

MONTHLY ECONOMIC REVIEW

MARCH 2014

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

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OVERVIEW

Introduction This Monthly Economic Review highlights recent economic developments through March 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 6.9 percent in February 2014 to 6.3 percent in March 2014. This was reflected in food inflation, which declined by 85 basis points to 8.1 percent, and also in fuel inflation, which declined by 89 basis points to 4.7 percent. Annual average inflation rose from 6.2 percent in February 2014 to 6.4 percent in March 2014. Overall inflation remained within ± 250 basis points from the 5 percent medium term target prescribed by the National Treasury.

Money Supply Growth in broad money, M3, accelerated to 17.3 percent in the year to March 2014 from 15.7 percent over a similar period in 2013 and was above the respective target of 15.4 percent for March 2014.

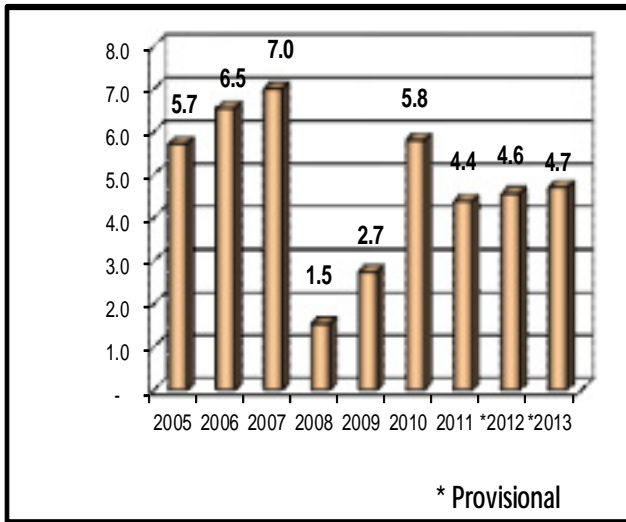
Interest Rates The Monetary Policy Committee maintained the Central Bank Rate (CBR) at 8.50 percent in March, 2014 in order to continue anchoring inflationary expectations. The weighted average interbank rate declined from 8.83 percent in February 2014 to 6.51 percent in March 2014.

Real GDP Growth The economy grew at 4.7 percent in 2013 compared with 4.6 percent in 2012. On a quarterly basis, the economy grew by 5.7 percent in the first quarter of 2013, 4.7 percent in the second quarter, 4.6 percent in the third quarter and 3.9 percent in the fourth quarter; compared with growth rate of 3.8 percent, 4.5 percent, 4.6 percent and 5.2 percent in the four quarters of 2012, respectively. The slowdown in growth in the fourth quarter of 2013 reflects subdued performance from agriculture, manufacturing and construction. Generally, economic performance in 2013 was subdued by uncertainty associated with the March 2013 general elections. Economic growth decelerated to 4.1 percent in the first quarter of 2014 compared to 5.2 percent in a comparable quarter of 2013. The sluggish performance is reflected in slowed growth in agriculture, which is attributed to unfavourable weather conditions.

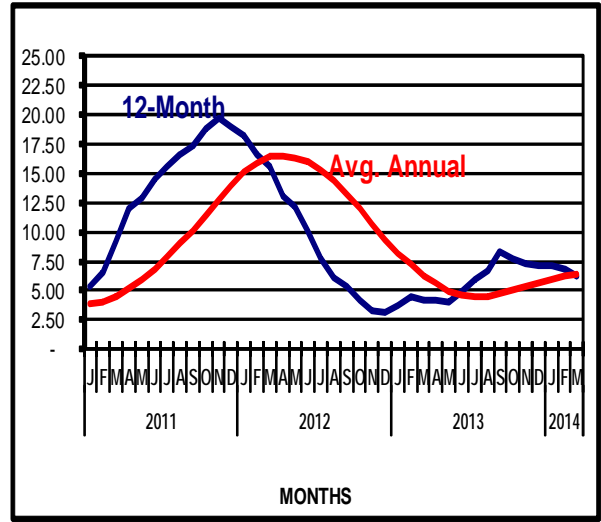
Balance of Payments	Kenya's overall balance of payments surplus registered 51.4 percent improvement in the 12 months to March 2014. The improvement is attributed to narrowing of the current account deficit and increase in the capital and financial account surplus.
Exchange Rates	The Kenya shilling remained stable in March 2014 against major international currencies but registered mixed performance among EAC currencies.
Banking Sector Developments	The Kenyan Banking sector registered improved growth in assets in the year to March 2014 driven by growth in deposits, injection of capital and retention of profits. The sector registered improved performance in earnings and capital and the level of non-performing loans reduced compared with a similar period in 2013.
Government Budgetary Performance	The Government budgetary operations for the period July 2013 to March 2014 of the FY 2013/14 resulted into a deficit of Ksh 161 billion (4.3 percent of GDP) on commitment basis compared with a deficit of Ksh 198.7 billion in the same period of the FY 2012/13. This was lower than the Ksh 341.1 billion (9.0 percent of GDP) programmed target for the period.
Public Debt	Kenya's public and publicly guaranteed debt increased by 14.7 percent to Ksh 2,171.7 billion in March 2014, from Ksh 1,894.1 billion in June 2013. The total debt stock at the end of March 2014 was equivalent to 56.4 percent of GDP, compared with 51.7 percent of GDP in June 2013. The increase is reflected in both the domestic debt and external debt components, which increased from increased from 28.7 percent of GDP and 23.0 percent of GDP, respectively, in June 2013 to 32 percent of GDP and 24.4 percent of GDP in March 2014
Stock Market	Capital markets recorded mixed performance in equities and bonds segment in March 2014. Overall net foreign investor interest at NSE declined slightly.

SELECTED ECONOMIC PERFORMANCE INDICATORS

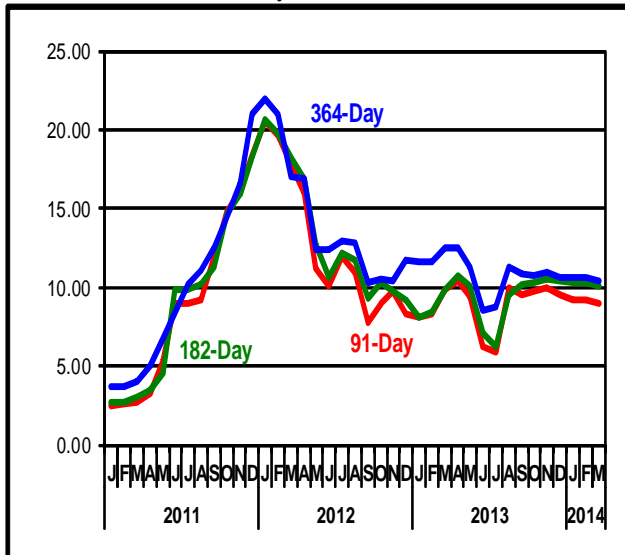
Real GDP Growth (%)



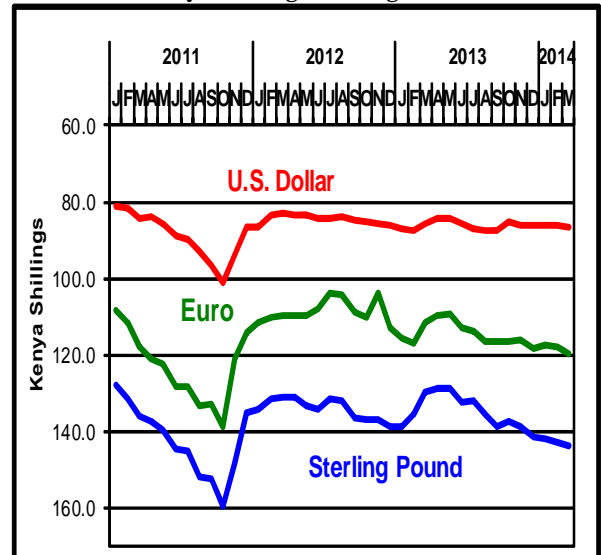
Inflation (%)



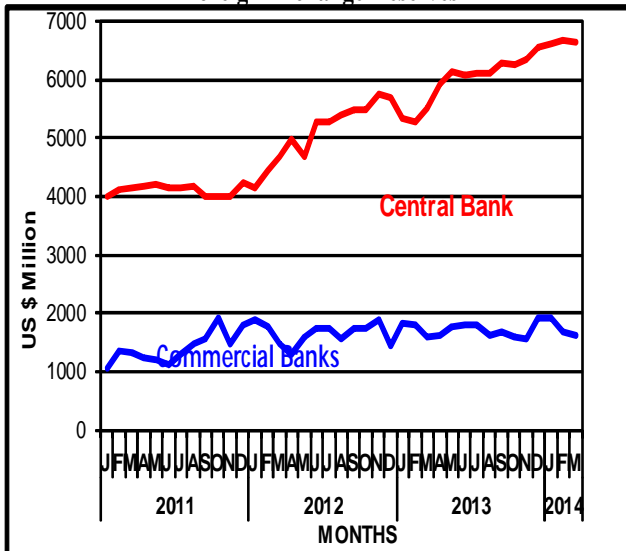
Treasury Bill Rates (%)



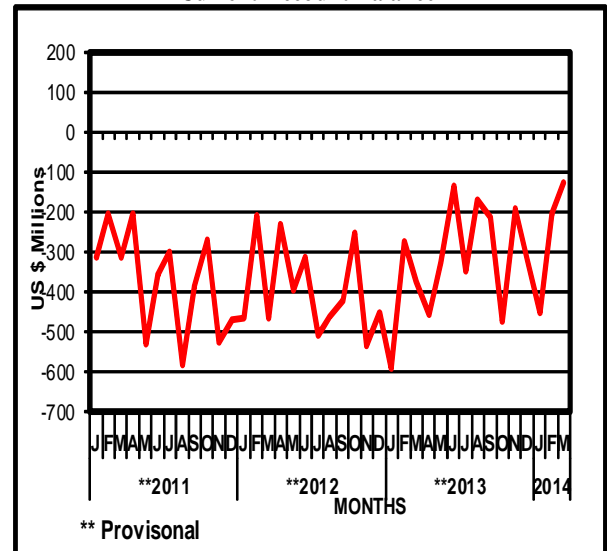
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
1. POPULATION*										
People in Millions	34.20	35.10	36.10	37.20	38.30	38.60	38.50	39.50	40.70	41.80
Growth (%)	3.01	2.63	2.85	3.05	2.96	0.78	-0.26	2.60	3.04	2.70
2. NATIONAL ACCOUNTS**										
Gross value added at basic prices (Ksh m)	1,132,850	1,261,625	1,444,113	1,616,010	1,858,371	2,099,935	2,258,171	2,696,226	3,026,293	3,385,308
GDP at Market Prices (Ksh m):										
At Current Prices	1,274,328	1,415,823	1,622,565	1,833,511	2,107,589	2,375,971	2,570,334	3,047,392	3,403,534	3,797,988
At Constant 2001 Market Prices	1,109,338	1,172,784	1,249,470	1,336,846	1,357,263	1,394,387	1,475,302	1,540,520	1,610,653	1,686,149
Real GDP Growth (%)	5.08	5.72	6.5	7.0	1.5	2.7	5.8	4.4	4.6	4.7
Per Capita Income Real 2001 prices (Ksh)	32,437	33,413	34,611	35,937	35,438	36,124	38,320	39,001	39,574	40,338
3. GROSS NATIONAL SAVINGS (% of GDP at mkt prices)³	12.2	13.4	14.8	13.9	15.9	12.9	11.8	14.0	11.3	11.8
4. GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)³	6.6	5.7	6.8	6.1	8.2	5.5	4.7	6.3	5.0	
5. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.1	16.9	17.9	19.0	19.2	19.9	19.8	20.5	20.1	27.3
6. OVERALL INFLATION BASE PERIOD= FEB 2009										
Annual Average Inflation	11.79	9.87	6.39	4.27	16.27	9.24	3.96	14.02	9.38	5.72
12-Month Inflation	17.08	4.70	7.98	5.70	17.83	5.32	4.51	18.93	3.20	7.15
7. STOCK MARKET										
Nairobi Stock Exchange Price Index (1966=100)	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44	4,432.60	3,205.02	4,133.02	4,926.97
Trade Turnover Ratio (%)	0.92	0.88	1.70	1.29	0.29	0.64	0.99	0.46	0.58	
8. GOVERNMENT BUDGET (Ksh bn) ***										
Revenue and Grants	270.92	303.85	331.21	383.59	457.67	511.36	614.53	679.53	734.43	989.46
Expenditure	289.54	298.13	368.65	405.20	534.84	621.91	791.79	817.09	915.89	1,303.23
Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)	(177.26)	(137.56)	(181.46)	(313.77)
Budget Deficit (% of GDP)	(0.97)	0.08	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)	(5.51)	(8.26)
9. MONEY AND CREDIT (Ksh bn)(end period)										
Liquidity (L) ¹	633.92	712.32	834.16	992.42	1,091.93	1,280.44	1,558.16	1,854.93	2,129.49	2,527.00
Money Supply (M3) ²	513.16	565.49	666.84	797.54	901.05	1,045.66	1,271.64	1,514.15	1,727.32	2,000.02
Reserve Money	101.05	106.23	124.16	155.62	163.59	181.96	222.63	255.01	293.62	320.76
Total Domestic Credit	473.61	498.66	575.76	668.90	815.52	955.82	1,188.40	1,505.13	3,036.21	1,982.30
Government	132.34	122.16	137.81	137.40	155.32	205.07	277.78	311.58	368.83	397.16
Private sector and other public sector	341.27	376.50	437.94	531.49	660.20	750.75	910.62	1,193.55	1,333.69	1,585.13
10. BALANCE OF PAYMENTS (US\$ m)										
Overall Balance	117.00	306.00	675.00	854.00	(469.00)	780.53	163.40	(42.88)	1,261.00	684.72
Current Account	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,609.28	-2,511.91	-3,330.50	-4,538.37	-3,702.19
Capital and Financial Account	250.00	560.00	1,187.00	1,888.00	1,514.00	2,389.81	2,675.30	3,287.61	5,799.37	4,386.91
11. FOREIGN EXCHANGE RESERVES (US\$ m) End Period	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78	5,064.03	5,122.52	6,044.78	7,159.86	8,483.20
Official	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46	3,847.39	4,001.68	4,247.66	5,701.85	6,560.17
Commercial Banks	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63	1,120.84	1,797.12	1,458.01	1,923.02
Private Sector	4.7	4.0	3.9	4.8	3.4	4.7	3.9	3.7	4.3	4.6
12. PUBLIC DEBT (US\$ bn) End Period***	9.14	9.84	10.68	12.04	13.46	13.66	14.96	16.60	19.27	22.00
Domestic	3.85	4.14	4.84	6.08	6.66	6.72	8.06	8.51	10.20	12.20
As % of GDP	25.32	23.40	23.18	23.56	21.15	21.67	25.90	27.78	26.06	27.66
External	5.29	5.70	5.84	5.96	6.80	6.94	6.90	8.09	9.08	9.80
As % of GDP	36.64	32.27	27.93	23.09	21.61	22.36	22.20	26.43	23.53	22.21
13. EXCHANGE RATE (Ksh/US\$) (Annual Average)	79.28	75.55	72.10	67.32	69.18	77.35	79.26	88.91	84.53	86.12

* Provisional

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

*** Fiscal year to June 30th.

¹ Previously M3XT

² Previously M3X

³ Revised

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

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2013										2014		
	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
1. INFLATION (%)													
CPI	137.96	139.28	139.52	139.59	139.87	140.29	142.82	142.75	143.14	143.85	145.40	145.95	146.61
Overall Inflation													
12-month overall inflation	4.11	4.14	4.05	4.91	6.02	6.67	8.29	7.76	7.36	7.15	7.21	6.86	6.27
Average annual overall inflation	6.33	5.61	4.96	4.56	4.44	4.50	4.75	5.05	5.39	5.72	6.01	6.21	6.39
2. INTEREST RATES (%)													
91-day Treasury bill interest rate	9.9	10.4	9.5	6.2	5.9	10.0	9.6	9.7	9.9	9.5	9.3	9.2	8.9
Overdraft interest rate	17.5	17.7	17.6	16.9	17.0	16.9	16.4	17.0	16.5	16.5	16.8	16.9	16.4
3. STOCK MARKET													
Nairobi Stock Exchange 20 Share Price Index	4,860.83	4,765.23	5,006.96	4,598.16	4,787.56	4,697.75	4,793.20	4,992.88	5,100.88	4,926.97	4,856.15	4,933.41	4,945.78
Turnover Ratio (%)	0.71	0.74	1.08	0.90	0.76	0.99	0.61	1.00	0.80	0.58	0.79	0.68	0.67
4. GOVERNMENT BUDGET* (Ksh bn.)													
Revenue \$ Grants	577.34	675.72	758.31	851.19	58.60	128.42	210.23	286.22	363.59	468.97	548.10	611.90	694.30
Expenses	776.08	882.08	995.21	1,100.83	49.70	150.58	269.87	357.20	473.98	574.21	691.60	770.60	855.33
Budget Deficit (-) / Surplus (+)	(198.73)	(206.37)	(236.90)	(249.64)	8.90	(22.16)	(59.63)	(70.94)	(110.39)	(105.24)	(143.50)	(158.70)	(161.03)
5. MONEY AND CREDIT (Ksh bn.)													
Liquidity (L) ¹	2,180.65	2,239.92	2,273.12	2,278.286	2,310.734	2,341.82	2,405.817	2,428.776	2,480.134	2,523.23	2,558.557	2,560.078	2,592.544
Money Supply (M3) ²	1,755.74	1,802.28	1,823.40	1,820.88	1,835.80	1,849.97	1,885.78	1,900.194	1,953.621	1,996.24	2,026.57	2,030.49	2,060.31
Reserve Money	287.58	267.85	281.85	287.44	283.98	309.81	290.35	307.25	316.78	320.76	302.3215	315.4884	311.962
Total Domestic Credit	1,752.20	1,824.02	1,778.27	1,782.95	1,774.49	1,807.29	1,875.279	1,889.31	1,967.189	1,978.52	2,010.72	2,057.507	2,097.873
Government	391.02	458.11	392.82	379.51	346.63	336.11	382.6023	368.7062	408.8127	397.1639	413.3241	438.797	449.8679
Private sector and other public sector	1,361.19	1,365.92	1,385.45	1,403.44	1,427.86	1,471.18	1,492.677	1,520.604	1,558.376	1,581.4	1,597.40	1,618.71	1,648.00
6. MONEY AND CREDIT (Annual % Change)													
Liquidity (L) ¹	14.38	16.64	16.92	15.58	11.13	10.45	16.69	15.78	16.02	18.4309	19.97	19.01	18.89
Money Supply (M3) ²	15.73	17.31	16.77	14.16	13.81	12.89	12.83	11.58	12.23	15.54	17.15	16.17	17.35
Reserve Money	11.50	9.54	18.93	11.72	10.31	23.81	12.09	22.68	13.27	9.24	10.33	9.89	8.48
Total Domestic Credit	14.45	17.13	13.05	14.86	10.73	13.04	15.75	14.00	16.61	16.21202	15.27	17.77	19.73
Government	24.09	43.68	25.68	27.39	4.64	4.77	15.01	5.03	10.30	7.68	4.37	11.48	15.05
Private and other public sector	11.95	10.29	9.92	11.88	12.32	15.12	15.94	16.42	18.39	18.57	18.5	19.6	21.1
7. BALANCE OF PAYMENTS (US\$ m)													
Overall Balance	233.20	301.41	206.16	(35.34)	14.32	23.89	171.07	(21.69)	75.64	120.13	59.41	67.47	(19.67)
Current Account	(358.62)	(432.42)	(295.82)	(221.75)	(450.69)	(508.10)	(324.63)	(612.28)	(315.98)	(395.36)	(450.68)	(203.78)	(249.12)
Trade Balance	(870.00)	(963.77)	(891.37)	(741.57)	(1,010.87)	(963.16)	(874.43)	(1,160.47)	(898.50)	(970.78)	(1,009.74)	(746.71)	(683.99)
Capital and Financial Account	591.83	733.84	501.98	186.41	465.01	531.99	495.69	590.58	391.62	515.49	510.09	271.25	229.45
8. FOREIGN EXCHANGE RESERVES (US\$ m)													
Official	7,113.72	7,563.46	7,886.58	7,888.94	7,906.76	7,739.68	7,958.83	7,859.49	7,893.00	8,483.20	8,518.60	8,352.39	8,279.04
Months of imports cover	5,523.28	5,927.56	6,128.10	6,089.00	6,095.76	6,119.65	6,290.71	6,263.25	6,333.14	6,560.17	6,611.91	6,679.39	6,653.92
Commercial banks	1,590.44	1,635.89	1,758.48	1,799.94	1,811.01	1,620.03	1,668.11	1,596.24	1,559.86	1,923.02	1,906.68	1,673.00	1,625.12
9. PUBLIC DEBT (US\$ bn)													
Domestic	21.03	22.46	22.40	22.02	22.39	22.88	23.54	23.55	24.18	24.46	24.61	24.59	24.60
As % of GDP	11.47	12.71	12.63	12.21	12.36	12.75	13.36	13.41	13.59	13.78	13.93	14.25	14.24
External	26.01	28.23	28.47	28.68	29.12	29.53	30.13	30.30	30.18	30.67	30.98	31.92	31.97
As % of GDP	9.56	9.74	9.78	9.81	10.03	10.13	10.17	10.14	10.59	10.69	10.68	10.34	10.36
As % of GDP	21.69	21.63	23.22	23.00	23.63	23.96	22.94	30.30	23.53	23.79	23.74	23.18	23.27
10. GROSS DOMESTIC DEBT (Ksh bn)***	981.91	1,065.61	1,074.80	1,050.56	1,078.60	1,116.68	1,168.23	1,174.78	1,170.05	1,189.18	1,200.90	1,229.30	1,231.20
11. AVERAGE EXCHANGE RATE													
Ksh/US\$	85.82	84.19	84.15	85.49	86.86	87.49	87.41	85.31	86.10	86.31	86.21	86.28	86.49
Ksh/Pound Sterling	129.42	128.81	128.72	132.42	132.00	135.47	138.54	137.31	138.64	141.37	141.99	142.81	143.76
Ksh/100 Yen	90.49	86.12	83.37	87.77	87.28	89.39	88.14	87.24	86.21	83.51	82.92	84.52	84.58
Ksh/Euro	111.31	109.65	109.18	112.81	113.74	116.51	116.67	116.33	116.22	118.18	117.50	117.81	119.58

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

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

¹ Previously M3XT

² Previously M3X

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

TRENDS IN VARIOUS MEASURES OF INFLATION

Overall Inflation

Overall 12-month inflation declined from 6.9 percent in February 2014 to 6.3 percent in March 2014 largely reflecting a fall in food and fuel inflation. Non-food non-fuel inflation, however, rose marginally by 5.0 basis points in March 2014. The three months annualized rate of inflation declined from 8.1 percent in February 2014 to 7.9 percent in March 2014 (Table 1.1 and Chart 1A).

