



REPUBLIC OF KENYA



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THE NATIONAL TREASURY

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# Quarterly Economic and Budgetary Review

Third Quarter, Financial Year 2014/2015  
Period ending 31<sup>st</sup> March, 2015

May 2015 Edition

# **Quarterly Economic and Budgetary Review**

Third Quarter, Financial Year 2014/2015  
Period ending 31<sup>st</sup> March, 2015



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## LIST OF ABBREVIATIONS AND ACRONYMS

A-I-A	Appropriation in Aid
CBK	Central Bank of Kenya
FISM	Financial Services Indirectly Measured
FY	Fiscal Year
GDP	Gross Domestic Product
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
KShs	Kenya Shillings
Mn	Million
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NSE	Nairobi Securities Exchange
RDL	Railway Development Levy

**The Quarterly Economic and Budgetary Review Report is Published in accordance with Section 83 of the Public Finance Management Act, 2012. It states as follows:**

**83.** (1) An accounting officer for a national government entity shall prepare a report for each quarter of the financial year in respect of the entity.

(2) In preparing a quarterly report for a national government entity, the accounting officer shall ensure that the report—

(a) Contains information on the financial and non-financial performance of the entity; and

(b) Is in a form that complies with the standards prescribed and published by the Accounting Standards Board from time to time.

(3) Not later than fifteen days after the end of each quarter, the accounting officer shall submit the quarterly report to the Cabinet Secretary responsible for the entity and the National Treasury.

(4) The Cabinet Secretary responsible for an entity shall forward a copy of the report to the Cabinet Secretary and Controller of Budget.

(5) Not later than forty five days after the end of each quarter, the National Treasury shall—

(a) consolidate the quarterly reports and submit them to the National Assembly and a copy of the reports to the Controller of Budget, Auditor-General and the Commission on Revenue Allocation; and

(b) Publish and publicize the reports.

(6) In the case of an entity that is a state corporation, the accounting officer for the corporation shall submit the quarterly report to the Cabinet Secretary responsible for the corporation who shall, upon approving it, forward a copy to the Cabinet Secretary.

## HIGHLIGHTS OF THE QUARTERLY ECONOMIC AND BUDGETARY REVIEW: THIRD QUARTER, 2014/2015

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### 1. Recent Economic Developments

The economy grew by 5.3 per cent in 2014 from 5.7 per cent in 2013. The growth in 2014 was supported by improved activities in mining and quarrying (14.2 per cent), information and communication (13.4 per cent), construction (13.1 per cent), financial and insurance activities (8.3 per cent), Real estate (5.6 per cent) and transport and storage (5.0 per cent). Manufacturing (3.4 per cent), agriculture, forestry and fishing (3.5 per cent), electricity supply (6.8 per cent) and wholesale and retail trade (6.9 per cent) had a slowed growth as compared to their growths in 2013. The accommodation and food services (hotels and restaurants) sector contracted for the second year in a row while all the other sectors recorded positive growths but of varying magnitudes.

### 2. Total Revenue Collection

The National Government cumulative revenue collection including A-I-A for the period July 2014 to March 2015 amounted to KShs. 761.4 billion (equivalent to 13.3 per cent of GDP) against a target of KShs. 829.3 billion or 14.5 per cent of GDP. This represented an underperformance of KShs. 67.9 billion mainly due to shortfalls in A-I-A collection, Income Tax, VAT, excise duty and Import duty.

### 3. Government Expenditure and Net Lending

The total cumulative expenditure and net lending inclusive of transfers to county governments for the period ending 31<sup>st</sup> March 2015 amounted to KShs. 1,131.3 billion. This was KShs. 53.4 billion below the target of KShs. 1,184.7 billion and was largely attributed to low absorption levels in operations and maintenance for both the National and County Governments. Expenditure on foreign financed development programmes/projects was far below target.

### 4. Guaranteed Loans

Between July 2014 and March 2015, the National Government paid a total of KShs. 675.98 million on account of guaranteed loans against the projected debt service of KShs. 676.13 million. The small variance is attributed to exchange rate movements.

### 5. Overall Fiscal Balance

The cumulative overall fiscal balance, on a commitment basis (excluding grants), amounted to a deficit of KShs. 369.9 billion (equivalent to 6.5 per cent of GDP), as at end-March 2015, compared with a deficit of KShs. 169.4 billion (equivalent to 3.4 per cent of GDP) in the twelve period ending 31<sup>st</sup> March 2014.

### 6. External Financing

Between July 2014 and March 2015, external financing amounted to a net borrowing of KShs. 179.7 billion, compared to a net borrowing of KShs. 29.7 billion in the same period of 2014.



