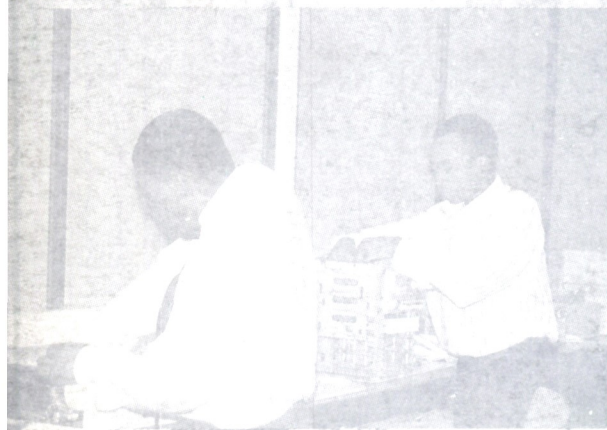




CENTRAL BANK  
OF KENYA

# MONTHLY ECONOMIC REVIEW

FEBRUARY  
2003



## **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](mailto:info@centralbank.go.ke)

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## HIGHLIGHTS OF THE FEBRUARY ECONOMIC REVIEW

It is estimated that **real GDP** grew at 0.7% per annum in the first eleven months of 2002 compared with 1.1% in the corresponding period of 2001. The 12-month underlying **inflation** increased to 3.0% in January 2003 from 2.4% in December 2002. The 12-month overall inflation also increased to 6.5% from 4.1% in the same period. The increase in inflation was mainly attributed to increases in the international prices of petroleum and related products and domestic prices of basic foods due to normal seasonal weather patterns.

**Interest rate** for the 91-day Treasury bill was 8.4% in January 2003 and December 2002. **Money supply**, M3X, increased by 10.2% in the year to December 2002 compared with 2.3% increase over a similar period in 2001. The increase was attributed to increase in both net foreign assets (NFA) and net domestic assets (NDA) of the banking system.

Assets of the **banking sector** increased by Ksh 30.1bn or 7.1% to Ksh 457.7bn at the end of December 2002 from Ksh 427.5bn at the end of December 2001. Non-performing loans (NPLs), net of interest in suspense, were estimated at Ksh 79.9bn or 31.5% of the total loans in December 2002, compared with Ksh 75.6bn or 30.9% in December 2001. Provisions for the NPLs increased from Ksh 30.3bn in December 2001 to Ksh 32.0bn in December 2002. Adjusted for

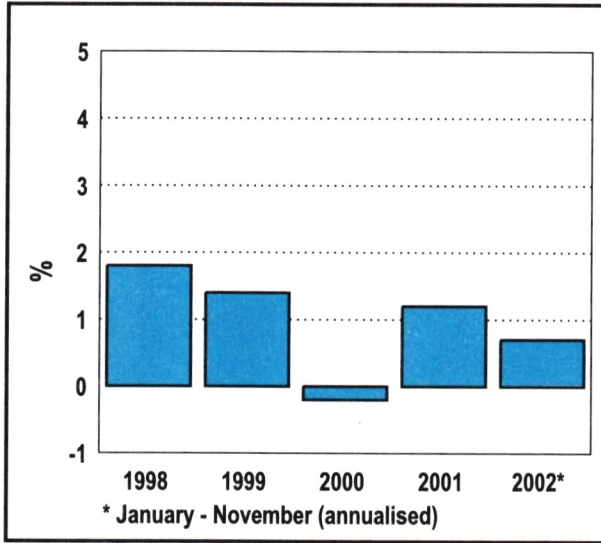
the provisions and the value of securities held by the banking sector estimated at Ksh 43.4bn, banks were covered in excess of Ksh 6.8bn.

**Government budgetary operations** during the first half of fiscal year 2002/03 resulted in a deficit, on a commitment basis, of Ksh 20.6bn or 2.1% of estimated GDP compared with a deficit of Ksh 8.4bn in a similar period in the previous fiscal year. The stock of **public debt** increased to Ksh 629.5bn in December 2002 from Ksh 613.8bn in June 2002. The increase was entirely in domestic debt as external debt declined.

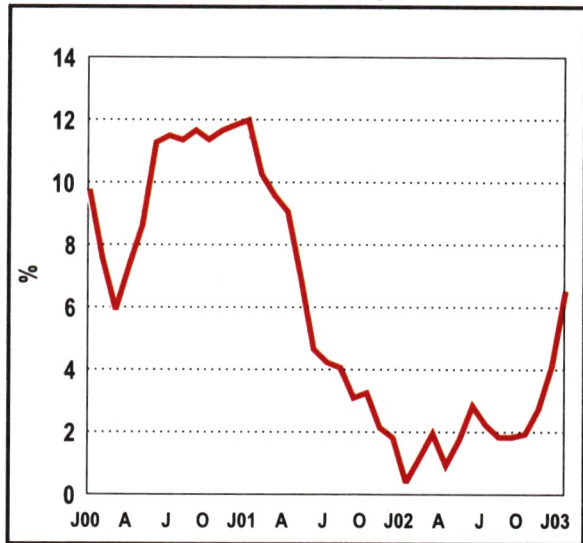
The **Kenya shilling** appreciated against the US dollar to exchange at Ksh 77.7 in January 2003 from Ksh 79.5 in December 2002. The **balance of payments** strengthened to US\$ 76m surplus in 2002 from a US\$ 22m surplus in 2001. **Foreign exchange reserves** of the Central Bank consequently increased to US\$ 1,067m or 3.3 months of import cover at the end of December 2002 compared with US\$ 1,064m at the end of December 2001.

# SELECTED PERFORMANCE INDICATORS

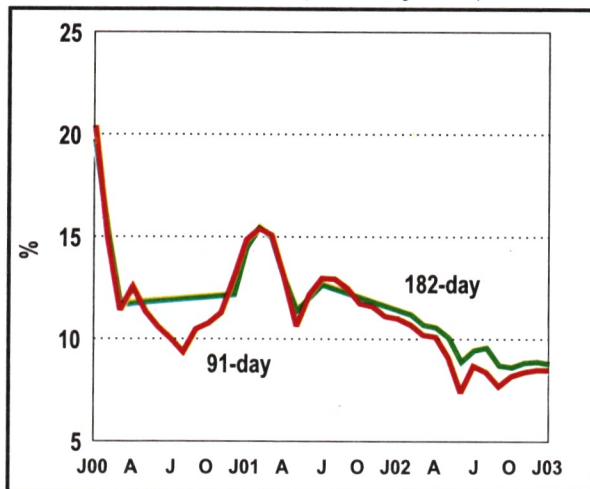
## Real GDP Growth



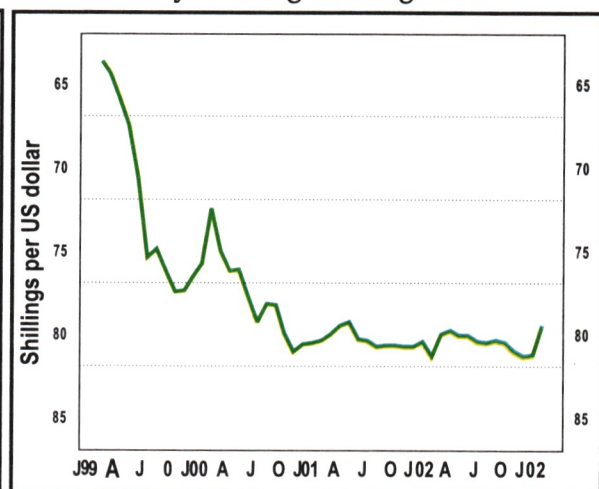
## Overall Inflation



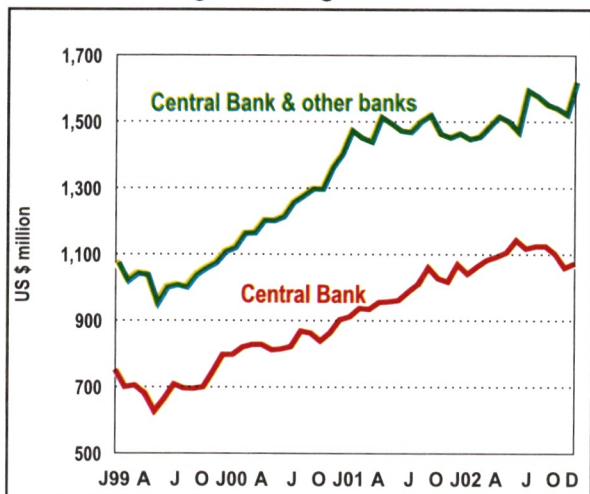
## Interest Rates (Treasury Bills)



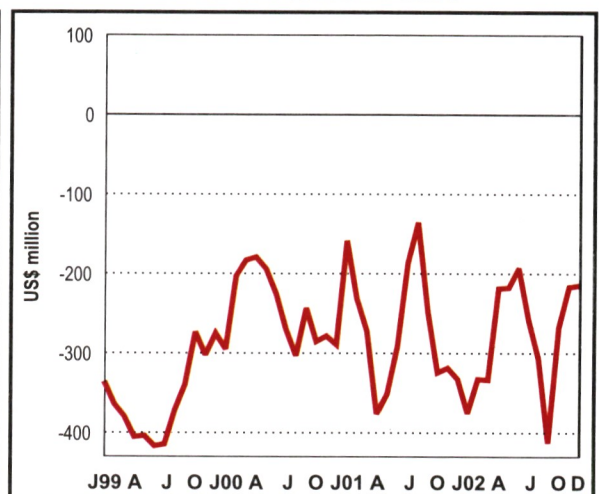
## Kenya Shilling Exchange Rate



## Foreign Exchange Reserves



## Current Account Balance



Source: Central Bank of Kenya

## SELECTED ANNUAL ECONOMIC INDICATORS, 1997 - 2001

INDICATOR	1997	1998	1999	2000	2001*
<b>1. POPULATION</b>					
People in Millions	28.1	28.8	29.5	30.2	30.8
Growth (%)	2.5	2.4	2.2	2.1	2.1
<b>2. NATIONAL ACCOUNTS</b>					
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
<b>3. GROSS DOMESTIC SAVINGS ( % of GDP at mkt prs)</b>	<b>10.5</b>	<b>9.8</b>	<b>10.9</b>	<b>7.4</b>	<b>6.5</b>
<b>4. GROSS DOMESTIC INVESTMENTS ( % of GDP at mkt prs)</b>	<b>18.5</b>	<b>17.4</b>	<b>16.2</b>	<b>15.4</b>	<b>14.5</b>
<b>5. CONSUMER PRICE INFLATION (URBAN)</b>					
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
<b>6. STOCK MARKET</b>					
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
<b>7. GOVERNMENT BUDGET (Ksh bn) ***</b>					
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
<b>8. MONEY AND CREDIT (Ksh bn)(end period)</b>					
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
<b>Total Domestic Credit</b>	<b>327.4</b>	<b>350.6</b>	<b>358.5</b>	<b>362.1</b>	<b>369.1</b>
Government	82.7	91.1	84.1	76.4	89.1
Others	244.7	260.6	274.3	285.6	280.0
<b>9. BALANCE OF PAYMENTS (US\$ m)</b>					
<b>Overall Balance</b>	<b>-33</b>	<b>66</b>	<b>-21</b>	<b>-8</b>	<b>22</b>
Current Account	-450	-549	-214	-288	-398
Capital and Financial Account	417	615	193	279	420
<b>10. FOREIGN EXCHANGE RESERVES (US\$ m)</b>	<b>1,099</b>	<b>1,100</b>	<b>1,104</b>	<b>1,398</b>	<b>1,459</b>
Official****	788	783	791	897	1064
<i>Months of imports</i>	(2.5)	(2.5)	(2.9)	(2.9)	(3.2)
Commercial banks & public	311	317	313	501	395
<b>11. PUBLIC DEBT (US\$ bn)</b>	<b>8.5</b>	<b>8.7</b>	<b>8.0</b>	<b>7.7</b>	<b>7.7</b>
Domestic	2.7	3.0	2.6	2.5	2.8
<i>As % of GDP</i>	29.2	30.2	24.5	22.8	23.9
External	5.8	5.7	5.4	5.2	4.9
<i>As % of GDP</i>	64.0	57.7	50.6	47.9	41.8
<b>12. EXCHANGE RATE (Ksh/US\$) (ANNUAL AVERAGE)</b>	<b>58.8</b>	<b>60.4</b>	<b>70.3</b>	<b>76.2</b>	<b>78.6</b>

\* Provisional.

