



CENTRAL BANK
OF KENYA

MONTHLY ECONOMIC REVIEW

JANUARY
2003



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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:

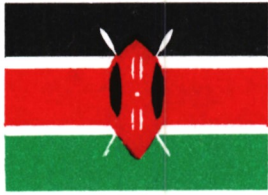
PRINCIPAL OBJECTIVES

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 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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KENYA NATIONAL ASSEMBLY
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HIGHLIGHTS OF THE JANUARY ECONOMIC REVIEW

It is estimated that **real GDP** grew at an annualized rate of 0.7% in the first ten months of 2002 compared with 0.9% in a similar period of 2001. The 12-month underlying **inflation** rose to 2.4% in December from 2.0% in November 2002. The 12-month overall inflation also increased to 4.1% from 2.7% in a similar period. The upward trend in inflation mainly emanated from increases in the prices of basic food items, housing and petroleum products.

Interest rate for the 91-day Treasury bill increased to 8.4% in December 2002 from 8.3% in November. **Money supply**, M3X, increased by 9.6% in the year to November 2002 compared with 1.6% 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 34.5bn or 8.2% to Ksh 457.4bn at the end of November 2002 from Ksh 422.9bn at the end of November 2001. Non-performing loans (NPLs), net of interest in suspense, were estimated at Ksh 76.1bn or 29.8% of the total loans in November 2002, compared with Ksh 81.3bn or 33.4% in November 2001. Provisions for the NPLs increased from Ksh 32.2bn in November 2001 to Ksh 33.2bn in November 2002. Adjusted for the provisions and the value of securities held by the banking sector estimated at

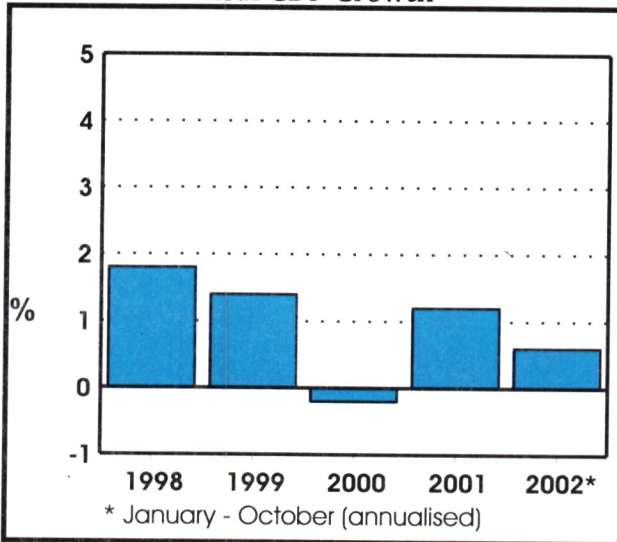
Ksh 44.8bn, the banks were covered in excess of Ksh 1.3bn.

Government budgetary operations during the first five months of fiscal year 2002/03 resulted in a deficit, on a commitment basis, of Ksh 17.9bn or 1.8% of GDP compared with a deficit of Ksh 9.5bn in a similar period in the previous fiscal year. The stock of public debt increased to Ksh 626.5bn in November 2002 from Ksh 613.8bn in June 2002. The increase was entirely in domestic debt as external debt declined.

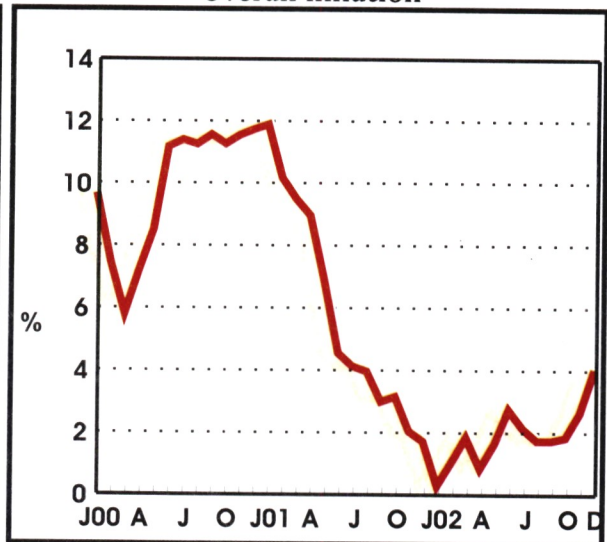
The **Kenya shilling** remained stable, exchanging at Ksh 79.5 against the US dollar in December 2002 to exchange compared with Ksh 79.6 in November 2002. The **balance of payments** strengthened to US\$ 26m surplus in the year to November 2002 from a US\$ 7m surplus over similar period in 2001. **Foreign exchange reserves** of the Central Bank consequently increased to US\$ 1,054m or 3.4 months of imports cover at the end of November 2002 compared with US\$ 1,011m at the end of November 2001.

SELECTED PERFORMANCE INDICATORS

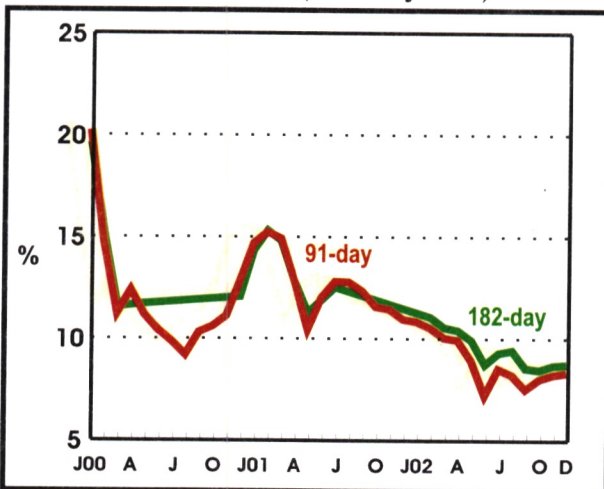
Real GDP Growth



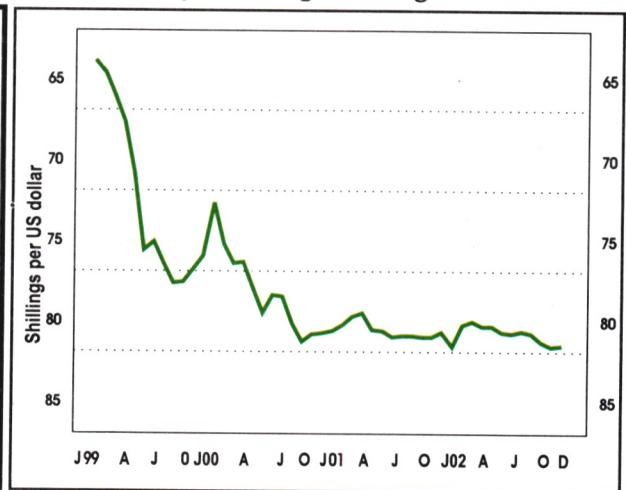
Overall Inflation



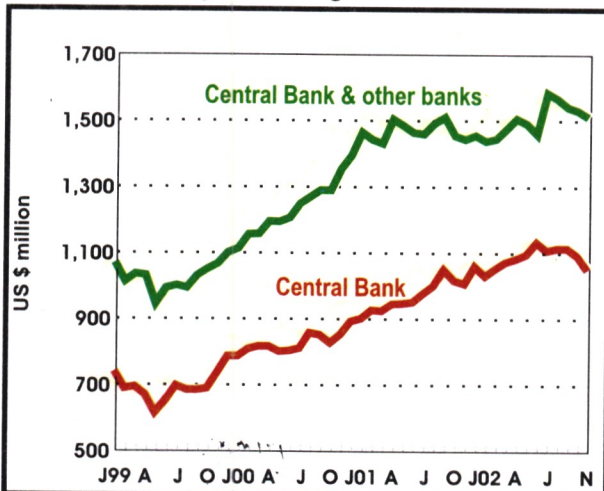
Interest Rate (Treasury Bills)



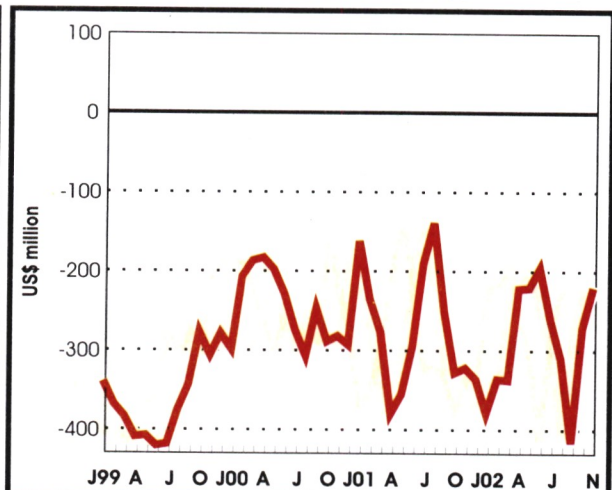
Kenya Shilling Exchange Rate



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.

** Revised to reflect data reported in Economic Survey 2002.

*** 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	Jun	Aug	Sep	Oct	Nov	Dec*
1. INFLATION (%)									
Overall (Urban)									
12-month	1.8	0.4	1.9	2.8	1.8	1.8	1.9	2.7	4.1
Average annual	5.8	4.8	3.5	2.3	1.9	1.8	1.7	1.7	1.9
Underlying (overall excluding food)									
12-month	5.1	3.0	3.4	2.9	1.5	1.4	1.5	2.0	2.4
Average annual	6.7	6.2	5.5	4.6	3.9	3.4	3.0	2.7	2.5
2. INTEREST RATES (%)									
91-day Treasury bill	11.0	10.9	10.1	7.3	8.3	7.6	8.1	8.3	8.4
Overdraft	20.0	19.3	18.8	18.5	18.6	18.5	18.9	18.6	
3. STOCK MARKET									
Nairobi Stock Exchange Price Index	1355.1	1343.0	1183.1	1082.6	1043.4	1043.4	1116.4	1161.6	1362.9
Trade Turnover (%)	0.17	0.15	0.21	0.19	0.27	0.36	0.23	0.40	0.47
4. GOVERNMENT BUDGET** (Ksh bn.)									
Revenue and Grants	93.8	110.5	142.3	203.3	30.1	48.5	64.4	80.8	..
Expenditure:	102.2	122.4	157.6	225.6	39.8	58.9	79.3	98.7	..
Budget Deficit (-) / Surplus (+)	-8.4	-12.0	-15.3	-22.3	-9.7	-10.4	-14.9	-17.9	..
5. MONEY AND CREDIT (Ksh bn.)									
Money Supply (M3XT)	462.1	460.2	466.4	483.9	499.1	502.8	502.8	519.9	..
Money Supply (M3X)	368.4	360.6	366.1	378.3	389.8	387.4	387.3	395.7	..
Reserve Money	79.1	73.6	75.8	76.9	77.6	78.6	77.1	80.6	..
Total Domestic Credit	334.0	325.8	329.5	341.8	355.0	350.7	350.5	352.6	..
Government	89.1	84.2	88.6	94.7	102.2	98.1	98.8	98.5	..
Private Sector	244.9	241.7	240.8	247.2	252.8	252.6	251.6	254.1	..
6. MONEY AND CREDIT (Annual % Change)									
Money Supply (M3XT)	6.1	4.3	5.7	8.4	11.6	11.4	10.6	15.8	..
Money Supply (M3X)	2.3	0.0	2.1	6.7	10.9	8.4	7.0	9.6	..
Reserve Money	1.8	3.4	8.2	10.9	5.0	12.6	6.9	9.1	..
Total Domestic Credit	0.8	-1.2	-0.6	5.4	8.6	6.2	4.7	3.6	..
Government	16.5	14.9	16.7	37.9	37.2	27.9	17.2	7.6	..
Private Sector	-3.9	-5.9	-5.7	-3.4	0.1	-0.4	0.5	2.2	..
7. BALANCE OF PAYMENTS (US\$ m)									
Overall Balance	42	-24	25	43	5	-2	-25	-37	..
Current Account Balance	-11	-51	-67	51	-75	-73	-20	16	..
Trade Balance	-83	-83	-119	-45	-141	-141	-86	-72	..
Capital and Financial Account	53	27	91	-8	80	71	-5	-53	..
8. FOREIGN EXCHANGE RESERVES (US \$ m)	1459	1442	1479	1563	1570	1548	1534	1515	..
Official***	1064	1035	1077	1137	1119	1119	1096	1054	..
Months of imports	(3.2)	(3.1)	(3.4)	(3.6)	(3.5)	(3.5)	(3.5)	(3.4)	..
Commercial banks	395	406	402	427	451	429	438	461	..
9. PUBLIC DEBT (US\$ bn)	7.7	7.7	7.8	7.8	7.9	7.9	7.9	7.9	..
Domestic	2.8	2.8	2.9	3.0	3.1	3.2	3.2	3.2	..
As % of GDP	23.9	24.2	24.9	25.6	25.1	25.5	25.5	25.9	..
External	4.9	4.9	4.9	4.8	4.8	4.8	4.7	4.7	..
As % of GDP	41.8	41.5	41.3	41.1	38.3	38.1	37.9	37.7	..
10. GROSS DOMESTIC DEBT (Ksh bn)****	220.0	222.7	229.2	236.0	247.2	250.8	251.2	255.2	260.1
11. AVERAGE EXCHANGE RATE									
Ksh/US\$	78.7	78.6	78.1	78.7	78.6	78.8	79.3	79.6	79.5
Ksh/Pound Sterling	113.2	112.8	111.1	116.6	120.8	122.5	123.6	125.1	126.1
Ksh/ 100 Yen	61.9	59.3	59.5	63.7	66.0	65.2	64.0	65.5	65.1
Ksh/Euro	70.2	69.5	68.4	75.1	76.9	77.3	77.8	79.7	81.0

* 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 confined within the 5% target in 2002 following the sustained implementation of prudent monetary policy and the stability in the shilling exchange rate. However, during the last quarter of the year, an upward trend in prices seems to have emerged accruing from both the temporary increases in the prices of basic food items, namely, maize products and green groceries and increases in the costs of housing and petroleum products. The temporary increase in household expenditures during the December festive season and the election period also contributed to the modest increase in inflation.

