Central Bank of Kenya

Quarterly Economic Review

January - March 2017
Volume 2 No. 1

OBJECTIVES OF THE CENTRAL BANK OF KENYA

The principal objectives of the Central Bank of Kenya (CBK) as established in the CBK Act are:

1) To formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices;

2) To foster the liquidity, solvency and proper functioning of a stable, market-based, financial system;

3) Subject to (1) and (2) above, to support the economic policy of the Government, including its objectives for growth and employment.

Without prejudice to the generality of the above, the Bank shall:

- Formulate and implement foreign exchange policy;
- Hold and manage Government foreign exchange reserves;
- License and supervise authorised foreign exchange dealers;
- Formulate and implement such policies as best promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems;
- Act as banker and adviser to, and fiscal agent of, the Government; and
- Issue currency notes and coins.

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QUARTERLY ECONOMIC REVIEW

JANUARY - MARCH 2017

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HIGHLIGHTS

Overall inflation remained elevated in the first quarter of 2017, largely on account of increase in food prices following unfavorable weather conditions experienced since late 2016. It accelerated to 8.77 percent in the first quarter of 2017, compared to 6.50 percent in the fourth quarter of 2016. Annual inflation increased by 8 basis points to 6.48 percent from 6.40 percent during the same period.

Growth in broad money, M3, accelerated to 2.9 percent in the first quarter of 2017 from a decline of 0.3 percent in the fourth quarter of 2016.

The Monetary Policy Committee (MPC) retained the Central Bank Rate (CBR) at 10.0 percent in its meeting held in March 2017, in order to anchor inflation expectations. The weighted average interbank interest rate increased to 6.19 percent in first quarter of 2017 from 4.93 percent in fourth quarter of 2016.

The economy remained fairly resilient in the first quarter of 2017, growing by 4.7 percent despite prolonged drought and subdued credit to the private sector during the quarter. Available economic indicators for the first quarter of 2017 point to slowed growth in output particularly with respect to agricultural production and electricity generation.

Kenya's external position remained resilient with the current account deficit stabilising at USD 1,184 million during the first quarter of 2017. Kenya's official international reserves position was strong at USD 8,379 million by end-March 2017, equivalent to 5.9 months of imports. The Precautionary Arrangements with the IMF amounting to USD 1,500 million provided additional buffer against short term external and domestic shocks.

The foreign exchange market has remained stable supported by a generally lower current account deficit and resilient inflows from diaspora remittances.

Global growth is projected to improve from 3.1 percent in 2016 to 3.5 percent in 2017 and 3.6 percent in 2018, largely driven by developments in the emerging markets and developing economies. Global headline inflation continues to increase, mainly driven by energy prices. International financial conditions have remained supportive, despite significant policy uncertainty.

The banking sector continues to remain strong and vibrant despite increase in non performing loans. During the period under review, KEPSS availability improved to an average of 99.95 per cent compared to 99.23 per cent in the previous quarter.

The government's budgetary operations resulted in a deficit of 4.0 percent of GDP in the third quarter of the FY 2016/17 compared with a deficit of 3.3 percent of GDP in the second quarter. The cumulative deficit, at 6.1 percent of GPD through March 2017 was within the 6.3 percent of GDP target.

Kenya's public and publicly guaranteed debt increased by 7.5 percent during the third quarter of the FY 2016/17 reflecting an increase in external debt.

The capital markets recorded mixed performance in the first quarter of 2017.

Chapter 1
Inflation

Overview

Overall inflation remained elevated in the first quarter of 2017, largely on account of increase in food prices following unfavorable weather conditions experienced since late 2016. It increased by 227 basis points to 8.77 percent in the first quarter of 2017 from 6.50 percent in the fourth quarter of 2016 **(Table 1.1)**. This was reflected by the rise in food inflation which increased for the third consecutive quarter. Food inflation accelerated to 14.74 percent in the first quarter of 2017 from 10.57 percent in the fourth quarter of 2016. Fuel inflation increased to 2.31 percent in the first quarter of 2017 from 0.27 percent in the fourth quarter of 2016 following increase in the international oil prices and increased reliance on thermal power instead of hydroelectricity. Non-Food Non-Fuel (NFNF) inflation declined by 97 basis points to 4.21 percent in the first quarter of 2017 from 5.18 percent in the fourth quarter of 2016, suggesting minimal demand pressures in the economy.

Annual average inflation increased by 8 basis points to 6.48 percent from 6.40 percent in the period under review whereas the three months annualized inflation accelerated by 812 basis points to 14.75 percent in the first quarter of 2016 from 6.63 percent in the fourth quarter of 2016, which point to underlying inflationary pressures in the economy.

Contributions of broad categories to overall inflation

Food inflation remained elevated in the first Quarter of 2017 and exerted a significant contribution to overall inflation. It contributed 7.04 percentage points to overall inflation in the first quarter of 2017 compared to 5.02 percentage points in the fourth quarter of 2016. This is reflective of the increases in food prices across the country following depressed agricultural production arising from the unfavorable weather conditions since late 2016 **(Chart 1A)**.

The contribution of Fuel inflation to overall inflation increased to 0.57 percentage points in the first quarter of 2017 from 0.07 percentage points in the fourth quarter of 2016, largely driven by increases in the cost of electricity and international oil prices.

The contribution of Non Food Non Fuel (NFNF) inflation to overall inflation declined to 1.16 percentage points in the first quarter of 2017 from 1.41 percentage points in the fourth quarter of 2016.

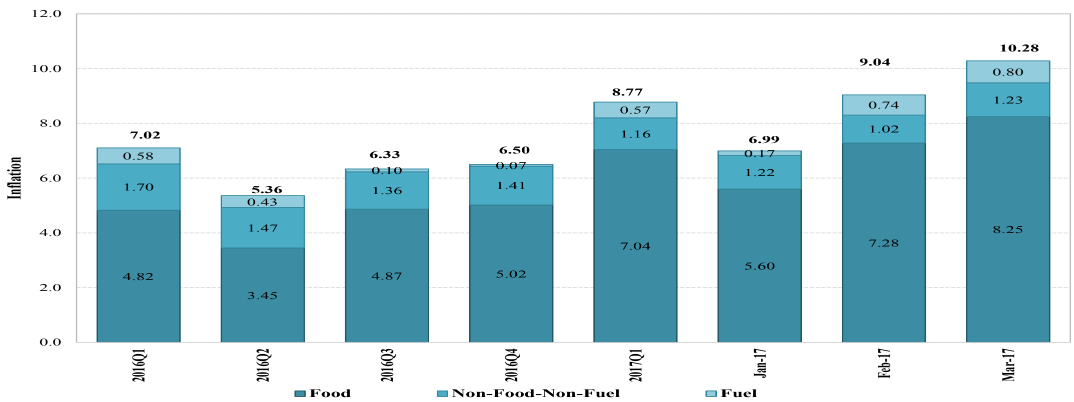
Table 1.1: Recent Developments in Inflation in Per cent[1]

	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Jan-17	Feb-17	Mar-17
Quarterly Overall Inflation	7.02	5.36	6.33	6.50	8.77	6.99	9.04	10.28
Food Inflation	10.43	7.24	10.30	10.57	14.74	11.75	15.29	17.19
Fuel Inflation	2.25	1.73	0.40	0.27	2.31	0.67	2.99	3.27
Non-Food Non-Fuel Inflation (NFNF)	5.81	5.42	4.99	5.18	4.21	4.48	3.68	4.48
Average annual	6.84	6.58	6.47	6.40	6.48	6.26	6.43	6.76
Three months annualised	5.14	7.35	6.98	6.63	14.75	10.36	14.85	19.03

Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

1 Food inflation comprise of "Food and Non-Alcoholic Beverages", and "Hotels and Restaurants" categories of the CPI basket; and Fuel inflation comprise "Transport" and "Housing, Water, Electricity, Gas and Other Fuels" categories of the CPI basket; NFNF excludes food and fuel inflation.

Chart 1A: Contribution of Broad Categories to Overall Inflation in Percentage Points



Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food inflation

Food inflation continued to rise for the third consecutive quarter. It stood at 14.74 percent in the first quarter of 2017 compared to 10.57 percent in the fourth quarter of 2016. The acceleration reflected sustained increase in the prices of several key food items, largely occasioned by the prevailing drought conditions as well as seasonal factors that undermined supply of agricultural produce.

Tomatoes remained the largest contributor to overall inflation since the second quarter of 2016, contributing 1.47 percentage points in the first quarter of 2017 and 1.45 percentage points in the fourth quarter of 2016. The cotribution of Irish potatoes to food inflation increased by more than six fold to 0.52 percentage points, from 0.08 percentage points in the period under review, owing to suppressed supply in the market following depressed rains in the potatoes growing areas.

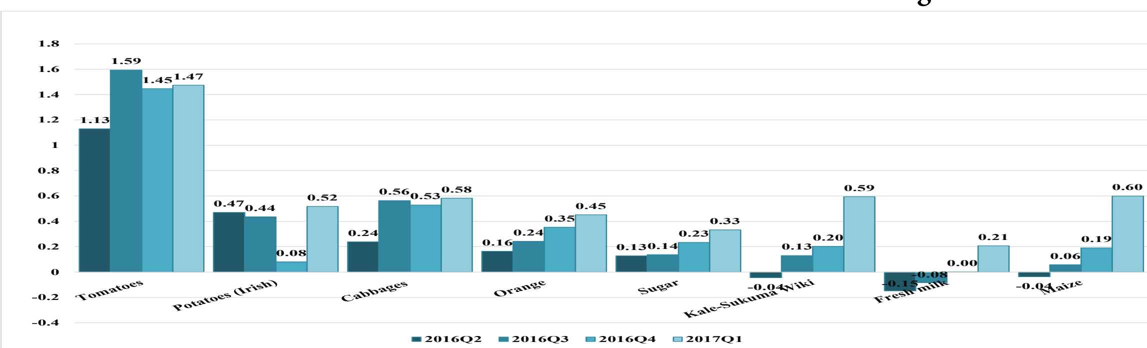
The contribution of cabbages has remained high since the third quarter of 2016, and stood at 0.58 percentage points in the first quarter of 2017. Sukuma wiki (Kales), a widely consumed vegetable recorded a three-fold rise in contribution, to 0.59 percentage points in the period under review, from 0.20 percentage points in the last quarter of 2016. Fresh milk (both packeted and unpacketed) which had a dampening effect on inflation in the previous periods recorded a contribution of 0.21 percentage points in the first quarter of 2017, reflecting low milk production occasioned by the prevailing weather conditions.

The contribution of sugar to overall inflation increased further to 0.33 percentage points in the first quarter of 2017 from 0.23 percentage points in the previous quarter, on account of both local and global developments. The retail price of sugar has been on the rise owing to reduced supply, occasioned by low local production and reduced imports arising from subdued global production in the first quarter of 2017, especially in Brazil and India. The contribution of maize increased to 0.60 percentage points from 0.19 percentage points in the same period **(Chart 1B)**.

Fuel Inflation

Fuel inflation increased by 204 basis points to 2.31 percent in the first quarter of 2017 from 0.27 percent in the third quarter of 2016 **(Chart**

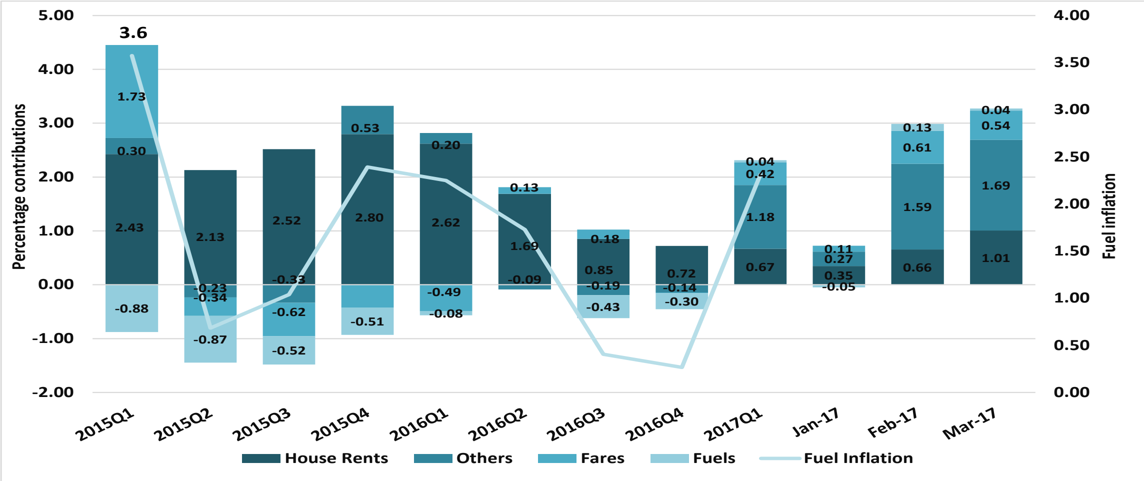
Chart 1B: Contribution of Main Food Items to overall Inflation in Percentage Points [2]



Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

[2]Fresh milk comprises of fresh packeted and unpacketed milk.
Maize comprises of green maize, loose maize grain, sifted maize flour and loose maize flour.

Chart 1C: Contribution of Key Items to Fuel Inflation [3]



Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

1C), owing to increases in house rents and in the cost of electricity arising from reliance on thermal power following persistent suppressed hydro electricity production following reduced water supply for electricity production.

"Other items" in the Fuel basket reversed trend in the quarter under review and exerted an upward pressure on fuel inflation, contributing 1.2 percentage points compared to a dampening effect of 0.1 percentage points in the previous quarter. This was largely attributed to rising costs of water services arising from depressed rainfall during the first quarter of 2017. The contribution of fuels, though positive, was muted on account of the moderating effect of Liquefied Petroleum Gas (LPG) which counterbalanced the positive contribution of petrol, diesel and kerosene. Notably, LPG has been dampening fuel inflation since the second half of 2016. The contribution of fares increased to 0.4 percentage points in the first quarter of 2017, reflective of rising petrol and diesel prices.

Non-Food Non-Fuel inflation (NFNF)

Non-Food Non-Fuel (NFNF) inflation declined to 4.21 percent in the period under review from 5.18 percent in the fourth quarter of

Table 1.2: Contribution of various Baskets to Non-Food-Non-Fuel Inflation in Percentage Points

		Beverages, Tobacco & Narcotics	Clothing & Footwear	Equipment and Routine Household Maintenance	Health	Communication	Recreation & Culture	Education	Miscellaneous Goods & Services	**Non-Food Non-Fuel Inflation**
2016	Q1	1.11	1.21	1.03	0.60	0.22	0.37	0.47	0.79	**5.81**
	Q2	1.11	1.08	0.92	0.51	0.24	0.40	0.49	0.65	**5.42**
	Q3	1.10	0.96	0.81	0.43	0.20	0.40	0.46	0.63	**4.99**
	Q4	0.87	1.20	0.79	0.45	0.24	0.46	0.50	0.67	**5.18**
2017	Q1	0.39	1.14	0.74	0.44	0.17	0.29	0.41	0.64	**4.21**
	Jan	0.40	1.15	0.77	0.40	0.27	0.34	0.45	0.69	**4.48**
	Feb	0.33	1.10	0.67	0.42	0.07	0.21	0.34	0.54	**3.68**
	Mar	0.43	1.17	0.78	0.50	0.17	0.32	0.43	0.68	**4.48**

Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

[3] Fuels comprise of Gas -(LPG), Kerosene, Petrol, Diesel, Charcoal and Firewood

2016 **(Table 2).** All the CPI baskets in this category recorded lower contributions in the quarter under review compared to the last quarter of 2016, reflecting subdued demand pressures. Moreover, the continued dissipation of the effects of excise tax revisions on beer and cigarettes implemented in December 2015 moderated NFNF inflation. The decline was largely reflected in the declining inflation in the Alcoholic Beverages, Tobacco and Narcotics basket whose contribution to NFNF inflation declined to 0.39 percentage points in the first quarter of 2017 from 0.87 percentage points in the fourth quarter of 2016.

Quarterly Overall Inflation across Regions

Inflation across regions, though rising, remained relatively even in the first quarter of 2017. Inflation in the Rest of Kenya accelerated to 9.15 percent in the first quarter of 2017, from 6.84 percent in the fourth quarter of 2016. Similarly, inflation in Nairobi rose to 8.44 percent from 6.07 percent during the same period. During the period under review, the contribution of the Rest of Kenya rose to 4.39 percentage points from 3.28 percentage points in the last quarter of 2016, while the contribution of Nairobi to overall inflation rose to 4.38 percentage points from 3.22 percentage points during the same period.

In both regions, food inflation was the predominant driver of overall inflation, with soaring food prices reflective of the persistent effects of the drought conditions experienced during the period. This pushed the contribution of food inflation in the Rest of Kenya to 3.51 percentage points in the first quarter of 2017 from 2.50 percentage points in the fourth quarter of 2016, while its contribution in Nairobi increased to 3.59 percentage points from 2.57 percentage points during the same period **(Chart 1D).**

Fuel inflation picked up across regions. The contribution of fuel inflation in the Rest of Kenya also rose to 0.29 percentage points, from 0.05 percentage points, and that of Nairobi region increased to 0.32 percentage points from 0.06 percentage points during the same period.

Consistent with the deceleration in NFNF inflation, its contribution to inflation in the Rest of Kenya declined to 0.58 percentage points from 0.73 percentage points while its contribution in Nairobi region declined to 0.47 percentage points from 0.58 percentage points.

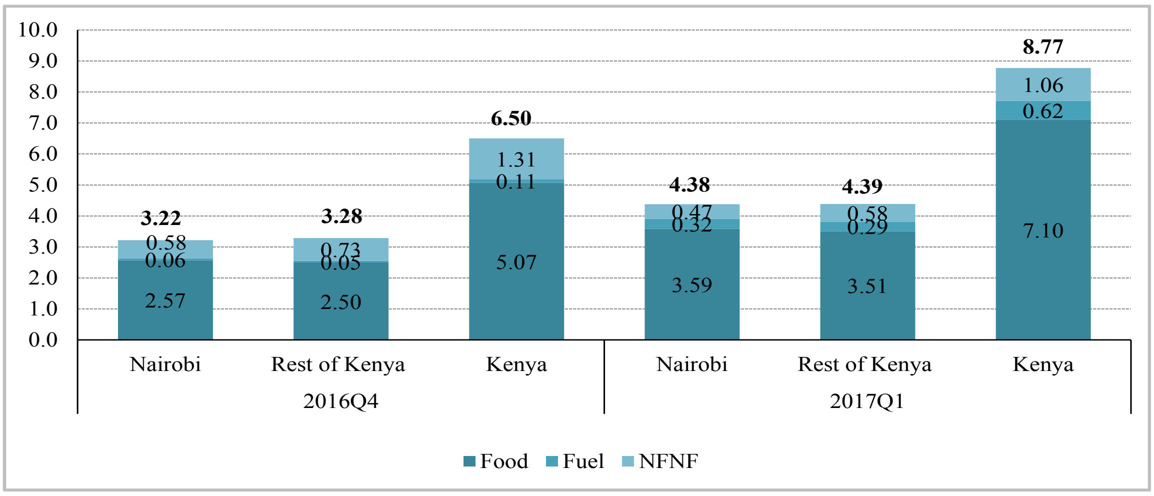
Quarterly Overall Inflation across Income Groups in Nairobi

Inflation in Nairobi show marked differences across income groups. It increased to 8.44 percent in the first quarter of 2017 from 6.07 percent in the fourth quarter of 2016. Food and Fuel inflation accelerated while NFNF declined **(Chart 1E)**.

The contribution of food inflation to overall inflation in Nairobi in the quarter under review increased to 6.93 percentage points from 4.66 percentage points in the previous quarter. The impact of the high food prices was largely felt by the low income group where the contribution of food inflation to overall inflation rose to 4.0 percentage points from 2.70 percentage points in the fourth quarter of 2016.

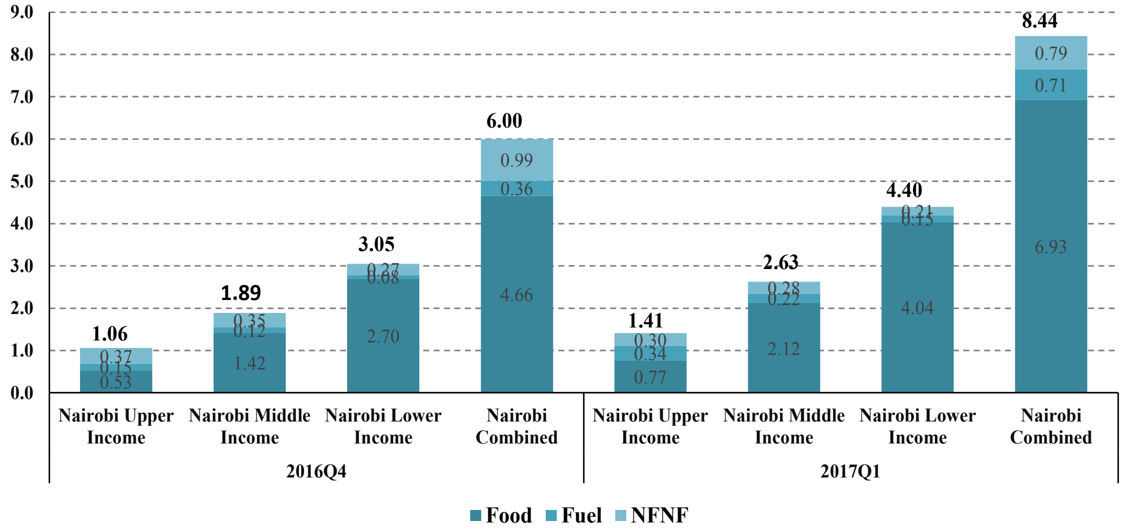
The contribution of fuel inflation to overall inflation in Nairobi increased to 0.71 percentage points in the first quarter of 2017 from 0.36 percentage points in the fourth quarter of 2016. The increase was reflected across all income

Chart 1D: **Contribution of Various Regions to Quarterly Overall Inflation in Percentage Points**



Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Chart 1E: Contribution of Income Groups to Overall Inflation in Nairobi in Percentage Points



Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

groups. Meanwhile, the contribution of NFNF to inflation in Nairobi declined to 0.79 percentage points in the first quarter of 2017 from 0.99 percentage points in the fourth quarter of 2016.