TABLE 1.1: INFLATION (%)

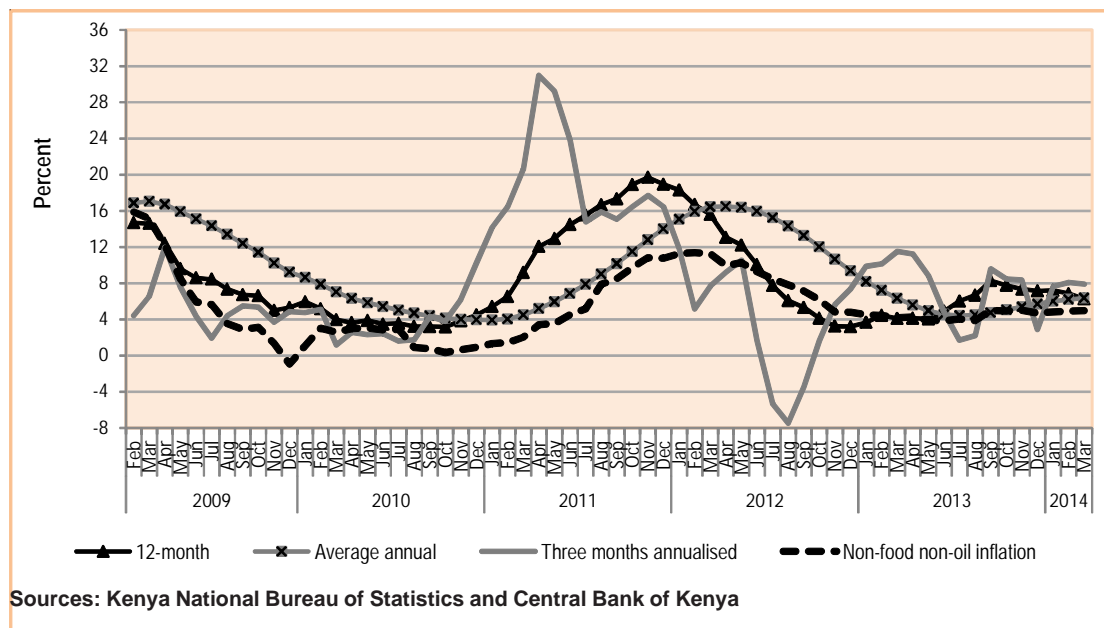
Overall Inflation	2013											2014		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
12-month	4.11	4.14	4.05	4.91	6.02	6.67	8.29	7.76	7.36	7.15	7.21	6.86	6.27	
Average annual	6.33	5.61	4.96	4.56	4.44	4.50	4.75	5.05	5.39	5.72	6.01	6.21	6.39	
Three months annualised	11.51	11.23	8.87	4.81	1.71	2.23	9.58	8.49	8.37	2.91	7.64	8.09	7.89	
Non-food non-oil inflation	4.17	4.28	3.91	3.86	4.04	3.86	5.02	4.94	5.01	4.71	4.83	4.93	4.97	

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

Food inflation declined from 8.9 percent in February 2014 to 8.1 percent in March 2014. This reflects a decline in the 12-month inflation in the 'food and non-alcoholic beverages' index from 9.1 percent in February 2014 to 8.3 percent in March 2014 on account of decline of prices in some food items that outweighed the increase of other food items in the basket.

Fuel inflation also declined from 5.6 percent in February 2014 to 4.7 percent in March 2014. This reflected a decline in the 12-month inflation in the 'housing, water, electricity, gas and other fuels' index from 5.2 percent in February 2014 to 4.4 percent in March 2014 following a decline in the price of electricity owing to lower fuel cost and forex adjustment charges.

CHART 1A: 1 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 51.8 percent of overall 12-month inflation in March 2014 was attributed to ‘food and non-alcoholic beverages’ category of goods while inflation in ‘housing, water, electricity, gas and other fuels’ and ‘transport’ categories accounted for 12.2 percent and 7.5 percent, respectively.

CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (MARCH 2014 (%))

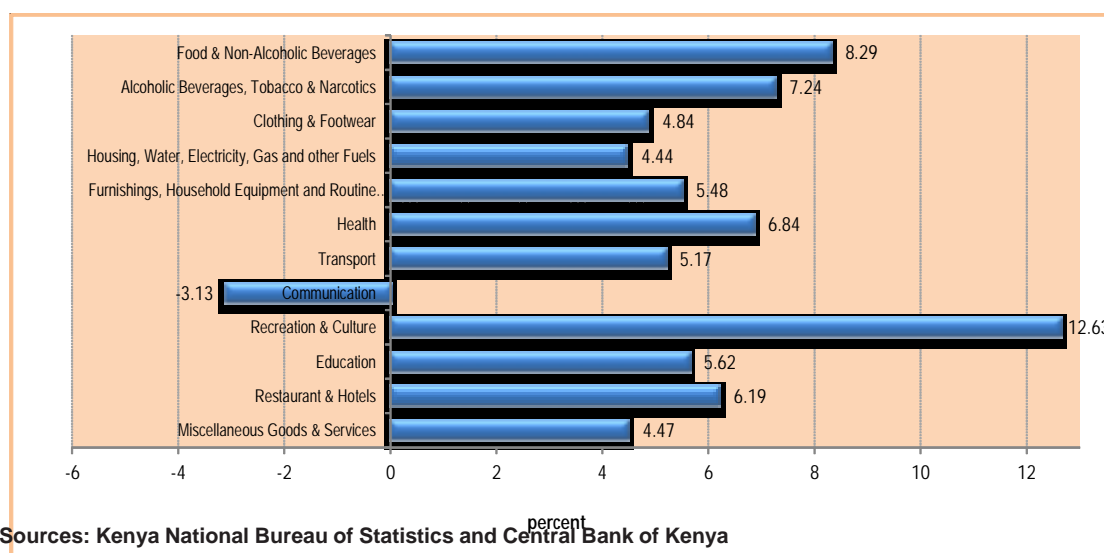
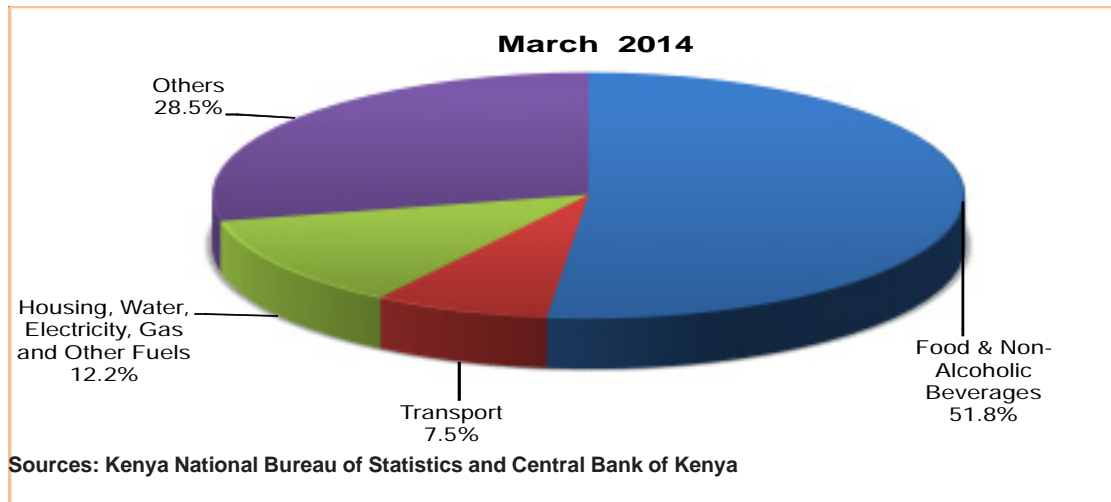


CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION (JANUARY 2014)



On average, the rise in prices of goods and services in urban centers outside Nairobi and in Nairobi decelerated to 6.8 percent and 5.5 percent respectively in March 2014 (Table 1.3) compared to the previous month. The 12-month consumer price inflation for the 'Nairobi Lower Income', 'Nairobi Middle Income' and 'Nairobi upper income' groups declined to 5.8 percent, 4.6 percent and 5.4 percent, in March 2014. The decline in inflation for all income groups in March 2014 was largely due to easing of food and transport inflation.

TABLE 1.2: 12 MONTHS OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (MARCH 2014)

MARCH 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	7.20	9.4	10.2	7.8	8.6	8.3
Alcoholic beverages, Tobacco & narcotics	2.1	6.5	5.2	4.4	6.1	8.0	7.2
Clothing & Footwear	7.4	3.8	2.8	10.3	3.8	5.5	4.8
Housing, Water, Electricity, Gas and other fuels	18.3	5.0	1.7	-0.6	4.1	4.7	4.4
Furnishings, Household equipment and Routine household maintenance	6.2	2.9	8.1	2.7	4.1	6.4	5.5
Health	3.1	6.1	6.0	1.0	5.9	7.4	6.8
Transport	8.7	7.8	4.1	7.6	7.0	3.8	5.2
Communication	3.8	-8.6	-9.1	0.0	-8.4	0.4	-3.1
Recreation & culture	2.3	12.4	13.4	11.0	12.6	12.7	12.6
Education	3.1	5.2	4.3	9.6	5.1	6.0	5.6
Restaurants & hotels	4.5	3.2	3.0	3.4	3.2	8.4	6.2
Miscellaneous goods & services	4.5	4.0	3.4	1.2	3.7	4.9	4.5
ALL GROUPS	100.0	5.8	4.6	5.4	5.5	6.8	6.3

Source: Kenya National Bureau of Statistics

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

	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Combined Nairobi	3.24	3.67	3.28	4.21	5.79	6.46	8.97	8.25	7.63	7.20	6.73	6.10	5.53
Lower Income	3.16	3.85	3.51	4.75	6.33	7.23	9.67	8.99	8.25	7.65	7.16	6.46	5.80
Middle Income	3.56	3.31	2.77	2.83	4.59	4.57	7.11	6.32	5.92	5.97	5.44	4.93	4.65
Upper Income	2.94	2.39	1.82	1.68	2.28	2.38	6.16	5.37	5.50	5.62	5.89	5.84	5.38
Other provinces- excluding Nairobi	4.72	4.47	4.59	5.40	6.18	6.83	7.82	7.43	7.17	7.11	7.54	7.38	6.78
TOTAL KENYA	4.11	4.14	4.05	4.91	6.02	6.67	8.29	7.76	7.36	7.15	7.21	6.86	6.27

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

Inflation Outlook

Inflation expected to stabilize within the upper bound of government allowable target as demand pressures ease out.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Growth in broad money, M3, accelerated to 17.3 percent in the year to March 2014 from 15.7 percent over a similar period in 2013 and was above the respective target of 15.4 percent for March 2014. The narrower money supply, M2 increased by 19.0 percent in the year to March 2014 from 15.8 percent in a corresponding period in 2013 (Table 2.1 and Chart 2A). Over a similar period, foreign currency deposits in M3, increased by Ksh 23.5 billion (8.4 percent) compared with an increase of Ksh 37.3 billion (15.5 percent) in the previous year.

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

	2012 March	2013 March	2014 March	Absolute Change		%age change	
				2012/13 March	2013/14 March	12 months Mar-13	12 months Mar-14
1. Money supply, M3 (2+3) 2/	1517.1	1755.7	2060.3	238.6	304.6	15.7	17.3
1.1 Money supply, M2 3/	1276.4	1477.7	1758.8	201.3	281.1	15.8	19.0
1.2 Money supply, M1	611.8	720.7	868.1	108.9	147.4	17.8	20.4
1.3 Currency outside banks	129.3	150.0	156.8	20.7	6.7	16.0	4.5
2. Net foreign assets 4/	276.2	319.6	370.5	43.4	51.0	15.7	16.0
Central Bank	291.1	341.7	442.1	50.6	100.4	17.4	29.4
Banking Institutions	-15.0	-22.2	-71.5	-7.2	-49.4		
3. Net domestic assets (3.1+3.2)	1241.0	1436.2	1689.8	195.2	253.6	15.7	17.7
3.1 Domestic credit (3.1.1+3.1.2)	1530.9	1752.2	2097.9	221.3	345.7	14.5	19.7
3.1.1 Government (net)	315.1	391.0	449.9	75.9	58.9	24.1	15.1
3.1.2 Private sector and other public sector	1215.9	1361.2	1648.0	145.3	286.8	12.0	21.1
3.2 Other assets net (3-3.1)	-290.0	-316.0	-408.1	-26.0	-92.1	9.0	29.1
Memorandum items							
1. Overall liquidity, L 1/	1906.5	2180.6	2592.5	274.2	411.9	14.4	18.9
2. Reserve money	257.9	287.6	312.0	29.7	24.4	11.5	8.5
Currency outside banks	129.3	150.0	156.8	20.7	6.7	16.0	4.5
Bank reserves	128.6	137.6	155.2	8.9	17.7	6.9	12.8

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

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

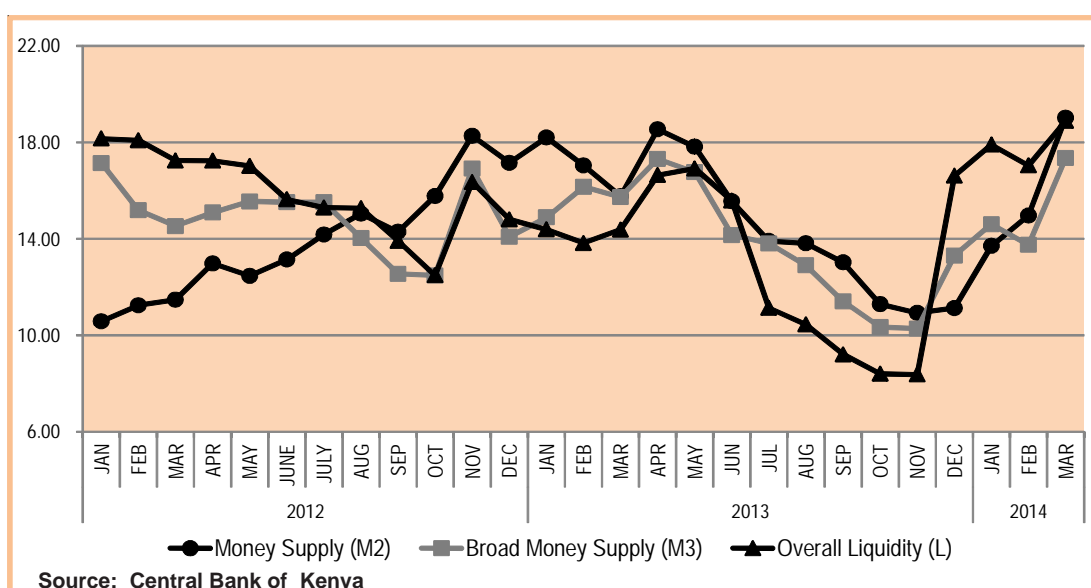
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.

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

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

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



The increase in money supply (M3) was reflected in the Net Domestic Assets (NDA) and Net Foreign Assets (NFA) of the banking system. Annual growth in NDA of the banking system increased to 17.7 percent (or Ksh 253.6 billion) in the year to March 2014 from 15.7 percent (or Ksh 195.2 billion) in a similar period in 2013 on account of sustained increase in credit uptake by the private sector. Net Foreign Assets (NFA) of the banking system grew by 16.0 percent in twelve months to March 2014 to Ksh 370.5 billion from Ksh 319.6 billion in March 2013 reflecting an increase in the holdings of the Central Bank. Over the same period, NFA of banking institutions decreased by Ksh 49.4 billion to Ksh -71.5 billion from Ksh -22.2 billion on account of an increase in foreign currency loans (Table 2.1).

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

	2013 March		2014 March		Absolute Change March		Annual %age Change March	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2012/13	2013/14	2012/13	2013/14
1. Credit to Government	391.0	22.3	449.9	21.4	75.9	58.9	24.1	15.1
Central Bank	49.2	2.8	12.3	0.6	28.1	-36.9	133.3	-75.0
Commercial Banks & NBFIs	341.8	19.5	437.5	20.9	47.8	95.7	16.3	28.0
2. Credit to other public sector	45.1	2.6	33.7	1.6	13.0	-11.4	40.3	-25.4
Local government	1.4	0.1	-2.0	-0.1	2.4	-3.4	-240.4	-241.9
Parastatals	43.8	2.5	35.7	1.7	10.6	-8.1	31.9	-18.5
3. Credit to private sector	1316.0	75.1	1614.3	76.9	132.4	298.3	11.2	22.7
Agriculture	56.6	3.2	61.0	2.9	5.6	4.4	11.0	7.7
Manufacturing	172.2	9.8	202.0	9.6	19.3	29.7	12.6	17.3
Trade	216.4	12.4	270.9	12.9	20.1	54.5	10.2	25.2
Building and construction	69.4	4.0	70.8	3.4	13.4	1.4	23.9	2.0
Transport & communications	73.7	4.2	106.7	5.1	-13.3	33.0	-15.3	44.8
Finance & insurance	25.2	1.4	35.0	1.7	-2.6	9.8	-9.5	39.0
Real estate	166.1	9.5	213.2	10.2	22.6	47.2	15.8	28.4
Mining and quarrying	27.6	1.6	25.2	1.2	1.1	-2.4	4.3	-8.6
Private households	181.0	10.3	260.5	12.4	17.9	79.6	11.0	44.0
Consumer durables	81.7	4.7	100.1	4.8	5.1	18.4	6.7	22.5
Business services	97.7	5.6	142.1	6.8	18.9	44.4	24.0	45.5
Other activities	148.6	8.5	127.0	6.1	24.3	-21.6	19.6	-14.6
4. TOTAL (1+2+3) *	1752.2	100.0	2097.9	100.0	221.3	345.7	14.5	19.7

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

Source: Central Bank of Kenya

Domestic Credit Developments

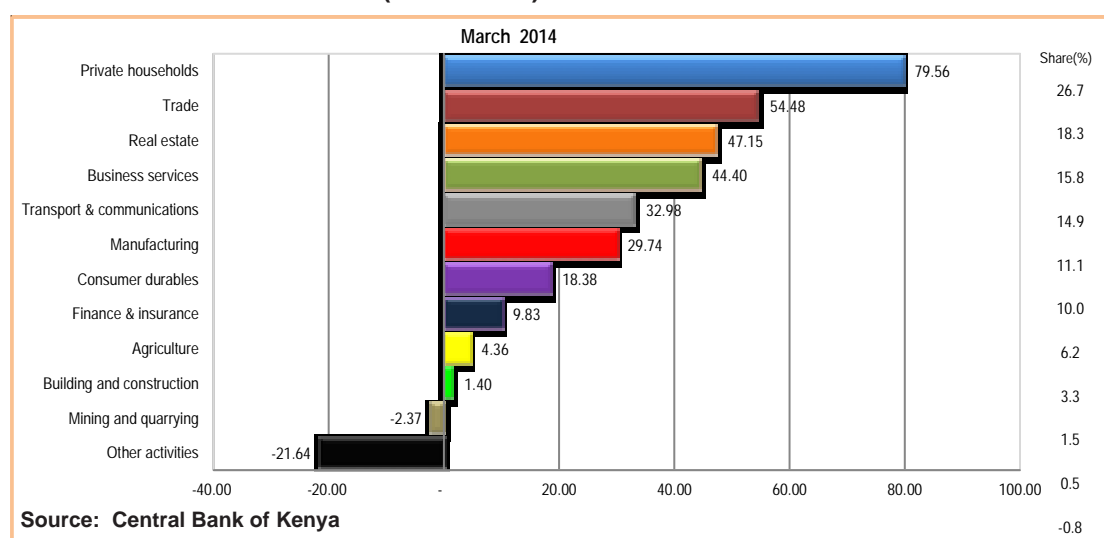
Domestic credit from the banking sector increased by Ksh 345.7 billion (19.7 percent) in the twelve months to March 2014 compared with Ksh 221.3 billion (14.5 percent) in a similar period in 2013 (Table 2.2). The increase was reflected in growth of credit to the private sector which accelerated to 22.7 percent in the year to March 2014 from 11.2 percent in a similar period in 2013. The private sector continued to dominate banking system lending; accounting for 76.9 percent of total lending in March 2014 compared with 71.4 percent share of government.