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

\*\*\* Fiscal year to 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							2003
	Dec	Jan	Mar	Jun	Sep	Oct	Nov	Dec	Jan
<b>1. INFLATION (%)</b>									
<b>Overall (Urban)</b>									
12-month	1.8	0.4	1.9	2.8	1.8	1.9	2.7	4.1	6.5
Average annual	5.8	4.8	3.5	2.3	1.8	1.7	1.7	1.9	2.4
<b>Underlying (overall excluding food and energy)</b>									
12-month	5.0	4.1	4.1	3.7	1.7	1.8	1.9	2.7	3.0
Average annual	5.5	5.3	5.1	4.6	3.7	3.4	3.1	2.9	2.8
<b>2. INTEREST RATES (%)</b>									
91-day Treasury bill	11.0	10.9	10.1	7.3	7.6	8.1	8.3	8.4	8.4
Overdraft	20.0	19.3	18.8	18.5	18.5	18.9	18.6	18.6	..
<b>3. STOCK MARKET</b>									
Nairobi Stock Exchange Price Index	1355.1	1343.0	1183.1	1082.6	1043.4	1116.4	1161.6	1362.9	1510.6
Trade Turnover (%)	0.17	0.15	0.21	0.19	0.36	0.23	0.40	0.47	0.60
<b>4. GOVERNMENT BUDGET** (Ksh bn.)</b>									
Revenue and Grants	93.8	110.5	142.3	203.3	48.6	64.4	80.8	100.1	..
Expenditure:	102.2	122.4	157.6	225.6	57.8	79.3	98.7	120.7	..
<b>Budget Deficit (-) / Surplus (+)</b>	<b>-8.4</b>	<b>-12.0</b>	<b>-15.3</b>	<b>-22.3</b>	<b>-9.3</b>	<b>-14.9</b>	<b>-17.9</b>	<b>-20.6</b>	..
<b>5. MONEY AND CREDIT (Ksh bn.)</b>									
Money Supply (M3XT)	462.1	460.2	466.4	483.9	499.4	497.7	509.9	521.2	..
Money Supply (M3X)	368.4	360.6	366.1	378.3	387.4	387.3	395.7	406.0	..
Reserve Money	79.1	73.6	75.8	76.9	78.6	77.1	80.6	88.5	..
<b>Total Domestic Credit</b>	<b>334.0</b>	<b>325.8</b>	<b>329.5</b>	<b>341.9</b>	<b>354.3</b>	<b>355.5</b>	<b>362.6</b>	<b>365.5</b>	..
Government	89.1	84.2	88.6	94.7	101.6	103.9	108.4	108.5	..
Private Sector	244.9	241.7	240.8	247.2	252.6	251.6	254.2	256.3	..
<b>6. MONEY AND CREDIT (Annual % Change)</b>									
Money Supply (M3XT)	6.1	4.3	5.7	8.4	10.6	9.5	13.6	12.8	..
Money Supply (M3X)	2.3	0.0	2.1	6.7	8.4	7.0	9.6	10.2	..
Reserve Money	1.8	3.4	8.2	10.9	12.6	6.9	9.1	11.8	..
<b>Total Domestic Credit</b>	<b>0.8</b>	<b>-1.2</b>	<b>-0.6</b>	<b>5.4</b>	<b>7.3</b>	<b>6.2</b>	<b>6.6</b>	<b>9.2</b>	..
Government	16.5	14.9	16.7	37.9	32.5	23.2	18.4	21.8	..
Private Sector	-3.9	-5.9	-5.7	-3.4	-0.4	0.5	2.2	4.9	..
<b>7. BALANCE OF PAYMENTS (US\$ m)</b>									
<b>Overall Balance</b>	<b>42</b>	<b>-24</b>	<b>25</b>	<b>43</b>	<b>4</b>	<b>-19</b>	<b>-31</b>	<b>20</b>	..
Current Account Balance	-11	-51	-67	15	-99	-50	-41	26	..
Trade Balance	-83	-83	-119	-73	-168	-128	-137	-141	..
Capital and Financial Account	53	27	91	28	103	31	11	-6	..
<b>8. FOREIGN EXCHANGE RESERVES (US \$ m)</b>	<b>1459</b>	<b>1442</b>	<b>1479</b>	<b>1563</b>	<b>1548</b>	<b>1534</b>	<b>1515</b>	<b>1614</b>	..
Official***	1064	1035	1077	1137	1119	1096	1054	1067	..
Months of imports	(3.2)	(3.1)	(3.4)	(3.6)	(3.5)	(3.5)	(3.3)	(3.3)	..
Commercial banks	395	406	402	427	429	438	461	547	..
<b>9. PUBLIC DEBT (US\$ bn)</b>	<b>7.7</b>	<b>7.7</b>	<b>7.8</b>	<b>7.8</b>	<b>7.9</b>	<b>7.9</b>	<b>7.9</b>	<b>7.9</b>	..
Domestic	2.8	2.8	2.9	3.0	3.2	3.2	3.2	3.3	..
As % of GDP	23.9	24.2	24.9	25.6	25.5	25.5	25.9	26.4	..
External	4.9	4.9	4.9	4.8	4.8	4.7	4.7	4.6	..
As % of GDP	41.8	41.5	41.3	41.1	38.1	37.9	37.7	37.6	..
<b>10. GROSS DOMESTIC DEBT (Ksh bn)****</b>	<b>220.0</b>	<b>222.7</b>	<b>229.2</b>	<b>236.0</b>	<b>250.8</b>	<b>251.2</b>	<b>255.2</b>	<b>259.8</b>	..
<b>11. AVERAGE EXCHANGE RATE</b>									
<b>Ksh/US\$</b>	<b>78.7</b>	<b>78.6</b>	<b>78.1</b>	<b>78.7</b>	<b>78.8</b>	<b>79.3</b>	<b>79.6</b>	<b>79.5</b>	<b>77.7</b>
Ksh/Pound Sterling	113.2	112.8	111.1	116.6	122.5	123.6	125.1	126.1	125.7
Ksh/ 100 Yen	61.9	59.3	59.5	63.7	65.2	64.0	65.5	65.1	65.4
Ksh/Euro	70.2	69.5	68.4	75.1	77.3	77.8	79.7	81.0	82.6

\* 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

The overall inflation remained on an upward trend over the last four months to January 2003. This was largely due to increases in the international prices of petroleum and related products occasioned by political tensions in the Middle East. Prices of basic food items, particularly green groceries, also went up following poor weather, which reduced supplies in the market. However, the underlying inflation, which is normally influenced by the stance of monetary policy, remained within the 5% target.

### Overall Inflation

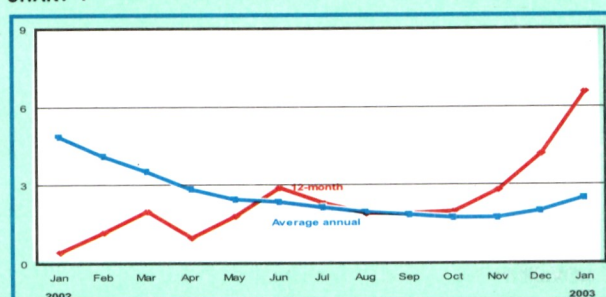
Latest trends in measures of overall inflation are as follows (Table 1A and Chart 1):

- The overall 12-month inflation increased to 6.5% in January 2003 from 0.4% in January 2002 and 4.1% in the year to December 2002.
- The overall inflation in January 2003, measured by the change in the overall consumer price index between December 2002 and January 2003, was 1.8% compared with 1.3% in December 2002.
- The overall average annual inflation increased to 2.4% in January 2003 from 1.9% in December 2002.

TABLE 1A: OVERALL INFLATION (%)

	2001				2002				2003
	Jan	Jun	Sep	Dec	Jan	Jun	Sep	Dec	Jan
12-month <sup>1</sup>	12.0	4.6	3.1	1.8	0.4	2.8	1.8	4.1	6.5
Average annual <sup>2</sup>	10.2	10.1	8.1	5.8	4.8	2.3	1.8	1.9	2.4
Changes over one month	0.9	0.2	-0.3	-0.2	-0.5	1.2	-0.3	1.3	1.8
Changes over 3 months	1.9	2.3	0.1	-0.3	-0.9	3.4	-1.0	2.0	3.5

CHART 1



Sources: Central Bureau of Statistics & Central Bank of Kenya

Table 1B shows latest trends in prices of selected commodities over the last three months beginning November 2002.

TABLE 1B: PRICES OF SELECTED ITEMS (NOV-02 TO JAN-03)

Item	Nov-02	Dec-02	Jan-03	Change between Nov 02 and Jan-03 (%)
Onions (Ksh/kg)	32.21	34.35	39.37	22.20
Tomatoes (Ksh/kg)	29.50	33.27	40.14	36.10
Premium petrol (Ksh/ltr)	55.70	55.71	59.92	7.60
Paraffin (Ksh/ltr)	34.13	34.13	35.88	5.10

Source: Central Bureau of Statistics

### Underlying inflation

The underlying inflation, which excludes food and energy prices and reflects the effect of monetary policy, evolved as follows (Table 2 and Chart 2):

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

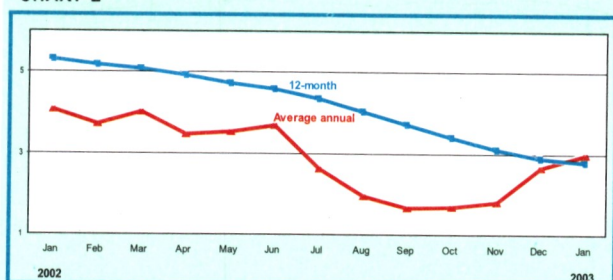
<sup>2</sup>Percentage change in the average CPI for the last 12 months over the average CPI for the previous 12-month period.

- The underlying 12 month inflation declined to 3.0% in January 2003 from 4.1% in January 2002
- The underlying average annual inflation declined to 2.8% in January 2003 from 5.3% in January 2002
- The underlying inflation, measured by the percentage change in the underlying consumer price index between December 2002 and January 2003, however, increased to 0.8% from 0.6% in December 2002.

TABLE 2: UNDERLYING INFLATION (%)

	2001			2002				2003
	Jan	Jun	Dec	Jan	Jun	Sep	Dec	Jan
12-month	5.9	5.4	5.0	4.1	3.7	1.7	2.7	3.0
Average annual	5.2	5.4	5.5	5.3	4.6	3.7	2.9	2.8
Changes over one month	0.9	0.0	0.2	0.0	0.1	0.1	0.6	0.8
Changes over 3 months	1.7	1.2	0.4	0.3	0.9	0.3	0.9	1.6

CHART 2



Sources: Central Bureau of Statistics &amp; Central Bank of Kenya

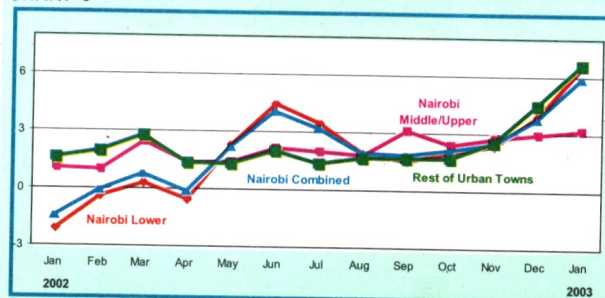
January 2002 and 4.0% in the year to December 2002.

- The 12-month inflation in prices of goods and services purchased by the Nairobi middle/upper income group rose to 3.3% in January 2003 from 1.2% in January 2002 and 3.0% in the year to December 2002.
- The 12-month inflation in prices of goods and services purchased by the combined Nairobi income groups, therefore, increased to 5.9% in the period from 3.8% in the year to December 2002.
- The 12-month inflation in prices of goods and services purchased by consumers in other towns also increased to 6.7% in January 2003 from 1.7% in January 2002 and 4.5% in the year to December 2002.

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

	2001			2002				2003
	Jan	Jun	Dec	Jan	Jun	Sep	Dec	Jan
Nairobi Lower	11.5	1.3	0.2	-2.0	4.5	1.6	4.0	6.6
Nairobi middle/upper	8.7	4.6	1.5	1.2	2.2	3.2	3.0	3.3
Nairobi Combined	10.9	1.9	0.4	-1.4	4.1	1.9	3.8	5.9
Rest of Urban Towns	12.7	6.4	2.4	1.7	2.1	1.7	4.5	6.7

CHART 3



Sources: Central Bureau of Statistics &amp; Central Bank of Kenya

## Inflation by Income Groups

Inflation in January 2003 affected various income groups as follows (Table 3 and Chart 3):

- The 12-month inflation in prices of goods and services purchased by the Nairobi lower income group increased to 6.6% in January 2003 from negative 2.0% in

## Inflation by Categories of Goods and Services

In January 2003, two categories of goods and services, namely fuel and power; and food and drinks recorded the highest inflation rates of 10.8% and 8.5% respectively from 7.5% and 5.7% in December 2002. Transport and communications; and recreation and entertainment activities had inflation of 5.4% and 5.2% from 2.4% and 2.5% respectively, in the same period. Inflation in the prices of other categories of goods and services remained below 5% (Table 4 and Chart 4).

