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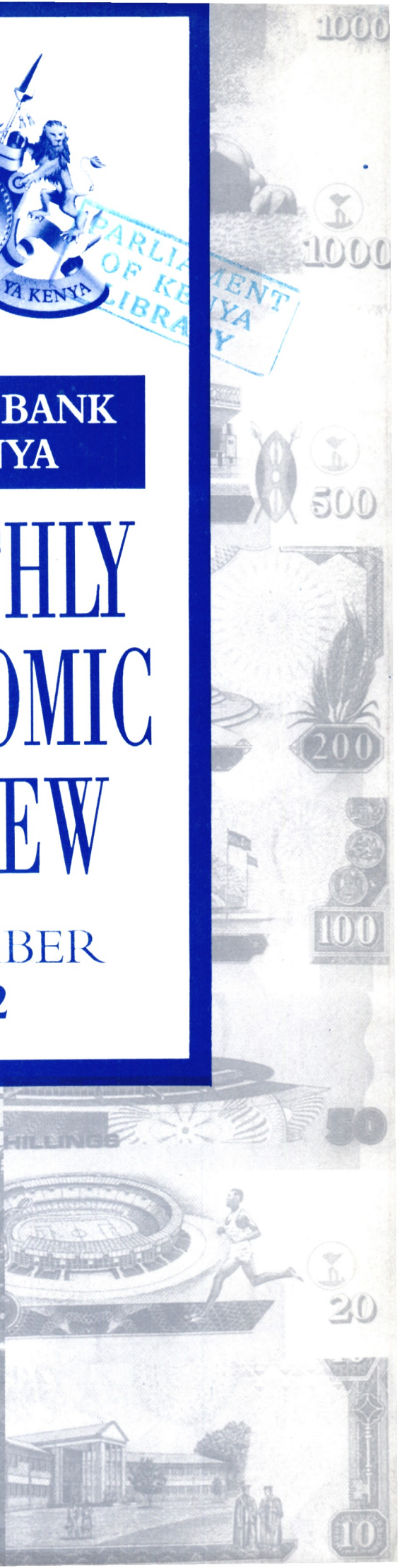
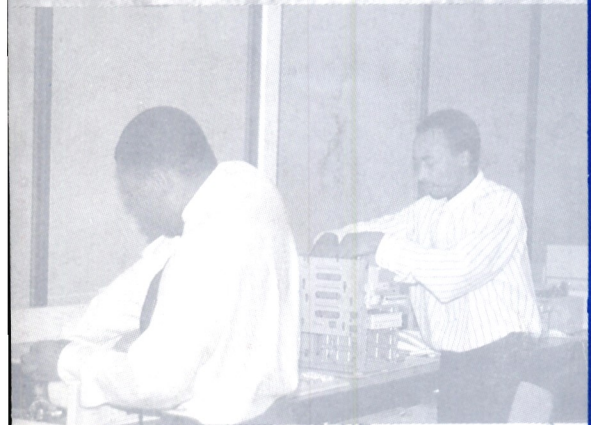
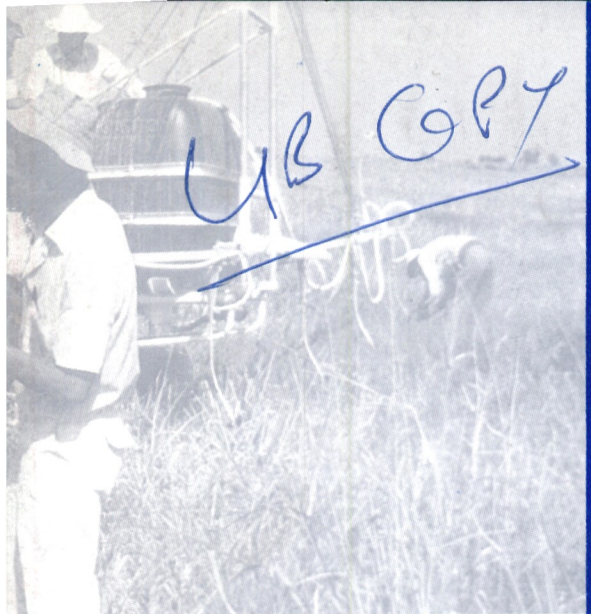


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CENTRAL BANK OF KENYA

MONTHLY ECONOMIC REVIEW

NOVEMBER 2002



330
CBK

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 NATIONAL ASSEMBLY

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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

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HIGHLIGHTS OF THE NOVEMBER ECONOMIC REVIEW

It is estimated that **real GDP** grew at an annualized rate of 0.7% in the first eight months of 2002 compared with 0.8% in a similar period of 2001. The 12-month underlying **inflation** rose slightly to 1.5% in October from 1.4% in September 2002. The overall 12-month inflation also increased marginally to 1.9% in October from 1.8% in September 2002.

Interest rate for the 91-day Treasury bills increased to 8.1% in October 2002 from 7.6% in September. **Money supply**, M3X, increased by 8.4% in the year to September 2002 compared with 3.0% increase over a similar period in 2001. The increase was attributed to increases in both net foreign assets and net domestic assets of the banking system.

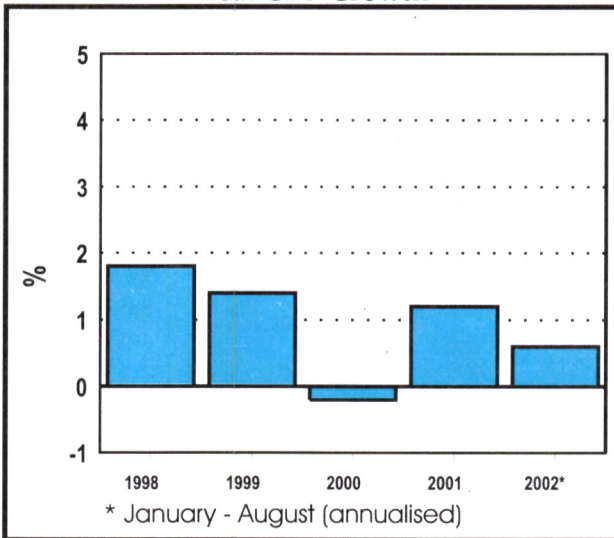
Assets of the **banking sector** increased by Ksh 26.2bn or 6.2% to Ksh 451.3bn at the end of September 2002 from Ksh 425.1bn at the end of September 2001. Non-performing loans (NPLs), net of interest in suspense, were estimated at Ksh 72.5bn or 28.9% of total loans in September 2002, compared with Ksh 82.3bn or 32.7% in September 2001. Provisions for the NPLs declined from Ksh 32.4bn in September 2001 to Ksh 31.3bn in September 2002. Adjusted for the provisions and the value of securities held by the banking sector estimated at Ksh 44.9bn, the banks were covered in excess of Ksh 1.1bn.

Government fiscal operations during the first quarter of fiscal year 2002/03 resulted in a deficit, on a commitment basis, of Ksh 10.4bn or 1.1% of GDP compared with a deficit of Ksh 3.0bn in a similar period in the previous fiscal year. The stock of public debt increased to Ksh 626.2bn in September 2002 from Ksh 613.8bn in June 2002. The increase was entirely in domestic debt as external debt declined.

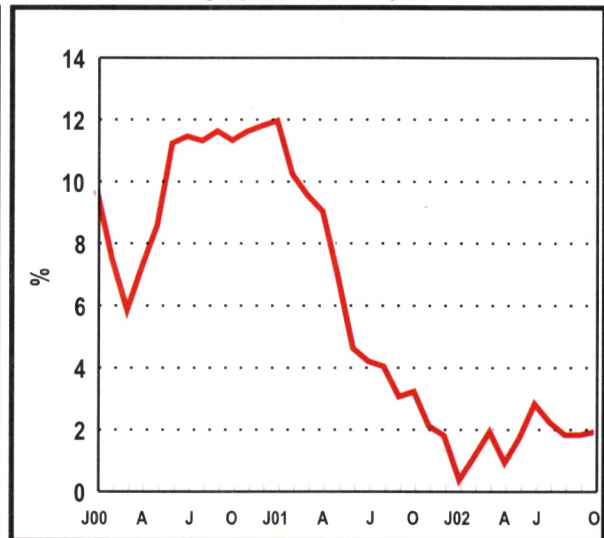
The **Kenya shilling** marginally lost to the US dollar in October 2002 to exchange at Ksh 79.3 compared with Ksh 78.8 in September 2002. The **balance of payments** strengthened to a US\$ 93m surplus in the year to September 2002 from a US\$ 1m surplus over similar period in 2001. The Central Bank **foreign exchange reserves** consequently increased to US\$ 1,119m or 3.4 months of imports cover at the end of September 2002 from US\$ 1,054m at the end of September 2001.

SELECTED PERFORMANCE INDICATORS

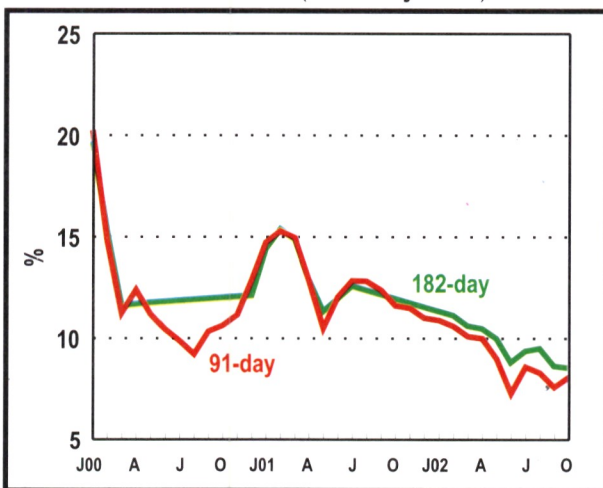
Real GDP Growth



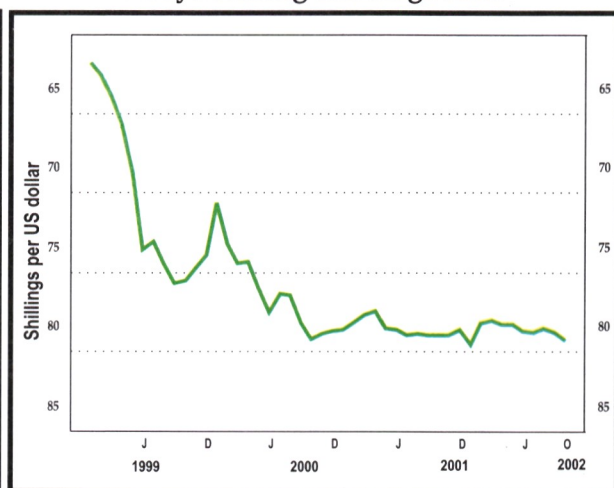
Overall Inflation



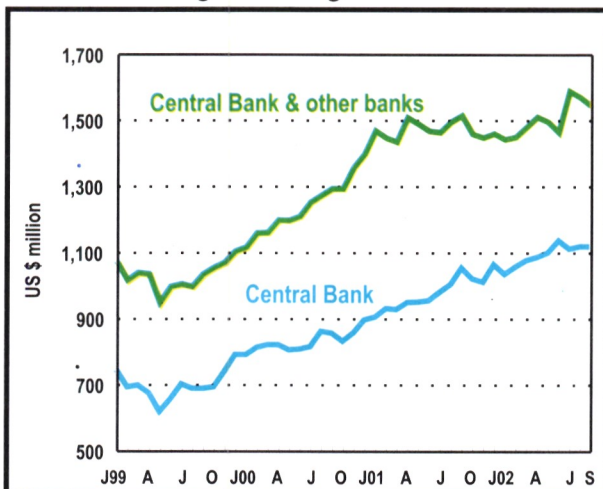
Interest Rate (Treasury Bills)



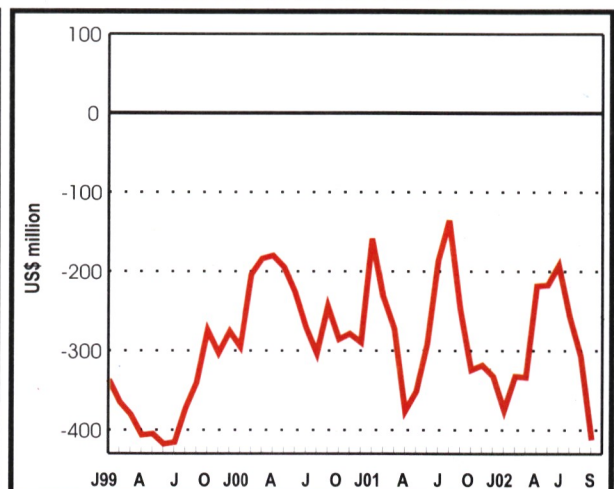
Kenya Shilling Exchange Rate



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)	327	325	322	314	311
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 (URBAN)					
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	25.0
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