Chapter 2

Money, Credit and Interest Rates

i. Monetary aggregates and its components

Growth in broad money, M3, accelerated to 2.9 percent in the first quarter of 2017 from a decline of 0.3 percent in the fourth quarter of 2016. The recovery in M3 is largely reflected in the residents' foreign currency deposits which increased by 6.9 percent in first quarter of 2017 compared with a decline of 6.8 percent in the fourth quarter of 2016. Similarly, time and saving deposits increased by 4.3 percent in the quarter under review compared with a deceleration of 4.7 percent in the fourth quarter in 2016 **(Table 2.1)**.

Narrow money, M1 recorded a decline of 0.5 percent in the first quarter of 2017 compared with 5.8 percent growth recorded in fourth quarter of 2016, on account of sluggish growth in demand deposits, by 1.6 percent from 6.8 percent in the previous quarter. Growth of demand deposits decelerated, reflecting portfolio reallocation by deposit holders towards government securities arising from better yields offered in the Governmen securities market (Table 2.1 and **Chart 2A)**.

ii. Sources of M3

Broad money (M3) growth accelerated in the first quarter of 2017 following significant increases in Net Foreign Assets (NFA) of the

Table 2.1: Monetary Aggregates (KSh Billion)

	END MONTH LEVEL					QUARTERLY % CHANGE					QUARTERLY ABSOLUTE CHANGE(KSh BN)				
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
COMPONENTS OF M3															
1. Money supply, M1 (1.1+1.2+1.3)	**1,076.8**	**1,133.7**	**1,236.7**	**1,308.9**	**1,315.0**	**5.2**	**5.3**	**9.1**	**5.8**	**0.5**	**53.1**	**56.9**	**103.0**	**72.2**	**6.1**
1.1 Currency outside banks	183.4	187.9	186.6	209.5	200.6	-4.0	2.5	-0.7	12.3	-4.2	-7.6	4.5	-1.3	22.9	-8.9
1.2 Demand deposits	839.0	878.9	977.8	1,043.9	1,060.5	8.7	4.8	11.3	6.8	1.6	67.3	39.9	99.0	66.1	16.6
1.3 Other deposits at CBK 1/	54.1	66.7	71.9	55.1	53.5	-10.8	23.2	7.9	-23.3	-3.0	-6.6	12.5	5.2	-16.8	-1.6
2. Money supply, M2 (1+2.1)	**2,262.3**	**2,333.1**	**2,320.8**	**2,342.6**	**2,393.5**	**1.2**	**3.1**	**-0.5**	**0.9**	**2.2**	**27.5**	**70.8**	**-12.3**	**21.8**	**50.9**
2.1 Time and saving deposits	1,185.5	1,199.4	1,084.1	1,033.7	1,078.5	-2.1	1.2	-9.6	-4.6	4.3	-25.6	13.9	-115.3	-50.4	44.8
3. Money supply, M3 (2+3.1)	**2,662.2**	**2,755.9**	**2,761.8**	**2,753.5**	**2,832.9**	**0.2**	**3.5**	**0.2**	**-0.3**	**2.9**	**4.0**	**93.7**	**5.9**	**-8.3**	**79.4**
3.1 Foreign Currency Deposits	399.9	422.8	441.0	410.9	439.4	-5.5	5.7	4.3	-6.8	6.9	-23.4	22.9	18.2	-30.1	28.5
SOURCES OF M3															
1. Net foreign assets 2/	**472.3**	**563.0**	**592.1**	**495.5**	**603.0**	**-3.9**	**19.2**	**5.2**	**-16.3**	**21.7**	**-19.2**	**90.7**	**29.1**	**-96.6**	**107.5**
Central Bank	640.8	694.6	687.2	621.6	697.8	3.1	8.4	-1.1	-9.5	12.3	19.4	53.8	-7.4	-65.6	76.2
Banking Institutions	-168.5	-131.6	-95.0	-126.1	-94.8	29.7	-21.9	-27.8	32.6	-24.8	-38.6	36.9	36.5	-31.0	31.2
2. Net domestic assets (2.1+2.2)	**2,189.9**	**2,192.9**	**2,169.7**	**2,258.0**	**2,229.9**	**1.1**	**0.1**	**-1.1**	**4.1**	**-1.2**	**23.2**	**3.0**	**-23.2**	**88.3**	**-28.1**
2.1 Domestic credit	**2,823.3**	**2,854.7**	**2,858.5**	**2,972.9**	**2,952.6**	**1.1**	**1.1**	**0.1**	**4.0**	**-0.7**	**29.4**	**31.4**	**3.8**	**114.4**	**-20.3**
2.1.1 Government (net)	543.6	559.3	524.2	591.7	582.3	3.7	2.9	-6.3	12.9	-1.6	19.6	15.7	-35.2	67.6	-9.5
2.1.2 Private sector	2,216.0	2,239.4	2,266.9	2,299.7	2,288.7	0.5	1.1	1.2	1.4	-0.5	11.2	23.4	27.4	32.8	-11.0
2.1.3 Other public sector	63.6	55.9	67.5	81.5	81.6	-2.2	-12.2	20.7	20.7	0.2	-1.4	-7.8	11.6	14.0	0.2
2.2 Other assets net	**-633.4**	**-661.7**	**-688.8**	**-714.9**	**-722.7**	**-54.7**	**4.5**	**4.1**	**3.8**	**1.1**	**764.8**	**-28.4**	**-27.1**	**-26.1**	**-7.8**
MEMORANDUM ITEMS															
4. Overall liquidity, L (3+4.1)	**3,429.7**	**3,592.1**	**3,634.6**	**4,292.9**	**3,803.0**	**1.1**	**4.7**	**1.2**	**18.1**	**-11.4**	**38.9**	**162.3**	**42.6**	**658.3**	**-489.9**
4.1 Non-bank holdings of government securities	767.5	836.1	872.8	1,539.4	970.0	4.8	8.9	4.4	76.4	-37.0	34.9	68.6	36.7	666.6	-569.3

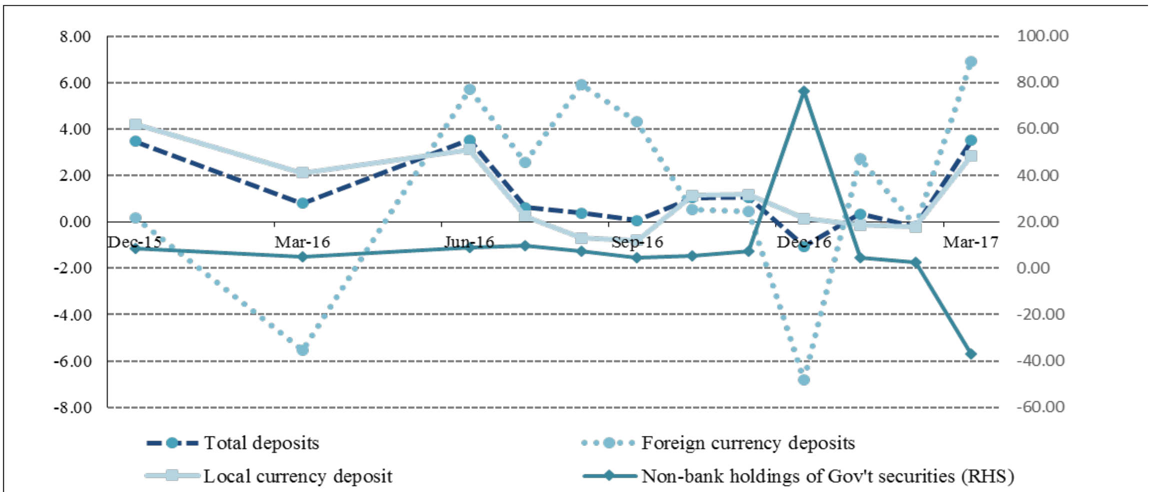
Absolute and percentage changes may not necessarily add up due to rounding

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya.

Chart 2A: Quarterly Growth in Deposits and Non-Bank Holdings of Government Securities in Per cent



Source: Central Bank of Kenya

banking system. NFA growth accelerated to 21.6 percent compared with a decline of 16.3 percent in the fourth quarter of 2016, and largely in the holdings of the Central Bank. Other banking institutions accumulated net liabilities of 24.8 percent, on account of increased loans from non-residents and accumulation of foreign deposits. Meanwhile, the net domestic assets (NDA) of the banking system declined by 1.2 percent compared to 4.1 percent growth in the last quarter of 2016, with the decline reflected in domestic credit **(Table 2.1).**

iii. Developments in Domestic Credit

Domestic credit from the banking sector decelerated by 0.7 percent in the first quarter of 2017 compared with 4.0 percent growth in the fourth quarter of 2016. This reflects a decline in net credit to government of 1.6 percent compared to 12.9 percent growth in the previous quarter. Growth i bank credit to the private sector also declined by 0.5 percent compared to 1.4 percent in the previous quarter (**Table 2.1 & 2.2**).

Private sector activities other than real estate, manufacturing, and private households recorded reduced credit uptake in the first quarter of 2017.

iv. Reserve Money

Reserve money (RM) which comprises currency held by the non-bank public and commercial banks reserves grew by 0.9 percent in the first quarter of 2017 from 4.7 percent in the fourth quarter of 2016. Slowdown in reserve money growth is largely reflected in currency outside banks, which registered a decline of 4.2 percent from a growth of 12.3 percent in the fourth quarter of 2016 (**Table 2.3**). This trend reflects seasonality in cash held by the non-bank public which usually rises during the end year festive season and declines early in the new year.

The reserve money growth is attributed to increased utilization of Government deposits at the Central Bank and increase in commercial banks net credit from the Central Bank (largely through open market operations).

v. Interest Rates

Table 2.2: Banking Sector Net Domestic Credit (Ksh Billion)

	END MONTH LEVEL					QUARTERLY CHANGES (%)					QUARTERLY CHANGES (KSH BN)					
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
1. Credit to Government	**543.6**	**559.3**	**524.2**	**591.7**	**582.3**	**3.7**	**2.9**	**-6.3**	**12.9**	**-1.6**	**-29.2**	**19.6**	**15.7**	**-35.2**	**67.6**	**-9.5**
Central Bank	-80.8	-156.1	-182.9	-113.9	-117.2	85.1	93.3	17.1	-37.7	2.9	-90.3	-37.1	-75.4	-26.8	69.0	-3.3
Commercial Banks & NBFIs	624.4	715.5	707.1	705.7	699.5	10.0	14.6	-1.2	-0.2	-0.9	61.1	56.7	91.1	-8.4	-1.4	-6.1
2. Credit to other public sector	**63.6**	**55.9**	**67.5**	**81.5**	**81.6**	**-2.2**	**-12.2**	**20.7**	**20.7**	**0.2**	**-2.9**	**-1.4**	**-7.8**	**11.6**	**14.0**	**0.2**
Local government	4.1	3.5	4.6	4.6	4.7	-30.9	-13.2	28.5	0.9	3.0	1.6	-1.8	-0.5	1.0	0.0	0.1
Parastatals	59.6	52.3	62.9	76.9	76.9	0.6	-12.1	20.2	22.2	0.1	-4.5	0.4	-7.2	10.6	13.9	0.1
3. Credit to private sector	**2,216.0**	**2,239.4**	**2,266.9**	**2,299.7**	**2,288.7**	**0.5**	**1.1**	**1.2**	**1.4**	**-0.5**	**40.6**	**11.2**	**23.4**	**27.4**	**32.8**	**-11.0**
Agriculture	94.1	97.6	90.7	90.2	85.3	5.3	3.7	-7.0	-0.6	-5.4	-1.8	4.7	3.5	-6.8	-0.5	-4.9
Manufacturing	303.7	306.0	280.1	276.4	279.9	7.2	0.8	-8.5	-1.3	1.3	-2.5	20.4	2.3	-25.9	-3.7	3.5
Trade	343.5	352.3	379.4	379.6	376.9	10.9	2.6	7.7	0.0	-0.7	-5.7	33.8	8.8	27.1	0.2	-2.7
Building and construction	100.8	101.5	104.8	104.8	101.4	-6.6	0.7	3.3	0.0	-3.3	4.4	-7.1	0.7	3.3	0.0	-3.5
Transport & communications	183.0	183.0	195.4	204.6	203.5	2.5	0.0	6.8	4.7	-0.5	5.9	4.4	0.0	12.4	9.3	-1.1
Finance & insurance	84.7	88.4	84.4	84.9	80.9	16.1	4.4	-4.5	0.5	-4.6	-9.4	11.7	3.7	-3.9	0.4	-3.9
Real estate	312.4	323.2	329.6	337.4	350.5	2.8	3.5	2.0	2.3	3.9	0.5	8.5	10.8	6.4	7.7	13.2
Mining and quarrying	22.6	23.6	16.1	16.8	14.9	9.0	4.3	-31.6	4.1	-11.0	-3.6	1.9	1.0	-7.5	0.7	-1.9
Private households	350.4	349.6	378.2	384.3	395.7	3.7	-0.2	8.2	1.6	3.0	-13.1	12.5	-0.8	28.7	6.1	11.4
Consumer durables	154.7	155.9	164.9	170.4	167.4	22.6	0.8	5.8	3.3	-1.7	-0.6	28.6	1.2	9.0	5.4	-3.0
Business services	172.5	162.2	153.9	155.4	154.2	-29.5	-6.0	-5.2	1.0	-0.8	67.8	-72.1	-10.3	-8.4	1.6	-1.3
Other activities	93.8	96.2	89.2	94.9	78.1	-27.8	2.6	-7.3	6.4	-17.7	-1.4	-36.0	2.4	-7.0	5.7	-16.9
4. TOTAL (1+2+3)	**2,823.3**	**2,854.7**	**2,858.5**	**2,972.9**	**2,952.6**	**1.1**	**1.1**	**0.1**	**4.0**	**-0.7**	**8.5**	**29.4**	**31.4**	**3.8**	**114.4**	**-20.3**

Source: Central Bank of Kenya

i). The Central Bank Rate

The Monetary Policy Committee (MPC) retained the Central Bank Rate (CBR) at 10.0 percent during its meeting in March 2017, in order to anchor inflation expectations.

ii) Short Term Interest Rates

Short term interest rates depicted an upward trend in the first quarter of 2017. The weighted average interbank interest rate increased to 6.2 percent in the first quarter of 2017 from 4.9 percent in the fourth quarter of 2016. The reverse repo rate was stable at 10.0 percent compared with 10.1 percent during the period under review. The 91-day Treasury bill rate, rose marginally to 8.6 percent in first quarter of 2017 from 8.5 percent in the fourth quarter of 2017, while the 182-day Treasury bill rate was stable at 10.5 percent over the two quarters **(Table 2.4**).

iii). Lending and Deposit Rates

Following the interest rates capping law which came into effect on September14, 2016, interes rates declined. Commercial banks' average lending interest stabilized at 13.7 percent in the first quarter of 2017 compared to 16.9 percent in the fourth quarter of 2016. The stability was largely reflected in all loan categories. Meanwhile, the average commercial banks' deposit rate declined to 7.3 percent from 7.6 percent over the same period under review **(Table 2.4).**

Table 2.3: Reserve Money and its Sources (Ksh Billion)

	END QUARTER LEVELS					QUARTERLY % CHANGE					QUARTERLY CHANGES (KSh BN)				
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
1. Net Foreign Assets	640.8	694.6	687.2	621.6	697.8	3.1	8.4	-1.1	-9.5	12.3	19.4	53.8	-7.4	-65.6	76.2
2. Net Domestic Assets	-238.9	-304.4	-294.4	-210.4	-282.9	4.3	27.4	-3.3	-28.5	34.4	-9.9	-65.5	10.0	83.9	-72.4
2.1 Government Borrowing (net)	-80.8	-156.1	-189.9	-113.9	-117.2	85.1	93.3	17.1	-37.7	2.9	-37.1	-75.4	-26.8	69.0	-3.3
2.2 Commercial banks (net)	-8.2	3.0	42.0	43.2	-18.4	-62.3	-136.4	1315.8	2.9	-142.5	13.5	11.1	39.1	1.2	-61.6
2.3 Other Domestic Assets (net)	-153.5	-154.7	-150.0	-143.2	-150.7	-8.2	0.8	1.4	-8.7	5.2	13.8	-1.2	-2.2	13.7	-7.5
3. Reserve Money	401.9	390.2	392.8	411.1	414.9	2.4	-2.9	0.7	4.7	0.9	9.5	-11.7	2.6	18.3	3.8
3.1 Currency outside banks	183.4	187.9	186.6	209.5	200.6	-4.0	2.5	-0.7	12.3	-4.2	-7.6	4.5	-1.3	22.9	-8.9
3.2 Bank reserves	218.5	202.3	206.2	201.7	214.3	8.5	-7.4	1.9	-2.2	6.3	17.1	-16.2	3.9	-4.6	12.7

Source: Central Bank of Kenya

Table 2.4: Interest Rates (%)

	2015				2016				2017		
	Mar	June	Sept	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar
91-day Treasury bill rate	8.56	8.31	12.24	14.60	10.24	8.11	7.98	8.14	8.41	8.55	8.63
182-day Treasury bill rate	10.30	10.39	12.48	15.65	12.49	10.23	10.49	10.40	10.46	10.53	10.52
Interbank rate	6.92	10.57	17.38	10.29	4.92	4.13	5.11	4.93	6.12	6.55	6.19
Repo rate	8.01	8.86	11.20	10.37	7.61	7.09	8.81	7.05	8.50	9.91	9.02
Reverse Repo rate	-	-	-	14.75	11.55	11.54	10.49	10.10	10.08	10.02	10.02
Central Bank Rate (CBR)	8.50	9.00	11.50	11.50	11.50	10.50	10.00	10.00	10.00	10.00	10.00
Average lending rate (1)	**15.62**	**15.57**	**16.09**	**17.35**	**17.87**	**18.06**	**16.55**	**13.88**	**13.89**	**13.68**	**13.66**
Overdraft rate	15.77	15.42	16.23	17.58	18.19	18.22	16.47	13.64	13.59	13.37	13.30
1-5years	16.42	16.49	16.94	17.68	18.09	18.45	16.92	13.81	13.83	13.87	13.86
Over 5years	14.66	14.57	14.93	16.72	17.35	17.46	16.12	13.66	13.61	13.62	13.60
Average deposit rate (2)	**6.66**	**6.60**	**6.83**	**7.65**	**7.41**	**6.62**	**6.67**	**7.60**	**7.39**	**7.40**	**7.33**
0-3months	8.56	8.30	9.05	10.73	10.03	8.67	8.26	7.65	7.38	7.22	7.26
Over 3 months deposit	9.86	9.75	9.92	10.69	10.77	9.64	9.36	8.82	8.47	8.54	8.45
Savings deposits	1.55	1.74	1.53	1.52	1.42	1.56	2.38	6.32	6.32	6.42	6.26
Spread (1-2)	**8.96**	**8.98**	**9.25**	**9.70**	**10.46**	**11.45**	**9.89**	**6.09**	**6.28**	**6.29**	**6.33**

Source: Central Bank of Kenya

Chapter 3

The Real Sector

The economy remained fairly resilient in the first quarter of 2017, growing at 4.7 percent despite prolonged drought and subdued credit to the private sector. However, growth was lower compared to 6.1 percent recorded in the previous quarter and 5.3 percent growth in a similar quarter of 2016. The subdued performance was largely reflected in the Agriculture and Electricity and Water Supply sectors following the unfavorable weather conditions experienced since the second half of 2016. Growth was supported by strong performance of Accommodation and Restaurant, Wholesale and Retail trade, Real Estate, Transport and Storage, and Information and Communication sectors (**Table 3.1A and Chart 3A**).