## Outlook

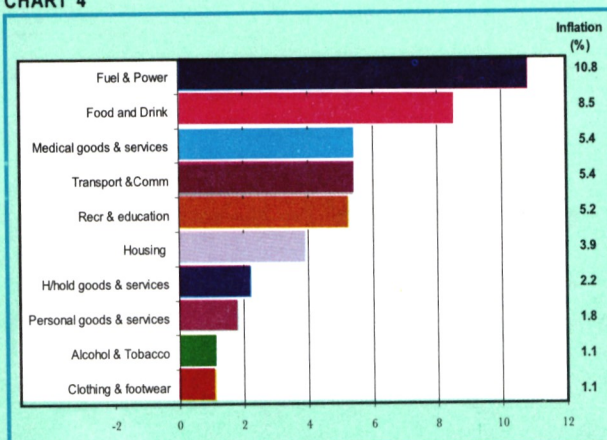
Inflationary pressures experienced in recent months are not expected to persist since they are attributed to transitory factors. Monetary policy will, however, remain prudent to ensure that price stability is maintained. The stability in the shilling exchange rate is also expected to contribute to a low inflation scenario.

**TABLE 4: BASKET WEIGHTS & OVERALL 12-MONTH INFLATION, DEC 2002 - JAN 2003**

Goods and Services	Income Groups*			Combined weights (100)	Inflation (%)	
	Nairobi Lower (31.9)	Middle/Upper (8.0)	Rest of Urban Towns (60.1)		Dec 2002	Jan 2003
Food and Drink	55.7	31.9	50.2	50.5	5.7	8.5
Housing	11.9	31.7	9	11.7	3.5	3.9
Recr & education	4.6	7.3	6.6	6.0	2.5	5.2
Hhold goods & services	5	4.7	6.4	5.8	1.6	2.2
Clothing & footwear	9.2	7.4	9.1	9.0	0.8	1.1
Transport & Comm	5.1	10.2	5.5	5.7	2.4	5.4
Fuel & Power	3.5	2.2	4.8	4.2	7.5	10.8
Medical goods & services	0.9	1.3	2	1.6	4.1	5.4
Personal goods & services	2.3	1.9	2.6	2.4	1.9	1.8
Alcohol & Tobacco	1.8	1.4	3.8	3.0	0.6	1.1

\* Numbers in parentheses are income group weights

**CHART 4**



Sources: Central Bureau of Statistics & Central Bank of Kenya

## MONEY AND CREDIT

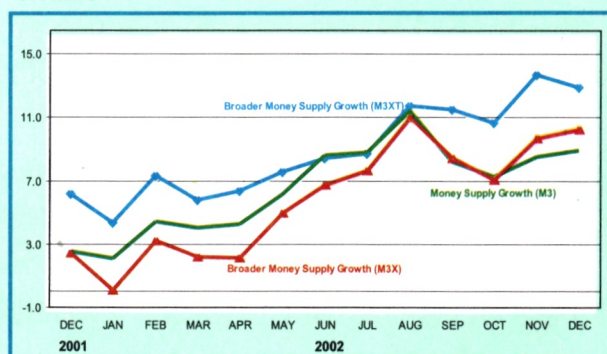
Growth in all money supply aggregates accelerated in the year to December 2002, relative to the growth in the year to December 2001 (Tables 5 and 6 and Chart 5).

Narrow money, M3, which consists of currency in circulation and the private sector holdings of shilling denominated deposits with banks increased by 8.8% relative to 6.8% target growth and 2.5% growth in the year to December 2001. Broad money, M3X, comprising M3 and residents' foreign currency deposits increased by

TABLE 5: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY

	2001		2002				
	Sep	Dec	Jan	Mar	Jun	Sep	Dec
M3	0.7	2.5	2.0	3.9	8.5	8.1	8.8
M3X	1.7	2.3	0.0	2.1	6.7	8.4	10.2
M3XT	8.1	6.1	4.3	5.7	8.4	11.4	12.8

CHART 5



Source: Central Bank of Kenya

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

	Dec.	Dec.	Annual Change	
	2001	2002	Absolute	%
<b>1. Money supply, M3XT</b> 1/	<b>462.1</b>	<b>521.2</b>	<b>59.1</b>	<b>12.8</b>
<b>2. Money supply, M3X</b> (4+5) 2/	<b>368.4</b>	<b>406.0</b>	<b>37.6</b>	<b>10.2</b>
<b>3. Money supply, M3</b> 3/	<b>322.3</b>	<b>350.7</b>	<b>28.3</b>	<b>8.8</b>
Of which: M2	308.7	338.2	29.5	9.6
<b>4. Net foreign assets</b> 4/	<b>94.0</b>	<b>102.1</b>	<b>8.2</b>	<b>8.7</b>
Central Bank	75.6	70.3	-5.3	-7.1
Banking institutions	18.4	31.9	13.5	73.5
<b>5. Net domestic assets</b> (5.1+5.2)	<b>274.4</b>	<b>303.9</b>	<b>29.4</b>	<b>10.7</b>
<b>5.1 Domestic credit</b> (5.1.1+5.1.2)	<b>334.0</b>	<b>365.5</b>	<b>31.5</b>	<b>9.4</b>
5.1.1 Government (net)	89.1	108.5	19.4	21.8
Central Bank	14.6	18.0	3.5	23.8
Banking institutions	74.5	90.5	16.0	21.5
5.1.2, Private sector and other public sector 5/	<b>244.9</b>	<b>256.3</b>	<b>11.4</b>	<b>4.7</b>
<b>5.2 Other net domestic assets</b> (5-5.1)	<b>-59.6</b>	<b>-61.1</b>	<b>-1.5</b>	<b>-2.5</b>
<b>6. Reserve money</b>	<b>79.1</b>	<b>88.5</b>	<b>9.3</b>	<b>11.8</b>
Currency in circulation	53.1	62.5	9.4	17.8
Banking institutions' deposits with CBK	26.1	25.9	-0.1	-0.5
<b>Memorandum items</b>				
<b>Treasury bills outstanding</b>	<b>123.8</b>	<b>107.0</b>	<b>-16.8</b>	<b>-13.6</b>

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 of Ksh 78.95 to the US dollar (Sept. 30th, 2001).

5/ Excludes interest in suspense.

Source: Central Bank of Kenya

10.2% during the period compared with 6.5% target growth and 2.3% growth in the year to December 2001. As a result, the expansion of broader money aggregate, M3XT, comprising M3X and non-bank private sector holdings of Government securities accelerated by 12.8% relative to 10.3% target increase and 6.1% increase over a similar period to December 2001.

The expansion in M3X, the intermediate money supply target for monetary policy, over the year to December 2002 reflected increases in both NFA and NDA of the banking system. The NFA rose by 8.7% in the year entirely due to a build up in the foreign assets of banking institutions as the Central Bank foreign exchange holdings declined during the review period. The NDA increased by 10.7% reflecting expansion of credit to the Government by both the Central Bank and the banking institutions. Other net domestic assets of the banking system declined by 2.5% in the year to December 2002 compared with 5.2% fall in the year to December 2001.

## Reserve Money

Reserve money (RM), which comprises deposits of banking institutions at the Central Bank and currency in circulation, increased by 11.8% to Ksh 88.5bn in the twelve months to December 2002, which was higher than both the 4.9% target growth and 1.8% growth in the previous year (Table 7 and Chart 6). The expansion in the RM was entirely in currency in circulation, which rose by 17.8% offsetting a 0.5% decline in banking institutions' deposits at the Central Bank.

The expansion in reserve money during the review period was entirely in the NDA of the Central Bank, which rose by Ksh 14.7bn and offset Ksh

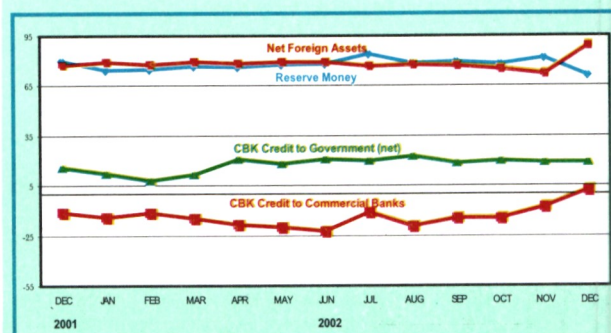
5.3bn decline in NFA. The decline in NFA was attributed to repayment of Government foreign debt coupled with reduced purchases of foreign exchange in the interbank market. Developments in the components of the NDA were as follows:

- Government net position increased by Ksh 3.5bn to Ksh 18.0bn during the review period relative to a decline of Ksh 4.5bn in the year to December 2001.
- Central Bank net indebtedness to the commercial banks declined by Ksh 14.6bn reflecting a decline in commercial banks' repurchase agreements (REPOs) under open market operations by Ksh 8.6bn. At the same time, overnight advances to commercial banks by the Central bank increased by Ksh 6.0bn.
- Other domestic assets net of other domestic liabilities declined by Ksh 2.9bn compared with Ksh 2.6bn decline in the previous year.

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

	2001	2002	Annual Change	
	Dec.	Dec.	Absolute	%
1. Net Foreign Assets	75.6	70.3	-5.3	-7.1
2. Net Domestic Assets	3.5	18.2	14.7	416.8
2.1 Government Borrowing (net)	14.6	18.0	3.5	23.7
2.2 Advances & Discounts	-12.8	1.8	14.6	-113.7
2.3 Other Domestic Assets (net)	1.8	-1.1	-2.9	-159.4
3. Reserve Money	79.1	88.5	9.3	11.8
3.1 Banks & NBFIs Deposits at CBK	26.1	25.9	-0.2	-0.4
3.2 Currency in Circulation	53.1	62.5	9.4	17.8

CHART 6



Source: Central Bank of Kenya

## Credit Developments

During the year to December 2002, net domestic credit from banking institutions grew by Ksh 30.9bn or 9.3%, compared with Ksh 2.7bn or 0.8% increase in the previous year. The credit extended during the year under review was channeled to the Government, and to the private and other public sectors.

Credit to the Government increased by Ksh 19.4bn or 21.8%. The increase comprised Ksh 3.5bn from the Central Bank and Ksh 16.1bn from commercial banks.

Credit to the private sector increased by Ksh 11.4bn or 4.8% in the year to December 2002, wholly offsetting 0.1% decline in credit to the other public sector. On a monthly basis, credit extended to the private sector increased by 0.3% in October, and 0.9% in both November and December compared with the mixed trends in the September 2002 quarter.

Analysis of credit extension to various private sector activities over the twelve-month period to December 2002 indicates that the banking sector

extended additional loans amounting to Ksh 24.2bn to the following sectors: private households, transport and communication, finance and insurance, agriculture, manufacturing, real estate and consumer durables. However, trade, business services, building and construction, mining and quarrying, and other activities partially offset the increase by Ksh 12.9bn repayment (Table 8).

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

	2001 December		2002 December		Annual Change	
	Ksh bn	Share (%)	Ksh bn	Share (%)	Ksh bn	(%)
<b>1. Credit to other public sector</b>	<b>8.0</b>	<b>3.3</b>	<b>8.0</b>	<b>3.1</b>	<b>0.0</b>	<b>-0.1</b>
Local government	0.1	0.0	0.1	0.0	0.0	48.7
Parastatals	8.0	3.2	7.9	3.1	0.0	-0.6
<b>2. Credit to private sector</b>	<b>238.9</b>	<b>96.7</b>	<b>248.3</b>	<b>96.9</b>	<b>11.4</b>	<b>4.8</b>
Agriculture	22.9	9.3	24.9	9.7	2.0	8.9
Manufacturing	49.9	20.4	50.6	19.7	0.7	1.4
Trade	46.8	19.1	41.5	16.1	-5.3	-11.4
Building and construction	20.1	8.2	20.0	7.8	-0.1	-0.5
Transport & communications	9.9	4.0	16.7	6.5	6.8	68.6
Finance & insurance	15.6	6.4	21.1	8.2	5.5	35.1
Real estate	20.2	8.2	21.1	8.2	0.9	4.4
Mining and quarrying	2.2	0.9	2.0	0.8	-0.2	-8.6
Private households	10.2	4.2	18.1	7.0	7.9	77.8
Consumer durables	5.3	2.2	5.8	2.2	0.4	8.0
Business services	27.7	11.3	24.1	9.4	-3.6	-12.9
Other activities	6.1	2.5	2.4	0.8	-3.7	-60.3
<b>3. TOTAL (1+2) *</b>	<b>244.9</b>	<b>100.0</b>	<b>258.3</b>	<b>100.0</b>	<b>11.4</b>	<b>4.7</b>

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

Source: Central Bank of Kenya

### Structure of the Banking System

The Banking system comprised 44 commercial banks, 3 non-bank financial institutions (NBFIs), 2 mortgage finance companies, 4 building societies and 48 forex bureaus at the end of January 2003 (Table 9). Six commercial banks were involved in mergers, which reduced the number of institutions from 56 in January 2002 to 53 in January 2003.

