</b>	<b>89.00</b>	<b>88.08</b>	<b>2,332,335</b>	<b>2,478,274</b>	<b>2,476,088</b>	<b>2,558,791</b>	<b>2,771,591</b>	<b>2,919,872</b>	<b>3,044,104</b>	<b>3,205,148</b>
Taxes on products	11.00	11.92	255,944	287,322	295,931	304,896	332,810	374,582	397,028	433,613
<b>GDP at market prices</b>	<b>100.00</b>	<b>100.00</b>	<b>2,588,279</b>	<b>2,765,595</b>	<b>2,772,019</b>	<b>2,863,688</b>	<b>3,104,401</b>	<b>3,294,454</b>	<b>3,441,132</b>	<b>3,638,761</b>
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
<b>All economic activities</b>	<b>89.00</b>	<b>88.08</b>	...	<b>6.3</b>	<b>-0.1</b>	<b>3.3</b>	<b>8.3</b>	<b>5.4</b>	<b>4.3</b>	<b>5.3</b>
Taxes on products	11.00	11.92	...	12.3	3.0	3.0	9.2	12.6	6.0	9.2
<b>GDP at market prices</b>	<b>100.00</b>	<b>100.00</b>	...	<b>6.9</b>	<b>0.2</b>	<b>3.3</b>	<b>8.4</b>	<b>6.1</b>	<b>4.5</b>	<b>5.7</b>

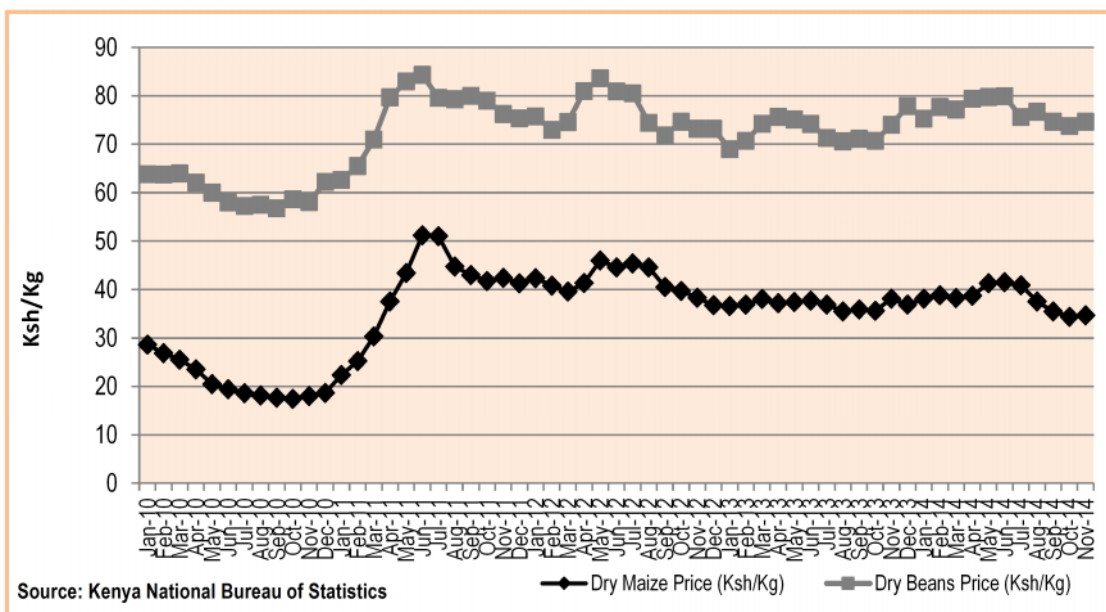
Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

**CHART 3A: REAL GDP GROWTH IN THE JULY - SEPTEMBER QUARTERS**



**Agriculture** Agriculture recorded 5.7 percent growth in output in the first quarter of 2014, 4.5 percent growth in the second quarter and 6.2 percent growth in the third quarter compared with 5.0 percent growth in the first quarter of 2013, 5.9 percent growth in the second quarter and 5.8 percent growth in the third quarter. Unfavorable weather conditions in the first half of 2014 resulted in increased prices of food items such as maize and beans. However, the prices of maize gradually declined in the third quarter with improved weather conditions and imports of maize (Chart 3B).

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



## Major Indicators in Agriculture

Production in agriculture shows mixed trends in the year to November 2014 (Table 3.2). Among selected crops, growth in production of tea and horticulture slowed while production of coffee improved. Growth in production of milk declined during the year to November 2014.

**TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK**

	2012	2013	Year to November 2013	Year to November 2014*
<b>Tea</b>				
Output (Metric tonnes)	369,562	432,453	432,135	441,754
Growth (%)	-2.2%	17.0%	16.9%	2.2%
<b>Horticulture</b>				
Exports (Metric tonnes)	250,814	309,029	303,149	306,299
Growth (%)	5.1%	23.2%	21.3%	1.0%
<b>Coffee</b>				
Sales (Metric tonnes)	46,051	37,942	36,884	42,229
Growth (%)	53.6%	-17.6%	-21.1%	14.5%
<b>Milk</b>				
Output (million litres)	495	523	524	543
Growth %	-9.8%	5.6%	5.8%	3.7%

\* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

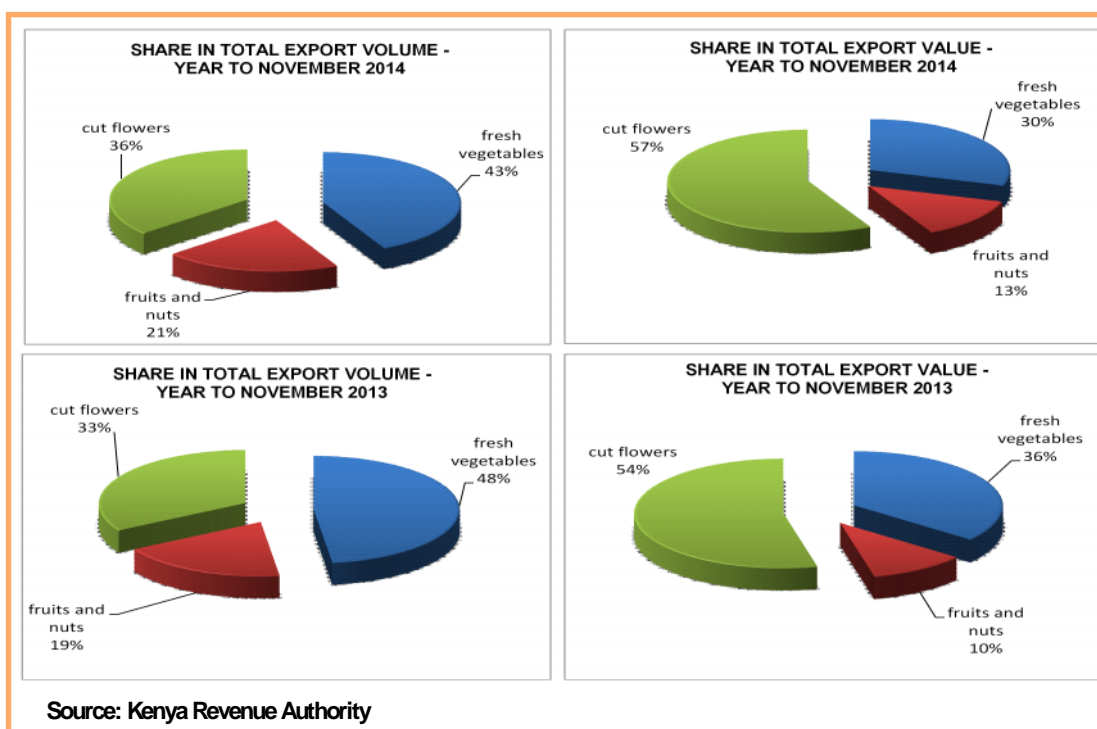
### Tea

Production of tea grew by 2.2 percent in the year to November 2014 compared with growth of 16.9 percent recorded in the year to November 2013 (Table 3.2). The average auction price for tea declined from Ksh 224 per kilogram in the year to November 2013 to Ksh 193 per kilogram in the year to November 2014.

### Horticulture

Export of fresh horticultural products registered annual growth of 1.0 percent from 303,149 metric tonnes in the year to November 2013 to 306,299 metric tonnes in the year to November 2014. Exports of fresh vegetables continued to dominate in terms of volume, while cut flowers brought in the largest contribution to total export value (Table 3.2 and Chart 3C).

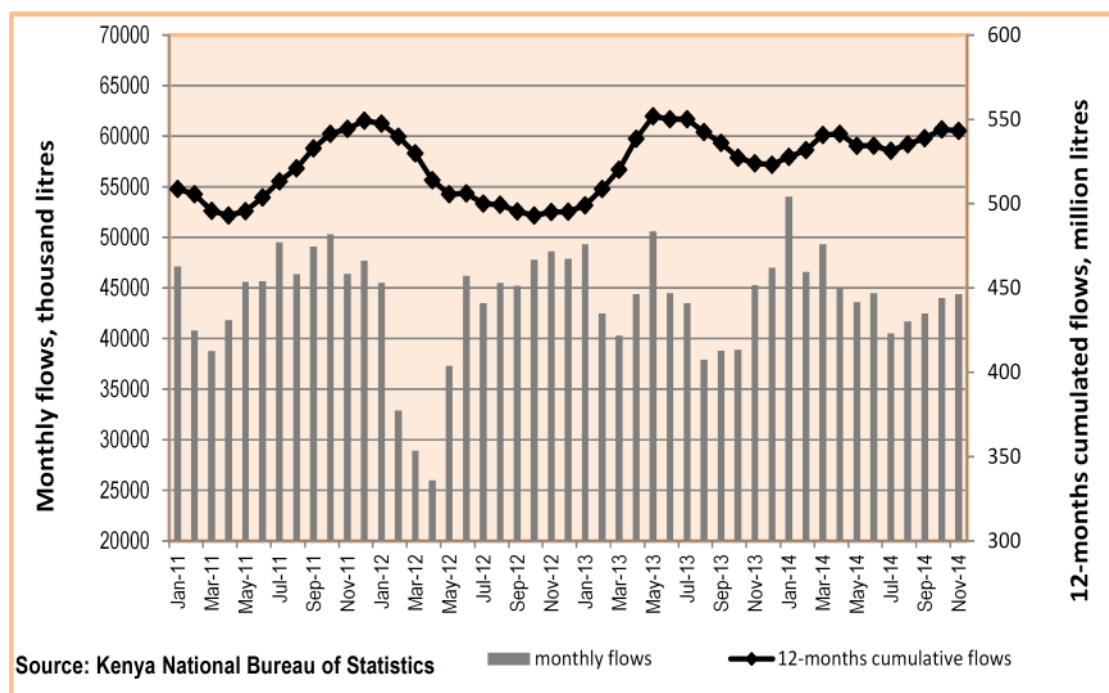
**CHART 3C: HORTICULTURAL EXPORTS**



**Coffee** Annual growth in coffee sales improved to 14.5 percent compared with 21.1 percent contraction recorded in the year to November 2014. The average auction price for coffee also rose from Ksh 279 per kilogram in the year to November 2013 to Ksh 372 per kilogram in the year to November 2014 owing to improved quality.

**Dairy** The volume of milk intake in the formal sector rose by 3.7 percent to 543 million litres in the year to November 2014 (Chart 3D). Monthly sales after initially declining from December 2013 through June 2014, improved gradually through November.

**CHART 3D: PROCESSED MILK (LITRES)**



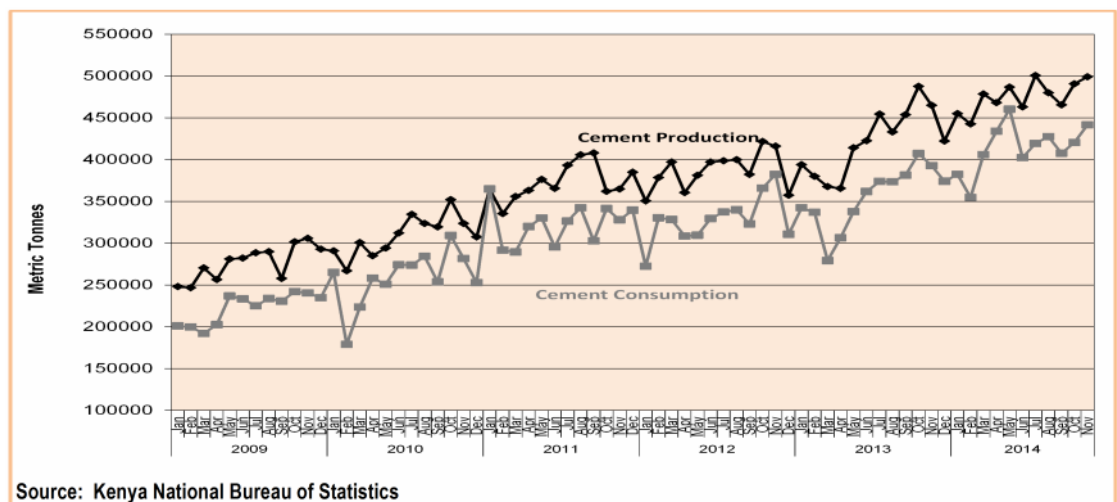
**Manufacturing** The manufacturing sector accounted for 11.1 percent of the overall GDP growth in 2013. Output from this activity grew by 7.9 percent in the first quarter of 2014, 8.4 percent in the second quarter and 4.5 percent in the third compared with growth of 9.6 percent, 6.3 percent and 6.8 percent in the first three quarters of 2013, respectively. Available indicators of performance of manufacturing sector in the 12-months to November 2014 (Table 3.3 and Chart 3E), show acceleration in production of cement and assembled vehicles. With local cement consumption below production level (Chart 3E), the industry continued to generate surplus for export.

TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	Annual Totals		Year to November 2013*	Year to November 2014*
	2012	2013*		
<b>Cement production</b>				
Output (MT)	4,639,723	5,059,129	4,994,293	5,651,064
Growth %	3.6%	9.0%	7.0%	13.2%
<b>Assembled vehicles</b>				
Output (No.)	6,218	6,948	6,734	9,218
Growth %	2.8%	11.7%	8.2%	36.9%

MT = Metric tonnes  
 \* Provisional  
 Source: Kenya National Bureau of Statistics

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



**Energy Sector**

Annual growth in local generation of electricity slowed marginally, to 8.3 percent in the year to November 2014 from 8.8 percent in the year to November 2013 (Table 3.4). The total amount of electricity generated in the year to November 2014 was 8,837 million kilowatt hours compared with 8,163 million kilowatt hours generated in the year to November 2013. The supply in the current period comprised 39.3 percent of hydro-electricity, 30.5 percent of geo-thermal power and 30.2 percent of thermal power. The increase in the amount of electricity produced reflects accelerated generation of thermal and geo-thermal power (green energy) to 33.0 percent and 54.1 percent, respectively, in the year to November 2014 compared with 0.5 percent and 15.3 percent growth registered in the comparable period of 2013. Generation of hydro-electricity decreased by 21.2 percent in the year to November 2014 from 10.4 percent growth in the previous year. Annual growth in consumption of electricity improved to 11.3 percent in the year to November 2014 compared with 4.3 percent in the year to November 2013. Meanwhile, the average price of murban crude oil declined from US\$ 109.8 per barrel in the year to November 2013 to US\$ 103.9 per barrel in the year to November 2014.

**TABLE 3.4: ENERGY SECTOR PERFORMANCE**

	2012	2013	Year to November 2013	Year to November 2014*
Electricity Supply (Generation)				
Output (million KWH)	7,544	8,217	8,163	8,837
<i>Growth %</i>	5.4%	8.9%	8.8%	8.3%
<b>Of which:</b>				
Hydro-power Generation (million KWH)	4,032	4,387	4,409	3,475
<i>Growth (%)</i>	26.6%	8.8%	10.4%	-21.2%
Geo-Thermal Generation (million KWH)	1,522	1,781	1,750	2,697
<i>Growth (%)</i>	5.4%	17.0%	15.3%	54.1%
Thermal (million KWH)	1,990	2,049	2,004	2,665
<i>Growth (%)</i>	-21.4%	3.0%	0.5%	33.0%
Consumption of electricity (million KWH)	6,270	6,564	6,541	7,283
<i>Growth %</i>	1.9%	4.7%	4.3%	11.3%
Murban crude oil average price (US \$ per barrel)	113.0	110.1	109.8	103.9
<i>Growth %</i>	2.1%	-2.5%	-2.8%	-5.4%

\* Provisional

Source: Kenya National Bureau of Statistics

**Tourism**

The number of tourist arrivals declined by 14.8 percent in the year to November 2014 (Table 3.5) compared with a decline of 11.5 percent in the year to November 2013. The decline is attributed to adverse travel advisories from source countries in respect of insecurity concerns in Kenya. The ports of disembarkation for tourists were the Jomo Kenyatta International Airport Nairobi (84.2 percent share), and the Moi International Airport, Mombasa (15.8 percent share).

**TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY**

	2012	2013	Year to November 2013	Year to November 2014	Year to November 2014 % Share	Year to November 2014 % Growth
MIAM	187,151	189,654	187,785	146,899	15.8%	-21.8%
JKIA	1,048,390	912,998	901,849	781,687	84.2%	-13.3%
<b>TOTAL</b>	<b>1,235,541</b>	<b>1,102,652</b>	<b>1,089,634</b>	<b>928,586</b>	<b>100.0%</b>	<b>-14.8%</b>

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 1.8 percent in the year to November 2014, compared with a decline of 0.1 percent recorded in the previous year. The decline is reflected in both incoming and outgoing passengers (Table 3.6).



TABLE 3.6: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

			Year to November 2013*	Year to November 2014*
	2012	2013*		
<b>Number of Passengers thro' JKIA</b>				
Total passenger flows	4,302,244	4,290,349	4,301,947	4,224,710
Growth (%)	4.0%	-0.3%	-0.1%	-1.8%
o.w. Incoming	2,148,105	2,144,002	2,149,824	2,099,578
Growth (%)	2.8%	-0.2%	-0.1%	-2.3%
Outgoing	2,154,139	2,146,347	2,152,123	2,125,132
Growth %	5.3%	-0.4%	-0.2%	-1.3%

\* 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 1,378 million in the year to December 2014 from a surplus of USD 685 million in the year to December 2013 (Table 4.1). The improvement is wholly driven by USD 1,512 million build up in the capital and financial account surplus, which more than offset USD 818 million widening of the deficit in the current account. The financial account surplus is attributed to Kenya's successful debut in the international capital market which brought a total of USD 2.75 billion through issuance of a sovereign bond.

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

ITEM	Year to Dec 2013	Year to December 2014*				Year to Dec 2014*	Absolute Change	% Change
		Q1 Jan-Mar	Q2 Apr-June	Q3 Jul-Sep	Q4 Oct-Dec			
<b>1. OVERALL BALANCE</b>	685	108	1906	-870	235	1378	633.6	101.3
<b>2. CURRENT ACCOUNT</b>	-4786	-904	-1164	-1902	-1635	-5604	-818.4	17.1
<b>2.1 Goods</b>	-11229	-2440	-3009	-3684	-3217	-12351	-1121.3	10.0
Exports (fob)	5822	1558	1617	1444	1427	6046	224.4	3.9
Imports (cif)	17051	3999	4625	5129	4644	18397	1345.7	7.9
<b>2.2 Services</b>	6443	1537	1845	1783	1582	6746	302.9	4.7
Non-factor services (net)	3646	1039	1130	1124	951	4243	597.8	16.4
Income (net)	-339	-38	-103	-112	-94	-347	-8.1	2.4
Current Transfers (net)	3137	537	817	771	725	2850	-286.9	-9.1
<b>3. CAPITAL &amp; FINANCIAL ACCOUNT</b>	5471	1011	3070	1031	1670	6983	1512.0	27.6
3.1 Capital Transfers (net)	98	30	134	0	0	164	66.6	68.2
3.2 Financial Account	5373	981	2935	1031	1670	6818	1445.4	26.9
memo:								
<b>Gross Reserves</b>	8483	8279	10399	9336	9738	9738	1254.4	14.8
Official	6560	6654	8555	7676	7995	7995	1334.7	20.3
Import cover**	4.3	4.4	5.5	4.7	4.8	4.8	0.5	12.0
Import cover***	4.5	4.5	5.7	5.0	5.1	5.1	0.6	13.2
Commercial Banks	1923	1625	1844	1659	1943	1843	-80.4	-4.2

\* 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 17.1 percent or USD 818.4 million, to a USD 5,604 million deficit in the year to December 2014 from USD 4,786 million deficit in the year to December 2013. The deterioration reflects 10 percent worsening of the Merchandise account deficit which more than offset the 4.7 percent improvement in the services account surplus (Table 4.2).

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

ITEM	Year to Dec 2013	Year to December 2014*				Year to Dec 2014*	Absolute Change	% Change
		Q1 Jan-Mar	Q2 Apr-June	Q3 Jul-Sep	Q4 Oct-Dec			
<b>2. CURRENT ACCOUNT</b>	-4786	-904	-1164	-1902	-1635	-5604	-818.4	17.1
<b>2.1 Goods</b>	-11229	-2440	-3009	-3684	-3217	-12351	-1121.3	10.0
<b>Exports (fob)</b>	5822	1558	1617	1444	1427	6046	224.4	3.9
Coffee	192	44	72	64	51	232	40.1	21.0
Tea	1215	278	262	269	260	1069	-145.3	-12.0
Horticulture	741	215	205	197	190	808	66.6	9.0
Oil products	50	10	16	24	18	67	17.3	34.9
Manufactured Goods	705	166	144	140	143	592	-112.6	-16.0
Raw Materials	399	133	120	103	109	466	66.9	16.8
Chemicals and Related Products (n.e.c.)	478	118	110	117	103	448	-30.0	-6.3
Miscellaneous Man. Articles	587	157	160	156	160	634	46.2	7.9
Re-exports	541	222	293	169	191	874	333.4	61.7
Other	915	216	235	206	201	857	-58.1	-6.4
<b>Imports (cif)</b>	17051	3999	4625	5129	4644	18397	1345.7	7.9
Oil	3838	944	1159	1061	862	4026	187.6	4.9
Chemicals	2279	580	566	617	625	2388	109.7	4.8
Manufactured Goods	2624	656	672	670	680	2677	52.9	2.0
Machinery & Transport Equipment	4600	1089	1412	1975	1652	6128	1528.5	33.2
Other	3593	708	794	737	733	2972	-620.7	-17.3
<b>2.2 Services</b>	6443	1537	1845	1783	1582	6746	302.9	4.7
<b>Non-factor services (net)</b>	3646	1039	1130	1124	951	4243	597.8	16.4
<b>Non-factor services (credit)</b>	4910	1325	1415	1471	1312	5523	613.3	12.5
of which transport	2212	506	527	582	523	2138	-73.8	-3.3
of which tourism (Travel)	881	187	201	210	201	798	-82.8	-9.4
Other services account: gov't	932	228	236	193	222	878	-53.6	-5.8
Other services account: private	886	404	452	487	366	1709	823.5	93.0
<b>Income (net)</b>	-339	-38	-103	-112	-94	-347	-8.1	2.4
of which official interest	-126	-23	-78	-44	-43	-189	-63.1	50.2
<b>Current Transfers (net)</b>	3137	537	817	771	725	2850	-286.9	-9.1
Private (net)	2941	541	822	776	729	2869	-71.9	-2.4
of which Remittances	1291	341	349	373	365	1428	137.9	10.7
Public (net)	196	-5	-5	-5	-5	-19	-214.9	-109.9

\* Provisional.

Source: Central Bank of Kenya

**Merchandise Account** The deficit in the merchandise account widened by USD 1,121.3 million to USD 12,351 million in the year to December 2014 reflecting a larger growth (7.9 percent) in payments for merchandise imports in relation to a 3.9 percent growth in the value of merchandise exports (Table 4.2).

**Imports** The value of merchandise imports increased by USD 1,345.7 million to USD 18,397 million in the year to December 2014 as reflected in increased spending on imports of oil, chemicals, manufactured goods and machinery and transport equipment. The 4.9 percent rise in oil imports to USD 4,026 million in the year to December 2014 was driven largely by increase in the volume imported of jet fuel and diesel oil. Kenya sourced in the year to December 2014 most of the imports from India (16 percent), China (15 percent) and USA (10 percent). The rise in imports from the USA is attributed to increased importation of Aircraft. Imports from Africa accounted for 9 percent of total imports and declined marginally by USD 51 million to USD 1,661 million (Table 4.3).

**Exports** The value of merchandise exports increased by USD 224.4 million to USD 6,046 million in the year to December 2014 reflecting largely earnings from coffee, horticulture, oil products, raw materials, miscellaneous manufactured articles and re-exports. The increase in the value of exports of coffee and horticulture was on account of improved export prices. Receipts from tea, manufactured goods, chemicals and related products and other hand declined. Earnings from tea exports declined by USD 145.3 million, on account falling international tea prices.

The value and share of Kenya's exports to Africa declined in the year to December 2014 (Table 4.3) largely reflecting in exports to the EAC and COMESA region on account of a drop in exports to Uganda, Sudan and Rwanda. Exports to the rest of the world and in particular to the European Union and the USA increased.

The trends in market shares by source and destination was mixed in 2014. In particular, the share of Kenya's imports from the EU stabilised for the third consecutive year at 14 percent while that from China increased to 15 percent from 12 percent respectively in 2012 and 2013. The rise is largely attributed to imports of machinery, textiles, metal, plastics and rubbers. The reverse happened to export trade with stability at 1 percent share for exports to China and a rise to 23 percent share in exports to the EU from 21 percent in 2012 and 2013, respectively. The terms of trade worsened relative to both China and the EU.

