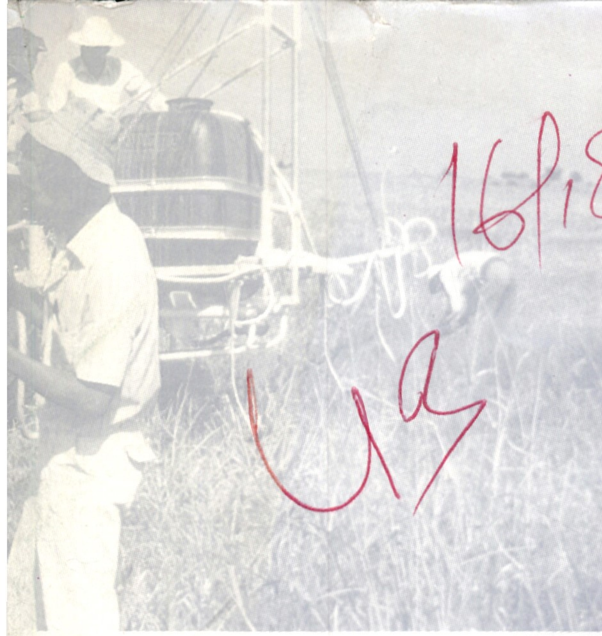

BANKI KUU YA KENYA

CENTRAL BANK OF KENYA

MONTHLY ECONOMIC REVIEW

SEPTEMBER 2002

OBJECTIVES OF THE CENTRAL BANK OF KENYA

The Central Bank of Kenya's objectives are laid down in the Central Bank of Kenya (Amendment) Act, 1996 as follows:

PRINCIPAL OBJECTIVES

1. The first principal objective shall be to formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices

2. The second principal objective shall be to foster the liquidity, solvency and proper functioning of a stable market based financial system

SECONDARY OBJECTIVES

Without prejudice to the generality of the above two principal objectives, the Bank's secondary objectives shall be to:

1. Formulate and implement foreign exchange policy

2. Hold and manage its foreign exchange reserves

3. License and supervise authorised dealers in the money market

4. Promote the smooth operation of payments, clearing and settlement systems

5. Act as a banker and adviser to, and as fiscal agent of the Government; and

6. Issue currency notes and coins

KENYA MONTHLY ECONOMIC REVIEWS

The Monthly Economic Reviews, prepared by the Central Bank of Kenya, starting with the June 1997 edition, are available on the Internet at the address: http://www.centralbank.go.ke/
email: info@centralbank.go.ke

CONTENTS

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The Director of Research, Central Bank of Kenya
P. O. Box 60000, Nairobi.

Highlights of the September Economic Review

Available economic indicators for the first half of 2002 show that **real GDP** grew at an estimated annualized rate of 0.6% compared with 0.5% in the same period of 2001. Inflationary pressures eased further in August 2002, with the 12-month underlying and overall **inflation** declining to 1.5% and 1.8%, respectively, from 2% and 2.2% in July.

Interest rate for the 91-day Treasury bills declined to 8.3% in August 2002 from 8.6% in July. **Money supply**, M3X, increased by 7.6% in the year to July 2002 compared with 0.6% decline in the year to July 2001. The increase in the money supply in the year to July 2002 was due to increases in both net foreign assets and net domestic assets of the banking system.

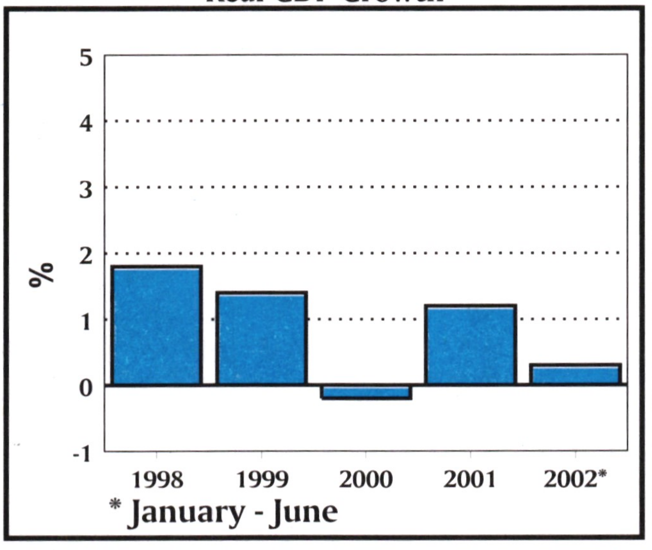
Assets of the **banking sector** increased to Ksh 449.9bn at the end of July 2002 from Ksh 431.1bn at the end of July 2001. Non-performing loans, net of interest in suspense, were estimated at Ksh 73.1bn in July 2002, compared with Ksh 78.6bn in July 2001. Provisions for the non-performing loans declined from Ksh 32.8bn in July 2001 to Ksh 31.1bn in July 2002. Taking into account the provisions and the value of securities held by the banking sector estimated at Ksh 36.1bn, Ksh 8.5bn of non-performing loans were unsecured.

Government fiscal operations during the first month of fiscal year 2002/03 resulted in a deficit, on a commitment basis, of Ksh 3.8bn or 0.4% of GDP compared with a deficit of Ksh 1.9bn or 0.2% of GDP in a similar period in the previous fiscal year. The stock of public debt increased to Ksh 618.6bn in July 2002 from Ksh 613.8bn in June 2002. The increase was entirely in domestic debt as external debt declined .

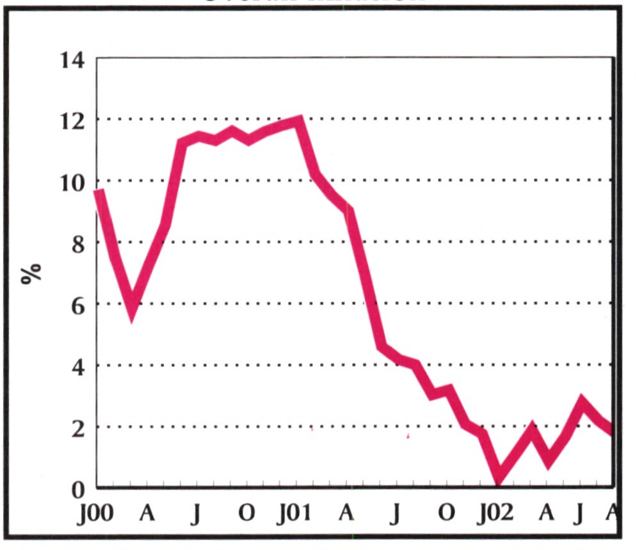
The **Kenya shilling** strengthened against the US dollar in August 2002 to exchange at Ksh 78.57 compared with Ksh 78.80 in July 2002. The overall **balance of payments** improved to a US$ 100m surplus in the year to July 2002 from a US$ 52m deficit in the year to July 2001. The Central Bank **foreign exchange reserves** increased to US$ 1,119m or 3.9 months of imports cover at the end of August 2002 from US$ 1,004m or 3.3 months of imports cover at the end of August 2001.

SELECTED PERFORMANCE INDICATORS

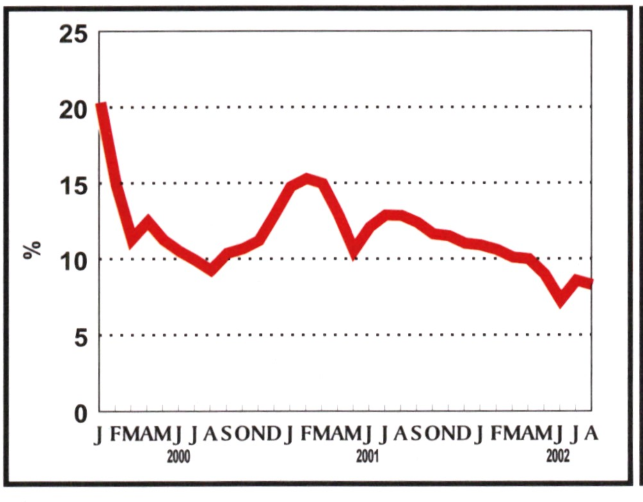
Real GDP Growth



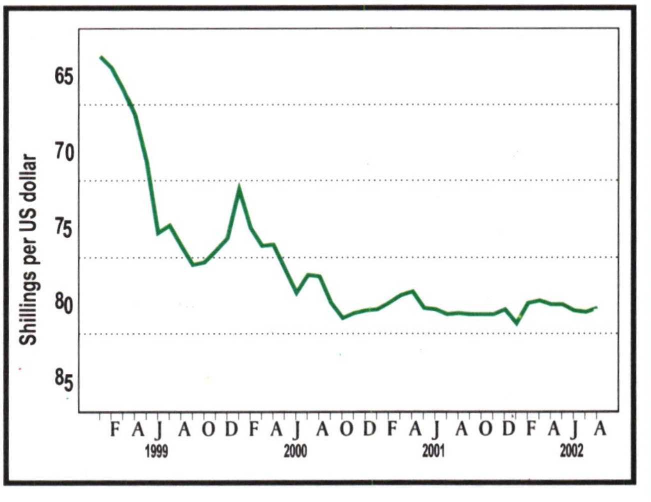
Overall Inflation



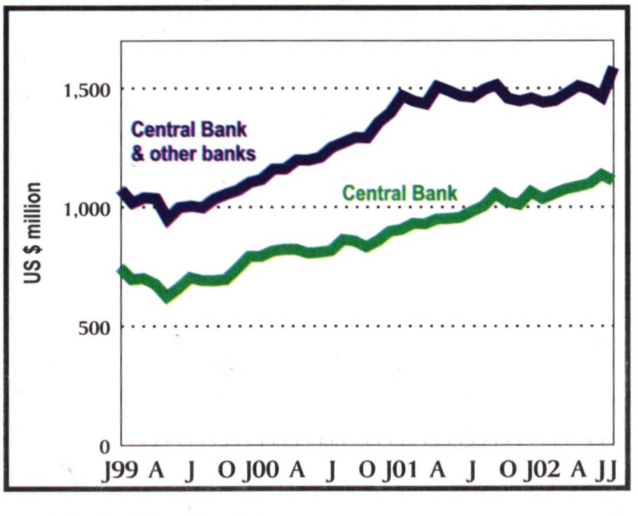
Interest Rate (91 - day T. Bill)



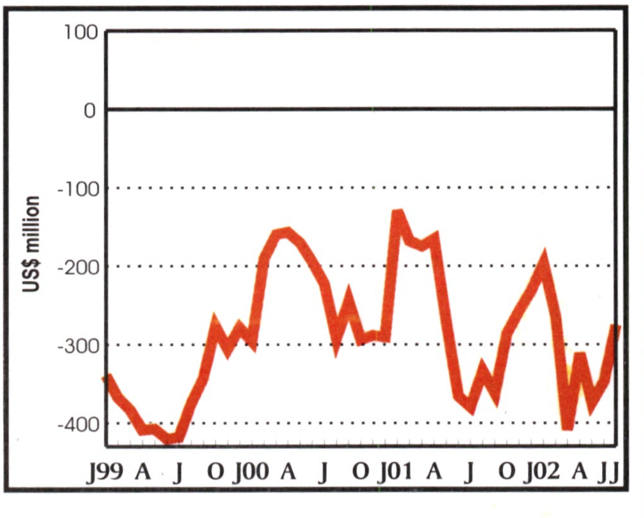
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



Source: Central Bank of Kenya

SELECTED ANNUAL ECONOMIC INDICATORS, 1997 - 2001

	INDICATOR	1997	1998	1999	2000	2001*
1.	**POPULATION**					
	People in Millions	28.1	28.8	29.5	30.2	30.8
	Growth (%)	2.5	2.4	2.2	2.1	2.1
2.	**NATIONAL ACCOUNTS**					
	GDP Market Prices (Ksh bn)	623	691	742	796	895
	GDP at Factor Cost (US$M):					
	At Current Prices	9120	9825	9090	9005	9833
	At Constant 1982 Prices	9124	9285	9417	9393	9465
	Real GDP Growth (%)	2.4	1.8	1.4	-0.2	1.2
	Per Capita Income (US Dollars)	325	322	319	311	309
3.	**GROSS DOMESTIC SAVINGS (% of GDP at mkt prs)**	**10.5**	**9.8**	**10.9**	**7.4**	**6.5**
4.	**GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prs)**	**18.5**	**17.4**	**16.2**	**15.4**	**14.5**
5.	**CONSUMER PRICE INFLATION**					
	Average Annual Inflation	11.2	6.6	5.7	10.0	5.8
	Twelve-month Inflation	8.3	2.5	10.4	11.8	1.6
6.	**STOCK MARKET**					
	Nairobi Stock Exchange Price Index (1966=100)	3115.1	2962.1	2303.2	1913.4	1355.1
	Trade Turnover (%)	0.3	0.4	0.2	0.2	0.2
7.	**GOVERNMENT BUDGET (Ksh bn) ****					
	Revenue and Grants	155.0	184.9	201.2	182.7	216.4
	Expenditure	159.8	195.0	197.3	175.2	232.9
	Budget Deficit (-) / Surplus (+)	-4.7	-10.1	3.8	7.6	-16.5
	Budget Deficit (% of GDP)	-0.8	-1.6	0.5	1.0	-2.1
8.	**MONEY AND CREDIT (Ksh bn)(END PERIOD)**					
	Money Supply (M3XT)	370.6	381.3	414.4	435.5	462.1
	Money Supply (M3X)	321.8	333.6	345.7	360.0	368.4
	Reserve Money	75.9	75.0	79.0	77.7	79.1
	Total Domestic Credit	**327.4**	**350.6**	**358.5**	**362.1**	**369.1**
	Government	82.7	91.1	84.1	76.4	89.1
	Others	244.7	260.6	274.3	285.6	280.0
9.	**BALANCE OF PAYMENTS (US$ m)**					
	Overall Balance	**-33**	**66**	**-21**	**-8**	**147**
	Current Account	**-450**	**-549**	**-214**	**-288**	**-229**
	Capital and Financial Account	**417**	**615**	**193**	**279**	**376**
10.	**FOREIGN EXCHANGE RESERVES (US$ m)**	**1,099**	**1,100**	**1,104**	**1,398**	**1,459**
	Official***	788	783	791	897	1064
	Months of imports	*(2.5)*	*(2.5)*	*(2.9)*	*(2.9)*	*(3.5)*
	Commercial banks & public	311	317	313	501	395
11.	**PUBLIC DEBT (US$ bn)**	**8.5**	**8.7**	**8.0**	**7.7**	**7.7**
	Domestic	2.7	3.0	2.6	2.5	2.7
	As % of GDP	*29.2*	*30.2*	*24.5*	*23.8*	*25*
	External	*5.8*	*5.7*	*5.4*	*5.2*	*5.0*
	As % of GDP	*64.0*	*57.7*	*50.6*	*50.2*	*46.6*
12.	**EXCHANGE RATE (Ksh/US$) (ANNUAL AVERAGE)**	**58.8**	**60.4**	**70.3**	**76.2**	**78.6**

* Provisional.