**TABLE 9: COMMERCIAL BANKS, NBFIs & FOREIGN EXCHANGE BUREAUS**

Type of Institution/Bureau	Jan-2001	Jan-2002
Commercial Banks	47	44
(a) Operating	46	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	56	53
Foreign Exchange Bureaus	47	48

Source: Central Bank of Kenya

### Assets and Advances

Total assets of the banking system increased to Ksh 462.2bn in December 2002 from Ksh 427.5bn in December 2001. Total loans and advances, which accounted for 55% of total assets, increased by Ksh 11.1bn to Ksh 255.7bn in December 2002 from Ksh 244.6bn in December 2001 (Table 10). The increase in total advances 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)**

	Dec	Dec	Change*	
	2001	2002	Absolute	%
<b>ASSETS</b>	<b>427.5</b>	<b>462.2</b>	<b>34.7</b>	<b>0.1</b>
Loans and Advances	244.6	255.7	11.1	0.0
Government Securities	89.6	98.1	8.5	0.1
Balances at Central Bank	29.7	25.7	-4.0	-0.1
Fixed Assets	18.1	18.2	0.0	0.0
Other Assets	23.5	31.7	8.2	0.3

\*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 8.5% to Ksh 98.1bn in December 2002 from Ksh 89.6bn in December 2001, and accounted for 21% of the total assets. Cash deposited with the Central Bank decreased to Ksh 25.5bn from Ksh 29.7bn and accounted for 6% of the total assets.

### Asset Quality

At the end of December, 2002 the level of NPLs was estimated at Ksh 77.3bn or 30.2% of total loans, compared with Ksh 75.6bn or 30.9% of total loans in December 2001 (Table 11). The NPLs were mainly concentrated in ten institutions, whose NPLs amounted to Ksh 46.4bn or 58% of the industry's total. The level of provisions increased from Ksh 30.3bn in December 2001 to Ksh 31.8bn in December 2002. On average, the banking sector was adequately cushioned against the NPLs as the estimated value of securities increased from Ksh 36.5bn in December 2001 to Ksh 43.4bn in December 2002.

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

	Dec-01	Dec-02
1. Total Advances	244.6	255.7
2. Specific Provisions	27.7	29.4
3. General Provisions	2.6	2.4
4. Total Provisions (2+3)	30.3	31.8
5. Net Advances (1-4)	214.3	223.9
6. Total Non-Performing Loans (NPLs)**	75.6	77.3
7. Net Non-Performing Loans (6-2)	47.9	47.9
8. Value of securities (estimated)	36.5	43.4
9. Net Exposure (7-8)	11.4	4.5
10. Total NPLs as % of total Loans (6/1)	30.9%	30.2%
11. Total Provisions as % of total loans (4/1)	12.4%	12.4%
12. Exposure as % of total loans (9/1)	4.7%	1.8%

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

Source: Central Bank of Kenya

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

	Dec 2001	Dec 2002	Annual Change*	
			Absolute	%
<b>LIABILITIES</b>	<b>363.6</b>	<b>401.9</b>	<b>38.3</b>	<b>10.5</b>
Deposits**	330.0	359.9	29.9	9.1
Capital and Reserves	63.9	55.8	-8.1	-12.7
Foreign Liabilities	8.6	4.0	-4.5	-52.8
Other Liabilities	25.0	37.9	12.9	51.7

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

\*\*Includes interbank balances.

Source: Central Bank of Kenya

## Deposit Liabilities

Deposits, including interbank deposits and accrued interest held by banking institutions, increased by 9.3% to Ksh 360.7bn in December 2002 from Ksh 330.0bn in December 2001. The largest ten commercial banks accounted for 77.5% of all deposits with the banking system.

## Capital and Reserves

Capital and reserves of the banking system decreased by 11.7% to Ksh 56.5bn in December 2002 from Ksh 63.9bn in December 2001 (Table 12). 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 December 2002 from 17.9% at the end of December 2001, but was well above the minimum requirement of 12%.

## Profitability of the Sector

Unaudited pre-tax profits decreased by 11.1% to Ksh 8.8bn for the twelve months to December 2002 from Ksh 9.9bn for a similar period in 2001. The deterioration in the banking sector profitability was mainly attributed to reduced interest income from advances.

## Building Societies

Total assets and deposits of building societies were Ksh 9.2bn and Ksh 7.6bn, respectively, while total advances amounted to Ksh 3.0bn at the end of December 2002. Income stood at Ksh 1.4bn while total expenses stood at Ksh 1.1bn, giving a pre-tax profit of Ksh 0.3bn for the twelve months ending December 2002.

## Cash and Liquidity Ratios of Commercial Banks and NBFIs

Deposit taking institutions continued to observe both the minimum statutory 20% liquidity and the 10% cash ratio requirements in November and December 2002 (Table 13 and Chart 7).

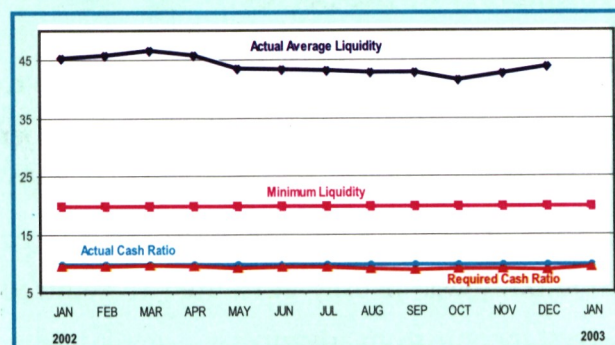
TABLE 13: CASH AND LIQUIDITY RATIOS\* (%)

	2002						2003
	Sep	Dec	Jan	Jun	Sep	Dec	Jan
<b>Commercial Banks</b>							
Average Liquidity	44	46	46	44	43	44	
Minimum Liquidity	20	20	20	20	20	20	20
Cash Ratio - All Banks	9.8	9.9	9.7	9.5	9.1	9.0	9.5
Minimum Cash Ratio**	10	10	10	10	10	10	10
<b>NBFIs</b>							
Average Liquidity	56	57	59	59	52	56	
Minimum Liquidity	20	20	20	20	20	20	20
Cash Ratio	10.5	10.9	11.0	11.6	12.5	13.0	14.3
Minimum Cash Ratio**	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

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

### Cash Ratios

The average cash ratio for commercial banks increased to 9.5% in January 2003 from 9.1% in December 2002 while that for NBFIs increased to 14.3% from 13.0% during the same period.

### Liquidity Ratios

Commercial banks and NBFIs continued to hold liquid assets largely in cash balances at the Central Bank and Government securities comprising both Treasury bills and bonds. The average liquidity ratio for banks increased from 43% in November to 44% in December 2002, while that for NBFIs increased from 53% to 56% over the same period.

## INTEREST RATES

Interest rates movements between December 2002 and January 2003 were mixed as follows:

- The 91-day Treasury bill rate remained unchanged at 8.4% while the 182-day Treasury bill rate declined to 8.7% from 8.8% in December 2002 (Table 14 and Chart 8).
- The interbank rate rose to 9.0% from 8.7% over the same period indicating tighter liquidity in the overnight money market.
- The average rate on 3 months time deposits eased to 5.4% in December from 5.6% in November.

- The average rate on savings declined to 3.5% in December from 3.8% in November 2002.

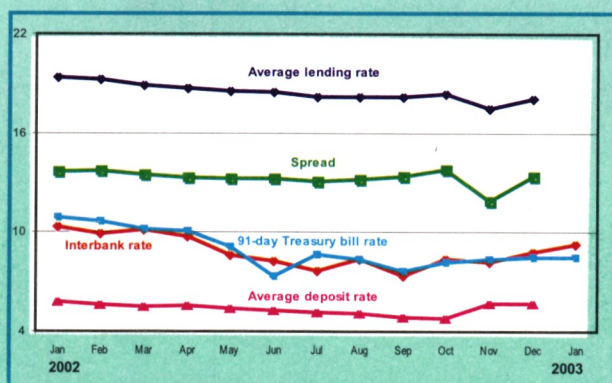
The average lending rate increased from 18.0% in November to 18.3% in December 2002 while the average deposit rate remained unchanged at 4.7%. Consequently, the average interest rate spread widened from 13.3% to 13.6% over the same period.

TABLE 14: INTEREST RATES (% per annum)

	2001			2002			2003		
	Jun	Sep	Dec	Jan	Mar	Jun	Oct	Dec	Jan
Treasury bill rate*	12.1	12.4	11.0	10.9	10.1	7.3	8.1	8.4	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	9.0
Average lending rate (1)	19.3	19.4	19.5	19.3	18.9	18.4	18.3	18.3	
Average deposit rate (2)	6.4	6.3	5.7	5.7	5.4	5.2	4.7	4.7	
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	3.5	
Spread (1-2)	12.9	13.2	13.8	13.6	13.4	13.2	13.7	13.6	

\* 91-Days Treasury bill rate

CHART 8



Source: Central Bank of Kenya

## SHILLING EXCHANGE RATE

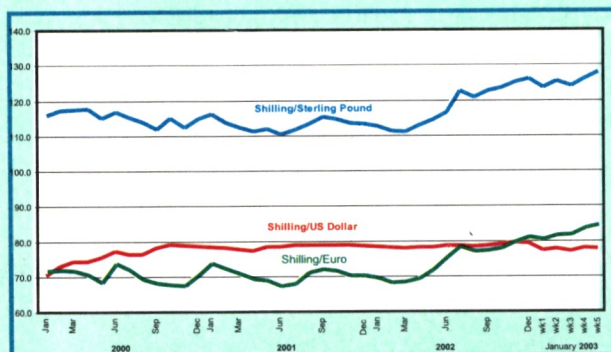
The Kenya shilling remained relatively stable against the US dollar, but weakened against the Sterling Pound and the Euro to exchange at an average of Ksh 78.7, Ksh 119.4 and Ksh 75.5, respectively, in the year to January 2003 compared with Ksh 78.6, Ksh 112.8 and Ksh 70.0 in a similar period the previous year (Table 15 and Chart 9). Against the Japanese Yen and the South African Rand, however, the shilling gained by 1.0% and 14.0%, respectively, to exchange at Ksh 63.4 per 100 Japanese Yen and Ksh 7.7 per Rand. The shilling also strengthened against the Tanzania shilling to exchange at Tsh 12.4 compared with Tsh 11.3 in the year to January 2002, and against the Uganda shilling to exchange at Ush 23.0 in the year to January 2003 compared with Ush 22.3 similar period of the previous year.

TABLE 15: SHILLING EXCHANGE RATE

	2001		2002		2003							
	Sep	Dec	Jan	Jun	Sep	Dec	January					
							wk 1	wk 2	wk 3	wk 4	wk 5	Avg
US Dollar	78.9	78.7	78.6	78.7	78.8	79.5	77.5	77.9	77.2	78.0	77.8	77.7
Pound Sterling	115.5	113.2	112.8	116.6	122.5	126.1	123.5	125.3	124.0	126.0	127.8	125.7
100 Japanese Yen	66.5	61.9	59.3	63.7	65.2	65.1	64.5	65.1	65.1	65.9	65.7	65.4
Uganda Shilling*	22.2	21.9	22.2	22.9	22.9	23.2	24.7	23.9	24.2	24.0	24.1	24.1
Tanzania Shilling*	11.3	11.6	11.8	12.2	12.4	12.3	12.7	12.6	12.9	12.8	13.1	12.8
Euro	71.9	70.2	69.3	75.1	77.3	81.0	80.3	81.5	81.6	83.5	84.3	82.6
Nominal Effective Exchange Rate	79.4	80.4	81.1	80.5	81.2	76.9						
Real Effective Exchange Rate	95.2	95.9	94.4	95.1	94.5	91.6						

\* Units of currency per Kenya shilling

CHART 9



Source: Central Bank of Kenya

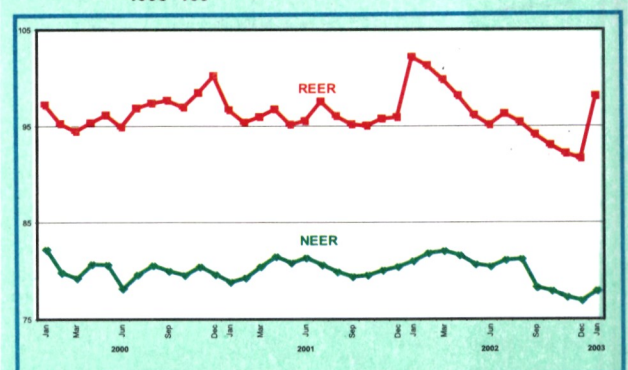
On a monthly basis, the shilling gained against the US dollar and the Sterling Pound to trade at

an average of Ksh 77.7 and Ksh 125.6, respectively, in January 2003 compared with an average of Ksh 79.5 and Ksh 126.1 in December 2002. It, however, weakened against the Euro, the Japanese Yen and the South African Rand by 1.9%, 0.4% and 0.8%, respectively. Against the Tanzania shilling, the shilling gained by 4.0% to trade at Tsh 12.8 and by 3.7% against the Uganda shilling to trade at Ush 24.1 in January 2003.