The additional credit to the private sector was allocated to the following activities, in order of magnitude: private households, 26.7 percent (or Ksh. 79.6 billion); trade, 18.3 percent (or Ksh 54.5 billion); real estate sector, 15.8 percent (or Ksh 47.2 billion); business services, 14.9 percent (or Ksh 44.4 billion); transport and communication, 11.1 percent (or Ksh 33.0 billion); manufacturing, 10.0 percent (or Ksh 29.7 billion); consumer durables, 6.2 percent (or Ksh. 18.4 billion); and finance and insurance, 3.3 percent (or Ksh 9.8 billion). Chart 2B below presents the sectoral distribution of private sector credit.

Reflecting accumulation of Government deposits at the Central Bank, growth in net credit to Government declined to 15.1 percent (or Ksh 58.9 billion) in the year to March 2014 compared with an increase of 24.1 percent (or Ksh 75.9 billion) in a corresponding period in 2013. Over a similar period, the 'other public sector' repaid

Ksh 11.4 billion compared to a net credit of Ksh. 13.0 billion over a similar period in 2013 (Table 2.2).

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



Reserve Money

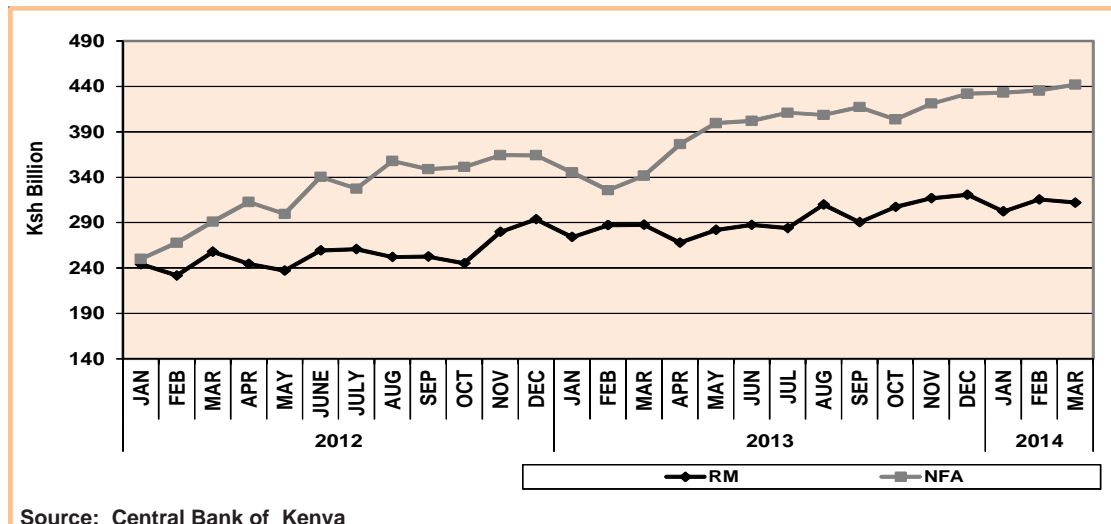
Reserve money (RM) comprising currency held by the non-bank public and commercial banks deposits at the Central Bank, increased by 8.5 percent in the year to March 2014 compared with 11.5 percent growth in the corresponding period in 2013 (Table 2.3 and Chart 2C). At Ksh 312.0 billion in March 2014, reserve money was Ksh 5.1 billion below respective target. The growth in reserve money reflected 12.8 percent in bank reserves and 4.5 percent in currency outside banks.

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

	2013 March	2014 March	Absolute change		Change (%)		2014	
			2012/13	2013/14	2012/13	2013/14	March Target	Deviation
1. Net Foreign Assets	341.7	442.1	50.6	100.4	17.4	29.4	404.5	37.6
2. Net Domestic Assets	-54.1	-130.1	-20.9	-76.0	63.1	140.3	-81.5	-48.6
2.1 Government Borrowing (net)	49.2	-32.6	28.1	-81.8	133.3	-166.3	8.4	-41.1
2.2 Commercial banks (net)	-53.1	-16.2	-53.1	36.9		-69.43	-25.3	9.1
2.3 Other Domestic Assets (net)	-54.1	-85.0	5.8	-30.9	-9.7	57.1	-64.6	-20.4
3. Reserve Money	287.6	312.0	29.7	24.4	11.5	8.5	323.0	-11.0
3.1 Currency outside banks	150.0	156.8	20.7	6.7	16.0	4.5	161.4	-4.7
3.2 Bank reserves	137.6	155.2	8.9	17.7	6.9	12.8	161.6	-6.4

Source: Central Bank of Kenya

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



The source of reserve money growth in the twelve months to March 2014 was largely an accumulation of net foreign assets (NFA) of the Central Bank. The NFA of the Central Bank rose by 29.4 percent (or Ksh 100.4 billion) to Ksh 442.1 billion in March 2014 from Ksh 341.7 billion in March 2013 on account of program financing from the IMF under the Extended Credit Facility in December 2013, and purchases from the interbank market to augment the stock of foreign exchange reserves in line with the statutory required minimum of 4 months value of imports of goods and non- factor services.

Over a similar period, the NDA of the Central Bank decreased by Ksh 76.0 billion to Ksh -130.1 billion in the year to March 2014 from Ksh -54.1 billion in the previous year. This largely reflected in reduction of net Government indebtedness at the Central Bank from Ksh 49.2 billion to Ksh 12.3 billion.

Central Bank Rates The Central Bank Rate (CBR) remained at 8.50 percent in March, 2014 in order to continue anchoring inflationary expectations.

Short Term Interest Rates Short term interest rates trended downwards in March 2014 on account of improved liquidity in the money market (Table 2.4 and Chart 2D). The weighted average interbank rate declined from 8.83 percent in February 2014 to 6.51 percent in March 2014. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile, decreased from 9.16 percent in February 2014 to 8.98 percent in March 2014 while the 182-day Treasury bill rate declined from 10.35 percent to 10.08 percent.

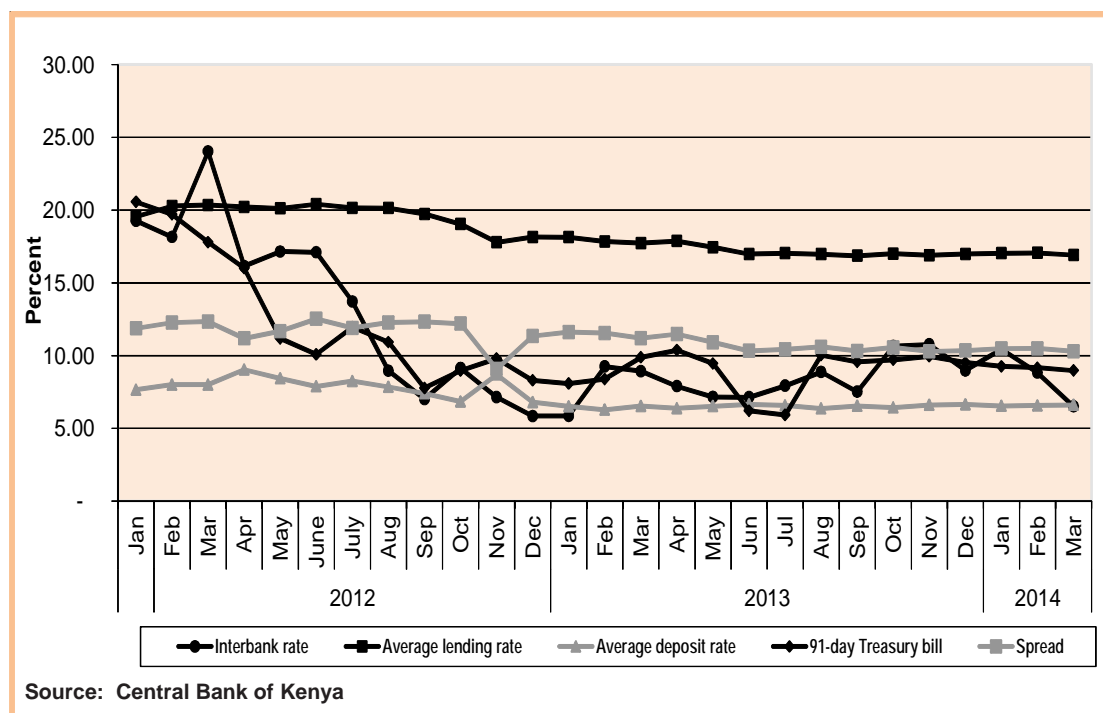
Lending and Deposit Rates The average lending rate decreased marginally to 16.91 in March 2014 from 17.06 percent in February 2014, while the average deposit rate increased to 6.61 percent from 6.57 percent. The interest rate spread declined marginally to 10.30 in March 2014 from 10.49 percent in February 2014 (Table 2.4 and Chart 2D).

TABLE 2.4: INTEREST RATES (%)

	2013											2014		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
91-day Treasury bill rate	9.88	10.38	9.46	6.21	5.92	10.03	9.58	9.72	9.94	9.52	9.26	9.16	8.98	
Overdraft rate	17.54	17.71	17.60	16.92	17.00	16.89	16.42	16.96	16.50	16.51	16.82	16.88	16.44	
Interbank rate	8.93	7.90	7.16	7.14	7.93	8.88	7.52	10.66	10.77	8.98	10.43	8.83	6.51	
Repo rate	9.35	9.14	7.96	7.93	7.48		7.11			7.95			6.92	
Reverse Repo rate	-	-	-	-	-	8.77	-	10.85	12.35	11.28	-	-	-	
Central Bank Rate (CBR)	9.50	9.50	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)	17.73	17.87	17.45	16.97	17.02	16.96	16.86	17.00	16.89	16.99	17.03	17.06	16.91	
Average deposit rate (2)	6.54	6.39	6.53	6.65	6.59	6.36	6.55	6.43	6.61	6.65	6.55	6.57	6.61	
0 to 3 - month deposit	9.62	9.14	9.11	9.44	9.44	9.03	9.56	9.31	9.47	9.38	9.39	9.43	10.02	
Savings deposits	1.42	1.45	1.53	1.73	1.64	1.67	1.64	1.63	1.58	1.58	1.56	1.49	1.56	
Spread (1-2)	11.19	11.48	10.91	10.32	10.43	10.60	10.32	10.57	10.28	10.34	10.48	10.49	10.30	

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 4.7 percent and amounted to Ksh 1.69 trillion compared with 4.6 percent growth in 2012 (Table 3.1). GDP growth in 2013 was broad based and driven largely by growth in output from agriculture and forestry, transport and communication, wholesale and retail trade, and manufacturing, which constituted 20.6 percent; 12.6 percent, 11.5 percent and 9.5 percent, respectively of the overall GDP. On a quarterly basis, real GDP in 2013 is estimated to have increased by 5.7 percent in the first quarter, 4.7 percent in the second quarter, 4.6 percent in the third quarter and 3.9 percent in the fourth quarter compared with 3.8 percent, 4.5 percent, 4.6 percent and 5.2 percent in the four quarters of 2012, respectively (Chart 3A). Economic growth decreased to 4.1 percent in the first quarter of 2014 compared with 5.2 percent in a similar quarter of 2013. The sluggish performance is reflected in slowed growth in agriculture, which is attributed to unfavourable weather conditions.

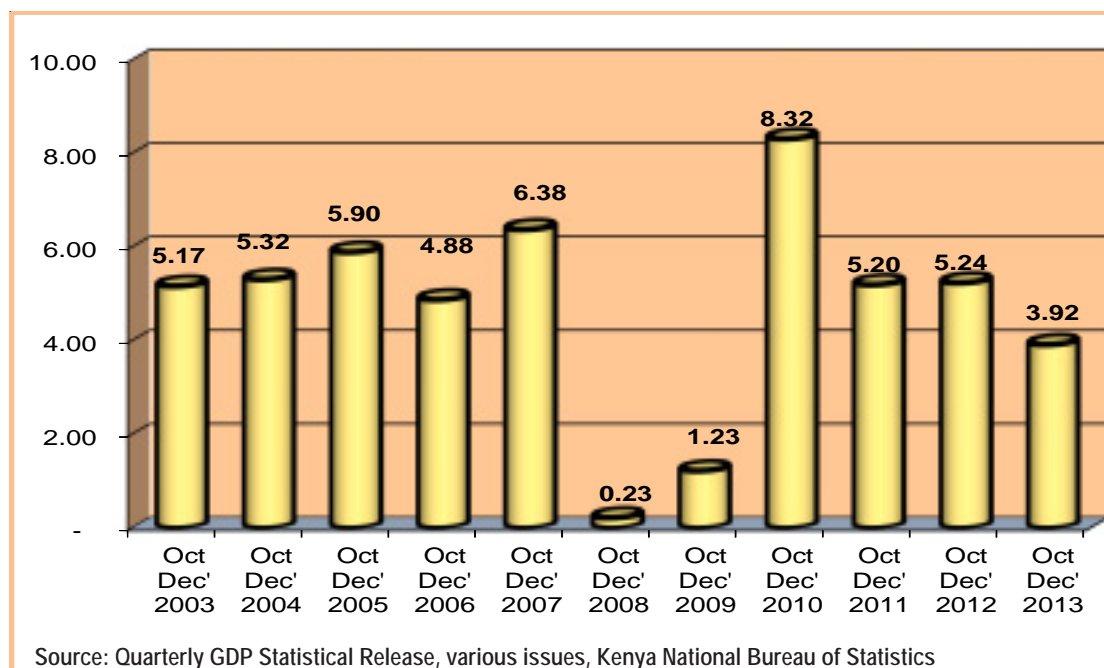
TABLE 3.1: GROSS DOMESTIC PRODUCT BY ACTIVITY (Constant 2001 Prices, Ksh)

	Share in 2013 Nominal GDP (%)	Share in 2013 Real GDP (%)	Kshs Million											
			2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*	
MAIN SECTORS														
Agriculture and Forestry	25.32	20.58	276,089	280,518	299,749	312,926	320,423	307,354	299,431	318,586	323,415	337,064	346,935	
Fishing	0.45	0.38	4,765	5,246	5,751	6,249	6,181	5,363	5,564	5,713	5,891	6,093	6,422	
Mining and Quarrying	0.59	0.48	5,213	5,195	5,334	5,554	6,272	6,453	6,163	6,763	7,244	7,545	8,102	
Manufacturing	8.91	9.50	105,822	110,544	115,699	122,953	130,673	135,291	137,060	143,263	148,198	152,959	160,247	
Electricity and Water Supply	1.40	2.25	27,074	27,877	27,898	27,288	29,769	31,341	30,397	33,292	32,443	35,800	37,915	
Construction	4.39	3.52	31,530	32,932	35,446	37,649	40,405	43,735	49,270	51,492	53,728	56,327	59,434	
Wholesale and Retail Trade, Repairs	10.21	11.55	92,604	100,481	106,009	118,361	131,754	138,044	143,460	154,942	166,186	181,103	194,738	
Hotels and Restaurants	1.49	1.21	9,899	13,741	15,572	17,894	20,814	13,298	18,993	19,796	20,775	21,322	20,366	
Transport and Communication	9.10	12.59	104,915	112,251	122,243	136,306	156,845	161,615	171,994	182,181	191,248	200,289	212,282	
Financial Intermediation	4.84	4.41	42,064	42,657	43,869	47,170	50,306	51,659	55,375	60,379	65,095	69,349	74,353	
Real estate, Renting and Business Services	4.11	5.17	61,864	63,740	65,882	68,446	70,860	73,503	75,674	78,089	80,888	83,583	87,209	
Public Administration and Defence	6.74	3.08	46,991	47,062	46,461	45,974	45,031	45,317	46,031	47,085	48,271	49,584	51,935	
Education	6.68	5.96	71,045	72,268	72,908	73,188	76,257	80,771	82,952	86,651	90,836	95,746	100,466	
Health and Social Work	1.92	2.08	25,431	26,408	27,249	28,075	28,983	30,035	31,352	31,786	32,892	34,009	35,143	
Other Community, Social and Personal Services	3.48	3.54	42,917	44,514	45,876	47,814	49,420	50,829	52,156	53,507	55,952	57,753	59,624	
Private Households with Employed Persons	0.45	0.28	3,855	3,932	4,011	4,091	4,173	4,256	4,342	4,428	4,517	4,607	4,699	
less: Financial Services Indirectly Measured	(0.97)	(0.82)	(10,315)	(10,801)	(11,261)	(11,835)	(12,174)	(10,484)	(11,945)	(12,260)	(11,843)	(11,729)	(13,778)	
All Industries at basic 2001 prices	89.13	85.76	941,763	978,565	1,028,696	1,088,103	1,155,991	1,168,382	1,198,270	1,266,694	1,315,734	1,381,404	1,446,091	
Taxes less Subsidies on Products	10.87	14.24	113,895	130,772	144,088	161,367	180,855	188,882	196,117	208,607	224,785	229,249	240,058	
Real GDP at 2001 market prices	100.00	100.00	1,055,658	1,109,338	1,172,784	1,249,470	1,336,846	1,357,263	1,394,387	1,475,302	1,540,520	1,610,653	1,686,149	
Overall GDP Deflator (2001 =100)				115	121	130	137	155	170	174	198	211	225	
Annual Growth Rates in Percent														
	Share in 2013 Nominal GDP (%)	Share in 2013 Real GDP (%)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*	
Agriculture and Forestry	25.32	20.58	2.6	1.6	6.9	4.4	2.4	(4.1)	(2.6)	6.4	1.5	4.2	2.9	
Fishing	0.45	0.38	-6.9	10.1	9.6	8.7	-1.1	(13.2)	3.7	2.7	3.1	3.4	5.4	
Mining and Quarrying	0.59	0.48	3.5	-0.3	2.7	4.1	12.9	2.9	(4.5)	9.7	7.1	4.2	7.4	
Manufacturing	8.91	9.50	6.0	4.5	4.7	6.3	6.3	3.5	1.3	4.5	3.4	3.2	4.8	
Electricity and Water Supply	1.40	2.25	14.0	3.0	0.1	-2.2	9.1	5.3	(3.0)	9.5	(2.6)	10.3	5.9	
Construction	4.39	3.52	1.0	4.4	7.6	6.2	7.3	8.2	12.7	4.5	4.3	4.8	5.5	
Wholesale and Retail Trade, Repairs	10.21	11.55	1.5	8.5	5.5	11.7	11.3	4.8	3.9	8.0	7.3	9.0	7.5	
Hotels and Restaurants	1.49	1.21	-20.3	38.8	13.3	14.9	16.3	(36.1)	42.8	4.2	4.9	2.6	(4.5)	
Transport and Communication	9.10	12.59	3.5	7.0	8.9	11.5	15.1	3.0	6.4	5.9	5.0	4.7	6.0	
Financial Intermediation	4.84	4.41	1.5	1.4	2.8	7.5	6.6	2.7	7.2	9.0	7.8	6.5	7.2	
Real estate, Renting and Business Services	4.11	5.17	2.3	3.0	3.4	3.9	3.5	3.7	3.0	3.2	3.6	3.3	4.3	
Public Administration and Defence	6.74	3.08	0.6	0.2	-1.3	-1.0	-2.1	0.6	1.6	2.3	2.5	2.7	4.7	
Education	6.68	5.96	9.7	1.7	0.9	0.4	4.2	5.9	2.7	4.5	4.8	5.4	4.9	
Health and Social Work	1.92	2.08	2.8	3.8	3.2	3.0	3.2	3.6	4.4	1.4	3.5	3.4	3.3	
Other Community, Social and Personal Services	3.48	3.54	-0.0	3.7	3.1	4.2	3.4	2.9	2.6	2.6	4.6	3.2	3.2	
Private Households with Employed Persons	0.45	0.28	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
less: Financial Services Indirectly Measured	(0.97)	(0.82)	-3.3	4.7	4.3	5.1	2.9	(13.9)	13.9	(5.7)	5.2	(1.0)	17.5	
All Industries at basic 2001 prices	89.13	85.76	3.1	3.9	5.1	5.8	6.2	1.1	2.6	5.7	3.9	5.0	4.7	
Taxes less Subsidies on Products	10.87	14.24	1.3	14.8	10.2	12.0	12.1	4.4	3.8	6.4	7.8	2.0	4.7	
Real GDP at 2001 market prices	100.00	100.00	2.9	5.1	5.7	6.5	7.0	1.5	2.7	5.8	4.4	4.6	4.7	

*Provisional

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

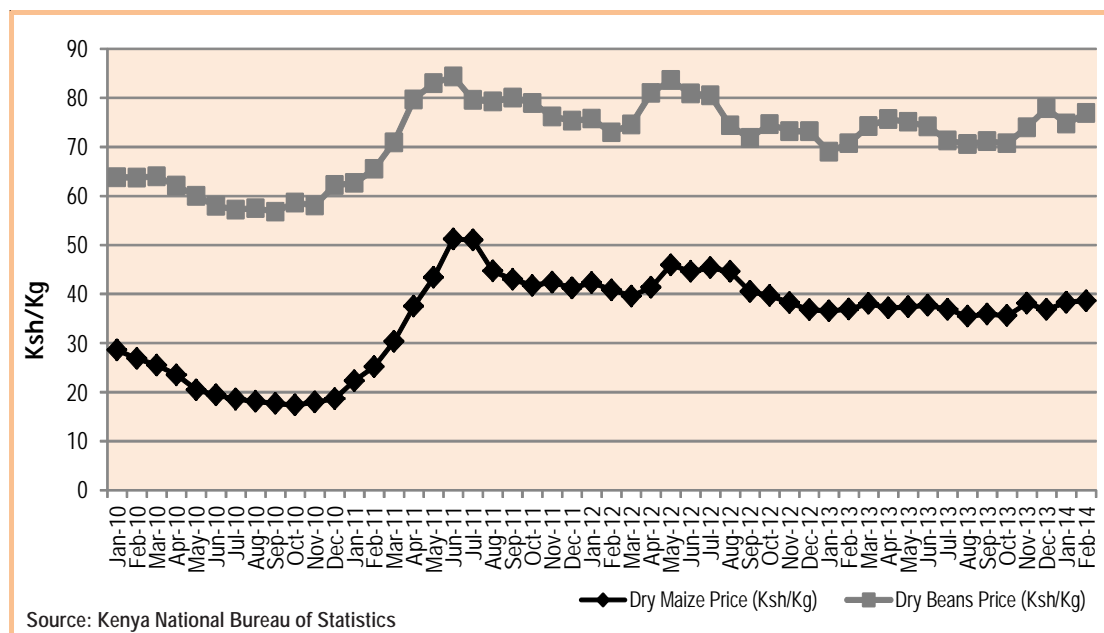
CHART 3A: REAL GDP GROWTH IN THE FOURTH QUARTERS



Agriculture

Agriculture contributed 20.6 percent of GDP in 2013 and recorded 2.9 percent growth in output over the same period compared with 4.2 percent increase in 2012. Subdued performance in agriculture in 2013 is attributed to unfavorable weather conditions which resulted in marginally increased prices of food items such as maize and beans particularly towards the end of year (Chart 3B).