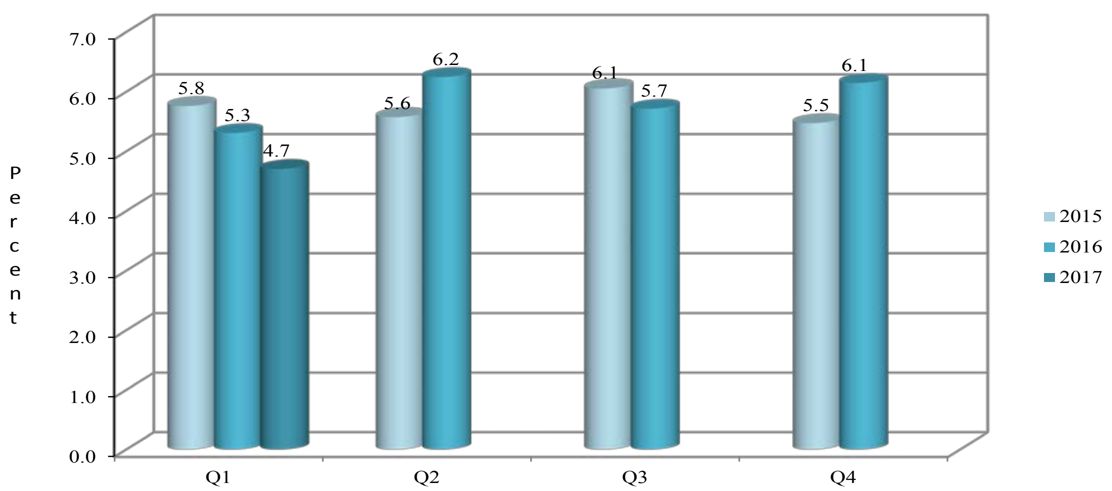
Available economic indicators for the first quarter of 2017 point to slowed growth, particularly with respect to agricultural production and electricity generation, owing to the depressed rainfall experienced during the quarter. Tourism also recorded slower growth attributed to the onset of the off-peak season. However, indicators for the manufacturing and construction sectors point to mixed performance.

Table 3.1A: Gross Domestic Product Growth(%)

MAIN SECTORS	Annual		Quarterly				
			2016				2017
	2015	2016	Q1	Q2	Q3	Q4	Q1
Agriculture	5.5	4.0	4.0	4.4	3.8	0.1	-1.1
Mining & Quarrying	12.4	9.5	6.7	10.6	9.8	11.2	9.7
Manufacturing	3.6	3.5	1.7	5.3	4.4	2.5	2.9
Electricity & water supply	8.5	7.1	8.6	9.6	5.4	4.7	5.1
Construction	13.9	9.2	10.2	7.6	7.8	11.5	8.4
Wholesale & Retail Trade	5.9	3.8	3.6	2.3	4.3	5.0	6.1
Accommodation & restaurant	-1.3	13.3	10.4	15.8	13.5	14.2	15.8
Transport & Storage	8.0	8.4	8.9	7.1	7.1	10.4	9.9
Information & Communication	7.4	9.7	10.9	9.1	8.8	9.8	11.4
Financial & Insurance	9.4	6.9	8.2	8.1	7.1	4.1	5.3
Public administration	5.5	5.3	5.7	6.6	5.1	3.6	5.4
Professional, Administration & Support Services	2.5	4.3	3.3	5.4	3.8	4.7	4.9
Real estate	7.2	8.8	8.7	8.1	8.5	9.7	9.6
Education	4.5	6.3	6.2	6.0	6.9	6.3	5.9
Health	6.1	5.8	5.1	6.6	7.1	4.5	4.5
Other services	3.9	4.2	5.0	4.6	4.3	2.8	3.5
FISIM	13.5	3.0	8.4	5.2	1.7	-2.7	3.3
Taxes on products	2.8	4.5	2.5	2.0	3.7	9.7	6.0
Real GDP Growth	**5.7**	**5.8**	**5.3**	**6.2**	**5.7**	**6.1**	**4.7**

Source: Kenya National Bureau of Statistics

Table 3A: Evolution of Real GDP Growth across Quarters



Source: Kenya National Bureau of Statistics

Table 3.1B Sectoral Share of Sectors to Real GDP

Main Sectors	Annual		Quarterly				
	2015	2016	2016				2017
			Q1	Q2	Q3	Q4	Q1
Agriculture	22.2	21.8	26.5	24.2	19.1	17.2	25.0
Mining & Quarrying	1.0	1.1	1.1	1.0	1.1	1.1	1.1
Manufacturing	10.5	10.3	10.3	10.5	10.4	10.0	10.1
Electricity & water supply	2.5	2.5	2.4	2.6	2.5	2.4	2.4
Construction	5.2	5.4	4.9	5.2	5.6	5.9	5.0
Wholesale & Retail Trade□	7.7	7.5	6.9	7.1	8.5	7.6	7.0
Accommodation & restaurant	1.1	1.1	1.2	0.9	1.1	1.4	1.3
Transport & Storage	6.8	6.9	6.0	6.6	7.4	7.7	6.3
Information & Communication	3.7	3.8	3.7	3.1	3.5	5.1	3.9
Financial & Insurance	6.2	6.2	6.0	6.1	6.6	6.3	6.1
Public administration	3.9	3.9	3.6	4.3	3.7	3.8	3.6
Professional, Administration & Support Services	2.3	2.2	2.1	2.2	2.3	2.4	2.1
Real estate	8.2	8.4	8.0	8.2	8.6	8.9	8.4
Education	6.9	6.9	6.8	6.8	7.1	7.1	6.9
Health	1.8	1.8	1.6	1.8	1.9	1.9	1.6
Other services	1.3	1.3	1.2	1.2	1.3	1.3	1.2
FISIM	-2.7	-2.6	-2.6	-2.6	-2.7	-2.7	-2.5
Taxes on products	11.5	11.4	10.4	10.8	12.0	12.4	10.5

Source: Kenya National Bureau of Statistics

Table 3.1C: Sectoral Contributions to Real GDP Growth

MAIN SECTORS	Annual		Quarterly				
	2015	2016	2016				2017
			Q1	Q2	Q3	Q4	Q1
Agriculture	1.2	0.9	1.1	1.1	0.7	0.0	-0.3
Mining & Quarrying	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Manufacturing	0.4	0.4	0.2	0.6	0.5	0.2	0.3
Electricity & water supply	0.2	0.2	0.2	0.3	0.1	0.1	0.1
Construction	0.7	0.5	0.5	0.4	0.4	0.7	0.4
Wholesale & Retail Trade□	0.5	0.3	0.3	0.2	0.4	0.4	0.4
Accommodation & restaurant	0.0	0.2	0.1	0.1	0.1	0.2	0.2
Transport & Storage	0.5	0.6	0.5	0.5	0.5	0.8	0.6
Information & Communication	0.3	0.4	0.4	0.3	0.3	0.5	0.4
Financial & Insurance	0.6	0.4	0.5	0.5	0.5	0.3	0.3
Public administration	0.2	0.2	0.2	0.3	0.2	0.1	0.2
Professional, Administration & Support Services	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real estate	0.6	0.7	0.7	0.7	0.7	0.9	0.8
Education	0.3	0.4	0.4	0.4	0.5	0.4	0.4
Health	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other services	0.0	0.1	0.1	0.1	0.1	0.0	0.0
FISIM	-0.4	-0.1	-0.2	-0.1	0.0	0.1	-0.1
Taxes on products	0.3	0.5	0.3	0.2	0.4	1.2	0.6
Real GDP growth	**5.7**	**5.8**	**5.3**	**6.2**	**5.7**	**6.1**	**4.7**

Source: Kenya National Bureau of Statistics

The Agriculture Sector

Growth in the Agriculture sector contracted by 1.1 percent in the first quarter of 2017 compared to robust growth of 4.0 in a similar quarter of 2016 and 0.1 percent growth recorded in the previous quarter (**Table 3.1A**). The unsatisfactory performance is attributable to low agricultural production following prolonged drought conditions which adversely affected production of key crops. Available economic indicators show subdued production of tea, horticulture exports, sugarcane deliveries, and milk intake in the first quarter of 2017. However, coffee sales increased in the first quarter of 2017.

The sectoral share to real GDP decreased to 25 percent compared to 26.5 percent, while its contribution contracted by 0.3 percentage points compared to 1.1 percentage points in a similar period in 2016 (**Table 3.1B, Table 3.1C**).

Tea

Tea production declined by 28.7 percent in the first quarter of 2017 compared to the previous quarter, and by 35.5 percent compared to a similar quarter of 2016. Monthly tea production decreased by 26.9 percent and 31.5 percent in January and February 2017, respectively, before recovering by 52.6 percent increase in March 2017 (**Table 3.2**). The average auction price per kilogram of tea increased by 22 percent to KSh 311.1 in the first quarter of 2017, compared to KSh 254.97 recorded in the first quarter of 2016, with the increase attributed to rising international tea prices and reduced supply of tea.

Table 3.2: Performance of Key Agricultural Output Indicators

	2016				2017*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-17	Feb-17	Mar-17
Tea								
Output (Metric tonnes)	139,607	108,747	95,532	126,348	90,094	32,991	22,605	34,498
Growth (%)	*9.0*	*-22.1*	*-12.2*	*32.26*	*-28.69*	*-26.9*	*-31.5*	*52.6*
Horticulture								
Exports (Metric tonnes)	111,759	90,620	84,574	78,404	85,792	25,478	29,811	30,503
Growth (%)	*69.0*	*-18.9*	*-6.7*	*-7.3*	*9.4*	*8.6*	*17.0*	*2.3*
Coffee								
Sales (Metric tonnes)	15,487	10,996	7,576	5,613	16,731	5,190	6,081	5,460
Growth (%)	*258.6*	*-29.0*	*-31.1*	*-25.9*	*198.1*	*211.5*	*17.2*	*-10.2*
Milk								
Output (million litres)	158	170.3	158.3	161.7	133.3	52.3	39.8	41.2
Growth %	*-13.5*	*7.8*	*-7.0*	*2.1*	*-17.6*	*3.2*	*-23.9*	*3.5*
Sugar Cane								
Output ('000 Metric tonnes)	2,068	1,721	1,742	1,630	1,453	580	462	410
Growth (%)	*28.2*	*-16.8*	*1.2*	*-6.5*	*-10.9*	*11.5*	*-20.4*	*-11.2*

* Provisional
N/A Data not availabe

Source: Kenya Tourism Board

Coffee

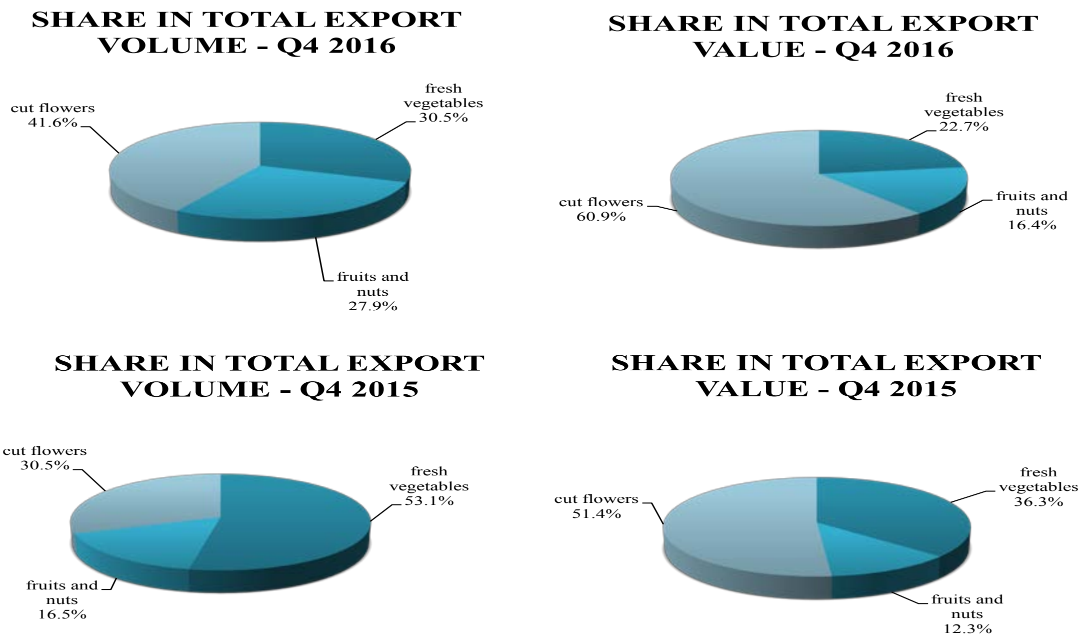
Coffee sales increased significantly in the first quarter of 2017 to 16,731 metric tonnes from 5,613 metric tonnes in the previous quarter, on account of increased quantity of coffee auctioned after the November-December harvest season (**Table 3.2**). Coffee sales were also higher by 8 percent during the quarter under review compared to a similar quarter of 2016. The increase in coffee sales was mainly recorded in January and February 2017. Auction prices increased by 23.0 percent compared to the same quarter of 2016 on account of increasing international coffee prices.

Horticulture

Total exports of horticultural crops increased by 9.4 percent in the first quarter of 2017 compared to the previous quarter (**Table 3.2**). However, there was a significant decline of 23.2 percent compared to the same quarter of 2016, largely attributed to decreased production of horticultural crops due to the drought conditions experienced during the quarter under review. The share of export volumes and value of fresh vegetables to total horticultural exports decreased to 30.5 percent and 22.7 percent, respectively, from 53.1 percent and 36.3 percent in the same quarter of 2016. The share of export volumes and value of fruits, nuts and cut flowers increased in the first quarter of 2017 (**Chart 3A**).

Milk intake in the formal sector declined by 17.6 percent in the first quarter of 2017 compared to the previous quarter (**Table 3.2**), and was lower by 15.6 percent compared to a similar quarter in 2016. The decline is attributed to reduced

Chart 3.1A: Distribution of Key Market Culture Exports



Source: Kenya Revenue Authority

production of milk following the unfavourable weather conditions experienced during the quarter. Monthly production decreased by 23.9 percent in February 2017, which more than offset the increased production in January and March 2017.

Sugarcane production declined by 10.9 percent in the first quarter of 2017 compared to the previous quarter (**Table 3.2**), but the decline was more pronounced when compared to a similar quarter in 2016. Monthly production decreased by 20.4 percent and 11.2 percent in February and March 2017, respectively (**Table 3.1**).

The Manufacturing Sector

The Manufacturing sector growth improved to 2.9 percent from 1.7 percent in the first quarter of 2016 and 2.5 percent in the previous quarter (**Table 3.1A**). Growth in the sector was mainly driven by manufacture of soft drinks, bakery products, edible oils, wheat flour, steel bars, galvanized iron sheets, and cement consumption. The sectoral share declined slightly to 10.1 percentage points from 10.3 percentage points in the first quarter of 2016, and contributed 0.3 percentage points to real GDP growth compared to 0.2 percentage points in the first quarter of 2016. (**Table 3.1B, Table 3.1C**).

Available indicators in the manufacturing sector point to mixed performance in the first quarter of 2017.

Cement production decreased by 4.2 percent in the first quarter of 2017 compared to the previous quarter. Monthly production declined by 9.8 percent in February 2017, offsetting the increased monthly production recorded in January and March 2017 (Table 3.3). However, compared to the first quarter of 2016, cement production increased by 9.5 percent.

Table 3.3: Production of Selected Manufactured Goods

	2016				2017*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-17	Feb-17	Mar-17
Cement production								
Output (MT)	1,606,741	1,701,420	1,695,299	1,703,770	1,632,300	565,440	509,977	556,883
Growth %	*3.4*	*5.9*	*-0.4*	*0.5*	*-4.2*	*3.57*	*-9.81*	*9.20*
Assembled vehicles								
Output (No.)	1,600	1,782	1,719	1,194	N/A	375	559	N/A
Growth %	*-38.6*	*11.4*	*-3.5*	*-30.5*		*-0.3*	*49.1*	
Galvanized sheets								
Output (MT)	61,552	65,269	63,555	56,902	N/A	23,271	N/A	N/A
Growth %	*-10.4*	*6.0*	*-2.6*	*-10.5*		*19.8*		
Processed sugar								
Output (MT)	153,750	136,459	138,136	148,144	144,101	53,071	49,094	41,936
Growth %	*-8.3*	*-11.2*	*1.2*	*7.2*	*-2.7*	*6.2*	*-7.5*	*-14.6*
Soft drinks								
Output ('000 litres)	153,777	126,809	130,608	140,193	N/A	48,367	N/A	N/A
Growth %	*15.7*	*-17.5*	*3.0*	*7.3*		*-7.3*		

MT = Metric tonnes
* Provisional
N/A - Not Available

Source: Kenya National Bureau of Statistics and Kenya Pipeline Company Limited

Production of sugar declined by 2.7 percent in the first quarter of 2017 compared to the previous quarter, with monthly production declining in February and March 2017 by 7.5 percent and 14.6 percent, respectively (**Table 3.3**). However, compared to the first quarter of 2016, sugar production increased slightly by 2.0 percent.

Production of assembled vehicles declined by 1.7 percent in the period January-February 2017 compared to the same period in 2016. Monthly production declined marginally by 0.3 percent between January 2017 and December 2016, before increasing by 49.1 percent in February 2017 (**Table 3.3**).

Monthly production of soft drinks declined by 7.3 percent in January 2017 compared to December 2016, following decreased demand as end of year festivities came to an end (**Table 3.3**)

Monthly production of galvanized sheets improved, increasing by 19.8 percent in January 2017 compared to December 2016 and 9.09 percent growth in January 2016 (**Table 3.3**).

The Electricity and Water Supply Sector

Electricity and Water Supply sector growth slowed to 5.1 percent in the first quarter of 2017 from 8.6 percent in a similar period in 2016 mainly due to inadequate rainfall that suppressed water supply, leading to reduced generation of hydroelectricity and increased use of thermal electricity. (**Table 3.1C**).

Table 3.4: Performance in the Energy Sector

	2016				2017			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-17	Feb-17	Mar-17
Electricity Supply (Generation)								
Output (million KWH)	2,421.2	2,433.3	2,506.6	2,526.0	2,431.8	829.7	750.4	851.7
Growth %	*1.8*	*0.5*	*3.0*	*0.8*	*-3.7*	*0.2*	*-9.6*	*13.5*
Of which:								
Hydro-power Generation (million KWH)	953.8	985.9	1049.2	970.9	700.6	252.4	213.9	234.3
Growth (%)	*4.0*	*3.4*	*6.4*	*-7.5*	*-27.8*	*-15.6*	*-15.3*	*9.5*
Geo-Thermal Generation (million KWH)	1,166.8	1,139.9	1,073.4	1,104.2	1,122.2	380.2	354.2	387.9
Growth (%)	*-1.3*	*-2.3*	*-5.8*	*2.9*	*1.6*	*2.4*	*-6.8*	*9.5*
Thermal (million KWH)	300.7	307.5	384.0	450.8	609.0	197.1	182.4	229.6
Growth (%)	*7.1*	*2.3*	*24.9*	*17.4*	*35.1*	*24.9*	*-7.5*	*25.9*
Consumption of electricity (million KWH)	1,961.5	2,059.0	1,977.0	2,055.7	2,186.9	739.2	700.6	747.1
Growth %	*-3.4*	*5.0*	*-4.0*	*4.0*		*3.0*	*-5.2*	*6.6*
Murban crude oil average price (US $ per barrel)	33.7	46.1	46.3	50.6	54.7	55.4	56.1	52.6
Growth %	*-21.0*	*36.8*	*0.4*	*9.1*	*62.2*	*2.2*	*1.4*	*-6.2*

Source: Kenya National Bureau of Statistics

Electricity generation declined by 3.7 percent in the first quarter of 2017 compared to the previous quarter, owing to depressed rainfall that resulted in reduced generation of hydroelectricity. Hydroelectricity generation declined by 27.8 percent, which fully offset the increase in generation of geothermal and thermal electricity by 1.6 percent and 35.1 percent, respectively (Table 3.4). When compared to the first quarter of 2016, however, the total electricity generated increased marginally by 0.4 percent, as generation of thermal electricity increased to compensate for the reduced generation of hydroelectricity and geothermal electricity.

The Construction and Real Estate Sectors

Growth in the Construction sector declined to 8.4 percent in the first quarter of 2017 from 10.2 percent in the first quarter of 2016 and 11.5 percent in the fourth quarter, largely as a result of reduced activities of the SGR project in the first quarter of 2017 (Table 3.1A). Its share to total GDP in the first quarter of 2017 increased marginally to 5.0 percent from 4.9 percent in the first quarter of 2016, while the contribution of the sector declined to 0.4 percentage points compared to 0.5 percentage points in the first quarter of 2016 **(Table 3.1B, Table 3.1C).**

The Real Estate sector recorded improved growth of 9.6 percent from 8.7 percent in the first quarter of 2016 (**Table 3.1A**), supported by resilient credit uptake by the sector and increased use of alternative sources of funding. The sectoral share to total GDP in the first quarter of 2017 increased to 8.4 percent from 8.0 percent in the first quarter of 2016 , while its contribution increased to 0.8 percentage points to GDP growth compared to 0.7 percentage points in the first quarter of 2016 (Table 3.1B, Table 3.1C).

The Accommodation and Restaurants Sector

The Accommodation and Restaurant sector continued to recover, recording improved growth of 15.8 percent compared to 10.4 percent in the first quarter of 2016 and 14.2 percent in the previous quarter. **(Table 3.1A)**

Tourist Arrivals

Overall tourist arrivals increased by 2.3 percent in the first quarter of 2017, with the increase mainly seen in the major points of entry. Jomo Kenyatta International Airport (JKIA) in Nairobi recorded a marginal increase of 0.4 percent during the quarter, while Moi International Airport, Mombasa (MIAM) recorded a higher increase of 16.0 percent during the quarter (**Table 3.5**). Compared to the first quarter of 2016, overall tourist arrivals increased by 8.8 percent.