** Fiscal year ending June 30th.

*** Figures in parentheses refer to official reserves in months of imports of goods and non-factor services.

Sources: Central Bureau of Statistics, Central Bank of Kenya and Nairobi Stock Exchange

SELECTED MONTHLY ECONOMIC INDICATORS

	2001	2002							
INDICATOR	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug***
1. INFLATION (%)									
Overall (overall Kenya inflation)									
12-month	1.8	0.4	1.1	1.9	0.9	1.7	2.8	2.2	1.8
Average annual	5.8	4.8	4.1	3.5	2.8	2.4	2.3	2.1	1.9
Underlying (overall excluding food)									
12-month	5.1	3.0	2.8	3.4	3.4	3.5	2.9	2.0	1.5
Average annual	6.7	6.2	5.8	5.5	5.2	5.0	4.6	4.3	3.9
2. INTEREST RATES (%)									
91-day Treasury bill	11.0	10.9	10.6	10.1	10.0	9.0	7.3	8.6	8.3
Overdraft	20.0	19.3	19.2	18.8	18.9	18.7	18.5	18.3	..
3. STOCK MARKET									
Nairobi Stock Exchange Price Index	1355.1	1343.0	1313.6	1183.1	1129.3	1071.1	1082.6	1097.7	1043.4
Trade Turnover (%)	0.17	0.15	0.16	0.21	0.23	0.23	0.19	0.29	
4. GOVERNMENT BUDGET (Ksh bn.)**									
Revenue and Grants	93.8	110.5	127.0	142.3	161.6	181.0	203.3	13.6	..
Expenditure:	102.2	122.4	140.4	157.6	178.3	199.2	225.6	17.5	..
Budget Deficit (-) / Surplus (+)	**-8.4**	**-12.0**	**-13.4**	**-15.3**	**-16.7**	**-18.1**	**-22.3**	**-3.8**	..
5. MONEY AND CREDIT (Ksh bn.)									
Money Supply (M3XT)	462.1	460.2	467.7	466.4	473.1	477.2	483.9	487.9	..
Money Supply (M3X)	368.4	360.6	366.5	366.1	371.4	373.2	378.3	381.2	..
Reserve Money	79.1	73.6	73.8	75.8	75.3	76.6	76.9	83.0	..
Total Domestic Credit	**334.0**	**325.8**	**325.8**	**329.5**	**342.6**	**338.8**	**341.8**	**345.4**	..
Government	89.1	84.2	82.7	88.6	97.9	94.7	94.7	100.4	..
Private Sector	244.9	241.7	243.1	240.8	244.8	244.1	247.2	245.0	..
6. MONEY AND CREDIT (Annual % Change)									
Money Supply (M3XT)	6.1	4.3	7.3	5.7	6.3	7.5	8.4	8.6	..
Money Supply (M3X)	2.3	0.0	3.1	2.1	2.0	4.8	6.7	7.6	..
Reserve Money	1.8	3.4	4.4	8.2	2.5	8.0	10.9	16.7	..
Total Domestic Credit	**0.8**	**-1.2**	**-2.9**	**-0.6**	**1.3**	**3.5**	**5.4**	**5.5**	..
Government	16.5	14.9	9.4	16.7	16.3	32.9	37.9	40.2	..
Private Sector	-3.9	-5.9	-6.5	-5.7	-3.7	-4.6	-3.4	-4.2	..
7. BALANCE OF PAYMENTS (US$ m)									
Overall Balance	**42**	**-26**	**24**	**22**	**12**	**21**	**-4**	**74**	..
Current Account Balance	**-11**	**-51**	**14**	**-71**	**-90**	**-9**	**-122**	**-61**	..
Trade Balance	**-83**	**-83**	**-33**	**-119**	**-139**	**-94**	**-813**	**-492**	..
Capital and Financial Account	**53**	**25**	**10**	**94**	**102**	**31**	**118**	**134**	..
8. FOREIGN EXCHANGE RESERVES (US $ m)	**1459**	**1442**	**1450**	**1479**	**1511**	**1495**	**1463**	**1588**	..
Official***	1064	1035	1057	1077	1087	1100	981	1112	..
Months of imports	*(3.2)*	*(3.2)*	*(3.3)*	*(3.3)*	*(3.4)*	*(3.4)*	*(4.8)*	*(5.6)*	..
Commercial banks	395	406	393	402	423	395	482	476	..
9. PUBLIC DEBT (US$ bn)	**7.7**	**7.7**	**7.8**	**7.8**	**7.8**	**7.8**	**7.8**	**7.9**	..
Domestic	2.8	2.8	2.9	2.9	3.0	3.0	3.0	3.1	..
As % of GDP	*23.9*	24.2	24.7	24.9	25.3	25.2	25.6	24.6	..
External	*4.9*	4.9	4.9	4.9	4.8	4.8	4.8	4.8	..
As % of GDP	*41.8*	41.5	41.5	41.3	41.1	41.1	41.1	38.3	..
10. GROSS DOMESTIC DEBT (Ksh bn)******	**220.0**	**222.7**	**227.6**	**229.2**	**233.1**	**231.8**	**236.0**	**242.1**	..
11. AVERAGE EXCHANGE RATE									
Kshs/US$	**78.7**	**78.6**	**78.3**	**78.1**	**78.3**	**78.3**	**78.7**	**78.8**	**78.6**
Kshs/Pound Sterling	113.2	112.8	111.4	111.1	112.9	114.4	116.6	122.6	120.8
Kshs/ 100 Yen	61.9	59.3	58.6	59.5	59.6	61.9	63.7	66.7	66.0
Kshs/Euro	70.2	69.5	68.1	68.4	69.3	71.8	75.1	78.3	76.9

* Provisional.

** Cumulative fiscal year 2001/02 budget out-turn: deficit including grants and on commitment basis.

*** Figures in parentheses refer to official reserves in terms of months of imports of goods and non-factor services.

****Excludes Ksh 2,028m IMF disbursements onlent to the Govt. by the CBK, which is included in external public debt.

Sources: Central Bureau of Statistics, Central Bank of Kenya and Nairobi Stock Exchange

INFLATION

Introduction

Inflation declined further in August 2002. It remained within the set target of 5% mainly due to continued implementation of prudent monetary policy, the stability in the shilling exchange rate and reduced pressure on prices of basic food items.

Overall Inflation

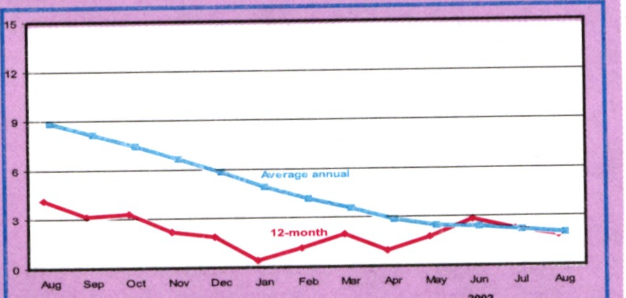
The reduced pressure on prices of basic food items, following their increased supply relative to demand led to a decline in the overall inflation in August 2002 as shown below (Table 1 and Chart 1):

- The overall 12-month inflation fell to 1.8% from 2.2% in July 2002.
- The overall average inflation declined to 1.9% from 2.1% in July 2002.

TABLE 1: OVERALL INFLATION (%)

	2001						2002				
	Jan	Mar	Jun	Aug	Sep	Dec	Jan	Mar	Jun	Jul	Aug
12-month[1]	12.0	9.5	4.6	4.0	3.1	1.8	0.4	1.9	2.8	2.2	1.8
Average annual[2]	10.2	10.4	10.1	8.8	8.1	5.8	4.8	3.5	2.3	2.1	1.9
Changes over one month	0.9	-0.6	0.2	0.2	-0.3	-0.2	-0.5	0.2	1.2	-0.5	-0.1
Changes over 3 months	1.9	-0.3	2.3	0.5	0.1	-0.3	-0.9	-0.2	3.4	2.7	2.1

CHART 1



Sources: Central Bureau of Statistics & Central Bank of Kenya

[1]The rate of change in the CPI over the same month in the previous year, sometimes referred to as the "annual" rate of change.

[2]Percentage change in the average CPI for the last 12 months over the average CPI for the previous 12-month period.

- In August 2002, inflation declined by 0.1%, compared with a decline of 0.5% July 2002.

Underlying Inflation

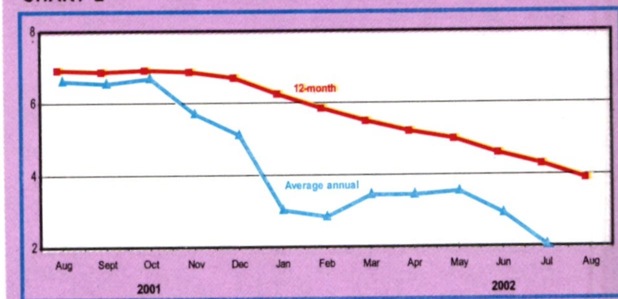
The underlying inflation was as follows:

- The underlying 12-month inflation declined to 1.5% in August 2002 from 2.0% in July.
- The underlying average annual inflation declined to 3.9% in August 2002 from 4.3% in July.
- In August 2002, underlying inflation declined by 0.1% compared with an increase of 0.1% in July 2002.

TABLE 2: UNDERLYING INFLATION (%)

	2001						2002				
	Jan	Mar	Jun	Aug	Sep	Dec	Jan	Mar	Jun	Jul	Aug
12-month	8.3	7.5	6.7	6.6	6.5	5.1	3.0	3.4	2.9	2.0	1.5
Average annual	6.8	7.1	7.1	6.9	6.8	6.7	6.2	5.5	4.6	4.3	3.9
Changes over one month	1.5	-0.1	0.6	0.5	0.3	0.2	-0.5	0.5	0.0	0.1	-0.1
Changes over 3 months	3.0	1.5	1.6	2.1	1.8	0.1	-0.6	-0.1	1.2	0.7	0.0

CHART 2



Sources: Central Bureau of Statistics & Central Bank of Kenya

Inflation by Income Groups

Except for inflation in the prices of goods and services purchased by consumers in the rest of urban towns, inflation in all the goods and services purchased by the other income groups declined in August 2002 (Table 3 and Chart 3):

- The 12-month inflation in the prices of goods and services purchased by the Nairobi lower income group, eased to 2.0% from 3.2% in July, while

- The 12-month inflation in the prices of goods and services purchased by the Nairobi middle/upper income group eased to 1.9% from 2.1%.

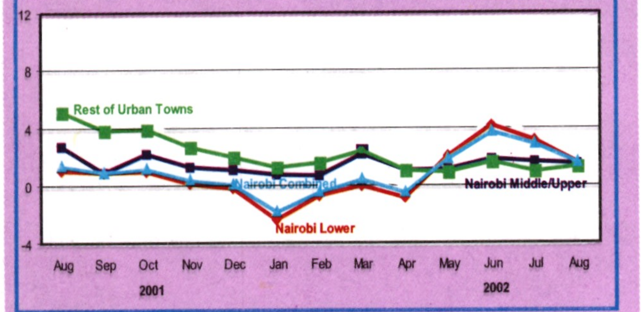
- Inflation experienced by Nairobi income groups combined declined to 2.0% from 3.3% over the review period.

- Meanwhile, inflation in the prices of goods and services purchased by consumers in the rest of urban towns increased to 1.7% from 1.4% in July 2002.

TABLE 3: OVERALL 12-MONTH INFLATION BY INCOME GROUPS(%)

	2001						2002				
	Jan	Mar	Jun	Aug	Sep	Dec	Jan	Mar	Jun	Jul	Aug
Nairobi Lower	11.5	8.2	1.3	**1.4**	1.3	0.2	-2.0	0.4	4.5	3.5	**2.0**
Nairobi middle/upper	8.7	6.0	4.6	**3.1**	1.3	1.5	1.2	2.5	2.2	2.1	**1.9**
Nairobi Combined	10.9	7.8	1.9	**1.7**	1.3	0.4	-1.4	0.8	4.1	3.3	**2.0**
Rest of Urban Towns	12.7	10.6	6.4	**5.5**	4.2	2.4	1.7	2.8	2.1	1.4	**1.7**

CHART 3



Sources: Central Bureau of Statistics & Central Bank of Kenya

Inflation by Categories of Goods and Services

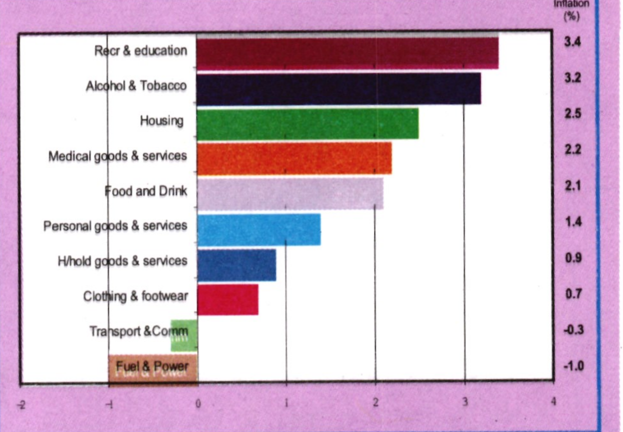
Inflation in the prices of household goods and services increased to 0.9% in August 2002 from 0.8% in July. The other categories of goods and services experienced declining inflation in August 2002, as indicated in Table 4 and Chart 4.