INDICATOR	2001				2002					
	Dec	Jan	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct*
1. INFLATION (%)										
Overall (Urban)										
12-month	1.8	0.4	1.9	0.9	1.7	2.8	2.2	1.8	1.8	1.9
Average annual	5.8	4.8	3.5	2.8	2.4	2.3	2.1	1.9	1.8	1.7
Underlying (overall excluding food)										
12-month	5.1	3.0	3.4	3.4	3.5	2.9	2.0	1.5	1.4	1.5
Average annual	6.7	6.2	5.5	5.2	5.0	4.6	4.3	3.9	3.4	3.0
2. INTEREST RATES (%)										
91-day Treasury bill	11.0	10.9	10.1	10.0	9.0	7.3	8.6	8.3	7.6	8.1
Overdraft	20.0	19.3	18.8	18.9	18.7	18.5	18.3	18.6	18.5	18.9
3. STOCK MARKET										
Nairobi Stock Exchange Price Index	1355.1	1343.0	1183.1	1129.3	1071.1	1082.6	1097.7	1043.4	1043.4	1116.4
Trade Turnover (%)	0.17	0.15	0.21	0.23	0.23	0.19	0.29	0.27	0.36	0.36
4. GOVERNMENT BUDGET** (Ksh bn.)										
Revenue and Grants	93.8	110.5	142.3	161.6	181.0	203.3	13.6	30.1	48.5	..
Expenditure:	102.2	122.4	157.6	178.3	199.2	225.6	17.5	39.8	58.9	..
Budget Deficit (-) / Surplus (+)	-8.4	-12.0	-15.3	-16.7	-18.1	-22.3	-3.8	-9.7	-10.4	..
5. MONEY AND CREDIT (Ksh bn.)										
Money Supply (MBXT)	462.1	460.2	466.4	473.1	477.2	483.9	487.9	499.1	502.8	..
Money Supply (MBX)	368.4	360.6	366.1	371.4	373.2	378.3	381.2	389.8	387.4	..
Reserve Money	79.1	73.6	75.8	75.3	76.6	76.9	83.0	77.6	78.6	..
Total Domestic Credit	334.0	325.8	329.5	342.6	338.8	341.8	345.4	355.0	350.7	..
Government	89.1	84.2	88.6	97.9	94.7	94.7	100.4	102.2	98.1	..
Private Sector	244.9	241.7	240.8	244.8	244.1	247.2	245.0	252.8	252.6	..
6. MONEY AND CREDIT (Annual %Change)										
Money Supply (MBXT)	6.1	4.3	5.7	6.3	7.5	8.4	8.6	11.6	11.4	..
Money Supply (MBX)	2.3	0.0	2.1	2.0	4.8	6.7	7.6	10.9	8.4	..
Reserve Money	1.8	3.4	8.2	2.5	8.0	10.9	16.7	5.0	12.6	..
Total Domestic Credit	0.8	-1.2	-0.6	1.3	3.5	5.4	5.5	8.6	6.2	..
Government	16.5	14.9	16.7	16.3	32.9	37.9	40.2	37.2	27.9	..
Private Sector	-3.9	-5.9	-5.7	-3.7	-4.6	-3.4	-4.2	0.1	-0.4	..
7. BALANCE OF PAYMENTS (US\$ m)										
Overall Balance	42	-24	25	14	25	43	5	11	5	..
Current Account Balance	-11	-51	-67	2	26	73	-69	-55	-69	..
Trade Balance	-83	-83	-119	-44	-69	-45	-159	-135	-159	..
Capital and Financial Account	53	27	91	12	-1	-30	74	66	74	..
8. FOREIGN EXCHANGE RESERVES (US \$ m)	1459	1442	1479	1511	1495	1463	1588	1570	1545	..
Official***	1064	1035	1077	1087	1100	1137	1110	1119	1119	..
Months of imports	(3.2)	(3.1)	(3.4)	(3.2)	(3.3)	(3.5)	(3.4)	(3.4)	(3.4)	..
Commercial banks	395	406	402	423	395	482	476	451	426	..
9. PUBLIC DEBT (US\$ bn)	7.7	7.7	7.8	7.8	7.8	7.8	7.9	7.9	8.0	..
Domestic	2.8	2.8	2.9	3.0	3.0	3.0	3.1	3.1	3.2	3.2
As % of GDP	23.9	24.2	24.9	25.3	25.2	25.6	24.6	25.1	25.5	25.5
External	4.9	4.9	4.9	4.8	4.8	4.8	4.8	4.8	4.8	..
As % of GDP	41.8	41.5	41.3	41.1	41.1	41.1	38.3	38.3	38.1	..
10. GROSS DOMESTIC DEBT (Ksh bn)****	220.0	222.7	229.2	233.1	231.8	236.0	242.1	247.2	250.8	251.2
11. AVERAGE EXCHANGE RATE										
Ksh/US\$	78.7	78.6	78.1	78.3	78.3	78.7	78.8	78.6	78.8	79.3
Ksh/Pound Sterling	113.2	112.8	111.1	112.9	114.4	116.6	122.6	120.8	122.5	123.6
Ksh/ 100 Yen	61.9	59.3	59.5	59.6	61.9	63.7	66.7	66.0	65.2	64.0
Ksh/Euro	70.2	69.5	68.4	69.3	71.8	75.1	78.3	76.9	77.3	77.8

* 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 was sustained at below 2% in the three months to October 2002. The low and stable inflation environment was largely due to the continued prudent monetary policy and the stability in the shilling exchange rate. The relatively stable prices of basic food items also reduced inflationary pressure.

Overall Inflation

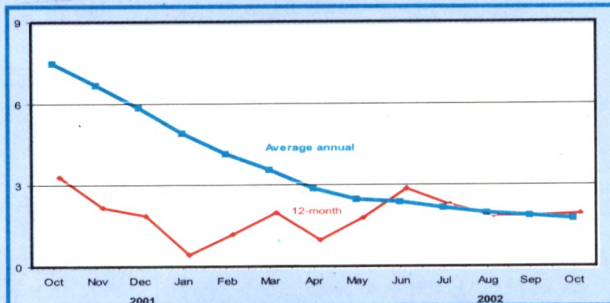
In October 2002, the overall inflation remained nearly at the same level as in September (Table 1 and Chart 1):

- The overall 12-month inflation was 1.9% compared with 1.8% in September 2002.
- The overall average annual inflation eased to 1.7% in October 2002 from 1.8% in September.

TABLE 1: OVERALL INFLATION (%)

	2001					2002					
	Jan	Mar	Jun	Sep	Oct	Dec	Jan	Mar	Jun	Sep	Oct
12-month ¹	12.0	9.5	4.6	3.1	3.2	1.8	0.4	1.9	2.8	1.8	1.9
Average annual ²	10.2	10.4	10.1	8.1	7.4	5.8	4.8	3.5	2.3	1.8	1.7
Changes over one month	0.9	-0.6	0.2	-0.3	0.2	-0.2	-0.5	0.2	1.2	-0.3	0.2
Changes over 3 months	1.9	-0.3	2.3	0.1	0.1	-0.3	-0.9	-0.2	3.4	-1.0	-0.2

CHART 1



Sources: Central Bureau of Statistics & Central Bank of Kenya

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

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

- The overall inflation increased by 0.2% in October 2002, compared with a decline of 0.3% in September 2002.

Underlying Inflation

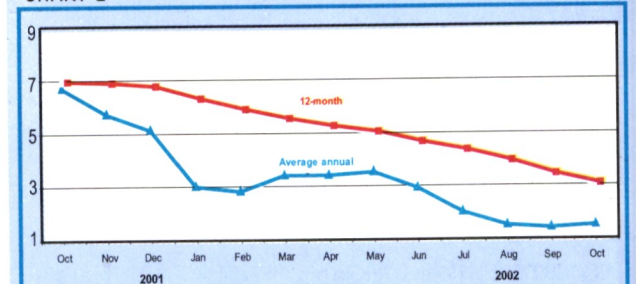
Developments in underlying inflation which excludes the impact of food prices is as shown in Table 2 and Chart 2:

- The underlying 12-month inflation increased slightly to 1.5% in October 2002 from 1.4% in September.
- The underlying average annual inflation, however, declined to 3.0% from 3.4% over the period.
- Between September and October 2002, the underlying inflation increased by 0.2%, same as between August and September 2002.

TABLE 2: UNDERLYING INFLATION (%)

	2001					2002					
	Jan	Mar	Jun	Sep	Oct	Dec	Jan	Mar	Jun	Sep	Oct
12-month	8.3	7.5	6.7	6.5	6.6	5.1	3.0	3.4	2.9	1.4	1.5
Average annual	6.8	7.1	7.1	6.8	6.9	6.7	6.2	5.5	4.6	3.4	3.0
Changes over one month	1.5	-0.1	0.6	0.3	0.1	0.2	-0.5	0.5	0.0	0.2	0.2
Changes over 3 months	3.0	1.5	1.6	1.8	0.9	0.1	-0.6	-0.1	1.2	0.3	0.4

CHART 2



Sources: Central Bureau of Statistics & Central Bank of Kenya

Inflation by Income Groups

Inflation in goods and services purchased by the various income groups was as follows (Table 3 and Chart 3):

- The 12-month inflation in goods and services purchased by the Nairobi lower income group, increased to 2.1% from 1.6% in September.
- The 12-month inflation in goods and services purchased by the Nairobi middle/upper income group declined to 2.5% from 3.2% in September.
- Consequently, the 12-month inflation in goods and services purchased by the combined Nairobi income groups increased to 2.1% from 1.9%.
- Meanwhile, the 12-month inflation in goods and services purchased by consumers in the rest of urban towns remained at 1.7% over the last three months.

and Chart 4). This was consistent with the recent increase in the prices of crude oil products while inflation in food and soft drinks increased marginally to 2.2% from 2.1%. Similarly, inflation in medical goods and services; household goods and services; and clothing and footwear increased to 3.0%, 1.2% and 0.9%, respectively, from 2.6%, 1.0% and 0.8% in September.

TABLE 4: BASKET WEIGHTS & OVERALL 12-MONTH INFLATION, SEP - OCT 2002

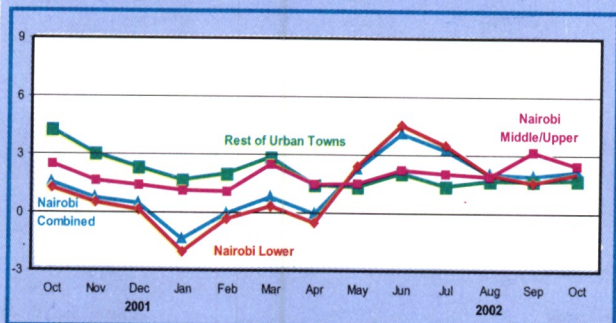
Goods and Services	Income Groups*			Combined weights (100)	Inflation (%)	
	Nairobi Lower (31.9)	Middle/Upper (8.0)	Rest of Urban Towns (60.1)		Sep	Oct
Food and Drink	55.7	31.9	50.2	50.5	2.1	2.2
Housing	11.9	31.7	9	11.7	1.8	1.8
Recr & education	4.6	7.3	6.6	6.0	3.6	3.5
Hhold goods & services	5	4.7	6.4	5.8	1.0	1.2
Clothing & footwear	9.2	7.4	9.1	9.0	0.8	0.9
Transport &Comm	5.1	10.2	5.5	5.7	0.7	0.1
Fuel & Power	3.5	2.2	4.8	4.2	0.1	1.8
Medical goods & services	0.9	1.3	2	1.6	2.6	3.0
Personal goods & services	2.3	1.9	2.6	2.4	1.5	1.5
Alcohol & Tobacco	1.8	1.4	3.8	3.0	0.9	0.9

* Numbers in parentheses are income group weights

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

	2001					2002					
	Jan	Mar	Jun	Sep	Oct	Jan	Mar	Jun	Sep	Oct	
Nairobi Lower	11.5	8.2	1.3	1.3	1.3	0.2	-2.0	0.4	4.5	1.6	2.1
Nairobi middle/upper	8.7	6.0	4.6	1.3	2.6	1.5	1.2	2.5	2.2	3.2	2.5
Nairobi Combined	10.9	7.8	1.9	1.3	1.6	0.4	-1.4	0.8	4.1	1.9	2.1
Rest of Urban Towns	12.7	10.6	6.4	4.2	4.3	2.4	1.7	2.8	2.1	1.7	1.7

CHART 3

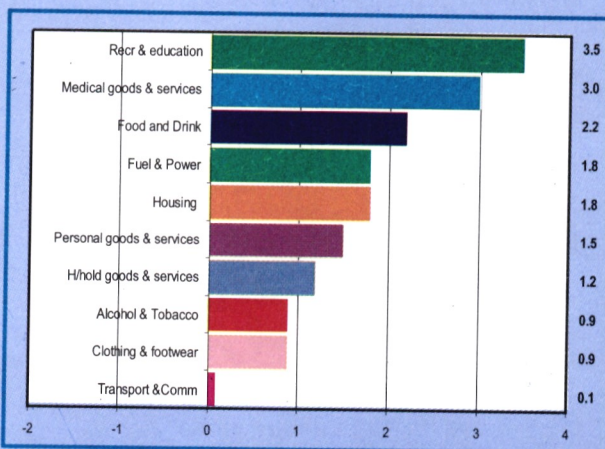


Sources: Central Bureau of Statistics & Central Bank of Kenya

Inflation by Categories of Goods and Services

Inflation in fuel and power increased to 1.8% in October 2002 from 0.1% in September (Table 4

CHART 4



Sources: Central Bureau of Statistics & Central Bank of Kenya

Outlook

Inflationary pressure is expected to remain subdued in the next twelve months. This will mainly be due to continued implementation of an appropriate monetary policy, stable shilling exchange rate and expected low prices of food.