Table 3.5: Tourist Arrivals by Point of Entry

	2016				2017			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-17	Feb-17	Mar-17
Total Tourist Arrivals	206,224	186,685	263,149	219,327	224,370	79,690	72,730	71,950
Growth (%)	*6.9*	*-9.5*	*41.0*	*-16.7*	*2.3*	*2.3*	*-8.7*	*-1.1*
o.w. JKIA - Nairobi	178,283	175,056	236,119	192,055	192,740	67,053	62,119	63,568
Growth (%)	*4.8*	*-1.8*	*34.9*	*-18.7*	*0.4*	*-0.8*	*-7.4*	*2.3*
MIAM - Mombasa	27,941	11,629	27,030	27,272	31,630	12,637	10,611	8,382
Growth %	*22.3*	*-58.4*	*132.4*	*0.9*	*16.0*	*23.1*	*-16.0*	*-21.0*

Source: Kenya Tourism Board

Transport and Storage

The Transport and Storage sector recorded improved growth of 9.9 percent from 8.9 percent in the first quarter of 2016, boosted by robust performance in passenger and freight road transport. However, growth was lower compared to 10.4 percent growth recorded in the previous quarter (**Table 3.1A**). The sectoral share to total GDP increased to 6.3 percentage points compared to 6.0 percentage points in the first quarter of 2016, while its contribution of the sector to overall GDP growth increased to 0.6 percent during the quarter compared to 0.5 percent in the first quarter of 2016 (**Table 3.1B, Table 3.1C**).

Passenger flows through Jomo Kenyatta International Airport (JKIA) in Nairobi remained relatively stable in the first quarter of 2017 compared to the previous quarter. On the storage sub sector, the volume of oil that passed through the Kenya pipeline increased significantly by 5.7 percent in the first quarter of 2017 compared to a decline of 2.4 percent recorded in the previous quarter, and was higher by 6.2 percent compared to the first quarter of 2016 (**Table 3.5**).

Table 3.5: Throughput of Selected Transport Companies

	2016				2017			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-17	Feb-17	Mar-17
Number of Passengers thro' JKIA								
Total passenger flows	1,082,784	1,079,762	1,079,331	1,079,503	1,079,870	359,992	359,885	359,993
Growth (%)	*0.02*	*-0.3*	*-0.04*	*0.02*	*0.03*	*0.02*	*-0.03*	*0.03*
o.w. Incoming	541,061	538,720	538,519	538,607	538,608	179,543	179,496	179,569
Growth (%)	*0.1*	*-0.4*	*-0.04*	*0.02*	*0.00*	*-0.0*	*-0.0*	*0.04*
Outgoing	541,723	541,042	540,812	540,896	541,262	180,449	180,389	180,424
Growth %	*-0.1*	*-0.1*	*-0.04*	*0.02*	*0.07*	*0.1*	*-0.03*	*0.02*
Kenya Pipeline Oil Throughput								
Output ('000 litres)	1,460,007	1,442,315	1,503,160	1,467,445	1,551,237	504,980	499,763	546,493
Growth %	*1.2*	*-1.2*	*4.2*	*-2.4*	*5.7*	*3.1*	*-1.0*	*9.4*

Source: Kenya National Bureau of Statistics and Kenya Pipeline Company Limited

Chapter 4

Global Economy, Balance of Payments And Exchange Rates

Global Economy

Global economic growth is projected to improve from 3.1 percent in 2016 to 3.5 percent in 2017 and 3.6 percent in 2018 (IMF World Economic Outlook April 2017). The pick-up in global growth reflects developments in both advanced economies and emerging market and developing economies (EMDEs).

In the advanced economies, growth is projected at 2.0 percent in 2017 from 1.7 percent in 2016, largely driven by expected accelerated economic growth in the United States on the assumption of fiscal stimulus and higher infrastructure spending, but policy uncertainty could undermine investor and consumer confidence. In the Euro area, the pace of expansion is expected to be sustained around the 2016 level but to decline to 1.6 percent in 2018 due to weak productivity in some countries and unresolved problems of public and private debt overhang. The medium-term growth prospect in the United Kingdom is likely to be restrained by heightened uncertainty related to the country's future trade relations with the EU. The expected 2017 growth momentum in Japan is supported by the government's large-scale stimulus measures, although the medium term growth pace is projected to decelerate due to cyclical slowdown in business fixed investment and the effects of the scheduled consumption tax hike.

Among the EMDEs, output growth is projected at 4.5 percent in 2017, up from 4.1 percent in 2016 and to accelerate to 4.8 percent in 2018 on account of gradual easing of deep recessions in some of the larger commodity-exporting countries such as Russia, Nigeria and Brazil. The gradual deceleration of Chinese growth is likely to weigh on other emerging market economies as activity slows down from 6.7 percent in 2016 to 6.6 percent in 2017 and 6.2 percent in 2018 reflecting the country's transition to a more sustainable pattern of growth which is less reliant on investment and commodity imports. Economic performance in India is forecast to improve from 6.8 percent in 2016 to 7.2 percent and 7.7 percent, respectively, in 2017 and 2018 following implementation of key reforms and supportive fiscal and monetary policies.

In Sub Saharan Africa, (SSA) growth is expected to recover to 2.6 percent in 2017 from 1.4 percent in 2016, following a gradual rise in global commodity prices with developments in Nigeria and Angola expected to contribute to the recovery. Growth in Nigeria is forecast at 0.8 percent in 2017 and 1.9 percent in 2018 from -1.5 percent in 2016, while in Angola, economic activity is forecast at 1.3 percent in 2017 and 1.5 percent in 2018 from 0 percent in 2016. Growth in South Africa is projected to improve to 0.8 percent in 2017 and 1.6 percent in 2018 from 0.3 percent in 2016 reflecting recovery from effects of drought. However, the impact of the sovereign credit rating downgrade continues to weigh on both public and private investment through higher funding costs.

In the East African Community (EAC) region, growth has remained robust supported by relatively low oil prices and government spending on infrastructure projects, and is projected at 5.7 percent in 2017 and 6.1 percent in 2018. However, the effect of adverse weather condition during the fourth quarter of 2016 and the first quarter of 2017 continues to affect agricultural output. Risks remain on the downside as heightened policy uncertainty relating to trade, investment relations and inward protectionist policies of the United States and Europe; and tighter global financing conditions may weigh down on the region's growth.

Table 4.1: **Balance Of Payments (USD Million)**

ITEM	2016** Jan-Mar Q1	Apr-Jun Q2	Jul-Sep Q3	Oct-Dec Q4	2017** Q1 Jan	Feb	Mar	2017** Q1	Q1 2017-Q4 2016 Change	% Change
1. Overall Balance	**-258**	**-496**	**56**	**569**	**109**	**-20**	**-902**	**-814**	**-1,382**	**-243.1**
2. Current account n.i.e	**-257**	**-1,061**	**-1,151**	**-1,184**	**-664**	**-269**	**-251**	**-1,184**	**0**	**0.0**
Exports (fob)	1,527	1,443	1,407	1,370	480	469	530	1,480	110	8.0
Imports (fob)	3,049	3,523	3,567	3,498	1,408	1,227	1,339	3,974	476	13.6
Services: credit	1,241	1,093	1,133	1,059	286	394	448	1,128	68	6.4
Services: debit	723	693	740	681	252	232	261	745	64	9.4
Balance on goods and services	-1,004	-1,681	-1,767	-1,750	-894	-596	-621	-2,112	-362	20.7
Primary income: credit	108	106	110	109	41	40	41	122	13	12.0
Primary income: debit	232	284	269	329	112	29	40	182	-148	-44.8
Balance on goods, services, and primary income	-1,128	-1,859	-1,926	-1,970	-966	-585	-620	-2,171	-201	10.2
Secondary income, n. i. e.: credit	892	807	784	797	304	324	373	1,000	203	25.5
o.w Remittances	416	437	425	447	142	143	148	433	-15	-3.3
Secondary income: debit	21	9	10	11	3	8	3	14	2	22.0
3. Capital Account, n.i.e.	**125**	**30**	**7**	**44**	**51**	**10**	**29**	**90**	**46**	**103.0**
4. Financial Account, n.i.e.	**-1,168**	**-669**	**-284**	**-2,016**	**-405**	**-270**	**-1,384**	**-2,060**	**-43**	**2.2**

** Revised*
***Provisional*
n.i.e - not included elsewhere
fob - free on board

Source: Central Bank of Kenya

Global Inflation

Global headline inflation rose in most countries as a result of higher energy prices, following the Organization of the Petroleum Exporting Countries (OPEC) and other non-OPEC producer countries agreement in November 2016 to cut oil production. Consequently, oil prices increased from USD 45 per barrel in November 2016 to USD 54 per barrel in February 2017. However, rising US crude oil inventories and shale oil supply saw oil prices reduce to trade at an average of USD 50 per barrel in March 2017.

The rise in oil prices resulted to a pick-up in inflation in advanced economies. In the US, inflation averaged 2.5 percent in the first quarter of 2017 from 1.8 percent in the last quarter of 2016. Over the same period the euro area inflation edged upwards to 1.8 percent from 0.7 percent while the effect of higher energy prices and the depreciation of the pound sterling since Brexit vote resulted to a 2.1 percentage points increase in the overall inflation from 1.2 percent. However, inflation is expected to fall as the contribution of energy prices fades. In the EMDEs, inflation has eased as the effect of past exchange rate depreciations and monetary policy actions filters through.

Developments in the Balance of Payments

The current account deficit stabilized at USD 1,184 million during the first quarter of 2017, mainly driven by improvements in the income account, which more than offset the worsening trade balance **(Table 4.1)**.

The trade balance, worsened by USD 362 million during the first quarter of 2017 largely on account of 13.6 percent increase in imports of goods over the review period notably oil, chemicals, manufactured goods, machinery and transport equipment. The increase in payments for oil imports was occasioned by a rise in global oil prices, following the Organization of the Petroleum Exporting Countries (OPEC) and other non-OPEC producer countries agreement in November 2016 to cut oil production. The increase in imports of machinery and transport equipment was mostly on account of imports of wagons, locomotives and associated equipment related to the ongoing Standard Gauge Railway (SGR) project.

Receipts from exports of goods increased by 8 percent during the first quarter of 2017 driven by increase in exports of coffee, tea, horticulture, oil products, raw materials, chemicals and related products, miscellaneous manufactured articles and other exports. The improvement in horticulture exports was largely driven by higher exports of cut flowers on account of higher global demand. The increase in receipts from tea exports was also supported by favourable international prices.

The services account improved by USD 5 million to USD 383 million on account of increase in other services. The improvement in other services mainly reflected lower payments for maintenance and repair services; and a net increase in telecommunications, computer and information services. However, higher expenditures on travel services more than offset the improvement in travel receipts. Receipts from transport services also declined.

The balance on primary income improved by 73 percent during the first quarter of 2017. This was on account of higher inflows of investment income (mainly from reinvested earnings on

Table 4.2: Balance On Current Account (USD Million)

	2016**				2017**				Q1 2017-Q4 2016	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Q1			2017**		%
ITEM	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Change	Change
2. CURRENT ACCOUNT	-257	-1,061	-1,151	-1,184	-664	-269	-251	-1,184	0	0.0
2.1 Goods	-1,522	-2,081	-2,159	-2,128	-928	-758	-808	-2,494	-366	17.2
Exports (fob)	1,527	1,443	1,407	1,370	480	469	530	1,480	110	8.0
o.w Coffee	50	70	48	44	15	20	31	67	23	50.7
Tea	325	325	287	290	136	105	104	345	55	19.0
Horticulture	225	205	194	192	59	75	71	205	13	6.5
Oil products	7	14	16	12	4	5	5	13	1	9.2
Manufactured Goods	106	106	112	105	29	34	35	98	-7	-6.3
Raw Materials	119	122	122	131	51	43	48	142	11	8.8
Chemicals and Related Products (n.e.s)	112	113	101	98	27	32	41	100	2	2.5
Miscelleneous Man. Articles	144	134	143	145	41	47	59	147	2	1.1
Re-exports	234	130	186	153	50	40	64	153	0	0.2
Other	206	222	198	200	69	68	72	209	9	4.8
Imports (fob)	3,049	3,523	3,567	3,498	1,408	1,227	1,339	3,974	476	13.6
*of which****										
Oil	402	542	554	588	218	194	224	636	47	8.0
Chemicals	544	581	567	534	233	175	213	621	87	16.3
Manufactured Goods	568	645	695	604	197	205	218	619	15	2.5
Machinery & Transport Equipment	956	1,168	1,134	1,108	479	406	444	1,329	221	20.0
2.2 Services	518	400	393	378	34	162	187	383	4	1.1
Transport Services (net)	293	187	187	171	7	23	43	74	-96	-56.5
Credit	525	430	434	395	85	96	117	297	-98	-24.7
Debit	232	243	247	224	77	72	73	223	-1	-0.5
Travel Services (net)	137	142	193	208	47	62	91	200	-8	-3.8
Credit	191	175	228	230	68	76	117	262	32	13.9
Debit	54	33	35	22	21	15	26	62	40	180.1
Other Services (net)	88	70	12	0	-20	76	52	109	109	-311,698.3

** Revised*

Source: Central Bank of Kenya

direct investment in equity and investment fund shares; and interest on reserve assets) and lower outflows of reinvested earnings and interest payments. The balance on the secondary income account also improved by 25.5 percent during the first quarter of 2017 on account of an increase in inflows to Government (in the form of programme grants) and higher inflows to Non-Governmental Organizations and missions. Albeit resilient, remittance inflows – under personal transfers in the secondary income account – decreased by 3.3 percent during the first quarter of 2017.

Direction of Trade

China was Kenya's largest source of imports during the first quarter of 2017 with the share of imports during the review period increasing to 27.6 percent from 24.9 percent during the fourth quarter of 2016. The share of Kenya's imports from the European Union, however, decreased to 11.2 percent during the first quarter of 2017 from 14 percent during the previous quarter, while that from India also decreased to 11.6 percent from 14.4 percent during the fourth quarter of 2016. Imports from Africa accounted for 10.1 percent during the first quarter of 2017 compared to 11.4 percent during the fourth quarter of 2016 (Table 4.3A).

Kenya's exports to Africa increased by 1.2 percent in the first quarter of 2017 compared to the previous quarter **(Table 4.3B)**. The increase was largely in exports to COMESA (Uganda and Egypt) while those to EAC decreased. Exports to the rest of the world, however, increased by 12.7 percent. The share of exports to China decreased to 1.6 percent during the first quarter of 2017 from 2.3 percent during the previous quarter, while that to the European Union increased to 22.6 percent during the first quarter of 2017, from 20.4 percent during the fourth quarter of 2016.

Capital and Financial Account

The capital account surplus improved by USD 46 million in the first quarter of 2017, to USD 90 million reflecting increase in inflows of capital transfers in form of project grants.

Inflows to the financial account increased by 2.2 percent at USD 2,060 million during the first quarter of 2017 reflecting an increase in other investment liabilities, which increased by USD 846 million to USD 2,592 million, on account of higher uptake of loans by General Government mostly in the form of project and commercial

Table 4.3A: Kenya's Direction of Trade: Imports

IMPORTS (in millions of US dollars)									Share of Imports (%)	
	2016				2017					
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec						
Country	**Q1**	**Q2**	**Q3**	**Q4**	**Jan**	**Feb**	**Mar**	**Q1**	**Q4 2016**	**Q1 2017**
Africa	**296**	**331**	**358**	**397**	**140**	**121**	**140**	**401**	**11.4**	**10.1**
Of which										
South Africa	97	128	137	129	45	38	53	136	3.7	3.4
Egypt	65	64	78	89	36	25	28	89	2.6	2.2
Others	134	139	143	179	60	57	59	177	5.1	4.4
EAC	**68**	**72**	**82**	**102**	**37**	**34**	**34**	**106**	**2.9**	**2.7**
COMESA	**149**	**152**	**163**	**222**	**71**	**68**	**72**	**211**	**6.3**	**5.3**
Rest of the World	**2,753**	**3,192**	**3,209**	**3,101**	**1,268**	**1,106**	**1,199**	**3,573**	**88.6**	**89.9**
Of which										
India	560	567	395	503	190	102	171	463	14.4	11.6
United Arab Emirates	141	237	313	210	89	78	55	222	6.0	5.6
China	640	841	971	872	418	351	329	1,098	24.9	27.6
Japan	201	195	224	191	58	46	79	183	5.5	4.6
USA	108	143	122	97	31	45	64	140	2.8	3.5
United Kingdom	71	90	80	89	24	20	28	71	2.5	1.8
Singapore	7	24	22	13	4	8	9	21	0.4	0.5
Germany	113	118	97	99	26	26	33	85	2.8	2.1
Saudi Arabia	128	167	163	224	92	135	124	352	6.4	8.9
Indonesia	115	102	121	109	66	50	38	153	3.1	3.9
Netherlands	38	37	43	45	18	7	12	37	1.3	0.9
France	54	52	58	48	16	23	17	56	1.4	1.4
Bahrain	11	2	24	43	1	9	15	24	1.2	0.6
Italy	48	59	59	68	21	22	19	62	1.9	1.6
Others	516	559	516	489	215	187	205	607	14.0	15.3
Total	**3,049**	**3,523**	**3,567**	**3,498**	**1,408**	**1,227**	**1,339**	**3,974**	**100.0**	**100.0**
EU	502	560	495	491	152	138	154	444	14.0	11.2
China	640	841	971	872	418	351	329	1,098	24.9	27.6

Source: Kenya Revenue Authority

Table 4.3B: Kenya's Direction Of Trade: Exports

EXPORTS (in millions of US dollars)									Share of Exports (%)	
	2016				2017					
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec						
Country	**Q1**	**Q2**	**Q3**	**Q4**	**Jan**	**Feb**	**Mar**	**Q1**	**Q4 2016**	**Q1 2017**
Africa	**613**	**580**	**562**	**557**	**171**	**176**	**217**	**564**	**40.7**	**38.1**
Of which										
Uganda	153	150	154	155	52	55	57	163	**11.3**	**11.0**
Tanzania	105	86	70	82	23	25	27	75	**6.0**	**5.1**
Egypt	53	58	57	35	14	15	14	42	**2.6**	**2.9**
Sudan	16	12	11	13	5	2	6	13	**0.9**	**0.9**
South Sudan	55	41	25	40	16	11	18	45	**2.9**	**3.0**
Somalia	39	40	45	53	14	14	31	58	**3.9**	**3.9**
DRC	46	48	53	51	13	16	19	48	**3.7**	**3.2**
Rwanda	41	44	44	44	11	12	14	37	**3.2**	**2.5**
Others	106	100	104	83	23	26	33	82	**6.1**	**5.5**
EAC	**319**	**295**	**287**	**298**	**92**	**97**	**104**	**293**	**21.7**	**19.8**
COMESA	**379**	**380**	**398**	**359**	**112**	**119**	**133**	**364**	**26.2**	**24.6**
Rest of the World	**914**	**863**	**846**	**813**	**310**	**293**	**313**	**916**	**59.3**	**61.9**
Of which										
United Kingdom	107	92	87	85	32	33	32	97	**6.2**	**6.6**
Netherlands	137	104	89	99	37	44	39	119	**7.2**	**8.1**
USA	89	100	129	109	28	39	38	105	**7.9**	**7.1**
Pakistan	73	105	95	124	71	42	38	151	**9.0**	**10.2**
United Arab Emirates	82	80	80	63	17	18	17	52	**4.6**	**3.5**
Germany	27	35	28	27	9	12	12	33	**2.0**	**2.2**
India	43	23	33	18	4	6	6	16	**1.3**	**1.1**
Afghanistan	52	35	15	4	5	2	0	7	**0.3**	**0.5**
Others	304	289	290	285	107	99	130	335	**20.8**	**22.7**
Total	**1,527**	**1,443**	**1,407**	**1,370**	**480**	**469**	**530**	**1,480**	**100.0**	**100.0**
EU	344	298	263	280	101	115	118	334	**20.4**	**22.6**
China	17	24	27	31	8	4	12	24	**2.3**	**1.6**

Source: Kenya Revenue Authority

loans over the review period However, there was a substantial increase in other investment assets attributed to build-up in commercial banks foreign assets abroad. Consequently, the net effect was a marginal net increase in other liabilities of USD 66 million. There was also a marginal reduction in net foreign direct investment and net portfolio investment during the review period.

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by 12.5 percent during the first quarter of 2017 compared to previous quarter. Official reserves held by the Central Bank of Kenya (CBK) constituted 78 percent of gross reserves and stood at USD 8,379 million, equivalent to 5.9 months of import cover **(Table 4.5)**. Meanwhile, the Precautionary Arrangements with the IMF amounting to USD 1,500 million continued to provide additional buffer against short term external and domestic shocks.

Table 4.4: Balance on Capital and Financial Account (USD Million)

	2016**				2017**				Q1 2017-Q4 2016	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Q1			2017**		%
ITEM	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Change	Change
3. Capital Account, n.i.e.	**125**	**30**	**7**	**44**	**51**	**10**	**29**	**90**	**46**	**103.0**
Capital account, n.i.e.: credit	125	30	7	44	51	10	29	90	46	103.0
Capital account: debit	0	0	0	0	0	0	0	0	0	0.0
4. Financial Account, n.i.e.	**-1,168**	**-669**	**-284**	**-2,016**	**-405**	**-270**	**-1,384**	**-2,060**	**-43**	**2.2**
Direct investment: assets	31	36	41	50	14	22	23	59	9	17.2
Direct investment: liabilities, n.i.e.	143	81	72	97	34	29	18	81	-16	-16.1
Portfolio investment: assets	9	95	162	157	42	42	70	155	-2	-1.5
Portfolio investment: liabilities, n.i.e.	15	5	12	7	3	3	0	6	-1	-12.1
Financial derivatives: net	0	0	0	0	0	0	0	0	0	0.0
Other investment: assets	-244	241	183	-374	248	201	-43	406	780	-208.6
Other investment: liabilities, n.i.e.	805	955	587	1,746	672	504	1,416	2,592	846	48.5

** Revised*

***Provisional*

n.i.e - not included elsewhere

Source: Central Bank of Kenya

Exchange Rates

The foreign exchange market has remained stable supported by a generally lower current account deficit and resilient inflows from diaspora remittances. During the first quarter of 2017, the Kenya Shilling appreciated against the Japanese Yen but depreciated against the US Dollar, the Pound Sterling and the Euro when compared to its performance during the fourth quarter of 2016 **(Table 4.6 and Chart 4A).** The weakening of the Shilling against the US Dollar is largely attributed to developments on the international markets – a strong US Dollar fuelled by expectations of an increase in the Federal Funds rate and eventual increase of the rate in December 2016 and March 2017.