TABLE 4: BASKET WEIGHTS & OVERALL 12-MONTH INFLATION, JUL - AUG 2002

Goods and Services	Income Groups* Nairobi Lower	Middle/Upper	Rest of Urban Towns	Combined weights	Inflation (%) Jul	Aug
Weight	(31.9)	(8.0)	(60.1)	(100)		
Food and Drink	55.7	31.9	50.2	50.5	2.3	2.1
Housing	11.9	31.7	9	11.7	4.3	2.5
Recr & education	4.6	7.3	6.6	6.0	3.5	3.4
H/hold goods & services	5	4.7	6.4	5.8	0.8	0.9
Clothing & footwear	9.2	7.4	9.1	9.0	1.0	0.7
Transport &Comm	5.1	10.2	5.5	5.7	0.0	-0.3
Fuel & Power	3.5	2.2	4.8	4.2	-1.8	-1.0
Medical goods & services	0.9	1.3	2	1.6	2.4	2.2
Personal goods & services	2.3	1.9	2.6	2.4	1.5	1.4
Alcohol & Tobacco	1.8	1.4	3.8	3.0	3.4	3.2

* Numbers in parentheses are income group weights

CHART 4



Sources: Central Bureau of Statistics & Central Bank of Kenya

Outlook

Inflation is forecast to remain within the 5% target through June 2003. This will be possible with continued implementation of the current prudent monetary policy stance, fiscal discipline, stability in the shilling exchange rate and good supply of food items due to favourable weather conditions.

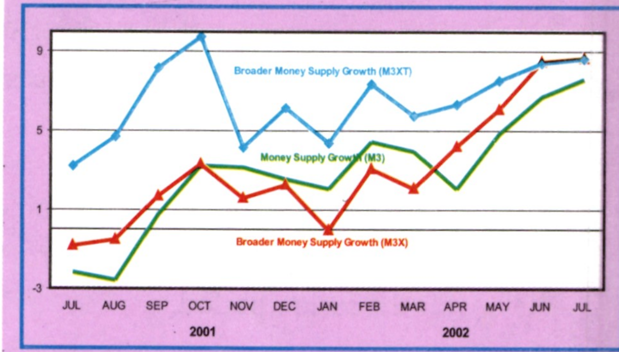
MONEY AND CREDIT

Money supply increased more rapidly in the twelve months to July 2002 than in a similar period in 2001 (Tables 5 and 6, and Chart 5). Money supply, M3, which comprises currency outside banking institutions and all private and other public sector deposits, increased by 8.7% compared with 4.7% target growth and a decline of 2.1% in the year to July 2001. Broad money supply, M3X, which includes M3 and residents foreign currency deposits increased by 7.6% compared with 4.4% target growth and 0.6% decline in the twelve months to July 2001. M3XT, which comprises M3X plus non-bank

TABLE 5: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

	2001				2002						
	Jan	Mar	Jun	Jul	Jan	Feb	Mar	Apr	May	Jun	Jul
M3	0.0	-0.1	-1.3	-2.2	2.0	4.4	3.9	4.2	6.1	8.5	8.7
M3X	3.8	3.7	2.1	-0.8	0.0	3.1	2.1	2.0	4.8	6.7	7.6
M3XT	5.2	4.8	5.3	3.1	4.3	7.3	5.7	6.3	7.5	8.4	8.6

CHART 5



Source: Central Bank of Kenya

TABLE 6: MONEY SUPPLY AND ITS SOURCES, KSH BN

	Jul 2001	Jul 2002	Annual Change Absolute	Annual Change %
1. Money supply, M3XT 1/	**449.2**	**487.9**	**38.8**	**8.6**
2. Money supply, M3X (4+5) 2/	**354.4**	**381.2**	**26.8**	**7.6**
3. Money supply, M3 3/	**306.6**	**333.3**	**26.6**	**8.7**
Of which: M2	288.4	318.6	30.2	10.5
4. Net foreign assets 4/	**90.8**	**100.6**	**9.9**	**10.9**
Central Bank	68.3	75.6	7.3	10.7
Banking Institutions	22.5	25.1	2.6	11.6
5. Net domestic assets (5.1+5.2)	**263.6**	**280.5**	**16.9**	**6.4**
5.1 Domestic credit (5.1.1+5.1.2)	**327.4**	**345.4**	**18.1**	**5.5**
5.1.1 Government (net)	71.6	100.4	28.8	40.2
Central Bank	14.9	19.0	4.1	27.8
Banking Institutions	56.7	81.4	24.7	43.5
5.1.2 Private sector and other public sector 5/	255.8	245.0	-10.7	-4.2
5.2 Other net domesic assets (5-5.1)	**-63.7**	**-64.9**	**-1.2**	**-1.8**
6. Reserve money	**71.2**	**83.0**	**11.9**	**16.7**
Currency in circulation	0.0	51.9	4.4	9.3
Banking Institutions' deposits with CBK	23.7	31.1	7.5	31.5
Memorandum items				
Treasury bills outstanding	**113.2**	**118.7**	**5.5**	**4.9**

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

1/ Broader money, M3XT, comprises M3X and non banking public holding of Government securities.

2/ Broader money, M3X, comprises M3 and residents foreign currency deposits with local banks.

3/ Broad money, M3, comprises currency outside banking institutions, and all private and other public sector holdings of demand savings and time deposits. It excludes central and local Government deposits with banking institutions.

4/ NFA at constant exchange rate of Ksh 78.95 to the US dollar (Sept. 30th, 2001).

5/ Excludes interest in suspense.

Source: Central Bank of Kenya

holdings of Government securities increased by 8.6% compared with 5.7% target growth and 3.1% increase in the year to July 2001.

The increase in M3X, the intermediate measure of money supply most closely monitored by the Central Bank, in the period under review reflected accumulation of both net foreign assets (NFA) and net domestic assets (NDA) by the banking system. NFA expanded by 10.9%, compared with an increase of 24.2% in the year to July 2001. NDA increased by 6.4% in the year to July 2002 compared with 7.0% decline in the year to July 2001 due to an increase in domestic credit. Meanwhile, other domestic assets net of other liabilities declined by 1.8% in the year to July 2002 compared with 18.1% decline in the year to July 2001.

The money supply M3X, expanded every month from April 2002 through July 2002 with the expansion reflected in both the quasi deposits and the foreign currency deposits by the residents.

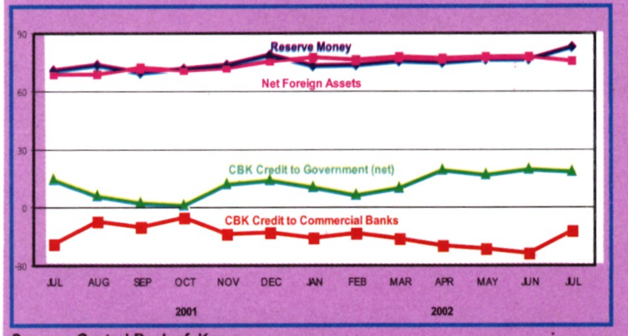
Reserve Money

Reserve money comprising currency in circulation and deposits of commercial banks and NBFIs at the Central Bank increased by 16.7% in the twelve months to July 2002 compared with 3.9% decline in the year to July 2001 (Table 7 and Chart 6). The expansion in the twelve months to July 2002 reflected 31.5% increased deposits of both commercial banks and NBFIs and 9.3% expansion in currency in circulation. The reserve money expansion to Ksh 83.0bn in the year to July 2002 exceeded the respective target of Ksh 78.6bn. The excess was wholly in deposits of banking institutions that borrowed Ksh 8.8bn on an overnight basis to cover shortfalls in the end month cash ratio requirements. To curb reserve money expansion, the Central Bank sterilized excess liquidity through sale of Treasury bills to banks under open market operations. As a result, commercial banks' holdings of repo bills increased by 30.1% in the year to July 2002 from 18.6% in the year to July 2001.

TABLE 7: RESERVE MONEY & ITS SOURCES (KSH BN)

	2001 Jul	2002 Jul	Annual Change Absolute	%
1. Net Foreign Assets	68.3	75.6	7.3	10.7
Net Domestic Assets	2.9	7.5	4.6	157.9
2.1 Government Borrowing (net)	14.9	19.0	4.1	27.8
2.2 Advances & Discounts	-16.9	-12.1	4.8	-28.4
2.3 Other Domestic Assets (net)	4.9	0.6	-4.4	-88.4
3. Reserve Money	71.2	83.0	11.9	16.7
3.1 Banks & NBFIs Deposits at CBK	23.2	30.9	7.7	33.1
3.2 Currency in Circulation	47.5	51.9	4.4	9.3

CHART 6



Source: Central Bank of Kenya

The expansion in reserve money for the twelve months to July 2002 originated in both net foreign assets (NFA) and net domestic assets (NDA) of the Central Bank. The NFA expanded by 10.7%, compared with an increase of 26.6% in the year to July 2001, largely due to purchases of foreign exchange from the inter-bank market. NDA increased by 157.9% largely due to increased borrowing by both the Government and commercial banks from the Central Bank. Developments in the components of NDA of the Central Bank were as follows:

- Credit to government from the Central Bank net of deposits increased by 27.8% in the year to July 2002 compared with 44.3% decline in the year to July 2001 reflecting Ksh 1.0bn run down of deposits at the Bank as well as Ksh 3.1bn increased borrowings.

- Net indebtedness of commercial banks to the Central Bank declined by 28.4% reflecting an additional borrowing of Ksh 10.6bn. However, this increase was partly offset by Ksh 5.7bn increase in commercial banks holdings of repo securities under the open market operations.
- Other domestic assets net of other domestic liabilities declined by 88.4%.

Domestic Credit Developments

Net domestic credit (NDC) increased by 5.5% in the twelve months to July 2002 compared with 3.0% decline in the year to July 2001. The credit expansion resulted from increased credit to government as credit to the private and other public sectors declined. Net credit to government, increased by 40.2% in the twelve months to July 2002 compared with a decline of 18.8% in the year to July 2001. The credit was from both the Central Bank and the commercial banks. Net credit to the Government from the Central Bank increased by Ksh 4.1bn, comprising Ksh 3.1bn borrowing and drawdown of own deposits at the Central Bank amounting to Ksh 1.0bn. Net credit to the Government from commercial banks increased by 43.5%.

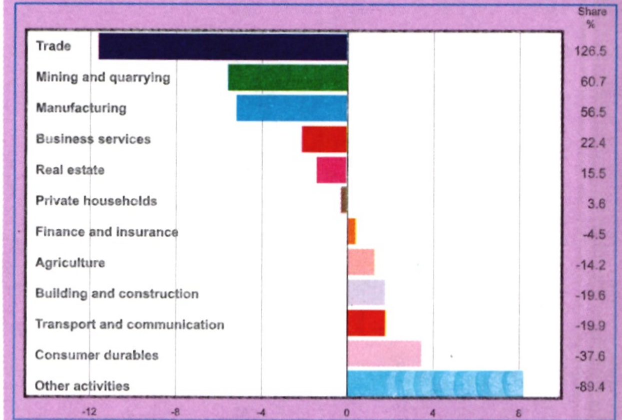
Meanwhile, credit to the private and other public sectors from the banking system decreased by Ksh 10.8bn or 4.2% in the year to July 2002 compared with Ksh 6.4bn or 2.6% increase in the year to July 2001. The repayment of Ksh 10.8bn in the year to July 2002 comprised Ksh 1.6bn by local government and parastatals, and Ksh 9.2bn by the private sector. The private sector borrowed Ksh 16.9bn to finance private households, consumer durables, finance and insurance, transport and communication, agriculture and other activities. However, the borrowing was fully offset by Ksh 26.2bn repayments by real estate, manufacturing, trade, business services, mining and quarrying, and building and construction (Table 8 and Chart 7). Credit to the private sector has been increasing every month since April 2002. The sector received additional lending in the quarter to June 2002 with credit growing by 1.5%, 0.1%, and 1.3% in April, May and June 2002 respectively before declining by 1.3% in July 2002.

TABLE 8: CREDIT TO PRIVATE & OTHER PUBLIC SECTORS (KSH BN)

	2001 July		2002 July		Annual Change		Jul '01 - Jul '02
	Ksh bn	Share (%)	Ksh bn	Share (%)	Ksh bn	(%)	% dist. of ann. change in credit to private sector
1. Credit to other public sector	9.1	3.6	7.5	3.1	-1.6	-17.4	
Local government	-0.5	-0.2	-0.1	-0.1	0.4	-75.8	
Parastatals	9.6	3.8	7.6	3.1	-2.0	-20.7	
2. Credit to private sector	246.7	96.4	237.5	96.9	-9.2	-3.7	100.0
Agriculture	23.5	9.2	23.9	9.8	0.4	1.6	-4.5
Manufacturing	59.0	23.1	53.4	21.8	-5.6	-9.5	60.7
Trade	49.5	19.4	44.3	18.1	-5.2	-10.5	56.5
Building and construction	19.1	7.5	18.7	7.6	-0.3	-1.8	3.6
Transport & communications	10.2	4.0	11.5	4.7	1.3	12.8	-14.2
Finance & insurance	14.7	5.8	16.6	6.8	1.8	12.5	-19.9
Real estate	19.8	7.7	8.1	3.3	-11.6	-59.0	126.5
Mining and quarrying	3.3	1.3	1.9	0.8	-1.4	-42.9	15.5
Private households	10.6	4.2	14.1	5.8	3.5	32.6	-37.6
Consumer durables	4.4	1.7	6.3	2.6	1.8	40.7	-19.6
Business services	27.3	10.7	25.2	10.3	-2.1	-7.6	22.4
Other activities	5.4	2.1	13.6	5.5	8.2	153.7	-89.4
3. TOTAL (1+2) *	255.8	100.0	245.0	100.0	-10.8	-4.2	

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

CHART 7: SHARE IN CREDIT TO PRIVATE SECTOR IN THE 12 MONTHS TO JULY 2002 (KSH BN)



Source: Central Bank of Kenya

Banking Sector Developments

Structure of the Financial System

At the end of August 2002, the banking system comprised 46 commercial banks, 3 non-bank financial institutions (NBFIs), 2 mortgage finance companies, 4 building societies and 48 forex bureaus. The decline from 59 institutions in August 2001 to 55 in August 2002 was due to merger, liquidation and voluntary winding up of a few institutions (Table 9). The increase in forex bureaus from 47 to 48 followed re-opening of one forex bureau.