Overall Inflation

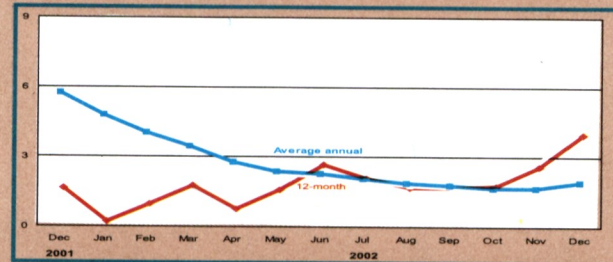
Overall inflation rose in December 2002 as indicated below (Table 1 and Chart 1):

- The overall 12-month inflation increased to 4.1% from 2.7% in November 2002.

TABLE 1: OVERALL INFLATION (%)

	2001					2002				
	Jan	Jun	Sep	Nov	Dec	Jan	Jun	Sep	Nov	Dec
12-month ¹	12.0	4.6	3.1	2.1	1.8	0.4	2.8	1.8	2.7	4.1
Average annual ²	10.2	10.1	8.1	6.6	5.8	4.8	2.3	1.8	1.7	1.9
Changes over one month	0.9	0.2	-0.3	0.5	-0.2	-0.5	1.2	-0.3	0.5	1.3
Changes over 3 months	1.9	2.3	0.1	-0.5	-0.3	-0.9	3.4	-1.0	0.4	2.0

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.

- In December 2002 alone, the overall inflation index increased by 1.3% compared with 0.5% increase in November 2002.
- The overall average annual inflation also rose to 1.9% in December 2002 from 1.7% in November.

Underlying Inflation

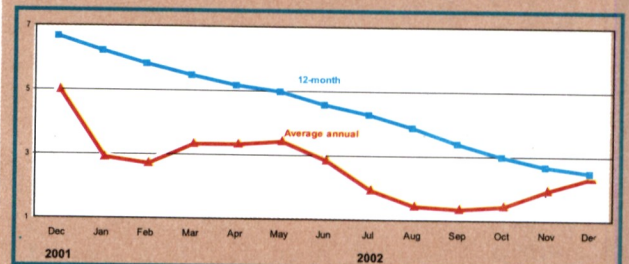
Developments in the underlying inflation in December 2002 were as follows (Table 2 and Chart 2):

- The underlying 12-month inflation increased to 2.4% from 2.0% in November.
- In December 2002 alone, the underlying inflation index increased by 0.5% compared with 0.3% increase in November.
- The underlying average annual inflation, however, declined to 2.5% from 2.7.

TABLE 2: UNDERLYING INFLATION (%)

	2001					2002				
	Jan	Jun	Sep	Nov	Dec	Jan	Jun	Sep	Nov	Dec
12-month	8.3	6.7	6.5	5.7	5.1	3.0	2.9	1.4	2.0	2.4
Average annual	6.8	7.1	6.8	6.8	6.7	6.2	4.6	3.4	2.7	2.5
Changes over one month	1.5	0.6	0.3	-0.2	0.2	-0.5	0.0	0.2	0.3	0.5
Changes over 3 months	3.0	1.6	1.8	0.2	0.1	-0.6	1.2	0.3	0.8	1.0

CHART 2



Sources: Central Bureau of Statistics & Central Bank of Kenya

Inflation by Income Groups

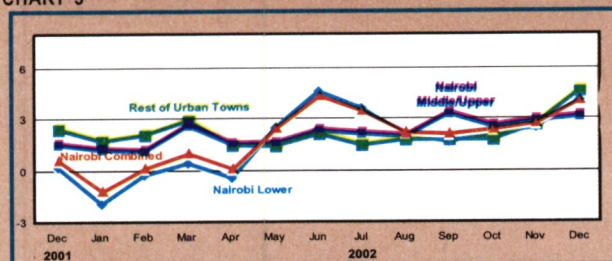
Inflation in goods and services purchased by various income groups accelerated in the 12-month period to December 2002 as follows (Table 3 and Chart 3):

- The 12-month inflation in goods and services purchased by the Nairobi lower income group, increased to 4.0% from 2.4% in November.
- The 12-month inflation in goods and services purchased by the Nairobi middle/upper income group rose to 3.0% from 2.8% in November.
- As a result, the 12-month inflation in goods and services purchased by the combined Nairobi income groups increased to 3.8% from 2.5%.
- The 12-month inflation in goods and services purchased by consumers in the rest of urban towns also increased to 4.5% from 2.6%.

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

	2001					2002				
	Jan	Jun	Sep	Nov	Dec	Jan	Jun	Sep	Nov	Dec
Nairobi Lower	11.5	1.3	1.3	0.5	0.2	-2.0	4.5	1.6	2.4	4.0
Nairobi middle/upper	8.7	4.6	1.3	1.7	1.5	1.2	2.2	3.2	2.8	3.0
Nairobi Combined	10.9	1.9	1.3	0.8	0.4	-1.4	4.1	1.9	2.5	3.8
Rest of Urban Towns	12.7	6.4	4.2	3.0	2.4	1.7	2.1	1.7	2.6	4.5

CHART 3



Sources: Central Bureau of Statistics & Central Bank of Kenya

Inflation by Categories of Goods and Services

Inflationary pressures experienced during the month were largely in the major components of the consumer price index (CPI), namely, food and soft drinks, housing, and fuel and power whose inflation rates increased to 5.7%, 3.5% and 7.5%, respectively, from 3.2%, 2.2% and 3.4% in November 2002. Alcohol and tobacco, medical

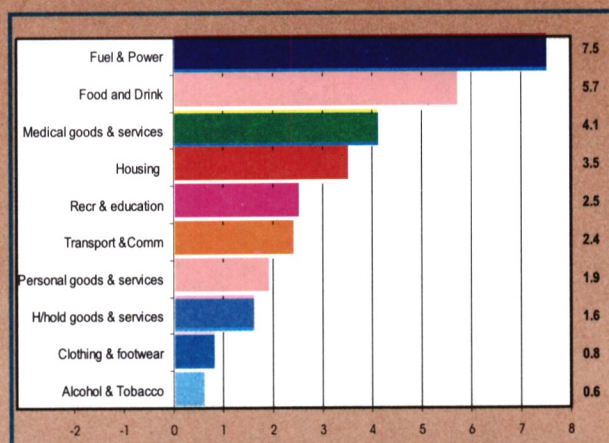
goods and services, and recreation and entertainment, however, had declines in inflation during the month while inflation in clothing and footwear remained unchanged at 0.8% (Table 4 and Chart 4).

TABLE 4: BASKET WEIGHTS & OVERALL 12-MONTH INFLATION, NOV - DEC 2002

Goods and Services	Income Groups*			Rest of Urban Towns	Inflation (%)	
	Nairobi Lower (31.9)	Middle/Upper (8.0)	Combined weights (100)		Nov	Dec
Food and Drink	55.7	31.9	50.2	50.5	3.2	5.7
Housing	11.9	31.7	9	11.7	2.2	3.5
Recr & education	4.6	7.3	6.6	6.0	3.0	2.5
H/hold goods & services	5	4.7	6.4	5.8	1.4	1.6
Clothing & footwear	9.2	7.4	9.1	9.0	0.8	0.8
Transport & Comm	5.1	10.2	5.5	5.7	1.3	2.4
Fuel & Power	3.5	2.2	4.8	4.2	3.4	7.5
Medical goods & services	0.9	1.3	2	1.6	4.2	4.1
Personal goods & services	2.3	1.9	2.6	2.4	1.5	1.9
Alcohol & Tobacco	1.8	1.4	3.8	3.0	0.7	0.6

* Numbers in parentheses are income group weights

CHART 4



Sources: Central Bureau of Statistics & Central Bank of Kenya

Outlook

Various temporary and seasonal influences are expected to generate inflationary pressures in the short-run. These include the increases in prices of petroleum and related products, and shortages associated with inefficient transportation and distribution of goods due to heavy rains in some rural areas. However, the pressures are not expected to persist during the year due to the implementation of a prudent monetary policy stance and the stability in the shilling exchange rate.

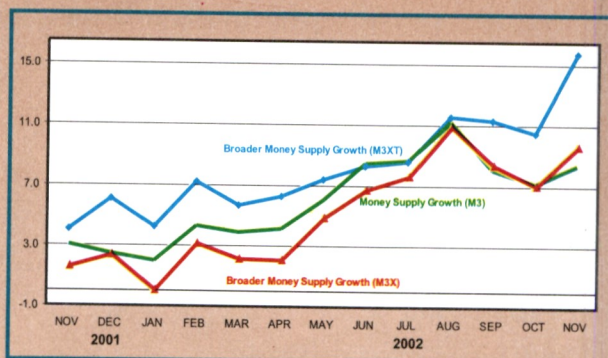
MONEY SUPPLY

Money supply accelerated in the twelve months to November 2002 relative to both the target and the increase in the year to November 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 8.4% compared with 1.6% target growth and 3.1% increase in the year to November 2001. Broad money supply, M3X, which includes M3 and residents' foreign currency deposits increased by 9.6% compared with 1.9% target growth and

TABLE 5: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

	2002								
	Sep	Nov	Dec	Jan	Mar	Jun	Sep	Oct	Nov
M3	0.7	3.1	2.5	2.0	3.9	8.5	8.1	7.2	8.4
M3X	1.7	1.6	2.3	0.0	2.1	6.7	8.4	7.0	9.6
M3XT	8.1	4.1	6.1	4.3	5.7	8.4	11.4	10.6	15.8

CHART 5



Source: Central Bank of Kenya

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

	Nov.	Nov.	Annual Change	
	2001	2002	Absolute	%
1. Money supply, M3XT 1/	449.0	519.9	70.9	15.8
2. Money supply, M3X (4+5) 2/	361.1	395.7	34.6	9.6
3. Money supply, M3 3/	318.0	344.6	26.6	8.4
Of which: M2	304.6	331.3	26.7	8.8
4. Net foreign assets 4/	86.7	96.7	9.9	11.5
Central Bank	71.8	71.8	0.0	0.0
Banking Institutions	15.0	24.9	9.9	66.2
5. Net domestic assets (5.1+5.2)	274.3	299.0	24.6	9.0
5.1 Domestic credit (5.1.1+5.1.2)	340.2	352.6	12.4	3.6
5.1.1 Government (net)	91.5	98.5	7.0	7.6
Central Bank	12.6	18.1	5.5	43.4
Banking Institutions	78.9	80.4	1.5	1.9
5.1.2 Private sector and other public sector 5/	248.7	254.1	5.5	2.2
5.2 Other net domestic assets (5-5.1)	-65.8	-53.6	12.2	18.6
6. Reserve money	73.9	80.6	6.7	9.1
Currency in circulation	49.2	56.4	7.2	14.6
Banking Institutions' deposits with CBK	24.7	24.2	-0.5	-1.8
Memorandum items				
Treasury bills outstanding	132.1	114.7	-17.5	-13.2

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

1.6% increase in the twelve months to November 2001. The broader money supply, M3XT, increased more rapidly by 15.8% compared with 6.5% target growth and 4.1% increase in the year to November 2001 reflecting the increase in M3X and a 41.4% increase in holdings of government securities by the non bank public.

The expansion in M3X, the intermediate money supply target used by Central Bank for monetary policy, emanated from increases in both net foreign assets (NFA) and net domestic assets (NDA) of the banking system. The NFA increased by 11.5% in the year with the build up being wholly in foreign assets of commercial banks as their foreign liabilities declined. The NDA increased by 9.0% due to increased credit to the Government and the private sector as well as increases in other domestic assets net of other liabilities of the banking system.