In the EAC region, the Kenya Shilling strengthened against the Uganda and Tanzania Shillings as well as the Rwanda Franc but weakened against the Burundi Franc.

Table 4.5: Foreign Exchange Reserves and Residents' Foreign Currency Deposits (End of Period, USD Million)

`	2015				2016							
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec				2017
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan 17	Feb 17	Mar 17	Q1
1. Gross Reserves	**9,834**	**9,473**	**8,899**	**9,794**	**9,809**	**10,499**	**10,602**	**9,587**	**9,724**	**9,929**	**10,786**	**10,786**
of which:												
Official	7,723	7,212	6,711	7,534	7,807	8,267	8,200	7,573	7,466	7,475	8,379	8,379
*import cover**	*4.8*	*4.4*	*4.2*	*4.8*	*5.0*	*5.5*	*5.6*	*5.3*	*5.2*	*5.2*	*5.9*	*5.9*
Commercial Banks	2,111	2,262	2,188	2,259	2,002	2,232	2,402	2,015	2,258	2,454	2,407	2,407
2. Residents' foreign currency deposits	**4,154**	**4,488**	**4,278**	**4,389**	**4,191**	**4,443**	**4,723**	**4,323**	**4,381**	**4,506**	**4,503**	**4,503**

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

Source: Central Bank of Kenya

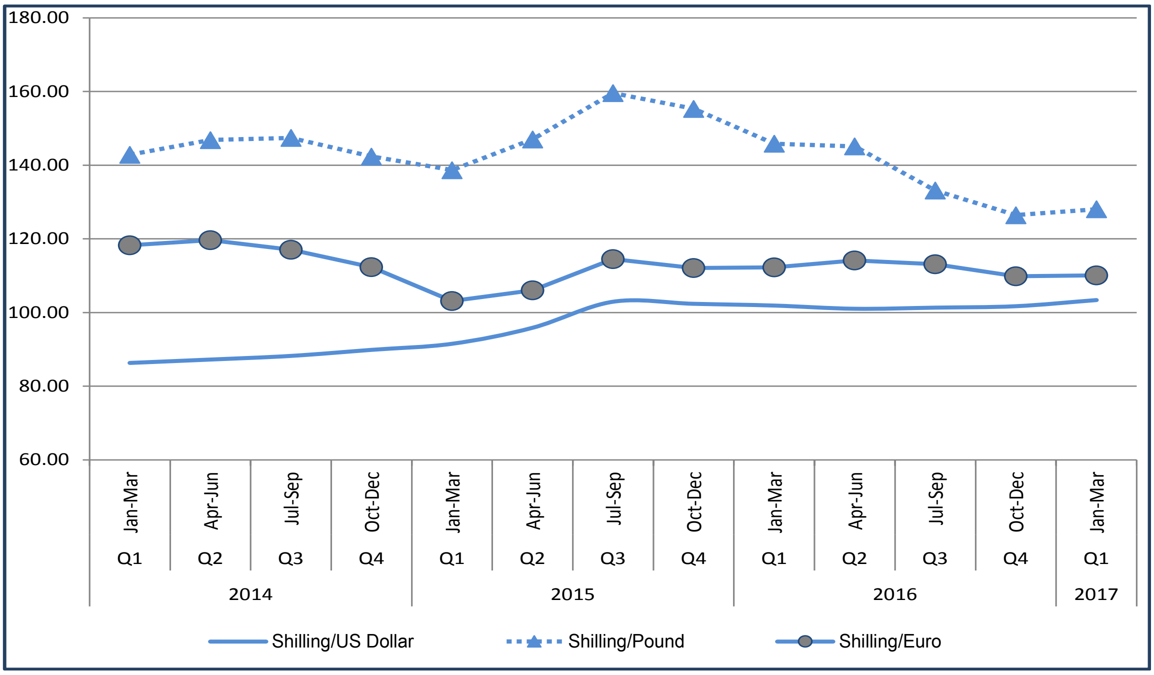
Table 4.6: Kenya Shilling Exchange Rate

	2016				2017				
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	% change Q1 2017 - Q4 2016
US Dollar	101.90	101.04	101.34	101.73	103.75	103.64	102.85	103.39	1.64
Pound Sterling	145.85	145.12	133.14	126.45	128.01	129.46	126.87	128.05	1.27
Euro	112.26	114.16	113.11	109.89	110.17	110.36	109.87	110.12	0.21
100 Japanese Yen	88.35	93.58	99.00	93.50	90.09	91.69	91.08	90.95	-2.73
Uganda Shilling*	33.51	33.18	33.32	34.68	34.79	34.58	34.98	34.79	0.32
Tanzania Shilling*	21.44	21.69	21.58	21.44	21.40	21.56	21.73	21.57	0.58
Rwanda Franc*	7.38	7.55	7.56	7.83	7.93	7.99	8.05	7.99	2.08
Burundi Franc*	15.27	15.61	16.47	16.49	16.20	16.31	16.51	16.35	-0.84

** Units of currency per Kenya Shilling*

Source: Central Bank of Kenya

Chart 4A: Kenya Shilling Exchange Rate



Source: Central Bank of Kenya

Chapter 5

The Banking Sector

Structure of the Banking Sector

The Kenyan banking sector comprised 41 commercial banks, 1 mortgage finance company, 13 microfinance banks, 8 representative offices of foreign banks, 76 foreign exchange bureaus, 18 money remittance providers and 3 credit reference bureaus as at March 31, 2017. Giro Bank Ltd was acquired by I & M Bank Ltd during the period under review thus reducing the number of commercial banks to 41. Over the same period, one forex bureau transformed into a money remittance provider (MRP) increasing MRPs to 18 and reducing forex bureaus to 76. Chart 1 shows the structure of the Kenyan banking sector.

Structure of the Balance Sheet

i) Growth in banking sector assets

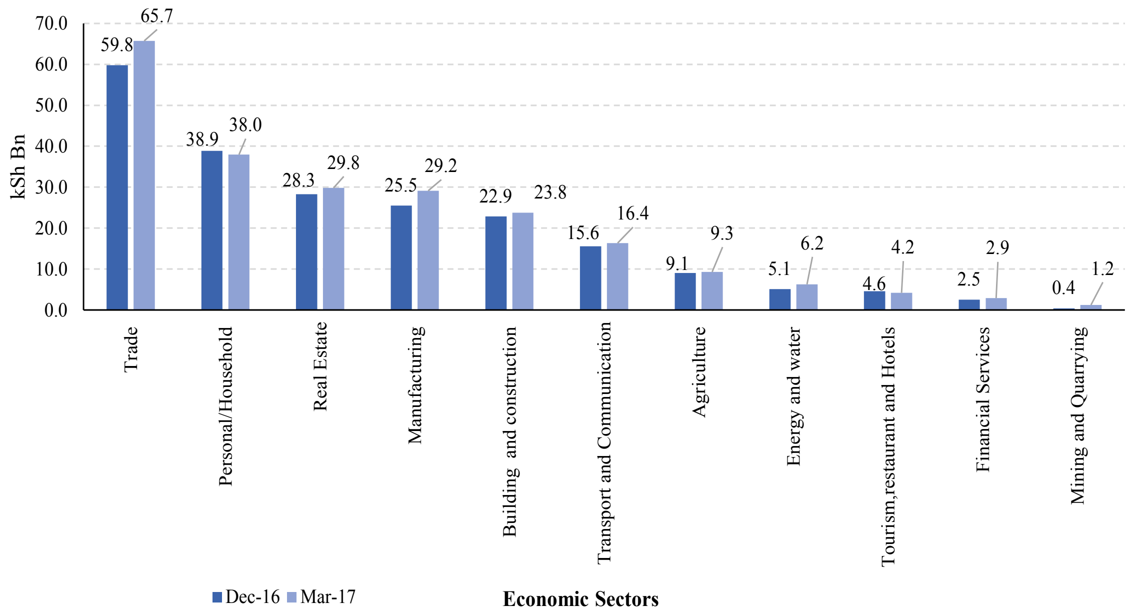
Total net assets increased by 2.1 percent from KSh 3,762.5 billion in the fourth quarter of 2016 to KSh 3,841.5 billion in the first quarter of 2017. This increase was attributable to a 11.2 percent or KSh 19.0 billion increase in placements. The increase in placements is attributable to increase of the foreign currency deposits by some large foreign corporates engaged in on-going major infrastructure projects in the country. Loans and advances remained the main component of assets accounting for 58.5 percent in the first quarter of 2017, which was a slight decrease from 58.8 percent recorded in the fourth quarter of 2016.

ii) Loans and Advances

Total banking sector lending increased by 2.3 percent from KSh 2,327.4 billion in the fourth quarter of 2016 to KSh 2,381.3 billion in the first quarter of 2017. Seven of the eleven economic sectors registered increased gross loans as shown in Chart 5B. This was a decrease from eight economic sectors which registered increases in the fourth quarter of 2016.

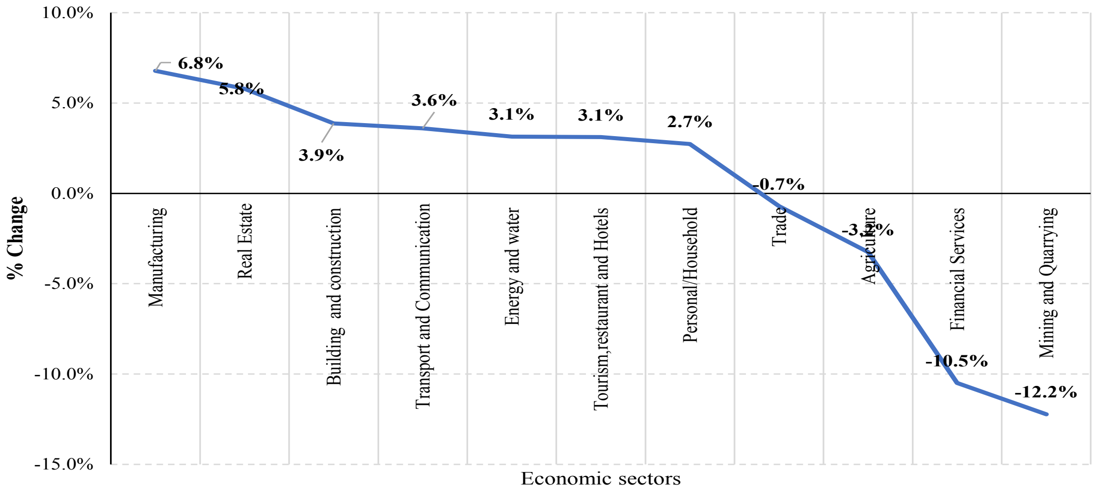
The Manufacturing sector recorded the highest increase in lending of 6.8 percent in the first quarter of 2017 compared to the fourth quarter of 2016 due to utilization of overdraft facilities by some major clients on account of their normal business cycle.

Chart 5A: Structure of the Banking Sector in Kenya



Source: Central Bank of Kenya

Chart 5B: Quarterly Changes in Gross Loans in the First Quarter of 2017



Source: Central Bank of Kenya

The sectoral distribution of gross loans as at March 31, 2017 is highlighted in C**hart 5C.**

The Mining and Quarrying sector registered the highest decrease in lending of 12.2 percent or KSh 1.5 billion in the first quarter of 2017 compared to the fourth quarter of 2016. This was due to higher repayments than the new loans advanced to the sector

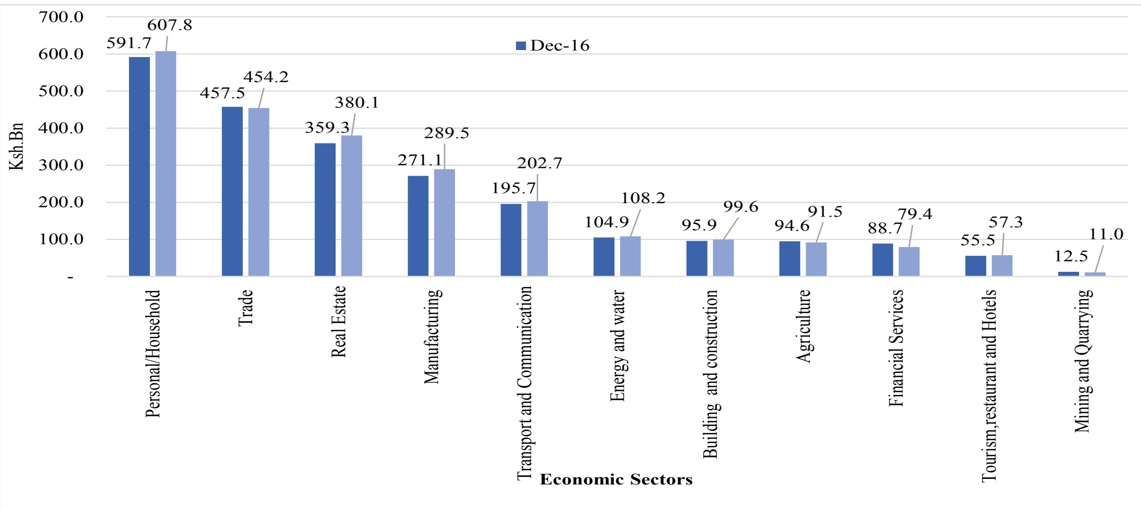
iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks and accounted for 71.4 percent of the banking sector total liabilities and shareholders' funds as at the end of the first quarter of 2017. This was an increase from 70.5 percent recorded as at end of the fourth quarter of 2016. The customer deposits base increased by 3.3 percent from KSh 2,653.1 billion in the fourth quarter of 2016 to KSh 2,741.2 billion in the first quarter of 2017. The increase in customer deposit base in the first quarter of 2017 was mainly due to increased foreign currency deposits by some large foreign corporates engaged in on-going major infrastructure projects in the country. **Chart 5D** shows the movement in deposit liabilities.

Capital Adequacy

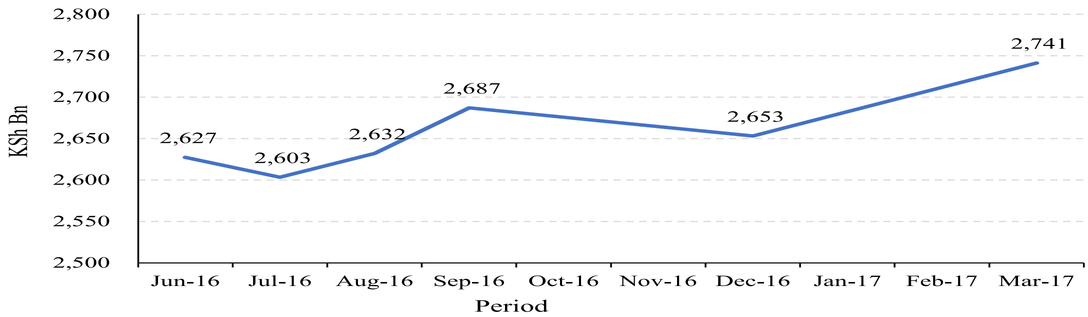
The Kenyan banking sector has continued to build up its capital levels to sustain its resilience to adverse shocks. Core capital and total capital increased by 14.1 percent and 12.6 percent from KSh 460.4 billion and KSh 544.9 billion, respectively, to KSh 525.4 billion and KSh

Chart 5C: Gross Loans iof the Banking Sector by Economic Sector



Source: Central Bank of Kenya

Chart 5D **Customer Deposits (Ksh Billion)**



Source: Central Bank of Kenya

613.8 billion, respectively, between the fourth quarter of 2016 and the first quarter of 2017. Total risk-weighted assets increased by 8.7 percent over the same period. The increase was lower than that of total capital and core capital. As a result, total capital and core capital to total risk- weighted assets ratios increased from 18.7 percent and 15.8 percent, respectively, as at the fourth quarter of 2016 to 19.4 percent and 16.6 percent, respectively, as at the first quarter of 2017.

Banks are required to maintain a core capital to total deposits ratio of not less than 8 percent. As at the first quarter of 2017, this ratio increased to 19.2 percent from 17.4 percent registered in the fourth quarter of 2016. The increase was attributed to a higher increase in core capital of 14.1 percent compared to a 3.3 percent increase in customer deposits.

Asset Quality

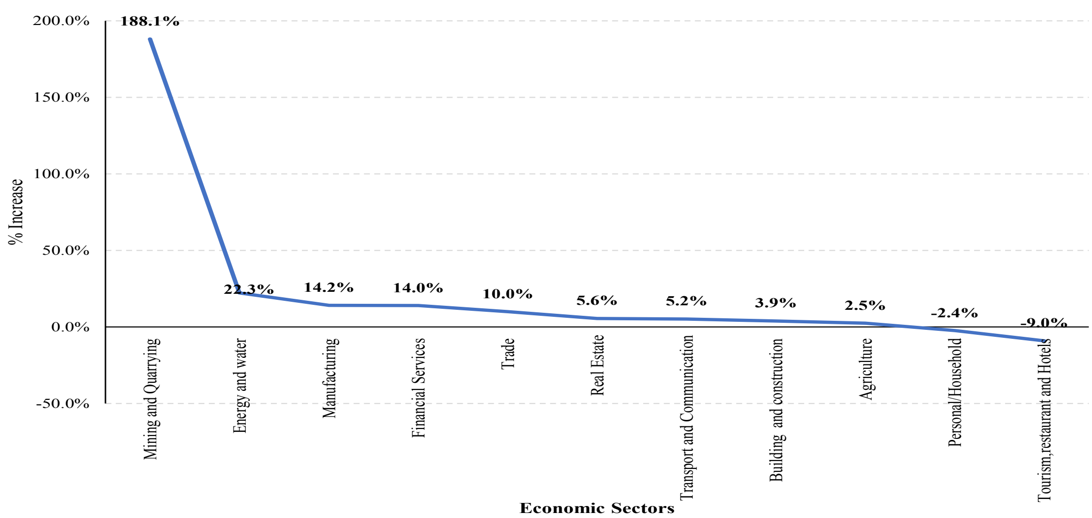
The gross non-performing loans (NPLs) increased by 6.6 percent from KSh 212.6 billion as at the end of the fourth quarter of 2016 to KSh 226.6 billion at the end of the first quarter of 2017. Nine economic sectors recorded increases in the NPLs in the first quarter of 2017 as highlighted in **Chart 5E.**

Energy and water sector registered an increase in NPLs of 22.3 percent or KSh 1.1 billion due to delayed and partial payments from the procuring entities which affected the serviceability of facilities. Manufacturing sector recorded an increase in NPLs of KSh 3.6 billion or 14.2 percent due to delays in cash inflows attributed to low business turnover.

Tourism, Restaurant and Hotels sector recorded the highest decrease in NPLs of 9.0 percent or KSh 0.4 billion in the first quarter of 2017 compared to the previous quarter. This is mainly attributable to increased business sales/ turnovers.

Based on the sectoral movements of NPLs,

Chart 5E: **Quarterly Changes in Gross NPLS in the First Quarter of 2017**



Source: Central Bank of Kenya

the gross NPLs to gross loans ratio increased from 9.1 percent in fourth quarter of 2016 to 9.5 percent in the first quarter of 2017. Chart 5F highlights the detailed sectoral distribution of gross NPLs between the two periods under review.

The banking sector's asset quality as measured as the proportion of net non-performing loans to gross loans deteriorated slightly from 4.6 percent in the fourth quarter of 2016 to 4.7 percent in the first quarter of 2017. Similarly, the coverage ratio, which is measured as a percentage of specific provisions to total NPLs, decreased from 37.7 percent in fourth quarter of 2016 from 36.6 percent in the first quarter of 2017 due to a lower increase in specific provisions as compared to increase in NPLs between the two periods.

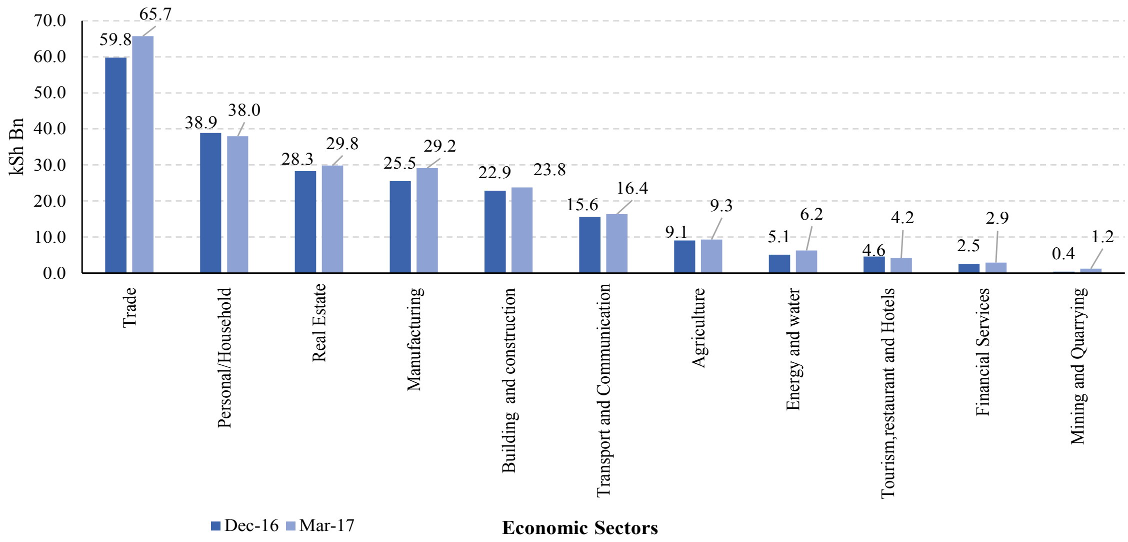
A summary of asset quality for the banking sector over the period is shown in Table 5.1 below.