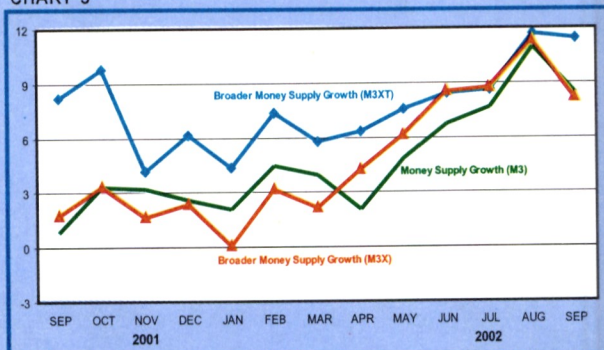
MONEY AND CREDIT

Money supply growth accelerated in the twelve months to September 2002 relative to both target expansion and increase in the year to September 2001 (Tables 5 and 6 and Chart 5). Narrow money supply, M3, comprising currency outside banking institutions and shilling denominated deposits of the private sector held with banks, increased by 8.1% compared with 3.1% target growth and 0.8% increase in the year to September 2001. Broad money supply, M3X, which includes M3 and residents foreign currency deposits increased by 8.4% compared with 3.0% target growth and 1.8% increase in the twelve

TABLE 5: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

	2001				2002				
	Mar	Jun	Sep	Dec	Jan	Mar	Jun	Aug	Sep
M3	-0.1	-1.3	0.7	2.5	2.0	3.9	8.5	11.3	8.1
M3X	3.7	2.1	1.7	2.3	0.0	2.1	6.7	10.9	8.4
M3XT	4.8	5.3	8.1	6.1	4.3	5.7	8.4	11.6	11.4

CHART 5



Source: Central Bank of Kenya

TABLE 6: MONEY SUPPLY AND ITS SOURCES (Ksh bn)

	Sept. 2001	Sept. 2002	Annual Change Absolute	%
1. Money supply, M3XT 1/	451.4	502.8	51.5	11.4
2. Money supply, M3X (4+5) 2/	357.4	387.4	29.9	8.4
3. Money supply, M3 3/	310.6	335.9	25.2	8.1
Of which: M2	297.6	323.0	25.5	8.6
4. Net foreign assets 4/	92.7	97.0	4.3	4.6
Central Bank	73.2	76.2	3.0	4.1
Banking Institutions	19.5	20.8	1.3	6.7
5. Net domestic assets (5.1+5.2)	264.8	290.4	25.6	9.7
5.1 Domestic credit (5.1.1+5.1.2)	330.2	350.7	20.5	6.2
5.1.1 Government (net)	76.7	98.1	21.4	27.9
Central Bank	3.0	17.6	14.6	487.5
Banking Institutions	73.7	80.6	6.9	9.3
5.1.2 Private sector and other public sector 5/	253.5	252.6	-0.9	-0.4
5.2 Other net domestic assets (5-5.1)	-65.5	-60.4	5.1	7.8
6. Reserve money	69.8	78.6	8.8	12.6
Currency in circulation	41.7	46.3	4.6	11.1
Banking Institutions' deposits with CBK	23.3	26.7	3.3	14.2
Memorandum items				
Treasury bills outstanding	116.8	120.8	3.9	3.4

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

months to September 2001. Reflecting the growth in M3X and 23% expansion in the holdings of government securities by the non bank public, the broader money supply, M3XT, increased by 11.4% compared with 8.0% target growth and 6.5% increase in the year to September 2001.

The 8.4% expansion in the intermediate money supply target for monetary policy, M3X, during the twelve months to September 2002, reflected increases in both net foreign assets (NFA) and net domestic assets (NDA) of the banking system. The NFA increased by 4.6% in the year with build up of foreign assets at the Central Bank and a reduction of foreign liabilities by commercial banks. The NDA increased by 9.7% largely due to credit expansion to the Government by both the Central Bank and the banking institutions. At the same time, other domestic assets net of other liabilities increased by 7.8% in the year to September 2002 compared with 14.2% decline in the year to September 2001.

Reserve Money

Reserve money, comprising currency in circulation and deposits of commercial banks and NBFIs at the Central Bank, increased by 12.6% to Ksh 78.6bn in the twelve months to September 2002 compared with 11.4% target increase and 0.2% increase in the year to September 2001 (Table 7 and Chart 6). Of the two components of reserve money, currency in circulation and banks deposits at the Central Bank rose by 11.8% and 14.2%, respectively.

The reserve money expansion during the twelve months to August 2002 was in both NFA and

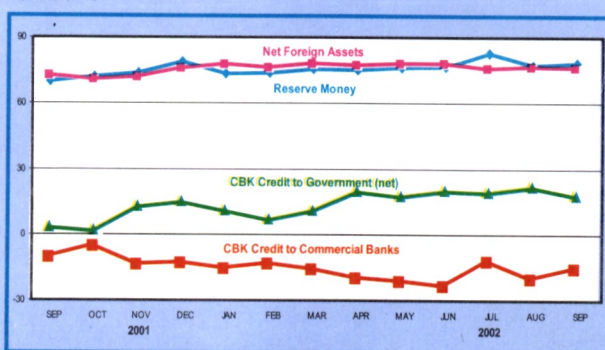
NDA of the Central Bank. The NFA increased by 4.1% on account of purchases of foreign exchange from the inter-bank market while NDA increased by 5.8bn largely in respect of net credit expansion to government. Developments in the components of NDA were as follows:

- Government borrowing from the Central Bank net of deposits increased by Ksh 14.6bn in the year to September 2002. This credit expansion reflected Ksh 4.9bn increase in gross advances to government and Ksh 9.8bn or 26.2% utilisation of government deposits at the Bank.
- Net indebtedness of commercial banks to the Central Bank increased by Ksh 5.3bn mainly due to Ksh 10.4bn sterilization of additional liquidity through sales of repo treasury bills under OMO to banks which wholly offset Ksh 5.1bn in overnight advances to commercial banks.

TABLE 7: RESERVE MONEY & ITS SOURCES (Ksh bn)

	2001	2002	Annual Change	
	Sept.	Sept.	Absolute	%
1. Net Foreign Assets	73.2	76.2	3.0	4.1
2. Net Domestic Assets	-3.4	2.4	5.8	-172.1
2.1 Government Borrowing (net)	3.0	17.6	14.6	487.6
2.2 Advances & Discounts	-10.0	-15.3	-5.3	53.4
2.3 Other Domestic Assets (net)	3.6	0.2	-3.5	-94.9
3. Reserve Money	69.8	78.6	8.8	12.6
3.1 Banks & NBFIs Deposits at CBK	23.2	26.4	3.3	14.2
3.2 Currency in Circulation	46.5	51.9	5.5	11.8

CHART 6



Source: Central Bank of Kenya

- Other domestic assets net of other domestic liabilities declined by Ksh 3.5bn.

Credit Developments

Net domestic credit (NDC) rose by 6.2% in the twelve months to September 2002 compared with 0.2% increase over a similar period in 2001. The credit expansion in the period under review was channelled wholly to the government as credit to the private and other public sectors declined. Net credit to government during the review period expanded by 27.9% compared with 5.9% decline in the year to September 2001.

Credit to the private and other public sectors declined by Ksh 0.9bn or 0.4% in the year to September 2002 compared with Ksh 5.5bn or 2.2% increase in the year to September 2001. The credit reduction to these sectors during the year to September 2002 was reflected in Ksh 1.6bn repayment of outstanding credit by the private sector and Ksh 0.7bn increase in net lending to other public sector institutions.

The private sector borrowed Ksh 15.5bn in the current year to finance activities in agriculture, building and construction, transport and communication, finance and insurance, private households, real estate and consumer durables.

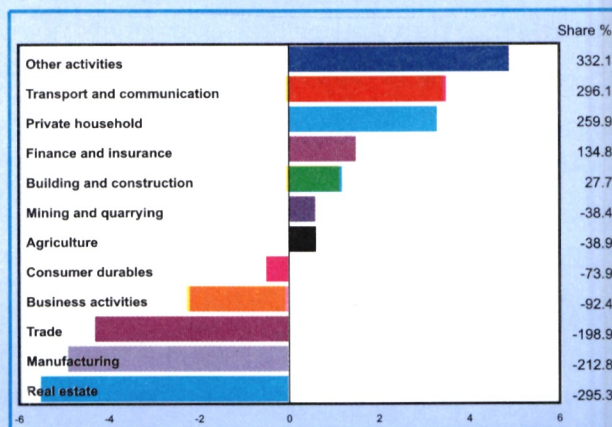
The additional borrowing by the private sector was, however, more than offset by Ksh 17.4bn repayments by the manufacturing, trade and business services sectors, and other activities (Table 8 and Chart 7).

TABLE 8: CREDIT TO PRIVATE & OTHER PUBLIC SECTORS (Ksh bn)

	2001 Sept		2002 Sept		Annual Change		Sep '01 - Sep '02 %dst of ann. change in credit to private sector
	Ksh bn	Share (%)	Ksh bn	Share (%)	Ksh bn	(%)	
1. Credit to other public sector	9.0	3.5	9.7	3.8	0.7	7.9	
Local government	-0.1	0.0	0.3	0.1	0.3	-57.9	
Parastatals	9.0	3.6	9.4	3.7	0.4	4.3	
2. Credit to private sector	244.6	96.5	242.9	96.2	-1.6	-0.7	100.0
Agriculture	24.2	9.5	25.7	10.2	1.5	6.3	-92.4
Manufacturing	55.9	22.0	50.4	20.0	-5.5	-9.8	332.1
Trade	47.7	18.8	42.8	16.9	-4.9	-10.2	296.1
Building and construction	18.3	7.2	19.5	7.7	1.2	6.6	-73.9
Transport & communications	10.1	4.0	13.6	5.4	3.5	34.7	-212.8
Finance & insurance	14.6	5.8	17.9	7.1	3.3	22.4	-198.9
Real estate	20.0	7.9	20.6	8.2	0.6	3.2	-38.9
Mining and quarrying	2.4	0.9	1.9	0.8	-0.5	-19.1	27.7
Private households	10.4	4.1	15.2	6.0	4.9	46.8	-295.3
Consumer durables	4.8	1.9	5.4	2.1	0.6	13.1	-38.4
Business services	27.5	10.8	25.3	10.0	-2.2	-8.1	134.8
Other activities	8.8	3.5	4.5	1.8	-4.3	-48.5	259.9
3. TOTAL (1+2) *	253.5	100.0	252.6	100.0	-0.9	-0.4	

* 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 SEPTEMBER 2002 (Ksh bn)



Source: Central Bank of Kenya

BANKING SECTOR DEVELOPMENTS

Structure of the Banking System

The Banking system comprised 45 commercial banks, 3 non-bank financial institutions (NBFIs), 2 mortgage finance companies, 4 building societies and 48 forex bureaus as at end of October 2002 (Table 9). The decline in the total number of institutions from 57 in October 2001 to 54 in October 2002 was due to mergers and the liquidation of one commercial bank.

TABLE 9: COMMERCIAL BANKS, NBFIs & FOREIGN EXCHANGE BUREAUS

Type of Institution/Bureau	Oct-2001	Oct-2002
Commercial Banks	48	45
(a) Operating	47	44
(b) Under Central Bank statutory management	1	1
Building Societies	4	4
Mortgage Finance Companies	2	2
Non-bank Financial Institutions	3	3
(a) Operating	3	3
(b) Under Central Bank statutory management	-	-
Total	57	54
Foreign Exchange Bureaus	47	48

Source: Central Bank of Kenya

Assets

Total assets of the banking system increased to Shs.451.3bn at the end of September 2002 from Ksh 425.1bn at the end of September 2001 (Table 10). Total Loans and advances, which accounted for 49% of total assets decreased marginally by Ksh 0.4bn to Ksh 251.2bn in September 2002 from Ksh 251.6bn in September 2001.

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

	Sept. 2001	Sept. 2002	Change* Absolute	%
ASSETS	425.1	451.3	26.2	6.2
Loans and Advances	251.6	251.2	-0.4	-0.2
Government Securities	85.4	96.0	10.6	12.4
Balances at Central Bank	24.6	25.8	1.2	4.7
Fixed Assets	17.8	18.2	0.4	2.2
Other Assets	23.2	40.4	17.2	74.0

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

**Includes interbank balances.

Source: Central Bank of Kenya

Other Assets

Government securities held by banks increased by 12.4% to Ksh 96.0bn in September 2002 from Ksh 85.4bn in September 2001, and accounted for 21% of total assets. Cash deposited with the Central Bank increased to Ksh 25.8bn from Ksh 24.6bn and accounted for 6% of total assets.