**7. Net Domestic Borrowing**

Net domestic financing amounted to a net borrowing of KShs. 47.0 billion (equivalent to 0.8 per cent of GDP) in the period ending 31<sup>st</sup> March, 2015, compared to net borrowing of KShs. 127.4 billion (equivalent to 2.5 per cent of GDP) in a similar period ending 31<sup>st</sup> March 2014.

**8. Domestic Debt**

Total gross domestic debt stock increased by 8.8 per cent from KShs. 1,284.3 billion as at end-June 2014 to KShs.1,397.1 billion by the end-March 2015.

**9. External Debt**

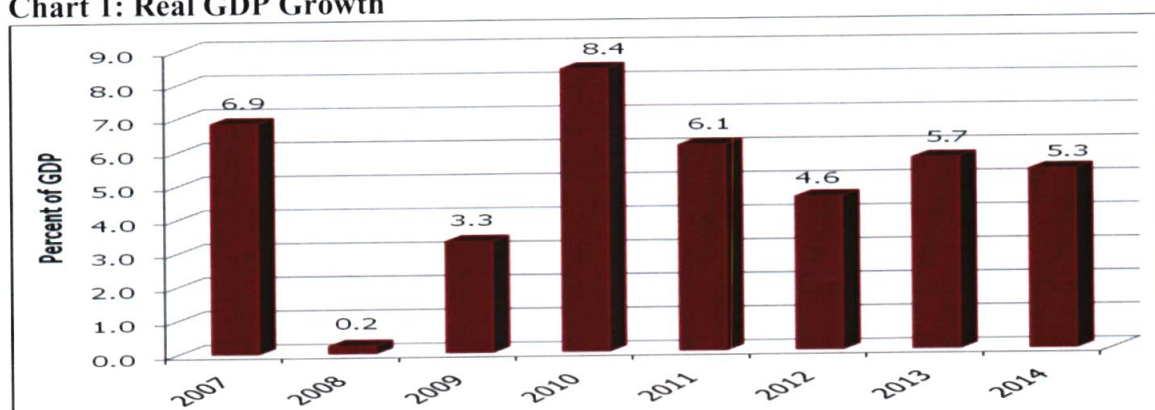
The total external debt stock, including the International Sovereign Bond, stood at KShs. 1,278.1 billion at the period ending March 2015. The debt stock comprised of multilateral debt (48.4 per cent), bilateral debt (30.1 per cent), Export Credit debt (1.2 per cent), and Commercial banks' debt (20.3 per cent- incl. International Sovereign Bond)

## 1.0 RECENT ECONOMIC DEVELOPMENTS

### 1.1 Economic Growth

1. The economy grew by 5.3 per cent in 2014 from 5.7 per cent in 2013 (**Chart 1**). The growth in 2014 was supported by improved activities in mining and quarrying (14.2 per cent), information and communication (13.4 per cent), construction (13.1 per cent), financial and insurance activities (8.3 per cent), Real estate (5.6 per cent) and transport and storage (5.0 per cent). Manufacturing (3.4 per cent), agriculture, forestry and fishing (3.5 per cent), electricity supply (6.8 per cent) and wholesale and retail trade (6.9 per cent) had a slowed growth as compared to their growths in 2013. The accommodation and food services (hotels and restaurants) sector contracted for the second year in a row while all the other sectors recorded positive growths but of varying magnitudes (**Table 1**).

**Chart 1: Real GDP Growth**



Source: KNBS.