5. Profitability

The banking sector recorded increase in pre-tax profits by 18.21 percent from KSh 29.1 billion in fourth quarter of 2016 to KSh 34.4 billion in the first quarter of 2017. The increase in profitability was mainly attributable to a deceleration in income compared to expenses in the period under review. Total income decreased by 3.3 percent from KSh 117.9 billion in the fourth quarter of 2016 to KSh 114.0 billion in the first quarter of 2017, while total expenses decreased by 10.4 percent from KSh 88.8 billion in the fourth quarter of 2016 to KSh 79.6 billion in the first of quarter of 2017.

The decrease in income in first quarter of 2017 is mainly attributed to decrease in interest on loans and advances which decreased by 3.8

Chart 5F: Gross Non-Perfoming Loans of the Banking Sector by Economic Sector



Source: Central Bank of Kenya

Table 5.1: Summary of Asset Quality

		Dec-16, KShs.'Bn	Mar-17, KShs.'Bn
1	Gross Loans and Advances (KShs 'Bn)	2,327.4	2,381.3
2	Interest in Suspense (KShs 'Bn)	42.3	47.0
3	Loans and advances (net of interest suspended) (KShs.'Bn)	2,285.1	2,334.3
4	Gross non-performing loans (KShs 'Bn)	212.6	226.6
5	Specific Provisions (KShs 'Bn)	64.1	65.8
6	General Provisions (KShs 'Bn)	20.1	19.8
7	Total Provisions (5+6) (KShs 'Bn)	84.2	85.6
8	Net Advances (3-7) (KShs 'Bn)	2,200.9	2,248.7
9	Total Non-Performing Loans and Advances (4-2) (KShs 'Bn)	170.3	176.6
10	Net Non-Performing Loans and Advances (9-5) (KShs 'Bn)	106.1	110.8
11	Total NPLs as % of Total Advances (9/3)	7.5%	7.6%
12	Net NPLs as % of Gross Advances (10/1)	4.6%	4.7%
13	Specific Provisions as % of Total NPLs (5/9)	37.7%	36.6%

Source: Central Bank of Kenya

percent or KSh 2.5 billion. The decrease in expenses was largely attributable to a 31.3 percent (KSh 3.1billion) decrease in bad debt charge.

Interest on loans and advances, interest on government securities and other incomes were the major sources of income accounting for 55.4 percent, 19.9 percent and 17.6 percent of total income, respectively. On the other hand, interest on deposits, salaries and wages, and other expenses were the key components of expenses, accounting for 31.8 percent, 26.0 percent and 22.3 percent of total expenses, respectively.

The return on assets (ROA) increased from 2.5 percent in the fourth quarter of 2016 to 2.9 percent in the first quarter of 2017 while return on equity (ROE) increased from 19.2 percent in the fourth quarter of 2016 to 22.2 percent in the first quarter of 2017. The increases in ROA and ROE were as a result of increase in profitability.

6. Liquidity

The banking sector's overall liquidity ratio increased from 41.4 percent in the fourth quarter of 2016 to 43.8 percent in the first quarter of 2017. This is evidenced by a 1.3 percent decrease in Loans to deposit ratio from 88.2 percent in the fourth quarter of 2016 to 86.9 percent in the first quarter of 2017. The banking sector liquidity ratio recorded was above the minimum statutory level of 20 percent.

7. Outlook of the Sector

The Kenyan banking sector is expected to remain stable. Credit risk is expected to remain elevated but will be mitigated by improvements in the business environment. Liquidity risk is expected to be mitigated by improved distribution of liquidity across the banking sector.

KENYA SHILLING FLOWS IN KEPSS

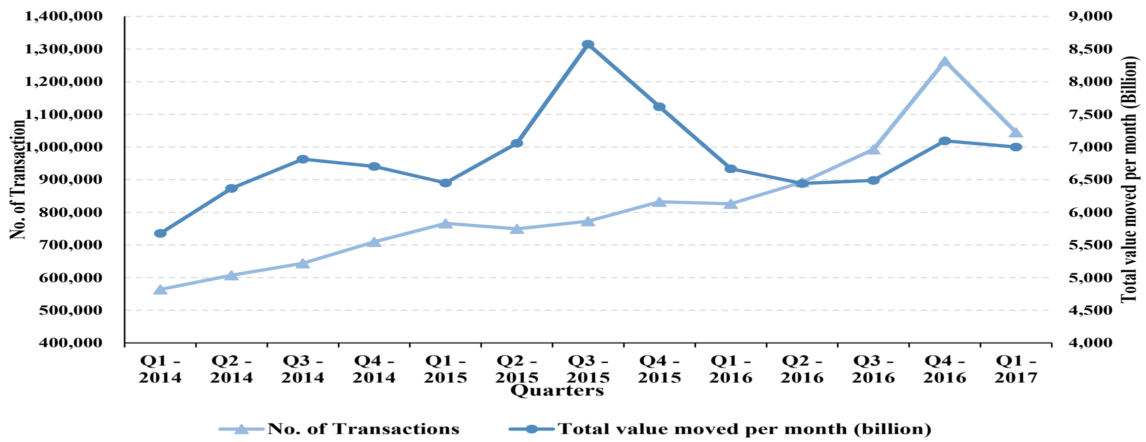
Kenya Electronic Payments and Settlement System (KEPSS), used for large value Real Time Gross Settlement (RTGS) payments, moved a volume of 1.05 million transaction messages worth KSh 7 trillion in the first quarter of 2017, compared to the fourth quarter of 2016 which recorded 1.26 million transactions worth KSh 7.1 trillion. Volume and value moved decreased by 1.41 per cent and 16.67 per cent, respectively. Chart 5G highlights recent trends in KEPSS transactions.

Bank Customer Payments Processed Through KEPSS

In transmitting payments through the RTGS for customers, commercial banks submit the payment instructions vide multiple third party Message Type (MT 102) used for several credit transfers and single third party Message Type (MT 103) used for single credit transfers.

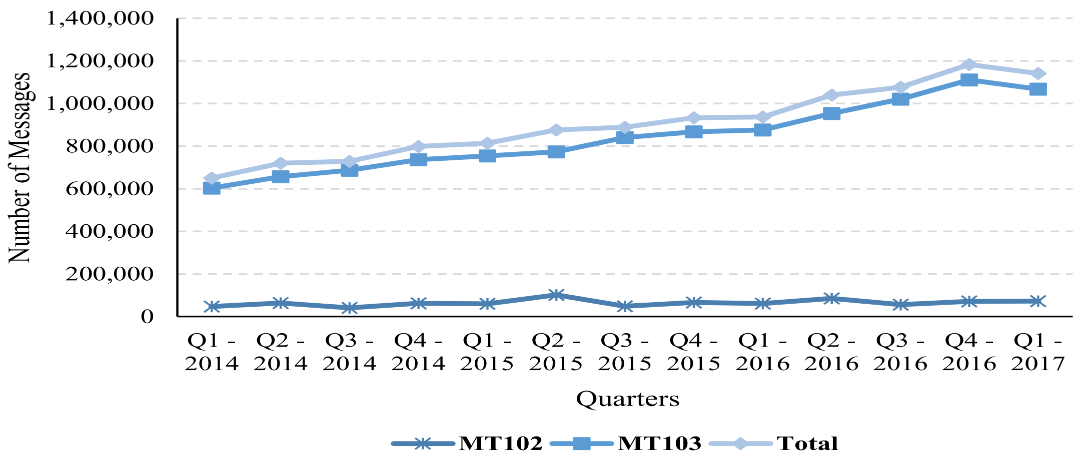
During the period under review, MT 102 usage increased by 1.66 percent, to 73,022 messages recorded in the first quarter of 2017 from 71,829 messages processed in the previous quarter. The MT 103 payments decreased by 3.89 percent, to 1,067,868 messages in the first quarter of

Chart5G: Trends in Monthly Flows Through KEPSS



Source: Central Bank of Kenya

Chart 5H: Trends in MT102 and MT103 Volumes Processed Through KEPSS



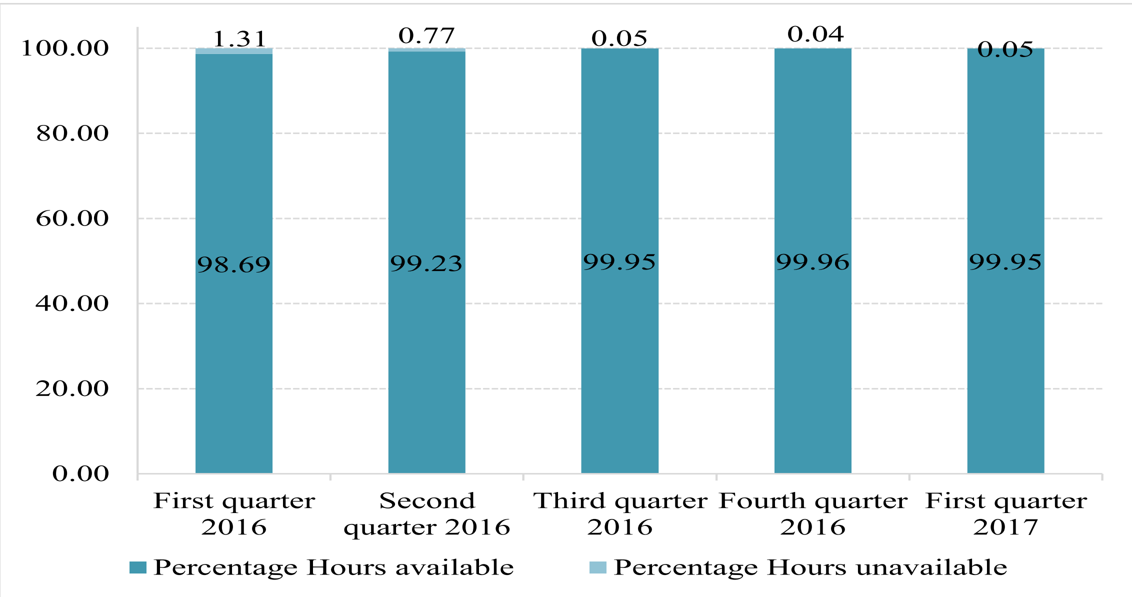
Source: Central Bank of Kenya

2017 from 1,111,036 messages in the previous quarter **(Chart 5H).** The sustained growth of KEPSS is an indication of its continued preference by the Payment Service Providers for real time settlements.

The KEPSS system is available to the commercial banks and other participants for 8 hours per day. The system runs from 8.30 AM to 4.30 PM but the operating time can be extended to enable participants settle their obligations and fund their accounts.

During the quarter under review, KEPSS availability declined marginally to record an average of 99.95 percent compared to 99.96 percent in the previous quarter **(Chart 5I)**

Chart 5I: Availability of KEPSS in Kenya (%)



Source: Central Bank of Kenya

Chapter 6

Government Budgetary Performance

The government's budgetary operations resulted in a deficit of 4.0 percent of GDP in the third quarter of the FY 2016/17 compared with a deficit of 3.3 percent of GDP in the second quarter **(Table 6.1).** The cumulative deficit, at 6.1 percent of GPD through March 2017 was within the 6.3 percent of GDP, target. Both cumulative total revenues and grants, and total expenses and net lending were marginally lower than respective targets by March 2017.

Revenue

Cumulatively, Government receipts - tax revenue and grants - amounted to Ksh 996.7 billion or 4.5 percent of GDP, in the nine months of the FY 2016/17. Cumulative tax revenue alone stood at Ksh 868.7 billion (3.8 percent of GDP) and was Ksh 63.4 billion below target of Ksh 932.1 billion. However, tax revenue in the third quarter of FY 2016/17 was slightly lower than the Ksh 293.5 billion collected in the second quarter of the FY 2016/17. The decline reflected below target receipts in PAYE, Import Duty and VAT on imports.

External grants for the first nine months of the FY 2016/17 stood at Ksh 20.5 billion, which was Ksh 4.1 billion lower than expected due to slow absorption of donor funds.

Meanwhile, ministerial Appropriations in Aid (A-in-A) collected in the first nine months of the FY 2016/17 amounted to Ksh 53.5 billion, which was Ksh 36.6 billion lower than target due to under reporting by public universities. Ministerial A-in-A collections fell below target for the third consecutive quarter of the FY2016/17.

Excise tax and VAT on local goods performed above respective targets **(Chart 6A)**. As observed in previous years, the collection of revenues is usually slow at the start of the fiscal year but picks up by the third quarter of the year. The outlook for revenue collection remains positive, especially with implementation of various legal and administrative measures to address tax leakages.

Expenditure and Net Lending

Government expenditure and net lending in the first nine months of the FY 2016/17 stood at Ksh 1,435.1 billion (8.49 percent of GDP) against a target of Ksh 1,523.1 billion (21.28 percent of GDP). The shortfall of Ksh 88.0 billion reflects lower recurrent and development expenditures by the National and County governments. Expenditures in the third quarter were, however, 2.7 percent higher than the Ksh 591.9 billion spent in the second quarter of FY 2016/17.

In terms of broad categories of expenditure, recurrent was below target by Ksh 42.8 billion, and largely in wages and salaries. Domestic interest payments for the third quarter decreased to Ksh 45.7 billion from Ksh 64.0 billion in the second quarter of the FY 2016/17.

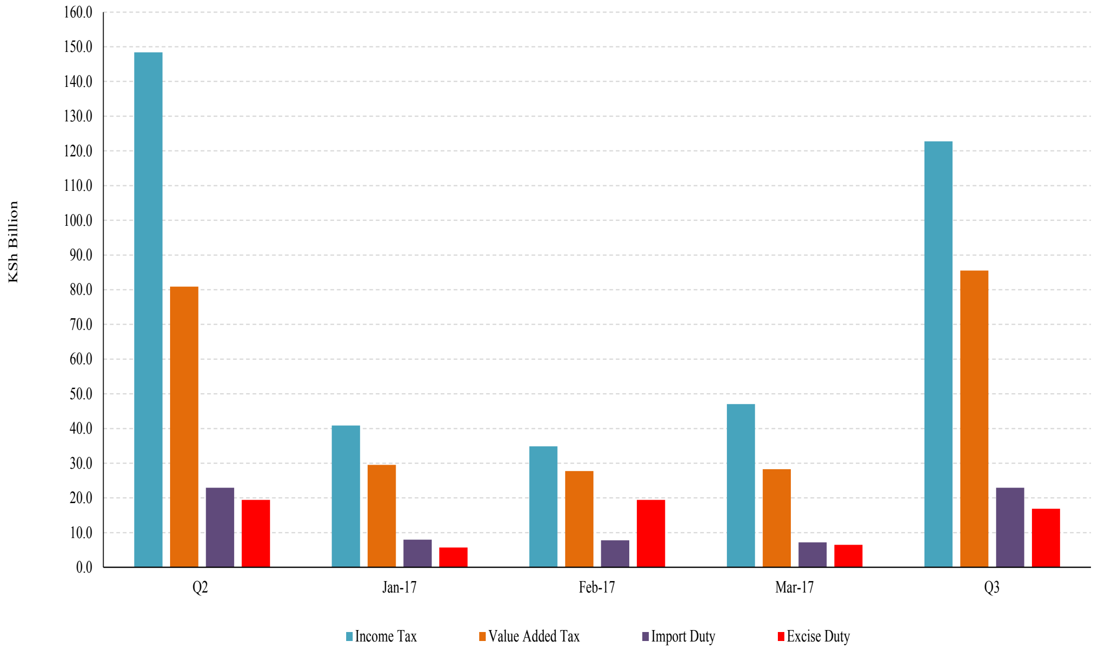
Table 6.1: Statement of Government Operations in FY 2015/16 (Ksh Billion)

	(FY 2016/17)					Cumulative to March 2017	Target	Over (+) / Below (-) Target
	Q2	Jan	Feb	Mar	Q3			
1. TOTAL REVENUE & GRANTS	**358.2**	**109.9**	**98.2**	**112.8**	**321.0**	**996.7**	**1,075.1**	**(78.4)**
Ordinary Revenue	**333.7**	**96.8**	**92.7**	**100.5**	**290.0**	**922.7**	**960.4**	**(37.7)**
Tax Revenue	293.5	92.5	83.9	94.7	271.1	868.7	932.1	(63.4)
Non Tax Revenue	40.3	4.4	8.8	5.8	18.9	54.0	28.3	25.7
Appropriations-in-Aid	19.4	6.5	4.3	6.0	16.9	53.5	90.1	(36.6)
External Grants	5.0	6.5	1.2	6.3	14.1	20.5	24.6	(4.1)
2. TOTAL EXPENSES & NET LENDING	**591.9**	**209.5**	**160.5**	**237.6**	**607.6**	**1,435.1**	**1,523.1**	**(88.0)**
Recurrent Expenses	351.0	104.7	100.9	143.4	348.9	808.5	851.3	(42.8)
Development Expenses	169.9	81.8	46.2	61.7	189.7	441.4	448.8	(7.5)
County Transfers	71.0	23.1	13.4	32.6	69.0	185.2	223.0	(37.8)
Others	-	-	-	-	-	-	-	-
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**(233.7)**	**(99.6)**	**(62.2)**	**(124.8)**	**(286.7)**	**(438.4)**	**(448.0)**	**9.6**
As percent of GDP	(3.3)	(1.4)	(0.9)	(1.7)	(4.0)	(6.1)	(6.3)	0.1
4. ADJUSTMENT TO CASH BASIS	-				-		-	-
5. DEFICIT ON A CASH BASIS	**(233.7)**	**(99.6)**	**(62.2)**	**(124.8)**	**(286.7)**	**(438.4)**	**(448.0)**	**9.6**
As percent of GDP	(3.3)	(1.4)	(0.9)	(1.7)	(4.0)	(6.1)	(6.3)	0.1
6. DISCREPANCY: Expenditure (+) / Revenue (-)	(49.4)	(49.5)	(7.5)	(48.6)	(105.6)	13.0	-	13.0
7. FINANCING	**184.4**	**50.2**	**54.7**	**76.2**	**181.0**	**451.4**	**451.7**	**(0.3)**
Domestic (Net)	115.2	(17.9)	25.6	(17.0)	(9.3)	154.7	244.9	(90.2)
External (Net)	69.2	68.0	29.1	93.2	190.3	295.8	204.2	91.6
Capital Receipts (domestic loan receipts)	-	0.2	0.3	0.1	0.7	0.9	2.6	(1.7)
Others(Euro Bond sale proceeds)	-	-	-	-	-	-	-	-

NB: using the new re-based GDP figures as per 2017 Economic Survey

Sources: The National Treasury

Chart 6A: Composition of Government Revenue (Ksh Billion)



Source: The National Treasury

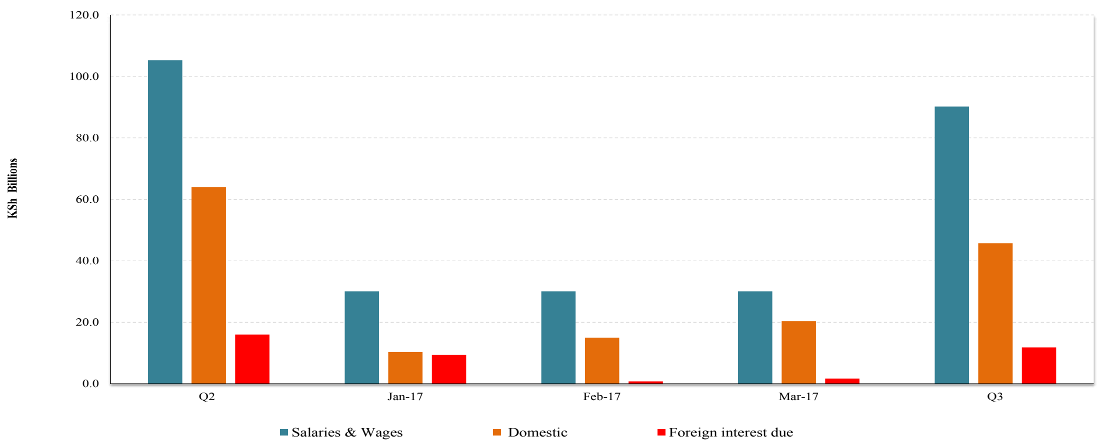
Foreign interest payments at Ksh 11.8 billion were lower than Ksh 16.0 billion paid in the second quarter **(Chart 6B)**. Cumulatively, development expenditure was below target by Ksh 7.5 billion largely attributed to non-capture of some National Sub-County expenditures following from under reporting by ministries.