Asset Quality

At the end of September, 2002 the level of non-performing loans (NPLs) was estimated at Ksh 72.5bn or 28.9% of total loans, compared with Ksh 82.3bn or 32.7% of total loans in September 2001 (Table 11). The decline in the ratio reflects a decrease in non-performing loans by Ksh 9.8bn. The non-performing loans were mainly concentrated in ten banks whose ratio of non-performing loans to total loans was 50% compared with only 15% in the rest of the banking sector. The non-performing loans in the ten banks accounted for Ksh 50.8bn or 70% of the industry's total non-performing loans.

Meanwhile, the level of provisions decreased from Ksh 32.4bn to Ksh 31.3bn in September 2002 reflecting the decrease in NPLs. The banking

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

	Sep-01	Sep-02
1. Total Loans	251.6	251.2
2. Specific Provisions	29.3	28.7
3. General Provisions	3.1	2.6
4. Total Provisions (2+3)	32.4	31.3
5. Net Loans (1-4)	219.2	219.9
6. Total Non-Performing Loans (NPLs)**	82.3	72.5
7. Net Non-Performing Loans (6-2)	53.0	43.8
8. Value of securities (estimated)	37.5	44.9
9. Net Exposure (7-8)	15.5	-1.1
10. Total NPLs as % of Total Loans (6/1)	32.7%	28.9%
11. Total Provisions as % of Total Loans (4/1)	12.9%	12.5%
12. Exposure as % of Total Loans (9/1)	6.2%	-0.4%

*The revised reporting system effective April 2002 excludes suspended interest on total loans and non-performing loans (NPLs).

Source: Central Bank of Kenya

sector was adequately cushioned against the NPLs as the estimated value of securities increased substantially from Ksh 37.5bn to Ksh 44.9bn.

Deposit Liabilities

Deposits, including interbank deposits and accrued interest held by banking institutions, increased by 7.0% to Ksh 352.7bn in September 2002 from Ksh 329.7bn in September 2001 (Table 12). In terms of market share, the largest eight commercial banks accounted for 72.6% of all deposits in the banking system.

Capital and Reserves

Capital and reserves of the banking system decreased by 4.8% to Ksh 55.6bn in September 2002 from Ksh 58.4bn in September 2001. Total capital, comprising capital and reserves excluding goodwill and 75% of revaluation reserves of the banking system, decreased marginally by 0.4% to Ksh 54.3bn in September 2002 from Ksh 54.5bn in September 2001. Consequently, the level of capitalisation, as measured by the ratio of total capital to total risk-weighted assets ratio, decreased to 16.5% at the end of September 2002 from 16.9% at the end of September 2001, and was above the minimum requirement of 12%.

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

	Sept. 2001	Sept. 2002	Annual Change*	
			Absolute	%
LIABILITIES	366.7	395.7	29.0	7.9
Deposits**	329.7	352.7	23.0	7.0
Capital and Reserves	58.4	55.6	-2.8	-4.8
Foreign Liabilities	11.1	9.1	-2.0	-17.8
Other Liabilities	25.9	33.6	7.7	29.8

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

**Includes interbank balances.

Source: Central Bank of Kenya

Profitability of the Sector

The unaudited pre-tax profits decreased by 18.5% to Shs.6.6bn for the nine months ending September 2002 from Ksh 8.1bn for a similar period in 2001. The deterioration in the banking sector profitability was mainly attributed to decline in interest income.

Institutions Under Statutory Management

The scheme of arrangement for reopening a bank under statutory management by the Central Bank received an overwhelming 81% approval by depositors in a meeting held on 27th September 2002. The High Court approved the Scheme on 24th October 2002 and the bank is set to reopen in December 2002.

Building Societies

Total assets and deposits of building societies were Ksh 9.2bn and Ksh 7.3bn respectively while total advances amounted to Ksh 3.2bn at the end of September 2002. Income stood at Ksh 957m while total expenses stood at Ksh 848m giving a profit before tax of Ksh 109m for the nine months ending September 2002.

Cash and Liquidity Ratios

Commercial banks and non-bank financial institutions (NBFIs) continued to meet the 20% minimum liquidity and 10% cash ratio requirements in September and October 2002 (Table 13 and Chart 9).

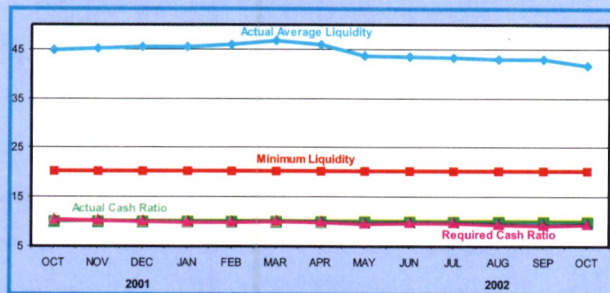
TABLE 13: CASH AND LIQUIDITY RATIOS* (%)

	2001					2002				
	Mar	Jun	Sep	Oct	Dec	Jan	Mar	Jun	Sep	Oct
Commercial Banks										
Average Liquidity	44	42	44	45	46	46	47	44	43	42
Minimum Liquidity	20	20	20	20	20	20	20	20	20	20
Cash Ratio - All Banks	10.2	10.0	9.8	10.1	9.9	9.7	9.8	9.5	9.1	9.2
Minimum Cash Ratio**	10	10	10	10	10	10	10	10	10	10
NBFIs										
Average Liquidity	48	60	56	55	57	59	59	59	52	49
Minimum Liquidity	20	20	20	20	20	20	20	20	20	20
Cash Ratio	11.5	10.1	10.5	10.7	10.9	11.0	10.9	11.6	12.5	12.5
Minimum Cash Ratio**	10	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

Cash Ratios

In October 2002, the average cash ratio maintained by banking institutions increased to 10.9% compared with 10.8% in September 2002. The cash ratio for commercial banks averaged 9.2% in October up from 9.1% in September 2002 while the ratio for NBFIs stabilised at 12.5% in September and October 2002.

Liquidity Ratios

Commercial banks and NBFIs continued to hold liquid assets largely in form of cash balances at the Central Bank and Government securities in both Treasury bills and bonds. The average liquidity ratio for commercial banks declined to 42% in October 2002 from 43% in September while that for NBFIs declined to 49% from 52% over the same period.

The average liquidity ratio for mortgage finance companies fell to 25% in October from 26% in September 2002 while that for building societies increased to 51% from 48% over the same period.

INTEREST RATES

All principal money market nominal interest rates maintained the downward trend in the year to September 2002. There was, however, marginal increase in the 91 days Treasury bill rate in October and November 2002 (Table 14 and Chart 9):

- The 91 days Treasury bill rate declined to 7.6% in September 2002 compared with 12.4% in September 2001. The rate, however, rose marginally to 8.1% in October and was 8.3% in early November 2002. Despite the marginal interest in the Treasury bill rate, the downward trend in other rates continue to mirror excess liquidity in the domestic money market

occasioned by limited competitive outlets for investment funds. This was partly due to the prevailing low investor confidence. In addition the deliberate Government policy to reduce the volume of short dated domestic debt in preference for the relatively longer dated Treasury bond debt effective May 2001 also facilitated the decline in the short-term rate.

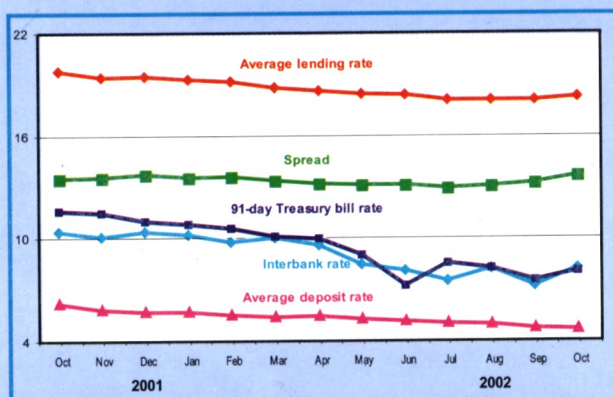
- The average rate on three months time deposits with banks declined to 5.5% in September 2002 from 6.3% in September 2001.
- The average savings deposits rate increased to 3.8% in October 2002 from 3.5% in September 2002 while the inter-bank rate declined to 8.1% in November 2002 from 8.3% in October 2002.
- The average interest on bank overdrafts, which had peaked at 20% in December 2001 eased thereafter to 18.6% in August and 18.5 % in September 2002.

TABLE 14: INTEREST RATES (% per annum)

	2001				2002				
	Jun	Sep	Oct	Dec	Jan	Mar	Jun	Sep	Oct
Treasury bill rate*	12.1	12.4	11.6	11.0	10.9	10.1	7.3	7.6	8.1
Overdraft rate	19.7	19.6	19.8	20.0	19.3	18.8	18.5	18.5	18.9
Interbank rate	10.7	10.7	10.5	10.4	10.3	10.1	8.2	7.3	8.3
Average lending rate (1)	19.3	19.4	19.8	19.5	19.3	18.9	18.4	18.1	18.3
Average deposit rate (2)	6.4	6.3	6.2	5.7	5.7	5.4	5.2	4.8	4.7
3 - month deposit	7.5	7.4	7.2	6.9	6.9	6.9	6.1	5.5	5.5
Savings rate	4.4	4.9	4.4	4.4	4.4	3.7	4.0	3.5	3.8
Spread (1-2)	12.9	13.2	13.6	13.8	13.6	13.4	13.2	13.3	13.7

* 91-Days Treasury bill rate

CHART 9



Source: Central Bank of Kenya

Meanwhile, the average interest rate spread rose to 13.7% in October 2002 from 13.3% in September 2002 due to reduction in the average deposit rate to 4.7% from 4.8% as the average lending rate increased to 18.3% from 18.1% over the same period.

SHILLING EXCHANGE RATE

The Kenya shilling weakened against the US dollar, the Sterling Pound and the Euro during the year to October 2002 to exchange at Ksh 78.66, Ksh 116.28 and Ksh 72.76, respectively, compared with Ksh 78.56, Ksh 113.21 and Ksh 70.2 in the year to October 2001 (Table 15 and Chart 10). The shilling, however, strengthened against the Japanese Yen and the South African Rand by 5.3% and 32.6% to trade at Ksh 62.58 and Ksh 7.4 against 100 Japanese Yen and the Rand respectively in the year to October 2002. Against the regional currencies, the shilling gained against both the Tanzania shilling and Uganda shilling to exchange at Tsh12.2 and Ush 22.6 in the year to October 2002 compared with Tsh10.9 and Ush22.5 in the year to October 2001.

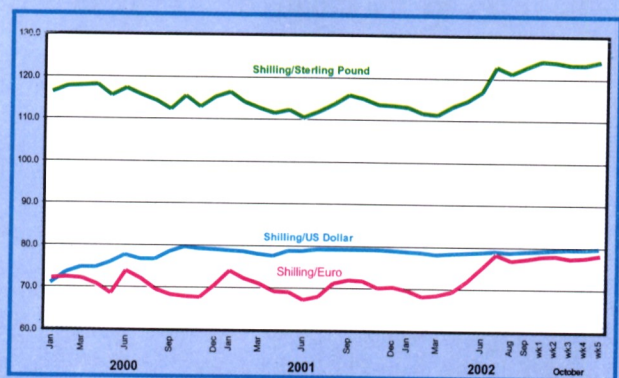
In October 2002, the shilling similarly lost against all major international currencies except the Japanese Yen. Against the US dollar, the shilling lost by 0.7% to trade at an average of Ksh 79.3 compared with an average of Ksh78.8 in September 2002. The shilling also lost against the Pound Sterling, Euro and the South African Rand by 0.8%, 0.76 and 0.3% respectively in October 2002. Meanwhile, the shilling gained marginally against the Japanese Yen to exchange at Ksh 64.0 per 100 Japanese Yen in October 2002 compared with Ksh 65.2 per 100 Japanese Yen in September 2002. The shilling weakened against the regional currencies in October 2002. It lost to the Tanzania Shilling and Uganda Shilling by 1% and 0.5%, respectively, to exchange at Tsh12.3 and Ush 23.0.