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Exports (%)			EXPORTS (in millions of US dollars)				Share of Exports (%)		
Country	Year to November			Year to November			Country	Year to November			Year to November		
	2012	2013	2014	2012	2013	2014		2012	2013	2014	2012	2013	2014
Africa	1,709	1,696	1,649	10	10	9	Africa	2,952	2,707	2,686	48	46	44
Of which							Of which						
South Africa	741	802	750	4	5	4	Uganda	806	761	634	13	13	10
Egypt	354	296	270	2	2	1	Tanzania	542	491	470	9	8	8
Others	613	598	628	4	4	3	Egypt	260	192	207	4	3	3
EAC	363	330	405	2	2	2	Sudan	94	75	75	2	1	1
COMESA	746	673	638	4	4	3	South Sudan	163	192	214	3	3	4
Rest of the World	14,975	15,310	16,655	90	90	91	Somalia	236	197	152	4	3	3
Of which							DRC	211	226	234	3	4	4
India	2,200	2,840	3,082	13	17	17	Rwanda	192	158	156	3	3	3
United Arab Emirates	1,889	1,439	1,201	11	8	7	Others	449	416	545	7	7	9
China	1,961	2,068	2,722	12	12	15	EAC	1,602	1,475	1,343	26	25	22
Japan	728	964	966	4	6	5	COMESA	1,889	1,720	1,646	30	30	27
USA	778	675	1,891	5	4	10	Rest of the World	3,249	3,121	3,370	52	54	56
United Kingdom	528	570	509	3	3	3	Of which						
Singapore	153	214	162	1	1	1	United Kingdom	486	437	413	8	7	7
Germany	491	428	526	3	3	3	Netherlands	362	374	455	6	6	8
Saudi Arabia	849	468	628	5	3	3	USA	310	348	429	5	6	7
Indonesia	683	488	565	4	3	3	Pakistan	256	280	248	4	5	4
Netherlands	213	278	229	1	2	1	United Arab Emirates	326	301	232	5	5	4
France	296	262	261	2	2	1	Germany	113	95	122	2	2	2
Bahrain	268	406	477	2	2	3	India	96	105	104	2	2	2
Italy	250	230	236	2	1	1	Afghanistan	141	186	120	2	3	2
Others	3,688	3,979	3,201	22	23	17	Others	1,158	995	1,247	19	17	21
<b>Total</b>	<b>16,684</b>	<b>17,006</b>	<b>18,304</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>Total</b>	<b>6,200</b>	<b>5,828</b>	<b>6,055</b>	<b>100</b>	<b>100</b>	<b>100</b>
EU	2,395	2,423	2,507	14	14	14	EU	1,290	1,202	1,369	21	21	23
China	1,961	2,068	2,722	12	12	15	China	68	46	75	1	1	1

Source: Kenya Revenue Authority

### Services Account

The services account recorded a surplus of USD 302.9 million or 4.7 percent to USD 6,746 million in the year to December 2014 from USD 6,443 million in the year to December 2013. The improvement reflects increases in receipts from net non-factor services which rose to USD 5,523 million driven by increased receipts from other private services (insurance and communication services; royalties and licence fees). Meanwhile, the deficit in the income account deteriorated by USD 8.1 million in the year to December 2014 to USD 347 million. The surplus in the current transfers account also decreased by USD 286.9 million to USD 2,850 million with the decline reflected in net private transfers (USD 71.9 million) and USD 214.9 million in net public transfers. Remittance inflows (under private transfers) increased by USD 137.9 million to USD 1,428 million during the year to December 2014 from USD 1,291 million during the year to December 2013 (Table 4.2). Average remittance inflows in the 12 months to December 2014 increased to USD 119.0 million from an average of USD 107.5 million during the year to December 2013, underscoring resilience of remittances flows.

### Capital and Financial Account

The capital and financial account recorded 27.6 percent increase in its surplus to USD 6,983 million in the year to December 2014 from USD 5,471 million in the year to December 2013. The improvement largely reflects the 26.9 percent rise in the financial account surplus on the back of increased inflows of official medium to long-term financial flows and commercial bank flows.

Official medium and long-term financial inflows improved by US\$ 2,883.4 million in the year to December 2014 and this was attributed to the debut Eurobond of USD 2 billion in June 2014 and a tap sale on the same bond in December 2014 amounting to USD 750 million. However outflows under this component were substantial and partially offsetting at US 1,433 million.

Commercial bank flows increased to USD 671 million in the year to December 2014 after commercial banks run down their net foreign assets. The decrease in net foreign assets comprise of increase in deposits, due to loans borrowed, from non-residents. Short term flows (including net errors and omissions) decreased by USD 595.3 million during the period under review.

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

ITEM	Year to Dec 2013	Year to December 2014*				Year to Dec 2014*	Absolute Change	% Change
		Q1 Jan-Mar	Q2 Apr-June	Q3 Jul-Sep	Q4 Oct-Dec			
<b>3. CAPITAL &amp; FINANCIAL ACCOUNT</b>	<b>5471</b>	<b>1011</b>	<b>3070</b>	<b>1031</b>	<b>1870</b>	<b>6983</b>	<b>1512.0</b>	<b>27.6</b>
3.1 Capital Transfers (net)	98	30	134	0	-0	164	66.6	68.2
3.2 Financial Account	5373	981	2935	1031	1870	6818	1445.4	26.9
Official, medium & long-term	592	198	1671	-541	713	2041	1449.6	244.9
Inflows	935	296	2333	135	1054	3819	2883.4	308.4
Outflows	-343	-98	-662	-677	-341	-1777	-1433.8	417.8
Private, medium & long-term (net)	-208	298	8	88	-12	383	591.1	-284.0
Commercial Banks (net)	49	302	156	192	22	671	622.1	1259.8
Other private medium & long-term (net)	-258	-3	-148	-103	-34	-288	-31.0	12.0
Short-term (net) incl. errors & omissions	4989	485	1256	1484	1169	4394	-595.3	-11.9

\* Provisional.

Source: Central Bank of Kenya

### Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 9,738 million in December 2014 from USD 8,483 million at the end of December 2013. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased to USD 7,895 million (5.1 months of import cover) at the end of December 2014 from USD 6,560 million (4.5 months of import cover) at the end of December 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 and the tap sale in December 2014.

Foreign Exchange Reserves held by Commercial Banks decreased to USD 1,843 million at the end of December 2014 from USD 1,923 million at the end of December 2013. During the same period, Residents' Foreign Currency Deposits increased to USD 4,099 million from USD 3,909 million (Table 4.5).

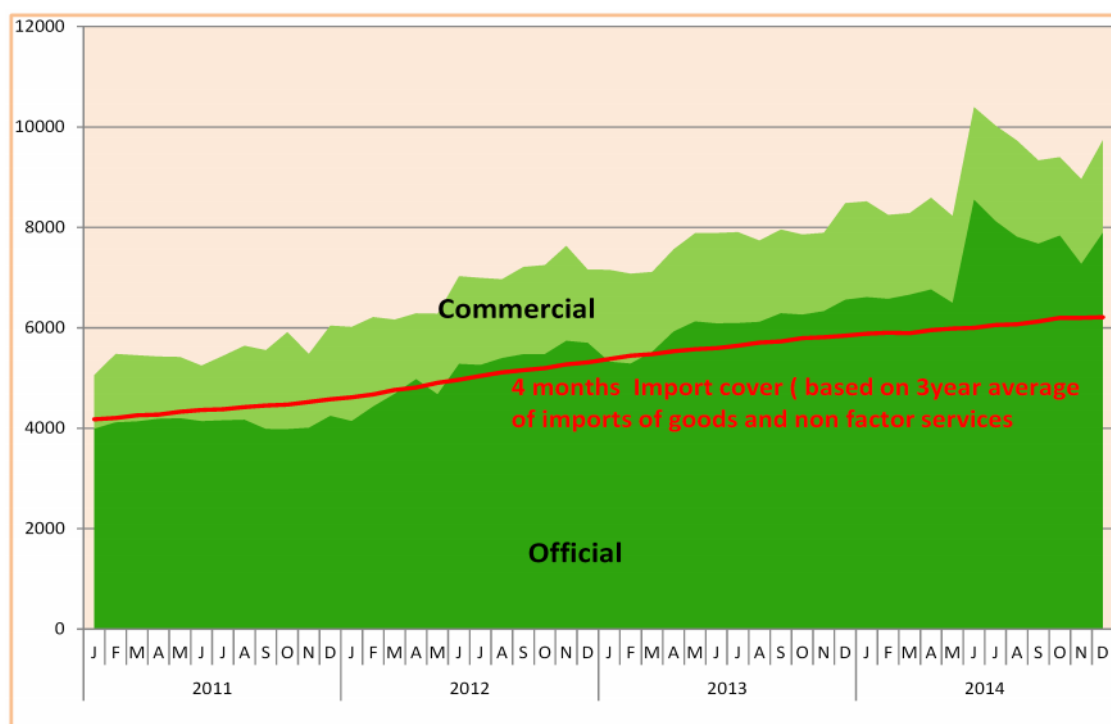
**TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US\$ MILLION)**

	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14
1. Gross Reserves	8,483	8,519	8,250	8,285	8,594	8,230	10,399	10,029	9,731	9,336	9,400	8,964	9,738
of which:													
Official	6,560	6,612	6,578	6,660	6,765	6,498	8,555	8,128	7,814	7,676	7,839	7,274	7,895
import cover**	4.5	4.5	4.5	4.5	4.5	4.3	5.7	5.4	5.1	5.0	5.1	4.7	5.1
Commercial Banks	1,923	1,907	1,672	1,625	1,829	1,732	1,844	1,902	1,917	1,659	1,561	1,691	1,843
2. Residents' foreign currency deposits	3,909	3,938	3,562	3,636	3,833	3,805	3,776	4,084	4,292	4,148	4,101	4,037	4,099

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

Source: Central Bank of Kenya

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



### Exchange Rates

The Kenya Shilling weakened against the US Dollar in December 2014 to trade at an average of 90.44 per USD compared to an average of 89.96 per USD in November 2014 and strengthened by 0.42 percent, 0.7 percent and 2.2 percent against the Pound Sterling, the Euro and the Japanese yen respectively. Performance of the Shilling against major world currencies is a reflection of international developments and high dollar demand from companies stocking up for the December festive season.

In the EAC region, the Kenya shilling strengthened against the Uganda shilling and weakened against the Tanzania shilling, the Rwanda Franc and the Burundi Franc. (Table 4.6 and Chart 4D).

TABLE 4.6: KENYA SHILLING EXCHANGE RATE

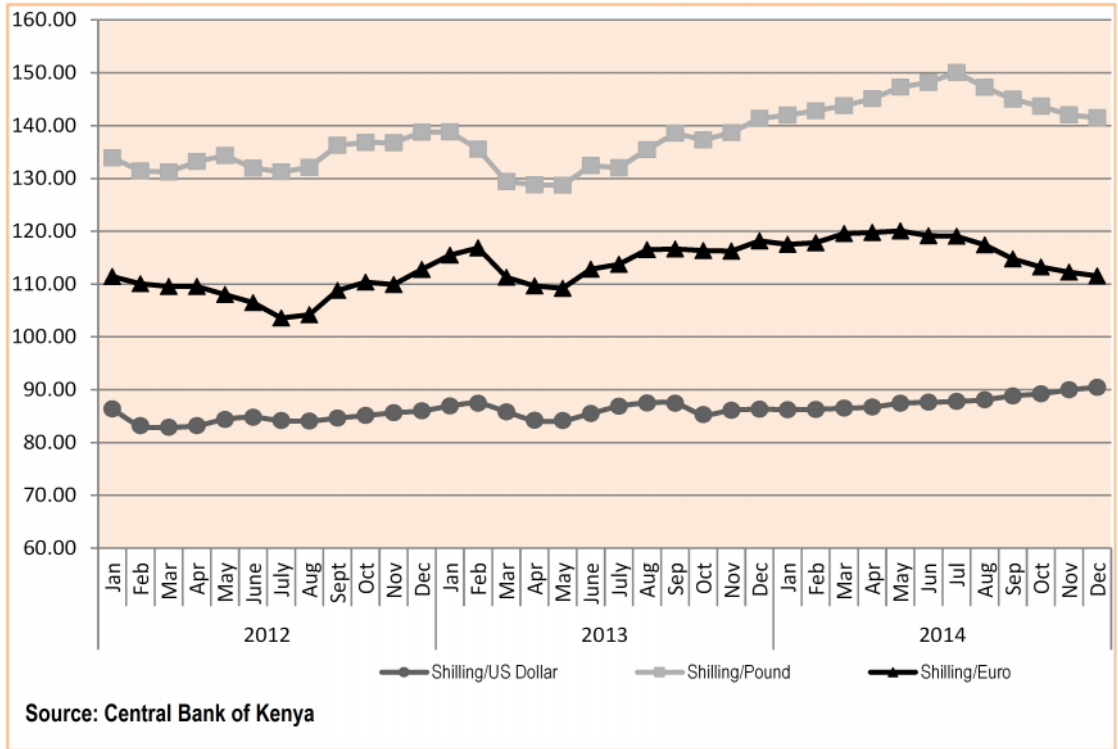
	2014									% change November - December 2014
	Apr	May	June	July	August	September	October	November	December	
US Dollar	86.72	87.41	87.61	87.77	88.11	88.84	89.23	89.96	90.44	0.53
Pound Sterling	145.08	147.29	148.15	150.04	147.24	144.99	143.66	142.05	141.45	-0.42
Euro	119.78	120.09	119.16	119.02	117.40	114.74	113.21	112.28	111.52	-0.67
100 Japanese Yen	84.59	85.84	85.88	86.32	85.63	82.90	82.62	77.53	75.79	-2.24
Uganda Shilling*	29.19	28.97	29.44	29.97	29.66	29.47	30.03	30.37	30.62	0.80
Tanzania Shilling*	18.86	18.92	19.18	18.97	18.89	18.78	18.96	19.16	19.11	-0.25
Rwanda Franc*	7.82	7.76	7.74	7.76	7.82	7.75	7.72	7.66	7.62	-0.61
Burundi Franc*	17.88	17.72	17.68	17.65	17.57	17.43	17.47	17.39	17.28	-0.62

\* 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, 8 representative offices of foreign banks, 87 foreign exchange bureaus, 13 money remittance providers and 2 credit reference bureaus as at December 31, 2014.