Reserve Money

Reserve money, comprising currency in circulation and deposits of commercial banks and non-bank financial institutions (NBFIs) at the Central Bank, increased by 9.1% to Ksh 80.6bn in the twelve months to November 2002 compared with 6.4% target increase and 4.4% increase in the year to November 2001 (Table 7 and Chart 6). The increase in reserve money in the period under review was wholly in currency in circulation, which increased by 14.6% compared with 4.9% increase in the year to November 2001. Deposits of commercial banks and NBFIs, on the other hand, declined by 1.8% in the year to November 2002 compared with an increase of 3.4% in the year to November 2001.

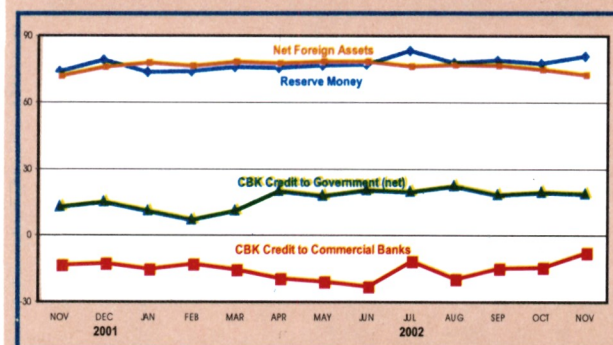
The reserve money expansion during the twelve months to November 2002 was wholly in the NDA of the Central Bank as the NFA remained unchanged at Ksh 71.8bn. The NDA increased by Ksh 6.7bn partly due to Government spending of its deposits at the Central Bank as well as reduced indebtedness of the Central Bank to commercial banks, through lower mop up activities under open market operations (OMO). Developments in the components of the NDA were as follows:

- Government net position at the Central Bank increased by Ksh 5.5bn in the year to November 2002.
- Commercial banks net indebtedness to Central Bank declined by Ksh 5.3bn, reflecting a decline of Ksh 2.8bn in holdings of commercial banks repurchase agreements under the OMO. At the same time, banks' borrowing from the Central Bank declined by Ksh 2.5bn.

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

	2001	2002	Annual Change	
	Nov.	Nov.	Absolute	%
1. Net Foreign Assets	71.8	71.8	0.0	0.0
2. Net Domestic Assets	2.1	8.8	6.7	313.7
2.1 Government Borrowing (net)	12.6	18.1	5.5	43.4
2.2 Advances & Discounts	-13.6	-8.3	5.3	-39.1
2.3 Other Domestic Assets (net)	3.1	-1.0	-4.1	-130.6
3. Reserve Money	73.9	80.6	6.7	9.1
3.1 Banks & NBFIs Deposits at CBK	24.7	24.2	-0.5	-1.8
3.2 Currency in Circulation	49.2	56.4	7.2	14.6

CHART 6



Source: Central Bank of Kenya

- Other domestic assets net of other domestic liabilities declined by Ksh 4.1bn.

Credit Developments

Net domestic credit (NDC) from the banking system increased by 3.6% in the twelve months to November 2002 compared with 2.1% increase in the year to November 2001. The credit expansion in the period was channelled to both the Government and the private sector.

Credit to government, on a net basis, increased by 7.6% during the review period compared with 13.2% increase in the year to November 2001. The Government spent Ksh 4.6bn of its deposits and utilised Ksh 1.1bn of its overdraft facility at the Central Bank. Meanwhile, commercial banks credit to Government increased by Ksh 1.5bn or 1.9% compared with Ksh 18.2bn or 30% increase in the year to November 2001.

Credit to the private and other public sectors increased by Ksh 5.5bn or 2.2% in the year to November 2002 compared with Ksh 3.7bn or 1.5% decline in the year to November 2001. The credit increase was wholly to the private sector as

lending to other public sector institutions declined by Ksh 0.4bn. An additional Ksh 25.3bn credit was extended to the private sector to finance activities in transport and communication, finance and insurance, private households, agriculture, building and construction, real estate, consumer durables and business services. The additional credit was however, partly offset by Ksh 19.4bn repayments by other activities, trade, manufacturing and mining and quarrying (Table 8).

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

	2001 November		2002 November		Annual Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	Ksh bn	(%)
1. Credit to other public sector	8.5	3.4	8.1	3.2	-0.4	-4.4
Local government	0.0	0.0	0.0	0.0	0.1	-221.9
Parastatals	8.5	3.4	8.1	3.2	-0.4	-5.2
2. Credit to private sector	240.2	96.6	246.1	96.8	5.9	2.5
Agriculture	23.0	9.2	24.7	9.7	1.7	7.3
Manufacturing	51.4	20.7	48.8	19.2	-2.6	-5.1
Trade	47.8	19.2	41.0	16.1	-6.8	-14.3
Building and construction	19.2	7.7	20.1	7.9	0.9	4.7
Transport & communications	9.7	3.9	16.5	6.5	6.9	71.0
Finance & insurance	13.5	5.4	20.4	8.0	6.9	50.7
Real estate	20.2	8.1	21.0	8.3	0.8	4.2
Mining and quarrying	2.8	1.1	1.9	0.7	-0.9	-32.1
Private households	10.2	4.1	16.9	6.6	6.7	65.5
Consumer durables	4.9	2.0	5.7	2.2	0.8	15.5
Business services	26.0	10.5	26.8	10.5	0.7	2.8
Other activities	11.5	4.6	2.4	0.9	-9.1	-79.2
3. TOTAL (1+2) *	248.7	100.0	254.2	100.0	5.5	2.2

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

Source: Central Bank of Kenya

BANKING SECTOR DEVELOPMENTS

Structure of the Banking System

At the end of December 2002, the banking system consisted of 53 institutions, comprising 44 commercial banks, 3 NBFIs, 2 mortgage finance companies and 4 building societies (Table 9). This represented a decline in the total number of institutions from 57 in December 2001. The decline in the number of banks reflected mergers involving eight banks. One bank that had been under statutory management resumed operations in December 2002. In addition, there were 48 foreign exchange bureaux.

TABLE 9: COMMERCIAL BANKS, NBFIs & FOREIGN EXCHANGE BUREAUS

Type of Institution/Bureau	Dec-2001	Dec-2002
Commercial Banks	48	44
(a) Operating	47	44
(b) Under Central Bank statutory management	1	0
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	53
Foreign Exchange Bureaus	47	48

Source: Central Bank of Kenya

Assets

Total assets of the banking system increased to Ksh 457.4bn in November 2001. Total loans and advances, which accounted for 56% of total assets increased by Ksh 11.8bn to Ksh 255.3bn in November 2002 from Ksh 243.6bn in November 2001 (Table 10). The increase in total loans was mainly on account of increased lending to transport and communication, finance and insurance and private households.

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

	Nov	Nov	Change*	
	2001	2002	Absolute	%
ASSETS	422.9	457.4	34.5	8.2
Loans and Advances	243.6	255.3	11.8	4.8
Government Securities	93.0	101.3	8.3	8.9
Balances at Central Bank	26.0	23.9	-2.1	-8.1
Fixed Assets	17.8	18.9	1.1	6.2
Other Assets	28.1	36.8	8.7	31.0

*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 8.9% to Ksh 101.3bn in November 2002 from Ksh 93.0bn in November 2001, and accounted for 22.1% of total assets. Deposits with the Central Bank decreased to Ksh 23.9bn from Ksh 26.0bn and accounted for 5% of total assets.

Asset Quality

At the end of November, 2002 the level of non-performing loans (NPLs) was estimated at Ksh 76.1bn or 29.8% of total loans, compared with Ksh 81.3bn or 33.4% of total loans in November 2001 (Table 11). The decline in NPLs by Ksh 5.2bn accrued mainly from write-offs by some institutions. The NPLs were mainly concentrated in ten institutions, which held about Ksh 45.0bn or 60% of the industry's total. The level of provisions increased marginally from Ksh 32.2bn to Ksh 33.2bn in November 2002. As a result, the banking sector was adequately cushioned against the NPLs as the estimated value of securities increased from Ksh 37.5bn to Ksh 44.8bn.

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

	Nov-01	Nov-02
1. Total Advances	243.6	255.3
2. Specific Provisions	29.7	30.0
3. General Provisions	2.5	3.2
4. Total Provisions (2+3)	32.2	33.2
5. Net Advances (1-4)	211.4	222.1
6. Total Non-Performing Loans (NPLs)**	81.3	76.1
7. Net Non-Performing Loans (6-2)	51.6	46.1
8. Value of securities (estimated)	37.5	44.8
9. Net Exposure (7-8)	14.1	1.3
10. Total NPLs as % of total Loans (6/1)	33.4%	29.8%
11. Total Provisions as % of total loans (4/1)	13.2%	13.0%
12. Exposure as % of total loans (9/1)	5.8%	0.5%

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

Source: Central Bank of Kenya

Deposit Liabilities

Deposits, including interbank deposits and accrued interest, held by banking institutions increased by 10.2% to Ksh 353.7bn in November 2002 from Ksh 320.9bn in November 2001. In terms of market share, the largest ten commercial banks accounted for 77.3% of all deposits in the banking system.

Capital and Reserves

Capital and reserves of the banking system increased by 6.0% to Ksh 58.3bn in November 2002 from Ksh 55.0bn in November 2001 (Table 12). Capitalisation as measured by the ratio of total capital to total risk-weighted assets ratio, decreased marginally to 17.0% at the end of November 2002 from 17.1% at the end of November 2001. This was, however, still above the minimum requirement of 12%.

Profitability of the Sector

The unaudited pre-tax profits decreased by 4.5% to Ksh 8.4bn for the eleven months ending

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

	Nov	Nov	Annual Change*	
	2001	2002	Absolute	%
LIABILITIES	422.9	457.4	34.5	8.2
Deposits**	320.9	353.7	32.8	10.2
Capital and Reserves	55.0	58.3	3.3	6.0
Foreign Liabilities	10.9	8.2	-2.7	-24.8
Other Liabilities	31.9	34.0	2.0	6.6

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

**Includes interbank balances.

Source: Central Bank of Kenya

November 2002 from Ksh 8.8bn for a similar period in 2001. The deterioration in profitability was mainly attributed to a decline in interest income on advances.

Institutions under Statutory Management

The Delphis Bank, which re-opened in December 2002, is now fully operational under close monitoring by the Central Bank of Kenya.

Building Societies

At the end of November 2002, total assets and deposits of building societies were Ksh 9.5bn and Ksh 7.5bn, respectively, while their total advances amounted to Ksh 3.1bn. While their total income stood at Ksh 1.2bn, their total expenses stood at Ksh 0.9bn, giving total pre-tax profit of Ksh 0.3bn for the eleven months ending November 2002.

Cash and Liquidity Ratios

The commercial banks and NBFIs continued to meet the 20% minimum liquidity and 10% cash ratio requirements in November and December 2002 (Table 13 and Chart 7).

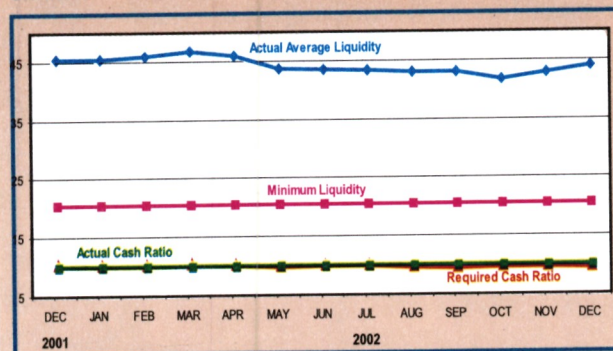
TABLE 13: CASH AND LIQUIDITY RATIOS* (%)

	2001				2002				
	Jun	Sep	Nov	Dec	Jan	Jun	Sep	Nov	Dec
Commercial Banks									
Average Liquidity	42	44	45	46	46	44	43	43	44
Minimum Liquidity	20	20	20	20	20	20	20	20	20
Cash Ratio - All Banks	10.0	9.8	10.0	9.9	9.7	9.5	9.1	9.2	9.0
Minimum Cash Ratio**	10	10	10	10	10	10	10	10	10
NBFIs									
Average Liquidity	60	56	49	57	59	59	52	53	56
Minimum Liquidity	20	20	20	20	20	20	20	20	20
Cash Ratio	10.1	10.5	10.7	10.9	11.0	11.6	12.5	12.9	13.0
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 7



Source: Central Bank of Kenya

Treasury bills and bonds. The average liquidity ratio for commercial banks increased to 44% in December 2002 from 43% in November while that for NBFIs increased to 56% from 53% over the same period.

The average liquidity ratios for mortgage finance companies and building societies remained unchanged at 31% and 50%, respectively, in December 2002.

Cash Ratios

The average cash ratio maintained by banking institutions remained unchanged at 11.0% in December 2002. The average cash ratio for commercial banks declined to 9.05% in December 2002 from 9.17% in November while the average ratio for NBFIs increased to 13.0% from 12.9% over the same period.