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



Major Indicators in Agriculture

Most indicators of performance in agriculture in the year to February 2014 point to favorable outcome (Table 3.2). Among selected crops, production of tea, horticulture and sugar cane increased in the year to February 2014 while production of coffee declined. Production of milk also increased during the period under review.

TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK

	2012	2013	Year to Feb 13	Year to Feb 14*
Tea				
Output (Metric tonnes)	369,562	432,453	398,838	427,304
Growth (%)	-2.2%	17.0%	7.8%	7.1%
Horticulture				
Exports (Metric tonnes)	250,814	309,029	264,558	308,118
Growth (%)	5.1%	23.2%	11.7%	16.5%
Coffee				
Sales (Metric tonnes)	46,051	37,942	43,539	37,411
Growth (%)	53.6%	-17.6%	29.4%	-14.1%
Milk				
Output (million litres)	495	523	509	532
Growth %	-9.8%	5.6%	-5.7%	4.5%
Sugar Cane				
Output (Metric tonnes)	5,716,300	6,671,800	5,643,000	6,888,300
Growth (%)	7.1%	16.7%	4.0%	22.1%

* Provisional

Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

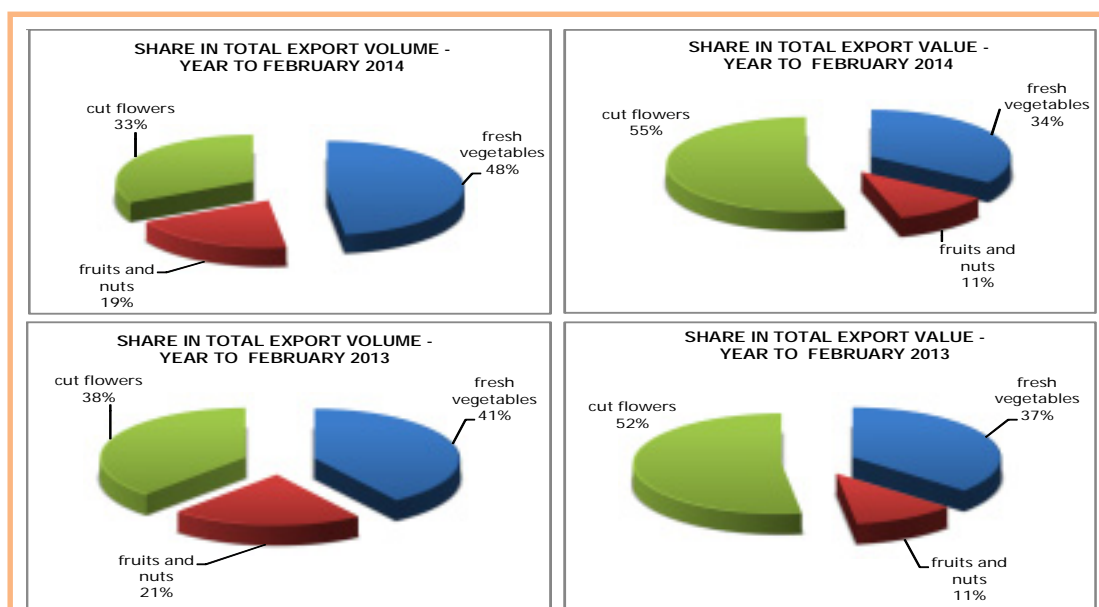
Tea

Production of tea increased by 7.1 percent in the year to February 2014 in relation to 398,838 metric tonnes produced in the year to February 2013 (Table 3.2). The improvement is attributed to relatively favorable weather conditions. Reflecting the larger volume supplied, the average auction price for tea declined from Ksh 274 per kilogram in the year to February 2013 to Ksh 208 per kilogram in the year to February 2014.

Horticulture

Export of fresh horticultural products increased by 16.5 percent from 264,558 metric tonnes in the year to February 2013 to 308,118 metric tonnes in the year to February 2014. Exports of fresh vegetables dominated in terms of volume, while cut flowers brought in the largest contribution to total export value in the year to February 2014 (Table 3.2 and Chart 3C).

CHART 3C: HORTICULTURAL EXPORTS

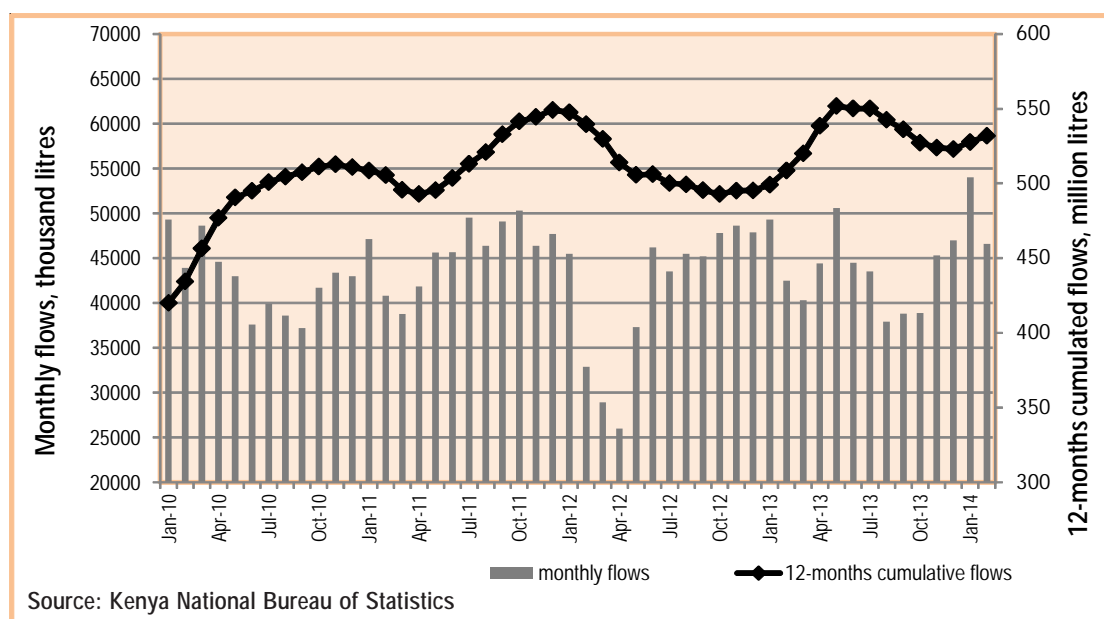


Source: Kenya Revenue Authority

Coffee Coffee sales declined by 14.1 percent from 43,539 metric tonnes in the year to February 2013 to 37,411 metric tonnes in the year to February 2014. The average auction price for coffee also declined from Ksh 303 per kilogram in the year to February 2013 to Ksh 278 per kilogram in the year to February 2014, reflecting increased global supply and reduced world price.

Dairy The volume of milk intake in the formal sector increased by 4.5 percent in the year to February 2014 from 509 million litres in a comparable period in the previous year (Chart 3D).

CHART 3D: PROCESSED MILK ('000 LITRES)



Manufacturing The manufacturing sector accounted for 9.5 percent of the overall GDP growth in 2013. This activity grew by 4.8 in 2013 compared with 3.2 percent growth in 2012. Indicators of the performance of manufacturing activity are positive for the 12-month period to February 2014 (Table 3.3 and Chart 3E), with the growth in production of cement, assembled vehicles and galvanized sheets accelerating. Growth in the production of cement improved to 10.5 percent in the year to February 2014. With local cement consumption below production level (Chart 3E), the industry continued to generate some surplus for export.

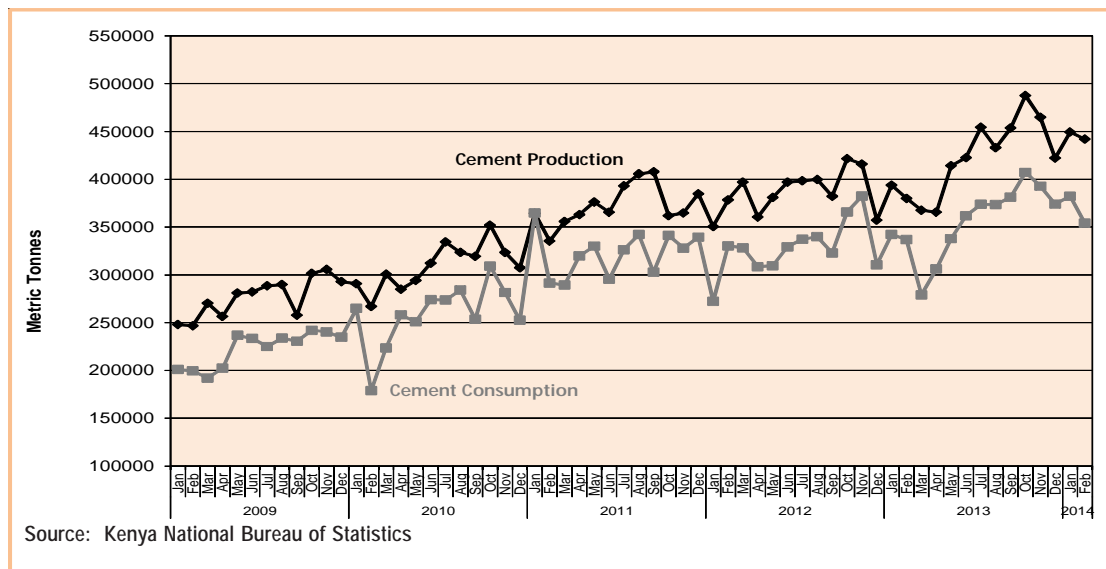
TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS

	Annual Totals		Year to Feb 13*	Year to Feb 14*
	2012	2013		
Cement production				
Output (MT)	4,639,723	4,997,007	4,684,608	5,176,480
Growth %	3.6%	7.7%	3.9%	10.5%
Assembled vehicles				
Output (No.)	6,218	7,667	6,214	7,131
Growth %	2.8%	23.3%	-1.7%	14.8%
Galvanized sheets				
Output (MT)	255,815	305,152	261,622	304,483
Growth %	-4.6%	19.3%	-1.7%	16.4%

MT = Metric tonnes
 * Provisional
 ** Data in the 'Year to September' columns reflects data for the year to August

Source: Kenya National Bureau of Statistics

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Energy Sector

Annual growth in local generation of electricity increased from 4.6 percent in the year to February 2013 to 10.2 percent in the year to February 2014 (Table 3.4). The total amount of electricity generated thus increased from 7,583 million kilowatt hours to 8,356 million kilowatt hours. The supply in the current period comprised 51.3 percent of hydro-electricity, 26.4 percent of thermal power and 22.3 percent of geo-thermal power. The increase in the amount of electricity produced reflects accelerated generation of geo-thermal power (green energy). Growth in generation of hydro-electricity slowed to 5.0 percent to a supply of 4,286 million kilowatt hours in the year to February 2014, while generation of geo-thermal power increased by 23.3 percent to a supply of 1,863 million kilowatt hours in the year to February 2014. Generation of thermal power also increased by 10.9 percent to 2,208 million kilowatt hours in the year to February 2014. Growth in the consumption of electricity increased from 1.5 percent in the year to February 2013 to 6.5 percent in the year to February 2014, while consumption of fuels declined by 3.5 percent to 3,628 thousand

tonnes. The average price of murban crude oil declined from US\$ 112.4 per barrel in the year to February 2013 to US\$ 109.5 per barrel in the year to February 2014.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	2012	2013	Year to Feb 13*	Year to Feb 14*
Electricity Supply (Generation) Output (million KWH)	7,544	8,217	7,583	8,356
<i>Growth %</i>	5.4%	8.9%	4.6%	10.2%
<i>Of which:</i>				
Hydro-power Generation (million KWH)	4,032	4,387	4,081	4,286
<i>Growth (%)</i>	26.6%	8.8%	23.6%	5.0%
Geo-Thermal Generation (million KWH)	1,522	1,781	1,511	1,863
<i>Growth (%)</i>	5.4%	17.0%	2.5%	23.3%
Thermal (million KWH)	1,990	2,049	1,991	2,208
<i>Growth (%)</i>	-21.4%	3.0%	-19.5%	10.9%
Consumption of electricity (million KWH)	6,270	6,564	6,276	6,683
<i>Growth %</i>	1.9%	4.7%	1.5%	6.5%
Consumption of Fuels ('000 tonnes)	3,764	3,650	3,758	3,628
<i>Growth %</i>	6.2%	-3.0%	3.8%	-3.5%
Murban crude oil average price (US \$ per barrel)	113.0	110.1	112.4	109.5
<i>Growth %</i>	2.1%	-2.5%	-1.0%	-2.6%

* Provisional

Source: Kenya National Bureau of Statistics

Tourism

The number of tourist arrivals declined by 10.6 percent from 1,199,095 in the year to February 2013 (Table 3.5). The ports of disembarkation were Jomo Kenyatta International Airport Nairobi (83.4 percent share), and the Moi International Airport, Mombasa (16.6 percent share).

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2012	2013	Year to Feb 2013	Year to Feb 2014	Year to Feb 2014 % Share	Year to Feb 2014 % Growth
MIAM	187,151	189,654	184,858	177,364	16.6%	-4.1%
JKIA	1,048,390	912,998	1,014,237	894,293	83.4%	-11.8%
TOTAL	1,235,541	1,102,652	1,199,095	1,071,657	100.0%	-10.6%

Source: Kenya Tourist Board

Transport

The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) declined by 0.7 percent from 4,302,241 in the year to February 2013 to 4,273,203 in the year to February 2014. The decline is attributed to both incoming and outgoing passengers (Table 3.6). The volume of oil passed through the Kenya pipeline, however, increased by 6.4 percent to 5,246

million litres in the year to February 2014 compared with 4,930 million litres in the year to February 2013.

TABLE 3.6: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

			Year to Feb 13*	Year to Feb 14*
	2012	2013		
Number of Passengers thro' JKIA				
Total passenger flows	4,302,244	4,290,349	4,302,241	4,273,203
Growth (%)	4.0%	-0.3%	0.6%	-0.7%
o.w. Incoming	2,148,105	2,144,002	2,144,992	2,134,128
Growth (%)	2.8%	-0.2%	-1.1%	-0.5%
Outgoing	2,154,139	2,146,347	2,157,249	2,139,075
Growth %	5.3%	-0.4%	2.3%	-0.8%
Kenya Pipeline Oil Throughput				
Output ('000 litres)	4,855,573	5,181,609	4,930,411	5,246,478
Growth %	14.0%	6.7%	13.8%	6.4%

* Provisional

Source: Kenya National Bureau of Statistics

DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

Overview The overall balance of payments surplus improved by 51.4 percent to USD 972 million in the year to March 2014 from a surplus of USD 642 million in the year to March 2013 (Table 4.1).

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

ITEM	Year to Mar 2013*	Year to March 2014*				Year to Mar 2014*	Absolute Change	% Change
		Q1 Apr-Jun	Q2 Jul-Sep	Q3 Oct-Dec	Q4 Jan-Mar			
1. OVERALL BALANCE	642	472	209	174	117	972	330.1	51.4
2. CURRENT ACCOUNT	-4601	-951	-1284	-1325	-781	-4340	260.8	-5.7
2.1 Goods	-10855	-2597	-2849	-3031	-2440	-10917	-62.0	0.6
Exports (fob)	6123	1467	1409	1433	1558	5867	-256.4	-4.2
Imports (cif)	16979	4064	4258	4464	3999	16784	-194.4	-1.1
2.2 Services	6254	1647	1565	1706	1659	6577	322.8	5.2
Non-factor services (net)	3618	994	849	932	1024	3799	180.3	5.0
Income (net)	-244	-75	-81	-73	-39	-269	-24.5	10.1
Current Transfers (net)	2880	727	798	848	675	3047	167.1	5.8
3. CAPITAL & FINANCIAL ACCOUNT	5244	1423	1493	1499	898	5313	69.2	1.3
3.1 Capital Transfers (net)	187	37	11	28	36	112	-75.7	-40.4
3.2 Financial Account	5056	1386	1482	1471	862	5201	144.9	2.9
memo:								
Gross Reserves	3570	7889	7959	8483	8279	8279	4708.6	131.9
Official	2590	6089	6291	6560	6654	6654	4064.0	156.9
import cover**	3.6	4.0	4.2	4.3	4.4	4.4	0.9	24.1
import cover***	4.0	4.4	4.4	4.5	4.5	4.5	0.5	12.0
Commercial Banks	980	1800	1668	1923	1625	1625	644.6	65.7

* 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 deficit in the current account balance narrowed to USD 4,340 million in the year to March 2014 from a deficit of USD 4,601 million in the year to March 2013. The improvement was reflected in a 5.2 percent increase in the services account surplus which offset the deterioration in the Merchandise account deficit (Table 4.2).

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

ITEM	Year to Mar 2013*	Year to March 2014*				Year to Mar 2014*	Absolute Change	% Change
		Q1 Apr-Jun	Q2 Jul-Sep	Q3 Oct-Dec	Q4 Jan-Mar			
2. CURRENT ACCOUNT	-4601	-951	-1284	-1325	-781	-4340	260.8	-5.7
2.1 Goods	-10855	-2597	-2849	-3031	-2440	-10917	-62.0	0.6
Exports (fob)	6123	1467	1409	1433	1558	5867	-256.4	-4.2
Coffee	240	59	51	39	44	193	-47.3	-19.7
Tea	1233	307	296	265	278	1147	-86.3	-7.0
Horticulture	723	180	164	201	215	760	36.9	5.1
Oil products	73	12	12	9	10	42	-31.0	-42.4
Manufactured Goods	675	192	184	170	166	711	36.5	5.4
Raw Materials	381	77	72	82	117	347	-34.3	-9.0
Chemicals and Related Products (n.e.s.)	525	117	120	114	118	470	-55.2	-10.5
Miscellaneous Man. Articles	557	146	155	151	157	609	52.4	9.4
Re-exports	482	123	137	165	222	646	164.7	34.2
Other	1234	255	219	235	232	941	-292.7	-23.7
Imports (cif)	16979	4064	4258	4464	3999	16784	-194.4	-1.1
Oil	4044	918	838	1012	944	3711	-333.2	-8.2
Chemicals	2066	562	570	596	580	2309	243.0	11.8
Manufactured Goods	2430	570	701	661	656	2587	157.7	6.5
Machinery & Transport Equipment	4957	1133	1201	1174	1089	4597	-360.1	-7.3
Other	3482	882	948	1020	730	3580	98.2	2.8
2.2 Services	6254	1647	1565	1706	1659	6577	322.8	5.2
Non-factor services (net)	3618	994	849	932	1024	3799	180.3	5.0
of which transport	933	350	240	272	182	1044	111.9	12.0
of which tourism (Travel)	726	173	170	144	125	611	-115.2	-15.9
Other services account: gov't	804	220	226	182	184	813	8.5	1.1
Other services account: private	128	28	-21	87	291	385	256.8	200.5
Income (net)	-244	-75	-81	-73	-39	-269	-24.5	10.1
of which official interest	-147	-31	-33	-25	-23	-112	35.0	-23.8
Current Transfers (net)	2880	727	798	848	675	3047	167.1	5.8
Private (net)	2666	678	749	799	679	2905	239.4	9.0
of which Remittances	1180	315	327	340	341	1323	143.1	12.1
Public (net)	214	49	49	49	-5	142	-72.3	-33.8

* Provisional.