**Structure of the Balance Sheet** The banking sector balance sheet increased by 19.3 percent from Ksh 2,732.8 billion in December 2013 to Ksh 3,261.1 billion in December 2014. The major components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 58.3 percent, 20.4 percent and 5.3 percent of total assets, respectively.

**Loans & Advances** The banking sector gross loans and advances grew from Ksh 1,605.2 billion in December 2013 to Ksh 1,972.1 billion in December 2014, which translated to a growth of 22.9 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 1,950.8 billion in December 2014, up from Ksh 1,589.0 billion registered in a similar period in 2013.

**Deposit Liabilities** Deposits from customers which form the main source of funding for the banking sector, accounted for 71.5 percent of total funding liabilities. The deposit base grew by 17.7 percent from Ksh 1,980.2 billion in December 2013 to Ksh 2,331.6 billion in December 2014 mainly supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

**Capital & Reserves** The banking sector registered enhanced capital levels in December 2014 with total shareholders' funds growing by 22.6 percent from Ksh 431.5 billion in December 2013 to Ksh 529.1 billion in December 2014. Core capital and total capital increased from Ksh 341.9 billion and Ksh 407.5 billion to Ksh 422.1 billion and Ksh 508.4 billion, respectively over the same period. However, the ratios of core and total capital to total risk-weighted assets declined from 19.5 percent and 23.2 percent in December 2013 to 15.9 percent and 19.2 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 stock of gross non-performing loans (NPLs) increased by 32.9 percent from Ksh 80.6 billion in December 2013 to Ksh 107.1 billion in December 2014. Similarly, the ratio of gross NPLs to gross loans grew from 5.0 percent in December 2013 to 5.4 percent in December 2014. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 44.4 percent to 41.1 percent in December 2014.

The quality of assets, measured as a proportion of net non-performing loans to gross loans declined from 2.2 percent in December 2013 to 2.6 percent in December 2014 (Table 5.1)

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

		13-Dec	14-Dec
1	Gross loans and advances	1,605.2	1,972.1
2	Interest in Suspense	16.2	21.3
3	Loans and advances (net of interest suspended)	1,589.0	1,950.8
4	Gross non-performing loans	80.6	107.1
5	Specific Provisions	28.6	35.3
6	General Provisions	12.1	13.9
7	Total Provisions (5+6)	40.7	49.2
8	Net Advances (3-7)	1,548.3	1,901.6
9	Total Non-Performing Loans and Advances (4-2)	64.4	85.8
10	Net Non-Performing Loans and Advances (9-5)	35.8	50.5
11	Total NPLs as % of total advances (9/3)	4.1%	4.4%
12	Net NPLs as % of gross advances (10/1)	2.2%	2.6%
13	Specific Provisions as % of Total NPLs (5/9)	44.4%	41.1%

Source: Central Bank of Kenya

**Profitability** The banking sector registered a growth of 13.3 percent in pre-tax profits, from Ksh 124.3 billion in December 2013 to Ksh 140.9 billion as at end of December 2014. The annualised return on assets declined to 3.4 percent from 3.6 percent over the same period. Similarly, return on equity decreased to 26.6 percent from 28.8 percent over the same period. Total income increased by 15.8 percent from Ksh 358.3 billion in December 2013 to Ksh 414.8 billion in December 2014, while total expenses increased by 17.1 percent from Ksh 233.2 billion in December 2013 to Ksh 274.0 billion in December 2014. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 59.2 percent, 18.8 percent and 15.1 percent of total income respectively. Meanwhile, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 32.7 percent, 27.7 percent and 24.6 percent, respectively.

**Liquidity Ratio Requirement** The average liquid assets amounted to Ksh 854.4 in December 2014, while total short-term liabilities stood at Ksh 2,267.9 billion, resulting to an average liquidity ratio of 37.7 percent, against 38.6 percent registered in December 2013 and well above the statutory 20 percent

**Cash Ratio Requirement** The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for reserve requirements averaged 5.57 percent in December 2014 s220 basis points below 5.79 percent in November 2014, but 320 basis points above the 5.25 percent statutory level (Table 5.2 and Chart 5A). In value terms the excess reserves declined to an average Ksh 6.9 billion in December 2014 from Ksh 11.7 billion in November 2014. Commercial banks are required to maintain a cash reserve ratio (CRR) average of 5.25 percent in the 30 day maintenance cycle that runs from 15<sup>th</sup> of the previous month through 14<sup>th</sup> of the current month, but subject to a daily minimum of 3.0 percent.

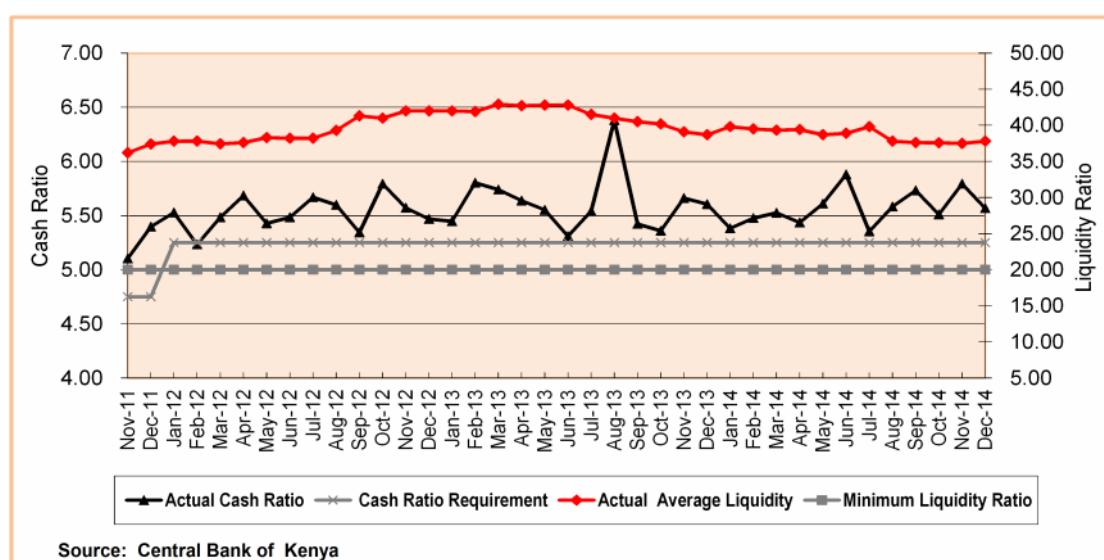
TABLE 5.2 : CASH AND LIQUIDITY RATIOS\* (%)

	2013	2014												
	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	
<b>Commercial Banks</b>														
Actual Average Liquidity	38.70	39.80	39.50	39.32	39.40	38.70	38.90	39.80	37.80	37.60	37.58	37.50	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	5.61	5.38	5.48	5.53	5.44	5.61	5.88	5.35	5.58	5.73	5.51	5.79	5.57	
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	
<b>NBFIs</b>														
Actual Average Liquidity Ratio	32.60	34.20	34.13	32.69	29.90	26.50	27.80	29.70	26.30	26.10	25.19	25.30	27.80	
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	

\* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

### KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 260,441 transaction messages worth Ksh 2,280 billion in December 2014 compared with a volume of 212,340 transaction messages valued at Ksh 2,023 billion moved in November 2014, representing an increase of 12.72 percent and 22.65 percent in value and volume, respectively. Compared to December 2013, the volume increased by 43.95 percent from 180,926 transaction messages to 260,441 transaction messages in December 2014 while value increased by 19.72 percent from 1,905 billion to 2,280 billion, indicating increased uptake of KEPSS services by the public.

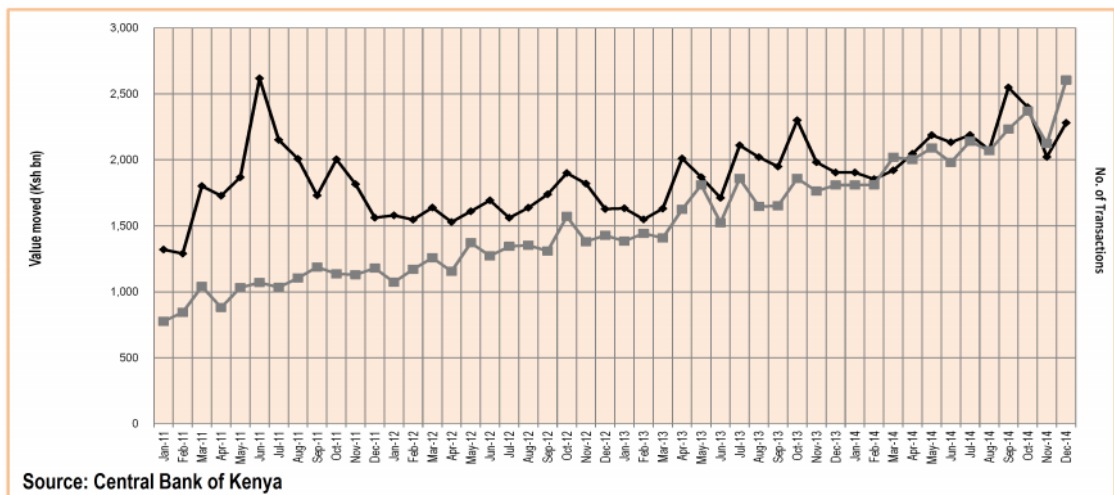
The value moved averaged Ksh 10 million per transaction in 2014. On average, 10,076 transaction messages with an average value of approximately Ksh 102 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted for 99.0 percent of the total settlements, while payments processed through the Automated Clearing House (ACH) and settled in KEPSS averaged 1.0 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	6,060
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
Sep-14	2,549	33	223,227	0.01	22	116	10,147
Oct-14	2,399	32	237,027	0.01	22	109	10,774
Nov-14	2,023	21	212,340	0.01	20	101	10,617
Dec-14	2,280	32	260,441	0.01	20	114	13,022

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 7.79 percent from 19,626 transaction messages in November 2014 to 21,154 transaction messages in December 2014, while single third party Message Type (MT 103) used for single credit transfers increased by 17.63 percent from 225,312 transaction messages to 265,040 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 16.84 percent from 244,938 transaction messages in November 2014 to 286,194 transaction messages in December 2014.

Compared with December 2013, multiple third party messages (MT 102) increased by 58.72 percent from 13,328 transaction messages to 21,154 transaction messages in December 2014, while single third party messages (MT 103) increased by 36.32 percent from 194,427 transaction messages to 265,040 transaction messages (Table 5.4 and Chart 5C).

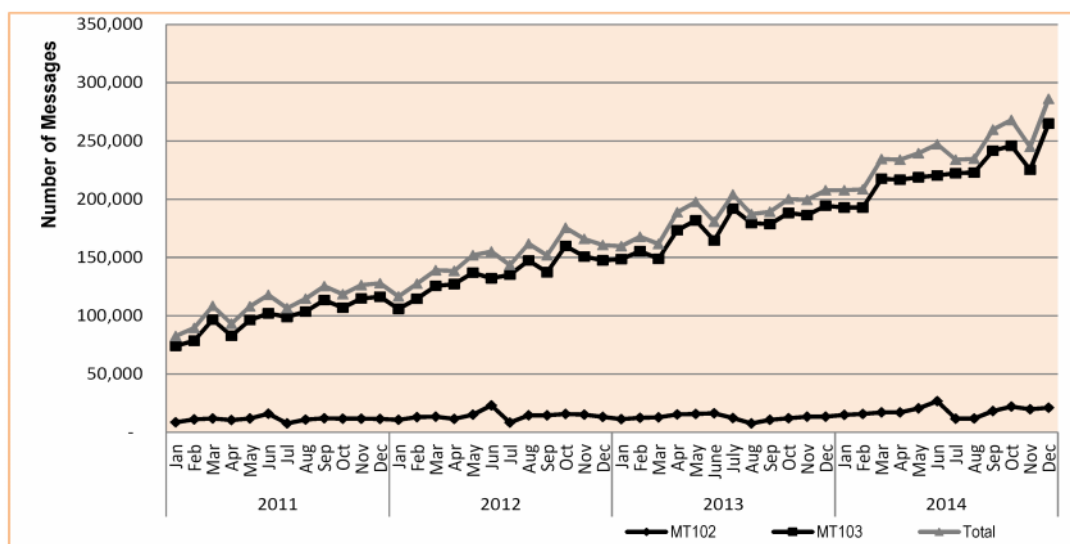
Inter-bank transfers (MT 202) accounted for 40.94 percent of the total value moved through KEPSS as at end of December 2014 while third party (MT 102 and MT 103) messages accounted for 59.06 percent. The total number of third party messages grew by 37.76 percent from 207,755 messages in December 2013 to 286,194 messages in December 2014. This signifies continued growth in KEPSS usage by individuals and non-bank corporate bodies.

**TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS**

		MT102	MT103	Total
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	14,858	192,905	207,763
	Feb	15,596	192,858	208,454
	Mar	16,935	217,572	234,507
	Apr	17,019	216,820	233,839
	May	20,543	218,936	239,479
	Jun	26,649	220,504	247,153
	Jul	11,546	222,388	233,934
	Aug	11,903	222,826	234,729
	Sep	18,074	241,606	259,680
	Oct	22,080	245,888	267,968
	Nov	19,626	225,312	244,938
	Dec	21,154	265,040	286,194

Source: Central Bank of Kenya

**CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS**

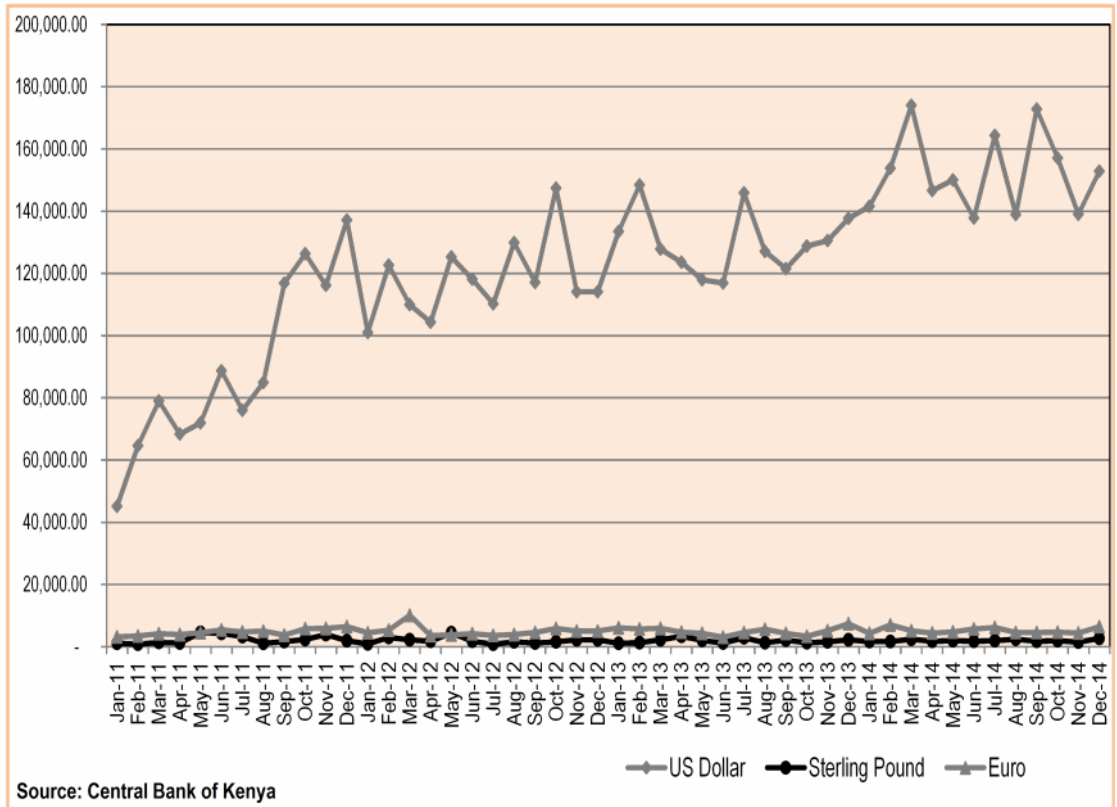


### Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 7.88 percent from 17,154 transaction messages in November 2014 to 18,505 transaction messages in December 2014. Consequently, the corresponding value in sh equivalent moved in this period increased by 11.77 percent from Ksh 144.9 billion to Ksh 161.9 billion. The US dollar denominated transactions accounted for 94.38 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.65 percent and 3.97 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 half of the FY 2014/15 resulted into a deficit of Ksh 89 billion (1.9 percent of GDP) on both commitment and cash basis compared with a deficit of Ksh 105.2 billion (2.7 percent of GDP) incurred in the same period of the FY 2013/14. This was however, lower than the Ksh 175.3 billion (3.4 percent of GDP) programmed target for the period and is reflected in lower absorption of public commitments and a slack in all revenue mobilization other than in nontax revenue.

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

	FY 2013/14	FY 2014/15		
	Dec Actual	Dec Provisional	Target	Over (+) / below(-) Target
<b>1. TOTAL REVENUE &amp; GRANTS</b>	<b>469.0</b>	<b>525.0</b>	<b>589.9</b>	<b>-64.9</b>
<b>Revenue</b>	<b>460.6</b>	<b>517.2</b>	<b>560.4</b>	<b>-43.3</b>
Tax Revenue	421.9	474.0	498.3	-24.3
Non Tax Revenue	23.2	17.3	14.9	2.3
Appropriations-in-Aid	15.5	25.8	47.2	-21.4
External Grants	8.4	7.8	29.5	-21.6
<b>2. TOTAL EXPENSES &amp; NET LENDING</b>	<b>574.2</b>	<b>614.0</b>	<b>765.2</b>	<b>-151.2</b>
Recurrent Expenses	394.9	383.9	428.2	-44.3
Development Expenses	112.8	146.5	229.0	-82.5
County Transfers	66.5	83.6	105.5	-21.9
Others	0.0	0.0	2.5	-2.5
<b>3. DEFICIT ON A COMMITMENT BASIS (1-2)</b>	<b>-105.2</b>	<b>-89.0</b>	<b>-175.3</b>	<b>86.3</b>
As percent of GDP	-2.7	-1.9	-3.7	
<b>4. ADJUSTMENT TO CASH BASIS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>5. DEFICIT ON A CASH BASIS</b>	<b>-105.2</b>	<b>-89.0</b>	<b>-175.3</b>	<b>86.3</b>
As percent of GDP	-2.7	-1.9	-3.7	
<b>6. DISCREPANCY: Expenditure (+) / Revenue (-)</b>	<b>-26.0</b>	<b>32.1</b>	<b>0.0</b>	<b>32.1</b>
<b>7. FINANCING</b>	<b>79.2</b>	<b>121.1</b>	<b>175.3</b>	<b>-54.3</b>
Domestic (Net)	67.9	-69.9	118.1	-188.0
External (Net)	11.3	48.3	57.2	-8.9
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others (Euro Bond Tap sale proceeds)	0.0	142.7	0.0	142.7
Financing gap	0.0	0.0	0.0	0.0

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

### Revenue

Total government revenues and grants amounted to Ksh 525 billion during the first half of the FY 2014/15, representing an increase of Ksh 56.1 billion from Ksh 468.9 billion collected during a similar period of the FY 2013/14 (Table 6.2). Tax revenue accounted for 90.3 percent of the total revenue realized. All revenues performed below targets except non tax revenue which surpassed target by Ksh 2.3 billion. Specifically; receipts from tax revenue, external grants and appropriations-in-aid were below target by Ksh 24.3 billion, Ksh 21.6 billion and Ksh 21.4 billion, respectively during the period under review (Table 6.1).

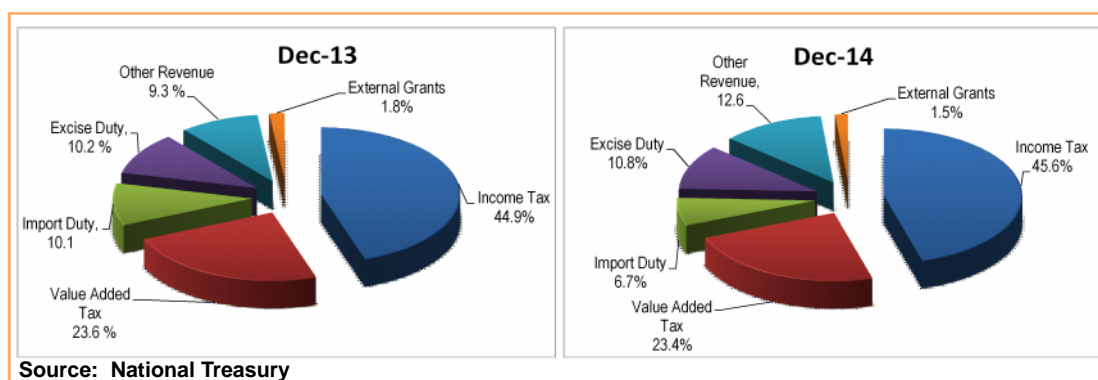
**TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)**

	Dec-13 Ksh bn	Dec-14 Ksh bn	Change
<b>1. Revenue (2+3+4)</b>	<b>460.6</b>	<b>517.2</b>	<b>56.6</b>
<b>2. Tax Revenue</b>	<b>421.9</b>	<b>474.0</b>	<b>52.2</b>
Income Tax	210.7	239.2	28.5
Value Added Tax	110.7	122.9	12.2
Import Duty	47.5	35.1	-12.4
Excise Duty	48.1	56.5	8.5
Others	4.9	20.4	15.4
<b>3. Appropriations-in-Aid</b>	<b>15.47</b>	<b>25.8</b>	<b>10.4</b>
<b>4. Other Revenue</b>	<b>23.2</b>	<b>17.3</b>	<b>-5.9</b>
<b>5. External Grants</b>	<b>8.4</b>	<b>7.8</b>	<b>-0.5</b>
<b>TOTAL RECEIPTS (1+5)</b>	<b>468.9</b>	<b>525.0</b>	<b>56.1</b>

Source: National Treasury

Tax revenue grew by Ksh 52.2 billion in the first half of FY 2014/15, equivalent to 12.4 percent increase, to Ksh 474 billion from Ksh 421.9 billion collected during the first half of the FY 2013/14 (Table 6.2). The increase is largely traced to income tax receipts, which grew by Ksh 28.5 billion (13.5 percent) during the period under review. Excise duty, Value Added Tax, other tax revenue and Appropriations-In-Aid

increased by Ksh 8.5 billion, Ksh 12.2 billion, Ksh 15.4 billion and Ksh 10.4 billion and Ksh 1.6 billion, respectively. On the other hand, import duty, external grants and other revenue declined by Ksh 12.4 billion, Ksh 0.5 billion and Ksh 5.9 billion, respectively during the period under review. All taxes except income tax from corporations performed below target.

**CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS**

### Expenditure and Net Lending

Government expenditure and net lending increased by Ksh 39.8 billion during the first half of FY 2014/15 from Ksh 574.2 billion expended during the same period in the FY 2013/14. Total expenditure during this period amounted to Ksh 614 billion, comprising Ksh 383.9 billion, Ksh 146.5 billion and Ksh 83.6 billion in recurrent expenditure, development expenditure and county transfers, respectively.

Recurrent expenditure declined by Ksh 11.1 billion and performed below the programmed target by Ksh 44.3 billion during the period under review. This decline was largely reflected Ksh 25.3 billion in other recurrent expenditure, which was partially offset by increases in salaries and wages and foreign interest payment amounting to Ksh 11.8 billion and Ksh 6.4 billion, respectively. Development expenditure increased by Ksh 33.7 billion but performed below the programmed target by Ksh 82.5 billion. County transfers increased to Ksh 17.1 billion from Ksh 66.5 billion in a similar period of the previous financial year but was below target by Ksh 21.9 billion (Table 6.1). The lower than projected absorption in the development budget reflects largely in funds from external sources and is attributed to delayed disbursement of funds.

**TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)**

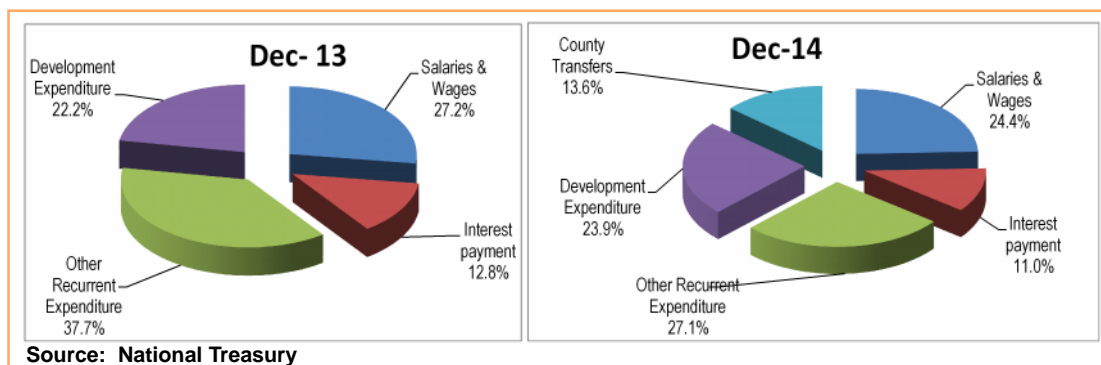
	Dec-13 Ksh bn	Dec-14 Ksh bn	Movement
<b>1. Recurrent</b>	<b>394.9</b>	<b>383.9</b>	<b>-11.1</b>
Salaries & Wages	138.2	150.0	11.8
Total Interest	65.1	67.5	2.4
of which			
Domestic*	60.1	56.1	-4.0
Foreign interest due	5.0	11.4	6.4
Others	191.6	166.4	-25.3
<b>2. Development</b>	<b>112.8</b>	<b>146.5</b>	<b>33.7</b>
<b>3. County Transfers</b>	<b>66.5</b>	<b>83.6</b>	<b>17.1</b>
<b>TOTAL EXPENSES</b>	<b>574.2</b>	<b>614.0</b>	<b>39.8</b>

\*Includes commission and other charges paid to CBK

Source: National Treasury

The performance of Government expenditure in relation to the previous year is indicated in Chart 6B. The main highlights include the 280 basis points reduction in the expenses on salaries and wages which is largely attributed to expansion of the development budget and county transfer. The share of interest payments also declined by 180 basis points on account of lower recourse and access to domestic borrowing while other recurrent expenditure was 10.6 lower than in the comparable period of FY 2013/14.

**CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE**



**Financing** Budgetary operations of the Government resulted in a financing requirement of Ksh 213.8 billion in the first half of the FY 2014/15 compared with Ksh 137.4 billion in the same period of the FY 2013/14. The Government sourced the funds through net external borrowing of Ksh 48.3 billion, Euro Bond tap sale proceeds of Ksh 142.7 billion and additional domestic borrowing of Ksh 21.7 billion. The funds were allocated to bridge the Government budgetary deficit of Ksh 121.1 billion. Furthermore the successful debut in the Euro Bond market enabled the Government to reduce its domestic debt by Ksh 8.7 billion (that comprised Ksh 1.9 retirement of net debt owing to nonbanks and Ksh 6.9 billion repayment of debt owed to the Central Bank) The Government also accumulated deposits amounting to Ksh 84 billion (Table 6.4).

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

	Dec-13	Dec-14
<b>I. FINANCING REQUIREMENTS</b>		
1. Budget deficit	79.2	121.1
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	8.7
3.1 Central Bank (incl. items in transit)	0.0	6.9
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	1.9
4. Increase in GoK deposits at CBK	58.2	84.0
<b>TOTAL</b>	<b>137.4</b>	<b>213.8</b>
<b>II. FINANCING SOURCES</b>		
1. Budget surplus	0.0	0.0
2. External debt increase	11.3	48.3
3. Increase in domestic debt	126.1	21.7
3.1 Central Bank	28.2	0.0
3.2 Commercial banks	28.1	21.7
3.3 Non-bank sources	69.8	0.0
4. Reduction in GoK deposits at CBK	0.0	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
6. Others ( Euro Bond tap sale proceeds)	0.0	142.7
7. Domestic Loan Repayments	0.0	1.2
<b>TOTAL</b>	<b>137.4</b>	<b>213.8</b>

Sources: National Treasury and Central Bank of Kenya

**Government Borrowing from the Central Bank** The government debt at the Central Bank declined by Ksh 6.4 billion to Ksh 58.3 billion during the period under review, compared to Ksh 64.6 billion owed in a similar period of the FY 2013/2014. The decrease in Government’s liability to the Central Bank was largely attributed to a decline in utilization of government overdraft

facility at the Central Bank as well as decreased holding of rediscounted securities. In addition, the Government repaid Ksh 1.7 billion, through the regular amortization of the pre- 1997 overdraft at the Central Bank. The Government borrowing through overdraft facility at the Central Bank was within the statutory limit.

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

	2013	2014	Movement
	Dec	Dec	
<b>Total Credit</b>	<b>64.6</b>	<b>58.3</b>	<b>-6.4</b>
1. Overdraft	34.2	30.9	-3.3
2. Rediscounted securities	1.5	0.1	-1.4
Treasury bills	1.5	0.0	-1.4
Treasury bonds	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	28.9	27.2	-1.7
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.0	0.0	0.0
<b>Memorandum</b>			
Authorised overdraft limit	25.4	39.1	13.8
Amount utilised to date	34.2	30.9	-3.3
Amount available	-8.8	8.2	17.0

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 1087.1 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 2014/15 (Ksh Billion)**

	Ksh (Bn)	% of GDP
<b>1. TOTAL REVENUE</b>	<b>1240.0</b>	<b>26.1</b>
Ordinary Revenue	1087.1	22.9
Appropriations-in-Aid	94.1	2.0
External Grants	58.7	1.2
<b>2. TOTAL EXPENSES &amp; NET LENDING</b>	<b>1597.8</b>	<b>33.6</b>
Recurrent Expenses	871.5	18.3
Development Expenses	492.0	10.3
County Transfer	229.3	4.8
Contingency Fund	5.0	0.1
<b>3. DEFICIT ON A COMMITMENT BASIS (1-2)</b>	<b>-357.8</b>	<b>-7.5</b>
<b>4. ADJUSTMENT TO CASH BASIS</b>	<b>0.0</b>	<b>0.0</b>
<b>5. DEFICIT ON A CASH BASIS</b>	<b>-357.8</b>	<b>-7.5</b>
<b>6. DISCREPANCY: Expenditure (+) / Revenue (-)</b>	<b>0.0</b>	<b>0.0</b>
<b>7. FINANCING</b>	<b>357.8</b>	<b>7.5</b>
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 87.9 billion to reach Ksh 2,458.1 billion in December 2014, from Ksh 2,370.3 billion in June, 2014. The total debt stock at the end of December 2014 was equivalent to 51.7 percent of GDP, compared with 49.8 percent of GDP in June 2014. Both external and domestic debt to GDP ratios increased from 22.8 percent and 27.0 percent in June 2014 to 24.6 percent and 27.1 percent in December 2014, respectively (Table 7.1).

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

	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Change 2014/15
<b>EXTERNAL</b>											
Bilateral	283.7	288.5	288.4	289.9	286.2	285.3	278.5	275.8	272.3	287.2	-2.7
Multilateral	581.9	587.5	595.6	597.3	604.7	605.8	608.0	612.1	614.0	612.4	15.0
Commercial Banks	59.2	59.1	59.6	182.2	182.5	183.6	185.2	184.9	186.5	255.2	73.0
Supplier Credits	15.7	15.9	14.3	16.5	16.3	16.3	16.1	16.0	16.1	16.0	-0.5
<b>Sub-Total</b>	<b>940.5</b>	<b>951.0</b>	<b>957.9</b>	<b>1085.9</b>	<b>1089.7</b>	<b>1091.0</b>	<b>1087.8</b>	<b>1088.8</b>	<b>1089.0</b>	<b>1170.7</b>	<b>84.8</b>
(As a % of GDP)	19.8	20.0	20.1	22.8	22.9	22.9	22.9	22.9	22.9	24.6	
(As a % of total debt)	42.3	42.3	43.7	45.8	45.7	46.0	46.3	46.6	45.5	47.6	
<b>DOMESTIC</b>											
<b>Banks</b>	<b>663.5</b>	<b>632.5</b>	<b>644.1</b>	<b>682.8</b>	<b>698.7</b>	<b>682.2</b>	<b>665.0</b>	<b>638.1</b>	<b>698.0</b>	<b>674.5</b>	-8.4
Central Bank	77.2	63.2	68.1	65.7	61.6	62.0	63.6	29.1	45.8	27.2	-38.5
Commercial Banks	586.3	569.3	576.0	617.1	637.1	620.3	601.4	609.0	652.2	647.2	30.1
<b>Non-banks</b>	<b>606.7</b>	<b>650.5</b>	<b>575.3</b>	<b>586.5</b>	<b>583.6</b>	<b>585.7</b>	<b>584.1</b>	<b>595.6</b>	<b>592.3</b>	<b>599.1</b>	12.6
Pension Funds	310.6	311.1	313.6	322.9	323.3	323.6	321.2	317.4	318.4	310.6	-12.3
Insurance Companies	117.8	118.3	120.1	121.0	121.1	125.8	127.6	127.8	129.2	129.3	8.2
Other Non-bank Sources	178.3	221.1	141.7	142.6	139.2	136.3	135.2	150.4	144.7	159.2	16.7
<b>Non-residents</b>	<b>14.0</b>	<b>13.4</b>	<b>13.1</b>	<b>14.9</b>	<b>14.2</b>	<b>13.2</b>	<b>11.8</b>	<b>12.4</b>	<b>13.0</b>	<b>13.8</b>	-1.1
<b>Sub-Total</b>	<b>1284.2</b>	<b>1296.5</b>	<b>1232.5</b>	<b>1284.2</b>	<b>1296.4</b>	<b>1281.1</b>	<b>1260.9</b>	<b>1246.1</b>	<b>1303.4</b>	<b>1287.4</b>	<b>3.2</b>
(As a % of GDP)	25.9	25.6	25.9	27.0	27.3	26.9	26.5	26.2	27.4	27.1	
(As a % of total debt)	57.7	57.7	56.3	54.2	54.3	54.0	53.7	53.4	54.5	52.4	
<b>GRAND TOTAL</b>	<b>2224.7</b>	<b>2247.4</b>	<b>2190.4</b>	<b>2370.2</b>	<b>2386.1</b>	<b>2372.1</b>	<b>2348.7</b>	<b>2335.0</b>	<b>2392.3</b>	<b>2458.1</b>	<b>87.9</b>
(As a % of GDP)	45.6	45.6	46.0	49.8	50.2	49.9	49.4	49.1	50.3	51.7	

Sources: National Treasury and Central Bank of Kenya

### Domestic Debt

The total stock of domestic debt increased by Ksh 3.1 billion during the first six months of the FY 2014/15 to reach Ksh 1,287.4 billion in December 2014, resulting in a 0.1 percent increase in domestic debt to GDP ratio to 27.1 percent. This was largely on account of an increase in government securities of Ksh 31.1 billion which offset the decrease in other debt and non-interest bearing debt. The share of domestic debt in total debt declined from 54.2 percent in June, 2014 to 52.4 percent in December 2014 (Table 7.1).

**TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)**

	2014												Change Jun 14 - Dec 14		
	June	%	July	%	Aug	%	Sep	%	Oct	%	Nov	%		Dec	%
Total Stock of Domestic Debt (A+B)	1,284.3	100.0	1,296.4	100.0	1,281.1	100.0	1,260.9	100.0	1,246.1	100.0	1,303.4	100.0	1,287.4	100.0	3.1
A. Government Securities	1,242.4	96.7	1,261.3	97.3	1,246.6	98.9	1,223.7	97.0	1,233.8	94.7	1,283.5	98.5	1,273.6	98.9	31.1
1. Treasury Bills (excluding Repo Bills)	299.4	23.3	319.2	24.6	305.6	24.2	276.0	21.9	283.9	21.8	302.0	23.2	291.4	22.6	(8.0)
Banking institutions	176.5	13.7	199.7	15.4	187.4	14.9	162.9	12.9	173.5	13.3	196.1	15.0	191.2	14.9	14.7
Others	123.0	9.6	119.5	9.2	118.2	9.4	113.2	9.0	110.4	8.5	106.9	8.1	100.2	7.8	(22.7)
2. Treasury Bonds	914.8	71.2	914.4	70.5	913.2	72.4	919.9	73.0	922.1	70.7	953.7	73.2	955.0	74.2	40.2
Banking institutions	436.4	34.0	436.2	33.6	433.2	34.4	437.8	34.7	436.9	33.5	454.3	34.9	456.1	35.4	19.7
Pension Funds	247.5	19.3	322.9	24.9	255.7	20.3	259.4	20.6	255.7	19.6	262.0	20.1	262.6	20.4	15.1
Others	230.9	18.0	156.3	12.0	224.4	17.8	222.7	17.7	229.5	17.6	237.4	18.2	236.3	18.4	5.4
4. Non-Interest Bearing Debt	28.3	2.2	27.7	2.1	27.8	2.2	27.8	2.2	27.8	2.1	27.8	2.1	27.2	2.1	(1.0)
Of which: Repo T/Bills	28.3	2.2	27.7	2.1	27.7	2.2	27.7	2.2	27.7	2.1	27.7	2.1	27.2	2.1	(1.1)
B. Others:	41.9	3.3	35.2	2.7	34.5	2.7	37.2	3.0	12.4	0.9	19.9	1.5	13.8	1.1	(28.1)
Of which CBK overdraft to Government	37.2	2.9	31.7	2.4	30.4	2.4	34.4	2.7	18.3	1.4	18.3	1.4	30.9	2.4	(6.3)

Source: Central Bank of Kenya

**Treasury Bills**

Treasury bill holdings, excluding repos, decreased by Ksh 8.0 billion from Ksh 299.4 billion in June 2014 to Ksh 291.4 billion in December 2014 (Table 7.2). However, the proportion of Treasury bills to total domestic debt decreased marginally to 22.6 percent in December 2014 from 23.3 percent in June 2014. The dominant investors in Treasury Bills were commercial banks (65.6 percent) and pension funds (16.5 percent) by December 2014 (Table 7.3).