**Table 1: Sectoral GDP Growth (constant prices 2009)**

MAIN SECTORS	Contribution to GDP, Percent			Annual Growth rates, Percent		
	2012	2013	2014	2012	2013	2014
Agriculture, forestry and fishing	26.1	26.4	27.3	2.9	5.2	3.5
Mining and quarrying	1.1	0.8	0.8	19.0	-8.9	14.2
Manufacturing	11.0	10.7	10.0	-0.6	5.6	3.4
Electricity supply	1.1	1.1	1.0	13.6	9.8	6.8
Water supply; sewerage, waste management	0.9	0.9	0.8	3.1	0.9	3.6
Construction	4.5	4.5	4.8	11.3	5.8	13.1
Wholesale and retail trade; repairs	7.8	8.1	8.2	7.0	8.5	6.9
Transport and storage	8.0	7.8	8.3	2.7	1.2	5.0
Accommodation and food service activities	1.3	1.2	0.9	3.1	-4.6	-17.2
Information and communication	1.6	1.5	1.2	2.4	12.3	13.4
Financial and insurance activities	5.9	6.6	6.7	6.0	8.1	8.3
Real estate	8.0	7.9	7.8	4.0	4.1	5.6
Professional, scientific and technical activities	1.0	1.0	1.0	6.2	6.7	3.6
Administrative and support service activities	1.3	1.2	1.1	2.3	1.2	2.0
Public administration and defence	4.4	4.4	4.5	4.0	3.1	5.5
Education	5.4	5.3	5.2	11.1	6.3	7.5
Human health and social work activities	1.7	1.6	1.7	-2.8	7.7	7.2
Arts, entertainment and recreation	0.1	0.1	0.1	-2.6	3.0	3.2
Other service activities	0.6	0.6	0.6	4.0	7.4	6.5
Activities of households as employers;	0.6	0.5	0.5	1.5	1.5	1.5
FISIM	-2.6	-2.6	-2.5	10.1	5.2	11.2
<b>All economic activities</b>	<b>89.9</b>	<b>89.9</b>	<b>90.3</b>	<b>4.1</b>	<b>5.3</b>	<b>5.3</b>
Taxes on products	10.1	10.1	9.7	7.7	8.7	5.2
<b>GDP at market prices</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>4.6</b>	<b>5.7</b>	<b>5.3</b>

Source: KNBS

## RECENT ECONOMIC DEVELOPMENTS

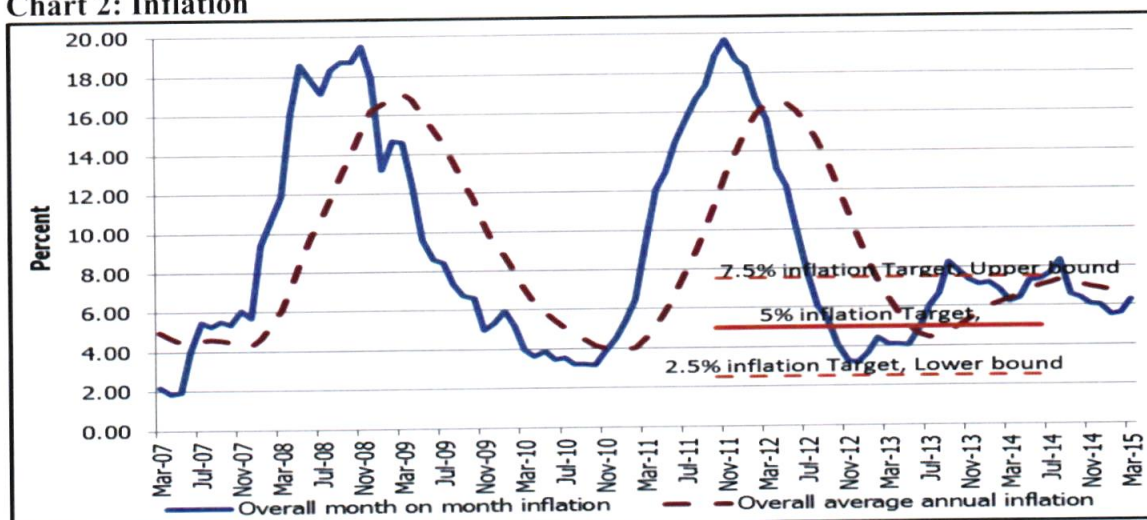
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2. Agriculture, forestry and fishing sector grew by 3.5 per cent in 2014 compared to a growth of 5.2 per cent in 2013. The declined growth was as a result of poor long rains in some parts of the country and unfavourable international prices for tea resulting to a decline in the value of tea exports. On the positive side, this sector was boosted by improved international prices of coffee and growth in the quantities and value of the horticultural exports.
3. The Manufacturing sector recorded an overall growth of 3.4 per cent in 2014 compared to a 5.6 per cent growth in 2013. The growth was mainly supported by cheaper and stable electricity supply, restrained inflation and resilient domestic demand. Non-food manufacturing was driven by increased production of cement, pharmaceutical products, fabricated metal products and manufacture of furniture.
4. The transport and storage sector recorded an improved growth of 5.0 per cent in 2014 compared to 1.2 per cent growth in 2013. The sector's acceleration in growth was attributed to increased demand for transportation of cargo as trade activities expanded as well as a general increase in commuter services.
5. Information and Communication sector remained robust in 2014 to grow at 13.4 per cent against a growth of 12.3 per cent in 2013. The growth was attributable to increased uptake of information services, notably usage of data services and stability in the growth of voice services. These are due to improvements in quality and pricing of the services.
6. The Financial and insurance sector had an improved growth of 8.3 per cent in 2014 compared to 8.1 per cent growth in 2013. This growth was mainly driven by increased uptake of loans and advances, increased earnings from fees and commissions and government securities due to the improved accessibility to the financial services.
7. The construction sector improved to a growth of 13.1 per cent in 2014 against a growth of 5.8 per cent in 2013. This growth was supported by robust growth in property development, a vibrant real estate sector and the on-going mega infrastructure projects.
8. Real estate sector grew by 5.6 per cent in 2014 up from a 4.1 per cent growth in 2013. This growth was driven by demand for new office space and urban housing.
9. The electricity supply sector grew by 6.8 per cent in 2014 compared to a growth of 9.8 per cent in 2013. The slowed growth was as a result of suppressed long rains that led to a contraction in hydro generation despite the increase in geothermal power generation and thermal electricity production.
10. The Hotels and Restaurants sector recorded a second consecutive annual contraction of 17.2 per cent in 2014 compared to a contraction of 4.6 per cent in 2013. The contraction is attributable to both internal and external shocks specifically, insecurity concerns, negative travel advisories by some key tourist source countries.