With respect to composition, the share of recurrent expenditure in total government spending dominated at 57.4 percent in the third quarter, while the contribution of development expenditure to total government expenditure was 31.2 percent. Development expenditures were largely channeled into infrastructure and energy and petroleum ministries for implementation of key infrastructure projects. The share of county transfers was 11.4 percent of government spending **(Table 6.1).**

Financing

External financing in the first nine months of FY 2016/17 amounted to Ksh 295.8 billion against a target of Ksh 204.2 billion. Net domestic borrowing amounted to Ksh 154.7 billion over the same period. The borrowing comprised Ksh 12.5 billion from commercial banks, Ksh 132.4 billion from Non-banking financial institutions, Ksh 35.8 billion from the CBK and Ksh 1.4 billion from Non-Residents **(Table 6.2**). Net domestic borrowing in the nine months to March 2017 increased by 50.7 percent compared to Ksh 109.2 billion in a similar period in the FY 2015/16.

Chart 6B: Composition of Recurrent Expenses



Sources: The National Treasury

Table 6.2 Domestic Financing Ending Sept 30, 2016

	FY 2016/17								
			Q1			Q2			Q3
NET CREDIT TO GOVERNMENT 2015/2016 (Ksh Bn)	**Jul-16**	**Aug-16**	**Sep-16**	**Oct-16**	**Nov-16**	**Dec-16**	**Jan-17**	**Feb-17**	**Mar-17**
1. From CBK	(29.30)	3.77	(24.58)	12.03	0.61	37.83	44.90	83.19	35.84
2.From commercial banks	6.25	3.12	37.36	34.73	38.93	18.86	(6.79)	(9.70)	12.53
4.From Non-banks	19.91	30.35	37.53	70.23	92.45	106.82	107.16	117.29	132.40
5. From Non-Residents	(0.71)	(1.00)	(0.87)	(0.21)	0.70	1.09	1.23	1.29	1.37
Change in Credit from banks (From 30th June 2015)*	(23.05)	6.89	12.77	46.77	39.54	56.69	38.11	73.50	48.37
Change in Credit from non-banks(From 30th June 2015)*	19.91	30.35	37.53	70.23	92.45	106.82	107.16	117.29	132.40
Change in Credit from non-residents(From 30th June 2015)*	(0.71)	(1.00)	(0.87)	(0.21)	0.70	1.09	1.23	1.29	1.37
6.Total Change in Dom. Credit (From 30th June 2015)	(3.84)	36.24	49.43	116.78	132.69	164.60	146.49	192.08	182.13

NB. Treasury Bills are reflected at Cost

** the changes in credit for each quarter, reflect the changes within the Fiscal Year 2016/2017*

Source: Central Bank of Kenya

Domestic financing in the first nine months of the FY 2016/17 performed well compared to a similar period in FY 2015/16 when borrowing was constrained by tight liquidity conditions in the money market coupled with the government's reluctance to accept higher interest rates. The performance of the government's domestic borrowing programme is consistent with thresholds set in the Medium Term Debt Management Strategy.

Outlook for FY 2016/17

In the budget estimates for the FY 2016/17, total revenue is estimated at Ksh 1,500.6 billion (21.3 percent of GDP) while external grants are estimated at Ksh 72.7 billion (1.0 percent of GDP). Government expenditure is estimated at Ksh 2,265 billion (30.6 percent of GDP), of which Ksh 1,164.9 billion (15.8 percent of GDP) will be for recurrent expenses, Ksh 280.3 billion for transfers to county governments, and Ksh 817 billion for development expenses **(Table 6.3).**

The overall budget deficit including grants on commitment basis is therefore estimated at Ksh 691.5 billion (9.4 percent of GDP) in 2016/17. The deficit is expected to be financed through net external borrowing of Ksh 462.3 billion and net domestic borrowing of Ksh 229.2 billion.

Table 6.3: Budget Estimates for the Fiscal Year 2016/17 (Ksh Billion)

	Ksh (Billion)	%age of GDP
1. TOTAL REVENUE (Including Grants)	**1,573.3**	**21.3**
Ordinary Revenue	1,376.4	18.6
Appropriations-in-Aid	124.2	1.7
External Grants	72.7	1.0
2. TOTAL EXPENSES & NET LENDING	**2,264.5**	**30.6**
Recurrent Expenses	1,164.9	15.8
Development Expenses	817.0	11.1
County Transfer	280.3	3.8
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-691.2**	**-9.4**
4. ADJUSTMENT TO CASH BASIS	**0.0**	**0.0**
5. DEFICIT ON A CASH BASIS	**-691.20**	**-9.4**
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**0.0**	**0.0**
7. FINANCING	**691.50**	**9.4**
Domestic (Net)	229.2	3.1
External (Net)	462.3	6.3

Source: The National Treasury

Chapter 7

Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 7.5 percent during the third quarter of the FY 2016/17 reflecting an increase in external debt. As percentage of GDP, total debt stock at the end of the quarter under review was 54.4 percent, a 180 basis points increase, compared with the previous quarter. External debt to GDP ratio increased by 270 basis points while the ratio of domestic debt to GDP declined by 80 basis points during the third quarter of the FY 2016/17 **(Table 7.1)**.

Domestic Debt

Total domestic debt increased by 0.7 percent during the third quarter of the FY 2016/17, a slower build up compared to the 4.1 percent growth observed in the previous quarter, partly due to the temporary suspension of the 182-day T-bills in the government securities auction during the quarter under review. Consequently, the share of domestic debt to total debt decreased from 51.3 percent at the end of the second quarter to 48.1 percent by the end of the third quarter. The marginal increase was in Treasury Bonds holdings as investors' appetite shifted towards relatively longer dated securities following a more normalized debt securities yield curve. In addition, the government enhanced its utilization - up to 58.2 percent of the statutory limit - reflecting improved execution of the budget obligations. As a result, government overdraft increased by Ksh 0.3 billion.

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) decreased by 0.7 percent during the third quarter of the FY 2016/17 due to significant maturities and a depressed uptake in the primary government securities market. Thus, the proportion of Treasury bills to total domestic debt decreased by 40 basis points during the period under review reflecting investors' preference for longer dated securities. The dominance of commercial banks in Treasury bills market eased as they shifted from short dated investments to a favorable interbank market. Nevertheless, Treasury bill holdings of commercial banks stood at 50 percent of the total outstanding amount by the end of the third quarter of the FY 2016/17. Other significant holders of Treasury bills included Pension funds (24.8 percent) and parastatals - included in other holders (12.7 percent).

Table 7.1: Kenya's Public And Publicly Guaranteed Debt (Ksh Billion)[1]

	Q2	Jan-16	Feb-16	Q3	Q4	Jul-16	Aug-16	Q1	Q2	Jan-17	Feb-17	Q3	Change Q on Q
EXTERNAL**													
Bilateral	481.3	518.5	524.1	522.4	539.1	551.6	557.2	580.4	577.8	689.6	691.3	689.1	111.3
Multilateral	751.2	761.6	752.7	766.6	812.3	793.9	793.9	799.7	781.3	806.7	808.9	806.9	25.7
Commercial Banks	366.2	366.1	361.3	360.2	442.6	443.7	443.6	442.8	458.1	480.4	477.5	594.1	136.0
Supplier Credits	16.5	8.5	8.5	16.4	9.2	8.5	8.5	15.5	15.3	15.6	15.5	11.2	-4.1
Sub-Total	**1,615.2**	**1,654.7**	**1,646.6**	**1,665.6**	**1,803.2**	**1,797.7**	**1,803.3**	**1,838.4**	**1,832.4**	**1,992.3**	**1,993.2**	**2,101.4**	**268.9**
(As a % of GDP)	25.8	23.1	23.0	23.3	25.2	25.1	25.2	25.7	25.6	26.8	26.8	28.3	
(As a % of total debt)	51.2	52.1	50.6	50.3	49.8	49.8	49.8	49.8	48.7	51.3	51.2	51.9	
DOMESTIC													
Banks	**865.8**	**843.4**	**908.2**	**932.3**	**1,027.2**	**1,001.6**	**998.4**	**1,028.7**	**1,032.6**	**995.5**	**1,033.7**	**1,061.1**	**28.6**
Central Bank	101.4	91.8	99.8	102.6	99.9	69.6	68.9	58.9	85.5	72.3	81.0	85.3	-0.2
Commercial Banks	764.4	751.5	808.4	829.7	927.3	932.0	929.5	969.8	947.0	923.2	952.6	975.8	28.8
Non-banks	**661.7**	**667.6**	**685.1**	**702.2**	**774.9**	**795.4**	**805.6**	**813.8**	**884.8**	**884.8**	**846.7**	**862.3**	**-22.5**
Pension Funds	389.0	391.7	406.0	417.0	468.9	484.3	486.3	493.8	544.9	543.7	539.5	549.2	4.3
Insurance Companies	129.1	130.7	130.2	133.0	134.4	137.9	134.1	136.4	143.2	143.6	137.0	138.9	-4.3
Other Non-bank Sources	143.6	145.1	148.9	152.2	171.6	173.3	185.2	183.6	196.7	197.5	170.2	174.2	-22.5
Non-residents	**12.6**	**12.1**	**12.0**	**12.0**	**13.0**	**12.3**	**11.9**	**12.0**	**13.6**	**13.8**	**21.4**	**21.5**	**7.9**
Sub-Total	**1,540.0**	**1,523.1**	**1,605.2**	**1,646.5**	**1,815.1**	**1,809.3**	**1,816.0**	**1,854.6**	**1,931.0**	**1,894.1**	**1,901.8**	**1,945.0**	**14.0**
(As a % of GDP)	24.6	21.3	22.4	23.0	25.4	25.3	25.4	25.9	27.0	25.5	25.6	26.2	
(As a % of total debt)	48.8	47.9	49.4	49.7	50.2	50.2	50.2	50.2	51.3	48.7	48.8	48.1	
GRAND TOTAL	**3,155.2**	**3,177.8**	**3,251.8**	**3,312.1**	**3,618.3**	**3,607.0**	**3,619.2**	**3,693.0**	**3,763.4**	**3,886.4**	**3,895.0**	**4,046.3**	**282.9**
((As a % of GDP)	50.4	44.4	45.4	46.3	50.5	50.4	50.6	51.6	52.6	52.3	52.4	54.4	

Ratios computed using Treasury GDP estimate from the Budget Policy Statement 2017

** External debt is inclusive of guaranteed debt

Sources: The National Treasury and Central Bank ofKenya

1 The quarterly analysis is based on the Fiscal year quarters; Q1: June- September, Q2: October- December, Q3: January-March Q4: April- June

Table 7.2: Government Gross Domestic Debt (Ksh Billion)

	Q1	%	Q2	%	Jan-17	%	Feb-17	%	Q3	%	Change: Q on Q
al Stock of Domestic Debt (A+B)	**1,854.6**	**100.0**	**1,931.0**	**100.0**	**1,894.1**	**100.0**	**1,901.8**	**100.0**	**1,945.0**	**100.0**	**14.0**
Government Securities	**1,820.0**	**98.1**	**1,869.5**	**96.8**	**1,845.8**	**97.5**	**1,844.8**	**97.0**	**1,883.9**	**96.9**	**14.4**
1. Treasury Bills (excluding Repo Bills)	**618.2**	**33.3**	**620.2**	**32.1**	**595.1**	**31.4**	**609.6**	**32.1**	**615.8**	**31.7**	**-4.4**
Banking institutions	384.2	20.7	349.5	18.1	325.7	17.2	328.4	17.3	328.6	16.9	-20.9
The Central Bank	20.6	1.1	20.6	1.1	20.6	1.1	20.6	1.1	20.6	1.1	0.0
Commercial Banks	363.6	19.6	329.0	17.0	305.1	16.1	307.8	16.2	308.0	15.8	-20.9
Pension Funds	120.3	6.5	147.8	7.7	145.5	7.7	149.2	7.8	152.6	7.8	4.8
Insurance Companies	16.3	0.9	14.7	0.8	14.9	0.8	15.5	0.8	16.0	0.8	1.3
Others	97.5	5.3	108.1	5.6	109.0	5.8	116.5	6.1	118.5	6.1	10.4
2. Treasury Bonds	**1,201.8**	**64.8**	**1,249.3**	**64.7**	**1,250.7**	**66.0**	**1,235.2**	**64.9**	**1,268.2**	**65.2**	**18.8**
Banking institutions	591.6	31.9	601.1	31.1	601.1	31.7	627.7	33.0	650.9	33.5	49.9
The Central Bank	9.4	0.5	9.4	0.5	9.4	0.5	9.4	0.5	9.4	0.5	0.0
Commercial Banks	582.1	31.4	591.6	30.6	591.6	31.2	618.3	32.5	641.5	33.0	49.9
Insurance Companies	120.1	6.5	128.5	6.7	128.7	6.8	121.6	6.4	122.9	6.3	-5.6
Pension Funds	373.5	20.1	397.1	20.6	403.2	21.3	390.2	20.5	396.5	20.4	-0.5
Others	116.6	6.3	122.8	6.4	117.7	6.2	95.7	5.0	97.8	5.0	-25.0
3. Long Term Stocks	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Frozen account	**25.6**	**1.4**	**25.6**	**1.3**	**25.0**	**1.3**	**25.0**	**1.3**	**25.0**	**1.3**	**-0.6**
Of which: Repo T/Bills	25.0	1.3	25.0	1.3	24.4	1.3	24.4	1.3	24.4	1.3	-0.6
Others:	**9.0**	**0.5**	**35.9**	**1.9**	**23.3**	**1.2**	**32.1**	**1.7**	**36.0**	**1.9**	**0.1**
Of which CBK overdraft to Government	3.3	0.2	29.9	1.6	17.3	0.9	26.0	1.4	30.3	1.6	0.3

Source: Central Bank of Kenya

Treasury Bonds

With continued stability of interest rates, and the subsequent normalization of the Treasury Bonds' yield curve, investors' preferences shifted towards longer dated securities. Consequently, Treasury bonds holdings increased by 1.5 percent during the third quarter of the FY 2016/17. This increase reflected proceeds from the reopening of a 5- year Fixed rate Treasury bond which was partially offset by the Ksh 4.8 billion partial redemption of a twelve- year infrastructure Treasury bond. The dominant holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial banks holdings accounted for about half of the total Treasury bonds outstanding.

Domestic Debt by Tenor and Maturity Structure

Government issued both short and long dated securities during the period under review. The current debt securities portfolio is dominated by medium and long term debt securities. The benchmark 2-year, 5-year, 10-year, 15-year and 20-year Treasury bnds accounted for 74.1 percent of the total amount outstanding by the end of the third quarter. Other domestic debt consists of uncleared effects, and advances from commercial banks.

In terms of the maturity structure, the average length to maturity of existing domestic debt increased to 4 years and 5 months in the third quarter of the FY 2016/17 from 4 years and 6 months in the second quarter. This decrease reflected a marginal decrease of longer-dated debt securities in the domestic debt

TABLE 7.3: OUTSTANDING DOMESTIC DEBT BY TENOR (Ksh billion)

		Q4	%	Q1	%	Q2	%	Jan-17	%	Feb-17	%	Q3	%	Change Quarter on Quarter
	91-Day	81.8	4.5	59.9	3.2	51.1	2.6	49.4	2.6	40.7	2.1	48.7	2.5	-2.4
Treasury bills	182-Day	191.8	10.6	185.0	10.0	201.1	10.4	185.9	9.8	219.5	11.5	212.4	10.9	11.3
	364-Day	314.5	17.3	373.4	20.1	368.0	19.1	359.8	19.0	349.4	18.4	354.7	18.2	-13.3
	1-Year	34.5	1.9	10.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	122.1	6.7	122.1	6.6	116.8	6.1	118.2	6.2	100.9	5.3	100.9	5.2	-16.0
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	2.3	0.1	2.3	0.1	2.3	0.1	2.3	0.1	2.3	0.1	2.3	0.1	0.0
	5-Year	215.9	11.9	263.4	14.2	263.4	13.6	263.4	13.9	263.4	13.8	288.3	14.8	24.9
	6-Year	22.7	1.2	8.5	0.5	8.5	0.4	8.5	0.4	8.5	0.4	8.5	0.4	0.0
Treasury Bond	7-Year	8.7	0.5	8.7	0.5	8.7	0.5	8.7	0.5	8.7	0.5	8.7	0.4	0.0
	8-Year	38.2	2.1	38.2	2.1	38.2	2.0	38.2	2.0	33.7	1.8	33.7	1.7	-4.5
	9-Year	76.5	4.2	76.5	4.1	76.5	4.0	76.5	4.0	76.5	4.0	76.5	3.9	0.0
	10-Year	188.5	10.4	206.8	11.2	206.8	10.7	206.8	10.9	206.8	10.9	206.8	10.6	0.0
	11-Year	4.0	0.2	4.0	0.2	4.0	0.2	4.0	0.2	4.0	0.2	4.0	0.2	0.0
	12-Year	132.1	7.3	132.1	7.1	132.1	6.8	132.1	7.0	138.4	7.3	146.4	7.5	14.3
	15-Year	183.8	10.1	183.8	9.9	238.8	12.4	238.8	12.6	238.8	12.6	238.8	12.3	0.0
	20-Year	74.3	4.1	96.8	5.2	104.9	5.4	104.9	5.5	104.9	5.5	104.9	5.4	0.0
	25-Year	20.2	1.1	20.2	1.1	20.2	1.0	20.2	1.1	20.2	1.1	20.2	1.0	0.0
	30-Year	28.1	1.6	28.1	1.5	28.1	1.5	28.1	1.5	28.1	1.5	28.1	1.4	0.0
	Repo T bills	25.0	1.4	25.0	1.3	25.0	1.3	24.4	1.3	24.4	1.3	24.4	1.3	-0.6
	Overdraft	44.2	2.4	3.3	0.2	29.9	1.6	17.3	0.9	26.0	1.4	30.3	1.6	0.3
	Other Domestic debt	5.8	0.3	6.3	0.3	6.6	0.3		0.0		0.0		0.0	-6.6
Total Debt		**1,815.1**	**100.0**	**1,854.6**	**100.0**	**1,931.0**	**100.0**	**1,894.1**	**100.0**	**1,901.8**	**100.0**	**1,945.0**	**100.0**	**14.0**

Source: Central Bank of Kenya

securities portfolio during the review period. Consequently, the refinancing risk worsened (32.7 percent from 32.1 percent in December 2016).

External Debt

Public and publicly guaranteed external debt registered a marginal decline of 14.7 percent during the third quarter of the FY 2016/17. External debt accumulation during this quarter was mainly on account of disbursements from the Chinese government (US dollar 986.9 million) and commercial loans from the syndicated loan (US dollar 800 million) and the Preferential Trade Area and African Export Import Bank (Us dollar 450 million). The Chinese loans were used to finance the completion of Phase I and the onset of Phase II of the Standard Gauge Railway, the Olkaria geothermal project and the Kenya Nairobi Southern bypass. In addition, depreciation of major currencies in Kenya's external debt basket (the US dollar, the Sterling Pound, Japanese Yen, the Euro and the Chinese Yuan) compared to the previous quarter led to the buildup in external debt in local currency terms. On the contrary, principal repayment to the International Development Association (IDA) and the Chinese Government had an offsetting effect on external debt accumulation.

Composition of External Debt by Creditor

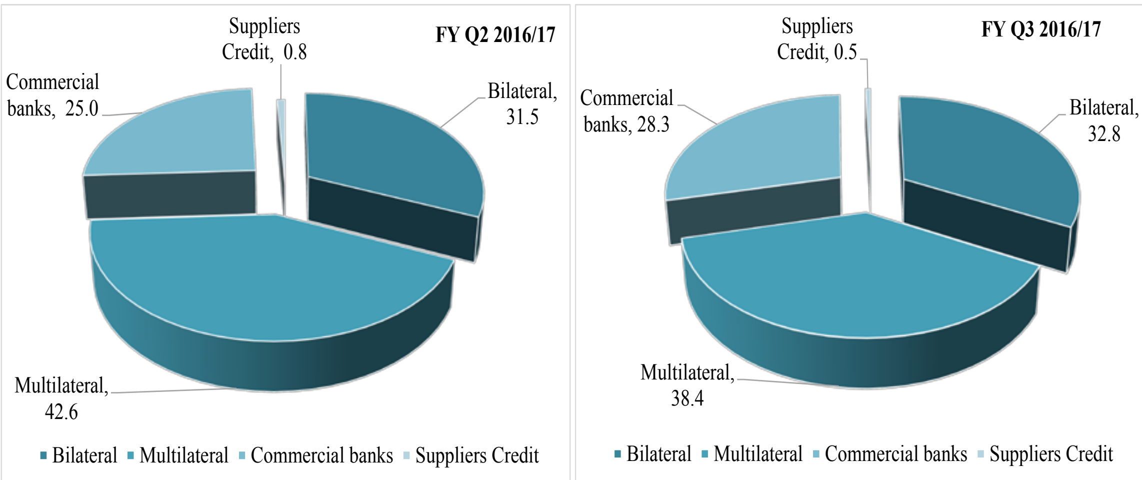
Kenya continues to record a build-up of commercial and semi-concessional borrowing since her elevation to a low middle income economy status in September 2014. Reflecting this trend, the share of outstanding debt from official multilateral and bilateral lenders (which provide both concessional and semi-concessional loans) decreased by 290 basis points from 4.1 percent in the previous quarter to 71.2 percent by the end of the third quarter of the FY 2016/17 . Consequently, the share of commercial debt increased by 330 basis points during the review period. The shift in the composition of external debt was mainly on account of disbursement of US dollar 1.3 million from the syndicated loan and the Preferential Trade Area and African Export Import Bank **(Chart 7A)**.