The strengthening of the shilling against the US dollar in January 2003 was due to renewed confidence in the Kenyan economy after the peaceful general elections and the smooth transition of power. Corporate demand for foreign currency remained low while there were normal inflows particularly from tea and horticultural exports.

In nominal effective terms, that is trade-weighted against major partner currencies, the shilling depreciated by 1.5% in the year to January 2003 compared with 1.2% appreciation in a similar period to January 2002. In real terms, however, the shilling appreciated by 0.7% in the year to January 2003 compared with 0.6% appreciation in the year to January 2002 (Chart 10). The appreciation in the real effective shilling exchange rate in the year to January 2003 reflected higher inflation in Kenya than in major trading partner countries.

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



Source: Central Bank of Kenya

## BUDGETARY DEVELOPMENTS

Government fiscal operations in the first half of fiscal year 2002/03 resulted in a deficit of Ksh 20.6bn, or 2.1% of GDP on a commitment basis, compared with a deficit of Ksh 8.4bn or 0.9% of GDP in a similar period in fiscal year 2001/02 (Table 16 and Chart 11). On a cash basis, the deficit also widened to Ksh 22.4bn from Ksh 14.0bn over a similar period in the last fiscal year.

TABLE 16: BUDGET OUT-TURN (Ksh bn)

	FY 2001/02		FY 2002/03		Over(+)/ Below(-)
	Dec. Actual	Dec. Actual*	Dec. Actual*	Target	
1. TOTAL REVENUE & GRANTS	93.8	100.1	110.6	-10.5	
Revenue	90.8	96.5	103.1	-6.6	
Tax Revenue	77.9	83.6	89.6	-6.1	
Non Tax Revenue	5.6	5.8	5.7	0.1	
Appropriations-in-Aid	7.3	7.1	7.8	-0.7	
External Grants	3.0	3.6	7.5	-3.8	
2. TOTAL EXPENDITURE AND NET LENDING	102.2	120.7	126.9	-6.2	
Recurrent Expenditure	93.6	106.0	104.3	1.6	
Development Expenditure	8.6	14.7	22.6	-7.9	
3. DEFICIT ON A COMMITMENT BASIS (1-2)*	-8.4	-20.6	-16.3	-4.2	
	(-0.9)	(-2.1)	(-1.7)		
4. ADJUSTMENT TO CASH BASIS	-5.7	-1.8	-1.1	-0.7	
5. DEFICIT ON A CASH BASIS*	-14.0	-22.4	-17.5	-4.9	
	(-1.5)	(-2.3)	(-1.8)		
6. DISCREPANCY: Expenditure (+) / Revenue (-)	0.4	-3.8	0.0	-3.8	
7. FINANCING	14.4	18.5	17.5	1.1	
Domestic (Net)	22.2	23.5	19.4	4.1	
External (Net)	-7.8	-5.0	-1.9	-3.0	
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 half of fiscal year 2002/03, the Government collected receipts amounting to Ksh 100.1bn compared with Ksh 93.8bn in a similar period in fiscal year 2001/02 (Table 17).

TABLE 17: COMPOSITION OF GOVERNMENT REVENUE (Ksh bn)

	Dec-01	Share	Dec-02	Share
	Ksh bn	%	Ksh bn	%
1. Revenue (2+3+4)	90.8	96.8	96.5	96.4
2. Tax Revenue	77.9	83.0	83.6	83.5
Income Tax	27.4	29.2	31.5	31.5
Value Added Tax	24.8	26.5	27.6	27.5
Import Duty	11.6	12.3	8.5	8.5
Excise Duty	14.1	15.0	15.9	15.9
3. Appropriations-in-Aid	7.3	7.8	7.1	7.1
4. Other Revenue	5.6	6.0	5.8	5.8
5. External Grants	3.0	3.2	3.6	3.6
<b>TOTAL RECEIPTS (1+5)</b>	<b>93.8</b>	<b>100.0</b>	<b>100.1</b>	<b>100.0</b>

Source: Treasury

Of the revenue collected, taxes amounted to Ksh 83.6bn or 83.5% of the total. This represented Ksh 5.7bn increase over the first half of the fiscal year 2001/02. The various categories of taxes performed as follows:

- Value Added Tax receipts rose by Ksh 2.8bn to Ksh 27.6bn from Ksh 24.8bn collected in a similar period last year. The increase was attributed to improved revenue collection measures adopted by the Kenya Revenue Authority. The tax contributed 33% of tax revenue.
- Income tax collections were Ksh 31.5bn or 37.7% of tax revenue, compared with Ksh 27.4bn in the same period last year.
- Import and excise duty receipts decreased to Ksh 24.4bn from Ksh 25.7bn in a similar period in the last fiscal year. Of the Ksh

24.4bn, import and excise duty amounted to Ksh 8.5bn and Ksh 15.9bn, respectively.

Other Government receipts were as follows:

- Non-tax revenue amounted to Ksh 5.8bn compared with Ksh 5.6bn in a similar period last year;
- User charges, fees and other levies amounted to Ksh 7.1bn compared with Ksh 7.3bn in a similar period in the last fiscal year; and
- External grants were Ksh 3.6bn, Ksh 0.6bn higher than last year.

### Expenditure and Net Lending

During the first half of fiscal year 2002/03, Government expenditure, on a commitment basis, amounted to Ksh 120.7bn; Ksh 18.5bn higher than in the same period in the previous fiscal year (Table 18). The expenditure comprised the following:

- Recurrent expenditure of Ksh 106.0bn representing 87.8% of total expenditure, compared with Ksh 93.6bn or 91.6% of expenditure in the last fiscal year. Major items of recurrent expenditure were as follows:
  - ◆ Expenditure on salaries and wages amounted to Ksh 40.8bn or 33.8% of total expenditure, compared with Ksh 37.8bn or 37.0% of total expenditure in the previous fiscal year;

- ◆ Interest payments were Ksh 19.2bn compared with Ksh 16.1bn in a similar period last year, of which interest on domestic and foreign debt was Ksh 13.5bn and Ksh 5.6bn, respectively; and
  - ◆ Other expenditures mainly relating to operations and maintenance totalled Ksh 46.0bn and were Ksh 6.4bn higher than in a similar period last year.
- Development expenditure amounted to Ksh 14.7bn representing Ksh 6.1bn increase over a similar period in 2001/02. At this level, development expenditure was 12.2% of total Government expenditure, compared with 8.4% last year.

TABLE 18: COMPOSITION OF GOVERNMENT EXPENDITURE (Ksh bn)

	Dec-01 Ksh bn	Share %	Dec-02 Ksh bn	Share %
Salaries & Wages	37.8	37.0	40.8	33.8
Total Interest	16.1	15.8	19.2	15.9
Domestic*	12.0	11.7	13.5	11.2
Foreign	4.2	4.1	5.6	4.7
Development	8.6	8.4	14.7	12.2
Others	39.6	38.8	46.0	38.1
<b>TOTAL EXPENDITURE</b>	<b>102.2</b>	<b>100.0</b>	<b>120.7</b>	<b>100.0</b>

\*Includes commission and other charges paid to CBK

Source: Treasury

### Financing

The budgetary developments in the first half of the fiscal year 2002/03 resulted in a financing requirement of Ksh 25.5bn. This was Ksh 2.8bn lower than in a similar period in fiscal year 2001/02 (Table 19). The financing was sourced as follows:

- Ksh 15.9bn was borrowed from commercial banks; and
- Ksh 9.6bn was borrowed from non-bank sources.

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

I. FINANCING REQUIREMENTS	Dec-01	Share	Dec-02	Share
	Ksh bn	%	Ksh bn	%
1. Budget deficit	14.4	50.8	18.5	72.7
2. External debt reduction	7.8	27.7	5.0	19.6
3. Domestic debt reduction	6.1	21.4	1.0	4.0
3.1 Central Bank (incl. items in transit)	6.1	21.4	1.0	4.0
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	0.9	3.7
<b>TOTAL</b>	<b>28.3</b>	<b>100.0</b>	<b>25.5</b>	<b>100.0</b>

II. FINANCING SOURCES	Dec-01	Share	Dec-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	18.5	65.3	25.5	100.0
3.1 Central Bank	0.0	0.0	0.0	0.0
3.2 Commercial banks	17.3	61.3	15.9	62.5
3.3 Non-bank sources	1.1	4.1	9.6	37.5
4. Reduction in GoK deposits at CBK	9.8	34.7	0.0	0.0
5. Privatisation proceeds	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>28.3</b>	<b>100.0</b>	<b>25.5</b>	<b>100.0</b>

Sources: Treasury & Central Bank of Kenya

The funds were used to make net repayments of Ksh 1.0bn and Ksh 5.0bn to the Central Bank and external sources, respectively, increase Government deposits at the Central Bank by Ksh 0.9bn and finance a budget deficit of Ksh 18.5bn.

### 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 that limit 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 utilization of the facility was Ksh 4.2bn as at the end of December 2002.

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

	Jun-02	Dec-02	Movement
<b>Total Government Credit (1+2+3+4+5)</b>	<b>44.9</b>	<b>43.9</b>	<b>-1.0</b>
1. Overdraft	0.0	4.2	4.2
2. Rediscounted securities	0.3	0.0	-0.2
Treasury bills	0.3	0.0	-0.2
Treasury bonds	0.0	0.0	0.0
3. Non-interest bearing T/bills & bonds	36.9	36.9	0.0
4. IMF funds onlent to Government	2.1	2.1	0.0
5. Cleared items in transit	5.7	0.7	-5.0
<b>Memorandum</b>			
Authorised overdraft limit	8.8	8.8	0.0
Amount utilised to date	0.0	4.2	4.2
Amount available	8.8	4.6	-4.2

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

At the end of December 2002, the stock of total public debt was Ksh 629.5bn. This equalled 64% of GDP and was Ksh 15.8bn higher than the stock in June 2002. Of the Ksh 629.5bn total public debt, domestic debt was Ksh 259.8bn or 41.3% while foreign debt amounted to Ksh 369.7bn, representing 58.7% of total public debt (Table 21).