Liquidity Ratios

Banking institutions continued to hold liquid assets largely in form of cash balances at the Central Bank and government securities in both

INTEREST RATES

In the last quarter to December 2002, major money market rates maintained an upward trend:

- The 91-day Treasury bill rate increased from 8.1% in October to 8.4% in December 2002, reflecting a tighter liquidity in the domestic money market.
- The interbank rate rose to 8.7% from 8.3% over the same period (Table 14 and Chart 8).
- The average rate on 3 months time deposits delined from 5.5% in October to 5.4% in December 2002.

- The average rate on savings deposits declined from 3.8% in October to 3.7% in December 2002.
- The average rate charged on bank overdrafts declined to 18.6% in December from 18.9% in October 2002.

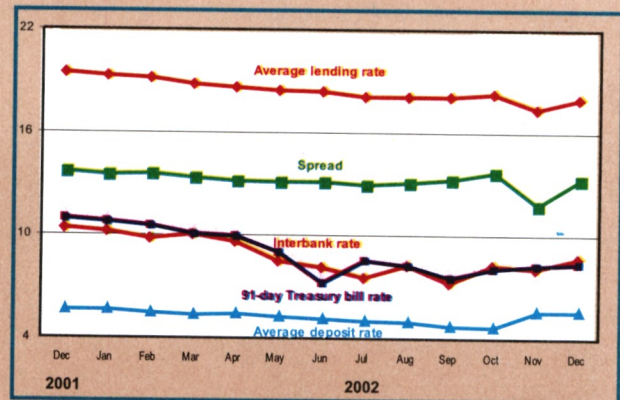
The average spread declined to 13.4% in December 2002 from 13.7% in October, reflecting movements in the average deposit rate which increased to 5.0% from 4.7% over the same period.

TABLE 14: INTEREST RATES (% per annum)

	2002							
	Jun	Sep	Dec	Jan	Mar	Jun	Oct	Dec
Treasury bill rate*	12.1	12.4	11.0	10.9	10.1	7.3	8.1	8.4
Overdraft rate	19.7	19.6	20.0	19.3	18.8	18.5	18.9	18.6
Interbank rate	10.7	10.7	10.4	10.3	10.1	8.2	8.3	8.7
Average lending rate (1)	19.3	19.4	19.5	19.3	18.9	18.4	18.3	18.4
Average deposit rate (2)	6.4	6.3	5.7	5.7	5.4	5.2	4.7	5.0
3 - month deposit	7.5	7.4	6.9	6.9	6.9	6.1	5.5	5.4
Savings rate	4.4	4.9	4.4	4.4	3.7	4.0	3.8	3.7
Spread (1-2)	12.9	13.2	13.8	13.6	13.4	13.2	13.7	13.4

* 91-Days Treasury bill rate

CHART 8



Source: Central Bank of Kenya

SHILLING EXCHANGE RATE

The Kenya shilling weakened against the US dollar, the Sterling Pound and the Euro to exchange at an average of Ksh 78.7, Ksh 118.3 and Ksh 74.4, respectively, in 2002. Against the Japanese Yen and the South African Rand, the shilling, however, gained by 2.8% and 18.6%, respectively, to trade at Ksh 62.9 per 100 Japanese Yen and Ksh 7.5 per Rand. The shilling also strengthened against the Tanzania shilling to exchange at Tsh 12.3 compared with Tsh 11.2 in the year to December 2001, and against the Uganda shilling to exchange at Ush 22.8 in the year to December 2002 compared with Ush 22.4 in the previous year.

On a monthly basis, the shilling remained stable against the US dollar, trading at an average of Ksh 79.5 in December 2002 compared with an average of Ksh 79.6 in November 2002. It, however, weakened against the Sterling Pound and the Euro by 0.8% and 1.6%, respectively. Against the Japanese Yen, the shilling gained by 0.6%, but lost by 8.0% against the South African Rand in December 2002. The shilling had a mixed performance against the regional currencies. The shilling weakened marginally against the Tanzania shilling by 0.7% to trade at Tsh 12.3 but strengthened by 0.8% against the Uganda shilling to trade at Ush 23.2 in December 2002 (Table 15 and Chart 9).

TABLE 15: SHILLING EXCHANGE RATE

	2001		2002		2002		December							
	Sep	Nov	Dec	Jan	Jun	Sep	Oct	Nov	wk 1	wk 2	wk 3	wk 4	wk 5	Avg
US Dollar	78.9	79.0	78.7	78.6	78.7	78.8	79.3	79.6	79.7	79.7	79.7	79.5	79.4	79.5
Pound Sterling	115.5	113.5	113.2	112.8	116.6	122.5	123.6	125.1	124.6	125.6	127.5	127.1	127.5	125.1
100 Japanese Yen	66.5	64.5	61.9	59.3	63.7	65.2	64.1	65.5	64.0	64.6	65.8	66.1	66.3	65.1
Uganda Shilling*	22.2	22.0	21.9	22.2	22.9	22.9	23.0	23.0	23.1	23.1	23.1	23.2	23.3	23.2
Tanzania Shilling*	11.3	11.5	11.6	11.8	12.2	12.4	12.4	12.4	12.3	12.3	12.3	12.3	12.2	12.3
Euro	71.9	70.1	70.2	69.3	75.1	77.3	77.9	79.7	79.5	80.4	81.9	81.7	82.9	81.0
Nominal Effective Exchange Rate	79.4	80.1	80.4	81.1	80.5	81.2	77.9							
Real Effective Exchange Rate	95.2	95.8	95.9	94.4	95.1	94.5	93.0							

* Units of currency per Kenya shilling

CHART 9

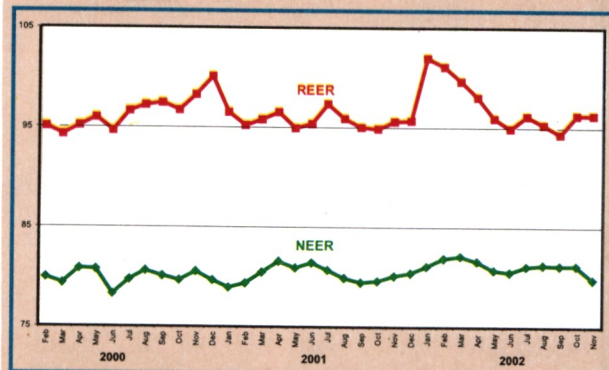


Source: Central Bank of Kenya

The stability of the shilling against the US dollar in December 2002 was attributed to subdued corporate demand for foreign exchange and some inflows mainly from tea export proceeds. The performance of the shilling against the other major international currencies in December 2002 reflected the movement of these currencies against the US dollar in the international currency market. While the Sterling Pound and the Euro gained against the US dollar by 0.8% and 1.7%, respectively, the Japanese Yen lost by 0.5%.

In nominal effective terms, that is, trade-weighted against major partner currencies, the shilling depreciated by 1.0% in the year to December 2002 compared with an appreciation of 0.7% in a similar period to December 2001. In real terms, however, the shilling appreciated marginally by 0.1% in the year to December 2002 compared with 1.2% depreciation in the year to December 2001. The appreciation in the real effective shilling exchange rate in the year to December 2002 reflected higher inflation in Kenya than in trading partner countries.

CHART 10: NOMINAL & REAL EFFECTIVE EXCHANGE RATE
1995=100



Source: Central Bank of Kenya

BUDGETARY DEVELOPMENTS

The Government fiscal operations over the first five months of fiscal year 2002/03 resulted in a deficit of Ksh 17.9bn or 1.8% of GDP, on a commitment basis, compared with Ksh 9.5bn deficit or 1.0% of GDP in a corresponding period in the previous fiscal year (Table 16 and Chart 11). On a cash basis, the deficit was Ksh 19.4bn compared with Ksh 16.4bn deficit in the first five months of 2001/02.

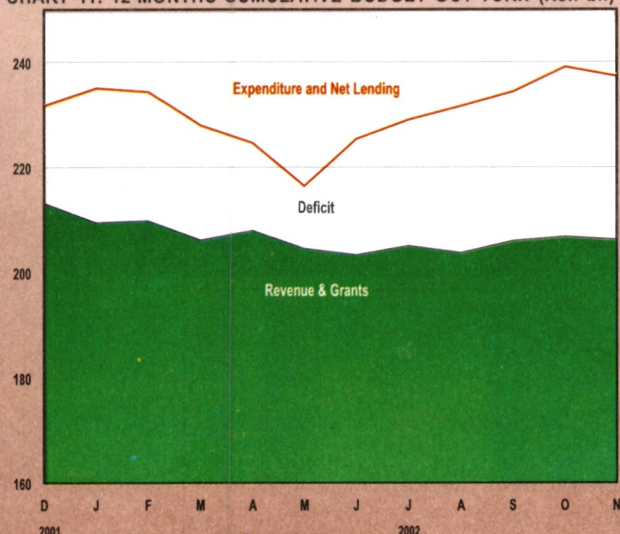
TABLE 16: BUDGET OUT-TURN (Ksh bn)

	FY 2001/02		FY 2002/03		Over(+)/ Below(-)
	Nov. Actual	Nov. Actual*	Nov. Actual*	Nov. Target	
1. TOTAL REVENUE & GRANTS	78.1	80.8	97.8	-17.0	
Revenue	75.4	77.3	91.2	-13.9	
Tax Revenue	63.9	67.4	78.0	-10.6	
Non Tax Revenue	4.6	4.6	6.1	-1.6	
Appropriations-in-Aid	6.9	5.3	7.1	-1.7	
External Grants	2.7	3.5	6.6	-3.1	
2. TOTAL EXPENDITURE AND NET LENDING	87.6	98.7	111.1	-12.3	
Recurrent Expenditure	79.9	86.0	91.0	-5.1	
Development Expenditure	7.7	12.8	20.0	-7.3	
3. DEFICIT ON A COMMITMENT BASIS (1-2)*	-9.5	-17.9	-13.2	-4.7	
	(-1.0)	(-1.8)	(-1.3)		
4. ADJUSTMENT TO CASH BASIS	-6.9	-1.6	0.0	-1.6	
5. DEFICIT ON A CASH BASIS*	-16.4	-19.4	-13.2	-6.2	
	(-1.8)	(-2.0)	(-1.3)		
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-3.3	-1.5	0.0	-1.4	
7. FINANCING	13.0	18.0	13.2	4.8	
Domestic (Net)	18.8	22.4	15.0	7.4	
External (Net)	-5.8	-4.4	-1.8	-2.6	
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0	

* Provisional

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

CHART 11: 12-MONTHS CUMULATIVE BUDGET OUT-TURN (Ksh bn)



Sources: Treasury and Central Bank of Kenya

Revenue and Grants

During the first five months of fiscal year 2002/2003, the Government collected receipts amounting Ksh 80.8bn compared with Ksh 78.1bn in a similar period in fiscal year 2001/02 (Table 17).

TABLE 17: COMPOSITION OF GOVERNMENT REVENUE (Ksh bn)

	Nov-01 Ksh bn	Share %	Nov-02 Ksh bn	Share %
1. Revenue (2+3+4)	75.4	96.5	77.3	95.6
2. Tax Revenue	63.9	81.8	67.4	83.4
Income Tax	20.9	26.8	23.8	29.4
Value Added Tax	21.2	27.2	23.2	28.7
Import Duty	9.9	12.7	7.4	9.1
Excise Duty	11.8	15.1	13.1	16.2
3. Appropriations-in-Aid	6.9	8.8	5.3	6.6
4. Other Revenue	4.6	5.9	4.6	5.7
5. External Grants	2.7	3.5	3.5	4.4
TOTAL RECEIPTS (1+5)	78.1	100.0	80.8	100.0

Source: Treasury

Tax receipts contributed Ksh 67.4bn or 83.4% of the revenue collected, and were Ksh 3.5bn higher than those in the first five months of the fiscal year 2001/02. Receipts from all tax categories except import duty increased, reflecting more efficient revenue collection measures adopted by the Kenya Revenue Authority (KRA). The tax revenue comprised the following:

- Income tax collections were Ksh 23.8bn or 35.3% of tax revenue, compared with Ksh 20.9bn or 32.7% of tax revenue in a similar period last year.
- Value Added Tax (VAT) receipts rose by Ksh 2.0bn, to Ksh 23.2bn from Ksh 21.2bn collected in a similar period last year.
- Import and excise duty receipts decreased to Ksh 20.5bn from Ksh 21.7bn in a similar period in the last fiscal year. Of this, import

and excise duty amounted to Ksh 7.4bn and Ksh 13.1bn, respectively.

In addition, other government receipts comprised the following:

- User charges, fees and other levies, which amounted to Ksh 5.3bn, down from Ksh 6.9bn in a similar period in the last financial year;
- Non-tax revenue, which amounted to Ksh 4.6bn, was the same level as in a similar period last year; and
- External grants, which stood at Ksh 3.5bn, were Ksh 0.8bn higher than the amount received in a corresponding period in fiscal year 2001/02.