Source: Central Bank of Kenya

Merchandise Account The deficit in the merchandise account worsened by USD 62 million to USD 10,917 million in the year to March 2014 from USD 10,855 million in the year to March 2013. The deterioration in the deficit was attributed to a slowdown in receipts from merchandise exports from USD 6,123 million to USD 5,867 million (Table 4.2).

Imports Payments for merchandise imports declined by 1.1 percent from USD 16,979 million in the year to March 2013 to USD 16,784 million in the year to March 2014. The slowdown in payments was on account of reduced imports of oil, machinery and transport equipment. The oil import bill declined to USD 3,711 million from USD 4,044 million during the period under review, reflecting reduced importation of crude petroleum oils. The decline in payments for machinery and transport equipment was mainly on account of reduced imports of specialised industrial machinery, metal working machinery, office machines, electrical machinery and other transport equipment.

In terms of imports by source, imports from Africa increased both in value and percentage share to total imports (Table 4.3). Imports from the Rest of the World however declined with reduced imports from the United Arab Emirates, the USA, Singapore, Germany, Saudi Arabia, Indonesia, France and Italy accounting for the decline. Imports from India, China, Japan, the United Kingdom, the Netherlands and Bahrain increased.

Exports Receipts from merchandise exports declined by USD 256.4 million or 4.2 percent to USD 5,867 million in the year to March 2014. Reduced earnings from coffee, tea, oil products, raw materials, chemicals and related products and other non-categorised exports contributed to this decline. Earnings from Coffee exports contracted by USD 47.3 million to USD 193 million from USD 240 million in the year to March 2014, a phenomenon attributed to a reduction in both export quantities and prices while the value of tea exports declined by USD 86.3 million to USD 1,147 million in the year to March 2014. The reduction in tea exports was largely on account of declined world tea prices. Other non- categorised exports, also declined from USD 1,234 million in the year to March 2013 to USD 941 million in the year to March 2014. Earnings from exports of horticulture, manufactured goods and miscellaneous manufactured goods increased during the period under review.

The value and share of Kenya's exports to Africa recorded a decrease from the previous period (Table 4.3). This was largely reflected by a decline in exports from the EAC and COMESA. Exports to the rest of the world also declined in value during the period under review largely on account of reduced exports from the European Union, Pakistan and the United Arab Emirates.

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)			EXPORTS (in millions of US dollars)				Share of Exports (%)		
Country	Year to March			Year to March			Country	Year to March			Year to March		
	2012	2013	2014	2012	2013	2014		2012	2013	2014	2012	2013	2014
Africa	1,708	1,679	1,703	11.2	10.2	10.5	Africa	2,870	2,889	2,714	48.8	47.4	46.1
<i>Of which</i>							<i>Of which</i>						
South Africa	763	725	860	5.0	4.4	5.3	Uganda	862	769	770	14.7	12.6	13.1
Egypt	237	352	274	1.6	2.1	1.7	Tanzania	497	523	484	8.5	8.6	8.2
Others	708	603	568	4.7	3.7	3.5	Egypt	288	236	194	4.9	3.9	3.3
EAC	309	366	331	2.0	2.2	2.0	Sudan	224	64	75	3.8	1.0	1.3
COMESA	676	736	630	4.4	4.5	3.9	South Sudan	0	234	192	0.0	3.8	3.3
Rest of the World	13,511	14,807	14,550	88.8	89.8	89.5	Somalia	209	219	193	3.6	3.6	3.3
<i>Of which</i>							DRC	207	221	213	3.5	3.6	3.6
India	1,616	2,549	2,952	10.6	15.5	18.2	Rwanda	165	180	166	2.8	3.0	2.8
United Arab Emirates	2,259	1,721	1,162	14.8	10.4	7.1	Others	418	444	429	7.1	7.3	7.3
China	1,731	1,997	2,188	11.4	12.1	13.5	EAC	1,586	1,537	1,485	27.0	25.2	25.2
Japan	673	792	1,018	4.4	4.8	6.3	COMESA	2,068	1,795	1,718	35.2	29.5	29.2
USA	549	783	646	3.6	4.7	4.0	Rest of the World	3,006	3,203	3,179	51.2	52.6	53.9
United Kingdom	503	550	573	3.3	3.3	3.5	<i>Of which</i>						
Singapore	222	203	165	1.5	1.2	1.0	United Kingdom	500	490	427	8.5	8.0	7.2
Germany	390	470	466	2.6	2.8	2.9	Netherlands	368	373	408	6.3	6.1	6.9
Saudi Arabia	824	622	519	5.4	3.8	3.2	USA	298	321	364	5.1	5.3	6.2
Indonesia	560	618	524	3.7	3.7	3.2	Pakistan	247	279	240	4.2	4.6	4.1
Netherlands	249	196	297	1.6	1.2	1.8	United Arab Emirates	225	360	280	3.8	5.9	4.8
France	241	304	239	1.6	1.8	1.5	Germany	90	112	105	1.5	1.8	1.8
Bahrain	216	371	475	1.4	2.2	2.9	India	102	99	106	1.7	1.6	1.8
Italy	185	244	236	1.2	1.5	1.5	Afghanistan	164	135	171	2.8	2.2	2.9
Others	3,293	3,387	3,091	21.6	20.5	19.0	Others	1,013	1,034	1,077	17.2	17.0	18.3
EU	2,235	2,421	2,467	14.7	14.7	15.2	EU	1,280	1,272	1,260	21.8	20.9	21.4
China	1,731	1,997	2,188	11.4	12.1	13.5	China	48	59	57	0.8	1.0	1.0
Total	15,220	16,486	16,253	100	100	100	Total	5,877	6,092	5,893	100	100	100

Source: Kenya Revenue Authority

Services Account

The surplus in the services account expanded by USD 322.8 million from USD 6,254 million in the year to March 2013 to USD 6,577 million in the year to March 2014. The increase in surplus was on account of increased flows from non-factor services and current transfers. Net non-factor services rose to USD 3,799 million over the same period and this increase is largely attributed to increased flows in the Transportation account and other Government and other private services (Insurance and Communication services). The deficit in the income account worsened by USD 24.5 million in the year to March 2014 to USD 269 million on account of an increase in interest payments. The surplus in the current transfer account increased by USD 167.1 million to USD 3,047 million reflecting a USD 239.4 million increase in private transfer flows which was more than the USD 72.3 million decrease in public transfer flows. Remittance inflows (under private transfers) increased by USD 143.1 million, to USD 1,323 million during the year to March 2014 from USD 1,180 million during the year to March 2013 (Table 4.2). Average remittance inflows in the 12 months to March 2014 increased to USD 110.2 million from USD 98.3 million during the year to March 2013.

Capital and Financial Account

The surplus in the capital and financial account increased to USD 5,313 million in the year to March 2014 from USD 5,244 million in the year to March 2013, reflecting a 2.9 percent improvement in the financial account surplus largely on account of increased commercial banks flows and short term flows (including net errors and omissions). Commercial banks flows increased from USD 61 million to USD 535 million in the year to March 2014 after commercial banks run down their net foreign assets. Short term flows (including net errors and omissions) increased by USD 293.5 million during the period under review.

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

ITEM	Year to Mar 2013*	Year to March 2014*				Year to Mar 2014*	Absolute Change	% Change
		Q1	Q2	Q3	Q4			
		Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar			
3. CAPITAL & FINANCIAL ACCOUNT	5244	1423	1493	1499	898	5313	69.2	1.3
3.1 Capital Transfers (net)	187	37	11	28	36	112	-75.7	-40.4
3.2 Financial Account	5056	1386	1482	1471	862	5201	144.9	2.9
Official, medium & long-term	1246	271	12	62	249	594	-651.7	-52.3
Inflows	1553	333	112	162	321	928	-625.6	-40.3
Outflows	-308	-62	-99	-100	-72	-334	-26.1	8.5
Private, medium & long-term (net)	-44	218	-20	-184	445	459	503.2	-1148.7
Commercial Banks (net)	61	217	10	6	302	535	473.6	773.9
Other private medium & long-term (net)	-105	1	-29	-190	144	-75	29.6	-28.2
Short-term (net) incl. errors & omissions	3855	897	1490	1593	168	4148	293.5	7.6

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from USD 7,114 million at the end of March 2013 to USD 8,279 million at the end of March 2014. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased to USD 6,654 million (4.5 months of import cover) at the end of March 2014 from USD 5,523 million (4.0 months of imports cover) at the end of March 2013. The build-up in foreign exchange reserves during the period was largely attributed to disbursements from the International Monetary Fund (IMF) and open Market operations by the Central Bank.

Foreign Exchange Reserves held by commercial banks increased to USD 1,625 million at the end of March 2014 from USD 1,590 million at the end of March 2013 reflecting an increase in commercial banks assets. During the same period, Residents' Foreign Currency Deposits increased to USD 3,636 million from USD 3,441 million (Table 4.5).

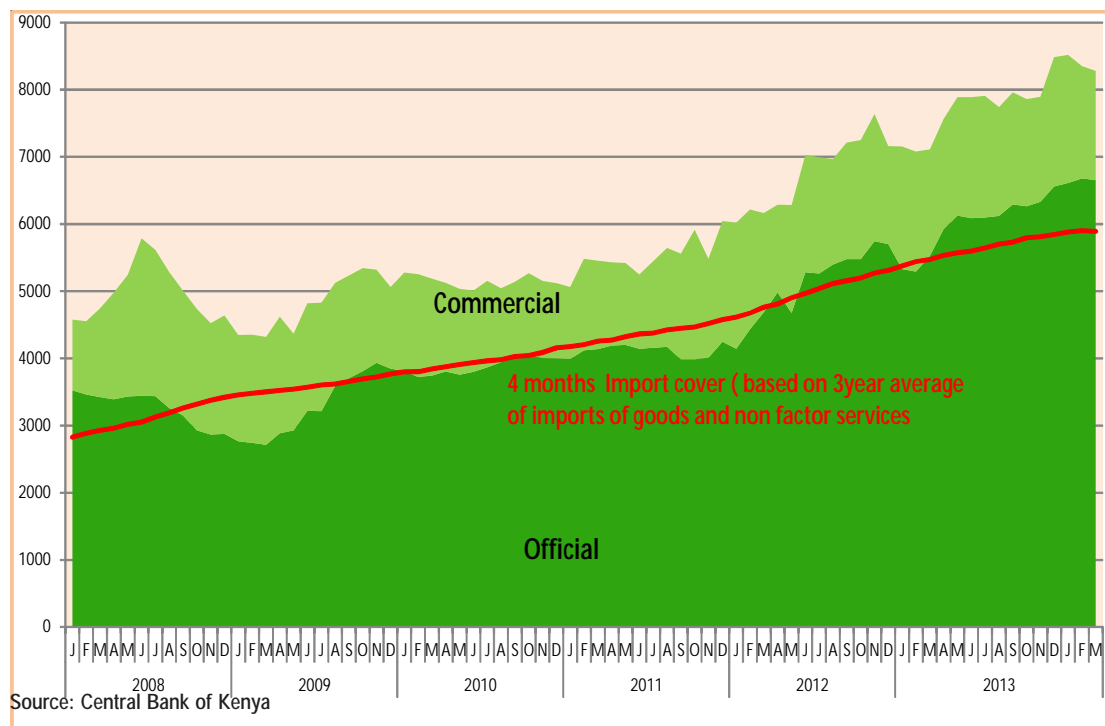
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US\$ MILLION)

	Mar 13	Apr 13	May 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14
1. Gross Foreign Exchange Reserves	7,114	7,563	7,887	7,889	7,907	7,740	7,959	7,859	7,893	8,483	8,519	8,352	8,279
of which:													
Official	5,523	5,928	6,128	6,089	6,096	6,120	6,291	6,263	6,333	6,560	6,612	6,679	6,654
imports cover**	4.0	4.3	4.4	4.4	4.3	4.3	4.4	4.3	4.4	4.5	4.5	4.5	4.5
Commercial Banks	1,590	1,636	1,758	1,800	1,811	1,620	1,668	1,596	1,560	1,923	1,907	1,673	1,625
2. Residents' foreign currency deposits	3,441	3,444	3,479	3,371	3,462	3,362	3,318	3,504	3,562	3,909	3,939	3,564	3,636

**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 major international currencies in March 2014. The shilling traded at an average of 86.49 per USD, 143.76 per Pound Sterling, 119.58 per Euro and 84.58 per 100 Japanese Yen compared to 86.28 per USD, 142.81 per Pound Sterling, 117.81 per Euro and 84.52 per 100 Japanese Yen in February 2014. In the EAC region, the Kenya shilling portrayed mixed performance against EAC currencies in March 2014, strengthening to the Uganda and Tanzania shillings and weakening to the Rwanda and Burundi francs to trade at an average of Ush 29.27, Tsh 18.88, RWF 7.85 and BIF 17.98 compared to Ush 28.61, Tsh 18.82, RWF 7.87 and BIF 18.00 in March 2014 (Table 4.6 and Chart 4D).

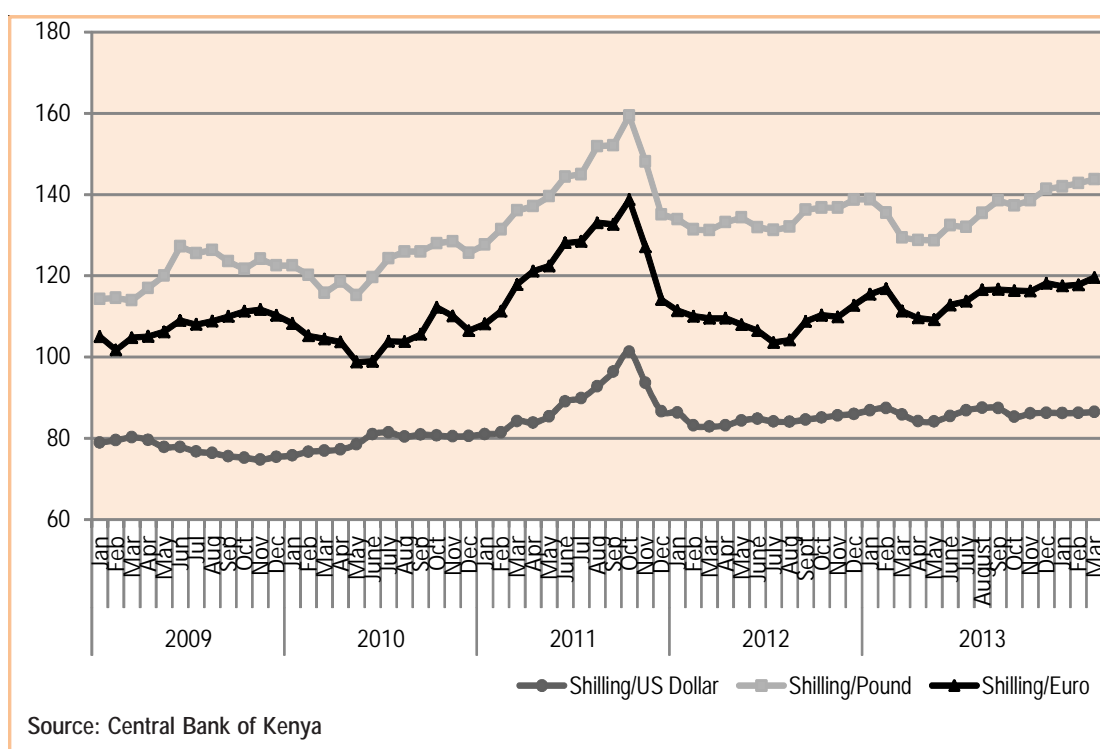
TABLE 4.6: KENYA SHILLING EXCHANGE RATE

	2013				2014			% change February- March 2014
	Mar	Apr	June	Dec	Jan	Feb	Mar	
US Dollar	85.82	84.19	85.49	86.31	86.21	86.28	86.49	0.24
Pound Sterling	129.42	128.81	132.42	141.37	141.99	142.81	143.76	0.67
100 Japanese Yen	90.49	86.12	87.77	83.51	82.92	84.52	84.58	0.06
Uganda Shilling*	30.74	30.64	30.34	29.20	29.00	28.61	29.27	2.32
Tanzania Shilling*	18.90	19.28	19.13	18.63	18.68	18.82	18.88	0.33
Rwanda Franc*	7.39	7.53	7.56	7.76	7.85	7.87	7.85	-0.30
Burundi Franc*	18.15	18.70	18.22	17.91	17.99	18.00	17.98	-0.09
Euro	111.31	109.65	112.81	118.18	117.50	117.81	119.58	1.50
Euro per US dollar	0.77	0.77	0.76	0.73	0.73	0.73	0.72	-1.24

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

CHART 4B: KENYA SHILLING EXCHANGE RATE



DEVELOPMENTS IN THE BANKING SECTOR

- Overview** The Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 9 deposit taking microfinance institutions, 7 representative offices of foreign banks, 97 foreign exchange bureaus, 3 money remittance providers and 2 credit reference bureaus as at March 31, 2014.
- Structure of the Balance Sheet** The banking sector balance sheet expanded by 16.5 percent from Ksh 2,417.9 billion in March 2013 to Ksh 2,816.8 billion in March 2014. The major components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 57.8 percent, 21.8 percent and 5.2 percent of total assets, respectively.
- Loans & Advances** The banking sector gross loans and advances rose from Ksh 1,402.4 billion in March 2013 to Ksh 1,688.3 billion in March 2014, which translated to a growth of 20.4 percent. The growth was attributed to increase in lending to personal/households, trade, transport and communication and real estate sectors. Loans and advances net of provisions stood at Ksh 1,670.8 billion in March 2014, up from Ksh 1,388.6 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 72.3 percent of total funding liabilities. The deposit base grew by 14.7 percent from Ksh 1,766.1 billion in March 2013 to Ksh 2,037.1 billion in March 2014 largely supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.
- Capital & Reserves** The banking sector registered enhanced capital levels in March 2014 with total shareholders' funds growing by 20.8 percent from Ksh 375.6 billion in March 2013 to Ksh 453.6 billion in March 2014. Core capital and Total capital increased from Ksh 311.0 billion and Ksh 355.7 billion to Ksh 368.7 billion and Ksh 426.6 billion, respectively over the same period. However, the ratios of core and total capital to total risk-weighted assets declined from 20.3 percent and 23.2 percent in March 2013 to 15.7 percent and 18.2 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 level of gross non-performing loans (NPLs) grew by 35.4 percent from Ksh 70.3 billion in March 2013 to Ksh 95.1 billion in March 2014. The increase in NPLs is partly attributed to high interest rates, reduced economic activities in 2013 and delayed payment from Government to contractors undertaking various Government projects across the country. Consequently, the ratio of gross NPLs to gross loans increased from 5.0 percent in March 2013 to 5.6 percent in March 2014. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 50.8 percent to 39.1 percent in March 2014 due to a higher growth in NPLs than the increase in provisions.

The quality of assets, measured as a proportion of net non-performing loans to gross loans deteriorated from 2.0 percent in March 2013 to 2.8 percent in March 2014 (Table 5.1).

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

		March-13	March-14
1	Gross loans and advances	1402.4	1688.3
2	Interest in Suspense	13.8	17.6
3	Loans and advances (net of interest suspended)	1388.6	1670.8
4	Gross non-performing loans	70.3	95.1
5	Specific Provisions	28.7	30.3
6	General Provisions	10.7	12.8
7	Total Provisions (5+6)	39.4	43.1
8	Net Advances (3-7)	1349.2	1627.7
9	Total Non-Performing Loans and Advances (4-2)	56.5	77.5
10	Net Non-Performing Loans and Advances (9-5)	27.8	47.2
11	Total NPLs as % of total advances (9/3)	4.10%	4.60%
12	Net NPLs as % of gross advances (10/1)	2.00%	2.80%
13	Specific Provisions as % of Total NPLs (5/9)	50.80%	39.10%

Source: Central Bank of Kenya

Profitability The banking sector registered an increase of 18.4 percent growth in pre-tax profits, from Ksh 28.2 billion in March 2013 to Ksh 33.4 billion as at end of March 2014. The annualised return on assets remained constant at 3.7 percent over the same period. Similarly, return on equity declined from 30.1 percent to 29.5 percent over the same period. Total income increased by 11.9 percent from Ksh 84.9 billion in March 2013 to Ksh 95.1 billion in March 2014, while total expenses increased by 8.7 percent from Ksh 56.7 billion in March 2013 to Ksh 61.6 billion in March 2014. Interest on loans and advances, fees and commissions and government securities were the main sources of income accounting for 58.8 percent, 19.1 percent and 15.2 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 32.4 percent, 28.7 percent and 23.7 percent, respectively.