TABLE 9: COMMERCIAL BANKS, NBFIS & FOREIGN EXCHANGE BUREAUS

Type of Institution/Bureau	Aug-2001	Aug-2002
Commercial Banks	49	46
(a) Operating	48	45
(b) Not operating		
(c) Under Central Bank statutory management	1	1
Building Societies	4	4
Mortgage Finance Companies	2	2
Non-bank Financial Institutions	4	3
(a) Operating	4	3
(b) Under Central Bank statutory management	-	-
Total	59	55
Foreign Exchange Bureaus	47	48

Source: Central Bank of Kenya

Asset Composition

Total assets of the banking system increased to Ksh 449.9bn at the end of July 2002 from Ksh 431.1bn at the end of July 2001 (Table 10). Total advances (excluding interest in suspense) decreased by Ksh 6.8bn to Ksh 246.8bn in July 2002 from Ksh 253.6bn in July 2001. This partly reflected the depressed state of the economy and the reluctance by banks to extend credit following the uncertainties surrounding the CBK (Amendment) Act, 2000. Banks holdings of Government securities increased by 18.6% to Ksh 94.1bn in July 2002 from Ksh 79.4bn in July 2001, accounting for 21% and 18% of their total assets, respectively. Balances with the Central Bank increased from Ksh 25.3bn to Ksh 31.2bn and accounted for 7% of the total assets of banks.

TABLE 10: SELECTED ASSETS OF THE BANKING INSTITUTIONS (Ksh bn)

	July 2001	July 2002	Change* Absolute	%
ASSETS	431.1	449.9	18.8	4.4
Loans and Advances	253.6	246.8	-6.8	-2.7
Government Securities	79.4	94.1	14.8	18.6
Balances at Central Bank	25.3	31.2	5.9	23.2
Fixed Assets	18.4	19.2	0.8	4.3
Other Assets	26.1	36.4	10.3	39.6

*Absolute and percentage changes may not necessarily add up due to rounding.
**Includes interbank balances.
Source: Central Bank of Kenya

Asset Quality

Non-performing loans (NPLs) was estimated at Ksh 73.1bn or 29.6% of total loans at the end of July 2002 compared with Ksh 78.6bn or 31.0% of total loans in July 2001 (Table 11). The decline in the ratio reflects Ksh 5.5bn drop in non-performing loans. The non-performing loans were mainly concentrated in seven banks whose NPLs were 49.4% of their total loans compared with 22.0% for the rest of the banking sector. The non-performing loans in the seven banks accounted for Ksh 43.4bn or 59% of the industry's total non-performing loans. Table 11 shows non-performing loans, excluding interest in suspense in line with the revised reporting system. The level of provisions decreased from Ksh 32.8bn to Ksh 31.1bn in July 2002 in line with the decrease in NPLs while estimated value of securities declined from Ksh 39.7bn to Ksh 36.1bn. The uncovered exposure, where additional provisions may be necessary, was Ksh 8.5bn.

TABLE 11: NON-PERFORMING LOANS* (NPLs) & PROVISIONS (Ksh bn)

		Jul-01	Jul-02
1.	Total Loans	253.6	246.8
2.	Specific Provisions	29.8	28.5
3.	General Provisions	3.0	2.6
4.	Total Provisions (2+3)	32.8	31.1
5.	Net Loans (1-4)	220.8	215.7
6.	Total Non-Performing Loans (NPLs)**	78.6	73.1
7.	Net Non-Performing Loans (6-2)	48.8	44.6
8.	Value of securities (estimated)	39.7	36.1
9.	Net Exposure (7-8)	9.1	8.5
10.	Total NPLs as % of Total Loans (6/1)	31.0%	29.6%
11.	Total Provisions as % of Total Loans (4/1)	12.9%	12.6%
12.	Exposure as % of Total Loans (9/1)	3.6%	3.4%

*Non-performing loans are those that are not being serviced as per contracts and expose the financial institutions to potential losses

**Revised reporting system effective April 2002 excludes suspended interest in NPLs.

Source: Central Bank of Kenya

Deposit Liabilities

Deposits, including inter-bank deposits and accrued interest, held by banking institutions increased by 5.7% to Ksh 346.4bn in July 2002 from Ksh 327.6bn in July 2001 (Table 12). In terms of market share, the top eight commercial banks each with a minimum asset base of Ksh 10bn, held 72.2% of all deposits in the banking system.

Capital and Reserves

Capital and reserves of the banking system decreased by 0.5% from Ksh 56.5bn in July 2001 to Ksh 56.2bn in July 2002 (Table 12). The decrease in capital and reserves was due to the decline in profits made for the year to July 2002. Total capital (capital and reserves, excluding goodwill and 75% of revaluation reserves) of the banking system increased by 4.8% from Ksh 52.4bn in July 2001 to Ksh 54.9bn in July 2002. The level of capitalisation, as measured by the ratio of total capital to total risk-weighted assets, increased from 16.0% at the end of July 2001 to 17.0% at the end of July 2002, which was well above the 12% minimum requirement.

TABLE 12: SELECTED LIABILITIES OF THE BANKING INSTITUTIONS (Ksh bn)

	July 2001	July 2002	Annual Change* Absolute	%
LIABILITIES	**374.6**	**393.7**	**19.1**	**5.1**
Deposits**	327.6	346.4	18.8	5.7
Capital and Reserves	56.5	56.2	-0.3	-0.5
Foreign Liabilities	12.1	8.5	-3.6	-30.1
Other Liabilities	34.9	38.8	3.9	11.2

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

**Includes interbank balances.

Source: Central Bank of Kenya

Profitability of the Sector

Unaudited pre-tax profits decreased by 7.9% to Ksh 6,010m for the seven months ending July 2002 from Ksh 6,527m for a similar period in 2001. The major reason for the deterioration was the decline in interest income on advances and increased bad debt charges and other expenses.

Cash and Liquidity Ratios

Commercial banks and non-bank financial institutions (NBFIs) continued to operate within the statutory 20% minimum liquidity and 10% cash ratio requirements in July and August 2002 (Table 13 and Chart 8).

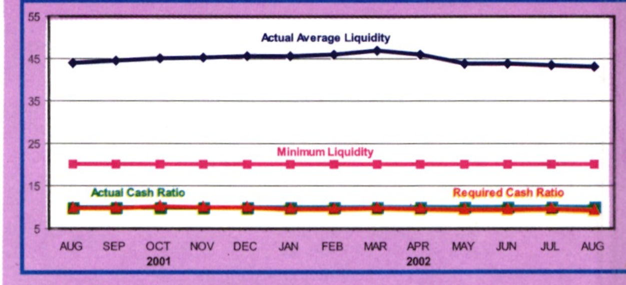
TABLE 13: CASH AND LIQUIDITY RATIOS* (%)

	2001 Mar	2001 Jun	2001 Aug	2001 Dec	2002 Jan	2002 Mar	2002 Jun	2002 Jul	2002 Aug
Commercial Banks									
Average Liquidity	44	42	44	46	46	47	44	43	43
Minimum Liquidity	20	20	20	20	20	20	20	20	20
Cash Ratio - All Banks	10.2	10.0	9.7	9.9	9.7	9.8	9.5	9.6	9.2
Minimum Cash Ratio**	10	10	10	10	10	10	10	10	10
NBFIs									
Average Liquidity	48	60	75	57	59	59	59	62	63
Minimum Liquidity	20	20	20	20	20	20	20	20	20
Cash Ratio	11.5	10.1	10.4	10.9	11.0	10.9	11.6	11.8	12.4
Minimum Cash Ratio**	10	10	10	10	10	10	10	10	10

* Monthly average liquidity and cash ratios

** Commercial banks and NBFIs must observe fortnightly an average of 10% cash ratio and a daily minimum of 8%. The requirement became effective from 1st October 2000.

CHART 8



Source: Central Bank of Kenya

Liquidity Ratios

Commercial banks and NBFIs continued to hold liquid assets largely in form of cash balances at Central Bank and government securities in both Treasury bills and bonds. The average liquidity ratio for commercial banks was 43% in August 2002, same as the ratio forJuly, while that of NBFIs was 63% compared with 62% in July. The average liquidity ratio for mortgage finance companies was 27% in August 2002 while that of building societies was 50% .

Cash Ratios

In August 2002, the average cash ratio maintained by banking institutions increased to 10.8% compared with 10.7% in July. Commercial banks had an average ratio of 9.2% in August 2002 compared with 9.6% in July while the ratio for NBFIs averaged 12.4% from 11.8% over the same period.

INTEREST RATES

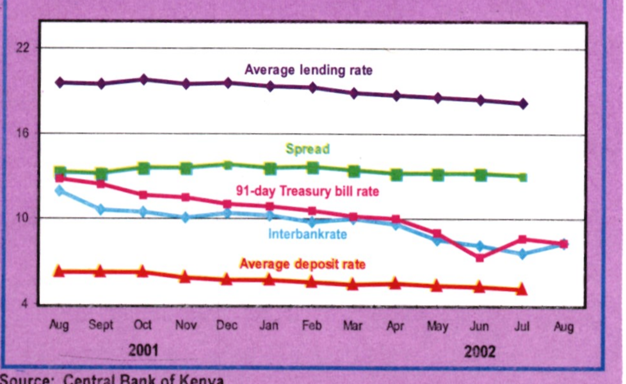
Nominal interest rates maintained a downward trend in the first half of 2002 in line with the decline in the 91-day Treasury bill rate. The Treasury bill rate declined to 7.3% in June 2002 from 11.0% in December 2001 before reversing the declining trend to increase to 8.6% in July and ease to 8.3% in August 2002 (Table 14 and Chart 9). The decline in the 91-day Treasury bill rate in the first half of the year reflected excess liquidity in the banking system as well as strong competition among major investors who were attracted by the relatively high return, safety and liquidity advantage of the Government securities.

TABLE 14: INTEREST RATES *(% per annum)*

	2001						2002					
	Jan	Mar	Jun	Aug	Sep	Dec	Jan	Mar	May	Jun	Jul	Aug
Treasury bill rate*	14.8	15.0	12.1	12.8	12.4	11.0	10.9	10.1	9.0	7.3	8.6	8.3
Interbank rate	11.8	9.3	10.7	12.0	10.7	10.4	10.3	10.1	8.5	8.2	7.6	8.3
Average lending rate (1)	20.3	20.2	19.3	19.5	19.4	19.5	19.3	18.9	18.5	18.4	18.1	..
Average deposit rate (2)	6.5	6.9	6.4	6.2	6.3	5.7	5.7	5.4	5.3	5.2	5.1	..
3-month deposit	6.0	8.5	7.5	7.6	7.4	6.9	6.9	6.9	6.2	6.1	5.9	..
Spread (1-2)	13.7	13.3	12.9	13.3	13.2	13.8	13.6	13.4	13.2	13.2	13.0	..

* 91-Days Treasury bill rate

CHART 9



Source: Central Bank of Kenya

Following the decline in the major money market rates, banks' average overdraft rate declined to 18.3% in July 2002 from 20% in December 2001.

The average lending rate also declined to 18.1% in July 2002 from 19.5% in December 2001. At the same time the average savings deposit rate declined to 5.1% in July from 5.7% in December 2001. The average lending and deposit rates resulted in the narrowing of interest rate spread to 13.0% from 13.8% in December 2001.

Shilling Exchange Rate

During the year to August 2002, the Kenya shilling remained stable against the US dollar but lost to the Sterling Pound and the Euro to exchange, on average, at Ksh 78.6, Ksh 114.9 and Ksh 71.8, respectively, compared with Ksh 78.5, Ksh 113.0 and Ksh 69.5 in the year to August 2001. The shilling, however, gained against the Japanese Yen and the South African Rand by 6.7% and 24.5%, to trade at Ksh 62.8 per 100 Japanese Yen and Ksh 7.6 per Rand. The shilling also strengthened against the Tanzanian shilling to exchange at Tsh 12.1 compared with Tsh 10.7 in the year to August 2001. It however, lost against the Ugandan shilling to trade at Ush 22.5 in the year to August 2002 compared with Ush 22.6 in the year to August 2001.

In August 2002, the shilling gained against all major international currencies. It gained against the US dollar by 0.3% to trade, on average, at Ksh 78.6 compared with Ksh 78.8 in July 2002 (Table 15 and Chart 10). The shilling also strengthened against the Sterling Pound, the Euro, the Japanese Yen and the South African Rand by 1.4%, 1.8%, 1.1% and 4.4%, respectively in August 2002. Against regional currencies, the shilling gained by 7.2% against the Tanzania shilling to trade at Tsh 12.8 but remained stable against the Uganda shilling to trade at Ush 23.0 in August 2002.