Expenditure and Net Lending

Government expenditure during the first five months of the fiscal year 2002/03 amounted to Ksh 98.7bn or Ksh 11.1bn higher than in the comparable period in the previous fiscal year (Table 18). The expenditure comprised the following:

- Recurrent expenditure of Ksh 86.0bn, accounting for 87.1% of total expenditure compared with Ksh 79.9bn or 91.2% of total expenditure in the last fiscal year. Major items of the recurrent expenditure were as follows:
 - ◆ Interest payments amounted to Ksh 16.2bn compared with Ksh 12.8bn in a similar period last year. As a proportion of total expenditure, interest payments increased to 16.4%

from 14.6% last year and were Ksh 0.1bn above the budget estimate.

- ◆ Expenditure on salaries and wages was Ksh 33.8bn compared with Ksh 31.6bn in a similar period in the previous fiscal year, and a budget estimate of Ksh 34.2bn; and
- ◆ Other expenditures amounted to Ksh 36.1bn, comprising mainly expenditures on operations and maintenance compared with Ksh 35.5bn the previous year.
- Development expenditure was Ksh 12.8bn, representing 12.9% of government expenditure, compared with 8.8% in the previous year. This was Ksh 5.1bn more than the level in a similar period in fiscal year 2001/02 and Ksh 7.3bn below budget estimate.

TABLE 18: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh bn)

	Nov-01 Ksh bn	Share %	Nov-02 Ksh bn	Share %
Salaries & Wages	31.6	36.1	33.8	34.2
Total Interest	12.8	14.6	16.2	16.4
Domestic*	9.5	10.9	11.3	11.4
Foreign	3.2	3.7	4.9	4.9
Development	7.7	8.8	12.8	12.9
Others	35.5	40.5	36.1	36.5
TOTAL EXPENDITURE	87.6	100.0	98.7	100.0

*Includes commission and other charges paid to CBK

Source: Treasury

Financing

The budgetary operations in the first five months of the fiscal year generated a financing requirement of Ksh 26.6bn. This was Ksh 6.3bn lower than in a similar period in fiscal year 2001/

02 (Table 19). The financing was from the following sources:

- Ksh 14.6bn from commercial banks;
- Ksh 9.8bn from non bank sources; and
- Ksh 2.3bn draw-down of government deposits at the Central Bank.

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

I. FINANCING REQUIREMENTS	Nov-01	Share	Nov-02	Share
	Ksh bn	%	Ksh bn	%
1. Budget deficit	13.0	39.6	18.0	67.6
2. External debt reduction	5.8	17.6	4.4	16.4
3. Domestic debt reduction	14.1	42.9	4.3	16.0
3.1 Central Bank (incl. items in transit)	9.4	28.4	4.3	16.0
3.2 Commercial banks (net of deposits)	0.0	0.0	0.0	0.0
3.3 Non-bank sources	4.8	14.5	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0	0.0	0.0
TOTAL	32.9	100.0	26.6	100.0

II. FINANCING SOURCES	Nov-01	Share	Nov-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	21.8	66.1	24.3	91.4
3.1 Central Bank	0.0	0.0	0.0	0.0
3.2 Commercial banks	21.8	66.1	14.6	54.7
3.3 Non-bank sources	0.0	0.0	9.8	36.6
4. Reduction in GoK deposits at CBK	11.2	33.9	2.3	8.6
5. Privatisation proceeds	0.0	0.0	0.0	0.0
TOTAL	32.9	100.0	26.6	100.0

Sources: Treasury & Central Bank of Kenya

The funds were used to finance a budget deficit of Ksh 18.0bn and make net repayments of Ksh 4.4bn and Ksh 4.3bn to the external sources and the Central Bank, respectively.

Government Indebtedness to the Central Bank

Government indebtedness to the Central Bank in the first six months of the fiscal year 2002/03 declined by Ksh 1.0bn to Ksh 43.9bn from Ksh

44.9bn in June 2002 (Table 20). The debt includes Ksh 36.9bn in frozen overdraft (OD) incurred prior to implementation of the Central Bank of Kenya (Amendment) Act, 1996 which limited Government access to the OD facility at the Bank to no more than 5% of the recurrent revenue reported in the latest audited Appropriation Accounts. Based on this, the Government access to the facility is currently limited to Ksh 8.8bn. The actual level of utilization of the facility, at Ksh 4.2bn, as at end December 2002 was therefore well within the legal limit.

TABLE 20: GOVERNMENT INDEBTEDNESS TO THE CENTRAL BANK (Ksh bn)

	Jun-02	Nov-02	Dec-02*	Movement
Total Government Credit (1+2+3+4+5)	44.9	40.7	43.9	-1.0
1. Overdraft	0.0	1.1	4.2	4.2
2. Rediscounted securities	0.3	0.0	0.0	-0.2
Treasury bills	0.3	0.0	0.0	-0.2
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 lent to Government	2.1	2.1	2.1	0.0
5. Cleared items in transit	5.7	0.5	0.7	-5.0
Memorandum				
Authorised overdraft limit	8.8	8.8	8.8	0.0
Amount utilised to date	0.0	1.1	4.2	4.2
Amount available	8.8	7.6	4.6	-4.2

* Provisional

Source: Central Bank of Kenya

The Ksh 1.0bn Government repayment to the Central Bank arose from Ksh 5.0bn decline in cleared items awaiting transfer to the Paymaster General account and Ksh 0.2bn decline in the Bank's holding of rediscounted securities. The above debt reducing transactions were partially offset by Ksh 4.2bn utilization of the overdraft facility at the Central Bank.

PUBLIC DEBT

Overall Debt

The stock of public debt increased to Ksh 626.5bn, or 63.7% of GDP, at the end of November 2002 from Ksh 613.8bn in June 2002 (Table 21). Of this, domestic debt amounted to Ksh 255.2bn or 25.9% of GDP while external debt was Ksh 371.3bn or 37.7% of GDP.

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

	Jun-01*	Jun-02*	Nov-02**	Change 2002/03
EXTERNAL***				
Bilateral	132.3	130.0	127.3	-2.6
Multilateral	228.5	222.5	219.0	-3.5
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	371.3	-6.4
(As a % of GDP)	46.6	41.0	37.7	-3.3
DOMESTIC				
Banks	109.2	120.8	130.4	9.6
Central Bank	47.2	42.8	38.5	-4.3
Commercial Banks	62.0	78.0	91.9	13.9
Non-banks	93.4	104.4	115.5	11.2
Non-bank Financial Inst.	3.9	2.8	3.5	0.7
Other Non-bank Sources	89.6	101.5	112.0	10.5
Non-residents	9.2	10.8	9.2	-1.5
Sub-Total	211.8	236.0	255.2	19.2
(As a % of GDP)	25.0	25.6	25.9	0.3
GRAND TOTAL	605.8	613.8	626.5	12.8
(As a % of GDP)	71.6	66.7	63.7	-3.0

* 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

Public domestic debt rose by Ksh 24.1bn to Ksh 260.1bn in December 2002 from Ksh 236.0bn in June 2002 (Tables 22 and 23).

The increase in domestic debt during this period was entirely in Government securities, which rose by Ksh 25.0bn. This increase was partially offset by Ksh 0.9bn decrease in other categories of government debt reflecting Ksh 5.0bn decline in cleared items awaiting transfer to the Pay Master

General Account and Ksh 4.2bn utilization of the Government overdraft facility at the Central Bank.

TABLE 22: GOVERNMENT DOMESTIC DEBT (Ksh bn)

	2002						
	Nov	Dec	Jan	Jun	Sep	Nov	Dec*
Total stock of Domestic Debt (A+B)	217.5	222.0	222.7	236.0	250.8	255.2	260.1
A. Government Securities	214.5	215.5	219.5	226.8	241.2	250.1	251.8
1. Treasury Bills (excluding Repo Bills)	105.1	96.8	93.1	82.1	86.6	84.6	82.9
Banking institutions	54.7	45.3	38.4	30.5	34.0	35.2	36.2
Others	50.4	51.5	54.7	51.5	52.6	49.5	46.7
2. Treasury Bonds	71.0	80.3	88.0	106.3	116.2	127.1	130.5
Banking institutions	28.4	32.8	37.7	47.1	51.4	56.8	57.3
Others	42.6	47.5	50.3	59.2	64.8	70.3	73.2
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	27.0	27.0	36.0	33.0	30.0	24.1
B. Others	3.0	6.5	3.2	9.2	9.6	5.0	8.3
Of which CBK overdraft to Government	0.0	0.0	0.0	0.0	3.0	1.1	4.2

* Provisional

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

TABLE 23: ANALYSIS OF DOMESTIC DEBT (Ksh bn)

	Jun-02	Nov-02	Dec-02*	Change
Government securities	226.8	250.2	251.8	25.0
Treasury Bills**	82.1	84.7	82.9	0.9
Treasury Bonds	106.3	127.1	130.5	24.2
Of which: special bonds	6.4	7.3	9.6	3.2
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	5.0	8.3	-0.9
Of which: Overdraft at the Central Bank	0.0	1.1	4.2	4.2
Total Stock of Domestic Debt	236.0	255.2	260.1	24.1

* Provisional

** 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 as at the end of December 2002 was Ksh 82.9bn distributed among investors (Table 24 and Chart 12) as follows:

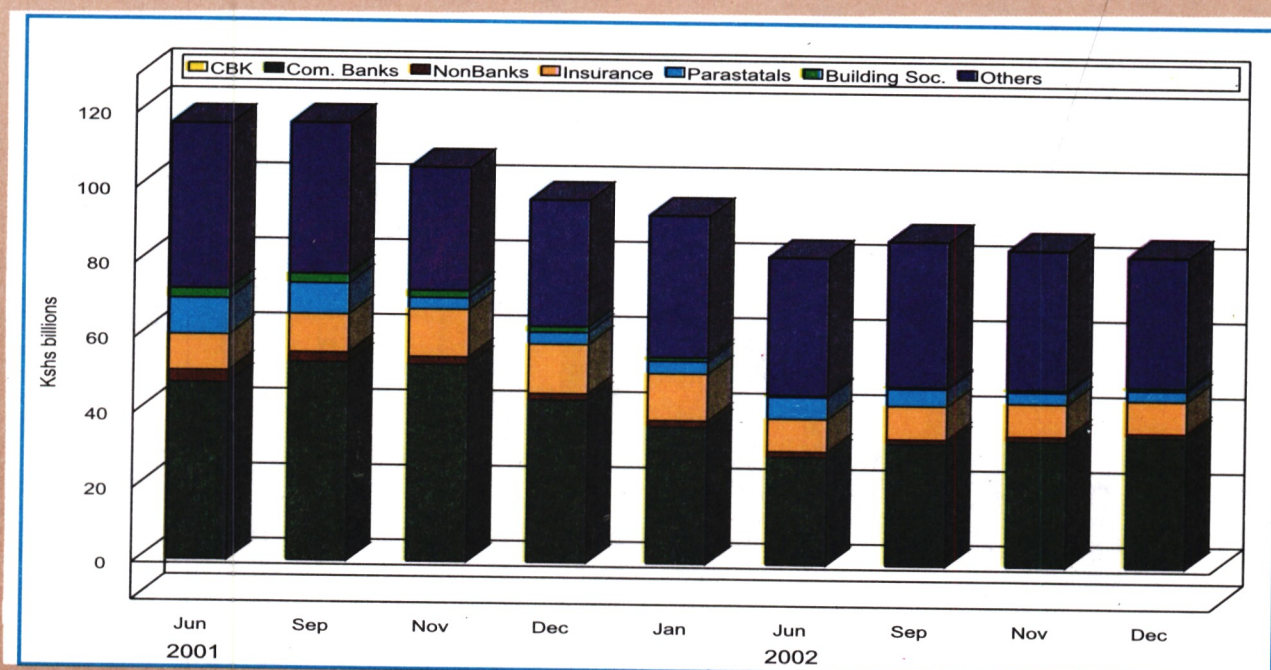
- Banking institutions held Ksh 36.2bn or 43.6% of the bills. Of this, commercial banks and NBFIs held Ksh 35.2bn and Ksh 1.0bn worth of bills, respectively.