## 1.2 Inflation

11. Overall month on month inflation increased to 6.3 per cent in March 2015 from 5.6 per cent in February 2015 and 5.5 per cent in January 2015 due to higher food prices for vegetables and milk as a result of dry weather conditions in the first two months of 2015 (**Chart 2**). On average, the annual inflation rate was 6.7 per cent in March 2015 compared to 6.4 per cent in March 2014.

**Chart 2: Inflation**



Source: KNBS

12. Non-food, non-fuel inflation eased to 3.2 per cent in March 2015 from 3.4 per cent in February 2015, due to low demand pressure, while fuel inflation declined to 2.9 per cent in March 2015 from 3.3 per cent in February 2015 reflecting a fall in the retail prices of kerosene, diesel and petrol.

## 1.3 Balance of Payments

13. Overall balance of payments position recorded a surplus of US\$ 1,235 million in the year to February 2015 from a surplus of US\$ 1,114 million in the year to February 2014 (**Table 2 and Chart 3**). The improved surplus reflected an increase in the capital and financial account that more than offset the increased deficit in the current account.

14. The current account deficit worsened by 38.5 per cent to US\$ 6,331 million in the year to February 2015 from US\$ 4,570 million in the year to February 2014. As a share to GDP, current account deficit amounted to 9.3 per cent from 8.3 per cent over the same period. The deterioration reflects a 26.7 per cent worsening of the merchandise account. However, the surplus in the services account improved by 18.5 per cent. The deficit in the merchandise account worsened by US\$ 2,966 million to US\$ 14,068 million in the year to February 2015 reflecting a larger growth (24.8 per cent) in the value of merchandise imports relative to the value of merchandise exports, which improved by 21.2 per cent.