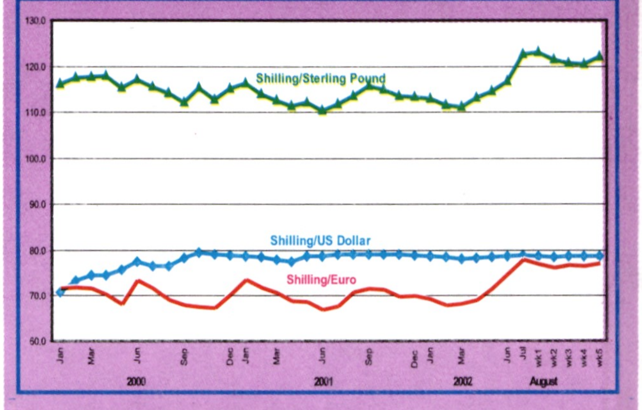
The strengthening of the shilling against the US dollar in August 2002 was mainly due to continued export receipts from the agriculture sector, particularly tea, while corporate demand remained subdued. The appreciation of the shilling against the other major international currencies in August 2002 reflected mainly the downward movement of these currencies against the US dollar in the international currency market.

TABLE 15: SHILLING EXCHANGE RATE

	2001					2002			2002 August					
	Mar	Jun	Jul	Sep	Dec	Mar	Jun	Jul	wk 1	wk 2	wk 3	wk 4	wk 5	Avg
US Dollar	77.8	78.6	79.0	78.9	78.7	78.1	78.7	78.8	78.6	78.5	78.6	78.6	78.7	78.6
Pound Sterling	112.4	110.3	111.6	115.5	113.2	111.1	116.6	122.6	122.8	121.3	120.4	120.2	121.9	120.8
100 Japanese Yen	64.2	64.4	63.4	66.5	61.9	59.5	63.7	66.7	65.8	65.3	66.5	66.0	66.7	66.0
Uganda Shilling*	22.5	22.6	21.9	22.2	21.9	22.7	22.9	22.9	23.0	23.0	23.0	23.0	23.0	23.0
Tanzania Shilling*	10.7	11.3	11.3	11.3	11.6	12.4	12.2	12.0	12.1	12.3	12.4	16.0	12.3	12.8
Euro	70.8	67.2	67.8	71.9	70.2	68.5	75.1	78.3	77.2	76.4	77.0	76.9	77.5	76.9
Nominal Effective Exchange Rate	80.5	81.4	80.7	79.4	80.4	82.1	79.3	77.9						
Real Effective Exchange Rate	96.0	95.6	97.6	95.2	95.9	95.3	92.3	93.1						

* Units of currency per Kenya shilling

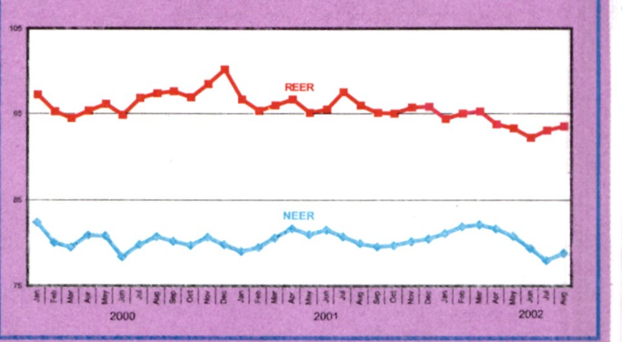
CHART 10



Source: Central Bank of Kenya

In **nominal effective terms** (trade-weighted), the shilling exchange rate appreciated by 0.1% in the year to August 2002 compared with 1.8% appreciation in a similar period in 2001. In real effective terms, however, the shilling depreciated by 2.6% in the year to August 2002 compared with 2.4% appreciation in the year to August 2001. The depreciation reflected higher inflation in the trading partners than the domestic inflation (Chart 11).

CHART 11: NOMINAL & REAL EFFECTIVE EXCHANGE RATE 1995=100



Source: Central Bank of Kenya

Budgetary Developments

Government's budgetary operations in the first month of fiscal year 2002/2003 resulted in a deficit of Ksh 3.8bn on a commitment basis. This represented 0.4% of GDP compared with a Ksh 1.9bn deficit or 0.2% of GDP in a similar period in 2001/2002 (Table 16 and Chart 12). On a cash basis, however, fiscal operations resulted in Ksh 6.8bn budget deficit.

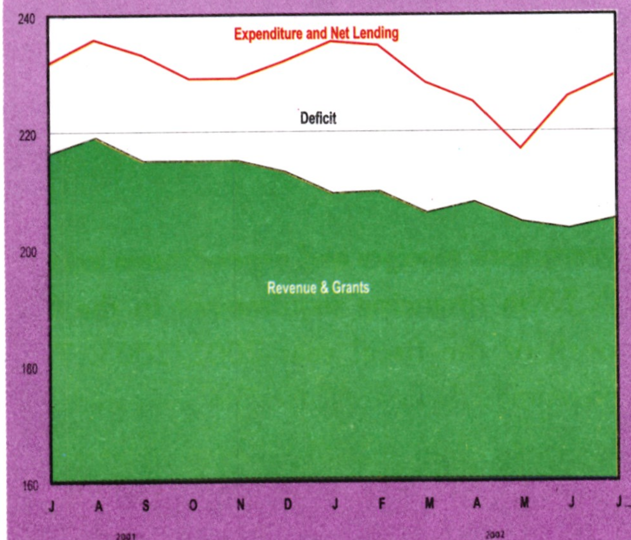
TABLE 16: BUDGET OUT-TURN (KSH BN)

	FY 2001/02 July Actual	FY 2002/03 July Actual*	Target	Over(+)/ Below (-)
1. TOTAL REVENUE & GRANTS	**11.9**	**13.6**	**19.6**	**-5.9**
Revenue	11.8	12.9	18.2	-5.3
Tax Revenue	10.1	11.0	15.6	-4.6
Non Tax Revenue	0.5	0.9	1.2	-0.4
Appropriations-in-Aid	1.2	1.1	1.4	-0.3
External Grants	0.1	0.7	1.3	-0.6
2. TOTAL EXPENDITURE AND NET LENDING	**13.8**	**17.5**	**22.2**	**-4.8**
Recurrent Expenditure	12.8	15.7	18.2	-2.5
Development Expenditure	1.0	1.8	4.0	-2.2
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-1.9**	**-3.8**	**-2.6**	**-1.2**
	(-0.2)	(-0.4)	(-0.3)	
4. ADJUSTMENT TO CASH BASIS	**-2.6**	**-2.9**	**0.0**	**-2.9**
5. DEFICIT ON A CASH BASIS	**-4.5**	**-6.8**	**-2.6**	**-4.1**
	-0.5	(-0.7)	(-0.3)	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	**1.0**	**-0.8**	**-0.3**	**-0.5**
7. FINANCING	**5.5**	**6.0**	**2.4**	**3.7**
Domestic (Net)	5.8	6.8	2.7	4.1
External (Net)	-0.3	-0.8	-0.4	-0.5
Capital Receipts (privatisation)	0.0	0.0	0.3	-0.3

* Provisional

** Figures in parentheses are deficit to GDP Ratio (%)

CHART 12: 12-MONTHS CUMULATIVE BUDGET OUT-TURN (Ksh bn)



Sources: Treasury and Central Bank of Kenya

Revenue and Grants

The Government collected Ksh 13.6bn from various sources in the first month of fiscal year 2002/2003. This was Ksh 1.7bn higher than in a comparable period in 2001/2002 (Table 17). The improved revenue performance was due to a Ksh 0.9bn and Ksh 0.6bn increase in tax revenue and external grants, respectively. The revenue comprised the following:

- Tax revenue at Ksh 11.0bn accounted for 80.5% of total government receipts. Performance by various tax categories was as follows:
  - Income tax was Ksh 3.2bn or 29.1% of tax revenue compared with Ksh 3.2bn or 31.7% of tax revenue in a similar period of 2001/2002.
  - Value added tax (VAT) improved by Ksh 0.6bn to stand at Ksh 3.9bn compared with Ksh 3.3bn in a comparable period in the previous fiscal year.
  - Import and excise duties increased to Ksh 3.9bn from Ksh 3.5bn in a comparable period in 2001/2002. Of the Ksh 3.9bn, import duty was Ksh 1.4bn and excise duty was Ksh 2.5bn.

The Government received a further Ksh 2.7bn from the following sources:

- Non-tax revenue amounting to Ksh 0.9bn. This was Ksh 0.4bn higher than in a comparable period in the previous fiscal year.

  Appropriations-in-Aid revenue of Ksh 1.1bn, Ksh 0.1bn lower than A-in-A revenue in a similar period in 2001/2002; and

- External grants of Ksh 0.7bn compared with Ksh 0.1bn in the same period in the previous fiscal year.

TABLE 17: COMPOSITION OF GOVERNMENT REVENUE (KSH BN)

	Jul-01 Ksh bn	Share %	Jul-02 Ksh bn	Share %
1. Revenue (2+3+4)	**11.8**	**99.0**	**12.9**	**94.9**
2. Tax Revenue	10.1	84.7	11.0	80.5
Income Tax	3.2	27.0	3.2	23.3
Value Added Tax	3.3	28.1	3.9	28.6
Import Duty	1.7	14.3	1.4	10.4
Excise Duty	1.8	15.4	2.5	18.2
3. Appropriations-in-Aid	1.2	9.8	1.1	8.1
4. Other Revenue	0.5	4.5	0.9	6.3
5. External Grants	**0.1**	**1.0**	**0.7**	**5.1**
TOTAL RECEIPTS (1+5)	**11.9**	**100.0**	**13.6**	**100.0**

Source: Treasury

Expenditure and Net Lending

Government expenditure and net lending increased to Ksh 17.5bn in the first month of the fiscal year 2002/2003 from Ksh 13.8bn in a similar period in 2001/2002 (Table 18). Major components of the expenditure were as follows:

- Recurrent expenditure stood at Ksh 15.7bn or 89.7% of total expenditure and was Ksh 2.9bn higher than in a similar period in 2001/2002. The expenditure comprised the following:
  - Wages and salaries payments amounting to Ksh 7.4bn, accounting for 42.3% of total government expenditure. At this level, the expenditure on wages and salaries was Ksh 1.7bn higher than expenditure in a comparable period in the previous fiscal year.
  - Ksh 3.8bn debt service payments. The payments were Ksh 0.2bn higher than in a comparable period in 2001/2002. Ksh 3.1bn or 81.6% of the debt service was in respect of domestic debt while Ksh 0.7bn was interest payment on foreign debt.
  - Other recurrent expenditures, mainly on operations and maintenance, amounting to Ksh 4.4bn. This was Ksh 0.9bn higher than in a comparable period in 2001/2002.

- Development expenditure amounting to Ksh 1.8bn or 10.2% of total expenditure. At this level, development expenditure was Ksh 0.8bn higher than in a similar period in 2001/2002.

TABLE 18: COMPOSITION OF GOVERNMENT EXPENDITURE (KSH BN)

	Jul-01 Ksh bn	Share %	Jul-02 Ksh bn	Share %
Salaries & Wages	5.7	41.2	7.4	42.6
Total Interest	3.6	25.9	3.8	22.0
Domestic*	2.3	17.0	3.1	17.8
Foreign	1.2	8.9	0.7	4.2
Development	1.0	7.3	1.8	10.2
Others	3.5	25.6	4.4	25.1
TOTAL EXPENDITURE	13.8	100.0	17.5	100.0

*Includes commission and other charges paid to CBK

Source: Treasury

Financing

Government receipts and expenditures led to a Ksh 7.9bn financing requirement in the first month of the fiscal year 2002/2003. This represented a decline of Ksh 6.5bn compared with a financing requirement of Ksh 14.4bn in a similar period in 2001/2002 (Table 19).

The Ksh 7.9bn shortfall was financed by borrowing of Ksh 6.4bn and Ksh 1.5bn from commercial banks and non-bank sources, respectively. The borrowed funds were used to:

- Make a net external repayment of Ksh 0.8bn;
- Make a net repayment of Ksh 0.4bn to the Central Bank;
- Increase government deposits with the Bank by Ksh 0.7bn; and
- Finance a Ksh 6.0bn budget deficit.

TABLE 19: GOVERNMENT FINANCING REQUIREMENTS & SOURCES (KSH BN)

I. FINANCING REQUIREMENTS	Jul-01 Ksh bn	Share %	Jul-02 Ksh bn	Share %
1. Budget deficit	5.5	38.2	6.0	76.4
2 External debt reduction	0.3	2.0	0.8	10.5
3. Domestic debt reduction	8.6	59.8	0.4	4.7
3.1 Central Bank (incl. items in transit)	7.8	54.0	0.4	4.7
3.2 Commercial banks (net of deposits)	0.8	5.8	0.0	0.0
3.3 Non-bank sources	0.0	0.0	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0	0.7	8.4
TOTAL	14.4	100.0	7.9	100.0

II. FINANCING SOURCES	Jul-01 Ksh bn	Share %	Jul-02 Ksh bn	Share %
1. Budget surplus	0.0	0.0	0.0	0.0
2 External debt increase	0.0	0.0	0.0	0.0
3. Increase in domestic debt	2.6	17.8	7.9	100.0
3.1 Central Bank	0.0	0.0	0.0	0.0
3.2 Commercial banks	0.0	0.0	6.4	81.0
3.3 Non-bank sources	2.6	17.8	1.5	19.0
4. Reduction in GoK deposits at CBK	11.9	82.2	0.0	0.0
5. Privatisation proceeds	0.0	0.0	0.0	0.0
TOTAL	14.4	100.0	7.9	100.0

Sources: Treasury & Central Bank of Kenya

Government Borrowing from the Central Bank of Kenya

The Government repaid Ksh 0.4bn to the Central Bank in the first month of fiscal year 2002/2003, compared with a repayment of Ksh 7.8bn in a similar period in 2001/2002 (Table 20). As a result, the stock of government debt due to the Central Bank fell to Ksh 44.6bn in July 2002, from Ksh 44.9bn in June 2002. The decline in government debt at the Bank was due to the following:

- A Ksh 4.9bn debt reduction in the process of being effected through government accounts;
- An increase of Ksh 4.4bn in overdraft at the Bank; and
- An increase of Ksh 0.1bn in the Bank's holdings of rediscounted securities.