TABLE 15: SHILLING EXCHANGE RATE

	2001		2002											
	Oct	Dec	Jan	Mar	Jun	Jul	Aug	Sep	October					
									wk 1	wk 2	wk 3	wk 4	wk 5	Aug
US Dollar	79.0	78.7	78.6	78.1	78.7	78.8	78.6	78.8	79.1	79.2	75.3	75.4	75.6	75.3
Pound Sterling	114.7	113.2	112.8	111.1	116.6	122.6	120.8	122.5	123.9	123.6	123.0	123.0	123.9	123.6
100 Japanese Yen	65.1	61.9	59.3	59.5	63.7	66.7	66.0	65.2	64.3	63.9	63.5	64.0	64.6	64.0
Uganda Shilling*	22.1	21.9	22.2	22.7	22.9	22.9	23.0	22.9	23.0	23.0	23.0	23.2	23.1	23.0
Tanzania Shilling*	11.3	11.6	11.8	12.4	12.2	12.0	12.8	12.4	12.3	12.3	12.3	12.3	12.3	12.3
Euro	71.6	70.2	69.3	68.5	75.1	78.3	76.9	77.3	77.9	77.9	77.3	77.6	78.3	77.8
Nominal Effective Exchange Rate	79.6	80.4	81.1	82.1	80.5	81.1	81.2	81.2						
Real Effective Exchange Rate	95.1	95.9	94.4	95.3	95.1	96.3	95.4	94.5						

* Units of currency per Kenya shilling

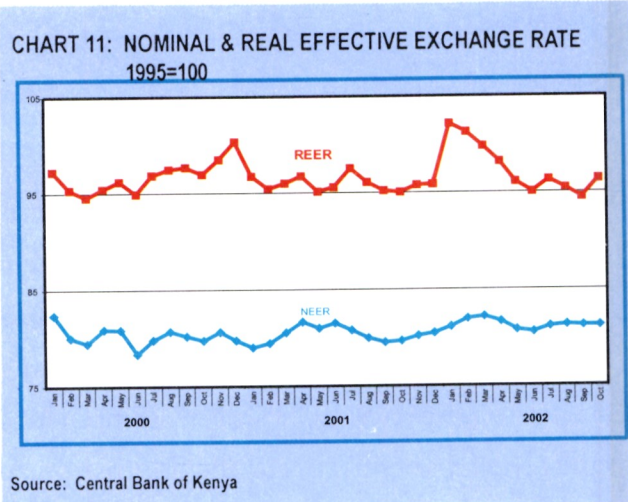
CHART 10



Source: Central Bank of Kenya

In the international currency market, the US dollar lost marginally to the Pound Sterling, Euro and the South African Rand but gained against the Japanese Yen in October 2002. The dollar weakened against the Pound Sterling, Euro and South African Rand amid reports that the United States of America's economy slowed down in September 2002 with latest statistics indicating increased rate of unemployment particularly in the manufacturing sector. The Japanese Yen also continued to weaken following the September 2002 report from the Bank of Japan that the economic recovery is still sluggish with gross domestic product (GDP) growing by only 0.7% in the third quarter of 2002 down from 1% in the previous quarter.

In nominal effective terms, that is, when weighted against a basket of currencies that reflects the importance of Kenya's trade partners, the shilling appreciated by 0.2% in the year to October 2002 (Chart 11). During the month of October 2002, the shilling, however, appreciated in nominal effective terms by 1.2%. Adjusting for the inflation differential between Kenya and her trading partners, the shilling depreciated by 1.8% in October 2002 but appreciated by 0.2% over the year to October 2002.



BUDGETARY DEVELOPMENTS

Government fiscal operations in the first quarter of the fiscal year 2002/03 resulted in a deficit, on a commitment basis, of Ksh 10.4bn or 1.1% of GDP, compared with a Ksh 3.0bn deficit in a similar period in fiscal year 2001/02 (Table 16 and Chart 12). On a cash basis, the deficit was Ksh 9.4bn, compared with Ksh 9.3bn deficit in a similar period in the 2001/02 fiscal year.

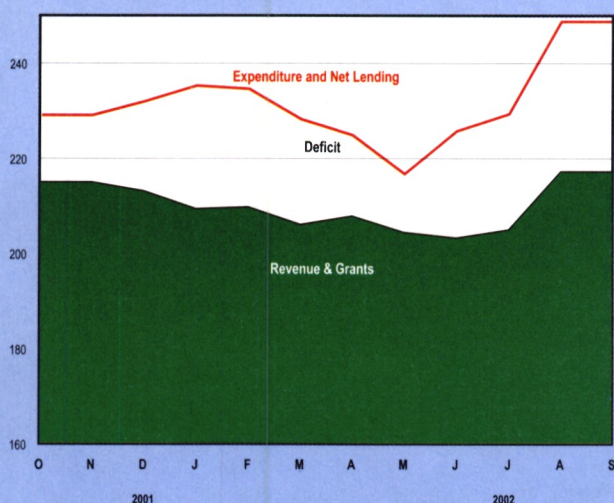
TABLE 16: BUDGET OUT-TURN (Ksh bn)

	FY 2001/02		FY 2002/03		Over(+)/ Below(-)
	Actual	Actual*	Actual*	Target	
1. TOTAL REVENUE & GRANTS	46.0	48.5	53.1	53.1	-4.6
Revenue	44.2	45.9	50.5	50.5	-4.7
Tax Revenue	38.2	39.7	43.0	43.0	-3.3
Non Tax Revenue	2.6	3.3	3.3	3.3	0.0
Appropriations-in-Aid	3.5	2.9	4.2	4.2	-1.4
External Grants	1.7	2.6	2.6	2.6	0.1
2. TOTAL EXPENDITURE AND NET LENDING	49.0	58.9	64.4	64.4	-5.5
Recurrent Expenditure	44.4	50.5	54.0	54.0	-3.5
Development Expenditure	4.6	8.3	10.4	10.4	-2.1
3. DEFICIT ON A COMMITMENT BASIS (1-2)	-3.0	-10.4	-11.3	-11.3	0.9
	(-0.3)	(-1.1)	(-1.2)	(-1.2)	
4. ADJUSTMENT TO CASH BASIS	-6.3	1.0	-1.2	-1.2	2.2
5. DEFICIT ON A CASH BASIS	-9.3	-9.4	-12.5	-12.5	3.1
	(-1.0)	(-1.0)	(-1.3)	(-1.3)	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-0.8	2.2	0.0	0.0	2.2
7. FINANCING	8.5	11.6	12.5	12.5	-0.9
Domestic (Net)	10.1	13.3	14.9	14.9	-1.6
External (Net)	-1.5	-1.6	-2.4	-2.4	0.7
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0	0.0

* 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's receipts from various sources amounted to Ksh 48.5bn during the first quarter of the fiscal year 2002/03 (Table 17). The receipts were Ksh 2.5bn higher than in a similar period of the previous year and Ksh 4.6bn below target. The receipts comprised the following:

TABLE 17: COMPOSITION OF GOVERNMENT REVENUE (Ksh bn)

	Sep-01 Ksh bn	Share %	Sep-02 Ksh bn	Share %
1. Revenue (2+3+4)	44.2	96.3	45.9	94.6
2. Tax Revenue	38.2	83.0	39.7	81.9
Income Tax	13.3	28.9	14.2	29.2
Value Added Tax	12.3	26.7	12.5	25.7
Import Duty	5.9	12.9	4.6	9.4
Excise Duty	6.7	14.5	8.5	17.6
3. Appropriations-in-Aid	3.5	7.7	2.9	5.9
4. Other Revenue	2.6	5.6	3.3	6.8
5. External Grants	1.7	3.7	2.6	5.4
TOTAL RECEIPTS (1+5)	46.0	100.0	48.5	100.0

Source: Treasury

- Tax revenue of Ksh 39.7bn or 81.9% of total receipts. This was Ksh 3.3bn lower than expected, but Ksh 1.5bn higher than the amount collected in a similar period in the 2001/02 fiscal year. Performance by the various tax categories was as follows:
 - ♦ Income tax collections amounting to Ksh 14.2bn or 36.2% of total tax receipts compared with Ksh 13.3bn or 34.8% of total receipts in a corresponding period of 2001/02 fiscal year. The receipts were, however, Ksh 1.3bn below target, mainly due to lower than expected corporate performance.
 - ♦ Value added tax (VAT) collections increased by Ksh 0.2bn to Ksh 12.5bn from Ksh 12.3bn in a similar period in the previous fiscal year and were Ksh 0.7bn lower than expected. VAT

accounted for 31.5% of total tax receipts.

- ◆ Import and excise duty collections amounting to Ksh 14.3bn, Ksh 0.5bn higher than in the first quarter of fiscal year 2001/02. Of this amount, import and excise duties were Ksh 4.6bn and Ksh 8.5bn, respectively.

The Government received a further Ksh 8.8bn from the following sources:

- Non tax revenue amounting to Ksh 3.3bn. This was Ksh 0.7bn higher than in a corresponding period in fiscal year 2001/02 and was on target.
- Appropriations in Aid of Ksh 2.9bn, which was Ksh 0.6bn lower than in a similar period in the fiscal year 2001/02, and Ksh 1.4bn below target.
- External grants of Ksh 2.6bn, Ksh 0.9bn higher than inflows in a similar period in fiscal year 2001/02, and Ksh 0.1bn more than expected.

Expenditure and Net Lending

Government expenditure during the first quarter of the fiscal year 2002/03 amounted to Ksh 58.9bn, Ksh 9.9bn higher than in a similar period in fiscal year 2001/02, but Ksh 5.5bn lower than budget estimate (Table 18). Major components of expenditure were as follows:

- Recurrent expenditure amounted to Ksh 50.5bn or 85.8% of total expenditure, which was Ksh 6.1bn higher than the amount spent in the first quarter of 2001/02 and Ksh 3.5bn below the budget

estimate. The recurrent expenditure comprised the following items:

- ◆ Wages and salaries amounting Ksh 19.2bn or 32.7% of total government expenditure. This was Ksh 0.8bn higher and Ksh 1.3bn lower than in a corresponding period in fiscal year 2001/02 and the budget estimate, respectively.
- ◆ Debt service payments of Ksh 9.1bn, which was Ksh 0.9bn higher than payments in a comparable period in fiscal year 2001/02 and Ksh 1.3bn higher than expected. Of these, interest payments on domestic debt were Kshs 7.4bn, an increase of Ksh 1.7bn over Ksh 5.7bn in the first quarter of the fiscal year 2001/02 and Ksh 1.3bn above target. Foreign interest payments fell to Ksh 1.7bn from Ksh 2.4bn in a similar period in the previous fiscal year.
- ◆ Expenditures by ministries, mainly on operations and maintenance, amounting to Ksh 22.1bn or 37.6% of total expenditure. This was Ksh 4.3bn higher than in the same period in the previous fiscal year but Ksh 3.5bn lower than budget estimate.

TABLE 18: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh bn)

	Sep-01 Ksh bn	Share %	Sep-02 Ksh bn	Share %
Salaries & Wages	18.4	37.5	19.2	32.7
Total Interest	8.2	16.7	9.1	15.5
Domestic*	5.7	11.7	7.4	12.5
Foreign	2.4	5.0	1.7	3.0
Development	4.6	9.4	8.3	14.2
Others	17.8	36.4	22.1	37.6
TOTAL EXPENDITURE	49.0	100.0	58.9	100.0

*Includes commission and other charges paid to CBK

Source: Treasury

- Development expenditure was Ksh 8.3bn or 14.2% of total government expenditure. At this level, the expenditure was Ksh 4.3bn higher than the first quarter of the fiscal year 2001/02 and Ksh 2.1bn below target.

Financing

The financing requirement in the first quarter of the fiscal year 2002/03 was Ksh 15.9bn (Table 19). This was an improvement compared with Ksh 19.0bn in a similar period of the previous fiscal year. The Ksh 15.9bn government financing was sourced as follows:

- Ksh 0.1bn was borrowed from the Central Bank;
- Ksh 8.7bn was borrowed from commercial banks; and
- Ksh 7.0bn was borrowed from non-bank sources.

TABLE 19: GOVERNMENT FINANCING REQUIREMENTS & SOURCES (Ksh bn)

I. FINANCING REQUIREMENTS	Sep-01	Share	Sep-02	Share
	Ksh bn	%	Ksh bn	%
1. Budget deficit	8.5	44.9	11.6	73.2
2. External debt reduction	1.5	8.2	1.6	10.4
3. Domestic debt reduction	8.9	47.0	0.0	0.0
3.1 Central Bank (incl. items in transit)	8.9	47.0	0.0	0.0
3.2 Commercial banks (net of deposits)	0.0	0.0	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	2.6	16.4
TOTAL	19.0	100.0	15.9	100.0

II. FINANCING SOURCES	Sep-01	Share	Sep-02	Share
	Ksh bn	%	Ksh bn	%
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	17.9	94.2	15.9	100.0
3.1 Central Bank	0.0	0.0	0.1	0.8
3.2 Commercial banks	16.2	85.6	8.7	54.9
3.3 Non-bank sources	1.6	8.7	7.0	44.3
4. Reduction in GoK deposits at CBK	1.1	5.8	0.0	0.0
5. Privatisation proceeds	0.0	0.0	0.0	0.0
TOTAL	19.0	100.0	15.9	100.0

Sources: Treasury & Central Bank of Kenya

The borrowed funds were used as follows:

- Built-up government deposits at the Central Bank by Ksh2.6bn;
- Make a net repayment of Ksh 1.6bn to external creditors; and
- Finance a Ksh 11.6bn budget deficit.