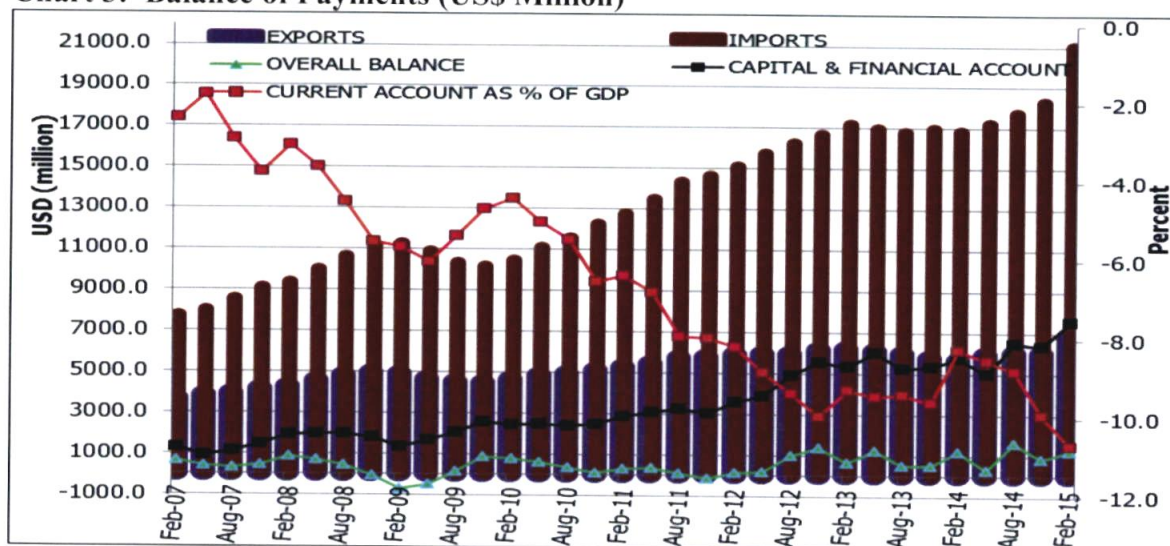
## RECENT ECONOMIC DEVELOPMENTS

**Table 2: Balance of Payments Developments (US \$ Million)**

ITEM	Year to February 2015				
	Year to FEB 2013	Year to FEB 2014	Year to FEB 2015	Absolute Change	Percentage Change
<b>1. CURRENT ACCOUNT</b>	<b>-4,678</b>	<b>-4,570</b>	<b>-6,331</b>	<b>-1,761</b>	<b>38.5%</b>
<b>2. MERCHANDISE ACCOUNT</b>	<b>-10,982</b>	<b>-11,101</b>	<b>-14,068</b>	<b>-2,966</b>	<b>26.7%</b>
<b>2.1 Exports (fob)</b>	<b>6,221</b>	<b>5,746</b>	<b>6,963</b>	<b>1,216</b>	<b>21.2%</b>
Coffee	257	188	261	72	38.5%
Tea	1,227	1,155	1,264	109	9.4%
Horticulture	719	747	938	191	25.6%
Oil products	75	44	79	36	82.3%
Manufactured Goods	693	699	670	-29	-4.1%
Raw Materials	375	407	549	141	34.7%
Chemicals and Related Products (n.e.s)	548	459	510	50	11.0%
Miscellaneous Man. Articles	566	595	730	135	22.7%
Re-exports	490	583	975	392	67.1%
Other	1,272	869	987	119	13.7%
<b>2.2 Imports (cif)</b>	<b>17,203</b>	<b>16,848</b>	<b>21,031</b>	<b>4,182.9</b>	<b>24.8%</b>
Public	186	124	252	128.3	103.4%
Private	17,017	16,724	20,778	4,054.6	24.2%
Oil	4,139	3,806	4,439	632.7	16.6%
Chemicals	2,084	2,316	2,844	528.9	22.8%
Manufactured Goods	2,436	2,577	3,121	544.0	21.1%
Machinery & Transport Equipment	5,005	4,539	6,895	2,356.1	51.9%
Other	3,351	3,486	3,479	-7.0	-0.2%
<b>3. SERVICES</b>	<b>6,304</b>	<b>6,531</b>	<b>7,737</b>	<b>1,205.4</b>	<b>18.5%</b>
<b>4. CAPITAL &amp; FINANCIAL ACCOUNT</b>	<b>5,341</b>	<b>5,685</b>	<b>7,566</b>	<b>1,881.4</b>	<b>33.1%</b>
4.1 Capital Account	193	102	252	149.5	145.9%
4.2 Financial Account	5,147	5,582	7,314	1,731.9	31.0%
<b>5. OVERALL BALANCE</b>	<b>662</b>	<b>1,114</b>	<b>1,235</b>	<b>120.4</b>	<b>10.8%</b>
<b>Gross Reserves</b>	<b>7,080</b>	<b>8,250</b>	<b>9,873</b>	<b>1,623.1</b>	<b>19.7%</b>
Official	5,290	6,578	7,737		
Commercial Banks	1,789	1,672	2,137		
Imports cover (calender year)	3.45	4.36	4.85		
Import cover (36 mths imports)	3.89	4.46	4.95		

Source: CBK

**Chart 3: Balance of Payments (US\$ Million)**



Source: CBK

15. The capital and financial account surplus improved to US\$ 7,566 million in the year to February 2015 from US\$ 5,685 million in the year to February 2014. The improvement largely reflects 31.0 per cent rise in the financial account surplus on the back of increased inflows of the official medium to long term financial flows and short term flows (including net errors and omissions)

## RECENT ECONOMIC DEVELOPMENTS

16. Commercial bank flows declined by 45.1 per cent in the year to February 2015 on account of an increase in foreign assets of Commercial Banks comprising of loans advanced to non-residents and shares and other equity.