TABLE 20: GOVERNMENT GROSS BORROWING FROM THE CENTRAL BANK (KSH BN)

	2002 June	2002 July	Movement
Total Government Credit (1+2+3+4+5)	44.9	44.6	-0.4
1. Overdraft	0.0	4.4	4.4
2 Rediscounted securities	0.3	0.4	0.1
Treasury bills	0.3	0.4	0.1
Treasury bonds	0.0	0.0	0.0
3. Non-interest bearing T/bills & bonds	36.9	36.9	0.0
4. IMF funds onlent to Government	2.1	2.1	0.0
5. Cleared items in transit	5.7	0.8	-4.9
Memorandum			
Authorised overdraft limit	8.8	8.8	0.0
Amount utilised to date	0.0	4.4	4.4
Amount available	8.8	4.3	-4.4

Source: Central Bank of Kenya

Public Debt

Total public debt increased by Ksh 4.8bn to Ksh 618.6bn in July 2002, from Ksh 613.8bn in June 2002. The stock of debt represented 62.9% of GDP and followed an increase of Ksh 6.1bn in domestic debt and a decline of Ksh 1.3bn in external debt (Table 21). External debt accounted for Ksh 376.5bn or 60.9% of the public debt while domestic debt represented Ksh 242.1bn or 39.1% of the debt stock.

TABLE 21: KENYA'S PUBLIC DEBT (KSH BN)

	Jun-01**	Jun-02**	Jul-02**	Change 2002/03
EXTERNAL***				
Bilateral	132.3	115.4	114.9	-0.5
Multilateral	228.5	224.7	224.2	-0.5
Commercial Banks	29.4	33.9	33.6	-0.3
Export Credit	3.8	3.8	3.8	0.0
Sub-Total	**394.0**	**377.8**	**376.5**	**-1.3**
(As a % of GDP)	46.6	41.1	38.3	-2.8
DOMESTIC				
Banks	**109.2**	**120.8**	**125.5**	**4.6**
Central Bank	47.2	42.8	42.5	-0.4
Commercial Banks	62.0	78.0	83.0	5.0
Non-banks	**93.4**	**104.4**	**106.0**	**1.6**
Non-bank Financial Inst.	3.9	2.8	3.1	0.3
Other Non-bank Sources	89.6	101.5	102.9	1.4
Non-residents	**9.2**	**10.8**	**10.6**	**-0.1**
Sub-Total	**211.8**	**236.0**	**242.1**	**6.1**
(As a % of GDP)	25.0	25.6	24.6	-1.0
GRAND TOTAL	**605.8**	**613.8**	**618.6**	**4.8**
(As a % of GDP)	71.6	66.7	62.9	-4.9

* Revised.
** Provisional.
***Includes IMF Loans.
From January 2001 domestic debt is reported on a gross basis, that is, without netting out government deposits and Treasury advances to parastatals. The debt is, however, net of shs 2,028m. IMF disbursements onlent to the Govt. by CBK and which are considered as part of external debt.
Sources: Treasury & Central Bank of Kenya

Source: Treasury & Central Bank of Kenya

Public Debt

Government domestic debt increased to Ksh 242.1bn at the end of July 2002 from Ksh 236.0bn in June 2002 (Tables 22 and 23). The following accounted for the increase of Ksh 6.1bn in domestic debt between June 2002 and July 2002:

- An increase of Ksh 6.6bn in securitised government debt; and
- A decrease of Ksh 0.5bn in non-securitised Government debt.

TABLE 22: GOVERNMENT DOMESTIC DEBT (KSH BN)

	2001				2002				
	Jan	Jun	Jul	Dec	Jan	Apr	May	Jun	Jul
Total stock of Domestic Debt (A+B)	**193.3**	**211.8**	**205.0**	**222.0**	**222.7**	**233.1**	**231.8**	**236.0**	**242.1**
A Government Securities	**183.0**	**199.3**	**200.7**	**215.5**	**219.5**	**225.8**	**227.1**	**226.8**	**233.3**
1. Treasury Bills (excluding Repo Bills)	**112.3**	**116.4**	**113.3**	**96.8**	**93.1**	**89.2**	**83.5**	**82.1**	**84.5**
Banking institutions	48.3	50.7	48.8	45.3	38.4	36.9	32.8	30.5	32.2
Others	64.0	65.8	64.4	51.5	54.7	52.3	50.8	51.5	52.3
2. Treasury Bonds	**32.4**	**44.5**	**48.1**	**80.3**	**88.0**	**98.2**	**105.2**	**106.3**	**110.4**
Banking institutions	10.3	13.1	13.2	32.8	37.7	43.5	46.9	47.1	50.7
Others	22.1	31.4	35.9	47.5	50.3	54.7	58.3	59.2	59.7
3. Long term Stocks	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
4. Non-interest bearing debt	**36.9**	**36.9**	**36.9**	**36.9**	**36.9**	**36.9**	**36.9**	**36.9**	**36.9**
Of which: Repo T/Bills	22.0	21.1	27.0	27.0	27.0	30.0	33.0	36.0	36.0
B. Others	**10.3**	**12.5**	**4.3**	**6.5**	**3.2**	**7.4**	**4.7**	**9.2**	**8.8**
Of which CBK overdraft to Government	7.4	2.9	1.5	0.0	0.0	0.0	0.5	0.0	4.4

From January 2001 domestic debt is reported on a gross basis i.e. without netting out government deposits and Treasury advances to parastatals.

Source: Central Bank of Kenya

TABLE 23: ANALYSIS OF DOMESTIC DEBT (KSH BN)

	Jun-02	Jul-02	Change
Government securities	**226.8**	**233.3**	**6.6**
Treasury Bills*	82.1	84.5	2.5
Treasury Bonds	106.3	110.4	4.1
Of which: special bonds	6.4	5.9	-0.5
Government Stock	1.5	1.5	0.0
Non-interest bearing debt	**36.9**	**36.9**	**0.0**
Others**	**9.2**	**8.8**	**-0.5**
Of which: Overdraft at the Central Bank	0.0	4.4	4.4
Total Stock of Domestic Debt	**236.0**	**242.1**	**6.1**

*** Excludes REPO Treasury bills**
**** Includes overdraft, items in transit, commercial banks advances and tax reserve certificates**

Source: Central Bank of Kenya

Treasury Bills

The outstanding stock of Treasury bills rose to Ksh 84.5bn in July 2002 from Ksh 82.1bn in June 2002. (Table 24 and Chart 13). The distribution of Treasury bills holdings was as follows:

- Banking institutions held bills worth Ksh 32.2bn or 38.1% of the stock, out of which, the Central Bank held bills worth Ksh 0.4bn, while commercial banks and Non-bank financial institutions held bills worth 30.5bn and Ksh 1.3bn, respectively.
- Other corporate investors and individuals held Ksh 52.3bn or 61.9% of the stock of bills.

Treasury Bonds

The stock of Treasury bonds increased to Ksh 110.4bn at the end July 2002 from Ksh 106.3bn in June 2002. This followed the successful issue of a four-year and one-year fixed rate bond at 13.75% and 11.75%, respectively. The Government raised Ksh 2bn and Ksh 5.2bn from the two bonds, respectively. Treasury bonds worth Ksh 3.1bn were, however, redeemed during the first month of fiscal year 2002/2003. The Ksh 110.4bn Treasury Bonds were held by various investors as follows:

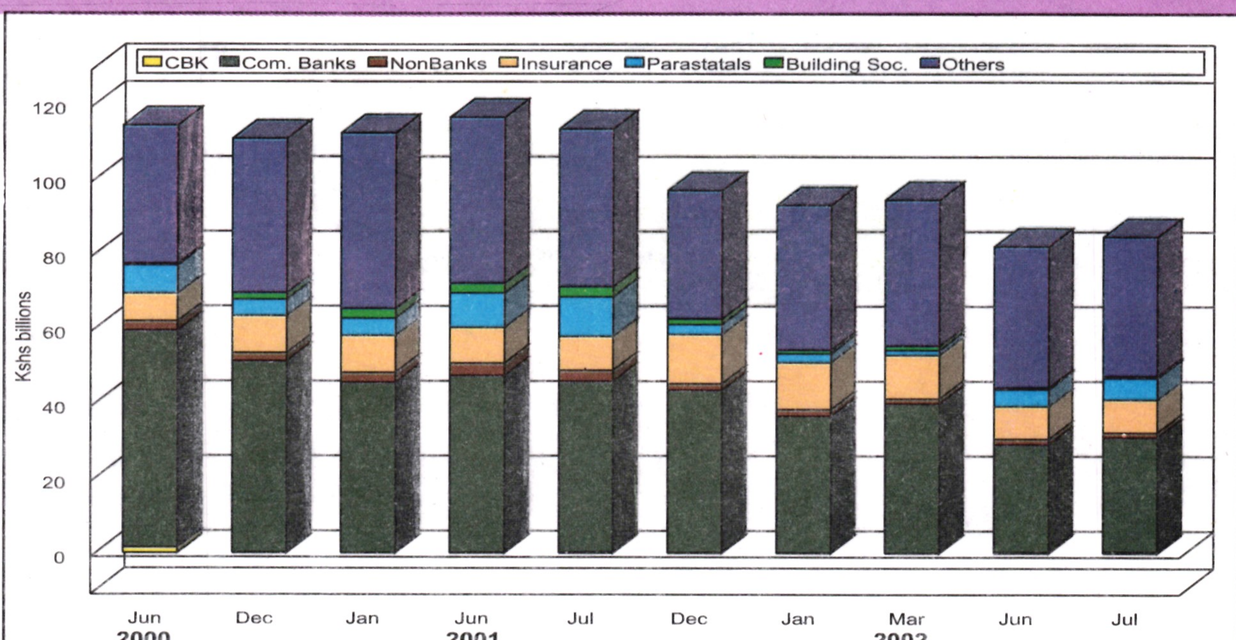
- Commercial banks held bonds worth Ksh 49.0bn;
- Non-bank financial institutions held bonds worth Ksh 1.7bn; and
- Other investors, including insurance companies, other corporate investors and individuals held bonds worth Ksh 59.7bn.

TABLE 24: OUTSTANDING TREASURY BILLS BY HOLDER (KSH BN)

			2001						2002			
Holders	**Jan**	**%**	**Jul**	**%**	**Dec**	**%**	**Jan**	**%**	**Jun**	**%**	**Jul**	**%**
Banking Institutions	48.3	43.0	48.8	43.1	45.3	46.8	38.4	41.3	30.5	37.2	32.2	38.1
Central Bank	0.0	0.0	0.3	0.3	0.2	0.2	0.1	0.1	0.3	0.3	0.4	0.4
Comm. Banks	45.6	40.6	45.6	40.2	43.3	44.7	36.5	39.2	28.7	35.0	30.5	36.1
NBFIs	2.6	2.3	2.9	2.6	1.8	1.8	1.8	1.9	1.5	1.9	1.3	1.6
Insurance Companies	9.8	8.7	9.0	8.0	13.1	13.5	12.5	13.5	8.7	10.6	8.8	10.4
Parastatals	4.7	4.2	10.7	9.4	2.7	2.7	2.4	2.6	4.6	5.6	5.8	6.8
Of which: NSSF	0.8	0.7	0.2	0.2	0.5	0.5	0.8	0.9	1.1	1.4	1.0	1.1
Building Societies	2.6	2.3	2.7	2.3	1.5	1.6	1.0	1.1	0.4	0.5	0.5	0.6
Others	46.9	41.8	42.1	37.2	34.3	35.4	38.7	41.6	37.8	46.1	37.3	44.1
Total*	**112.3**	**100.0**	**113.2**	**100.0**	**96.8**	**100.0**	**93.1**	**100.0**	**82.1**	**100.0**	**84.5**	**100.0**

* Excludes repurchase order bills

CHART 13: OUTSTANDING TREASURY BILLS BY HOLDER (KSH BN)



Source: Central Bank of Kenya

Long-Term Government Stocks

Outstanding government long-term stocks in July 2002 were Ksh 1.5bn, the same level as in June 2002. The Ksh 1.5bn outstanding government stocks were held entirely by the non-bank sector, of which the National Social Security Fund held Ksh 0.8bn.

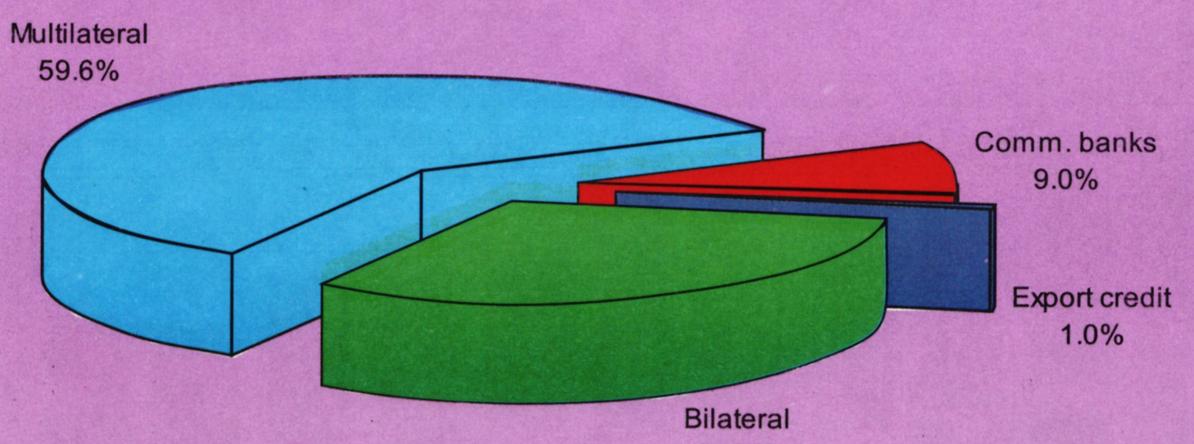
External Debt

External debt was estimated at Ksh 376.5bn, equivalent to US$ 4.8bn, at the end of July 2002. This represented a decrease of Ksh 1.3bn in the stock of external debt from the June 2002 level. The debt was equivalent to 38.3% of GDP. The Ksh 1.3bn decrease in external debt during the review period followed:

- Ksh 0.5bn loan disbursements;
- Ksh 1.6bn loan repayments; and
- Ksh 0.2bn decrease in external debt stock owing to valuation changes in the shilling exchange rate.