Debt owed to the International Development Association (IDA), Kenya's largest multilateral lender, amounted to USD 4.9 billion or 24 percent (26.5 percent in the previous quarter) of total external debt while that owed to China, Kenya's largest bilateral lender, amounted to USD 4.4 billion, or 21.4 percent (19.4 percent in the previous quarter) of the total external debt in the second quarter of the FY 2016/17 **(Chart 7B).**

Currency Composition of External Debt

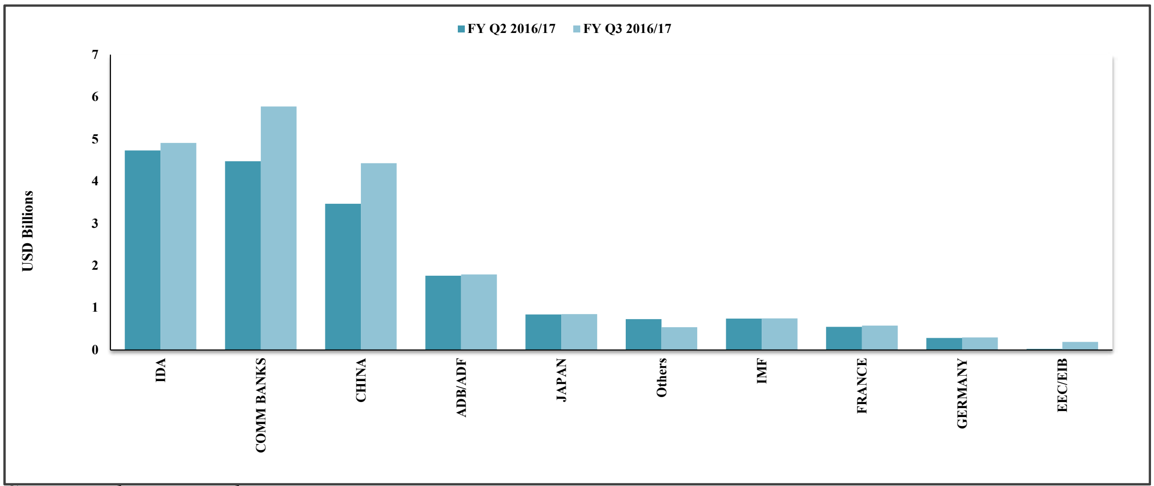
Kenya's public and publicly guaranteed external debt is denominated in various currencies partly to mitigate against currency risk. The dominant currencies included the US dollar and the Euro which accounted for 82.9 percent of the total currency composition at the end of the third quarter of the FY 2016/17. This was partly consistent with the currency composition of the Central Bank's forex reserve holdings. The proportion held in the US dollar and Chinese Yuan increased mainly on account of the US dollar denominated 1.3 billion loan disbursements from Preferential Trade Area

Chart 7A: Composition of External Debt by Lender Classification



Source: The National Treasury

Chart 7B: External Debt By Creditor



Source: The National Treasury

Bank and the syndicated loan and Chinese Yuan denominated loan disbursements (equivalent to US dollar 986.9 million) from the Chinese government **(Chart 7C).**

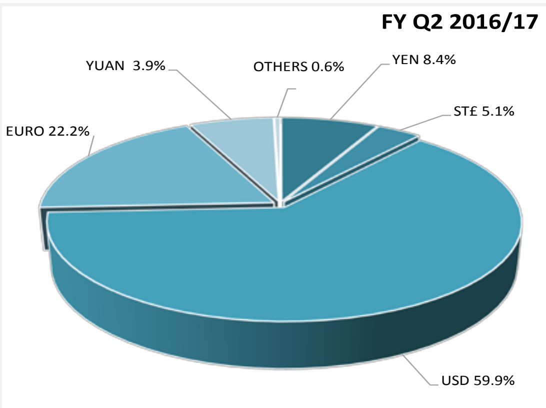
Public Debt Service

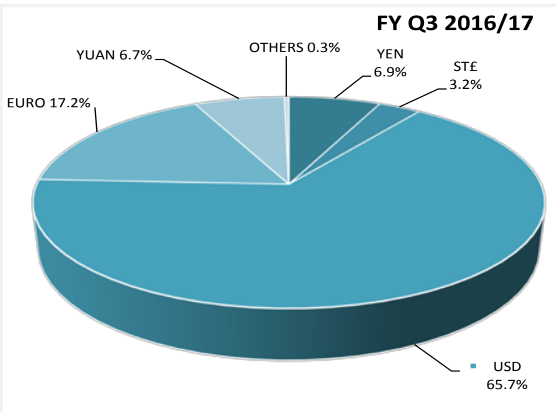
The ratio of domestic interest payments to revenues stood at 16 percent in the third quarter of the FY 2016/17 which was lower than the previous quarter (18.1 percent) due to lower interest payments associated with lower uptake of government securities from the primary market during the third quarter. The largest component of domestic interest payments was coupon interest on Treasury Bonds which was consistent with the proportion of debt held in Treasury bonds. External debt service for the first half of the FY 2016/17 amounted to Ksh 25.4 billion and was within sustainable levels. Analysis of the liquidity indicators of external indebtedness show that Kenya faces low exposure to external debt service default as the ratios were way below the Country Policies and Institutions Assessment (CPIA) determined liquidity indicators (25 percent of exports and 22 percent of revenues) **(Table 7.4).**

Debt Sustainability Analysis

The December 2016 Debt sustainability update showed that Kenya faces a low risk of external debt distress. All the liquidity and solvency debt burden indicators were below the CPIA based thresholds. However, there is a temporary breach of debt service to exports ratio under standardized stress tests. Public DSA sensitivity analysis shows that if primary deficit were to remain at the current levels, public debt would take an upward trajectory and way above the EAC convergence criterion. This is expected to improve in the medium term due to ongoing fiscal consolidation.

Chart 7C: Debt Composition by Currency





Source: The National Treasury

Table 7.4: Liquidity External Debt Sustainability Indicators

	Q3 2015/16	Q4 2015/16	FY 2015/16	Q1 FY 2016/17	Q2 FY 2016/17	Q3 FY 2016/17
Debt services to Revenues (22%)	5.7	6.9	6.2	4.9	7.0	7.3
Debt services to Exports (25%)	6.5	10.2	7.4	10.8	10.3	8.3

Quartely debt service as a ratio of resource flows in similar quarters
Source: Central Bank of Kenya

Outlook for Fiscal Year 2016/17

Total public and publicly guaranteed external debt is estimated at 1,791.9 billion (24.1 percent of GDP), while gross and net domestic debt are expected to close the financial year at Ksh1, 986.1 billion (26.7 percent of GDP) and Ksh 1,577.7 billion (21.2 percent of GDP), respectively (BPS 2017).

2 The EAC public debt convergence criterion for PV of Debt/GDP is 50 percent

CPIA stands for Country Policies and Institutions Assessment
The primary deficit is the non-interest budget balance, an increase in the primary deficit leads into an increase in public debt through the debt and deficit vicious cycle

Chapter 8
The Capital Markets

Equity Market

The equities market recorded mixed performance in the first quarter of 2017. The average price of quoted shares declined, with the NASI index down by 2.1 percent and the NSE 20 Share Index down by 2.3 percent. Reflecting the decline in overall price of quoted shares, market capitalization dropped by 1.9 percent. Meanwhile, equity turnover increased by 46.1 percent, reflecting a 68.9 percent increase in volume of shares traded **(Table 8.1).**

The low investors' appetite for equities led to the decline in share prices as reflected by decline in NASI and NSE 20 Share Index. Similarly, the depressed share prices led to decline of shareholders wealth measured by the market capitalization **(Chart 8A).**

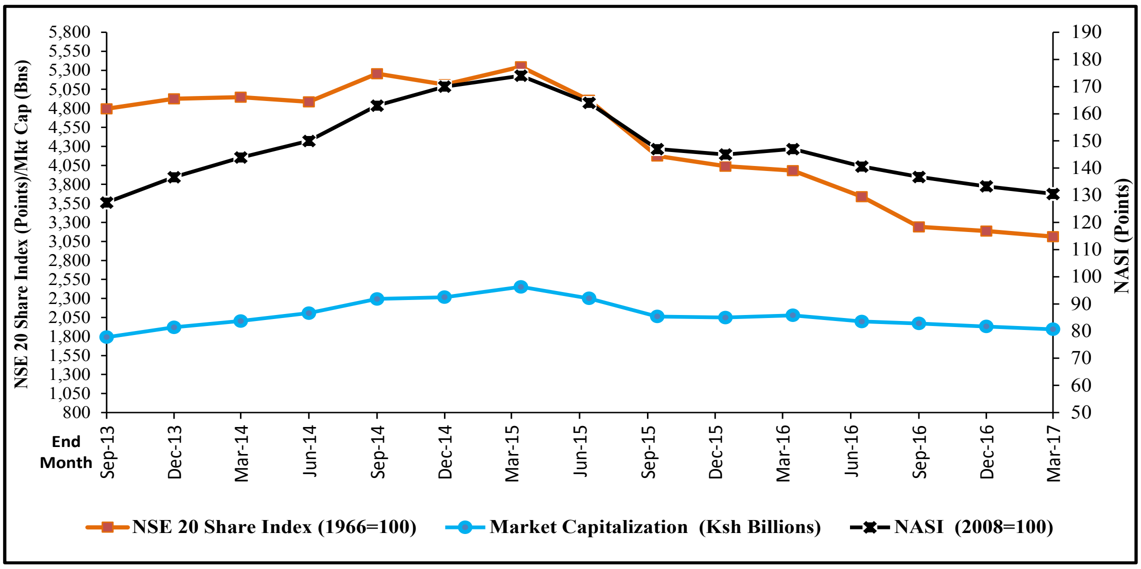
The FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks by market capitalization at the NSE gained 1.48 percent, while the FTSE NSE, Kenya 25 Index, which measures performance of 25 most liquid stocks, declined by 0.2 percent at the end of the first quarter of 2017 compared to the end of fourth quarter in 2016. Telecommunication & Technology and Banking accounted for 72.9 percent of all shares traded in the first quarter of 2017, highlighting continued market concentration.

Table 8.1: Selected Stock Market Indicators

INDICATOR	2015	2015			2016				2017	% QUARTERLY CHANGE (2017Q1-2016Q4)
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
NSE 20 Share Index (1966=100)	4,040	4,906	4,173	4,040	3,982	3,641	3,243	3,186	3,113	-2.31
NASI (2008=100)	145.00	164.00	147.00	145.00	147.00	140.60	136.75	133.30	130.51	-2.09
FTSE NSE Kenya 15 Index	182.55	216.07	195.09	182.55	185.17	175.70	160.96	159.07	161.43	1.48
FTSE NSE Kenya 25 Index	182.11	215.28	194.81	182.11	185.47	176.47	166.62	164.30	164.02	-0.17
Number of Shares Traded (Millions)	6,812	1,852	1,883	1,456	1,300	1,411	1,999	1,101	1,860	68.92
Equities Turnover (Ksh Millions)	209,382	60,224	56,722	46,095	36,609	37,034	48,141	25,392	37,095	46.09
Market Capitalization (Ksh Billions)	2,049	2,302	2,064	2,054	2,078	1,998	1,972	1,931	1,894	-1.90
Foreign Purchase (Ksh Millions)	132,495	38,194	43,856	29,500	20,258	26,322	40,038	17,652	29,421	66.67
Foreign Sales (Ksh Millions)	131,579	40,738	37,300	29,439	21,844	19,339	34,018	16,703	27,433	64.24
Average Foreign Investor Participation to Equity Turnover (%)	63	66	72	64	58	62	77	68	76.68	13.35
Bond Turnover (Ksh Millions)	305,099	59,897	44,511	71,321	113,400	149,809	74,809	94,367	103,997	10.20
FTSE NSE Kenya Govt. Bond Index	90.04	92.03	90.41	90.04	89.28	87.98	89.11	90.05	89.73	-0.36
I-REIT Turnover in (KSh Million)					19.50	14.55	16.13	1.31	14.62	1,016.76
I-REIT in Units - Total Deals					185.0	151.0	151.0	58.0	51.0	-12.07

Source: Nairobi Securities Exchange

Chart 8A: Nse 20 Share Index, Nasi And Market Capitalization



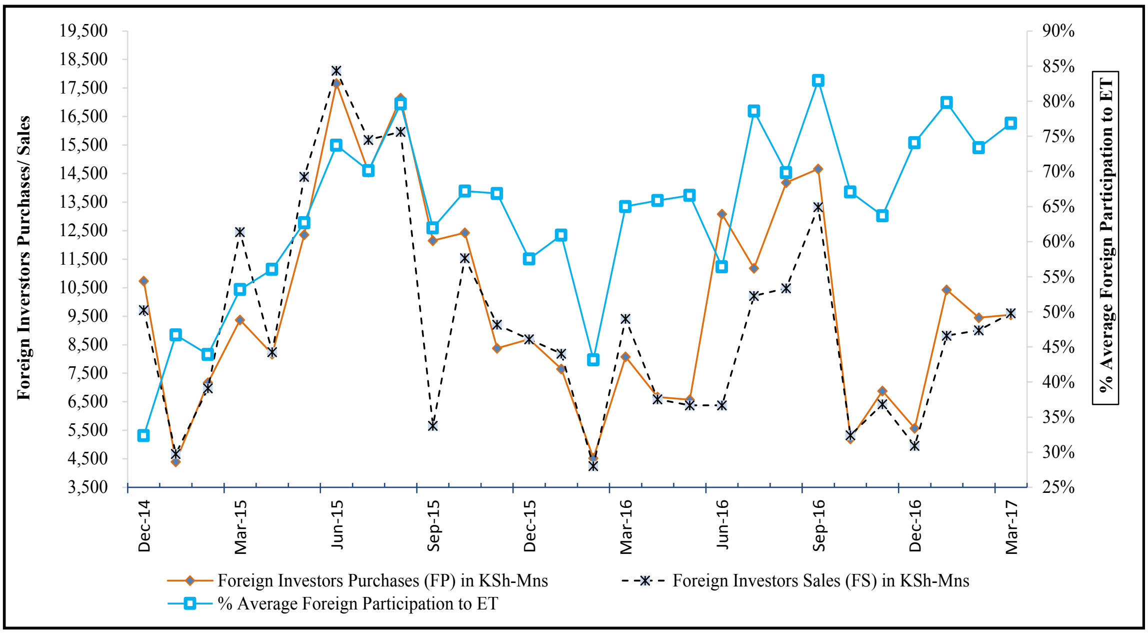
Source: Nairobi Securities Exchange

Foreign Investor Participation

Foreign investor participation increased in the first quarter of 2017 compared to the last quarter of 2016. The value of shares purchased by foreign investors at the NSE increased by 66.8 percent, while total sales of shares by foreign investors increased by 64.2 percent. As a proportion of total equity turnover, foreign purchases averaged 79.4 percent compared to 57.8 percent recorded in the last quarter of 2016. Overall, net foreign investors participation at the NSE averaged 76.7 percent in the first quarter of 2017 compared with 56.4 percent recorded in the last quarter of 2016 **(Chart 8B and Table 8.1).**

The foreign investors appetite is attributed to bargain purchases of blue chip counters and anticipation of capital gains on expected price increase due to release of financial results and dividend announcements by end March 2017.

Chart 8B: Foreign Participation



Source: Nairobi Securities Exchange

Bond Market

The bonds market recorded 10.2 percent volume growth in the first quarter of 2017 compared with the fourth quarter of 2016, matched by 42.3 percent growth in the number of deal transacted. The FTSE NSE Kenyan Government Bond Index declined by 0.36 points in the first quarter of 2017, reflecting a marginal increase in secondary market yields.

Chapter 9

Statement of Financial Position of the Central Bank of Kenya

(Kenya shillings million)

		2016		2017	Q1, 2017	Q4, 2016	Q1, 2017	Q4, 2016
1.0	ASSETS	SEP	DEC	MAR	Change	Change	% change	% change
1.1	RESERVES AND GOLD HOLDINGS	820,608	748,156	835,899	87,744	(72,452)	11.7	(8.8)
1.2	FUNDS HELD WITH IMF	4,028	3,747	1,199	(2,548)	(281)	(68.0)	(7.0)
1.21	INVESTMENT IN EQUITY (SWIFT SHARES	9	9	9	0	(1)	3.3	(5.8)
1.3	ITEMS IN THE COURSE OF COLLECTION	52	23	28	5	(29)	21.8	(56.0)
1.4	ADVANCES TO COMMERCIAL BANKS	47,895	55,834	41,870	(13,964)	7,939	(25.0)	16.6
1.5	LOANS AND OTHER ADVANCES	2,540	2,591	2,531	(61)	52	(2.3)	2.0
1.6	OTHER ASSETS	3,681	3,730	2,480	(1,250)	49	(33.5)	1.3
1.7	RETIREMENT BENEFIT ASSET	7,776	7,776	7,776	-	-	-	-
1.8	PROPERTY AND EQUIPMENT	22,916	21,818	22,430	611	(1,098)	2.8	(4.8)
1.81	INTANGIBLE ASSETS	140	61	(72)	(133)	(79)	(217.3)	(56.5)
1.9	DUE FROM GOVERNMENT OF KENYA	29,006	55,620	55,395	(224)	26,613	(0.4)	91.8
	TOTAL ASSETS	**938,652**	**899,365**	**969,545**	**70,180**	**(39,287)**	**7.8**	**(4.2)**
2.0	**LIABILITIES**							
2.1	CURRENCY IN CIRCULATION	232,685	262,734	245,513	(17,221)	30,049	(6.6)	12.9
2.2	INVESTMENTS BY BANKS - REPOS	-	-	14,164	14,164	-	-	-
2.3	DEPOSITS	464,875	400,102	465,079	64,977	(64,773)	16.2	(13.9)
2.4	INTERNATIONAL MONETARY FUND	122,836	116,119	116,168	49	(6,717)	0.0	(5.5)
2.5	OTHER LIABILITIES	2,112	2,114	3,329	1,214	2	57.4	0.1
	TOTAL LIABILITIES	822,509	781,070	844,254	63,184	(41,439)	8.1	(5.0)
3.0	EQUITY AND RESERVES	116,143	118,295	125,292	6,997	2,151	5.9	1.9
	Share Capital	5,000	5,000	5,000	-	-	-	-
	General reserve fund -Unrealized	57,550	57,550	57,550	-	-	-	-
	-Realized	16,909	16,908	16,909	1	(1)	0.0	(0.0)
	-Capital Projects	15,047	15,047	15,047	-	-	-	-
	Period surplus/(Deficit)	(929)	1,223	8,219	6,996	2,152	571.9	(231.7)
	Asset Revaluation	14,790	14,790	14,790	-	-	-	-
	Retirment Benefit Asset Reserves	7,776	7,776	7,776	-	-	-	-
4.0	**TOTAL LIABILITIES AND EQUITY**	**938,652**	**899,365**	**969,545**	**70,181**	**(39,288)**	**7.8**	**(4.2)**

Source: Central Bank of Kenya

Notes on the Financial Position

Assets

The balance sheet of the Central Bank of Kenya (CBK), grew by 7.8 percent in the first quarter of 2017, compared to a decline of 4.2 percent in the previous quarter. The turnaround is attributed wholly to 11.7 percent increase in foreign assets following budget support to Government through syndicated loans amounting to USD 982.3, (equivalent of KSh 102.2 billion) million during the quarter first quarter of 2017.

Reserves and Gold holdings category grew by 11.7 percent in the first quarter of 2017 compared to a decline of 8.8 percent in the fourth quarter of 2016. These comprise foreign reserves held in external current accounts, deposits and special/ projects accounts, domestic foreign currency clearing accounts, gold, special drawing rights and RAMP securities invested with the World Bank.

Items in the course of collection represent the value of clearing instruments held by the CBK, while awaiting clearing by respective commercial banks. The items increased by 21.8 percent, representing further improvement compared to a decline of 56.0 percent in the fourth quarter of 2016.

Advances to commercial banks, largely for liquidity management, declined by 25.0 percent in the first quarter of 2017 compared to a growth of 16.6 percent in the previous quarter. This followed an increase in liquidity absorption through repo securities and Term Auction Deposits.

Loans and other advances include outstanding balances on advances to commercial banks under the Overnight Loan Facility (OLF), and IMF funds on-lent to Government. The outstanding balance declined by 2.3 percent in the first quarter of 2017 compared to a growth of 2.0 percent in the previous quarter.

Other assets, which largely consist of prepayments and sundry debtors, and deferred currency expense declined by 33.5 percent compared to an increase of 1.3 percent in the fourth of quarter of 2016.

Debt due from Government of Kenya, includes Government utilization of the overdraft facility at the Central bank and overdrawn accounts which were converted to a long term debt with effect from 1 November 1997. The government outstanding overdraft at CBK declined by 0.4 percent in the first quarter of 2017, a marginal change compared to an increase of 91.8 percent in the previous quarter.

Liabilities

Currency in circulation declined by 6.6 percent in the first quarter of 2017 compared to a growth of 12.9 percent in the previous quarter.

Deposits by CBK Government of Kenya, local commercial banks, other public entities and project accounts and local banks' forex settlement accounts grew by 16.2 percent compared to a decline of 13.9 percent in the previous quarter.

Equity and reserves increased by 5.9 percent in the first quarter of 2017 compared to a growth of 1.9 percent in the previous quarter, reflecting an increase in the period's surplus.