### 1.4 Foreign Exchange Reserves

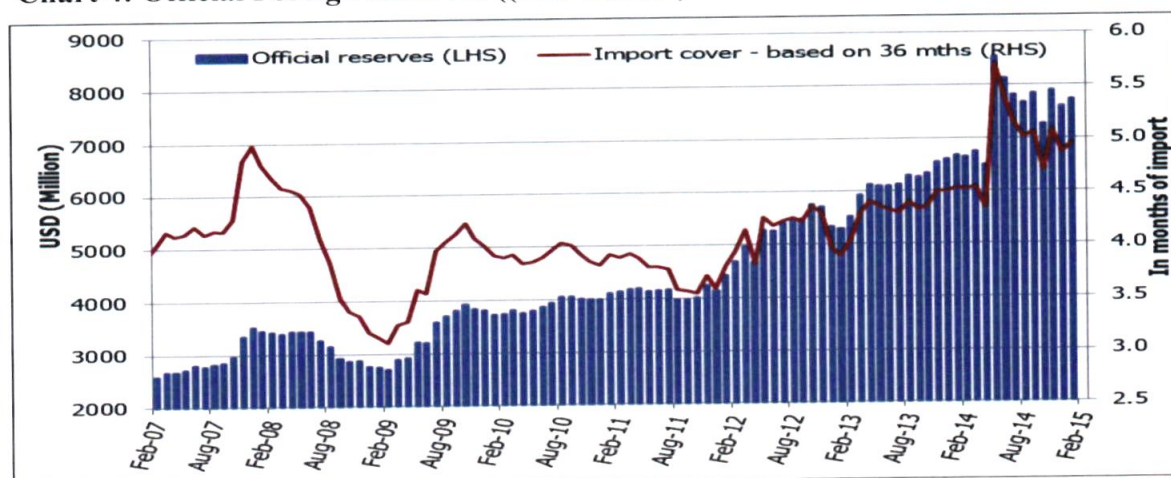
17. Gross foreign exchange holdings of the banking system increased by 18.2 per cent from US\$ 8,352 million in February 2014 to US\$ 9,873 million in February 2015 (**Table 3 and chart 4**). Gross official reserves held by the Central Bank increased to US\$ 7,737 million (5.0 months of import cover) in February 2015, an improvement from US\$ 6,679 million (4.5 months of import cover) in February 2014 due to purchases from interbank money market and receipt of proceeds from the sovereign bond issuance

**Table 3: Foreign Exchange Reserves (US\$ million)**

	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Gross Foreign Exchange Reserves	8,352	8,279	8,396	8,223	10,339	10,029	9,732	9,594	9,400	8,964	9,738	9,415	9,873
Official	6,679	6,654	6,567	6,491	8,555	8,128	7,814	7,676	7,839	7,274	7,895	7,594	7,737
Commercial Banks	1,673	1,625	1,829	1,732	1,844	1,902	1,917	1,917	1,561	1,691	1,843	1,821	2,137
Import cover (36 mths imports)	4.61	4.52	4.60	4.34	5.70	5.36	5.15	5.01	5.06	4.70	5.08	4.87	4.95

Source: CBK

**Chart 4: Official Foreign Reserves ((US\$ million)**



Source: CBK.

### 1.5 Exchange Rates

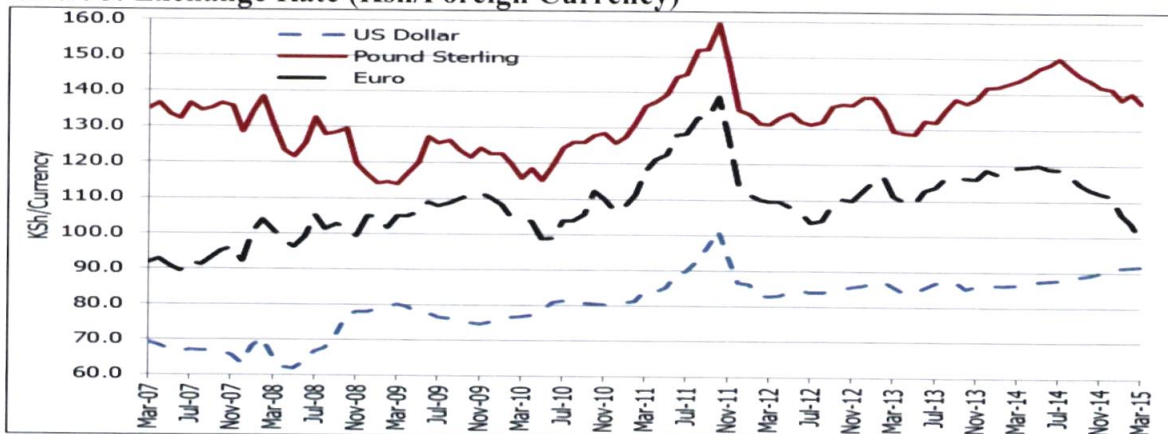
18. The Kenya Shilling exchange rate demonstrated mixed performance against major international currencies (**Chart 5**). The currency depreciated against the US dollar to Ksh 91.7 in March 2015 from Ksh 91.5 in February 2015 and Ksh 91.4 in January 2015, mainly due to the global strengthening of the US Dollar.