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

Holders	2001						2002					
	Jun	%	Sep	%	Dec	%	Jun	%	Sep	%	Dec	%
Banking Institutions	50.7	43.5	55.7	47.7	45.3	46.8	30.5	37.2	34.0	39.3	36.2	43.6
Central Bank	0.1	0.1	0.0	0.0	0.2	0.2	0.3	0.3	0.0	0.0	0.0	0.0
Comm. Banks	47.3	40.6	53.1	45.4	43.3	44.7	28.7	35.0	32.8	37.9	35.2	42.4
NBFIs	3.3	2.8	2.6	2.2	1.8	1.8	1.5	1.9	1.2	1.3	1.0	1.2
Insurance Companies	9.5	8.2	10.2	8.7	13.1	13.5	8.7	10.6	8.9	10.2	8.6	10.3
Parastatals	9.6	8.2	8.2	7.0	3.2	3.3	5.8	7.0	4.6	5.3	2.9	3.5
Of which: NSSF	0.2	0.2	0.2	0.2	0.5	0.5	1.1	1.4	1.1	1.3	1.6	1.9
Building Societies	2.6	2.2	2.5	2.2	1.5	1.6	0.4	0.5	0.5	0.6	0.7	0.8
Others	44.1	37.9	40.3	34.5	33.8	34.9	36.7	44.7	38.6	44.6	34.6	41.7
Total*	116.4	100.0	116.9	100.0	96.8	100.0	82.1	100.0	86.6	100.0	82.9	100.0

* Excludes repurchase order bills

CHART 12: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh bn)



Source: Central Bank of Kenya

- The non-bank sector, comprising insurance companies, parastatals, individuals and other corporate entities, held bills worth Ksh 46.7bn or 56.4% the bills.

Treasury Bonds

The outstanding stock of Treasury bonds, increased to Ksh 130.5bn in December 2002 from Ksh 106.3bn in June 2002 following efforts

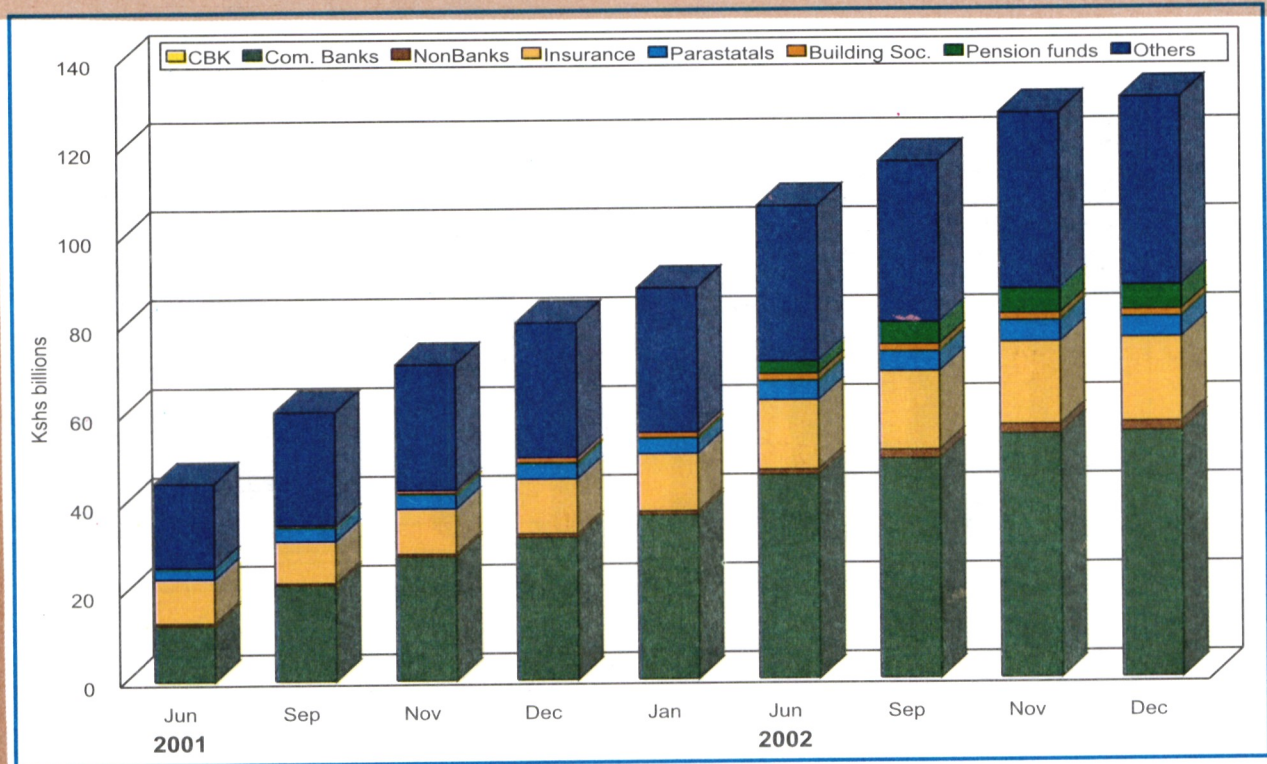
to lengthen maturity profile of the domestic debt. Consequently, Treasury bonds constituted 54.6% of total securitised debt in December 2002, compared with 47.1% in June 2002 (Table 25 and Chart 13).

The outstanding stock of Treasury bonds was held by various investors as follows:

TABLE 25: OUTSTANDING TREASURY BONDS BY HOLDER (Ksh bn)

Holders	2001						2002					
	Jun	%	Sep	%	Dec	%	Jun	%	Sep	%	Dec	%
Banking Institutions	13.1	29.4	22.0	36.3	32.8	40.8	46.9	44.1	51.3	44.1	57.3	43.9
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	12.5	28.2	21.5	35.5	32.0	39.9	45.8	43.1	49.3	42.4	55.2	42.3
NBFIs	0.6	1.2	0.5	0.8	0.8	0.9	1.1	1.1	1.9	1.7	2.0	1.6
Insurance Companies	9.9	22.3	9.5	15.6	12.3	15.3	15.6	14.7	17.7	15.2	19.1	14.6
Parastatals	2.5	5.6	3.3	5.4	3.7	4.6	4.4	4.1	4.5	3.9	4.6	3.5
Of which: NSSF	0.2	0.4	0.2	0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Building Societies	0.1	0.3	0.3	0.5	1.1	1.4	1.6	1.5	1.6	1.4	1.6	1.2
Pension funds	0.0		0.0		0.0		2.9	2.7	5.0	4.3	5.5	4.2
Others	18.9	42.4	25.5	42.1	30.4	37.8	35.0	32.9	36.2	31.1	42.4	32.5
Totals	44.5	100.0	60.5	100.0	80.3	100.0	106.3	100.0	116.2	100.0	130.5	100.0

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



Source: Central Bank of Kenya

- Commercial banks held bonds worth Ksh 55.3bn;
- NBFIs held Ksh 2.0bn worth of bonds; and
- Other investors, including parastatals, held bonds worth Ksh 73.2bn.

Government Long-term Stocks

Government long-term stocks in December 2002 were Ksh 1.5bn; the same level as in June 2002. Of these, the National Social Security Fund (NSSF) held Ksh 0.8bn while other non-bank sector investors held Ksh 0.7bn.

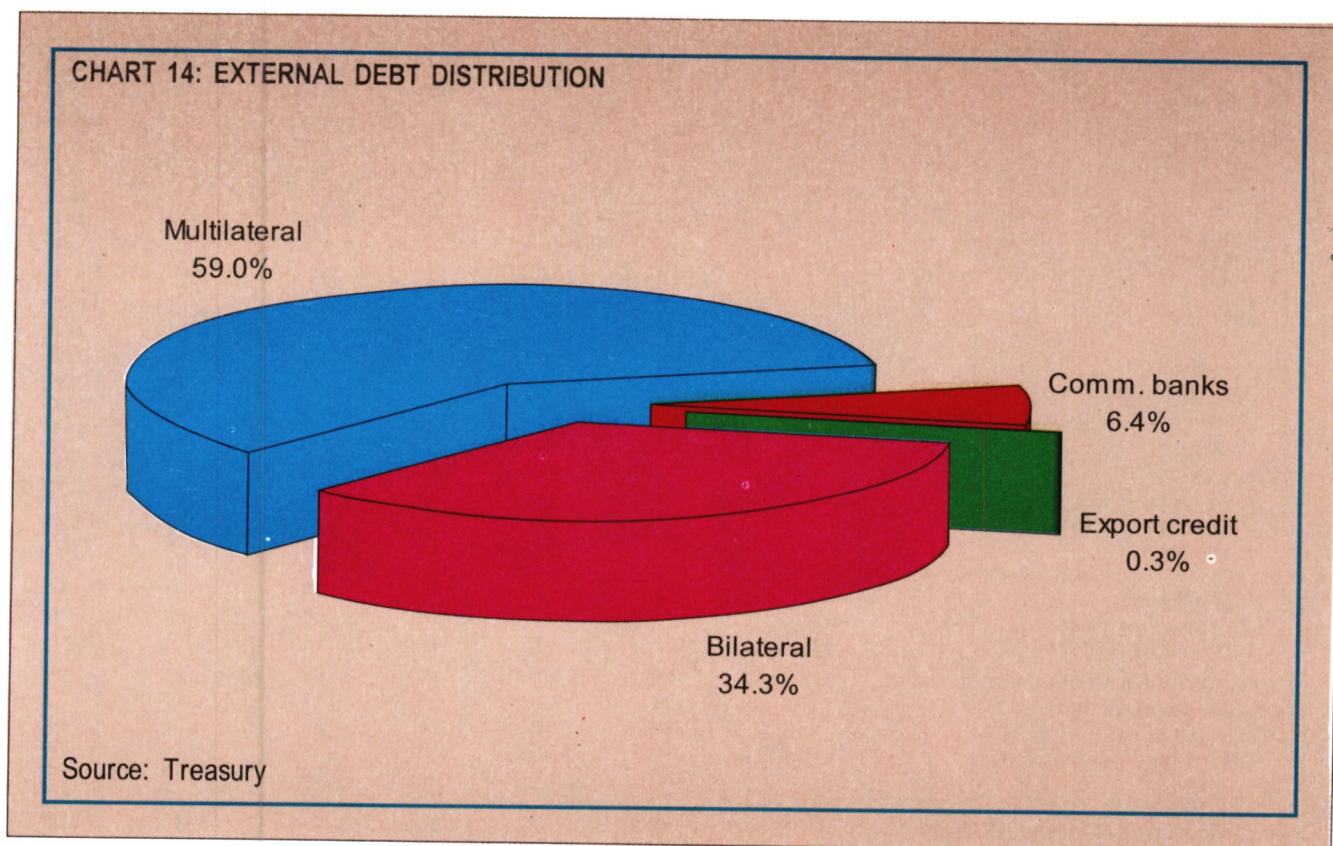
External Debt

Kenya's external debt decreased in the first five months of the fiscal year 2002/03 from Ksh 377.7bn at the end of June 2002 to Ksh 371.3bn in November 2002. Consequently, the ratio of external debt to GDP declined to 37.7% in November 2002 from 41.0% in June 2002. The Ksh 6.4bn net decrease in external debt reflected the following:

- Disbursements amounting to Ksh 3.9bn;

- Repayment of Ksh 10.3bn to external creditors comprising Ksh 8.3bn Central Government debt, Ksh 1.5bn Government guaranteed debt, and Ksh 0.5bn to the International Monetary Fund.

Multilateral debt accounted for Ksh 219.0bn or 59.0% of the debt while bilateral debt stood at Ksh 127.3bn or 34.3% of the stock (Chart 14). Commercial loans and export credit accounted for Ksh 23.7bn and Ksh 1.3bn or 6.4% and 0.3% of the debt, respectively.



BALANCE OF PAYMENTS

The overall balance of payments position improved to a surplus of US\$ 26m in the year to November 2002 compared with a surplus of US\$ 7m in the year to November 2001. This reflected an improvement in the current account deficit as the capital and financial account surplus declined (Table 26 and Charts 15).

Current Account

The current account deficit narrowed to US\$ 218m in the year to November 2002 from US\$ 322m the previous year reflecting a 34.4% reduction in the trade deficit, which more than offset the 35.0% decline in the services account surplus. The decline in grant inflows and in net non-factor service receipts contributed to the reduced surplus in the services account.