Multilateral debt accounted for Ksh 224.2bn or 59.6% of the external debt, while bilateral debt represented Ksh 114.9bn or 30.5% of the debt stock (Chart 14). Commercial loans and export credit amounted to Ksh 37.4bn or 9.9% of the debt.

CHART 14: EXTERNAL DEBT DISTRIBUTION



Source: Treasury

BALANCE OF PAYMENTS

There was an overall balance of payments surplus of US$ 100m in the year to July 2002 compared with a deficit of US$ 52m in the year to July 2001. The improvement was in increased capital and financial account as the **current account deficit widened** (Table 25 and Chart 15).

Current Account

The current account deficit widened to US$ 273m in the year to July 2002 from US$ 188m in the previous year. The deterioration in the current account was mainly in a decline in the services account surplus by 33.1% which more than offset a 23.7% reduction in the trade deficit. A decline in transfers inflows and increased net income payments also contributed to the reduction in the services surplus.

TABLE 25: BALANCE OF PAYMENTS (US$ m)

	Year to July 2001	Q1 Aug-Oct 2001	Q2 Nov-Jan 2001	Q3 Feb-Apr 2002	Q4 May-Jul* 2002	Year to July 2002*
OVERALL BALANCE	**-52**	**2**	**-2**	**58**	**41**	**100**
I. CURRENT ACCOUNT	**-188**	**-166**	**-97**	**-64**	**54**	**-273**
Merchandise	**-1563**	**-516**	**-268**	**-195**	**-213**	**-1192**
Exports (fob)	1909	423	472	524	532	**1952**
Coffee	120	20	13	26	18	**77**
Tea	466	90	103	115	94	**402**
Horticulture	249	43	69	74	75	**261**
Oil products	177	43	35	14	17	**109**
Other	897	229	252	293	328	**1102**
Imports (cif)	3472	939	740	719	745	**3144**
Oil	874	176	123	155	180	**634**
Chemicals	462	120	128	116	131	**495**
Manufactured goods	420	113	93	94	109	**409**
Machinery & transport equipment	757	253	196	201	157	**808**
Other	960	278	200	153	168	**798**
Services	**1375**	**350**	**171**	**132**	**267**	**919**
Non-factor services (net)	612	190	88	85	193	**556**
Of which: tourism receipts	292	79	68	68	64	**279**
Income (net)	-125	-33	-43	-40	-31	**-147**
Of which: official interest income	-122	-27	-29	-39	-31	**-127**
Current Transfers	888	193	126	87	105	**510**
Private (net)	746	171	105	70	88	**435**
Public (net)	142	22	20	17	16	**75**
II. CAPITAL & FINANCIAL ACCOUNT	**137**	**168**	**95**	**122**	**-12**	**373**
Capital Tranfers (net)	**62**	**17**	**18**	**20**	**17**	**72**
Financial Account	**75**	**151**	**77**	**102**	**-29**	**301**
Official, medium- & long-term	-219	-102	-10	-46	7	**-151**
Inflows	285	41	46	53	45	**184**
Outflows	-504	-142	-56	-99	-38	**-335**
Private, medium- & long-term (net)	93	43	36	-76	-45	**-42**
Commercial banks (net)**	-39	36	17	-41	-51	**-38**
Other private, medium- & long-term (net)	132	7	19	-35	6	**-4**
Short term and errors & ommissions (net)	113	209	51	225	9	**495**
Gross Reserves	**1463**	**1431**	**1442**	**1510**	**1588**	**1588**
Official***	981	1021	1035	1087	1112	**1112**
	(3.2)	(3.3)	(3.4)	(3.8)	(3.9)	**(3.9)**
Commercial Banks	482	410	406	423	476	**476**

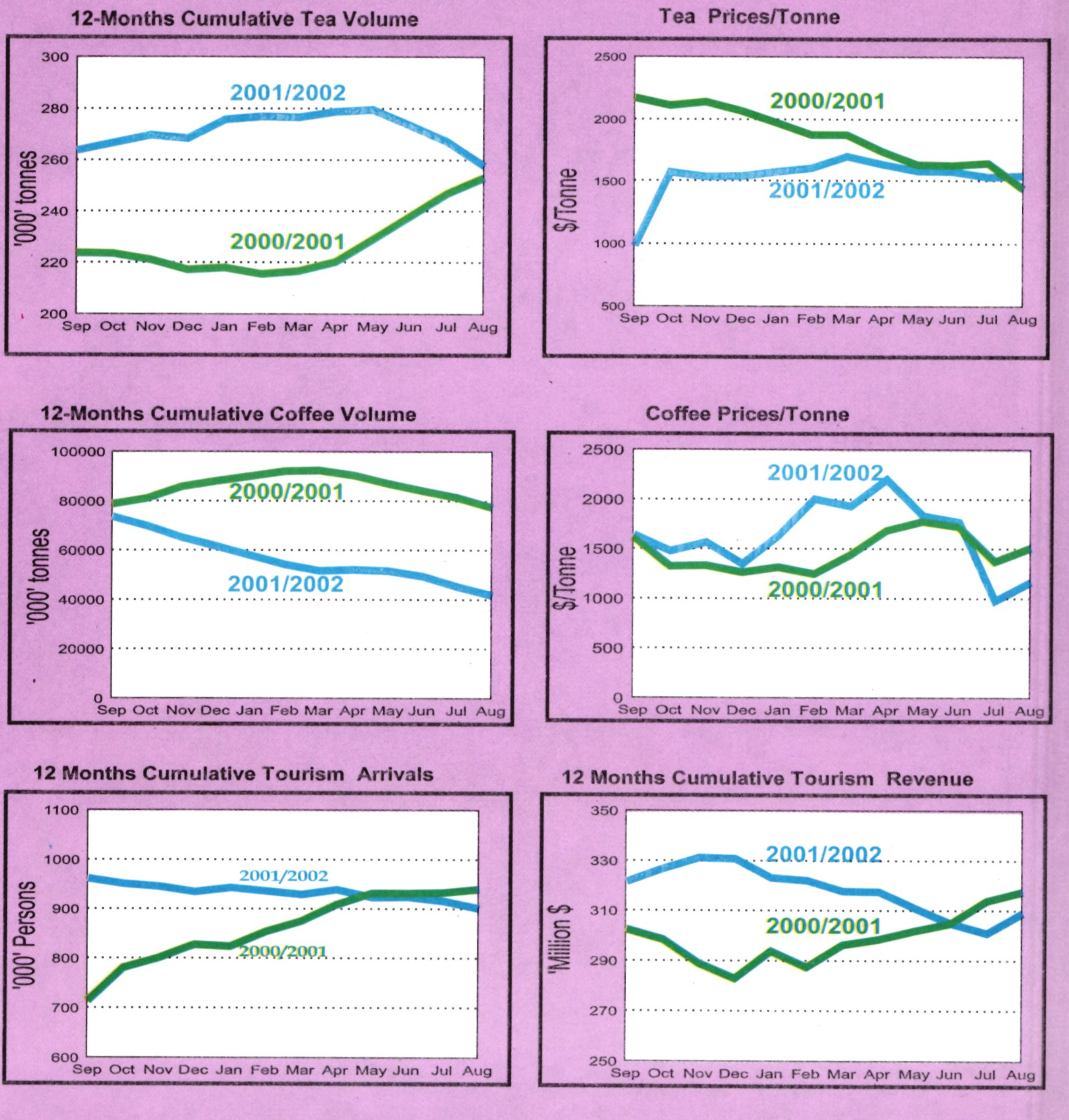
* Provisional.
** An increase in an asset is denoted by a negative sign.
*** Figures in parentheses refer to official reserves in months of imports of goods and non-factor services.

Source: Central Bank of Kenya

(a) Merchandise

The merchandise account deficit narrowed to US$ 1,192m in the year to July 2002 from US$ 1,563m in the year to July 2001. This was mainly due to a decline in imports by US$ 328m and a growth of US$ 43m in export earnings. All categories of imports, except chemicals and machinery and transport equipment, fell. The increase in the export earnings was attributed to a rise in receipts from horticulture and non-traditional exports. Receipts from traditional exports, particularly tea and coffee however declined following reduced export volumes and prices.

CHART 15: TRENDS IN PRICES & VOLUMES OF MAJOR EXPORTS



Source: Central Bank of Kenya, Central Bureau of Statistics, Coffee Board of Kenya, and Africa Tea Brokers

(b) Services

The surplus in the services account declined to US$ 919m in the year to July 2002 from US$ 1,375m in the year to July 2001. The decline in the services account surplus was caused by a reduction in grants inflows to both the private and public sectors by US$ 378m and an increase in net income payments by US$ 22m.

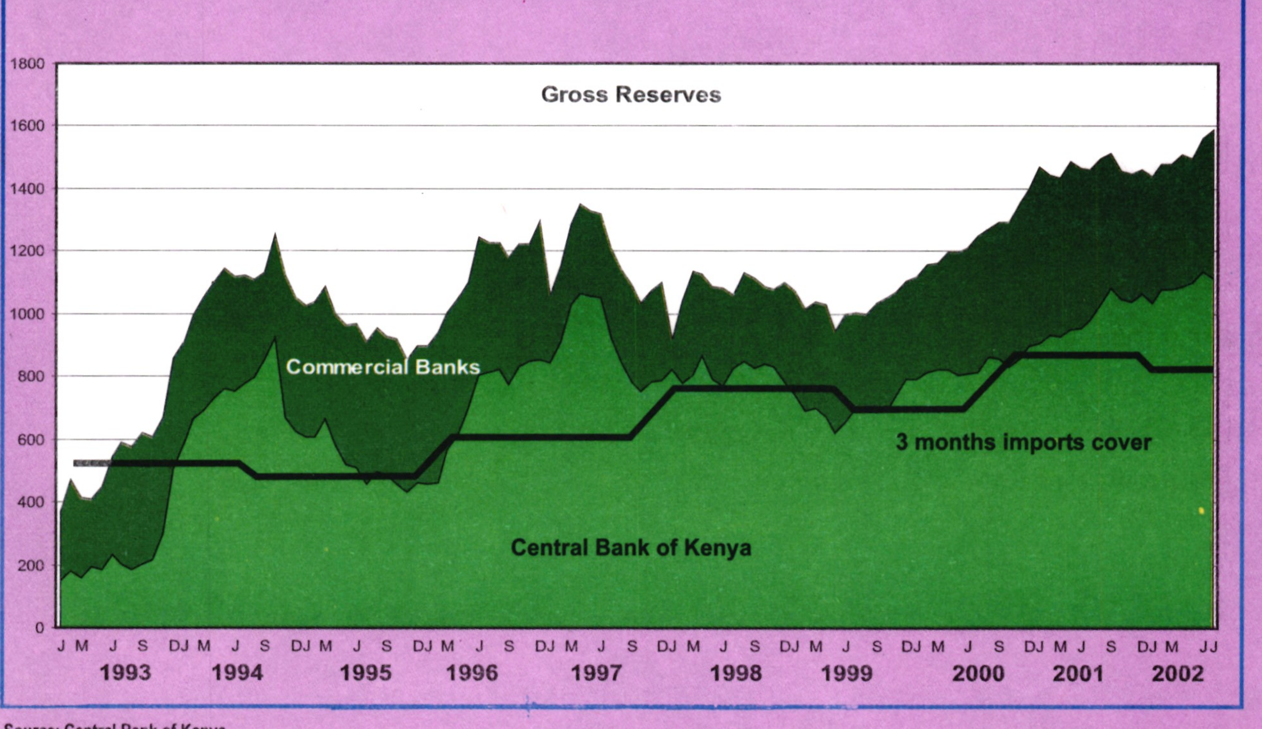
Capital and Financial Account

The capital and financial account surplus increased to US$ 373m in the year to July 2002 from US$ 137m in a similar period of the previous year. This was mainly due to a decline in official outflows from US$ 504m to US$ 335m and an increase to US$ 495m in short-term capital inflows (including errors and omissions) from US$ 113m. Private medium and long-term capital flows however worsened, recording a net outflow of US$ 42m in the year to July 2002 compared to a net inflow of US$ 93m in the previous year.

Foreign Exchange Reserves

Following the improvement in the overall balance of payments, official foreign exchange reserves increased to US$ 1,112m, equivalent to 3.9 months of imports of goods and non-factor services at end of July 2002 compared with US$ 981m or 3.2 months of import cover in July 2001 (Chart 16). Foreign exchange reserves of commercial banks, however, declined from US$ 482m at end of July 2001 to US$ 476m at the end of July 2002. Foreign exchange reserves held by the banking system therefore stood at US$ 1,588m at the end of July 2002 compared with US$ 1,463m at the end of July 2001.

CHART 16: FOREIGN EXCHANGE RESERVES (US$ m)



Source: Central Bank of Kenya

Stock Market

Trading in the Nairobi Stock Exchange (NSE) was mixed in August 2002 compared with July 2002. Turnover improved in the bonds market but declined in the equities market.

Equities Market

Trading at the equities market declined in August 2002 compared with July 2002 as follows:

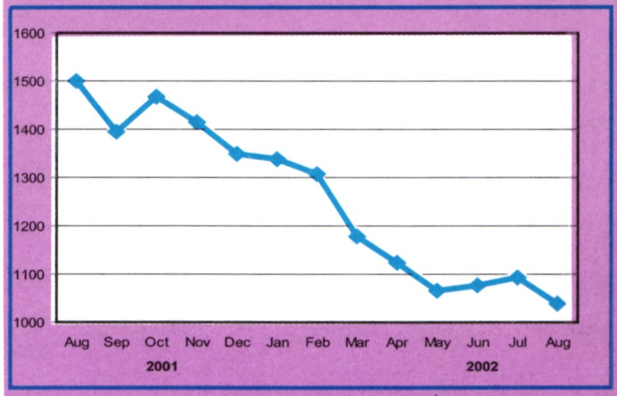
- The NSE share index declined by 5.0% to close at 1043.38 from 1097.73 in July 2002 (Chart 17);
- Market capitalization decreased by 3.3% to Ksh 85.4bn from Ksh 88.3bn in July;
- Total outstanding shares declined by 1.5% to 4.3bn from 4.4bn resulting in an average value per transaction of Ksh 10,899 from Ksh 121,417 in July after the Ksh. Value of shares traded declined by 11.2%, from Ksh 257m in July to Ksh 228m.