Government Borrowing from the Central Bank of Kenya

The Government net borrowing from the Central Bank in the first four months of the fiscal year 2002/03, was Ksh 1.0bn, compared with a net repayment of Ksh 9.7bn in a similar period in fiscal year 2001/02 (Table 20). As a result, the stock of debt owed to the Bank by the Government increased to Ksh 45.9bn in October 2002 from Ksh 44.9bn in June 2002. The net increase reflected the following transactions:

- An increase of Ksh 5.9bn in the use of the government overdraft facility at the Bank;
- A decline of Ksh 4.7bn in items on transit to the Paymaster General Account; and
- A decline of Ksh 0.3bn in the Bank's holdings of rediscounted securities.

TABLE 20: GOVERNMENT GROSS BORROWING FROM THE CENTRAL BANK (Ksh bn)

	Jun-02	Sep-02	Oct-02	Movement
Total Government Credit (1+2+3+4+5)	44.9	45.1	45.9	1.0
1. Overdraft	0.0	3.0	5.9	5.9
2. Rediscounted securities	0.3	0.0	0.0	-0.3
Treasury bills	0.3	0.0	0.0	-0.3
Treasury bonds	0.0	0.0	0.0	0.0
3. Non-interest bearing T/bills & bonds	36.9	36.9	36.9	0.0
4. IMF funds onlent to Government	2.1	2.1	2.1	0.0
5. Cleared items in transit	5.7	3.1	1.0	-4.7
Memorandum				
Authorised overdraft limit	8.8	8.8	8.8	0.0
Amount utilised to date	0.0	3.0	5.9	5.9
Amount available	8.8	5.8	2.9	-5.9

Source: Central Bank of Kenya

Source: Central Bank of Kenya

PUBLIC DEBT

Overall Debt

The stock of outstanding public debt increased to Ksh 626.2bn or 63.6% of GDP at the end of the first quarter of the fiscal year 2002/03. This represents an increase of Ksh 12.5bn from June 2002 (Table 21). Of the total public debt, external debt accounted for Ksh 375.4bn or 59.9% of the debt stock. The balance of Ksh 250.8bn or 40.1% was domestic debt. The increase in public debt during the first quarter of the fiscal year 2002/03 was attributed to an increase of Ksh 14.8bn in domestic debt, which more than offset a decrease of Ksh 2.3bn in external debt.

TABLE 21: KENYA'S PUBLIC DEBT (Ksh bn)

	Jun-01**	Jun-02**	Sep-02**	Change 2002/03
EXTERNAL***				
Bilateral	132.3	130.0	129.0	-1.0
Multilateral	228.5	222.5	221.4	-1.0
Commercial Banks	29.4	24.0	23.7	-0.3
Export Credit	3.8	1.3	1.3	0.0
Sub-Total	394.0	377.7	375.4	-2.3
(As a % of GDP)	46.6	41.0	38.1	-2.9
DOMESTIC				
Banks	109.2	120.8	128.6	7.8
Central Bank	47.2	42.8	43.0	0.1
Commercial Banks	62.0	78.0	85.7	7.7
Non-banks	93.4	104.4	112.3	8.0
Non-bank Financial Inst.	3.9	2.8	3.3	0.4
Other Non-bank Sources	89.6	101.5	109.1	7.5
Non-residents	9.2	10.8	9.8	-0.9
Sub-Total	211.8	236.0	250.8	14.8
(As a % of GDP)	25.0	25.6	25.5	-0.2
GRAND TOTAL	605.8	613.8	626.2	12.5
(As a % of GDP)	71.6	66.7	63.6	-3.1

* 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

Domestic Debt

The stock of outstanding government domestic debt increased to Ksh 251.2bn in October 2002, from Ksh 236.0bn in June 2002 (Tables 22 and 23). The debt represented 25.5% of GDP in October 2002 compared with 25.6% in June 2002.

The following changes accounted for the Ksh 15.2bn increase in net domestic debt between June 2002 and October 2002:

- Increase of Ksh 14.4bn in government outstanding securities.
- Increase of Ksh 0.8bn in non securitised debt.

TABLE 22: GOVERNMENT DOMESTIC DEBT (Ksh bn)

	2001			2002			
	Sep	Oct	Dec	Jan	Jun	Sep	Oct
Total stock of Domestic Debt (A+B)	219.2	226.0	222.0	222.7	236.0	250.8	251.2
A. Government Securities	215.7	223.2	215.5	219.5	226.8	241.2	241.2
1. Treasury Bills (excluding Repo Bills)	116.9	113.8	96.8	93.1	82.1	86.6	83.3
Banking institutions	55.7	58.5	45.3	38.4	30.5	34.0	32.5
Others	61.2	55.3	51.5	54.7	51.5	52.6	50.8
2. Treasury Bonds	60.5	71.0	80.3	88.0	106.3	116.2	119.5
Banking institutions	22.0	28.4	32.8	37.7	47.1	51.4	51.2
Others	38.5	42.6	47.5	50.3	59.2	64.8	68.3
3. Long term Stocks	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
Others	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
Of which: Repo T/Bills	27.0	24.0	27.0	27.0	36.0	33.0	33.0
B. Others:	3.5	2.7	6.5	3.2	9.2	9.6	10.0
Of which CBK overdraft to Government	0.5	0.0	0.0	0.0	0.0	3.0	5.9

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	Sep-02	Oct-02	Change
Government securities	226.8	241.2	241.2	14.4
Treasury Bills*	82.1	86.6	83.3	1.2
Treasury Bonds	106.3	116.2	119.5	13.2
Of which: special bonds	6.4	5.5	5.2	-1.2
Government Stock	1.5	1.5	1.5	0.0
Non-interest bearing debt	36.9	36.9	36.9	0.0
Others**	9.2	9.6	10.0	0.8
Of which: Overdraft at the Central Bank	0.0	3.0	5.9	5.9
Total Stock of Domestic Debt	236.0	250.8	251.2	15.2

* Excludes REPO Treasury bills

** Includes overdraft, items in transit, commercial banks advances and tax reserve certificates

Source: Central Bank of Kenya

Treasury Bills

The stock of outstanding Treasury bills increased to Ksh 83.3bn in October 2002 from Ksh 82.1bn in June 2002 (Table 24 and Chart 13). The distribution of the Ksh 83.3bn stock was as follows:

- Commercial banks held Ksh 32.5bn or 39.0%;

- Non-bank financial institutions held Ksh 1.1bn or 1.4%; and
- Insurance companies, other corporate investors and individuals held the balance of Ksh 49.7bn or 59.6%.

increase in bonds during the period was due to the following:

- Issues of Ksh 25.6bn; and
- Redemptions worth Ksh 12.4bn.

Treasury Bonds

The stock of Treasury bonds increased by Ksh 13.2bn from Ksh 106.3bn in June 2002 to Ksh 119.5bn in October 2002. The Ksh 13.2bn

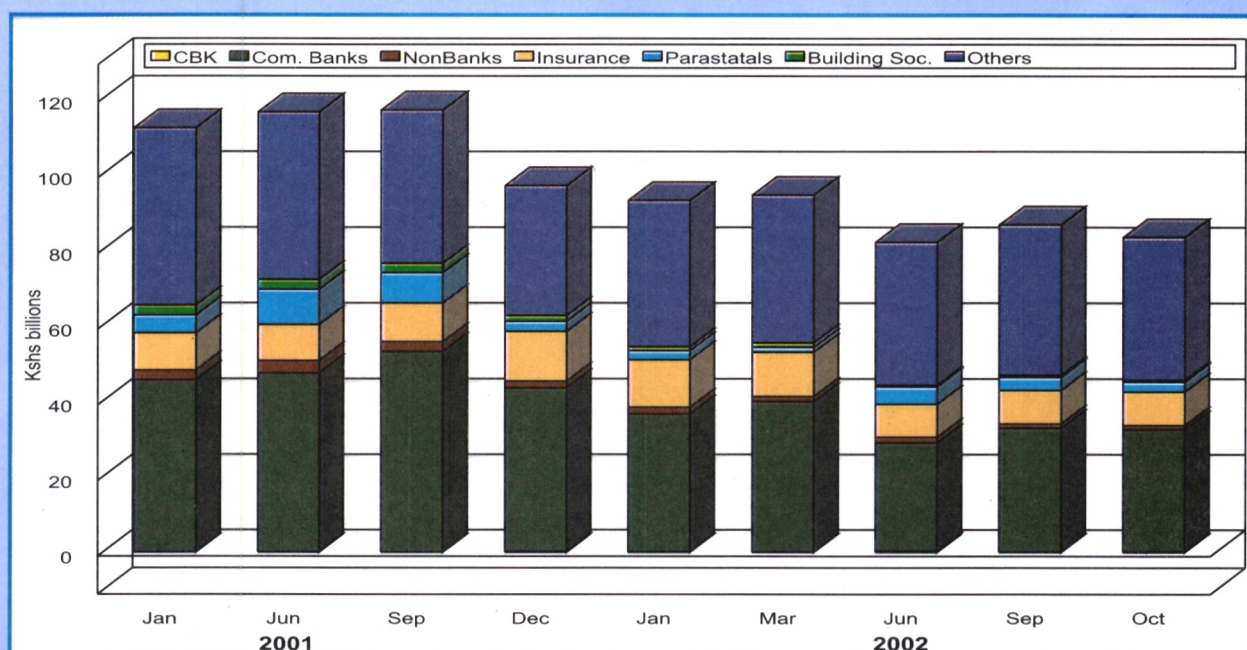
During October 2002, a two-year fixed rate Treasury bond and a five-year fixed rate Treasury bond were issued, from which Ksh 3.7bn, and Ksh 0.8bn, respectively, were realised. The coupon rates for the two- and five-year bonds

TABLE 24: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh bn)

Holders	2001						2002					
	Jan	%	Sep	%	Dec	%	Jun	%	Sep	%	Oct*	%
Banking Institutions	48.3	43.0	55.7	47.7	45.3	46.8	30.5	37.2	34.0	39.3	33.6	40.4
Central Bank	0.0	0.0	0.0	0.0	0.2	0.2	0.3	0.3	0.0	0.0	0.0	0.0
Comm. Banks	45.6	40.6	53.1	45.4	43.3	44.7	28.7	35.0	32.8	37.9	32.5	39.0
NBFIs	2.6	2.3	2.6	2.2	1.8	1.8	1.5	1.9	1.2	1.3	1.1	1.4
Insurance Companies	9.8	8.7	10.2	8.7	13.1	13.5	8.7	10.6	8.9	10.2	8.9	10.7
Parastatals	4.7	4.2	8.0	6.8	2.7	2.7	4.6	5.6	3.4	4.0	2.6	3.1
Of which: NSSF	0.8	0.7	0.2	0.2	0.5	0.5	1.1	1.4	1.1	1.3	1.1	1.4
Building Societies	2.6	2.3	2.5	2.2	1.5	1.6	0.4	0.5	0.5	0.6	0.4	0.5
Others	46.9	41.8	40.5	34.7	34.3	35.4	37.8	46.1	39.8	45.9	37.8	45.4
Total*	112.3	100.0	116.9	100.0	96.8	100.0	82.1	100.0	86.6	100.0	83.3	100.0

* Excludes repurchase order bills

CHART 13: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh bn)



Source: Central Bank of Kenya

were 11.25% and 13.50%, respectively. The distribution of the Treasury bonds stock of Ksh 119.5bn among investors was as follows:

- Commercial banks held bonds worth Ksh 51.2bn;
- Non-bank financial institutions held bonds worth Ksh 2.0bn;
- Other investors comprising mainly individuals and corporate investors held Ksh 66.3bn worth of bonds.

Government Long Term Stocks

In October 2002, outstanding government long-term stocks remained unchanged from the June 2002 stock of Ksh 1.5bn. Of these, the National Social Security Fund (NSSF) held stocks worth Ksh 0.8bn, while the balance of Ksh 0.7bn was held by the non-bank investors.

External Public Debt

At the end of September 2002, external public debt stood at Ksh 375.4bn, equivalent to US\$

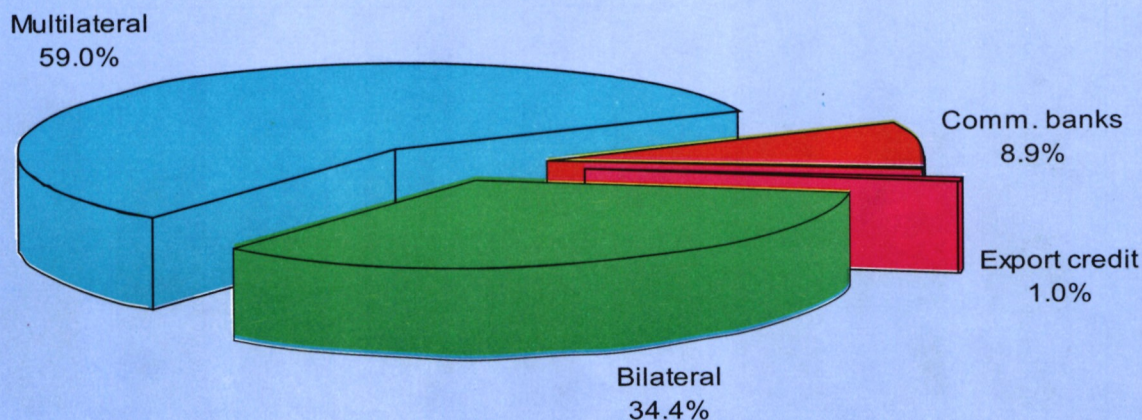
4.8bn and was Ksh 2.3bn lower than the debt stock in June 2002. As a proportion of GDP, external debt declined to 38.1% as at end September 2002, from 41.0% as at the end of June 2002.