TABLE 26: BALANCE OF PAYMENTS (US\$ m)*

	Quarters in Year to October 2002					Year to Nov** 2002**
	Year to Nov 2001	Q1 Dec-Feb 2001	Q2 Mar-May 2001	Q3 Jun-Aug 2002	Q4 Sep-Nov** 2002	
OVERALL BALANCE	7	31	44	15	-64	26
I. CURRENT ACCOUNT	-322	-45	-41	-53	-78	-218
Merchandise	-1531	-199	-232	-275	-298	-1004
Exports (fob)	1884	489	553	553	519	2114
Coffee	98	12	32	18	30	93
Tea	446	109	114	101	123	447
Horticulture	242	71	71	62	77	281
Oil products	171	28	14	16	40	98
Other	928	268	322	355	249	1195
Imports (cif)	3416	688	785	828	817	3118
Oil	736	116	182	155	194	648
Chemicals	478	127	126	134	125	512
Manufactured goods	437	89	104	101	94	388
Machinery & transport equipment	825	173	217	221	153	765
Other	941	182	156	216	251	805
Services	1210	153	191	222	220	786
Non-factor services (net)	536	86	115	144	133	478
Of which: tourism receipts	308	67	68	64	90	288
Income (net)	-125	-44	-25	-26	-22	-117
Of which: official interest income	-114	-32	-24	-25	-21	-101
Current Transfers	798	110	100	105	109	425
Private (net)	697	92	83	88	92	355
Public (net)	101	19	17	17	17	70
II. CAPITAL & FINANCIAL ACCOUNT	329	77	86	68	14	244
Capital Transfers (net)	65	19	18	17	17	71
Financial Account	264	58	68	51	-4	173
Official, medium- & long-term	-290	-21	-5	7	-20	-39
Inflows	181	52	65	54	53	224
Outflows	-470	-73	-70	-47	-73	-263
Private, medium- & long-term (net)	207	-13	-33	-31	-37	-114
Commercial banks (net)	129	-21	-5	-49	-52	-126
Other private, medium- & long-term (net)	77	8	-28	18	15	13
Short term and errors & omissions (net)	347	91	106	76	54	326
Gross Reserves	1391	1450	1496	1570	1515	1515
Official	1011	1057	1101	1119	1054	1054
in months of goods and non-factor services	3.1	3.3	3.6	3.5	3.4	3.4
Commercial Banks	380	393	395	451	461	461

* Revised to reflect the new BOP presentation format

** Provisional

Source: Central Bank of Kenya

Merchandise

The trade deficit narrowed to US\$ 1,004m in the year to November 2002 from US\$ 1,531m in the previous year due to a decline in imports by US\$ 298m and an increase of US\$ 230m in export earnings. All categories of imports fell except chemicals. The increase in export earnings was attributed to a rise in receipts of horticultural and non-traditional exports, particularly textiles.

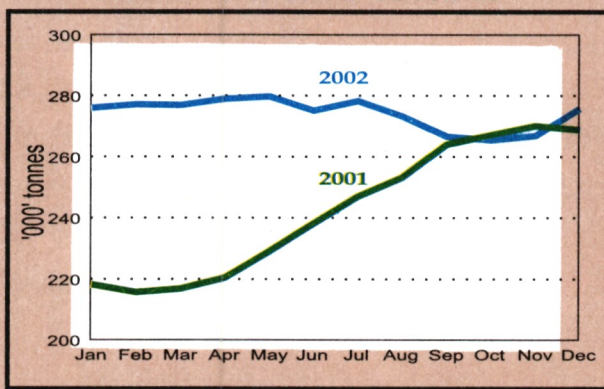
Receipts from coffee exports, however, declined following reduced export volumes while earnings from tea improved slightly by US\$ 1m.

Services

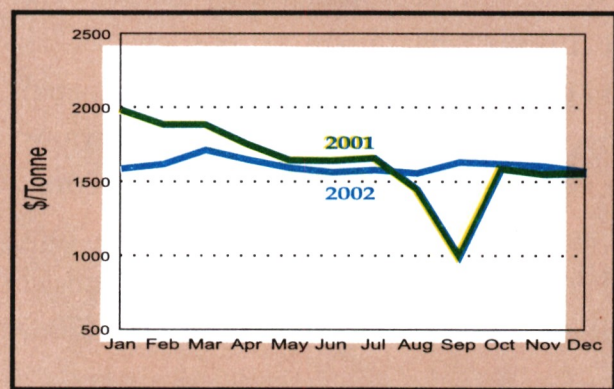
The surplus in the services account declined to US\$ 786m from US\$ 1,210m in the year to November 2001 mainly due to lower grants to both the private and public sectors by US\$ 373m.

CHART 15: TRENDS IN PRICES & VOLUMES OF MAJOR EXPORTS

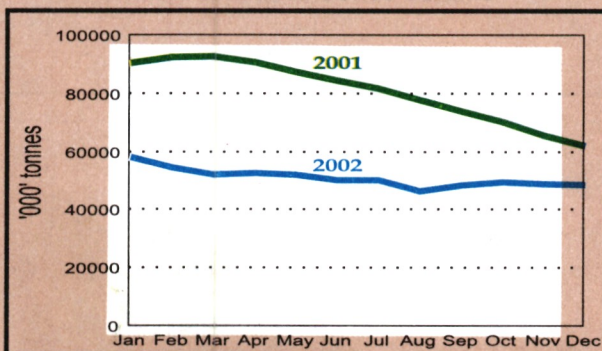
12-Months Cumulative Tea Volume



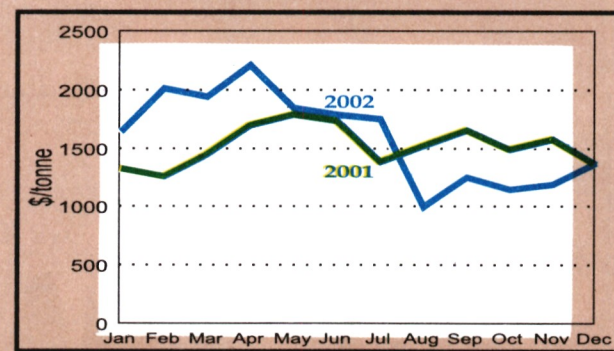
Tea Prices/Tonne



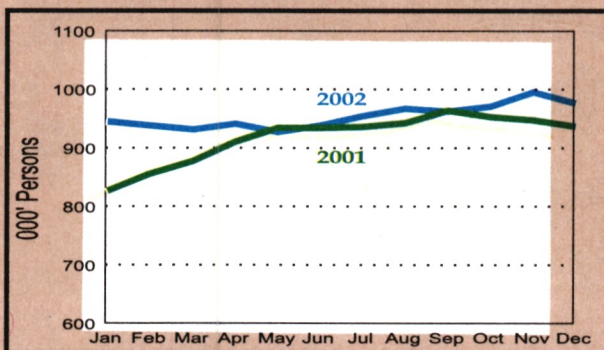
12-Months Cumulative Coffee Volume



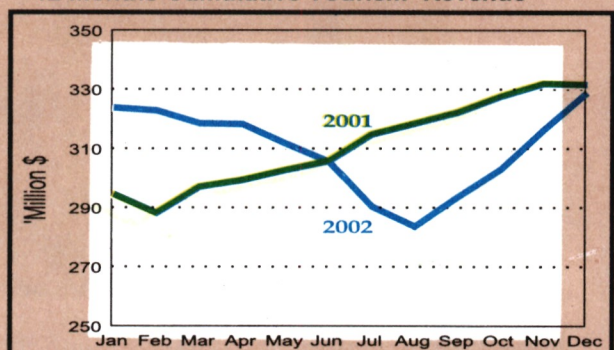
Coffee Prices/Tonne



12 Months Cumulative Tourism Arrivals



12 Months Cumulative Tourism Revenue



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

Net non-factor service receipts decreased by US\$ 58m while net income payments declined by US\$ 8m. Receipts from tourism also declined by 6.4%.

Capital and Financial Account

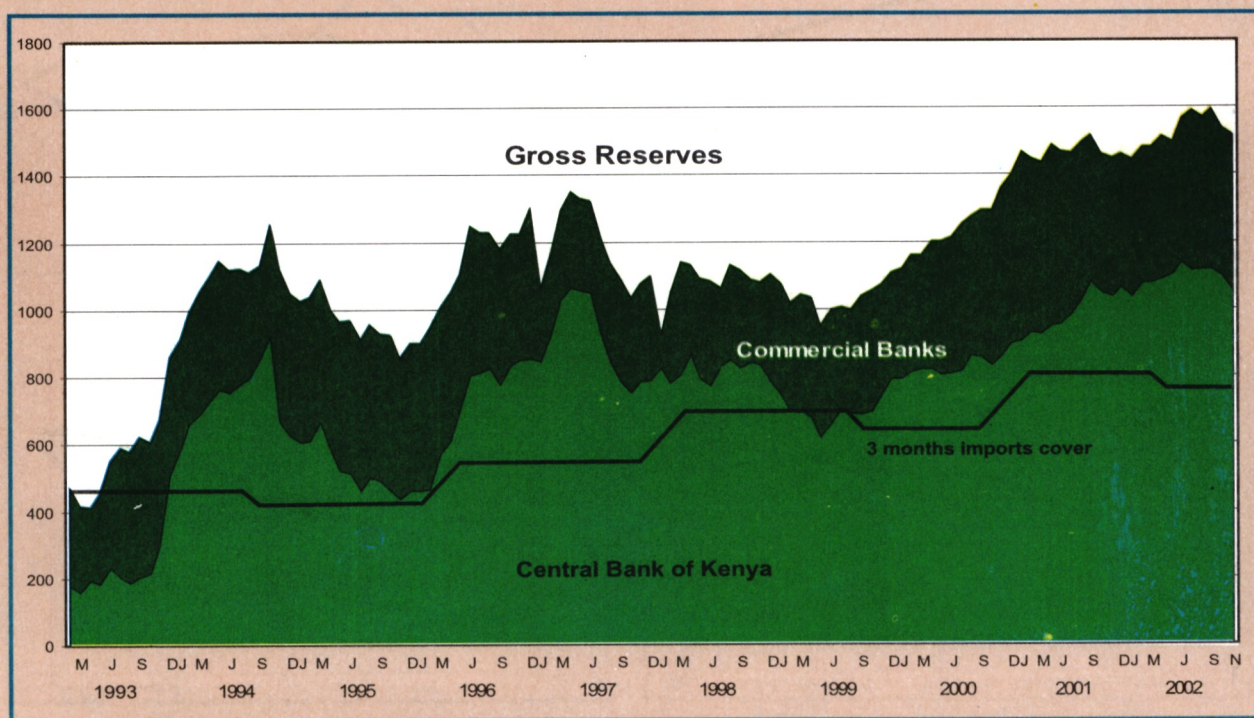
The capital and financial account recorded a lower surplus of US\$ 244m in the year to November 2002 from US\$ 329m in a similar period of the previous year. This was mainly due to a deterioration in net private medium and long-term capital flows, which had a net outflow of US\$ 114m in the year to November 2002 compared with a net inflow of US\$ 207m in the previous year. Short-term capital inflows (including errors and omissions) also declined to US\$ 326m from US\$ 347m in the year to November 2001. Official outflows, however, decreased from US\$ 470m

to US\$ 263m while net capital transfer receipts increased by US\$ 6m.

Foreign Exchange Reserves

Following the improvement in the overall balance of payments, official foreign exchange reserves increased to US\$ 1,054m, equivalent to 3.4 months of imports of goods and non-factor services at end of November 2002 compared with US\$ 1,011m or 3.1 months of import cover in November 2001 (Chart 16). Foreign exchange reserves of commercial banks also increased from US\$ 380m at end of November 2001 to US\$ 461m at the end of November 2002. Foreign exchange reserves held by the banking system, therefore, increased by US\$ 124m to US\$ 1,515m at the end of November 2002 from US\$ 1,391m at end of November 2001.

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



Source: Central Bank of Kenya

STOCK MARKET

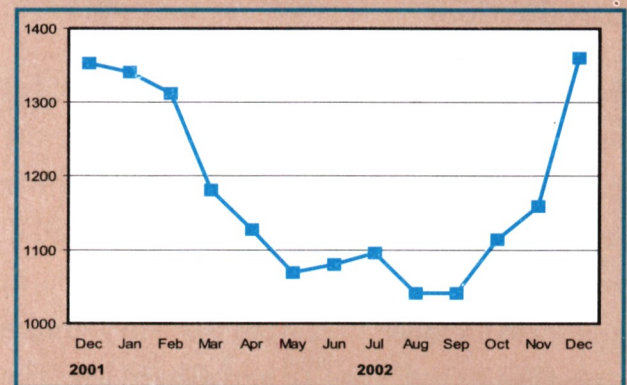
Activity at the Nairobi Stock Exchange was mixed in December 2002. Turnover in the equities market improved but contracted in the bonds market.

Equities Market

Trading in the quarter to December 2002 closed with improved performance at the equities market as reflected in the following market indicators:

- The NSE share index increased by 17.3% to close at 1362.85 in December 2002 from 1161.63 in November 2002 (Chart 17).
- Market capitalisation increased by Ksh 15bn or 16.3% to Ksh 112.3bn in December 2002 from Ksh 96.5bn in November 2002.
- The turnover ratio, that is the proportion of the value of shares traded to market capitalisation, increased marginally to 0.47% in December 2002 from 0.4% in November 2002.
- While the value of shares traded increased by 38.4% to Ksh 528m in December 2002, the number of transactions declined by 26.0% to 1,908 in December 2002 from 2,579 in November resulting in 87.1% increase in the average value per transaction to Ksh 276,866.

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



Source: Nairobi Stock Exchange

Foreign Investors Board

Trading at the counter was in foreign inflows only, resulting in turnover of Ksh 22.4m. There were no foreign outflows and sales to foreigners in December 2002.