## RECENT ECONOMIC DEVELOPMENTS

19. Against the sterling pound, the shilling appreciated to Ksh 137.5 in March 2015

from Ksh 140.2 in February 2015 and Ksh 138.5 in January 2015, against the Euro, the exchange rate appreciated to Ksh 99.4 in March 2015 from Ksh 103.9 in February 2015 and Ksh 106.3 in January 2015. Diaspora remittances, increased foreign investor participation in the NSE and enhanced confidence following successful issuance of the sovereign bond continues to support the Kenya shilling exchange.

**Chart 5: Exchange Rate (Ksh/Foreign Currency)**



Source: CBK

### 1.6 Money and Credit

20. Growth in broad money supply, M3, declined to 16.4 per cent in the year to March 2015 from a growth of 17.3 per cent in the year to March 2014 (**Table 4**). This decline was due to a slowdown in Net domestic assets (NDA) as net foreign assets (NFA) of the banking system increased in the year to March 2015.

**Table 4: Money Supply, M3 and its Sources (Annual basis), Ksh billion**

	2013 MARCH	2014 MARCH	2015 MARCH	Absolute Change		percent change	
				2013-2014 MARCH	2014-2015 MARCH	12 months to Mar-14	12 months to Mar-15
<b>1. Money supply, M3 (2+3)</b>	<b>1,755.7</b>	<b>2,060.3</b>	<b>2,398.8</b>	<b>304.6</b>	<b>338.4</b>	<b>17.3</b>	<b>16.4</b>
1.1 Money supply, M2	1,477.7	1,758.8	2,046.8	281.1	288.0	19.0	16.4
1.2 Money supply, M1	720.7	868.1	971.3	147.4	103.2	20.4	11.9
1.3 Currency outside banks	150.1	156.9	171.6	6.8	14.7	4.5	9.4
<b>2. Net foreign assets (2.1+2.2)</b>	<b>319.6</b>	<b>370.6</b>	<b>462.0</b>	<b>51.0</b>	<b>91.5</b>	<b>16.0</b>	<b>24.7</b>
2.1 Central Bank	341.7	442.1	569.6	100.4	127.5	29.4	28.9
2.2 Banking Institutions	-22.2	-71.5	-107.6	-49.4	-36.1	222.6	50.4
<b>3. Net domestic assets (3.1+3.2)</b>	<b>1,436.2</b>	<b>1,689.8</b>	<b>1,936.8</b>	<b>253.6</b>	<b>247.0</b>	<b>17.7</b>	<b>14.6</b>
<b>3.1 Domestic credit (3.1.1+3.1.2+3.1.3)</b>	<b>1,752.2</b>	<b>2,097.9</b>	<b>2,117.8</b>	<b>345.7</b>	<b>19.9</b>	<b>19.7</b>	<b>0.9</b>
3.1.1 Government (net)	391.0	449.9	143.2	58.9	-306.6	15.1	-68.2
3.1.2 Other public sector	45.1	33.7	43.8	-11.4	10.1	-25.4	30.1
3.1.3 Private sector	1,316.0	1,614.3	1,930.7	298.3	316.4	22.7	19.6
<b>3.2 Other assets net (3-3.1)</b>	<b>-316.0</b>	<b>-408.1</b>	<b>-181.0</b>	<b>-92.1</b>	<b>227.1</b>	<b>29.1</b>	<b>-55.6</b>