Consequently, the ratio of the value of shares traded to market capitalization declined to 0.27% from 0.29% in July.

Foreign Investors Board

Turnover at the Foreign Investors Board declined to Ksh 30.9m in August 2002 from Ksh 54.5m in July. The decline comprised Ksh 20.8m foreign capital outflows and Ksh 10.1m foreign capital inflows.

CHART 17: NSE 20 SHARE INDEX (1966=100)



Source: Nairobi Stock Exchange

The Bond Market

Secondary trading in the bonds market stabilised in August 2002 with turnover increasing by 0.91% to Ksh 3.53bn from Ksh 3.50bn in July. The turnover in August 2002 largely reflected trading in Treasury bonds, which accounted for Ksh 3.3bn. Corporate bonds traded Ksh 0.18bn. The average yield on bonds traded in August 2002 declined to 11.27%. The decline reflected the fall in the 91 days Treasury bill.

Real Sector

Introduction

The modest economic recovery, which began in 2001, continued into the first half of 2002. Real GDP is estimated to have grown at an annualised rate of 0.6% during this period (Table 26 and Chart 18). This growth was largely supported by improved activity in agriculture, manufacturing and services sectors. However, the recovery remains weak with the other sectors of the economy still depressed.

TABLE 26: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

MAIN SECTORS	Share in Real GDP in 2001 (%)	Annualised Estimates June 2001/[1]	June 2002/[2]
Agriculture	**24.1**	24,951	25,070
Manufacturing	**13.0**	13,550	13,600
Trade, Tourism & Hotels	**2.4**	13,199	13,225
Financial Services	**12.7**	10,925	11,001
Building & Construction	**6.2**	2,462	2,452
Transport & Communications	**10.6**	6,358	6,501
Government	**14.7**	15,231	15,318
Others of which	**16.3**	17,116	17,230
Non-monetary Sector	5.7	*5,841*	*5,895*
Domestic Services	2.9	*3,035*	*3,053*
Ownership of Dwellings	5.7	*5,946*	*6,037*
Other	*2.0*	*2,295*	*2,246*
Est. Real GDP (1982 Prices)	**100.0**	**103,792**	**104,397**
Nominal GDP (at Factor cost)	**772,893**		
Overall GDP Deflator	**7.4**		
GDP at Mkt Prices	**895,278**		
MAIN SECTORS		**Annual Percentage Change**	
Agriculture		0.4	0.5
Manufacturing		0.1	0.4
Trade, Tourism & Hotels		0.6	0.2
Financial Services		0.8	0.7
Building & Construction		-1.3	-0.4
Transport & Communications		2.8	2.3
Government		0.6	0.6
Others		0.6	0.7
Non-monetary Sector		*0.6*	*0.9*
Domestic Services		*1.0*	*0.6*
Ownership of Dwellings		*1.0*	*1.5*
Other		*-2.0*	*-2.1*
Est. Real GDP Growth		**0.5**	**0.6**

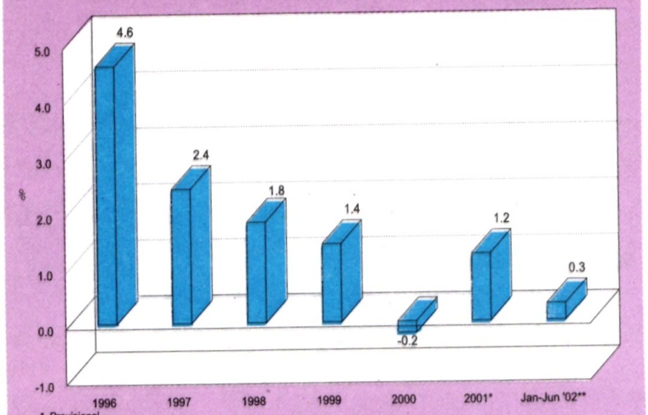
Notes

1 *From the Economic Survey, 2002.*

2 *Based on selected economic activities.*

Sources: Central Bureau of Statistics and Central Bank of Kenya

CHART 18: REAL GDP GROWTH RATES, 1996 - JUNE 2002



* Provisional
** Estimates
Sources: Economic Survey and Central Bank of Kenya

Performance by Sector

Agriculture

The performance of agriculture was mixed during the first half of 2002 (Table 27). Among the cash crops, horticultural produce increased by 5.1% during the period compared with 3.4% increase in a similar period of 2001 while sugar cane output increased by 24.0% compared with 24.8% decline. Output of tea, pyrethrum and sisal, however, declined by 7.5%, 29.7% and 2.3%, respectively, during the period compared with 42.6%, 88.3% and 5.4% increases in a similar period in 2001. Coffee production declined further by 15.4% in the first half of 2002 compared with a decline of 38.6% in the same period of 2001.

TABLE 27: GROWTH IN OUPUT OF KEY CROPS (%)

Crop	2000	Jan - Jun 2001	Jan - Jun 2002
Tea	-5.0	42.6	-7.5
Horticulture	0.2	3.4	5.1
Coffee	52.4	-38.6	-15.4
Sugar cane	-10.7	-24.8	24.0
Pyrethrum	-5.0	88.3	-29.7
Sisal	-2.3	5.4	-2.3

Sources: Central Bureau of Statistics, Pyrethrum Board of Kenya, Kenya Sugar Authority, Sisal Board of Kenya and HCDA

The production of crops and livestock is expected to increase during the year following improved weather conditions.

Manufacturing

The performance of the manufacturing sector continued to improve during the first half of 2002 as reflected by the following developments:

- Electricity consumption, a major industrial input, increased by 2.3% between January and June 2002 compared with a decline of 4.8% in a similar period of 2001.
- Manufactured exports increased by 10.4% during the first five months of 2002 compared with 6.9% increase in the first five months of 2001. The improved performance was partly in exports of textiles and fabrics, which increased by 209.3% in the period compared with a decline of 11.9% in the first five months of 2001. The increase was as a result of access to the United States market through the African Growth and Opportunities Act (AGOA).
- Imports of goods used in the sector, particularly chemicals and related products, and machinery and transport equipment increased by 9.7% and 14.4% respectively in the first five months of 2002 compared with an increase of 8.4% and 37.6% in a similar period of 2001.

The production of some selected manufactured items is shown in Table 28 below. Production of cement, soda ash, galvanised sheets, mineral water and processed sugar increased by 2.1%, 2.2%, 6.0%, 14.1% and 23.1% during the first half of

2002 while assembled motor vehicles declined by 20.2% due to strong competition from the relatively cheap imported second hand vehicles.

TABLE 28: PRODUCTION OF SELECTED MANUFACTURES (%)

Item	January - May 2001	2002
Galvanised sheets (MT)	2.6	6.0
Mineral water ('000 litres)	8.4	14.1
Soda ash (MT)	27.5	2.2
Cement (MT)	13.3	2.1
Assembled vehicles (units)	-14.4	-20.2
Processed Sugar (MT)	-26.4	23.1

Source: Central Bureau of Statistics and Kenya Sugar Authority

The recovery in the sector is expected to benefit from the favourable tax measures introduced in the Budget for fiscal year 2002/03, particularly the removal of duty on capital equipment and other raw materials. The increased accessibility not only to the wider regional markets in EAC and COMESA, but also to the United States market is also expected to strengthen the performance of the manufacturing sector.

Building and Construction

Activity in the building and construction sector remained depressed through the first half of 2002. Cement consumption, the main input in the sector, declined by 5.1% in the first half of 2002 compared with a 29.1% decline in a similar period in 2001. The value of building plans approved by the Nairobi City Council also declined by 39.4% in the first half of 2002 compared with a decline of 8.6% in a similar period of 2001. The depressed activity in the sector, partly reflects the limited construction projects undertaken by the government due to budgetary constraints, and the slow pace of economic recovery.

Transport, Storage and Communications

Activity in the sector, as shown in Table 29, slowed down during the first half of 2002 as follows:

- Cargo handled through the Port of Mombasa (KPA) decreased by 3.3% compared with 33.5% growth in a similar period in 2001.
- Cargo carried by the Kenya Railways Corporation (KR) declined by 2.4% during the first half of 2002 compared with 8.0% decline during the first half of 2001.
- Passengers through Jomo Kenyatta International Airport (JKIA) declined by 3.4% during the first five months of 2002 compared with an increase of 30.1% in the first five months of 2001.
- Throughput by Kenya Pipeline Company (KPC) declined by 6.6% in the first half of 2002 compared with 7.9% increase in the first half of 2001. However, the consumption of petroleum products increased by 4.6% in the first half of 2002 compared with a decline of 0.9% in the first half of 2001.

Trade, Restaurants and Hotels

Performance in the tourism sub-sector slumped in the first half of 2002 following deterioration in the global economic and political environment. Visitors arriving at JKIA declined by 18.2% compared with 18.5% increase in the same period in 2001, while those arriving at Moi International

TABLE 29: PERFORMANCE IN MAJOR SUB-SECTORS (%)

	Jan - Jun	
	2001	2002
Cargo by KPA (MT)	33.5	-3.3
Cargo by KR (MT)	-8.0	-2.4
Passengers thro JKIA	30.1	-3.4
Throughput by KPC	7.9	-6.6
Consumption of fuels	-0.9	4.6

Source: Central Bureau of Statistics, Kenya Ports Authority, Kenya Railways and Kenya Pipeline Company

Airport, Mombasa also declined by 9.6% in the first half of 2002. Consequently, earnings in the sector declined by 21.6% in the first half of 2002 compared with 24.9% increase in a similar period in 2001.

Financial Services

Pre-tax profits, of banking institutions, for the seven months ending July 2002 decreased by 7.9% to Ksh 6,010m from Ksh 6,527m in a similar period in 2001. The main reason for the drop in profitability was the decline in interest income on advances as well as increased bad debt charges. In the same period, non-performing loans (NPLs) were estimated at Ksh 73.1bn or 29.6% of total loans compared with Ksh 78.6bn or 31.0% of total loans in July 2001.

Government Services

Public investment in growth promoting activities such as maintenance and building of physical infrastructure remained depressed in the first half of 2002 due to budgetary constraints largely related to the delay in the resumption of external financial assistance by development partners.

Outlook in 2002

The economy is expected to stay on the recovery path throughout the year. This expectation is based on the agricultural and manufacturing sectors continuing to perform relatively well. The prospects for stronger growth will, however, continue to be remote due to the poor state of physical infrastructure, low investor confidence, delay in donor finance and concerns arising from the forthcoming general elections.

Balance Sheet of the Central Bank of Kenya

(Amounts in Ksh Millions)

	July 2001	July 2002	Movement
ASSETS	**143,664**	**163,909**	**20,245**
Foreign Exchange	76,203	86,334	10,131
Advances and Discounts to Banks	568	11,124	10,556
Investment in Government Securities	1,672	1,674	2
Government Accounts	41,051	44,190	3,139
Overdraft to Government of Kenya	1,515	4,425	2,910
Clearing Account	651	763	112
IMF funds onlent to Government	1,968	2,085	117
Non-interest Bearing Government Debt	36,917	36,917	0
Debtors	2,905	1,830	-1,075
Retirement Benefits	289	287	-2
Property and Equipment	616	828	212
Other Assets	20,360	17,642	-2,718
Revaluation Account	18,642	17,642	-1,000
Times Tower	1,718	-	-1,718
LIABILITIES	**143,664**	**163,909**	**20,245**
Currency in Circulation	47,539	51,936	4,397
Repo Securities	19,270	24,870	5,600
Deposits	69,161	74,827	5,666
Government of Kenya	26,498	25,539	-959
Commercial Banks			
Kenya	22,976	30,680	7,704
External	16	23	7
Non -bank Financial Institutions	680	433	-247
IMF	10,797	9,607	-1,190
Other Public Entities and Project A/Cs	8,194	8,545	351
Other Liabilities and Provisions	563	577	14
Capital and Reserves	7,131	11,699	4,568
Capital	1,500	1,500	0
General Reserve Fund	5,538	9,043	3,505
Period's Surplus	93	1,156	1,063

Source: Central Bank of Kenya

Notes on the Balance Sheet

The following changes occurred in items of the balance sheet of the Central Bank between July 2001 and July 2002:

Assets

Foreign exchange increased by Ksh 10,131m to Ksh 86,334m from Ksh 76,203m mainly due to purchase of foreign exchange from the interbank market.

Advances and discounts to commercial banks increased by Ksh 10,556m to Ksh 11,124m.

Government accounts increased by Ksh 3,139m to Ksh 44,190m in July 2002, mainly on account of Ksh 2,910m increase in the overdraft to Government of Kenya.

Other assets, comprising revaluation account and Times Tower, decreased by Ksh 2,718m to Ksh 17,642m.

Liabilities

Currency in circulation increased by Ksh 4,397m to Ksh 51,936m from Ksh 47,539m.

The stock of **repo securities** increased by Ksh 5,600m to Ksh 24,870m.

Deposits increased by Ksh 5,666m to Ksh 74,827m due to an increase in deposits of commercial banks by Ksh 7,704m. This was, however, partially offset by a decline in the deposits of IMF and Government of Kenya by Ksh 1,190m and Ksh 959m, respectively.

Other liabilities and provisions increased by Ksh 14m to Ksh 577m.

Capital and reserves increased by Ksh 4,568m to Ksh 11,699m in the year to July 2002 due to Ksh 3,505m increase in the general reserve fund and Ksh 1,063m increase in the period's surplus.


17
JUKI


KPA
CAILLARD