The decrease of Ksh 2.3bn in external debt over the first quarter of the fiscal year 2002/03 was explained by:

- Disbursements of Ksh 2.8bn from external creditors, and
- Repayments of Ksh 5.0bn to external creditors; of which Ksh 4.5bn was Central Government secured debt, and Ksh 0.4bn Government Guaranteed debt;

Multilateral institutions remained the major creditors accounting for 59.0% or Ksh 221.4bn of the external debt (Chart 14). Debt owed to bilateral creditors stood at Ksh 129.0bn or 34.4% while commercial loans and export credit accounted for Ksh 25.0bn or 6.6% of the external debt stock.

CHART 14: EXTERNAL DEBT DISTRIBUTION



Source: Treasury

BALANCE OF PAYMENTS

The overall balance of payments position was a surplus of US\$ 93m in the twelve months to September 2002, an improvement of US\$ 92m compared with a surplus of US\$ 1m in the twelve months to September 2001. The favourable balance of payments outcome reflected the surplus in the capital and financial account which more than offset the widening current account deficit (Table 25 and Chart 15).

The Current Account

The current account deficit widened to US\$ 414m (3.4% of GDP) in the year to September 2002 from US\$250m (2.3% of GDP) in the year to September 2001. The deterioration in the current account was attributed to the decline in the services account surplus by US\$ 389m as the trade deficit narrowed by US\$ 225m.

TABLE 25: BALANCE OF PAYMENTS (US\$ m)*

	Year to Sep 2001	Quarters in Year to September 2002				Year to Sep 2002**
		Q1 Oct-Dec 2001	Q2 Jan-Mar 2001	Q3 Apr-Jun 2002	Q4 Jul-Sep** 2002	
OVERALL BALANCE	1	-23	13	83	20	93
I. CURRENT ACCOUNT	-250	-142	-180	101	-193	-414
Merchandise	-1555	-381	-334	-158	-456	-1330
Exports (fob)	1905	431	504	613	377	1924
Coffee	108	15	23	32	15	85
Tea	457	88	123	104	46	362
Horticulture	253	57	75	64	64	260
Oil products	172	38	28	13	20	99
Other	917	233	255	399	232	1118
Imports (cif)	3460	812	838	771	833	3254
Oil	839	130	166	168	208	671
Chemicals	460	118	142	126	138	525
Manufactured goods	427	99	105	99	94	397
Machinery & transport equipment	806	204	210	225	148	787
Other	835	260	215	153	245	874
Services	1305	239	155	260	263	916
Non-factor services (net)	581	117	88	162	220	588
Of which: tourism receipts	298	71	74	68	82	295
Income (net)	-123	-43	-37	-16	-27	-123
Of which: official interest income	-116	-26	-33	-17	-28	-104
Current Transfers	847	165	103	113	70	451
Private (net)	731	143	86	96	53	378
Public (net)	116	22	17	17	17	73
II. CAPITAL & FINANCIAL ACCOUNT	251	120	193	-19	213	507
Capital Transfers (net)	60	17	24	17	19	78
Financial Account	192	102	168	-36	194	429
Official, medium- & long-term	-270	-8	-11	9	-2	-13
Inflows	257	42	56	61	48	207
Outflows	-527	-50	-67	-53	-50	-220
Private, medium- & long-term (net)	110	21	-23	-16	37	20
Commercial banks (net)	23	15	-13	-18	59	43
Other private, medium- & long-term (net)	87	7	-10	1	-21	-23
Short term and errors & omissions (net)	290	89	203	-28	159	422
Gross Reserves	1487	1459	1479	1563	1545	1545
Official	1054	1064	1077	1137	1119	1119
in months of goods and non-factor services	3.2	3.4	3.2	3.3	3.5	3.4
Commercial Banks	433	395	402	427	426	426

* Revised to reflect the new BOP presentation format

** Provisional

Source: Central Bank of Kenya

Trade Balance

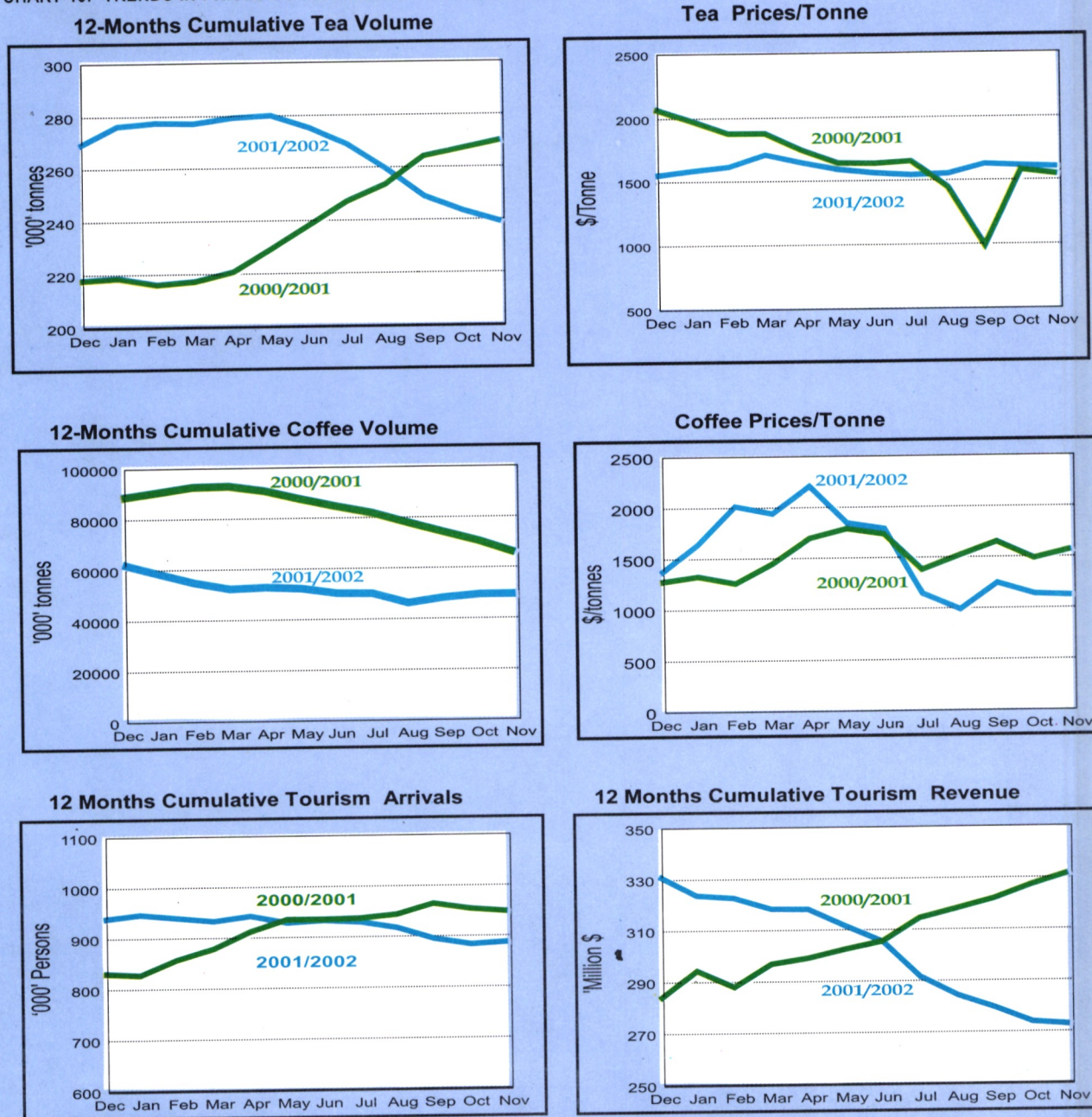
The trade balance improved to a deficit of US\$ 1,330m in the year to September 2002 from US\$ 1,555m in the year to September 2001. The relatively narrow trade deficit reflected both the increase in the value of exports and decline in the value of imports. The decline was in all categories of imports except chemicals which increased by

US\$ 65m. The major decline was in oil imports which fell by US\$ 168m. Except for coffee, tea and oil, all other categories of exports increased.

Services

The services account surplus declined by US\$ 389m during the period under review following decrease in net inflows related to current transfers.

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

Net current transfers fell to an inflow of US\$ 451m in the year to September 2002 from a net inflow of US\$ 847m in the year to September 2001, reflecting reduced grants inflows to support famine relief programmes. Non-factor services, however, rose by US\$ 7m from US\$ 581m in the year to September 2001 to US\$ 588m.

Capital and Financial Account

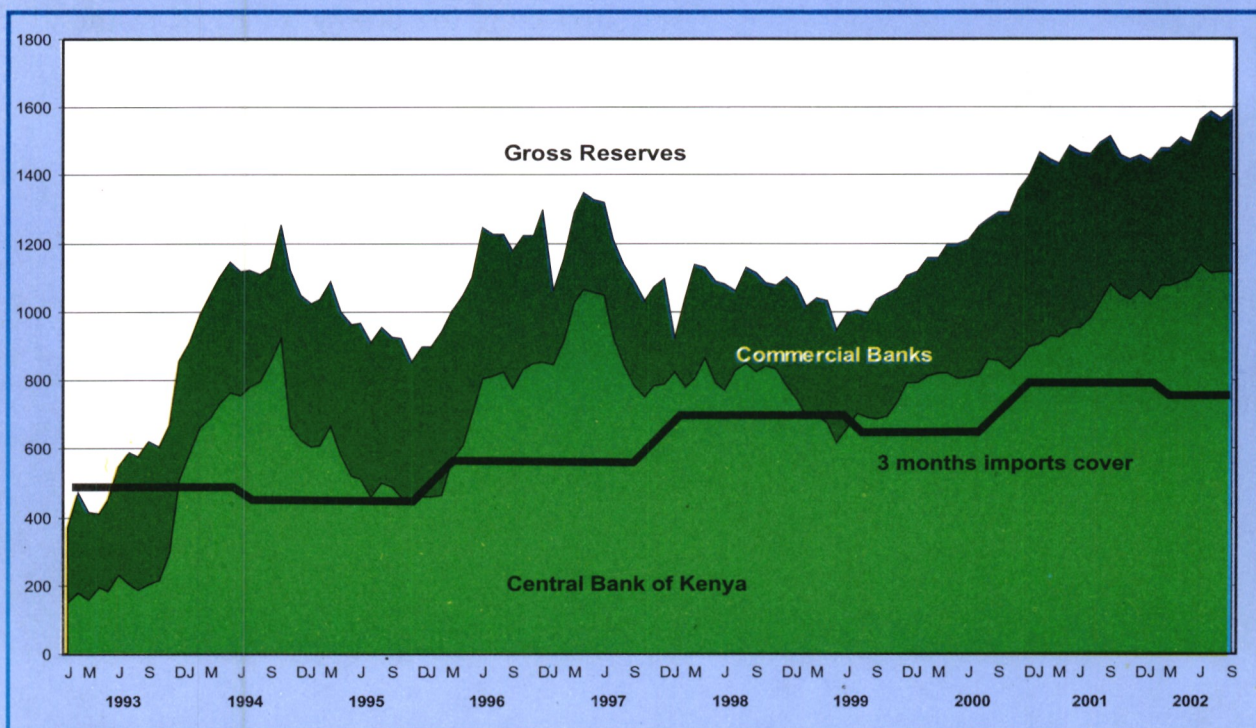
The surplus in the capital and financial account increased by US\$ 251m to US\$ 507m following decline in net official outflows by US\$ 220m. Private capital flows similarly declined by US\$ 110m to a net outflow of US\$ 23m from net inflows of US\$ 87m. Foreign direct investment deteriorated from a net inflow of US\$62 m in

the year to September 2001 to a net outflow of US\$ 20m in the year to September 2002.

Foreign Exchange Reserves

The official foreign exchange reserves increased by US\$ 65m to US\$ 1,119m at the end of September 2002 equivalent to 3.4 months of imports of goods and not factor services from US\$ 1,054m at the end of September 2001 (Chart 16). Foreign exchange reserves held by the commercial banks, however, declined marginally by US\$ 7m to US\$ 426m from US\$ 433m over the period. The overall foreign exchange reserves held by the banking system therefore rose to US\$ 1,545m at the end of September 2002 from US\$ 1,487m at the end of September 2001

CHART 16: FOREIGN EXCHANGE RESERVES (US\$ m)



Source: Central Bank of Kenya

STOCK MARKET

Trading at the Nairobi Stock Exchange (NSE) was mixed in October 2002. While trading at the equities market improved, activity at the bonds market declined. No activity was recorded at the Foreign Investors board.

Equities Market

Activity at the equities markets improved in October 2002 compared with September 2002, as shown by the following key indicators.