The Bond Market

Trading at the secondary market for bonds declined by Ksh 2.7bn or 68.1% to Ksh 1.3bn in December 2002 from Ksh 4.0bn in November 2002. This was due to a decline of Ksh 2.5bn or 66.8% in secondary trading of Government securities in December 2002 from Ksh 3.8bn in November. The average yield on traded bonds remained high and unchanged at 11.02% in December 2002 reflecting the increase in the 91-day Treasury bill rate in the month.

REAL SECTOR

Introduction

Provisional data on economic performance for the first ten months of 2002 suggest that the economy continued to recover though at a slower pace than earlier envisaged. Annualized real GDP growth is estimated to have eased to 0.7% in January to October 2002 from 0.9% in a similar period in 2001 (Table 27 and Chart 18). The slowdown in economic recovery during the

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

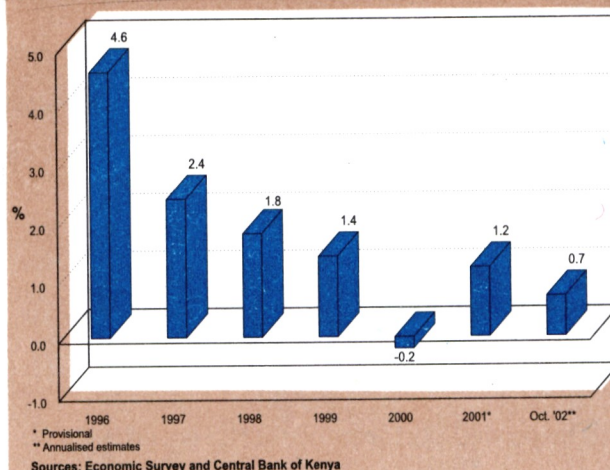


TABLE 27: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

MAIN SECTORS	Share in Real GDP in 2001 (%)	Annualised Estimates	
		October 2001 ¹	October 2002 ²
Agriculture	24.1	25,100	25,276
Manufacturing	13.0	13,666	13,735
Trade, Tourism & Hotels	12.7	13,257	13,310
Financial Services	10.6	11,064	11,142
Building & Construction	2.4	2,483	2,532
Transport & Communications	6.2	6,425	6,554
Government	14.7	15,262	15,338
Others of which	16.3	17,198	17,301
<i>Non-monetary Sector</i>	5.7	5,995	6,050
<i>Domestic Services</i>	2.9	3,050	3,078
<i>Ownership of Dwellings</i>	5.7	5,995	6,075
<i>Other</i>	2.0	2,104	2,098
Est. Real GDP (1982 Prices)	100.0	104,455	105,187
Nominal GDP (at Factor cost)	772,893		
Overall GDP Deflator	7.4		
GDP at Mkt Prices	895,278		
MAIN SECTORS		Annual Percentage Change	
Agriculture		1.0	0.7
Manufacturing		0.7	0.5
Trade, Tourism & Hotels		1.1	0.4
Financial Services		0.8	0.7
Building & Construction		-0.5	2.0
Transport & Communications		3.0	2.0
Government		0.6	0.5
Others		0.7	0.6
<i>Non-monetary Sector</i>		0.7	0.9
<i>Domestic Services</i>		0.8	0.9
<i>Ownership of Dwellings</i>		0.8	1.3
<i>Other</i>		-0.4	-0.3
Est. Real GDP Growth		0.9	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

period reflected the low investor confidence following uncertainties related to the general elections and the delay in the restoration of external financial support. It also reflected the generally high cost of transacting business in the country mainly due to corruption and inefficient infrastructure particularly roads.

Agriculture

The performance of major cash crops in the first ten months of 2002 (Table 28) was as follows:

- The production of horticultural crops for exports remained buoyant in the period, growing by 8.8% compared with 5.5% increase in a similar period of 2001. As a result, earnings from the crops increased to US \$314m from US \$ 239m in the period. The increase in production is partly due to farmers divesting out of less profitable agricultural activities to horticulture.
- Sugarcane deliveries increased by 35.6% compared with a decline of 24.2% in the same period in 2001. The increase in production is attributed to the favourable weather conditions in sugar cane growing areas.
- Output of tea, pyrethrum and sisal declined by 4.1%, 16.0% and 3.4%, respectively, in the first ten months of 2002 compared with 32.2%, 39.9% and 6.5% increases in the same period in 2001. The modest decline in tea production followed the delay in the long rains in major growing areas while pyrethrum production was adversely affected by management problems in the industry.

- Coffee deliveries declined by 20.4% in the first ten months of 2002 compared with a 42.6% decline in the same period of 2001. The sustained decline in coffee output reflects organisational management problems in the sub-sector coupled with the low international prices of the commodity. The on-going reforms in the sector are, however, expected to reverse the trend.

TABLE 28: GROWTH IN OUPUT OF KEY CROPS (%)

Crop	Jan - Oct		
	2000	2001	2002
Tea	-5.0	32.2	-4.1
Horticulture	0.2	5.5	8.8
Coffee	52.4	-42.6	-20.4
Sugar cane	-10.7	-24.2	35.6
Pyrethrum	-5.0	39.9	-16.0
Sisal	-2.3	6.5	

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

Manufacturing

The trends in key indicators in the manufacturing sector were as follows:

- The consumption of electricity, a major input in the sector, increased by 3.4% compared with an increase of 10.4% in a similar period of 2001. The large increase in 2001 reflected the restoration of normal supply from rationing occasioned by drought in 2000.
- Exports of manufactured goods increased by 5.6% during the first ten months of 2002 compared with an increase of 11.7%% in the same period of 2001. The increase in manufactured exports followed the reduction of restrictive trade policies in the region and the United States. Among the

notable increases in manufactured exports during period were textiles and fabrics which rose by 201% compared with an increase of 1.7% in the first seven months of 2001, largely due to access to the United States market through the African Growth and Opportunities Act (AGOA). Other manufactured goods such as vegetable oils, cement and galvanised sheets have benefited from wider regional markets in the East African Community (EAC) and COMESA (Table 29).

- Imports of chemicals and related products increased by 7.2% in the first seven months of 2002 compared with an increase of 18.0% in a similar period of 2001. However, imports of other important inputs such as crude materials and minerals and lubricants declined since the manufacturing sector continued to operate below capacity.

TABLE 29: PRODUCTION OF SELECTED MANUFACTURES (%)

Item	Jan - Oct.	
	2001	2002
Galvanised sheets (MT)	6.4	11.3
Mineral water ('000 litres)	3.6	8.8
Soda ash (MT)	25.1	3.4
Cement (MT)	-3.5	16.1
Assembled vehicles (units)	-13.9	-19.3
Processed Sugar (MT)	-15.6	37.0

Source: Central Bureau of Statistics and Kenya Sugar Authority

Building and Construction

Activity in the building and construction sector accelerated in the first ten months of 2002. Consumption of cement, the main input in the sector, increased by 16.0% in the period under review compared with an increase of 2.1% in a

similar period of 2001. The increase arose largely from private sector building and construction projects as public sector building and construction works experienced a slowdown due to budgetary constraints.

Transport, Storage and Communications

The performance of key sub-sectors over the first ten months of 2002 was mixed (Table 30):

- Passengers through Jomo Kenyatta International Airport (JKIA) increased by 7.1% compared with an increase of 14.2% in the first ten months of 2001.
- Cargo carried by the Kenya Railways Corporation increased by 1.7% during the first ten months of 2002 compared with a decline of 7.4% in a similar period of 2001.
- The consumption of petroleum fuels increased by 1.4% in the first nine months of 2002 compared with a decline of 1.7% in the same period of 2001.
- Cargo handled through the Port of Mombasa declined by 1.7% compared with 18.6% increase in the first ten months of 2001.

TABLE 30: PERFORMANCE IN MAJOR SUB-SECTORS (%)

	Jan - Oct.	
	2001	2002
Cargo by KPA (MT)	18.6	-1.7
Cargo by KR (MT)	-7.4	1.7
Passengers thro JKIA	14.2	7.1
Throughput by KPC	2.9	-2.6
Consumption of fuels	-1.7	1.4

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

- In the telecommunications sub-sector subscriptions for mobile phones increased to 1.3m in December 2002 compared with 0.95m in July 2002.
- Throughput by the Kenya Pipeline Company (KPC) declined by 2.6% compared with an increase of 2.9% in a similar period of 2001.

Trade, Restaurants and Hotels

As a result of the uncertainties related to the general elections, the tourism sector slowed down during the first ten months of 2002 as follows:

- Tourists arriving at Jomo Kenyatta International Airport (JKIA) declined by 4.3% compared with an increase of 1.8% in the same period in 2001.
- Tourists arriving at Moi International Airport, Mombasa (MIAM), however, increased slightly by 1.6% in the first ten months of 2002.
- Tourism earnings in the sector declined to US \$ 199m in the first eleven months of 2002 compared with US \$ 243m in a similar period in 2001.

Financial Services

Banking sector institutions' pre-tax profits during the first ten months of 2002 declined to Ksh 7.2bn compared with Ksh 9.0bn during the same period in 2001. The decline in the profitability

was partly attributed to a drop in interest income and partly to an increase in the provisions for bad and doubtful debts during the review period, which rose to Ksh 5.9bn from Ksh 5.7bn in the first ten month of 2001. Total expenses by the sector, however, declined to Ksh 42.6bn from Ksh 44.6bn in the same period in the previous year.

Economic Prospects in 2003

The economy is expected to pick up and grow by 2.5% in real terms in 2003 from the projected 0.8% in 2002. The momentum is expected to arise from the renewed confidence in the economy after the peaceful elections and change of Government, the expected reduction of transactions costs by businesses following the renewed commitment by the Government to enhance the fight against corruption and implement key reforms in various sectors of the economy, and the likely resumption of donor support in 2003.

In addition, the economy is expected to benefit from increased trade within COMESA and the East African Community, particularly in manufactured products. Under the AGOA arrangement, Kenya is also likely to export more products to the US market, including textiles, handicrafts, fresh fruit and flowers, leather and leather products.

BALANCE SHEET OF THE CENTRAL BANK OF KENYA

(Amounts in Ksh Millions)

	Nov. 2001	Nov. 2002	Movement
ASSETS	145,267	150,580	5,313
Foreign Exchange	78,605	83,256	4,651
Advances and Discounts to Banks	2,716	4,865	2,149
Investment in Government Securities	1,514	1,350	-164
Government Accounts	39,636	40,656	1,020
Overdraft to Government of Kenya	-	1,130	1,130
Clearing Account	751	488	-263
IMF funds onlent to Government	1,968	2,121	153
Non-interest Bearing Government Debt	36,917	36,917	0
Debtors	1,903	1,726	-177
Retirement Benefits	289	287	-2
Property and Equipment	578	798	220
Other Assets	20,026	17,642	-2,384
Revaluation Account	18,642	17,642	-1,000
Times Tower	1,384	-	-1,384
LIABILITIES	145,267	150,580	5,313
Currency in Circulation	49,228	56,400	7,172
Repo Securities	18,885	14,730	-4,155
Deposits	69,936	65,094	-4,842
Government of Kenya	27,193	22,580	-4,613
Commercial Banks			
Kenya	24,245	23,979	-266
External	27	20	-7
Non -bank Financial Institutions	420	233	-187
IMF	9,982	9,267	-715
Other Public Entities and Project A/Cs	8,069	9,015	946
Other Liabilities and Provisions	432	1,514	1,082
Capital and Reserves	6,786	12,842	6,056
Capital	1,500	1,500	0
General Reserve Fund	4,248	7,952	3,704
Period's Surplus	1,038	3,390	2,352

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 November 2001 and November 2002:

Assets

Foreign exchange increased by Ksh 4,651m to Ksh 83,256m from Ksh 78,605m mainly due to purchases of foreign exchange from the interbank market.

Advances and discounts to commercial banks increased by Ksh 2,149m to Ksh 4,865m.

Government accounts increased by Ksh 1,020m to Ksh 40,656m in November 2002, mainly on account of increased utilization of overdraft by Government of Kenya by Ksh 1,130m.

Other assets, comprising revaluation account and Times Tower, decreased by Ksh 2,384m to Ksh 17,642m.

Liabilities

Currency in circulation increased by Ksh 7,172m to Ksh 56,400m from Ksh 49,228m.

The stock of **repo securities** decreased by Ksh 4,155m to Ksh 14,730m.

Deposits decreased by Ksh 4,842m to Ksh 65,094m due to a decrease in deposits of the Government of Kenya by Ksh 4,613m. Similarly, deposits of IMF and non-bank financial institutions declined by Ksh 715m and Ksh 187m, respectively. Deposits of other public entities, however, rose by Ksh 946m.

Other liabilities and provisions increased by Ksh 1,082m to Ksh 1,514m.

Capital and reserves increased by Ksh 6,056m to Ksh 12,842m in the year to November 2002 due to Ksh 3,704m increase in the general reserve fund and Ksh 2,352m increase in the period's surplus.