Liquidity Ratio Requirement For the month ended March 31 2014, average liquid assets amounted to Ksh 782.6 billion, while total short-term liabilities stood at Ksh 1,994.7 billion, resulting to an average liquidity ratio of 39.2 percent, against 42.8 percent registered in March 2013.

Cash Ratio Requirement The proportion of cash to deposit liabilities held at the Central Bank by commercial banks for reserve requirements averaged 5.53 percent in March 2014 compared with 5.48 percent in February 2014, and 5.25 percent minimum statutory level (Table 5.2 and Chart 5A). Commercial banks maintained an average of Ksh 5.29 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in March 2014 compared with Ksh 4.29 billion in February 2014. Commercial banks are required to maintain Cash Reserve Ratio (CRR) on a monthly average of 5.25 percent in the 30 day maintenance cycle from 15th through 14th of every month but subject to a daily minimum of 3.0 percent.

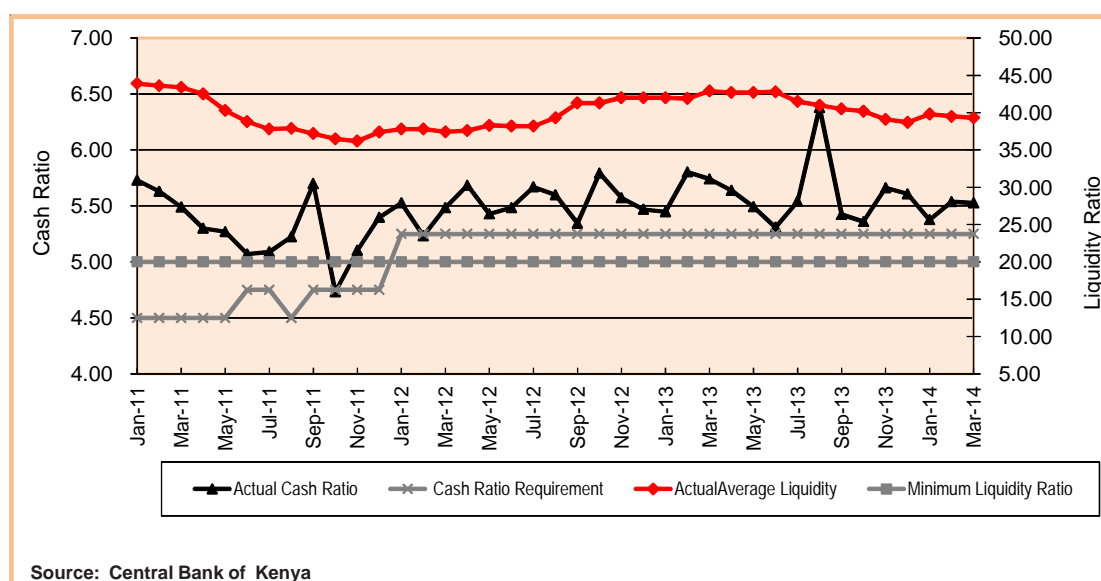
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2013					2014		
	Mar	Apr	May	Jun	Dec	Jan	Feb	Mar
Commercial Banks								
Actual Average Liquidity	42.90	42.70	42.70	42.80	38.70	39.80	39.50	39.32
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.74	5.64	5.49	5.31	5.61	5.38	5.48	5.53
Minimum Cash Ratio Requirement	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
NBFIs								
Actual Average Liquidity Ratio	32.90	34.20	34.40	33.10	32.60	34.20	34.13	32.69
Minimum Liquidity Ratio	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 (%)



KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 202,035 transaction messages worth Ksh 1,920 billion in March 2014 compared with a volume of 181,123 transaction messages valued at Ksh 1,853 billion moved in February 2014, representing an increase of 3.62 percent and 11.55 percent in value and volume moved, respectively. Compared with March 2013, the volume increased by 43.51 percent from 140,781 transaction messages to 202,035 transaction messages in March 2014, while value increased by 17.76 percent from 1,631 billion to 1,920 billion, indicating increased uptake of KEPSS services by the public.

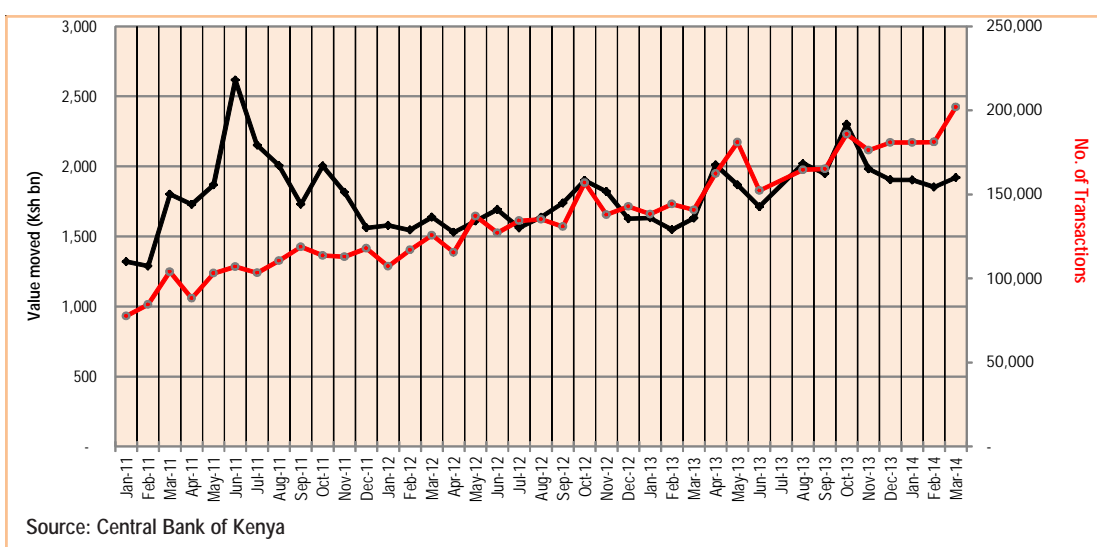
During the twelve months period to March 31, 2014 the value moved averaged Ksh 11 million per transaction. On average, 8,462 transaction messages with an average value of approximately Ksh 94 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted for 98.0 percent of the total settlements while payments processed through ACH and settled in KEPSS averaged 2.0 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	Of which indirect (NSI (Ksh bn))	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-12	1,579	28	107,230	0.01	21	75	5,106
Feb-12	1,546	27	116,990	0.01	21	74	5,571
Mar-12	1,638	26	125,739	0.01	22	74	5,715
Apr-12	1,529	26	115,514	0.01	19	80	6,080
May-12	1,610	26	137,135	0.01	22	73	6,233
Jun-12	1,693	26	127,147	0.01	20	85	6,357
Jul-12	1,561	26	134,391	0.01	23	71	6,109
Aug-12	1,637	26	135,243	0.01	23	71	5,880
Sep-12	1,739	26	130,874	0.01	20	87	6,544
Oct-12	1,900	26	157,020	0.01	23	83	6,827
Nov-12	1,820	26	137,975	0.01	22	83	6,272
Dec-12	1,627	30	142,867	0.01	18	90	7,937
Jan-13	1,632	25	138,297	0.01	22	74	6,286
Feb-13	1,548	25	144,248	0.01	20	77	7,212
Mar-13	1,631	28	140,781	0.01	20	82	7,039
Apr-13	2,011	32	162,432	0.01	20	101	8,122
May-13	1,869	31	181,045	0.01	22	85	8,229
Jun-13	1,712	28	152,310	0.01	20	86	7,616
Jul-13	2,109	35	185,773	0.01	23	92	8,077
Aug-13	2,021	24	164,650	0.01	21	96	7,840
Sep-13	1,949	31	165,175	0.01	21	93	7,865
Oct-13	2,301	30	185,920	0.01	22	105	8,451
Nov-13	1,982	29	176,330	0.01	21	94,381	8,397
Dec-13	1,905	30	180,926	0.01	18	105,811	10,051
Jan-14	1,904	31	180,897	0.01	22	87	8,223
Feb-14	1,853	28	181,123	0.01	20	93	9,056
Mar-14	1,920	31	202,035	0.01	21	91	9,621

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 8.59 percent from 15,596 transaction messages in February 2014 to 16,935 transaction messages in March 2014 while single third party Message Type (MT 103) used for single credit transfers increased by 12.81 percent from 192,858 transaction messages to 217,572 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 12.50 percent from 208,454 transaction messages in February 2014 to 234,507 transaction messages in March 2014.

Compared with March 2013, multiple third party messages (MT 102) increased by 33.55 percent from 12,681 transaction messages to 16,935 transaction messages in March 2014 while single third party messages (MT 103) increased by 46.07 percent from 148,954 transaction messages to 217,572 transaction messages (Table 5.4 and Chart 5C).

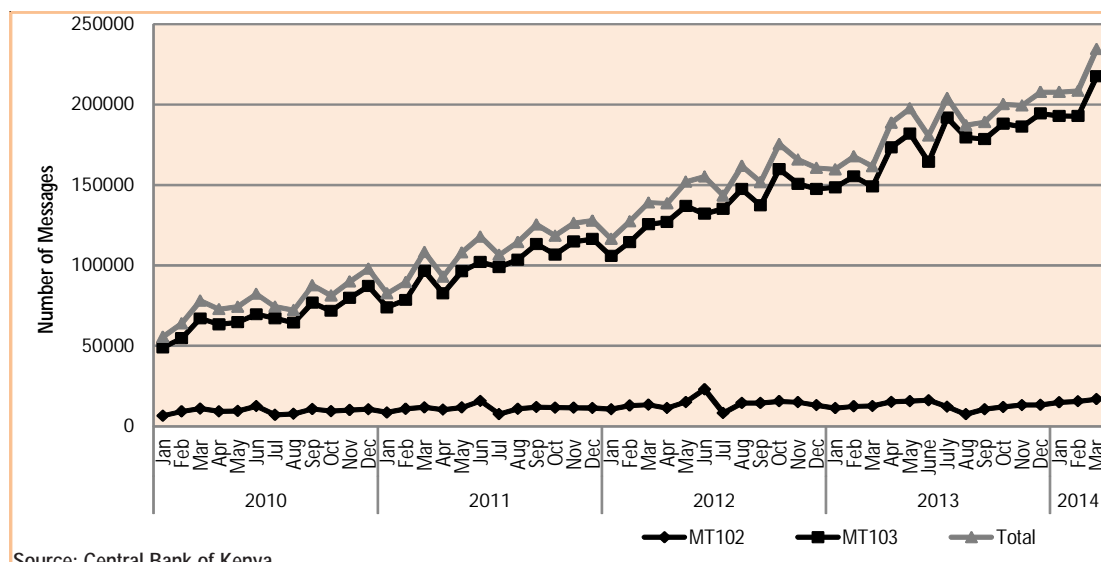
Inter-bank transfers (MT 202) accounted for 29.90 percent of the total value moved through KEPSS as at end of March 2014 while third party (MT 102 and MT 103) messages accounted for 70.10 percent. The total number of third party messages grew by 45.08 percent from 161,635 messages in March 2013 to 234,507 messages in March 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
2012	Jan	10,661	105,817	116,478
	Feb	12,871	114,522	127,393
	Mar	13,428	125,628	139,056
	Apr	11,439	127,126	138,565
	May	15,093	136,942	152,035
	Jun	23,048	132,103	155,151
	Jul	8,268	135,173	143,441
	Aug	14,459	147,373	161,832
	Sep	14,527	137,268	151,795
	Oct	15,616	159,847	175,463
	Nov	15,008	150,800	165,808
	Dec	13,123	147,510	160,633
2013	Jan	11,267	148,497	159,764
	Feb	12,405	155,349	167,754
	Mar	12,681	148,954	161,635
	Apr	15,247	173,453	188,700
	May	15,690	181,934	197,624
	Jun	16,254	164,422	180,676
	Jul	12,189	191,864	204,053
	Aug	7,530	179,629	187,159
	Sep	10,655	178,480	189,135
	Oct	12,087	188,162	200,249
	Nov	13,265	186,194	199,459
	Dec	13,328	194,427	207,755
2014	Jan	14,858	192,905	207,763
	Feb	15,596	192,858	208,454
	Mar	16,935	217,572	234,507

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

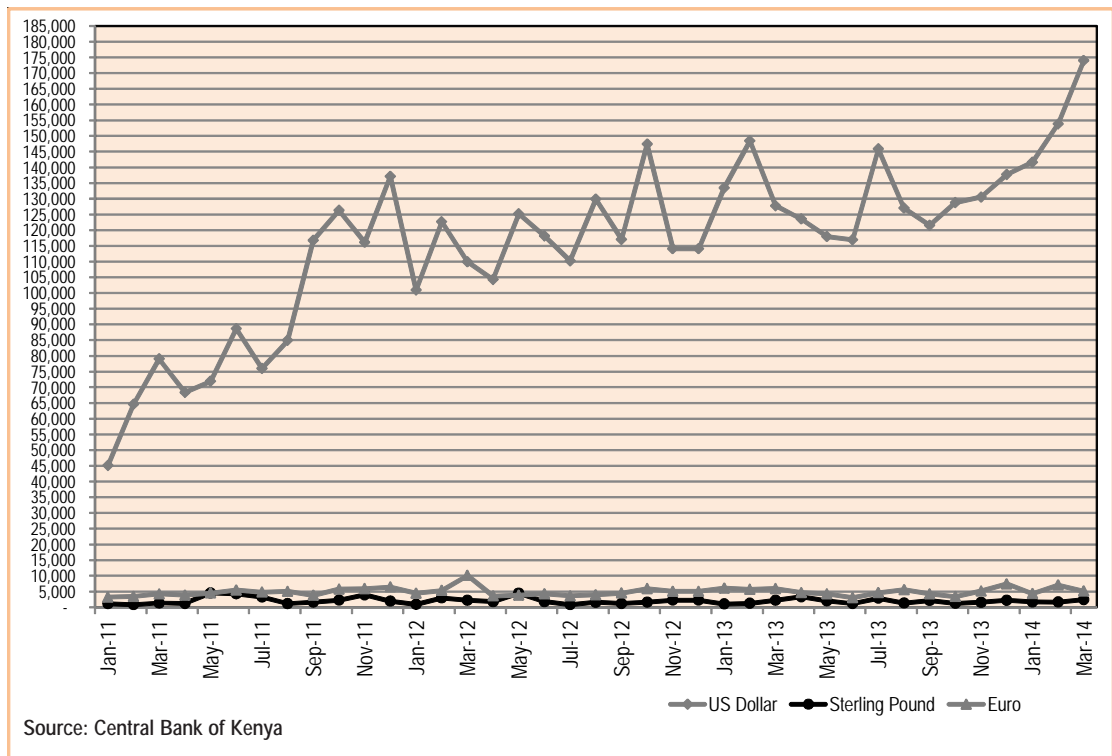


Source: Central Bank of Kenya

Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS increased by 7.37 percent from 15,322 transaction messages in February 2014 to 16,450 transaction messages in March 2014. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period increased by 11.69 percent from Ksh 162.5 billion to Ksh 181.5 billion. The US dollar denominated transactions accounted for 95.84 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 1.34 percent and 2.83 percent, respectively.

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



GOVERNMENT BUDGET PERFORMANCE

The Government budgetary operations for the period July 2013 to March 2014 of the FY 2013/14 resulted into a deficit of Ksh 161 billion (4.3 percent of GDP) on commitment basis compared with a deficit of Ksh 198.7 billion incurred in the same period of the FY 2012/13. This was lower than the Ksh 341.1 billion (9.0 percent of GDP) programmed target for the period.

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

	FY 2012/13	FY 2013/14		
	March Actual	March Provisional	Target	Over (+) / below(-) Target
1. TOTAL REVENUE & GRANTS	577.3	694.3	784.0	-89.7
Revenue	565.2	681.6	726.5	-44.9
Tax Revenue	507.5	615.6	641.7	-26.0
Non Tax Revenue	24.1	44.3	34.2	10.1
Appropriations-in-Aid	33.6	21.7	50.6	-28.9
External Grants	12.1	12.7	57.5	-44.8
2. TOTAL EXPENSES & NET LENDING	776.1	855.3	1125.1	-269.7
Recurrent Expenses	576.4	569.6	576.7	-7.2
Development Expenses	199.7	175.6	357.2	-181.5
County Transfers	-198.7	110.1	191.1	-81.0
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-198.70	-161.0	-341.1	180.0
As percent of GDP	-5.3	-4.3	-9.0	
4. ADJUSTMENT TO CASH BASIS	0.9	0.0	0.0	0.0
5. DEFICIT ON A CASH BASIS	-197.9	-161.0	-341.1	180.0
As percent of GDP	-5.30	-4.3	-9.0	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-10.0	-5.9	9.9	-15.8
7. FINANCING	187.80	155.1	351.0	-195.9
Domestic (Net)	154.0	130.8	225.8	-95.0
External (Net)	33.8	24.3	125.2	-100.9
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: National Treasury

Revenue

Total government revenues and grants amounted to Ksh 694.3 billion in the period July 2013– March 2014, representing an increase of Ksh 117 billion from Ksh 577.3 billion collected in a similar period of the FY 2012/13 (Table 6.2). However, total tax revenue and external grants underperformed by Ksh. 26 billion and Ksh. 44.8 billion, respectively, with respect to the targeted amounts of Ksh 641.7 billion and Ksh 57.5 billion during this period (Table 6.1)

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

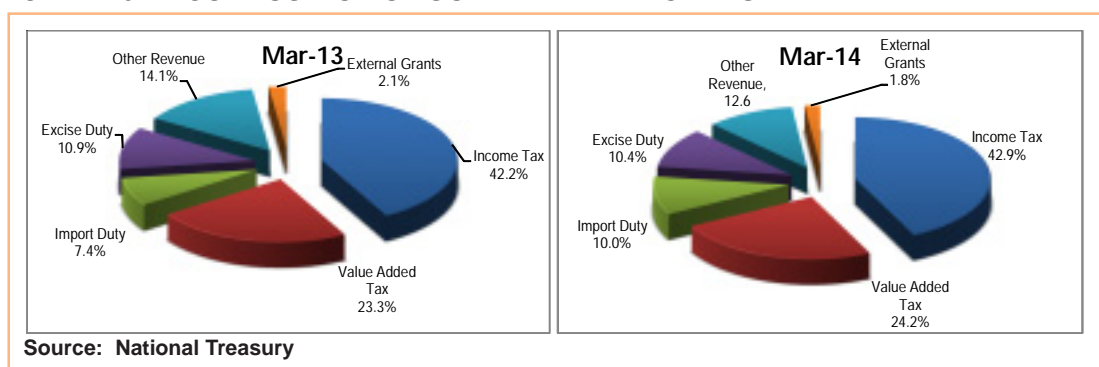
	Mar-13 Ksh bn	Mar-14 Ksh bn	Change
1. Revenue (2+3+4)	565.2	681.6	116.4
2. Tax Revenue	507.5	615.6	108.1
Income Tax	243.6	298.2	54.6
Value Added Tax	134.5	168.1	33.6
Import Duty	42.5	69.5	27.0
Excise Duty	63.1	72.5	9.4
Others	23.9	7.3	-16.6
3. Appropriations-in-Aid	33.6	21.70	-11.93
4. Other Revenue	24.1	44.3	20.2
5. External Grants	12.1	12.7	0.6
TOTAL RECEIPTS (1+5)	577.3	694.3	117.0

Source: National Treasury

Tax revenue grew by Ksh 108.1 billion, equivalent to 21.3 percent, from Kshs 507.5 billion collected at the end of the third quarter of FY 2012/13 to Ksh 615.6 billion for a similar period of FY 2013/14 (Table 6.2). The increase was largely on account of income tax, which grew by Kshs 54.6 billion (22.4 percent) during the period. Excise,

import duty and value added tax increased by Kshs 9.4 billion, Kshs 27 billion and Kshs 33.6 billion respectively. On the other hand, other tax revenue declined by Kshs 16.6 billion during the period under review. All taxes except VAT, underperformed with respect to targets, which may suggest that the level of economic activity during this period was below expectation. The VAT may have performed well on account of implementation of the VAT law on September 1, 2013 that saw companies dealing in goods and services that were previously exempt and zero-rated being VATable under the new VAT Act.

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Expenditure and Net Lending

Government expenditure and net lending increased by Ksh 79.2 billion in the period July 2013– March 2014 from Ksh 776.1 billion expended during the same period in the FY 2012/13. Total expenditure during this period amounted to Ksh 855.3 billion, comprising Ksh 569.6 billion, Ksh 175.6 billion and Ksh 110.1 billion in recurrent expenditure, development expenditure and county transfers, respectively.