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

	Jun-01*	Jun-02*	Dec-02**	Change 2002/03
<b>EXTERNAL***</b>				
Bilateral	132.3	130.0	126.7	-3.2
Multilateral	228.5	222.5	217.9	-4.5
Commercial Banks	29.4	24.0	23.7	-0.3
Export Credit	3.8	1.3	1.3	0.0
<b>Sub-Total</b>	<b>394.0</b>	<b>377.7</b>	<b>369.7</b>	<b>-8.1</b>
(As a % of GDP)	46.6	41.0	37.6	-3.5
<b>DOMESTIC</b>				
<b>Banks</b>	<b>109.2</b>	<b>120.8</b>	<b>135.3</b>	<b>14.5</b>
Central Bank	47.2	42.8	41.8	-1.0
Commercial Banks	62.0	78.0	93.5	15.5
<b>Non-banks</b>	<b>93.4</b>	<b>104.4</b>	<b>115.7</b>	<b>11.4</b>
Non-bank Financial Inst.	3.9	2.8	3.0	0.2
Other Non-bank Sources	89.6	101.5	112.7	11.2
<b>Non-residents</b>	<b>9.2</b>	<b>10.8</b>	<b>8.8</b>	<b>-2.0</b>
<b>Sub-Total</b>	<b>211.8</b>	<b>236.0</b>	<b>259.8</b>	<b>23.8</b>
(As a % of GDP)	25.0	25.6	26.4	0.8
<b>GRAND TOTAL</b>	<b>605.8</b>	<b>613.8</b>	<b>629.5</b>	<b>15.8</b>
(As a % of GDP)	71.6	66.7	64.0	-2.7

\* 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 23.8bn to Ksh 259.8bn 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 1.2bn decrease in other categories of government debt reflecting Ksh 5.0bn decline in cleared items

awaiting transfer to the Pay Master General Account, Ksh 0.4bn decline in commercial bank advances to the Government 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	259.8
<b>A. Government Securities</b>	<b>214.5</b>	<b>215.5</b>	<b>219.5</b>	<b>226.8</b>	<b>241.2</b>	<b>250.1</b>	<b>251.8</b>
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>B. Others:</b>	<b>3.0</b>	<b>6.5</b>	<b>3.2</b>	<b>9.2</b>	<b>9.6</b>	<b>5.0</b>	<b>8.0</b>
Of which CBK overdraft to Government	0.0	0.0	0.0	0.0	3.0	1.1	4.2

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	Dec-02	Change
<b>Government securities</b>	<b>226.8</b>	<b>251.8</b>	<b>25.0</b>
Treasury Bills**	82.1	82.9	0.9
Treasury Bonds	106.3	130.5	24.2
Of which: special bonds	6.4	9.6	3.2
Government Stock	1.5	1.5	0.0
<b>Non-interest bearing debt</b>	<b>36.9</b>	<b>36.9</b>	<b>0.0</b>
<b>Others***</b>	<b>9.2</b>	<b>8.0</b>	<b>-1.2</b>
Of which: Overdraft at the Central Bank	0.0	4.2	4.2
<b>Total Stock of Domestic Debt</b>	<b>236.0</b>	<b>259.8</b>	<b>23.8</b>

\*\* Excludes REPO Treasury bills

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

Source: Central Bank of Kenya

### Treasury Bills

The outstanding stock of Treasury Bills at the end of December 2002 was Ksh 82.9bn distributed among investors (Table 24 and Chart 12) as follows:

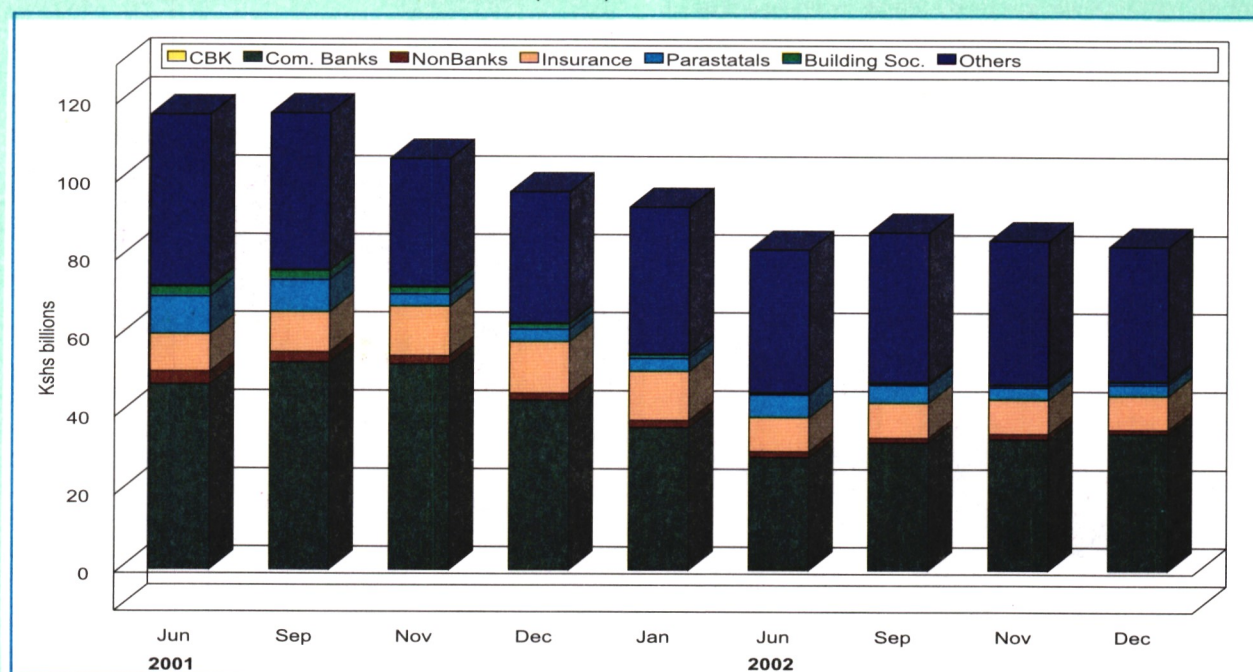
- Banking institutions held Ksh 36.2bn or 43.6% of the bills. Of this, commercial banks and NBFIs held Ksh 35.2bn and Ksh 1.0bn worth of bills, respectively.

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
<b>Total*</b>	<b>116.4</b>	<b>100.0</b>	<b>116.9</b>	<b>100.0</b>	<b>96.8</b>	<b>100.0</b>	<b>82.1</b>	<b>100.0</b>	<b>86.6</b>	<b>100.0</b>	<b>82.9</b>	<b>100.0</b>

\* 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

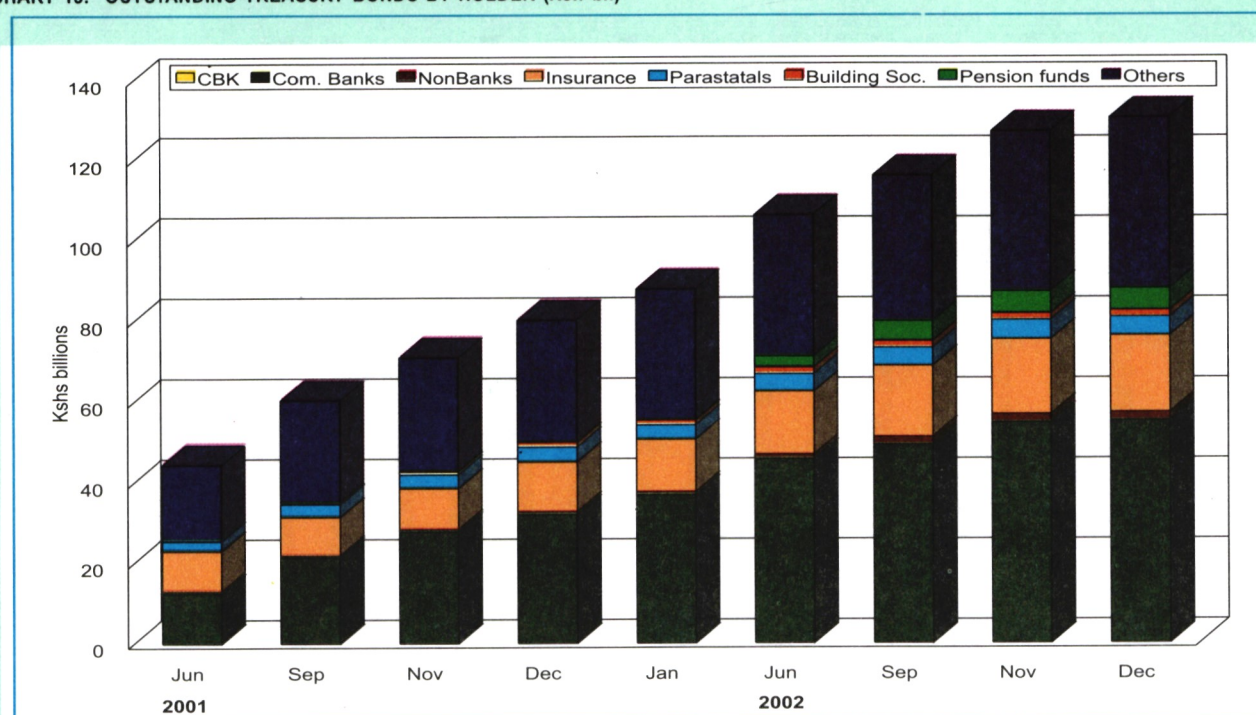
The outstanding stock of Treasury bonds, increased to Ksh 130.5bn in December 2002

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
<b>Total</b>	<b>44.5</b>	<b>100.0</b>	<b>60.5</b>	<b>100.0</b>	<b>80.3</b>	<b>100.0</b>	<b>106.3</b>	<b>100.0</b>	<b>116.2</b>	<b>100.0</b>	<b>130.5</b>	<b>100.0</b>

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

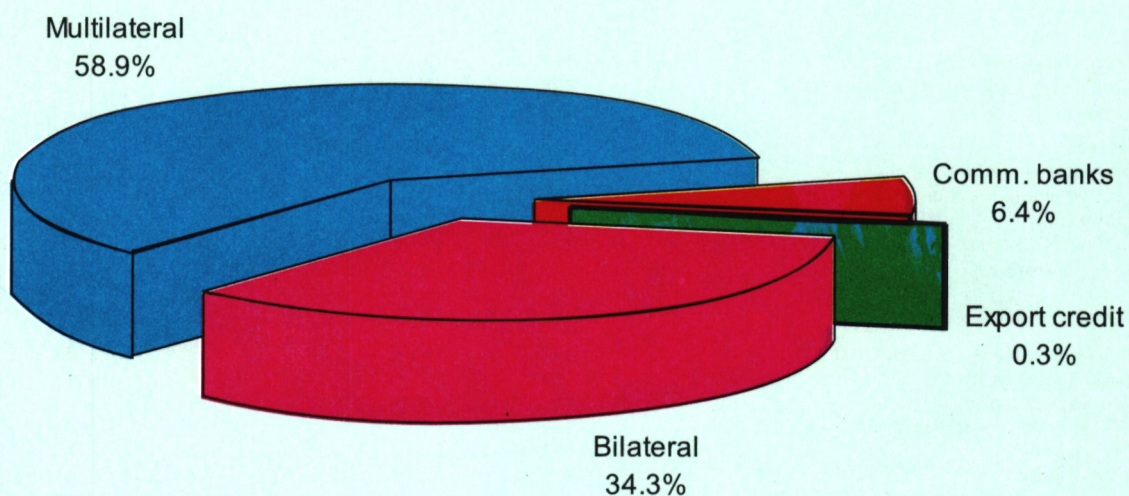
Kenya's external debt decreased in the first half of the fiscal year 2002/03 from Ksh 377.7bn at end June 2002 to Ksh 369.7bn in December 2002. External debt declined to 37.6% of estimated GDP in December 2002 from 41.0% in June 2002 (Chart 14). The Ksh 8.1bn net decline in external debt followed:

- Repayments of Ksh 12.1bn to external creditors, comprising Ksh 9.2bn repayment of Central Government debt, Ksh 0.7bn by the Central Bank to the International Monetary Fund, and Ksh 2.0bn repayment of Government guaranteed debt.

- Disbursements to the Central Government amounting to Ksh 4.2bn, and
- Ksh 0.2bn revaluation gain for Kenya due to the appreciation of the Kenya shilling.

Multilateral debt accounted for Ksh 217.9bn or 58.9% of the total external debt stock while bilateral debt stood at Ksh 126.7bn or 34.3% of the debt. Commercial loans and export credit accounted for Ksh 23.7bn and Ksh 1.3bn or 6.4% and 0.3% of the debt stock, respectively.

CHART 14: EXTERNAL DEBT DISTRIBUTION



Source: Treasury

## BALANCE OF PAYMENTS

The overall balance of payments improved to a surplus of US\$ 76m in 2002 compared with a surplus of US\$ 22m in 2001. The improvement reflected a lower current account deficit, which more than offset the reduced capital and financial account surplus (Table 26 and Chart 15).

### Current Account

In 2002, the deficit in the current account narrowed to US\$ 216m from US\$ 398m the

previous year reflecting a reduction in the trade deficit by US\$ 389m, which more than offset the US\$ 207 decline in the services account surplus. The lower services account surplus was wholly due to a decline in current transfer inflows as net non-factor service receipts increased.