Source: CBK

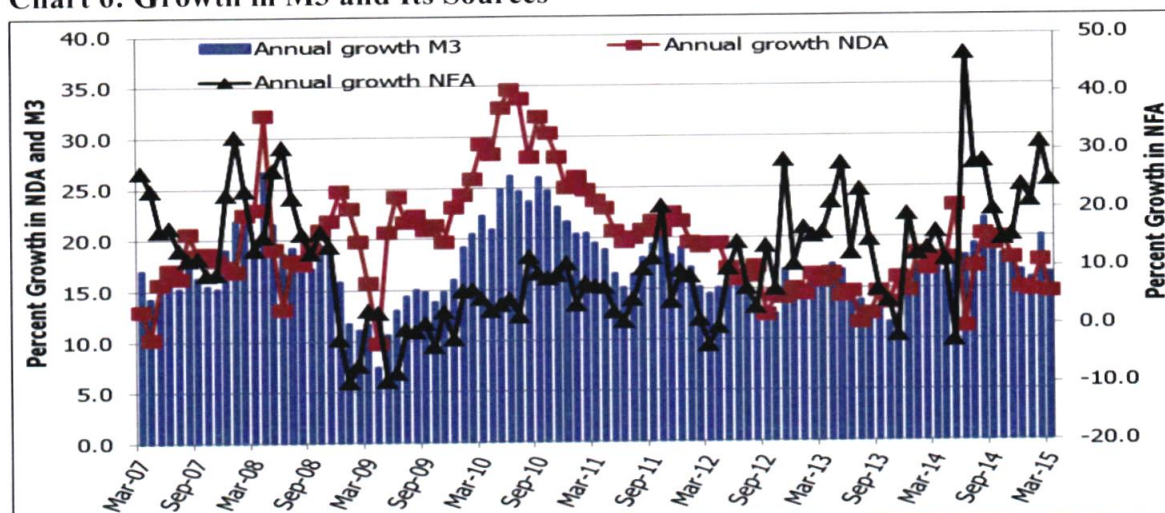
21. The NDA of the banking system decreased to 14.6 per cent in the year to March 2015 (Chart 6) from a growth of 17.7 per cent over a similar period in 2014 due to the slowdown in the growth of domestic credit.

22. Meanwhile NFA of the banking system increased by 24.7 per cent in the year to March 2015 from a growth of 16.0 per cent over a similar period in 2014 mainly due to the improvement in the official foreign assets of the Central Bank by Ksh 127.5 billion

## RECENT ECONOMIC DEVELOPMENTS

that more than offset the decline in the foreign assets of the banking institutions.

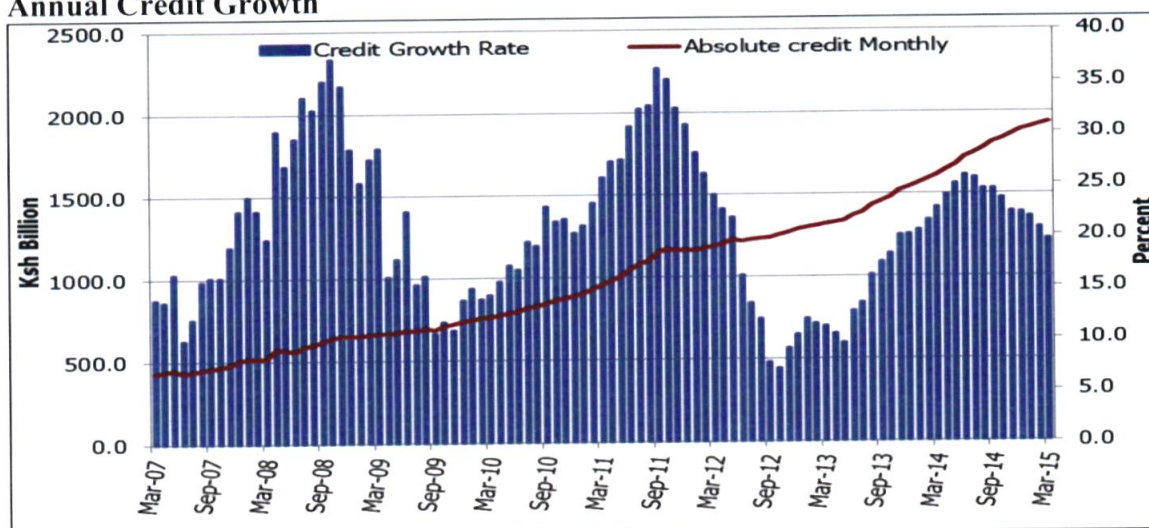
**Chart 6: Growth in M3 and Its Sources**



Source: CBK

### *Private sector credit stabilizes*

23. Net credit to Government contracted by 68.2 per cent in the year to March 2015 compared with a growth of 15.1 per cent in a corresponding period in 2014. Bank credit to the private sector amounted to Ksh 1,930.7 billion in March 2015 from 1,614.3 billion in March 2014, representing a declining growth of 19.6 per cent in March 2015 from 22.7 per cent growth in the same period in 2014 (**Chart 7**). Productive sectors of the economy continued to receive bank credit in the year to March 2015. **Chart 7: Private Sector Annual Credit Growth**



Source: CBK.

## 1.7 Interest Rates

24. The Central Bank Rate retained at 8.5 per cent in March 2015 and Kenya Bank reference rate at 8.5 per cent while the short term interest rates declined (**Chart 8a**). The average interbank rate declined to 6.8 per cent in March 2015 from 6.9 per cent in February 2015 on account of ample liquidity in the money market.