Recurrent expenditure decreased by Ksh6.8 billion during the period under review of which Ksh 29 billion, of this decline was in other recurrent expenditure and Kshs.0.5 billion in foreign interest payment. However salaries and wages, and domestic interest payment increased by 19.1 billion and Kshs 3.7 billion respectively. The increase in interest payments was wholly on domestic debt interest at Ksh 3.7 billion which offset Ksh 0.5 billion declines in foreign interest payments. The development expenditure declined by Ksh 24.1 billion and in relation to the target reflects Ksh 186.1 billion under absorption. Meanwhile, County transfers at Ksh 110.1 billion also underperformed by Ksh 81 billion compared to target (Table 6.1). The lower than projected absorption in the development budget and transfers to Counties is attributed to slow absorption of funds from external sources and incomplete institutional and legal framework for spending money at the counties.

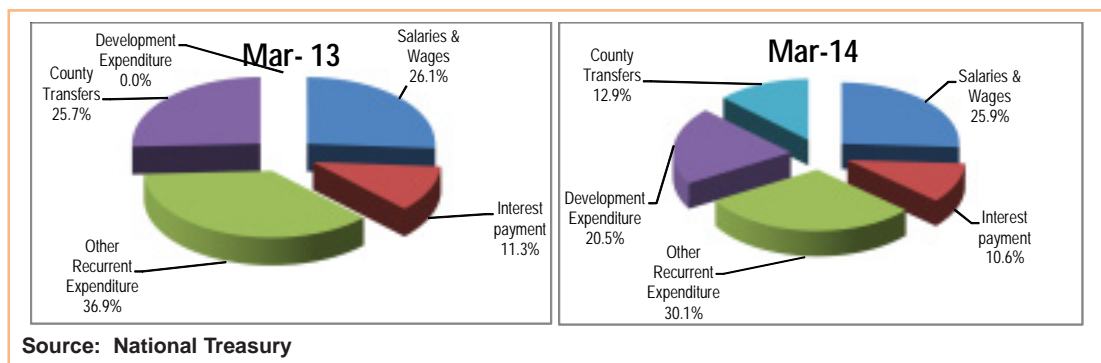
TABLE 6.3: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh billion)

	Mar-13 Ksh bn	Mar-14 Ksh bn	Movement
1. Recurrent	576.4	569.6	-6.8
Salaries & Wages	202.2	221.2	19.0
Total Interest	87.7	90.8	3.1
of which			
Domestic*	78.9	82.6	3.6
Foreign interest due	8.7	8.2	-0.5
Others	286.5	257.6	-29.0
2. Development	199.7	175.6	-24.0
3. County Transfers	0.0	110.1	110.1
TOTAL EXPENSES	776.1	855.3	79.2

*Includes commission and other charges paid to CBK

Source: National Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Financing

Budgetary operations of the Government resulted in a financing requirement of Kshs. 204.9 billion in the period July – March 2014 compared with Ksh 134.3 billion in the same period in the FY 2012/13. The Government sourced the funds through domestic borrowing amounting to Ksh 180.6 billion and net external debt borrowing of Ksh 24.3 billion. The funds were allocated to bridge the Government budgetary deficit of Ksh 161 billion and build up government deposits by Ksh 39.8 billion (Table 6.4). The build-up of Government deposits in part mirror lower than budgeted uptake in development and County transfers.

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

	Mar-13	Mar-14
I. FINANCING REQUIREMENTS		
1. Budget deficit	134.3	161.0
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	0.0	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	39.8
5. Adjustment to cash basis		4.2
TOTAL	134.3	204.9
II. FINANCING SOURCES		
	Mar-13	Mar-14
1. Budget surplus	0.0	0.0
2. External debt increase	33.8	24.3
3. Increase in domestic debt	116.2	180.6
3.1 Central Bank	8.0	40.8
3.2 Commercial banks	57.7	58.7
3.3 Non-bank sources	50.4	81.1
4. Reduction in GoK deposits at CBK	37.9	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
TOTAL	187.8	204.9

Sources: National Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank amounted to Ksh 77.1 billion in the period July 2013 – March 2014, which was Ksh 21.7 billion higher than the Ksh 55.4 billion in the same period of the FY 2012/13. The increase in Government liability to the Central Bank was attributed to a raise in holdings of rediscounted securities and government overdraft at the Central Bank by Ksh 14.2 billion and Ksh 8.8 billion during the period under review. Treasury bonds reduced by Ksh 0.3 billion in March 2014. Amortization of the pre-1997 overdraft reduced Government indebtedness at the Central Bank by Ksh 1.2 billion.

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

	2013 March	2014 March	Movement
Total Credit	55.4	77.1	21.7
1. Overdraft	25.4	34.2	8.8
2. Rediscounted securities	0.4	14.6	14.2
Treasury bills	0.0	0.0	0.0
Treasury bonds	0.4	0.0	-0.3
3. Pre-1997 Government Overdraft at CBK	29.5	28.3	-1.2
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.1	0.0	-0.1
Memorandum			
Authorised overdraft limit	25.4	34.2	8.8
Amount utilised to date	25.4	34.2	8.8
Amount available	0.0	0.0	0.0

Source: Central Bank of Kenya

Outlook for FY 2013/14 In the revised budget estimates for the FY 2013/14, ordinary revenue is estimated at Ksh 950.5 billion (25.2 percent of GDP) while external grants are estimated at Ksh 78.9 billion (2.1 percent of GDP). Government expenditure is estimated at Ksh 1,470.6 billion (or 38.9 percent of GDP), of which, Ksh 821.9 billion (21.8 percent of GDP) will be in recurrent expenses, transfer to the county government of Ksh 193.5 billion and the rest in development expenses (Table 6.6).

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

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE	1,097.64	29.07
Ordinary Revenue	950.50	25.17
Appropriations-in-Aid	68.23	1.81
External Grants	78.91	2.09
2. TOTAL EXPENSES & NET LENDING	1,470.61	38.94
Recurrent Expenses	821.89	21.76
Development Expenses	455.26	12.06
County Transfer	193.47	5.12
3. DEFICIT ON A COMMITMENT BASIS (1-2)	(372.97)	(9.88)
4. ADJUSTMENT TO CASH BASIS	0.00	0.00
5. DEFICIT ON A CASH BASIS	(372.97)	(9.88)
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-	-
7. FINANCING	372.97	9.88
Domestic (Net)	134.68	3.57
External (Net)	238.29	6.31

Source: Central Bank of Kenya

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 373 billion (or 9.9 percent of GDP) in 2013/14. The deficit is expected to be financed through net external borrowing of Ksh 238.3 billion and net domestic borrowing of Ksh 134.7 billion.

DEVELOPMENTS IN PUBLIC DEBT

Overall Debt Kenya's public and publicly guaranteed debt increased by 14.7 percent to Ksh 2,171.7 billion in March 2014, from Ksh 1,894.1 billion in June 2013. The total debt stock at the end of March 2014 was equivalent to 56.4 percent of GDP, compared with 51.7 percent of GDP in June 2013. The increase is reflected in both the domestic debt and external debt components, which increased from increased from 28.7 percent of GDP and 23.0 percent of GDP, respectively, in June 2013 to 32 percent of GDP and 24.4 percent of GDP in March 2014 (Table 7.1).

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

	Jun-12	Dec-12	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Change 2013/14
Bilateral	246.2	265.4	254.8	257.6	270.6	272.0	270.0	273.9	283.7	284.9	284.2	244.2	287.5	29.9
Multilateral	452.9	482.7	504.2	511.8	529.1	539.8	544.1	539.9	553.3	562.6	561.7	573.3	577.9	66.1
Commercial Banks	50.5	58.4	58.3	58.9	59.9	60.1	59.6	58.7	59.5	59.1	59.0	59.1	59.2	0.3
Supplier Credits	14.8	15.5	15.0	15.2	15.6	15.6	15.6	15.5	15.8	15.8	15.6	15.7	15.7	0.5
Sub-Total	764.5	822.0	832.24	843.56	875.23	887.54	889.31	887.99	912.23	922.37	920.41	892.30	940.40	96.84
(As a % of GDP)	23.56	22.7	22.7	23.0	23.6	23.5	22.9	22.9	23.5	23.8	23.7	23.6	24.4	
(As a % of total debt)	47.1	45.8	43.6	44.5	44.8	44.3	43.2	43.0	43.8	43.7	43.4	42.1	43.3	
DOMESTIC¹														
Banks	459.2	542.9	595.9	563.5	573.7	593.7	618.3	612.8	609.2	627.6	633.4	664.4	663.5	100.0
Central Bank	47.4	56.8	64.0	36.4	47.7	64.7	63.6	57.4	67.2	64.6	56.6	73.3	77.2	40.8
Commercial Banks	411.9	486.1	531.8	527.1	526.0	528.9	554.7	555.4	542.0	563.0	576.8	591.1	586.3	59.2
Non-banks	388.5	418.5	469.0	477.5	496.1	513.8	540.2	551.6	550.6	551.3	557.0	553.2	554.2	76.7
Pension Funds	193.2	195.7	256.6	263.1	272.4	281.7	289.5	284.9	288.2	294.1	306.0	304.8	310.6	47.6
Insurance Companies	92.4	98.9	109.3	108.6	111.9	115.9	117.2	117.8	117.6	114.4	116.6	117.3	117.8	9.2
Other Non-bank Sources	103.0	123.9	103.1	105.9	111.8	116.1	133.5	149.0	144.8	142.8	134.4	131.1	125.7	19.9
Non-residents	11.0	10.1	10.0	9.6	8.9	9.2	9.7	10.3	10.3	10.3	10.5	11.7	14.0	4.4
Sub-Total	858.8	971.4	1074.8	1050.6	1078.6	1116.7	1168.2	1174.8	1170.1	1189.2	1200.9	1229.3	1231.2	180.6
	26.47	26.9	29.3	28.7	29.1	29.5	30.1	30.3	30.2	30.7	31.0	32.6	32.0	
	52.9	54.2	56.4	55.5	55.2	55.7	56.8	57.0	56.2	56.3	56.6	57.9	56.7	
GRAND TOTAL	1623.4	1793.4	1907.0	1894.1	1953.8	2004.2	2057.5	2062.8	2082.3	2111.6	2121.3	2121.6	2171.6	277.5
(As a % of GDP)	50.0	49.6	52.1	51.7	52.7	53.0	53.1	53.2	53.7	54.5	55.1	55.1	56.4	

Sources: National Treasury and Central Bank of Kenya

Domestic Debt

The total stock of domestic debt increased by Ksh 180.6 billion at the end of the third quarter of the FY 2013/14 to Ksh 1,231.2 billion in March 2014. The rise in domestic debt during the period followed an increase of Ksh 35.1 billion in Treasury bills, Ksh 119.4 billion in Treasury bonds and Ksh 27.2 billion in Government overdraft at Central bank (Table 7.2). The domestic debt-to-total debt ratio increased from 55.5 percent in June, 2013 to 56.7 percent in March, 2014, while domestic debt-to-GDP edged up to 32 percent in March, 2014, from 28.7 percent in June, 2013 (Table 7.1).

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2013									Change Jun-13-Mar-14			
	June	%	Nov	%	Dec	%	Jan	%	Feb		%	Mar	%
Total Stock of Domestic Debt (A+B)	1,050.6	100.0	1,170.1	100.0	1,189.2	100.0	1,200.9	100.0	1,229.4	100.0	1,231.2	100.0	180.6
A. Government Securities	1,040.8	99.1	1,132.3	96.8	1,152.4	96.9	1,175.9	97.9	1,189.7	96.8	1,194.6	97.2	153.9
1. Treasury Bills (excluding Repo Bills)	267.7	25.5	310.8	26.5	307.3	25.8	316.3	26.3	317.8	25.9	302.8	24.6	35.1
Banking institutions	183.5	17.5	190.6	16.3	191.1	16.1	193.1	16.1	204.4	16.6	190.3	15.5	6.9
Others	84.2	8.0	119.5	10.2	116.2	9.8	123.2	10.3	113.4	9.2	112.5	9.1	28.2
2. Treasury Bonds	744.2	70.8	793.4	67.8	816.3	68.6	831.3	69.2	843.6	68.6	863.6	70.2	119.4
Banking institutions	341.0	32.5	347.9	29.7	369.5	31.1	381.4	31.8	391.6	31.9	407.9	33.2	66.8
Pension Funds	220.1	21.0	229.6	19.6	230.9	19.4	233.4	19.4	235.1	19.1	238.0	19.4	17.8
Others	183.0	17.4	215.8	18.4	215.9	18.2	216.5	18.0	216.9	17.6	217.7	17.7	34.7
4. Non-Interest Bearing Debt	28.9	2.7	28.9	2.5	28.9	2.4	28.3	2.4	28.3	2.3	28.3	2.3	(0.6)
Of which: Repo T/Bills	28.9	2.8	28.8	2.5	28.8	2.4	28.3	2.4	28.3	2.3	28.3	2.3	(0.6)
B. Others:	9.8	0.9	37.7	3.2	36.7	3.1	25.0	2.1	39.7	3.2	36.6	3.0	26.8
Of which CBK overdraft to Government	7.0	0.7	34.2	2.9	34.2	2.9	22.5	1.9	34.2	2.8	34.2	2.8	27.2

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding repos, increased by Ksh 35.1 billion from Ksh 267.7 billion in June 2013 to Ksh 302.8 billion in March 2014 (Table 7.2). However, despite this increase the proportion of Treasury bills in total domestic debt decreased to 24.6 in March 2014 from 25.5 percent in June 2013. The dominant investors were commercial banks and pension funds, with shares of 58.1 percent and 24 percent, respectively by March 2014 compared with shares of 68.5 percent and 16 percent as at June 2013 (Table 7.3).

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

Holders	2013												Change Jun-13-Mar-14						
	Jun	%	Jul	%	Sept	%	Oct	%	Nov	%	Dec	%		Jan	%	Feb	%	Mar	%
Banking Institutions	183.5	68.5	179.1	70.3	199.3	64.8	197.4	63.3	190.6	61.5	191.1	62.2	193.1	61.0	204.4	64.3	190.3	62.9	6.9
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	10.7	3.3	14.6	4.8	14.6
Comm. Banks	183.5	68.5	179.1	70.3	199.3	64.8	197.4	63.3	190.6	61.5	191.1	62.2	193.1	61.0	193.7	61.0	175.8	58.1	-7.7
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	14.9	5.6	15.5	6.1	19.2	6.2	20.4	6.6	20.9	6.7	20.5	6.7	19.7	6.2	20.2	6.4	20.1	6.6	5.1
Parastatals	5.6	2.1	5.6	2.2	4.7	1.5	4.6	1.5	4.6	1.5	4.1	1.3	4.0	1.3	4.3	1.4	4.2	1.4	-1.4
Building Societies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	42.9	16.0	42.6	16.7	57.4	18.7	62.0	19.9	66.1	21.3	69.9	22.7	72.5	22.9	69.7	21.9	72.7	24.0	29.7
Others	20.8	7.8	12.1	4.8	27.0	8.8	27.6	8.8	27.9	9.0	21.7	7.1	26.9	8.5	19.2	6.0	15.5	5.1	-5.3
Total	267.7	100.0	254.8	100.0	307.6	100.0	312.0	100.0	310.1	100.0	307.3	100.0	316.3	100.0	317.8	100.0	302.8	100.0	35.1

Source: Central Bank of Kenya

Treasury Bonds

Outstanding Treasury bonds increased by Ksh 119.4 billion, from Ksh 744.2 billion in June 2013 to Ksh 863.6 billion in March 2014. The proportion of bonds to total domestic debt declined from 70.8 percent in June 2013 to 70.2 percent in March 2014 (Table 7.2). The increase in the holding of Treasury bonds was as follows: Ksh 66.7 billion, Ksh 17.8 billion, Kshs 4 billion and Ksh 34.1 billion absorbed by Commercial banks, pension funds, insurance companies and other holders, respectively. Holdings by Parastatals and building societies declined by Ksh 3.3 billion and Ksh 0.1 billion, respectively, while the Treasury bonds held by non-bank financial institutions and those rediscounted at the Central Bank remained unchanged during the period under review. The shares of Treasury bonds held by Commercial banks and other holders increased from 45.8 percent and 6.2 percent, respectively in June

2013 to 47.2 percent and 6.8 percent in March 2014. However, the shares held by insurance companies, Parastatals and pension funds declined while share held by building societies and non-bank financial institutions remained unchanged during the period under review (Table 7.4)

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

Holders	2013						2014						Change Jun 13- Mar 14				
	June	%	Sep	%	Oct	%	Nov	%	Dec	%	Jan	%		Feb	%	Mar	%
Banking Institutions	341.2	45.9	353.1	44.4	354.3	44.2	348.1	43.9	369.7	45.3	381.5	45.9	391.6	46.4	407.9	47.2	66.7
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	341.0	45.8	352.9	44.4	354.1	44.2	347.9	43.9	369.5	45.3	381.4	45.9	391.6	46.4	407.9	47.2	66.8
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	0.2	0.0	0.0
Insurance Companies	93.7	12.6	98.0	12.3	97.3	12.1	96.7	12.2	96.7	11.8	96.9	11.7	97.2	11.5	97.7	11.3	4.0
Parastatals	42.7	5.7	41.0	5.2	40.3	5.0	40.3	5.1	39.4	4.8	39.2	4.7	39.4	4.7	39.4	4.6	-3.3
Of which: NSSF	22.7	3.1	22.3	2.8	21.6	2.7	21.6	2.7	21.2	2.6	21.2	2.5	21.2	2.5	21.2	2.5	-1.5
Building Societies	0.6	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.5	0.1	0.5	0.1	-0.1
Pension Funds	220.1	29.6	232.0	29.2	229.6	28.6	228.8	28.8	230.9	28.3	233.4	28.1	235.1	27.9	238.0	27.6	17.8
Others	45.8	6.2	70.3	8.8	79.8	10.0	79.0	10.0	79.1	9.7	79.7	9.6	79.6	9.3	58.7	6.8	12.9
Total	744.2	100.0	794.8	100.0	801.8	100.0	793.4	100.0	816.3	100.0	831.3	100.0	843.6	100.0	863.6	100.0	119.4

Source: Central Bank of Kenya

Domestic Debt Maturity structure

Total domestic debt as at March 2014 amounted to Ksh 1,231.2 billion with government securities accounting for 97.2 percent of this debt (Table 7.2). In terms of maturity structure, Government securities worth Ksh 311.4 billion will fall due between March and April 2014, and will comprise Ksh 305 billion in Treasury bills and Ksh 6.4 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 33.4 billion, Ksh 75.3 billion and Ksh 168 billion in 91-day, 182-day and 364-day, respectively, while Treasury bonds maturing during this period will comprise Ksh 6.4 billion in the 3-year fixed rate. The average length of maturity of existing domestic debt declined to 4 years and 11 months in March, 2014, from 5 years and 2 months in June 2013.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2012		2013												Change Jun-13 to Mar-14		
		Jun	%	Jun	%	Oct	%	Nov	%	Dec	%	Jan	%	Feb	%		Mar	%
Treasury bills	91-Day	24.3	2.8	36.2	3.4	42.3	3.6	38.3	3.2	30.3	2.5	30.8	2.6	29.4	2.6	33.9	2.8	-2.3
	182-Day	75.7	8.8	52.2	5.0	55.2	4.6	50.2	4.2	47.6	4.0	55.0	4.6	57.4	4.6	66.0	5.4	13.8
	364-Day	32.1	3.7	179.3	17.1	214.5	18.0	221.6	18.6	229.4	19.3	230.5	19.2	230.9	19.2	202.9	16.5	23.6
Treasury Bonds	1.5-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	86.5	10.1	122.0	11.6	139.0	11.7	115.6	9.7	140.8	11.8	140.8	11.7	140.9	11.7	160.8	13.1	38.8
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	0.0	0.0	19.1	1.8	25.1	2.1	25.1	2.1	25.1	2.1	25.1	2.1	29.9	2.1	29.9	2.4	10.8
	5-Year	115.3	13.4	138.4	13.2	127.0	10.7	127.0	10.7	127.0	10.7	127.0	10.6	141.4	10.6	141.4	11.5	3.0
	6-Year	57.4	6.7	40.7	3.9	40.7	3.4	40.7	3.4	40.7	3.4	40.7	3.4	40.7	3.4	40.7	3.3	0.0
	7-Year	22.5	2.6	19.3	1.8	19.3	1.6	19.3	1.6	17.0	1.4	17.0	1.4	17.0	1.4	17.0	1.4	-2.3
	8-Year	17.6	2.0	31.8	3.0	38.7	3.3	38.7	3.3	38.7	3.3	38.7	3.2	40.9	3.2	40.9	3.3	9.1
	9-Year	25.4	3.0	18.2	1.7	18.2	1.5	18.2	1.5	18.2	1.5	18.2	1.5	18.2	1.5	18.2	1.5	0.0
	10-Year	95.7	11.1	109.4	10.4	116.1	9.8	116.1	9.8	116.1	9.8	131.1	10.9	131.1	10.9	131.1	10.6	21.7
	11-Year	4.0	0.5	4.0	0.4	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	63.5	7.4	30.2	2.9	54.7	4.6	54.7	4.6	54.7	4.6	54.7	4.6	45.4	4.6	45.4	3.7	15.2
15-Year	75.4	8.8	119.8	11.4	127.3	10.7	127.3	10.7	127.3	10.7	127.3	10.6	142.9	10.6	142.9	11.6	23.1	
20-Year	29.7	3.5	49.0	4.7	49.0	4.1	49.0	4.1	49.0	4.1	49.0	4.1	49.0	4.1	49.0	4.0	0.0	
25-Year	20.2	2.4	20.2	1.9	20.2	1.7	20.2	1.7	20.2	1.7	20.2	1.7	20.2	1.7	20.2	1.6	0.0	
30-Year	22.1	2.6	22.1	2.1	22.1	1.9	22.1	1.9	22.1	1.9	22.1	1.8	22.1	1.8	22.1	1.8	0.0	
Repo T bills	29.2	3.4	28.9	2.8	28.8	2.4	28.83	2.4	28.83	2.4	28.83	2.4	28.30	2.4	28.30	2.3	-0.6	
Overdraft	7.3	0.8	7.0	0.7	28.0	2.4	27.98	2.4	27.98	2.4	27.98	2.3	32.19	2.3	34.19	2.8	27.2	
Other Domestic debt	3.3	0.4	2.79	0.3	4.46	0.4	25.15	2.1	24.16	2.0	11.85	1.0	11.85	1.0	2.30	0.2	-0.5	
Total Debt	858.83	100.0	1050.56	100.0	1174.76	98.8	1170.05	98.4	1189.18	100.0	1200.90	100.0	1229.30	100.0	1231.18	100.0	180.63	