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

Holders	2014												Change Jun 14 - Dec 14		
	June	%	July	%	Aug	%	Sep	%	Oct	%	Nov	%		Dec	%
Banking Institutions	176.5	58.9	199.7	62.6	187.4	67.9	162.9	59.0	173.5	61.1	196.1	64.9	191.1	65.6	14.7
Central Bank	0.0	0.0	2.0	0.6	3.7	1.3	1.4	0.5	1.4	0.5	1.4	0.5	0.1	0.0	0.1
Comm. Banks	176.4	58.9	197.6	61.9	183.7	66.5	161.5	58.5	172.1	60.6	194.7	64.5	191.1	65.6	14.7
Insurance Companies	19.9	6.6	20.5	6.4	23.3	8.4	25.9	9.4	24.1	8.5	24.5	8.1	24.7	8.5	4.8
Parastatals	4.2	1.4	4.2	1.3	3.1	1.1	3.1	1.1	3.6	1.3	3.6074	1.2	3.6178	1.2	-0.6
Pension Funds	67.8	22.6	67.6	21.2	67.8	24.6	61.9	22.4	61.7	21.7	56.4	18.7	48.0	16.5	-19.8
Others	31.1	10.4	27.1	8.5	24.0	8.7	22.2	8.1	21.0	7.4	21.4	7.1	23.9	8.2	-7.2
<b>Total</b>	<b>299.4</b>	<b>100.0</b>	<b>319.2</b>	<b>100.0</b>	<b>305.6</b>	<b>100.0</b>	<b>276.0</b>	<b>100.0</b>	<b>283.9</b>	<b>100.0</b>	<b>302.0</b>	<b>100.0</b>	<b>291.4</b>	<b>100.0</b>	<b>-8.0</b>

Source: Central Bank of Kenya

**Treasury Bonds**

Outstanding Treasury bonds increased by Ksh 40.2 billion, from Ksh 914.8 billion in June 2014 to Ksh 955.0 billion in December 2014. The proportion of Treasury bonds in domestic debt increased from 71.2 percent in June 2014 to 74.2 percent in December 2014 (Table 7.2). The holding of Treasury bonds by dominant investors was as follows: Ksh 456.1 billion, Ksh 262.6 billion and Ksh 104.6 billion absorbed by commercial banks, Pension Funds and Insurance companies, respectively. The proportion of holdings of Treasury bonds by pension funds increased from 27.1 percent to 27.5 percent while the proportion held by insurance companies declined from 11.1 percent to 10.9 percent during the period under review. The proportion held by parastatals declined from 3.8 percent in June 2014 to 3.4 percent in December 2014. Meanwhile, the proportion of holdings by commercial banks and the Central Bank remained constant during the period under review (Table 7.4).



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

Holders	June		July		Aug		Sep		Oct		Nov		Dec		Change Jun 14 - Dec 14
	%	%	%	%	%	%	%	%	%	%	%	%	%		
Banking Institutions	436.4	47.7	436.2	47.7	433.2	47.4	437.8	47.6	436.9	47.4	436.9	45.8	456.1	47.8	19.8
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	0.0	0.0
Comm. Banks	436.3	47.7	436.1	47.7	433.1	47.4	437.7	47.6	436.9	47.4	436.9	45.8	456.1	47.8	19.8
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	0.2	0.0	0.0
Insurance Companies	101.2	11.1	100.6	11.0	102.6	11.2	101.7	11.1	103.7	11.2	103.7	10.9	104.6	10.9	3.4
Parastatals	34.4	3.8	34.1	3.7	34.2	3.7	32.9	3.6	32.9	3.6	32.9	3.5	32.9	3.4	-1.5
Of which: NSSF	16.2	1.8	16.1	1.8	16.1	1.8	14.9	1.6	14.9	1.6	14.9	1.6	14.9	1.6	-1.3
Building Societies	0.5	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.6	0.1	0.6	0.1	0.6	0.1	0.1
Pension Funds	247.5	27.1	322.9	35.3	255.7	28.0	259.4	28.2	255.7	27.7	255.7	26.8	262.6	27.5	15.1
Others	94.7	10.3	19.9	2.2	86.9	9.5	87.4	9.5	92.1	10.0	123.7	13.0	98.0	10.3	3.4
<b>Total</b>	<b>914.8</b>	<b>100.0</b>	<b>914.4</b>	<b>100.0</b>	<b>913.2</b>	<b>100.0</b>	<b>919.9</b>	<b>100.0</b>	<b>922.1</b>	<b>100.0</b>	<b>953.7</b>	<b>100.0</b>	<b>955.0</b>	<b>100.0</b>	<b>40.2</b>

Source: Central Bank of Kenya

### Domestic Debt Maturity structure

Total domestic debt as at December 2014 amounted to Ksh 1,287.4 billion. Government securities worth Ksh 44.4 billion fell due in December 2014, comprising Ksh 12.2 billion, Ksh 18.0 billion and Ksh 12.7 billion in 91-day, 182-day and 364-day Treasury bills, respectively.

The average length of maturity of existing domestic debt rose to 5 years and 3 month in December 2014 from 4 years and 10 months in June 2014.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2014												Change Jun 14 to Dec 14		
		%	%	%	%	%	%	%	%	%	%	%	%			
Treasury bills	91-Day	54.7	4.3	59.4	4.6	52.1	4.1	32.7	2.6	27.7	2.1	32.3	2.5	27.2	2.1	-27.5
	182-Day	88.9	6.9	93.9	7.2	85.8	6.7	65.2	5.2	57.8	4.4	58.7	4.5	49.9	3.9	-39.0
	364-Day	155.8	12.1	165.3	12.8	146.7	11.5	157.6	12.5	176.5	13.5	211.0	16.2	214.3	16.6	58.5
Treasury Bonds	1-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	0.0	0.0
	2-Year	166.7	13.0	174.5	13.5	158.2	12.4	158.2	12.5	144.5	11.1	144.5	11.1	132.6	10.3	-34.1
	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	0.0	0.0
	4-Year	29.9	2.3	29.9	2.3	29.9	2.3	29.9	2.4	29.9	2.3	29.9	2.3	29.9	2.3	0.0
	5-Year	175.3	13.6	175.3	13.5	188.7	14.7	175.5	13.9	175.5	13.5	175.5	13.5	175.5	13.6	0.2
	6-Year	40.7	3.2	40.7	3.1	40.7	3.2	40.7	3.2	40.7	3.1	40.7	3.1	40.7	3.2	0.0
	7-Year	17.0	1.3	8.7	0.7	8.7	0.7	8.7	0.7	8.7	0.7	8.7	0.7	8.7	0.7	-8.3
	8-Year	40.9	3.2	40.9	3.2	40.9	3.2	40.9	3.2	40.9	3.1	40.9	3.1	40.9	3.2	0.0
	9-Year	18.2	1.4	18.2	1.4	18.2	1.4	18.2	1.4	18.2	1.4	18.2	1.4	18.2	1.4	0.0
	10-Year	131.1	10.2	131.1	10.1	131.1	10.2	146.7	11.6	146.7	11.3	146.7	11.3	146.7	11.4	15.6
	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	4.0	0.3	0.0
	12-Year	45.4	3.5	45.4	3.5	45.4	3.5	45.4	3.6	61.4	4.7	80.9	6.2	80.9	6.3	35.5
15-Year	142.9	11.1	142.9	11.0	142.9	11.2	142.9	11.3	142.9	11.0	155.0	11.9	168.2	13.1	25.3	
20-Year	60.5	4.7	60.5	4.7	60.5	4.7	60.5	4.8	60.5	4.6	60.5	4.6	60.5	4.7	0.0	
25-Year	20.2	1.6	20.2	1.6	20.2	1.6	20.2	1.6	20.2	1.5	20.2	1.5	20.2	1.6	0.0	
30-Year	22.1	1.7	22.1	1.7	23.9	1.9	28.1	2.2	28.1	2.2	28.1	2.2	28.1	2.2	6.0	
Repo T bills		28.3	2.2	27.7	2.1	27.7	2.2	27.7	2.2	27.7	2.1	27.7	2.1	27.2	2.1	-1.1
	Overdraft	39.1	3.0	31.7	2.4	30.4	2.4	34.4	2.7	18.3	1.4	18.3	1.4	30.9	2.4	-8.2
Other Domestic debt		2.76	0.22	4.1	0.3	25.2	2.0	23.4	1.9	16.0	1.2	1.6	0.1	-17.1	-1.3	-19.9
<b>Total Debt</b>		<b>1284.33</b>	<b>100.00</b>	<b>1296.4</b>	<b>100.0</b>	<b>1281.1</b>	<b>100.0</b>	<b>1260.9</b>	<b>100.0</b>	<b>1246.1</b>	<b>95.6</b>	<b>1303.4</b>	<b>100.0</b>	<b>1287.4</b>	<b>100.0</b>	<b>3.1</b>

Source: Central Bank of Kenya

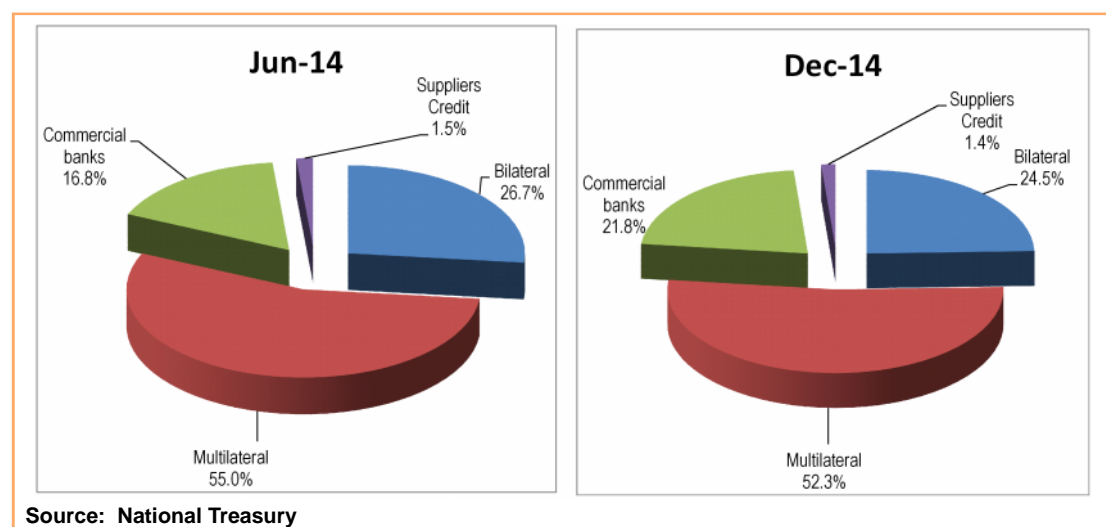
## External Debt

Kenya's public and publicly guaranteed external debt increased by Ksh 84.8 billion to Ksh 1,170.7 billion in December 2014, from Ksh 1,085.9 billion in June, 2014 (Table 7.1). The amount of public external debt to the central government was Ksh 1130.7 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 5.4 billion of the increase in multilateral debt, while China accounted for Ksh 1.1 billion of the increase in bilateral debt. Japan's contribution to the bilateral debt reduced by Ksh 0.6 billion, during the period under review. The growth in external debt during this period was largely driven by exchange rate revaluations.

## Composition of External Debt by Creditor

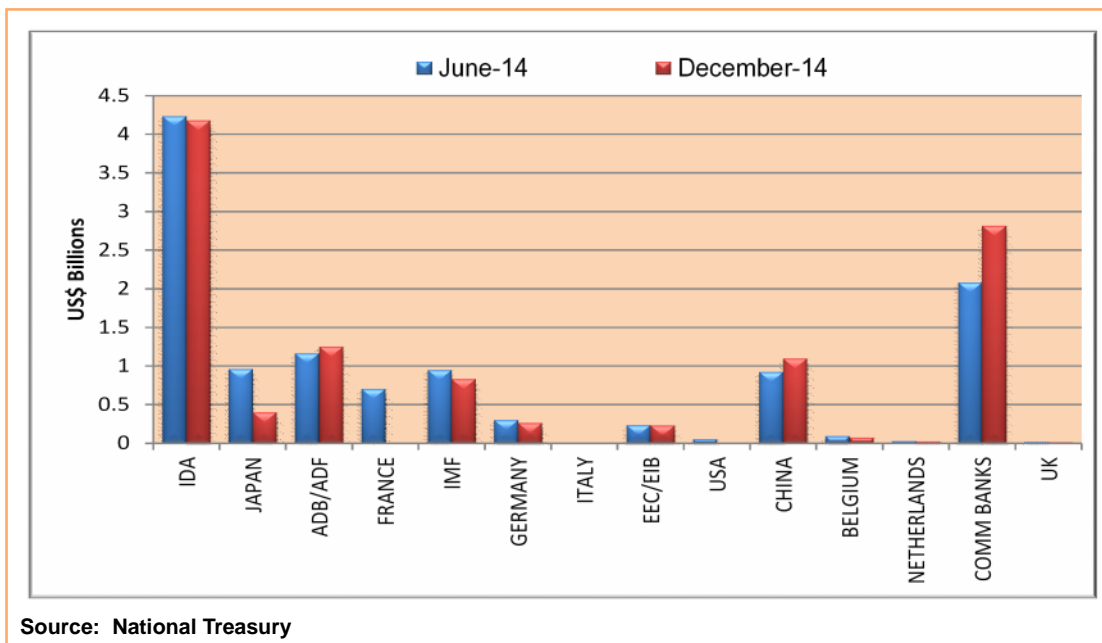
Kenya's official external creditors, the multilateral and bilateral lenders, accounted for 76.8 percent of total public and publicly guaranteed debt by December 2014. The proportion of external debt owed to commercial banks increased from 16.8 percent in June 2014 to 21.8 percent in December 2014, while that owed to bilateral lenders declined from 26.7 percent, in June 2014 to 24.5 percent in December 2014. The share of external debt owed to multilateral lenders declined from 55.0 percent in June 2014 to 52.3 percent in December 2014 (Chart 7A).