### Merchandise

In 2002, the trade deficit narrowed to US\$ 1,183m from US\$ 1,572m in the previous year due to decline in imports by US\$ 186m and a growth of US\$ 203m in export earnings. The

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

	Year to Dec 2001	Quarters in Year to December 2002				Year to Dec** 2002
		Q1 Jan-Mar 2001	Q2 Apr-Jun 2001	Q3 Jul-Sep 2002	Q4 Oct-Dec** 2002	
<b>OVERALL BALANCE</b>	22	27	83	-4	-29	76
<b>I. CURRENT ACCOUNT</b>	-398	-82	52	-121	-66	-216
<b>Merchandise</b>	-1572	-255	-199	-323	-406	-1183
Exports (fob)	1891	520	586	508	480	2094
Coffee	94	17	32	23	20	91
Tea	435	128	104	103	80	416
Horticulture	241	72	64	59	87	282
Oil products	174	21	13	18	46	98
Other	947	281	372	306	247	1205
Imports (cif)	3462	775	785	831	886	3277
Oil	721	163	184	199	193	740
Chemicals	479	135	126	131	124	516
Manufactured goods	437	100	99	97	93	389
Machinery & transport equipment	838	179	191	157	132	660
Other	987	197	184	247	344	972
<b>Services</b>	1174	173	252	202	340	967
Non-factor services (net)	543	91	135	137	193	556
Of which: tourism receipts	308	69	68	70	91	297
Income (net)	-148	-30	-16	-32	-18	-96
Of which: official interest income	-123	-31	-17	-30	-17	-94
Current Transfers	779	112	132	97	166	507
Private (net)	692	95	115	80	149	439
Public (net)	87	17	17	17	17	68
<b>II. CAPITAL &amp; FINANCIAL ACCOUNT</b>	420	109	30	117	37	292
<b>Capital Transfers (net)</b>	68	19	17	18	16	70
<b>Financial Account</b>	352	89	13	99	21	222
Official, medium- & long-term	-204	-18	9	1	-14	-21
Inflows	167	61	61	51	58	232
Outflows	-371	-79	-53	-49	-72	-253
Private, medium- & long-term (net)	167	-4	-16	-18	-155	-193
Commercial banks (net)	95	8	-18	-21	-141	-172
Other private, medium- & long-term (net)	72	-12	2	2	-14	-21
Short term and errors & omissions (net)	389	111	20	116	190	437
<b>Gross Reserves</b>	1459	1479	1563	1548	1614	1614
Official	1064	1077	1137	1119	1067	1067
in months of goods and non-factor services	3.2	3.3	3.6	3.5	3.3	3.3
Commercial Banks	395	402	427	429	547	547

\* Revised to reflect the new BOP presentation format

\*\* Provisional

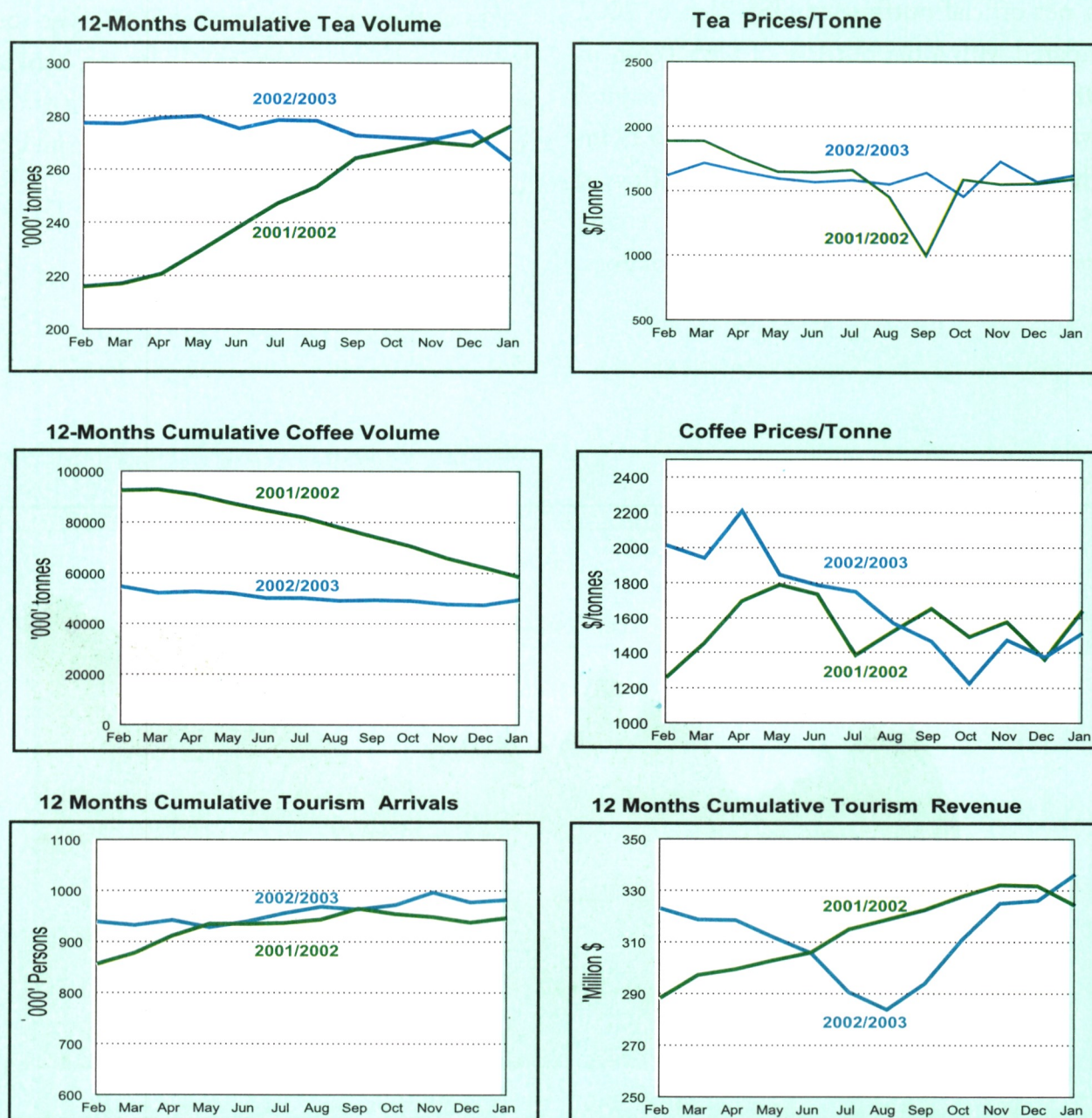
Source: Central Bank of Kenya

decline in imports was largely due to manufactured goods and machinery and transport equipment which fell by 11.1% and 21.2%, respectively. The increase in export earnings was attributed to higher earnings from horticultural and non-traditional exports. Receipts from coffee and tea exports, however, declined mainly reflecting reduced export quantities.

### Services

The surplus in the services account declined to US\$ 967m in 2002 from US\$ 1,174m in 2001 mainly due to reduction in grants to both the private and public sectors by US\$ 271m. During the year, the public sector received grants amounting to US\$ 68m mainly to finance famine relief efforts compared with US\$ 87m in 2001. Net non-factor service receipts increased by US\$

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

13m in spite of the decline in receipts from tourism by US\$ 10m. Net income payments declined by US\$ 52m.

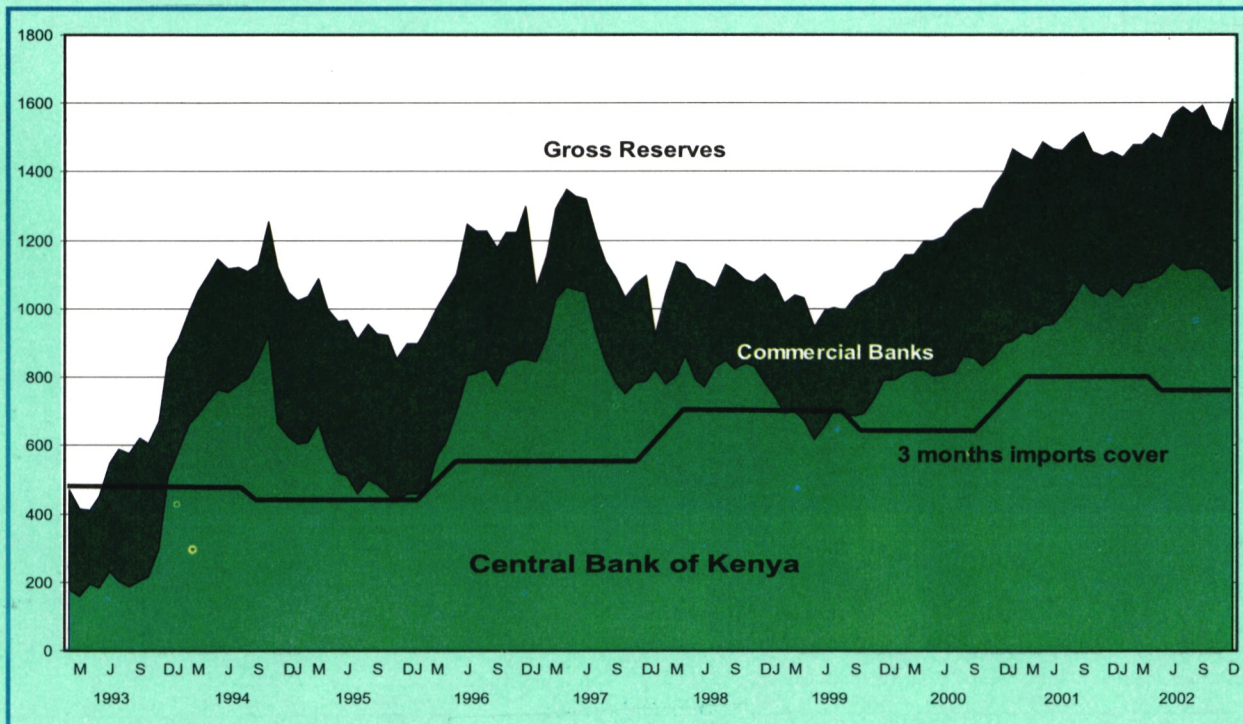
### Capital and Financial Account

The capital and financial account surplus declined to US\$ 292m in 2002 compared with US\$ 420m in the previous year. Official inflows rose from US\$ 167m in 2001 to US\$ 232m while outflows declined from US\$ 371m to US\$ 253m resulting in a net official outflow of US\$ 21m in 2002 compared with a net outflow of US\$ 204m in 2001. Net private medium and long-term capital flows deteriorated to a net outflow of US\$ 193m in the year 2002 compared with a net inflow of US\$ 167m in the previous year mainly reflecting increased commercial banks net foreign holdings.

### Foreign Exchange Reserves

Following the improvement in the overall balance of payments, official foreign exchange reserves increased marginally to US\$ 1,067m, equivalent to 3.3 months of imports of goods and non-factor services at end of December 2002 compared with US\$ 1,064m or 3.2 months of import cover in December 2001 (Chart 16). Foreign exchange reserves of commercial banks also increased from US\$ 395m at end of December 2001 to US\$ 547m at the end of December 2002. The total foreign exchange reserves held by the banking system therefore increased by US\$ 155m to US\$ 1,614m at the end of December 2002 from US\$ 1,459m at end of December 2001.

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



Source: Central Bank of Kenya

## STOCK MARKET

Activity at the Nairobi Stock Exchange (NSE) improved in January 2003 with turnover increasing at all counters.

### Equities Market

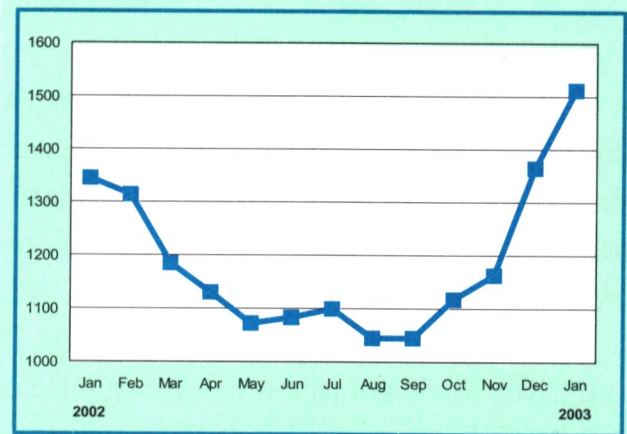
Trading at the equities counter improved in January 2003 as reflected by the following market indicators:

- The NSE share index increased by 10.8% to close at 1510.63 in January 2003 from 1362.85 in December 2002. (Chart 17).
- Market capitalisation increased by Ksh 10.9bn or 9.7% to Ksh 123.2bn in January 2003 from Ksh 112.3bn in December 2002.
- The turnover ratio defined as the proportion of the value of shares traded to market capitalisation increased to 0.60% in January 2003 from 0.47% in December 2002.
- While the value of shares traded increased by 40.5% to Ksh 742m in January 2003 and the number of transactions increased by 176% to 5,262 in January 2003 from 1,908 in December, the resulting average value per transaction of Ksh 141,014 was lower than in December 2002 by 49%.

### Foreign Investors Board

Turnover at the counter increased by Ksh 33.3m or 148.7% in January 2003 to Ksh 55.7m, wholly

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



Source: Nairobi Stock Exchange

reflecting foreign outflows as foreign inflows were minimal. In January 2003, sales to foreigners were Ksh 115,440.