- The NSE share index increased by 7% to close at 1116.36 in October from the previous level of 1043.40 in September 2002 (Chart 17).
- Market capitalisation increased by Ksh 5.5bn or 6.4% to Ksh 91.3bn in October from Ksh 85.8bn in September 2002.
- The turnover ratio, defined as the proportion of the number of shares traded to share issuance, was 0.31% in October compared with 0.28% in September 2002.

Activity in October 2002 was largely dominated by the industrial and allied sectors, which represented 61% of total traded turnover.

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



Source: Nairobi Stock Exchange

The Bond Market

Turnover at the secondary market for bonds decreased by Ksh 1.5bn in October, compared with September 2002. This lower turnover largely reflected Ksh 1.4bn or 35% decline in secondary trading of government securities. The average yield traded on bonds declined to 11.39% in October from 11.97% in September 2002, reflecting the downward trend in the 91 day Treasury bill rate.

REAL SECTOR

Introduction

The economy continued on the recovery path during the first eight months of 2002 though at a reduced momentum than earlier envisaged (Table 26 and Chart 18). The slow pace of the economic recovery reflect the adverse effects of the prevailing low investor confidence related to the general elections and the failure to restore

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

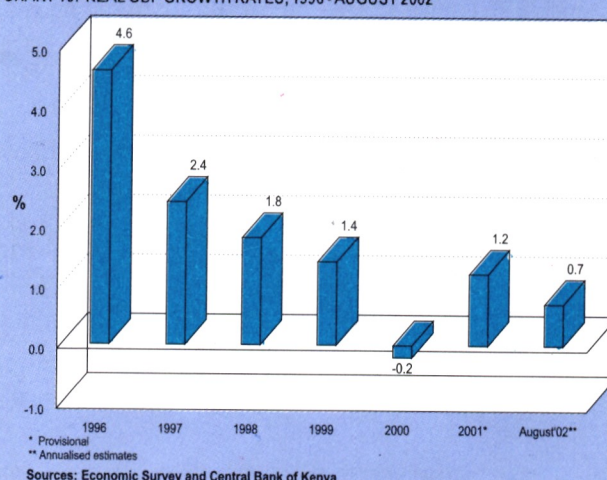


TABLE 26: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

MAIN SECTORS	Share in Real GDP in 2001 (%)	Annualised Estimates August	
		2001/ ¹	2002/ ²
Agriculture	24.1	25,050	25,219
Manufacturing	13.0	13,573	13,652
Trade, Tourism & Hotels	12.7	13,200	13,242
Financial Services	10.6	11,000	11,082
Building & Construction	2.4	2,450	2,501
Transport & Communications	6.2	6,360	6,488
Government	14.7	15,240	15,315
Others of which	16.3	17,149	17,264
<i>Non-monetary Sector</i>	5.7	5,990	6,011
<i>Domestic Services</i>	2.9	3,053	3,072
<i>Ownership of Dwellings</i>	5.7	6,000	6,071
<i>Other</i>	2.0	2,106	2,110
Est. Real GDP (1982 Prices)	100.0	104,023	104,764
Nominal GDP (at Factor cost)	772,893		
Overall GDP Deflator	7.4		
GDP at Mkt Prices	895,278		
MAIN SECTORS		Annual Percentage Change	
Agriculture		0.8	0.7
Manufacturing		0.5	0.6
Trade, Tourism & Hotels		0.8	0.3
Financial Services		0.8	0.7
Building & Construction		0.1	2.1
Transport & Communications		2.8	2.0
Government		0.6	0.5
Others		0.8	0.7
<i>Non-monetary Sector</i>		0.5	0.4
<i>Domestic Services</i>		0.8	0.6
<i>Ownership of Dwellings</i>		0.8	1.2
<i>Other</i>		-1.0	0.2
Est. Real GDP Growth		0.8	0.7

Notes

1 From the Economic Survey, 2002.

2 Based on selected economic activities.

Sources: Central Bureau of Statistics and Central Bank of Kenya

external financial support. The adverse effects of the weak infrastructure particularly poor roads, inefficient telecommunications and high cost of power also contributed to the slowdown in economic recovery. The estimated annualised growth in real GDP for the first eight months of 2002 was 0.7% compared with 0.8% in the same period of 2001.

Agriculture

The performance of major cash crops in the first eight months of 2002 was as follows:

- Exports of horticultural produce increased by 8.0% compared with an increase of 3.8% in a similar period of 2001, while sugar cane output increased by 38.7% compared with a decline of 25.4% in the same period (Table 27). The increase in output in these sub-sectors followed the favourable weather conditions and new markets for horticulture in the Middle East, USA and Australia.
- Output of tea, pyrethrum and sisal declined by 6.6%, 19.9% and 2.1% respectively in the first eight months of 2002 compared with 38.6%, 88.2% and 3.8% increases in the same period in 2001. The modest decline in tea production followed the delay in the long rains in major tea growing areas.
- Coffee production declined by 23.9% in the first eight months of 2002 compared with a decline of 35.1% in the first eight months of 2001. The decline in coffee output in the review period, largely reflect the low prices that have persisted for some

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

Crop	Jan - Aug		
	2000	2001	2002
Tea	-5.0	38.6	-6.6
Horticulture	0.2	3.8	8.0
Coffee	52.4	-35.1	-23.9
Sugar cane	-10.7	-25.4	38.7
Pyrethrum	-5.0	88.2	-19.9
Sisal	-2.3	3.8	-2.1

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

time and mismanagement of cooperative societies.

Among the food crops, maize production is expected to fall slightly lower than the output in 2001, but prices for the crop are expected to remain relatively stable due to inflows of imports. Prices of other basic food crops have remained relatively stable due to increased production. The on-going short rains are expected to further boost production in the sub-sector.

Manufacturing

The manufacturing sector continued to recover during the first eight months of 2002 as indicated by the following:

- The consumption of electricity, an input mostly utilised by industrial plants, increased by 2.8% compared with a decline of 5.0% in a similar period of 2001.
- Exports of manufactures increased by 8.1% during the first half of 2002 compared with an increase of 6.9% in the same period of 2001. The improved performance was partly in exports of textiles and fabrics, which increased by 196% following access to the United States market through the

African Growth and Opportunities Act (AGOA). Other exports particularly steel products, paper and paper products; vegetable oils to the East African Community and COMESA also increased.

- Imported inputs for the sector, namely chemicals and related products increased by 8.2% in the first half of 2002 compared with an increase of 11.3% in a similar period of 2001.

The performance of some selected manufactured items, were favourable except for assembled motor vehicles, which declined due to strong competition from the relatively cheap imported units of second hand vehicles (Table 28).

TABLE 28: PRODUCTION OF SELECTED MANUFACTURES (%)

Item	Jan - Aug	
	2001	2002
Galvanised sheets (MT)	2.2	5.4
Mineral water ('000 litres)	7.7	12.0
Soda ash (MT)	24.6	4.9
Cement (MT)	-7.1	28.0
Assembled vehicles (units)	-14.3	-21.0
Processed Sugar (MT)	-27.6	31.7

Source: Central Bureau of Statistics and Kenya Sugar Authority

Building and Construction

The consumption of cement, the main input in the sector, increased by 8.1% in the first eight months of 2002 compared with an increase of 2.1% in a similar period of 2001. The increase was largely in private sector building and construction projects. Public sector projects, however, continued to be slowed down by the government budgetary constraints.

Transport, Storage and Communications

The performance of key sub-sectors over the first eight months of 2002 was as follows (Table 29):

- Cargo handled through the Port of Mombasa (KPA) declined by 1.7% compared with a growth of 26.2% in the first eight months of 2001 (Table 30).
- Throughput by the Kenya Pipeline Company (KPC) declined by 3.8% compared with an increase of 5.0% in a similar period of 2001.
- Passengers through Jomo Kenyatta International Airport (JKIA) declined by 2.0% compared with an increase of 17.3% in the first eight months of 2001.
- Cargo carried by the Kenya Railways Corporation (KRC) increased by 2.2% during the first eight months of 2002 compared with a decline of 6.5% during the first eight months of 2001.
- The consumption of petroleum products rose by 6.3% in the first eight of 2002 compared with a decline of 0.5% in the same period of 2001.

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

	Jan - Aug	
	2001	2002
Cargo by KPA (MT)	26.2	-1.7
Cargo by KR (MT)	-6.5	2.2
Passengers thro JKIA	17.3	-2.0
Throughput by KPC	5.5	-3.8
Consumption of fuels	-0.5	6.3

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

Trade, Restaurants and Hotels

The tourism sub-sector slowdown during the first eight months of 2002 as follows:

- Tourists arriving at JKIA declined by 9.5% compared with an increase of 5.9% in the same period in 2001. Tourists arriving at Moi International Airport, Mombasa (MIAM) also declined by 2.6% in the first eight months of 2002.
- Consequently, earnings in the sector declined by US \$ 39.5 to US \$ 141.1m in the first eight months of 2002 compared with US \$ 180.6m in a similar period in 2001.

The slowdown in the sector largely reflects the deterioration in the global economic environment, fear of terrorist activities and the uncertainty in the run up to the general elections.

Financial Services

Banking institutions made pre-tax profits of Ksh 5.9bn in the first eight months of 2002 compared with pre-tax profits of Ksh 6.1bn in the same period of 2001. Provisions for bad and doubtful

debts, however, declined to Ksh 4.9bn from Ksh 5.4bn in the period. As a result of restructuring and other cost cutting measures, total expenses of the banking sector declined to Ksh 34.3bn in the first eight months of 2002 compared with Ksh 37.5bn in a comparable period in 2001.

Government Services

Provision of government services continues to be hampered by financial constraints partly due to the failure to restore support from external development partners.

Economic Prospects in 2003

The economy is expected to expand by 2.3% in 2003. The expected growth will continue to be driven by agriculture and other related sectors. The increased access to regional markets within the East African Community (EAC), COMESA, and other preferential arrangements such as AGOA will also continue to be pivotal to higher growth. Investor confidence is also expected to be restored after the general elections and the likely resumption of external support by middle of 2003.

BALANCE SHEET OF THE CENTRAL BANK OF KENYA

(Amounts in Ksh Millions)

	Sept. 2001	Sept. 2002	Movement
ASSETS	145,671	159,866	14,195
Foreign Exchange	80,455	87,206	6,751
Advances and Discounts to Banks	700	5,794	5,094
Investment in Government Securities	1,402	1,387	-15
Government Accounts	40,205	45,041	4,836
Overdraft to Government of Kenya	501	2,952	2,451
Clearing Account	819	3,091	2,272
IMF funds onlent to Government	1,968	2,081	113
Non-interest Bearing Government Debt	36,917	36,917	0
Debtors	1,836	1,683	-153
Retirement Benefits	289	287	-2
Property and Equipment	591	826	235
Other Assets	20,193	17,642	-2,551
Revaluation Account	18,642	17,642	-1,000
Times Tower	1,551	-	-1,551
LIABILITIES	145,671	159,866	14,195
Currency in Circulation	46,456	51,938	5,482
Repo Securities	12,250	22,379	10,129
Deposits	79,792	72,364	-7,428
Government of Kenya	37,263	27,491	-9,772
Commercial Banks			
Kenya	22,916	26,211	3,295
External	27	22	-5
Non -bank Financial Institutions	423	444	21
IMF	10,450	9,589	-861
Other Public Entities and Project A/Cs	8,713	8,607	-106
Other Liabilities and Provisions	938	1,750	812
Capital and Reserves	6,235	11,435	5,200
Capital	1,500	1,500	0
General Reserve Fund	4,248	7,978	3,730
Period's Surplus	487	1,957	1,470

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 September 2001 and September 2002:

Assets

Foreign exchange increased by Ksh 6,751m to Ksh 87,206m from Ksh 80,455m mainly due to purchase of foreign exchange from the interbank market.

Advances and discounts to commercial banks increased by Ksh 5,094m to Ksh 5,794m.

Government accounts increased by Ksh 4,836m to Ksh 45,041m in September 2002, mainly on account of increases in the overdraft to Government of Kenya and clearing house by Ksh 2,451m and Ksh 2,272m, respectively.

Other assets, comprising revaluation account and Times Tower, decreased by Ksh 2,551m to Ksh 17,642m.

Liabilities

Currency in circulation increased by Ksh 5,482m to Ksh 51,938m from Ksh 46,456m.

The stock of **repo securities** increased by Ksh 10,129m to Ksh 22,379m.

Deposits decreased by Ksh 7,428m to Ksh 72,364m due to a decrease in deposits of the Government of Kenya by Ksh 9,772m. Similarly, deposits of IMF and other public entities and projects declined by Ksh 861m and Ksh 106m, respectively. Deposits of commercial banks, however, rose by Ksh 3,295m.

Other liabilities and provisions increased by Ksh 812m to Ksh 1,750m.

Capital and reserves increased by Ksh 5,200m to Ksh 11,435m in the year to September 2002 due to Ksh 3,730m increase in the general reserve fund and Ksh 1,470m increase in the period's surplus.