**CHART 7A: COMPOSITION OF EXTERNAL DEBT**



Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 4.2 billion or 32.4 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender, amounted to USD 0.4 billion, which is equivalent to 3.1 percent of the total external debt at the end of December 2014 (Chart 7B).

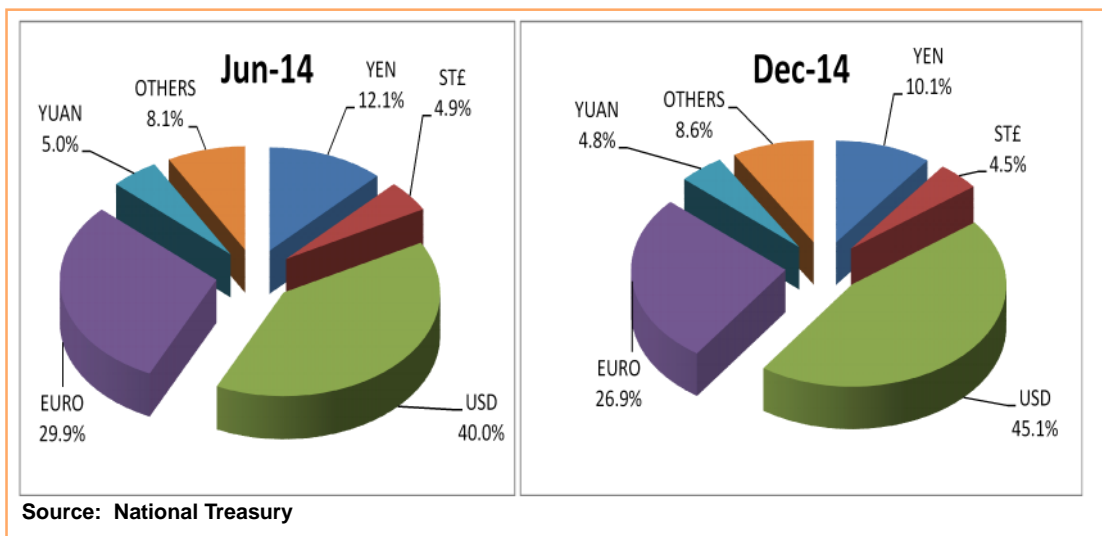
**CHART 7B: EXTERNAL DEBT BY CREDITOR**



**Currency Composition of External Debt**

The proportion of external debt denominated in the US dollar increased slightly from 40 percent in June 2014 to 45.1 percent in December 2014, while that denominated in Japanese Yen and Euro declined from 12.1 percent and 29.9 percent, respectively, to 10.1 percent and 26.9 percent, respectively, during the period under review (Chart 7C).

**CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY**



**Public Debt Service** Cumulative interest and other charges on domestic debt for the first six months of FY 2014/15 amounted to Ksh 56.2 billion compared with Ksh 53.6 billion during a similar period of the FY 2013/14. Interest and other charges on Treasury bills and Treasury bonds amounted to Ksh 15.6 billion and Ksh 39.2 billion, respectively. In addition, collective interest on Government overdraft and the Pre-97 overdraft, amounted to Ksh 1.4 billion. External debt service the first six months of FY 2014/15, amounted to Ksh 9.3 billion, comprising Ksh 2.7 billion in principal repayments and Ksh 6.6 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 amount to Ksh1, 274.7 billion (27.5 percent of GDP) and Ksh 1,213.4 billion (26.2 percent of GDP), respectively.

## ACTIVITY IN THE STOCK MARKET

Except for the NSE 20 Share Index, NASI and foreign investors' participation, all other leading market indicators for equities segment at NSE increased while the bond market segment recorded reduced turnover in December 2014.

### Equity Market

The NSE 20 Share Index was 43 points lower in December compared to November 2014 but 185.68 points higher than the level in December 2013 and 256.5 points above the level in January 2014. NASI was 0.11 points lower by year end but 28.23 points above its January 2014 level. Shareholders' wealth as evidenced in market capitalization grew by KSh 418.32 billion in the year 2014, closing at KSh 2,316.32 billion in December 2014 compared with KSh 1,898 billion in January 2014. It was Ksh 13.17 billion above the KSh 2,303.15 level in November 2014. Increased supply of shares traded contributed to a 120.23 percent turnover rise in equities in December 2014.

**TABLE 8.1: SELECTED STOCK MARKET INDICATORS**

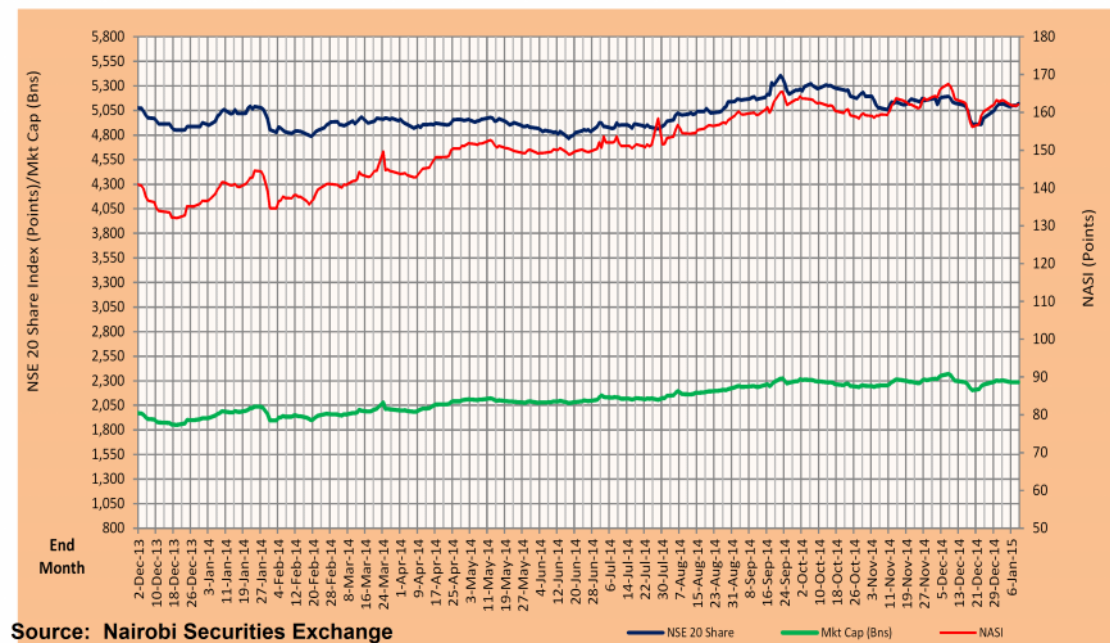
Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)	FP to Equity Turnover	FS to Equity Turnover	Overall net FP to Equity Turnover
Jan-13	4,416.60	103.50	518.71	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	14,742.87	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	728.00	15,750.00	2,106.08	58,572.78	62.32%	53.37%	57.84%
May-14	4,881.56	150.20	854.00	23,022.00	2,092.00	38,379.11	48.90%	60.10%	54.50%
Jun-14	4,885.00	150.00	731.00	18,190.00	2,107.00	28,541.83	63.40%	49.18%	56.29%
Jul-14	4,906.09	151.69	625.20	15,043.00	2,125.31	49,467.93	56.19%	55.25%	55.72%
Aug-14	5,139.39	157.94	628.64	15,512.78	2,216.57	55,003.41	55.06%	34.08%	44.57%
Sep-14	5,256.00	163.00	767.18	19,241.28	2,293.49	41,859.78	43.71%	48.13%	45.92%
Oct-14	5,194.89	159.23	506.05	19,286.82	2,246.61	38,080.27	50.82%	57.08%	53.95%
Nov-14	5,156.00	163.00	665.97	14,341.06	2,303.15	50,483.94	65.37%	47.69%	56.53%
Dec-14	5,113.00	170.00	899.75	31,583.30	2,316.32	43,068.58	33.99%	30.76%	32.37%

Source: Nairobi Securities Exchange

Foreign Investors participation at the NSE was at its lowest in the year, with overall net foreign participation to total equity turnover closing lower at 32.37 percent in December 2014 from 56.53 percent in November 2014 and 57.99 percent in December 2013. Foreign purchases accounted for 33.99 percent of total equity turnover against 30.76 percent foreign sales, reflecting net inflow (Chart 8.1).

The NSE 20 and NASI Share Indices declined in the first half of December 2014 but rebounded in the second half of the month. Market capitalization followed similar trend in the year (Chart 8A).

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



### Most Active Sectors & FTSE NSE Kenya Index Series

Telecommunication and Technology, Banking, and Manufacturing and Allied sectors dominated trading, accounting for 35.4 percent, 21.09 percent and 11.93 percent respectively of all shares traded in the month.

FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at NSE improved to 217.76 points in December 2014 from 213.52 points in November 2014. FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks improved to 218.70 points from 214.99 points in November 2014. The FTSE NSE Kenyan Government Bond Index declined to 93.31 points from 94.45 points, reflecting uptick in secondary market yields.

**Bond Market** Bonds turnover declined by 14.69 percent in December 2014, with a total Ksh 43,068.58 million traded down from Ksh 50,483.94 million in November 2014. Corresponding deals were 351 down from 706 deals in November 2014. The IFB1/2014/012 dominated trading, at 33.74 percent of total turnover, with yields ranging from 10.00 percent to 11.48 percent against a coupon rate of 11 percent. The Corporate bonds segment traded KSh 314.14 million, with CIC Bond dominating at Ksh 195 million of bonds traded.

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

1.0 ASSETS	DEC 2014	JUNE 2014	INCREASE/ (DECREASE)	DEC 2013
1.1 BALANCES DUE FROM BANKING INSTITUTIONS AND GOLD HOLDINGS	722,100	759,650	(37,550)	548,870
1.2 FUNDS HELD WITH IMF	1,179	692	487	1,369
1.3 ITEMS IN THE COURSE OF COLLECTION	25	70	(44)	57
1.4 ADVANCES TO COMMERCIAL BANKS	103	50	53	3,519
1.5 LOANS AND OTHER ADVANCES	33,974	40,463	(6,488)	38,216
1.6 OTHER ASSETS	2,875	3,142	(266)	3,225
1.7 RETIREMENT BENEFIT ASSET	7,659	7,659	0	2,967
1.8 PROPERTY AND EQUIPMENT	13,811	13,811	0	12,453
1.81 INTANGIBLE ASSETS	468	639	(171)	828
1.9 DUE FROM GOVERNMENT OF KENYA	27,779	28,334	(555)	28,889
<b>TOTAL ASSETS</b>	<b>809,974</b>	<b>854,510</b>	<b>(44,536)</b>	<b>640,393</b>
2.0 LIABILITIES				
2.1 CURRENCY IN CIRCULATION	221,930	199,966	21,963	197,498
2.2 INVESTMENTS BY BANKS	5,791	-	5,791	-
2.3 DEPOSITS	375,405	448,800	(73,395)	257,123
2.4 INTERNATIONAL MONETARY FUND	123,218	130,064	(6,847)	120,659
2.5 OTHER LIABILITIES	9,829	5,097	4,731	1,255
2.6 PROVISIONS	157	157	0	123
<b>TOTAL LIABILITIES</b>	<b>736,328</b>	<b>784,084</b>	<b>(47,756)</b>	<b>576,658</b>
3.0 EQUITY AND RESERVES	73,646	70,426	3,220	63,735
Share Capital	5,000	5,000	-	5,000
General reserve fund	48,914	48,914	-	39,056
Period surplus	3,220	-	3,220	10,780
Asset Revaluation	8,853	8,853	-	8,899
Retirement Benefit Asset Reserves	7,659	7,659	-	-
Dividends payable	-	-	-	-
<b>4.0 TOTAL LIABILITIES AND EQUITY</b>	<b>809,974</b>	<b>854,510</b>	<b>(44,536)</b>	<b>640,393</b>

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 37,550 million to Ksh 722,100 million in December 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 December 2014 were Ksh 25 million, representing 63 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 53 million to Ksh 103 million in December 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 6,488 million to Ksh 33,974 million in December 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 266 million to Ksh 2,875 million in December 2014 from Ksh 3,142 million in June 2014.

**Due from Government of Kenya** 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 debt reduced to Ksh 27,779 million in December 2014 from Ksh 28,334 million in June 2013.

**Liabilities** **Currency in circulation** increased by Ksh 21,963 million to Ksh 221,930 million in December 2014 from Ksh 199,966 million in June 2014.

**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 73,395 million to Ksh 375,405 million in December 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 6,847 million to Ksh 123,218 in December 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 increased by Ksh 4,731 million to Ksh 9,829 million in December 2014 from Ksh 5,097 million in June 2014.

**Equities and reserves** increased by Ksh 3,220 million to Ksh 73,646 million in December 2014 from Ksh 70,426 million in June 2014 reflecting increases of Ksh 3,220 million in period surplus.