### The Bond Market

Trading at the secondary market for bonds increased by Ksh 2.5bn or 191.8% to Ksh 3.8bn in January 2003 from Ksh 1.3bn in December 2002. The increase of Ksh 2.5bn was wholly in the secondary trading of Government securities in January 2003. The average yield on traded bonds remained high and increased to 12.1% in January 2003 from 11.02% in December 2002 reflecting the increase in the 91-day Treasury bill rate in the month.

## Introduction

Provisional data on leading economic indicators show that economic recovery was still on course during first eleven months of 2002, though at a slower pace than originally envisaged. During the period, annualised real GDP is estimated to have grown by 0.7% compared with a growth of 1.1% in the corresponding period of 2001 (Table 27 and Chart 18). Major factors that contributed to the slowdown in economic activity included low

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

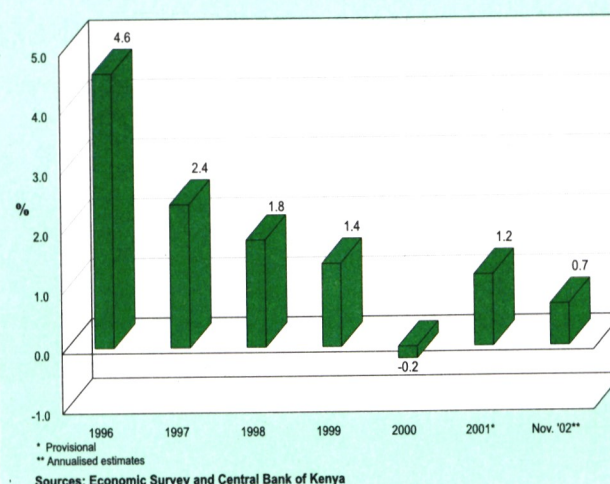


TABLE 27: REAL GROSS DOMESTIC PRODUCT AND RELATED AGGREGATES

MAIN SECTORS	Share in Real GDP in 2001 (%)	Annualised Estimates	
		2001/ <sup>1</sup>	2002/ <sup>2</sup>
Agriculture	24.1	25,131	25,316
Manufacturing	13.0	13,670	13,738
Trade, Tourism & Hotels	12.7	13,201	13,247
Financial Services	10.6	11,064	11,167
Building & Construction	2.4	2,511	2,562
Transport & Communications	6.2	6,375	6,504
Government	14.7	15,260	15,343
Others of which	16.3	17,201	17,313
<i>Non-monetary Sector</i>	5.7	6,025	6,059
<i>Domestic Services</i>	2.9	3,060	3,080
<i>Ownership of Dwellings</i>	5.7	6,005	6,064
<i>Other</i>	2.0	2,111	2,109
<b>Est. Real GDP (1982 Prices)</b>	<b>100.0</b>	<b>104,413</b>	<b>105,191</b>
<b>Nominal GDP (at Factor cost)</b>	<b>772,893</b>		
<b>Overall GDP Deflator</b>	<b>7.4</b>		
<b>GDP at Mkt Prices</b>	<b>895,278</b>		
<b>MAIN SECTORS</b>		<b>Annual Percentage Change</b>	
Agriculture		1.0	0.7
Manufacturing		0.7	0.5
Trade, Tourism & Hotels		1.1	0.4
Financial Services		0.8	0.9
Building & Construction		-0.5	2.1
Transport & Communications		3.0	2.0
Government		0.6	0.5
Others		0.8	0.7
<i>Non-monetary Sector</i>		0.7	0.6
<i>Domestic Services</i>		0.8	0.7
<i>Ownership of Dwellings</i>		0.8	1.0
<i>Other</i>		-0.4	-0.1
<b>Est. Real GDP Growth</b>		<b>1.1</b>	<b>0.7</b>

**Notes**

- 1 From the Economic Survey, 2002.
- 2 Based on selected economic activities.

Sources: Central Bureau of Statistics and Central Bank of Kenya

investor confidence attributed to a number of factors including the poor state of infrastructure, insecurity, election uncertainties and lack of donor support.

## Agriculture

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

- The production of horticultural crops for export increased by 11.7% compared with 1.7% increase in a similar period of 2001 (Table 28). As a result, export earnings from the crops increased to US \$349m in the first eleven months of 2002 from US \$ 262m in the same period in 2001. The increase in production partly reflects the shift by farmers from less profitable agricultural activities to horticulture.
- Sugar cane deliveries increased by 32.6% compared with 29.3% decline in the same period in 2001, following favourable weather conditions.
- Tea, pyrethrum and sisal output declined by 2.9%, 15.2% and 4.3% respectively in the first eleven months of 2002 compared with 28.2%, 12.2% and 6.5% increases in the same period in 2001. The decline in tea production arose from 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 18.1% in the first eleven months of 2002 compared with a decline of 43.5% in the same period of 2001. The sustained decline in coffee

output reflects the organisational and management problems in the sub-sector as well as low international prices of the commodity.

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

Crop	Jan - Nov		
	2000	2001	2002
Tea	-5.0	28.2	-2.9
Horticulture	0.2	1.7	11.7
Coffee	52.4	-43.5	-18.1
Sugar cane	-10.7	-29.3	32.6
Pyrethrum	-5.0	12.2	-15.2
Sisal	-2.3	7.5	-4.3

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

## Manufacturing

Key performance indicators from the manufacturing sector evolved as follows:

- The consumption of electricity, a major input in the sector, increased by 3.1% compared with an increase of 10.4% in a similar period of 2001. The large increase in 2001 reflected the restoration of normal power supply from rationing occasioned by drought in 2000.
- Exports of manufactured goods increased by 6.9% during the first eight months of 2002 compared with an increase of 10.2% in the same period of 2001. The increase in manufactured exports followed increased access to regional markets in the East African Community and COMESA and to the United States. In particular, export of textiles and fabrics increased by 229.0% compared with an increase of 4.0% in the first eight months of 2002 mainly due to improved access to the United States market

facilitated by the African Growth and Opportunities Act (AGOA). Exports of cement and paper products increased by 17.5% and 6%, respectively, during the period. Other manufactured goods that have benefited from wider regional markets include vegetable oils and galvanised sheets.

- Imports of chemicals and related products increased by 5.9% during the first eight months of 2002 compared with 17.4% increase in a similar period of 2001. Imports of other inputs such as crude materials; minerals and lubricants, however, declined since the manufacturing sector continued to operate below capacity.

TABLE 29: PRODUCTION OF SELECTED MANUFACTURES (%)

Item	Jan - Nov	
	2001	2002
Galvanised sheets (MT)	5.9	10.6
Mineral water ('000 litres)	3.7	7.8
Soda ash (MT)	24.7	2.5
Cement (MT)	-3.5	14.8
Assembled vehicles (units)	-14.4	-19.7
Processed Sugar (MT)	-11.9	35.6

Source: Central Bureau of Statistics and Kenya Sugar Authority

## Building and Construction

Building and construction improved in the first eleven months of 2002. The consumption of cement rose by 14.3% compared with an increase of 2.1% in a similar period of 2001. The improvement in the sector's performance was supported by the private sector construction activities. The expected resumption of donor support in 2003 is expected to revive public sector projects, which had stalled due to budgetary constraints.

## Transport, Storage and Communications

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

- Passengers through Jomo Kenyatta International Airport (JKIA) increased by 10.1% compared with an increase of 11.5% in the first ten months of 2001.
- Cargo carried by the Kenya Railways Corporation increased by 1.1% during the first eleven months of 2002 compared with a decline of 7.9% 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 (KPA) declined by 1.3% compared with 15.8% increase in the first eleven months of 2001.
- In the telecommunications sub-sector subscriptions for mobile phones increased to 1.3million in December 2002 from 790,000 in July 2002.

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

	Jan - Nov	
	2001	2002
Cargo by KPA (MT)	15.8	-1.3
Cargo by KR (MT)	-7.9	1.1
Passengers thro JKIA	14.2	7.1
Throughput by KPC	1.7	-2.1
Consumption of fuels	-1.7	1.4

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

- Throughput by the Kenya Pipeline Company (KPC) declined by 2.1% compared with an increase of 1.7% in a similar period of 2001.

### **Trade, Restaurants and Hotels**

During the first eleven months of 2002, the tourism sector performed as follows:

- The number of tourists arriving at Jomo Kenyatta International Airport (JKIA) declined by 2.7% compared with a decline of 1.1% in the same period in 2001 while arrivals at Moi International Airport, Mombasa (MIAM) increased by 3.9% in the first eleven months of 2002. Consequently, total arrivals through the two Airports declined by 0.2%.
- Tourism earnings were estimated at US \$ 227m in 2002 compared with US \$ 263m in 2001.

### **Financial Services**

During the first eleven months of 2002, total pre-tax profits of banking institutions declined slightly to Ksh 8.4bn compared with Ksh 8.8bn during the same period in 2001. The decline in the

profitability was attributed to both a drop in interest income and an increase in the provisions for bad and doubtful debts.

### **Economic Prospects in 2003**

Despite weakened outlook for global economic recovery, the country's growth momentum is projected to accelerate in 2003 as a result of the enhanced investor confidence accruing from Government commitment to address the existing business concerns. The Government has begun fighting corruption while the implementation of key reforms in various sectors of the economy including the reconstruction of the dilapidated infrastructure are underway.

The economy is also expected to benefit from increased regional and international trade. Within the region, the country is likely to export more manufactured products to countries in COMESA and the East African Community, while under the AGOA arrangement, exports of textiles, handcrafts, fresh fruit, flowers, leather and leather products to the United States are expected to increase. Based on these expectations, it is envisaged that the economy will pick up and grow by 3.0% in real terms in 2003.

## BALANCE SHEET OF THE CENTRAL BANK OF KENYA

(Amounts in Ksh Millions)

	Dec. 2001	Dec. 2002	Movement
<b>ASSETS</b>	<b>150,671</b>	<b>154,389</b>	<b>3,718</b>
Foreign Exchange	82,238	81,211	-1,027
Advances and Discounts to Banks	1,362	7,484	6,122
Investment in Government Securities	1,557	1,200	-357
Government Accounts	42,853	43,867	1,014
Overdraft to Government	-	4,166	4,166
Clearing Account	3,968	693	-3,275
IMF funds onlent to Government	1,968	2,091	123
Non-interest Bearing Government Debt	36,917	36,917	0
Debtors	1,848	1,907	59
Retirement Benefits	289	287	-2
Property and Equipment	581	791	210
Other Assets	19,943	17,642	-2,301
Revaluation Account	18,642	17,642	-1,000
Times Tower	1,301	-	-1,301
<b>LIABILITIES</b>	<b>150,671</b>	<b>154,389</b>	<b>3,718</b>
Currency in Circulation	53,080	62,525	9,445
Repo Securities	15,815	6,979	-8,836
Deposits	73,103	70,833	-2,270
Government	28,537	25,886	-2,651
Commercial Banks			
Kenya	25,629	25,704	75
External	27	19	-8
Non -bank Financial Institutions	423	228	-195
IMF	9,756	9,138	-618
Other Public Entities and Project A/Cs	8,731	9,858	1,127
Other Liabilities and Provisions	1,812	1,260	-552
Capital and Reserves	6,861	12,792	5,931
Capital	1,500	1,500	0
General Reserve Fund	4,248	7,952	3,704
Period's Surplus	1,113	3,340	2,227

Source: Central Bank of Kenya

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## NOTES ON THE BALANCE SHEET

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

### Assets

**Foreign exchange** decreased by Ksh 1,027m to Ksh 81,211m from Ksh 82,238m.

**Advances and discounts** to commercial banks increased by Ksh 6,122m to Ksh 7,484m.

**Government accounts** increased by Ksh 1,014m to Ksh 43,867m in December 2002, mainly on account of increased utilization of overdraft by Government by Ksh 4,166m, which was partially offset by Ksh 3,275m decline in the Clearing account.

**Other assets**, comprising revaluation account and Times Tower, decreased by Ksh 2,301m to Ksh 17,642m.

### Liabilities

**Currency in circulation** increased by Ksh 9,445m to Ksh 62,535m from Ksh 53,680m.

The stock of **repo securities** decreased by Ksh 8,836m to Ksh 6,979m.

**Deposits** decreased by Ksh 2,270m to Ksh 70,833m due to a decrease in deposits of the Government of Kenya by Ksh 2,651m. Similarly, deposits of IMF and non-bank financial institutions declined by Ksh 618m and Ksh 195m, respectively. Deposits of other public entities, however, rose by Ksh 1,127m.

**Other liabilities and provisions** decreased by Ksh 552m to Ksh 1,260m.

**Capital and reserves** increased by Ksh 5,931m to Ksh 12,792m in the year to December 2002 due to Ksh 3,704m increase in the general reserve fund and Ksh 2,227m increase in the period's surplus.