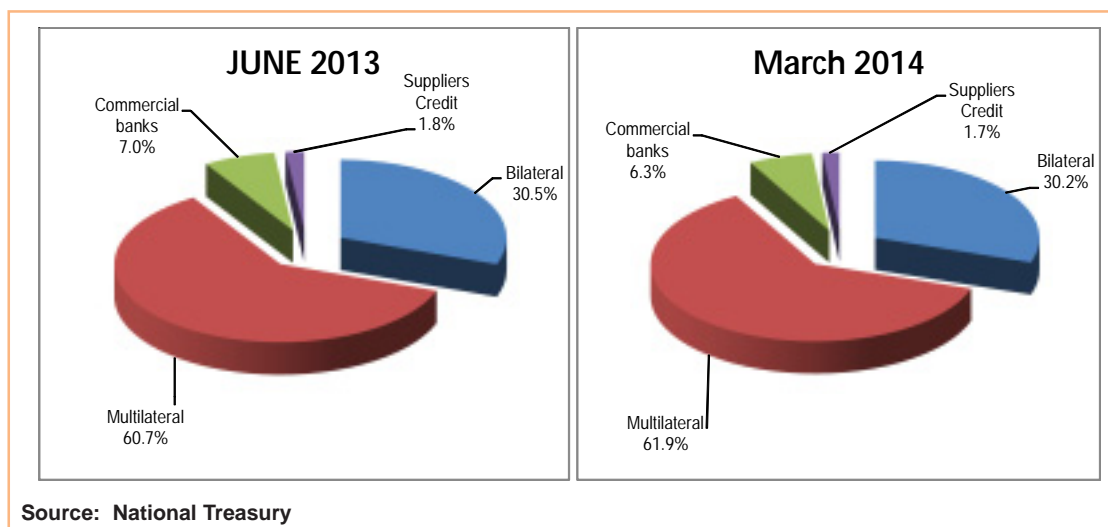
Source: Central Bank of Kenya

External Debt

Kenya's public and publicly guaranteed external debt increased by Ksh 96.8 billion to Ksh 940.4 billion (USD 10.9 billion), at the end of the third quarter of the fiscal year 2013/14, from Ksh 843.6 billion (USD 9.8 billion) in June, 2013 (Table 7.1). The amount of total external debt to the central government debt was Ksh 896.4 billion (USD 10.4 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 37.7 billion of the increase in multilateral debt, while France and China accounted for Ksh 12.2 billion and Ksh 9.5 billion, respectively, of the increase in bilateral debt. These increases were largely due to additional disbursements and exchange rate revaluations during the period. Japan's contribution to the bilateral debt reduced by Ksh 3.9 billion during the period under review.

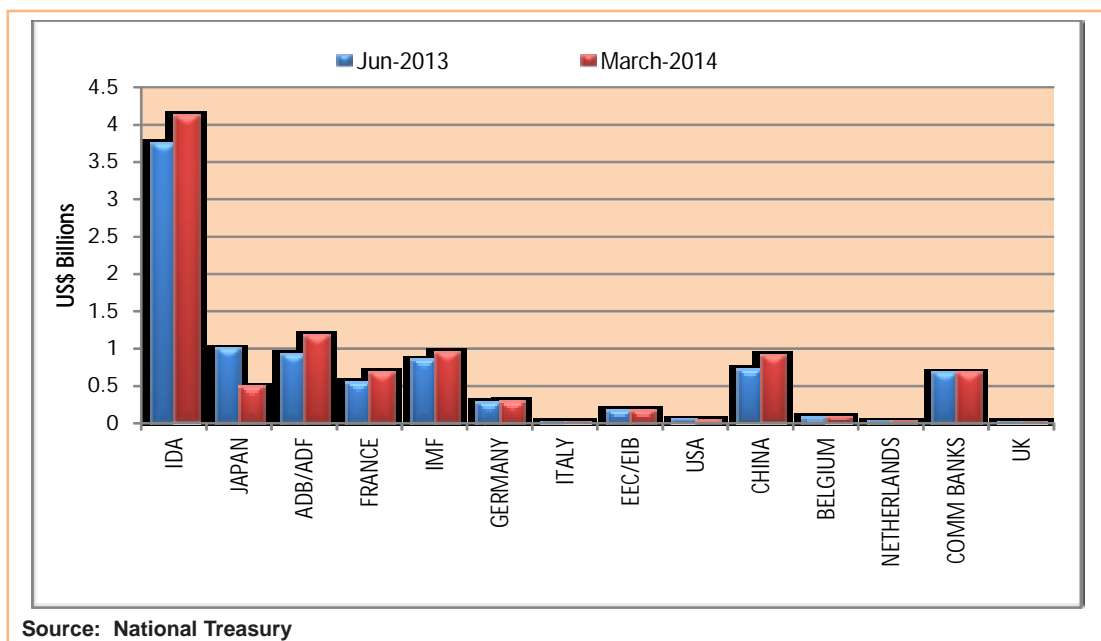
Composition of External Debt by Creditor

The proportion of external debt owed to multilateral lenders increased from 60.7 percent in June 2013 to 61.9 percent in March 2014 while that owed to commercial banks, bilateral lenders and suppliers credit declined from 7.0 percent, 30.5 percent and 1.8 percent respectively, in June 2013 to 6.3 percent, 30.2 percent and 1.7 percent in March 2014 (Chart 7A).

CHART 7A: COMPOSITION OF EXTERNAL DEBT

Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 4.1 billion or 37.6 percent of total external debt while that owed to China, Kenya's largest bilateral lender, amounted to USD 1.0 billion which was equivalent to 9.2 percent of the total external debt at the end of March 2014 (Chart 7B).

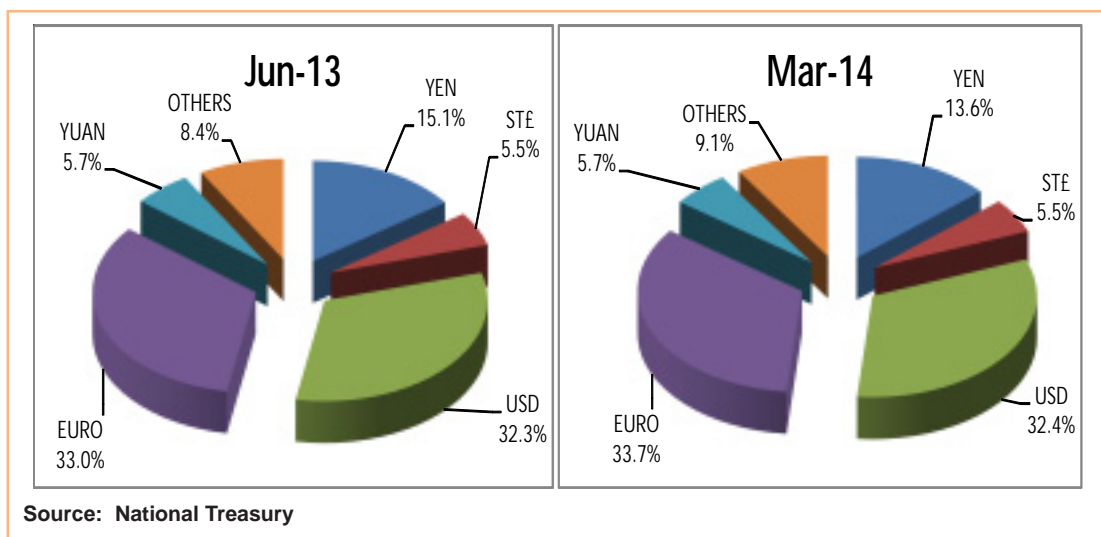
CHART 7B: EXTERNAL DEBT BY CREDITOR



Currency Composition of External Debt

External debt held in the Euro, the US dollar and other currencies’ increased from 33.0 percent, 32.3 percent and 8.4 percent of total external debt, respectively, in June 2013 to 33.7 percent, 32.4 percent and 9.1 percent in March 2014. Debt held in Japanese Yen declined from 15.1 percent to 13.6 percent during the same period. The proportion of debt held in the sterling pound and Yuan remained constant at 5.5 percent and 5.7 percent, respectively (Chart 7C).

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Public Debt Service Cumulative interest and other charges on domestic debt for the period July 2013 to March 2014 amounted to Ksh 81.9 billion compared with Ksh 79.1 billion during a similar period of the previous fiscal year. This comprised interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 16.2 billion and Ksh 67.1 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 0.5 billion and Ksh 1.2 billion, respectively. External debt service for the period July 2013 to March 2014 amounted to Ksh 6.9 billion, comprising Ksh 4 billion in principal repayments and Ksh 2.9 billion in interest payments.

Performance for the FY 2013/14 In the fiscal year 2013/14, external debt is estimated at Ksh 900.8 billion while gross and net domestic debt are estimated at Ksh 996.0 billion (26.4 percent of GDP) and Ksh 844.1 billion (22.4 percent of GDP), respectively

ACTIVITY IN THE STOCK MARKET

The stock market recorded mixed performance in the equities and bond segments in March 2014. Equities market turnover declined following a marginal drop in shares traded which offset the impact of improved share prices. Bond market turnover improved while net foreign investor participation in equities stabilised.

Equity Market

The NSE 20 Share Index closed 12.37 points higher in March 2014 and the NASI gained 2.84 points. Market Capitalization gained Ksh 42.97 billion, crossing the 2 trillion-mark to close at Ksh 2,003.52 billion. Equities turnover declined by 11.6 percent in March 2014 due to lower shares prices and volume (Chart 8.1).

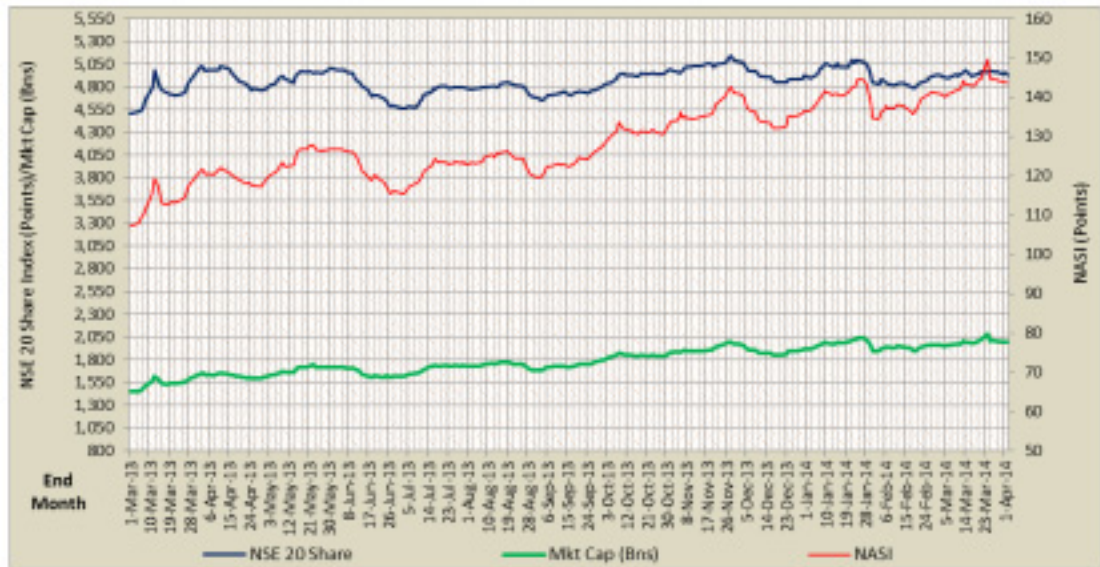
TABLE 8.1: SELECTED STOCK MARKET INDICATORS

Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)	FP to Equity Turnover	FS to Equity Turnover	Overall net FP to Equity Turnover
Mar-12	3,366.89	73.47	366.00	6,386.00	940.00	47,811.97	60.44%	18.93%	39.69%
Apr-12	3,546.66	76.91	526.15	7,640.23	985.00	35,503.62	64.29%	41.11%	52.70%
May-12	3,650.85	78.48	543.29	8,815.35	1,005.19	47,343.28	58.32%	45.85%	52.09%
Jun-12	3,703.94	80.75	385.51	6,214.24	1,048.72	28,259.68	62.44%	36.06%	49.25%
Jul-12	3,832.42	83.26	383.61	6,037.89	1,098.90	34,170.82	51.90%	38.19%	45.05%
Aug-12	3,865.76	84.66	338.92	5,680.73	1,117.39	86,918.78	58.56%	40.12%	49.34%
Sep-12	3,972.03	87.38	470.26	9,781.50	1,155.99	95,866.77	68.67%	35.08%	51.88%
Oct-12	4,147.28	91.67	458.43	11,082.25	1,217.09	72,596.46	68.61%	41.85%	55.23%
Nov-12	4,083.52	92.20	836.90	10,537.05	1,234.47	38,895.86	67.02%	25.88%	46.45%
Dec-12	4,133.02	94.86	461.89	7,582.42	1,272.00	26,672.11	73.58%	45.50%	59.54%
Jan-13	4,416.60	103.50	518.71	8,464.46	1,387.81	20,999.59	59.06%	33.86%	46.46%
Feb-13	4,518.59	106.91	692.28	14,693.27	1,451.01	20,240.18	42.73%	69.45%	56.09%
Mar-13	4,860.83	117.91	571.29	11,182.65	1,599.80	25,690.98	55.92%	39.74%	47.83%
Apr-13	4,765.23	118.07	596.83	9,856.50	1,601.93	35,190.25	56.75%	26.73%	42.67%
May-13	5,006.96	126.80	867.77	16,070.53	1,720.43	73,523.70	53.22%	31.60%	42.41%
Jun-13	4,598.16	116.31	727.78	13,021.29	1,618.27	85,904.11	66.13%	46.15%	56.14%
Jul-13	4,787.56	122.86	615.90	11,205.17	1,727.83	34,170.82	65.88%	51.38%	58.63%
Aug-13	4,697.75	119.96	670.38	20,797.41	1,681.66	24,520.25	75.75%	28.44%	52.10%
Sep-13	4,793.20	127.35	488.79	10,062.50	1,790.85	29,304.17	65.89%	45.39%	55.64%
Oct-13	4,992.88	133.24	804.51	15,937.19	1,873.66	51,674.82	64.28%	47.19%	55.73%
Nov-13	5,100.88	141.17	645.20	13,128.66	1,975.00	27,310.57	48.21%	41.47%	44.84%
Dec-13	4,926.97	136.65	466.25	11,329.23	1,920.72	23,695.80	54.95%	61.04%	57.99%
Jan-14	4,856.15	134.66	638.48	15,970.23	1,898.00	42,549.39	48.28%	53.77%	51.03%
Feb-14	4,933.41	141.05	545.32	14,745.87	1,960.55	26,355.00	47.52%	57.72%	52.62%
Mar-14	4,945.78	143.89	544.06	13,042.51	2,003.52	31,623.00	50.55%	53.61%	52.08%

Source: Nairobi Securities Exchange

Foreign Investors dominated the NSE equities, with net foreign investor share at 52.08 percent in March 2014 from 52.62 percent of total equity turnover in February 2014. Foreign purchases, accounted for 50.55 percent of total equity turnover against 53.61 percent sales.

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



Source: Nairobi Securities Exchange

Shareholders' wealth measured by market capitalization increased by 2.2 percent to Ksh 2,003.5 billion in March 2014 (Chart 8A).

Most Active Sectors & FTSE NSE Kenya Index Series

Telecommunication and Technology sector dominated trading, with 228.92 million shares or 42.31 percent of the market. Banking sector had 143.57 million shares or 26.54 percent and the Insurance sector 55.93 million shares or 10.34 percent of the market.

FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at NSE, and FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks, closed at 176.93 points and 179.02 points in March 2014, up from 172.36 points and 175.17 points in February 2014, respectively. FTSE NSE Kenyan Shilling Government Bond Index rose to 93.75 points from 92.287 points, reflecting decline in market yields.

Bond Market Bonds turnover increased by 20 percent in March 2014, with a total of 754 deals worth Ksh 31,623 million traded up from 538 deals worth Ksh 26,355 million in February 2014. The FXD1/2014/010 dominated trading, at 23.53 percent of total turnover, with yields ranging between 11.40 percent and 11.80 percent against a coupon rate of 12.18 percent. Corporate bonds segment accounted for 1.006 percent of the market, where KENB had 5 deals worth Ksh 324.81 million of the total Ksh 325.55 million in this segment.

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

	Mar-14	Jun-13	Mar 14/Jun 2013 Movement
ASSETS			
Balances due from Banking Institutions and Gold hold	578,905	527,944	50,961
Funds held with International Monetary Fund	1,959	2,694	(735)
Items in the course of collection	39	154	(115)
Advances to commercial banks	1,567	351	1,216
Loans and Advances	38,292	10,887	27,405
Other Assets	2,763	2,545	218
Retirement Benefits Assets	2,967	2,967	0
Property and Equipment	12,326	12,052	274
Intangible Assets	715	973	(258)
Due from Government of Kenya	28,334	28,889	(555)
TOTAL ASSETS	667,867	589,456	78,411
LIABILITIES			
Currency in Circulation	198,952	183,047	15,905
Investments by Banks	16,224	10,633	5,591
Deposits	247,728	221,927	25,801
International Monetary Fund	129,170	118,568	10,602
Other Liabilities	14,056	2,203	11,853
Provisions	123	123	0
TOTAL LIABILITIES	606,253	536,501	69,752
EQUITY AND RESERVES	61,614	52,955	8,659
Share Capital	5,000	5,000	0
General reserve fund	39,044	40,545	(1,501)
Period surplus	8,899	0	8,899
Asset revaluation reserve	8,671	7,410	1,261
Dividends payable	0	0	0
TOTAL LIABILITIES AND EQUITY	667,867	589,456	78,411

Source: Central Bank of Kenya

NOTES ON THE FINANCIAL POSITION

Assets **Balances due from Banking institutions and Gold holdings** category consist of foreign reserves held in external current accounts, deposits and special/projects accounts, foreign travelers cheques, domestic foreign currency clearing accounts, gold, special drawing rights and RAMP securities invested with World Bank. The category increased by Ksh 50,961 million to Ksh 578,905 million in March 2014 from Ksh 527,944 million in June 2013. The expansion reflected largely CBK purchases of foreign exchange from the domestic interbank market to accumulate reserves.

Items in course of collection represent the value of clearing instruments which are held by the Bank, while awaiting clearing by respective commercial banks. The balances as at March 2014 were Ksh 115 million, representing 25.3 percent recovery from Ksh 154 million outstanding as at June 2013.

Advances to commercial banks balances of money advanced by Central Bank to commercial banks through reverse Repo (injection of liquidity) for a short duration of 7 days. The balance outstanding increased by Ksh 1,216 million to Ksh 1,567 million in March 2014 from Ksh 351 million in June 2013.

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 increased by Ksh 27,405 million to Ksh 38,292 million in March 2014 from Ksh 10,887 million in June 2013.

Other Assets largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets increased by Ksh 218 million to Ksh 2,763 million in March 2014 from Ksh 2,545 million in June 2013.

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

Liabilities **Currency in circulation** increased by Ksh 15,905 million to Ksh 198,952 million in March 2014 from Ksh 183,047 million in June 2013.

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 increased by Ksh 25,801 million to Ksh 247,728 million in March 2014 from Ksh 221,927 million in June 2013.

Amount due to International Monetary Fund represents the Banks obligations to the IMF. The balance increased by Ksh 10,602 million to Ksh 129,170 in March 2014 from Ksh 118,568 million in June 2013.

Other liabilities include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance increased by Ksh 11,853 million to Ksh 14,056 million in March 2014 from Ksh 2,203 million in June 2013.

Equities and reserves increased by Ksh 8,659 million to Ksh 61,614 million in March 2014 from Ksh 52,955 million in June 2013 largely reflecting increases of Ksh 8,899 million in the period surplus and Ksh 1,261 million in asset revaluation which more than offset a decrease of Ksh 1,501 million in the General reserve fund.